Agenda Item #: 4A

# PALM BEACH COUNTY
# BOARD OF COUNTY COMMISSIONERS

## AGENDA ITEM SUMMARY

| | | | |
|---|---|---|---|
| **Meeting Date:** | **September 9, 2014** | **[ ] Consent**<br>**[ ] Ordinance** | **[ ] Regular**<br>**[X] Public Hearing** |
| **Department:** | **Department of Economic Sustainability** | | |

## I. EXECUTIVE BRIEF

**Motion and Title: Staff recommends motion to: A) approve** the application of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. for the issuance of Palm Beach County, Florida's (the "County") up to $19,500,000 Revenue Refunding Bonds (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. Project), Series 2014 (the "Bonds"); and **B) conduct** a Tax Equity & Fiscal Responsibility Act (TEFRA) public hearing concerning the proposed issuance of the Bonds.

**Summary:** Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. (the "Company") has been providing senior and assisted living services for more than 50 years in Palm Beach County. The Company has applied for the issuance of a revenue refunding bond by the County in an amount not to exceed $19,500,000. Bond proceeds will be used to refinance the County's Senior Health and Housing Facilities Revenue Refunding Bond, Series 2002 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. Project), and pay the costs of issuance related to the Bonds. The 2002 Bonds were issued to refinance earlier bonds issued by the County the proceeds of which were used to finance capital assets for the Borrower's facilities located at 311 South Flagler Drive in West Palm Beach. Prior to the issuance of any portion of the Bonds that will be tax-exempt, the Internal Revenue Code requires that the County hold a public hearing. The Company will be required to receive the County's future approval prior to issuing the Bonds, which is anticipated to be on the October 7, 2014, Board of County Commissioners' meeting agenda. The Bonds will be payable solely from revenues derived from the Company. **Neither the taxing power nor the faith and credit of the County, nor any County funds, shall be pledged to pay the principal, premium, if any, or interest on the Bond.** District 7 (PFK)

**Background and Policy Issues:** The Bonds are being purchased by Citizens Bank, National Association or one of its affiliated entities.

**Attachments:**
1. Application from Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.
2. Economic Impact Analysis
3. Text of the TEFRA Public Notice

**Recommended By:** Sherry Howard — Department Director — 8-25-14 — Date

**Approved By:** [signature] — Assistant County Administrator — 9/3/14 — Date

## II. FISCAL IMPACT ANALYSIS

**A. Five Year Summary of Fiscal Impact:**

| Fiscal Years | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Capital Expenditures | | | | | |
| Operating Costs | | | | | |
| External Revenues | | | | | |
| Program Income | | | | | |
| In-Kind Match (County) | | | | | |
| NET FISCAL IMPACT | * | | | | |

| | | | | | |
|---|---|---|---|---|---|
| # ADDITIONAL FTE POSITIONS (Cumulative) | | | | | |

**Is Item Included In Current Budget? Yes _____ No _____**
Budget Account No.:

Fund _____ Dept _____ Unit _____ Object _____ Program Code/Period _____

**B. Recommended Sources of Funds/Summary of Fiscal Impact:**

***No fiscal impact** All Costs to be borne by Applicant.

**C. Departmental Fiscal Review:** ____________________
Shairette Major, Fiscal Manager I
8/25/14

## III. REVIEW COMMENTS

**A. OFMB Fiscal and/or Contract Development and Control Comments:**

Susan Neary 8/26/14
OFMB
8/26 8/26

9/2/14
Contract Development and Control
9-2-14

**B. Legal Sufficiency:**

Paul B. 9/3/14
Assistant County Attorney

**C. Other Department Review:**

____________________
Department Director

(THIS SUMMARY IS NOT TO BE USED AS A BASIS FOR PAYMENT)

**INDUSTRIAL DEVELOPMENT REVENUE BOND**
PALM BEACH COUNTY, FLORIDA

## APPLICATION FORM

When there is insufficient space on the application to provide information include attachments. Enclose all pertinent documentation.

**INDUSTRIAL REVENUE BOND FINANCING**
**PROJECT ELIGIBILITY QUESTIONNAIRE**

1. Entity that will lease or purchase the project (or borrow the bond proceeds) from the bond issuer.

   Entity Name: Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

   Address: 315 South Flagler Drive, West Palm Beach, Florida 33401

   Telephone: (561) 655-8544 Fax: (561) 650-8952

   <u>This entity is referred to as the project's "principal user" for the remainder of this questionnaire.</u>

2. Form of organization of principal user (check one):
   corporation partner sole proprietorship

   Is the principal user related to any other organization by more than 50% common ownership?
   yes no

   If yes, indicate name of related organization and relationship:

   The Carmelite System, Inc. (the "System") is not-for profit health system sponsored by the Carmelite Sisters for the Aged and Infirm. The System is the sole corporate member of a number of entities that own and operate senior care facilities that provide services to the aged and infirm, including the principal user.

3. Ownership: List all stockholders or partners having 10% or more interest in the principal user:

   The System is the sole corporate member of the principal user.

4. If any of the above persons own more than 50% of the principal user, list all other organizations which are related to the principal user by virtue of such persons having more than a 50% interest in such organizations:

   The System is the sole corporate member of 13 non-profit entities in the United States and one in Ireland that entities that own and operate senior care facilities that provide services to the aged and infirm.

5. Location of the project (street address & municipality or unincorporated area of County): 311 South Flagler Drive, West Palm Beach, Florida.

6. Project Site (land):

   (a) Indicate approximate size (in acres or square feet) of project site: The site area is 2.27 acres.

   (b) Are there buildings now on the project site?
   yes no

   (c) Indicate the present use of the project site: The project site is currently a full-service retirement community.

   (d) Indicate present owner of project site: The principal user.

7. If the principal user now owns the project site, indicate: The current bond issue consists of the refunding of the Palm Beach County, Florida Senior Health and Housing Facilities Revenue Refunding Bond, Series 2002 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.) (the "2002 Bonds"). The proceeds of the 2002 Bonds were used to refund the Palm Beach County, Florida Industrial Development Revenue Bonds, Series 1996 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. Project) (the "1996 Bonds"). The Proceeds of the 1996 Bonds were used to finance the cost of the acquisition, construction and equipping of a skilled nursing/assisted living/independent living facility located within Palm Beach County, which facility is owned by the principal user. Approximately $21,000,000 of the 2002 Bonds is currently outstanding.

   (a) Date of Purchase:

   (b) Purchase Price:

   (c) Balance of Existing Mortgage:

   (d) Holder of Mortgage:

8. If the principal user is not now the owner of the project site, does the principal user have an option to purchase the site and any buildings on the site? N/A

yes no

If yes, indicate:

(a) Date Option Agreement Signed with Owner:

(b) Purchase Price under Option:

(c) Expiration Date of Option:

9. Has the principal user entered into a contract to purchase the site? N/A

yes no

If yes, indicate:

(a) Date Signed:

(b) Purchase Price:

(c) Settlement Date:

10. If the principal user is not the owner of project site, does the principal user now lease the site or any buildings on the site? N/A

yes no

11. Is there a relationship legally or by virtue of common control or ownership between the principal user and the seller / lessor of the project site? N/A

yes no

If yes, describe this relationship:

12. Does the project involve acquisition of an existing building or buildings?

yes no

If yes, indicate number and size of buildings:

13. Does the project consist of the construction of a new building or buildings?

yes no

If yes, indicate number and size of new buildings:

14. Does the project consist of additions and/or renovations to existing buildings?

yes no

If yes, indicate nature of expansion and/or renovations:

15. What will be the use of the buildings or buildings to be acquired, constructed or expanded by the principal user for this project? N/A

16. If any space in the project is to be leased to third parties, indicate total square footage of the project, amount to be leased to each tenant, and proposed use by each tenant: As the facility refinanced with the 2002 Bonds consists of a skilled nursing/assisted living/independent living facility, units within the facility are leased to residents of the principal user.

| Project Total Sq. Ft. | Third Parties Leased Sq. Ft. | Tenant / Proposed Use |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

17. Has construction work on this project begun? N/A
yes no

If yes, complete the following:

| | Construction Work | Yes | No | % Complete |
|---|---|---|---|---|
| (a) | Site Clearance | | | % |
| (b) | Foundation | | | % |
| (c) | Footings | | | % |
| (d) | Steel | | | % |
| (e) | Masonry Work | | | % |
| (f) | Other (describe below) | | | % |

18. List principal items or categories of equipment to be acquired as part of the project: N/A

19. Has any of the above equipment been ordered or purchased? N/A
yes no

| Equipment | Date Ordered | Delivery Date | Price |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

20. List the face amount of all tax-exempt finance previously arranged by or for the benefit of the principal user in Palm Beach County:

| Date of Issue | Original Face | Current Outstanding |
|---|---|---|
| June, 1996 | $23,130,000 | $0 |
| August 15, 2002 | $28,770,000 | Approx. $21,000,000* |
| | | |
| | | |
| | | |
| | | |
| *To be refunded by 2014 Bonds | | |

21. State the proposed uses of bond proceeds:

| Description of Cost | Amount |
|---|---|
| Land | |
| Buildings | |
| Equipment | |
| Engineering | |
| Architecture | |
| Interest During Construction | |
| Bond Discount | |
| Cost of Financing | $500,000 |
| Other (please explain below) | $19,000,000* |
| Face Amount of Issue | |

*This amount, together with the release of an existing debt service reserve fund will be used to refund the outstanding principal amount of the 2002 Bonds.

22. Have any of the above expenditures already been made by the applicant?
yes no

If yes, indicate particulars: The only expenditures that have been are preliminary expenditures such as the Issuer's application fee, fees related to real estate due diligence items such as appraisals and title work and fees related to the professionals working on the financing.

23. Have any of the above expenditures been incurred but not paid by the principal user?

yes no

If yes, indicate particulars: Please see the answer to 22 above.

24. Are costs of working capital, moving expenses, work in process, or stock in trade included in the proposed uses of bond proceeds?

yes no

If yes, indicate particulars:

25. Will any of the funds to be borrowed through the County be used to repay or refinance an existing mortgage or outstanding loan?

yes no

If yes, indicate particulars: The proceeds of the 2014 bonds will be used to refund the outstanding principal amount of the 2002 Bonds and to pay costs of issuing the 2014 Bonds.

**(Complete questions 26 and 27 only if the proposed financing is an industrial development financing in excess of $1 million.)**

26. List capital expenditures with respect to **this project**:

| Expenditure | Past 3-Years Amount | Next 3-Years Amount |
|---|---|---|
| Land | | |
| Buildings | | |
| Equipment | | |
| Engineering | | |
| Architecture | | |
| Research & Development | | |
| Interest During Construction | | |
| Other (please explain below) | | |
| TOTAL | | |

Research and development expenses with respect to a facility must be treated as capital expenditures with respect to it. This would include research and development with respect to products to be produced at the facility and with respect to equipment to be used there. Research and development expenses allocable to the project under the foregoing rule must be treated as capital expenditures with respect to it even though the research and development work takes place in a different county or state.

Costs of molds, etc., to be used at a facility are capital expenditures even if paid by the customer.

Costs of equipment to be moved to a facility are capital expenditures even if the purchase and initial use of the equipment occurred outside the County.

27. List capital expenditures with respect to **other facilities** of the principal user or any related person, if the facilities are located in Palm Beach County:

| Expenditure | Past 3-Years Amount | Next 3-Years Amount |
|---|---|---|
| Land | | |
| Buildings | | |
| Equipment | | |
| Engineering | | |
| Architecture | | |
| Research & Development | | |
| Interest During Construction | | |
| Other (please explain below) | | |
| TOTAL | | |

28. Indicate approximate number of individuals who will be employed after completion of the project: N/A

29. Do any of said employees require specialized training or skills to qualify for said employment? N/A

Yes no

If yes, please indicate whether or not training programs will be instituted or whether or not local technical and vocational education can provide such training:

30. Please indicate utility needs; i.e., electrical, water and sewer. Include quantity and character of said needs: N/A

31. Does the project produce emissions through stacks or chimneys which would subject it to the jurisdiction of the Florida Department of Environmental Regulation?

Yes no

If yes, indicate particulars:

32. Does the project produce sewage, industrial effluent, or discharge of an unusual character requiring specialized treatment?

yes no

If yes, indicate particulars:

Sister M. Anthony Killeen, O. Carm. President

Authorized Company Officer Signature Title

Printed Name Date

(Revised 4-1-2004) H:\Web Site\6 - Programs\Indl Revenue Bond - IRB\IDRB_Application.doc

Lourdes
Noreen
McKeen
*The Difference is Love*

July 29, 2014

Palm Beach County Department of
Economic Sustainability
Steven Misshula,
Economic Development Specialist
100 Australian Ave., 5th Floor, Ste. 500
West Palm Beach, FL 34406

Dear Mr. Misshula,

Pursuant to the "Application Instructions" for Industrial Development Revenue Bonds issued by Palm Beach County, Florida, enclosed herewith, please find the responses to the questions set forth in the Application Instructions on behalf of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

Please do not hesitate to contact me with any questions.

Best Regards,

Sister M. Anthony Veilleux, O. Carm.

Sr. M. Anthony de Lourdes Veilleux
President

www.lourdesmckeen.org

McKEEN TOWERS Independent Living
LOURDES PAVILION Assisted Living Facility (#9213)
311 South Flagler Drive, West Palm Beach, FL 33401
P 561.650.8900 • F 561.514.3579

LOURDES-NOREEN McKEEN RESIDENCE
Skilled Nursing and Rehabilitation
315 South Flagler Drive, West Palm Beach, FL 33401
P 561.655.8544 • F 561.650.8952

CO467540.3

1. Company name, parent company name, names of principal operating officers, business address and telephone number.

   Company Name: Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

   Parent Company Name: The Carmelite System, Inc. (the "System")

   Names of Principal Operating Officers: Rev. Msgr. John R. McMahon, Chairperson; Sr. M. Anthony de Lourdes Veilleux, President; James J. Daly, Esq., Vice President; Sr. Jeanette D. Lindsay, Treasurer; Kathleen Abraham, Secretary

   Business Address: 315 South Flagler Drive, West Palm Beach, Florida 33401

   Telephone Number: (561) 655-8544

2. Specific amount of U.S. dollars being requested to be raised by the issuance of Industrial Development Revenue Bonds (the "2014 Bonds"):

   Not to exceed $19,500,000

3. A brief description of the company, its history and operations.

   The Company is a 501(c)(3) not-for-profit corporation that has owned and operated a nursing care facility in West Palm Beach Florida since the opening of its first residence in the early 1960's. Today, the Company's facility offers 132 beds for skilled nursing and short-term rehab, 69 independent living apartments and 34 assisted living apartments.

4. A specific statement of the use to which bond proceeds will be put. A complete project budget, including, as applicable, a breakdown of building costs, equipment costs, land acquisition costs and all other fees.

   The proceeds of the 2014 Bonds will be used for the refunding of the Palm Beach County, Florida Senior Health and Housing Facilities Revenue Refunding Bond, Series 2002 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.) (the "2002 Bonds"). The proceeds of the 2002 Bonds were used to refund the Palm Beach County, Florida Industrial Development Revenue Bonds, Series 1996 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. Project) (the "1996 Bonds"). The Proceeds of the 1996 Bonds were used to finance the cost of the acquisition, construction and equipping of a skilled nursing/assisted living/independent living facility located within Palm Beach County, which facility is owned by the principal user. It is anticipated that approximately $19,000,000 of the proceeds of the 2014 Bonds will be used to refund the 2002 Bonds and that approximately $500,000 of the proceeds of the 2014 Bonds will be used to pay costs of issuance.

5. Pro forma financial statements- preferably for 10 years, with a minimum of five (5) years- disclosing the applicant's estimate of company operations resulting from the new investment, Management Discussion and Analysis, Summary of Significant Accounting Policies, and Summary of Significant Forecast Assumptions.

   It is anticipated that pro forma financials for the next five year period will be substantially similar to those of the most recent audited financials.

6. A statement of the contribution the project will make to the local economy, expected economic impact of the project including such items as existing employment, new jobs to be created, amount of local purchases for operation of the project, increase in the property tax base of the County, new capital investments, and socio-economic impact on the local area.

   Not applicable- all 2014 Bond proceeds will be used for refunding the 2002 Bonds and paying costs of issuance.

7. A statement indicating the proposed security and guarantors of the bonds.

   The Company will be part of an "obligated group", consisting of other affiliates of the System. It is currently anticipated that, in addition to the Company, the following System affiliates will be part of the obligated group: Carmel Terrace, Inc., St. Margaret Hall, Incorporated, St. Patrick's Residence, St. Patrick's Manor, Inc., Kahl Home for the Aged and Infirm and Mother Angeline McCrory Manor, Inc. All entities are jointly and severally liable for each other's debt.

8. A statement as to the proposed method of sale of the bonds.

   The 2014 Bonds will be directly purchased by RBS Citizens, N.A.

9. An applicant (including parent or subsidiary) must include conventional financing statements prepared in accordance with generally accepted accounting principles for the immediate three (3) preceding years and audited by an Independent Certified Public Accountant.

   Three years of audited financial statements of the Company are attached as **Exhibit A.** Consolidated financial statements for the obligated group were prepared for the first time in 2013 and those are attached as **Exhibit B.** Consolidated financial statements for the obligated group and the System were prepared for the first time in 2013 and those are attached as **Exhibit C.**

10. Names, Addresses and phone numbers of the parties to the application. See **Exhibit D** attached hereto.

11. Evidence indicating that the proposed project will be used by an entity which is financially responsible and fully capable and willing to fulfill its obligations under

agreements with Palm Beach County, including the obligation to pay lease or installment payments in the amount and at times required; the obligation to operate, repair and maintain the project at its own expense; the obligation to serve the purpose of the Florida Industrial Development Act, and such other responsibilities as may be imposed under the agreements executed in connection with the issuance of the 2014 Bonds.

The project being refinanced with originally financed with the 1996 Bonds issued by Palm Beach County. This project has been owned and operated by the Company since it was completed following the issuance of the 1996 Bonds.

12. The applicant will furnish sufficient information to allow Palm Beach County to determine if local government will be able to cope satisfactorily with the impact of the project and will be able to provide, or cause to be provided when needed, the public facilities, including utilities and public services, that will be necessary for the construction, operation, repair and maintenance of the project or due to any increases in population or other circumstances resulting from the project. The applicant must show that the project meets all applicable codes and zoning regulations of Palm Beach County.

    Not applicable- proceeds of the 2014 Bonds will only be used for refunding.

13. The applicant must provide bond counsel selected from firms listed in the latest edition of *"The Bond Buyer's Municipal Market Place Directory"* (the "Red Book"). See **Exhibit** E attached hereto for excerpt from the Red Book.

Exhibit A

# LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.

## FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

# CONTENTS

MOORE STEPHENS
LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Lourdes-Noreen McKeen Residence
for Geriatric Care, Inc.
West Palm Beach, Florida

We have audited the accompanying financial statements of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. (a Florida corporation), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors of
Lourdes-Noreen McKeen Residence
for Geriatric Care, Inc.

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 financial statements referred to above present fairly, in all material respects, the financial position of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Miami Lakes, Florida
April 22, 2013

# LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.

## BALANCE SHEETS

### December 31, 2012 and 2011

### ASSETS

| | 2012 | 2011 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 1,750,678 | $ 940,529 |
| Accounts receivable, net of allowance for doubtful accounts of approximately $280,000 and $253,000, respectively | 1,736,365 | 1,510,728 |
| Assets whose use is limited - current portion: | | |
| Bond fund | 174,189 | 174,230 |
| Resident security deposits | 462,304 | 405,048 |
| Prepaid expenses | 714,963 | 760,252 |
| Supplies | 54,385 | 74,475 |
| TOTAL CURRENT ASSETS | 4,892,884 | 3,865,262 |
| ASSETS WHOSE USE IS LIMITED | | |
| Bond indenture | 2,466,856 | 2,438,784 |
| Capital improvements | 28,151,744 | 28,554,438 |
| TOTAL ASSETS WHOSE USE IS LIMITED, net of current portion | 30,618,600 | 30,993,222 |
| PROPERTY AND EQUIPMENT, net | 23,791,185 | 21,961,961 |
| OTHER ASSETS | | |
| Bond issuance costs, net of accumulated amortization of $707,534 and $639,146, respectively | 951,610 | 1,019,997 |
| Capital investment in Preferred Professional Insurance Company | 326,508 | 326,508 |
| Beneficial interest in net assets of Foundation | 268,333 | 270,346 |
| Overfunded pension benefit obligation | 159,822 | 150,278 |
| Other assets | 25,193 | 29,506 |
| | 1,731,466 | 1,796,635 |
| TOTAL ASSETS | $ 61,034,135 | $ 58,617,080 |

The accompanying notes are an integral part of the financial statements.

## LIABILITIES AND NET ASSETS

| | | 2012 | | 2011 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Accounts payable | $ | **707,265** | $ | 212,304 |
| Accrued expenses and other liabilities | | **1,056,740** | | 1,066,561 |
| Interest payable | | **92,222** | | 96,013 |
| Bonds payable - current portion | | **955,000** | | 910,000 |
| TOTAL CURRENT LIABILITIES | | **2,811,227** | | 2,284,878 |
| BONDS PAYABLE, net of unamortized bond discount of $135,943 and $145,704, respectively | | **19,679,057** | | 20,624,296 |
| TOTAL LIABILITIES | | 22,490,284 | | 22,909,174 |
| COMMITMENTS AND CONTINGENCIES | | | | |
| NET ASSETS | | | | |
| Unrestricted | | **38,538,550** | | 35,702,605 |
| Temporarily restricted | | **5,301** | | 5,301 |
| TOTAL NET ASSETS | | 38,543,851 | | 35,707,906 |
| TOTAL LIABILITIES AND NET ASSETS | **$** | **61,034,135** | $ | 58,617,080 |

# LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.

## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

### Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| SUPPORT AND REVENUE | | |
| Net resident service revenue | $ 13,325,444 | $ 13,090,492 |
| Rental revenue | 5,568,003 | 5,132,075 |
| Other revenue | 643,497 | 547,582 |
| TOTAL SUPPORT AND REVENUE | 19,536,944 | 18,770,149 |
| EXPENSES | | |
| Nursing and professional care | 6,482,944 | 6,522,866 |
| General and administrative | 2,273,783 | 2,115,154 |
| Dietary | 2,100,056 | 2,068,964 |
| Property maintenance | 1,687,444 | 1,693,984 |
| Insurance | 1,411,936 | 1,547,767 |
| Depreciation and amortization | 1,388,281 | 1,384,368 |
| Interest | 1,092,997 | 1,128,875 |
| Housekeeping | 1,050,190 | 1,044,173 |
| State quality assessment | 921,754 | 813,223 |
| Ancillary services | 353,751 | 367,615 |
| Other expenses | 119,164 | 124,222 |
| Provision for doubtful accounts | 102,034 | 98,197 |
| TOTAL OPERATING EXPENSES | 18,984,334 | 18,909,408 |
| INCOME (LOSS) FROM OPERATIONS | 552,610 | (139,259) |
| NONOPERATING INCOME AND GAINS AND LOSSES | | |
| Realized gain on investments | 786,694 | 399,814 |
| Unrestricted contributions | 163,683 | 262,937 |
| Interest and dividend income | 692,464 | 820,763 |
| Change in beneficial interest in net assets of Foundation | (2,013) | (2,311) |
| | 1,640,828 | 1,481,203 |
| EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND OTHER PENSION RELATED CHANGES | 2,193,438 | 1,341,944 |
| CHANGE IN UNREALIZED GAINS (LOSSES) ON INVESTMENTS | 662,874 | (747,427) |
| PENSION RELATED CHANGES OTHER THAN NET PERIODIC COSTS | (20,367) | (99,939) |
| CHANGE IN NET ASSETS | 2,835,945 | 494,578 |
| NET ASSETS - BEGINNING OF YEAR | 35,707,906 | 35,213,328 |
| NET ASSETS - END OF YEAR | $ 38,543,851 | $ 35,707,906 |

The accompanying notes are an integral part of the financial statements.

## LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.

### STATEMENTS OF CASH FLOWS

### Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 2,835,945 | $ 494,578 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,388,281 | 1,384,368 |
| Provision for doubtful accounts | 102,034 | 98,197 |
| Change in unrealized gains/losses on investments | (662,874) | 747,427 |
| Change in beneficial interest in net assets of Foundation | 2,013 | 2,311 |
| Change in pension benefit obligation | 120,306 | 204,744 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (327,671) | (185,110) |
| Prepaid expenses | 45,289 | (354,003) |
| Supplies | 20,090 | (29,289) |
| Overfunded pension benefit obligation | (129,850) | (145,496) |
| Other assets | 2,417 | 43,241 |
| Accounts payable | 494,961 | 14,483 |
| Accrued expenses and other liabilities | (9,821) | 8,215 |
| Interest payable | (3,791) | (2,913) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,877,329 | 2,280,753 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in assets whose use is limited | 980,281 | (899,395) |
| Proceeds from sale of portion of capital investment in Preferred Professional Insurance Company | - | 68,492 |
| Additions to property and equipment | (3,137,461) | (522,735) |
| NET CASH USED IN INVESTING ACTIVITIES | (2,157,180) | (1,353,638) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of bonds payable | (910,000) | (875,000) |
| NET CASH USED IN FINANCING ACTIVITIES | (910,000) | (875,000) |
| NET INCREASE IN CASH | 810,149 | 52,115 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR | 940,529 | 888,414 |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | $ 1,750,678 | $ 940,529 |

The accompanying notes are an integral part of the financial statements.

# LOURDES-NOREEN MCKEEN RESIDENCE
# FOR GERIATRIC CARE, INC.

## NOTES TO FINANCIAL STATEMENTS

### Years Ended December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**

Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. (the "Residence") was organized to establish and provide a home for the care, support and maintenance of the aged. The Residence is sponsored by the Carmelite Sisters for the Aged and Infirm.

The Residence consists of a 132-unit skilled nursing facility, a 34-unit assisted living facility, and a 69-unit independent living facility for the elderly in Palm Beach County, Florida.

**Cash and Cash Equivalents**

The Residence considers all highly liquid investments with a maturity of three months or less when purchased, except those classified as investments or assets whose use is limited, to be cash equivalents.

**Investments**

Investments, including assets whose use is limited, are measured at fair value. Fair value is determined using the quoted closing or latest bid prices. Realized gains and losses are included in the statements of operations and are calculated based on proceeds received less cost. The cost of securities sold is based on the specific-identification method. Changes in net unrealized gains and losses are reported in the statements of operations and represent the change in the fair value of investment holdings during the year.

**Assets Whose Use Is Limited**

Assets whose use is limited consists of cash and investments that are restricted for specific purposes through internal designations by the Board of Directors (the "Board") and the Series 2002 Bond Indenture. Amounts required to meet current liabilities have been classified as current portion of assets whose use is limited.

**Property and Equipment**

Property and equipment with a cost in excess of $500 are recorded at cost if purchased or, if donated, at the fair value on the date of donation. The Residence follows the policy of providing for depreciation over the estimated useful lives of the related assets, ranging from 3 to 40 years, using the straight-line method.

**Bond Issuance Costs**

Bond issuance costs include costs related to the issuance of the Palm Beach County Senior Health and Housing Facilities Revenue Refunding Bonds, Series 2002 (see Note 5), which are deferred and amortized over the term of the related obligation. Deferred costs are presented in the balance sheets net of accumulated amortization. Amortization expense was approximately $68,000 for each of the years ended December 31, 2012 and 2011.

**Original Issue Discount**

The Series 2002 Bonds were issued at a discount to their face value. The original issue discount is offset against the face amount of the bonds and is being amortized over the term of the bonds (see Note 5).

**Revenue Recognition**

Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others at the time services are rendered. Rental income from independent living and assisted living residents is recorded in the period in which occupancy rights and services are provided.

Under the Florida Medicaid program, providers of nursing home care are reimbursed their reasonable costs, as defined and limited in the applicable regulations and State Plan, for services rendered to Medicaid-eligible residents. The Medicaid payment for care is subject to targets and ceilings, which have historically been less than the Medicaid allowable and actual cost of care at the Residence. Under the Medicare program, providers are reimbursed through a prospective payment system, where fee-based schedules are used to determine the provider's payments based on clinical, diagnostic and other factors, subject to certain limitations and adjustments.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in the statement of operations in the year of settlement. In the opinion of management, adequate provision has been made for any adjustments that may arise from such audits.

**Contributions**

Unconditional promises to give cash and other assets (including multi-year promises) are recognized at fair value in the period made. Unconditional promises to be collected in more than one year are measured at the present value of estimated future cash flows.

### Contributions *(Continued)*

Contributions are valued at fair value on the date of the contribution. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in these financial statements. Contributions restricted for capital purposes are recorded as additions to temporarily restricted net assets until used for that purpose.

### Performance Indicator

To segregate the financial results from providing healthcare services to its residents from financial results from other activities, the statements of operations and changes in net assets include a performance indicator described as income (loss) from operations.

### Income Taxes

The Residence is incorporated under the laws of the state of Florida as a not-for-profit corporation and is exempt from federal income taxes under Section 501(a), as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been included in these financial statements.

As of December 31, 2012, with certain statutory exceptions, the Residence is no longer subject to income tax examinations by the United States federal or state of Florida taxing authorities for any tax years before January 1, 2009.

### Estimates

The preparation of 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 and disclosure in the financial statements. Actual results could differ from those estimates.

### Subsequent Events

The Company has evaluated subsequent events for reporting and disclosure through April 22, 2013, which is the date the financial statements were available to be issued.

## NOTE 2 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited by the Board and provisions of the Trust Indenture (see Note 5) are summarized as follows at December 31, 2012 and 2011:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents | $ 3,565,007 | $ 3,565,007 | $ 4,338,467 | $ 4,338,467 |
| Strategic currency | - | - | 572,792 | 572,953 |
| U.S. Government obligations | 5,646,449 | 5,753,007 | 7,044,462 | 7,239,514 |
| Municipal bonds | 3,120,589 | 3,337,731 | 1,226,769 | 1,382,882 |
| Corporate bonds and securities | 5,116,417 | 5,363,721 | 5,517,765 | 5,695,159 |
| International bonds | 541,776 | 557,219 | 193,318 | 197,326 |
| Common stock | 5,940,924 | 7,499,096 | 7,297,816 | 8,589,677 |
| Mutual Funds | 4,587,848 | 5,074,404 | 3,286,831 | 3,430,545 |
| Interest receivable | 104,908 | 104,908 | 125,977 | 125,977 |
| | $ 28,623,918 | $ 31,255,093 | $ 29,604,197 | $ 31,572,500 |

Assets limited as to use by the Board and provisions of the trust indenture (see Note 5) are held under the following restrictions at December 31, 2012 and 2011:

| Fund | Purpose | 2012 | 2011 |
|---|---|---|---|
| Bond Fund | Pays Series 2002 Bond principal and interest | $ 174,189 | $ 174,230 |
| Resident Security Deposits | Refundable security deposits held in interest-bearing account on behalf of residents | 462,304 | 405,048 |
| Debt Service Reserve Fund | Reserve to fund debt service payments, if required | 2,466,856 | 2,438,784 |
| Capital Improvements | Board designated fund to pay for future capital improvements | 28,151,744 | 28,554,438 |
| | | 31,255,093 | 31,572,500 |
| Less current portion | | (636,493) | (579,278) |
| Noncurrent portion | | $ 30,618,600 | $ 30,993,222 |

## NOTE 3 - FAIR VALUE MEASUREMENTS

The fair value of financial instruments is presented based upon a hierarchy of levels that prioritize the inputs of 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). 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.

The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

NOTE 3 - FAIR VALUE MEASUREMENTS *(Continued)*

Level 2 Inputs other than quoted prices in active markets within Level 1 that are either directly or indirectly observable.

Level 3 Significant unobservable inputs for the asset or liability in which little or no market data exists.

If available, quoted market prices are used to value investments. Strategic currency, U.S. Government obligations, corporate bonds and securities, international bonds, common stock, and mutual funds are valued at the closing price reported on the major market on which the individual securities are traded (Level 1). The value of interest receivable is calculated based on the par value and interest rate of the security owned by the Residence and the number of months since the last interest payment was received by the Residence (Level 2).

The following tables set forth by level, within the fair value hierarchy, the Residence's assets whose use is limited measured at fair value as of December 31, 2012 and 2011:

| | Fair Value Measurements as of December 31, 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets Whose Use Is Limited:** | | | | |
| Cash and cash equivalents | $ 3,565,007 | $ - | $ - | $ 3,565,007 |
| U.S. Government obligations | 5,753,007 | - | - | 5,753,007 |
| Municipal bonds | 3,337,731 | - | - | 3,337,731 |
| Corporate bonds and securities | 5,363,721 | - | - | 5,363,721 |
| International bonds | 557,219 | - | - | 557,219 |
| Common stock | | | | |
| Large CAP – U.S. | 7,186,599 | - | - | 7,186,599 |
| Large CAP – Non-U.S. | 312,497 | - | - | 312,497 |
| Mutual Funds | | | | |
| Domestic | 729,331 | - | - | 729,331 |
| Non-Domestic | 4,345,073 | - | - | 4,345,073 |
| Interest receivable | - | 104,908 | - | 104,908 |
| Total | $ 31,150,185 | $ 104,908 | $ - | $31,255,093 |

| | Fair Value Measurements as of December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets Whose Use Is Limited: | | | | |
| Cash and cash equivalents | $ 4,338,467 | $ - | $ - | $ 4,338,467 |
| Strategic currency | 572,953 | - | - | 572,953 |
| U.S. Government obligations | 7,239,514 | - | - | 7,239,514 |
| Municipal bonds | 1,382,882 | - | - | 1,382,882 |
| Corporate bonds and securities | 5,695,159 | - | - | 5,695,159 |
| International bonds | 197,326 | - | - | 197,326 |
| Common stock | | | | |
| Large CAP – U.S. | 8,443,664 | - | - | 8,443,664 |
| Large CAP – Non-U.S. | 146,013 | - | - | 146,013 |
| Mutual Funds | | | | |
| Domestic | 722,665 | - | - | 722,665 |
| Non-Domestic | 2,707,880 | - | - | 2,707,880 |
| Interest receivable | - | 125,977 | - | 125,977 |
| Total | $ 31,446,523 | $ 125,977 | $ - | $31,572,500 |

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Land and improvements | $ 2,517,056 | $ 2,517,056 |
| Building and improvements | 31,713,082 | 31,704,492 |
| Furniture and equipment | 6,745,331 | 6,452,679 |
| Vehicles | 195,647 | 195,647 |
| Construction in progress | 3,102,100 | 265,879 |
| | 44,273,216 | 41,135,753 |
| Less: Accumulated depreciation | (20,482,031) | (19,173,792) |
| Property and equipment, net | $ 23,791,185 | $ 21,961,961 |

Depreciation of property and equipment for the years ended December 31, 2012 and 2011 amounted to approximately $1,308,000 and $1,304,000, respectively.

The Residence is in the process of making improvements to the administrative offices and the chapel. The costs associated with these improvements comprise construction in progress as of December 31, 2012 and 2011.

## NOTE 5 - BONDS PAYABLE

Bonds payable consist of the following at December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Series 2002 Bonds, interest due semiannually on June 1, and December 1, with interest at fixed rates ranging from 2.5% to 5.125%. | $ 20,770,000 | $ 21,680,000 |
| Less current portion of bonds payable | (955,000) | (910,000) |
| Less unamortized bond discount | (135,943) | (145,708) |
| Total long-term portion | $ 19,679,057 | $ 20,624,296 |

In August 2002, the Palm Beach County Health and Housing Authority issued $28,770,000 of the Palm Beach County, Florida, Senior Health and Housing Facilities Revenue Refunding Bonds, Series 2002 Lourdes-Noreen McKeen Residence Project ("Series 2002 Bonds"). The proceeds from the issuance of the Series 2002 Bonds were used to (1) defease the Series 1996 Bonds; (2) fund a Debt Service Reserve Fund; and (3) pay certain costs of issuance of the Series 2002 Bonds. The Series 2002 Bonds are collateralized by substantially all of the assets and gross revenues of the Residence.

Under the terms of the Series 2002 Bonds and related Trust Indenture, the Residence is required to maintain certain reserves (see Note 2) and to satisfy certain financial covenants. In the opinion of management, the Residence has complied with these requirements.

NOTE 5 - BONDS PAYABLE *(Continued)*

As of December 31, 2012 and 2011, the fair value of the Series 2002 Bonds amounted to approximately $20,663,000 and $18,353,000, respectively.

Cash paid for interest on the Series 2002 Bonds was approximately $1,097,000 and $1,132,000 in 2012 and 2011, respectively.

Amortization of the bond discount of approximately $9,700 was recognized during each of the years ended December 31, 2012 and 2011.

The principal payments due on the Series 2002 Bonds are as follows:

| Year | Amount |
|---|---|
| 2013 | $ 955,000 |
| 2014 | 1,005,000 |
| 2015 | 1,055,000 |
| 2016 | 1,105,000 |
| 2017 | 1,160,000 |
| Thereafter | 15,490,000 |
| | $ 20,770,000 |

NOTE 6 - RELATED-PARTY TRANSACTIONS

The Residence has entered into an Affiliation Agreement with The Carmelite System, Inc. ("The System"). The System is a New York, not-for-profit corporation through which the affiliates strengthen and enhance their ability to participate in the Long-Term Health Care Apostolate of the Roman Catholic Church, in accordance with the goals, objectives, and philosophy of the Carmelite Sisters. Total dues paid to The System for the years ended December 31, 2012 and 2011 were $76,508 and $75,750, respectively.

Certain of the administrative and supervisory personnel of the Residence are members of the Order of the Carmelite Sisters ("Sisters"). For 2012 and 2011, the Carmelite Sisters' stipends amounted to $298,998 and $310,393, respectively. Additionally, the Sisters paid the Residence $132,886 and $123,030 in 2012 and 2011, respectively, for room and board.

A volunteer group provides assistance to the Residence through public relations, work in the various departments at the Residence, work with the patients, and other activities. No amounts have been reflected in these financial statements for these donated services, as the value of the services cannot be objectively determined.

The Foundation and the Residence are considered to be financially inter-related and it is the Foundation's mission and purpose to benefit the Residence. Accordingly, the Residence has recognized its interest in the net assets of the Foundation. The Residence's interest in the net assets of the Foundation was approximately $268,000 and $270,000 as of December 31, 2012 and 2011, respectively.

NOTE 7 - DEFINED-BENEFIT PENSION PLAN

The Residence has a defined-benefit pension plan for the lay employees, providing retirement, death, and disability benefits to eligible employees over the age of 21 with at least one year of service. The annual retirement benefits, paid to employees with five or more years of service when they reach age 65, are based upon credited service and earnings, as defined by the plan. The Residence's funding policy is to annually contribute the minimum amount to the Plan, as determined by an actuary. Plan contributions are intended to provide not only for benefits attributed to service to date, but also for those benefits expected to be earned in the future. The assets and corresponding liabilities of the plan are not included in the Residence's financial statements since they are held in trust for the benefit of the employees and are not owned by the Residence.

Components of the Net Periodic Pension Cost and Other Amounts Recognized in Unrestricted Net Assets

Net periodic pension cost is determined as follows:

| | 2012 | 2011 |
|---|---|---|
| Service cost | $ 110,984 | $ 107,088 |
| Interest cost | 138,882 | 124,524 |
| Expected return on plan assets | (131,539) | (130,171) |
| Prior service cost recognized | 110 | 142 |
| Recognized losses | 34,369 | 23,104 |
| Net periodic pension cost | $ 152,806 | $ 124,687 |

Other changes in plan assets and benefit obligations recognized in unrestricted net assets, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Pension-related changes other than net periodic cost | $32,121 | $32,410 |

The following assumptions were used to determine the net periodic pension cost:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 7.00% | 7.00% |
| Expected long-term rate of return on assets | 6.00% | 6.00% |
| Rate of increase in compensation levels | 3.00% | 3.00% |

The weighted-average expected long-term rate of return on plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

NOTE 7 - DEFINED-BENEFIT PENSION PLAN *(Continued)*

Reconciliation of Pension Benefit Obligation ("PBO")

The following table reconciles the plan's pension benefit obligation:

| | 2012 | 2011 |
|---|---|---|
| Pension benefit obligation at beginning of year | $ 1,991,541 | $ 1,886,205 |
| Service cost | 110,984 | 107,088 |
| Interest cost | 138,882 | 124,524 |
| Actuarial loss (gain) | 50,728 | (61,598) |
| Benefits paid | (82,186) | (64,678) |
| Pension benefit obligation at end of year | $ 2,209,949 | $ 1,991,541 |

**Reconciliation of Plan Assets**

Changes in plan assets are as follows:

| | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets at beginning of year | $ 2,141,819 | $ 2,095,731 |
| Actual return on plan assets | 127,421 | (54,612) |
| Employer contributions | 182,717 | 165,378 |
| Benefits paid | (82,186) | (64,678) |
| Fair value of plan assets at end of year | $ 2,369,771 | $ 2,141,819 |

**Plan Asset Allocation**

The plan's weighted-average asset allocations at December 31, 2012 and 2011, by asset category, were as follows:

| | 2012 | 2011 |
|---|---|---|
| Equity securities | 49% | 32% |
| Fixed income securities | 48% | 48% |
| Cash and cash equivalents | 3% | 20% |
| Total | 100% | 100% |

Plan assets are administered by a trustee and invested principally in cash and cash equivalents, U.S. Government securities, corporate bonds and debentures, and marketable equity securities. The overall objective of the plan's investment policy is to achieve a rate of return, which equals or exceeds the expected long-term rate of return assumed for measuring the plan's pension obligations. Management realizes that market performance varies and that this objective may not be meaningful during some periods. The policy is to invest in accordance with the following strategic guidelines:

| Asset Class | Target Allocation |
|---|---|
| Equities | 50% |
| Fixed income | 50% |

NOTE 7 - DEFINED-BENEFIT PENSION PLAN *(Continued)*

**Balance Sheet Recognition of Pension Plan**

Reconciliation of the plan's obligations and funded status is as follows:

| | 2012 | 2011 |
|---|---|---|
| Plan assets at fair value | $ 2,369,771 | $ 2,141,819 |
| Less: pension benefit obligation | (2,209,949) | (1,991,541) |
| Overfunded pension benefit obligation | $ 159,822 | $ 150,278 |

Amount not yet recognized in net periodic pension cost and included in net assets:

| | 2012 |
|---|---|
| Pension-related changes other than net periodic cost | $20,367 |

At December 31, 2012, the fair market value of plan assets exceeded the pension benefit obligation by $159,822. Pension accounting requires that an asset (liability) equal to the funded (unfunded) pension benefit obligation be recorded. Accordingly, the net assets of the Residence were decreased by $20,367 for the year ended December 31, 2012 to recognize the funded status of the plan and recognize the period net loss.

**Employer Contributions and Benefit Payments**

The Residence contributed approximately $183,000 to the pension plan in 2012. In addition, the following benefit payments are expected to be made by the plan for each of the years ending December 31:

| Year | Amount |
|---|---|
| 2013 | $ 91,000 |
| 2014 | 109,000 |
| 2015 | 113,000 |
| 2016 | 118,000 |
| 2017 | 132,000 |
| 2018 - 2021 | 828,000 |
| | $ 1,391,000 |

NOTE 8 - RESIDENT TRUST FUNDS

The Residence is required to provide a cash management service to its residents that participate in the Medicaid program. These funds remain the sole property of each respective resident, to be disbursed only as requested and, accordingly, these funds are excluded from the accompanying financial statements. The Residence has a fiduciary duty of accountability for these funds. At December 31, 2012 and 2011, these fund balances were approximately $16,000 and $13,000, respectively.

## NOTE 9 - COMMITMENTS AND CONTINGENCIES

### Medicare and Medicaid Programs and Health Care Reform

During 2012 and 2011, approximately 65% and 69% of the Residence's resident services revenue resulted from reimbursement from the Medicare and Medicaid programs. Laws and regulations governing these programs are complex and are subject to interpretation. The Residence believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Governmental funding for health care programs is subject to statutory and regulatory changes, administrative rulings, interpretations of policy, intermediary determinations, and governmental funding restrictions, all of which may materially affect program reimbursement to health care facilities. Changes in the reimbursement policies of the Medicare and Medicaid programs, as a result of legislative and regulatory actions, could adversely affect the revenues of the Residence.

### Legal Actions

The Residence is involved in legal proceedings, claims, and litigation arising in the ordinary course of business. In the opinion of management of the Residence, based on consultation with legal counsel, amounts accrued for awards or assessments in connection with these matters are adequate and the ultimate resolution of these matters will not have a material effect on the Residence's financial position, results of operations, or cash flows.

### Liability Insurance

In October 2003, The Carmelite System, Inc. acquired shares of stock in Preferred Professional Insurance Company ("PPIC"). PPIC is owned by Catholic Healthcare Systems and supports the Catholic Healthcare Ministry of its Owners through an array of insurance products.

The acquisition of PPIC stock was accomplished through a contribution to The System by each of The System's Affiliates. The Residence's portion of the original contribution, recorded at cost, was $395,000. In accordance with the PPIC Shareholders Agreement, the shares of stock may be repurchased by PPIC upon request of the shareholder and subsequent to approval by the appropriate State Insurance Regulators. During 2011, The System elected to sell 80,000 shares of PPIC stock. The Residence's portion of this sale was 6,299 shares. The Residence recognized a gain on the sale of approximately $133,000 for the year ended December 31, 2011, which is included in realized gains on investments in the accompanying statements of operations and changes in net assets. The Residence's remaining portion of its original contribution is approximately $327,000, which is included in other assets in the December 31, 2012 and 2011 balance sheets.

NOTE 9 - COMMITMENTS AND CONTINGENCIES *(Continued)*

**Liability Insurance** ***(Continued)***

In connection with this investment, The System established a Centralized Insurance Program on behalf of The System's Affiliates. Insurance coverage for various lines of insurance is available through the program under arrangements with PPIC and other carriers. Effective November 1, 2003, the Residence, through The System, maintains its professional liability insurance with PPIC. The insurance coverage has limits of $1,000,000 per incident and $3,000,000 annual aggregate on a claims-made basis and $10,000,000 shared excess/umbrella per occurrence and annual aggregate.

**Credit Risk**

Financial instruments which potentially subject the Residence to concentrations of credit risk consist principally of cash and cash equivalents, assets whose use is limited, capital investment in PPIC, and receivables. The Residence maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Residence has not experienced any losses in such accounts. The Residence believes that it is not exposed to any significant credit risk on cash and cash equivalents or investments given the high-credit quality of the financial institutions which the Residence utilizes. Management believes that the concentrations of credit risk with respect to private pay accounts receivable are limited due to the number of private pay residents and the credit risk with respect to program receivables is mitigated by the taxing authority of the governmental entities funding the programs.

Investment securities included in assets whose use is limited are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

**Construction Commitment**

During 2012, the Residence entered into a contractual agreement with a general contractor to perform building improvements. The remaining contract amount is approximately $615,000 at December 31, 2012. Future payments on this contract are generally due as the work is performed and will be funded by operations and assets whose use is limited.

# LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC. AND AFFILIATE

## CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2013

LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.
AND AFFILIATE
YEAR ENDED DECEMBER 31, 2013
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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Lourdes-Noreen Mckeen Residence for Geriatric Care, Inc. and Affiliate
West Palm Beach, Florida

We have audited the accompanying consolidated financial statements of Lourdes-Noreen Mckeen Residence for Geriatric Care, Inc. and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 Lourdes-Noreen Mckeen Residence for Geriatric Care, Inc. and Affiliate as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**
Orlando, Florida
May 27, 2014

## LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC. AND AFFILIATE
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## DECEMBER 31, 2013

### ASSETS

| | |
|---|---|
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 1,147,189 |
| Accounts Receivable, Net | 1,883,394 |
| Prepaid Expenses | 524,310 |
| Assets Limited as to Use - Required for Current Liabilities | 647,362 |
| Other Current Assets | 172,824 |
| Total Current Assets | 4,375,079 |
| **ASSETS LIMITED AS TO USE** | |
| Board Designated | 30,585,131 |
| Trustee Indenture | 2,331,835 |
| Total Assets Limited as to Use | 32,916,966 |
| **PROPERTY AND EQUIPMENT, NET** | 24,372,365 |
| **OTHER ASSETS** | |
| Deferred Financing Costs, Net | 883,223 |
| Pension Asset | 250,101 |
| Other Assets | 352,954 |
| Total Other Assets | 1,486,278 |
| **TOTAL ASSETS** | $ 63,150,688 |

### LIABILITIES AND NET ASSETS

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts Payable | $ 750,284 |
| Deferred Revenue | 120,254 |
| Accrued Expenses | 546,949 |
| Current Maturities on Long-Term Debt | 1,005,000 |
| Other Current Liabilities | 583,865 |
| Total Current Liabilities | 3,006,352 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | 18,683,817 |
| **TOTAL LIABILITIES** | 21,690,169 |
| **NET ASSETS** | |
| Unrestricted | 41,408,218 |
| Temporarily Restricted | 52,301 |
| Total Net Assets | 41,460,519 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 63,150,688 |

*See accompanying Notes to Consolidated Financial Statements*

## LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC. AND AFFILIATE
## CONSOLIDATED STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **UNRESTRICTED NET ASSETS: REVENUES, GAINS, AND OTHER SUPPORT** | |
| Net Resident Services Revenue | $ 19,172,298 |
| Other Operating Income | 669,238 |
| Total Unrestricted Revenues, Gains, and Other Support | 19,841,536 |
| **OPERATING EXPENSES** | |
| Nursing service | 5,534,175 |
| General service | 3,182,890 |
| Dietary | 2,706,168 |
| Administrative | 4,419,075 |
| Bed Tax/Assessment | 982,931 |
| Insurance | 814,261 |
| Interest | 1,047,308 |
| Bad debts | 128,737 |
| Depreciation & Amortization | 1,589,440 |
| Total Expenses | 20,404,985 |
| **LOSS FROM OPERATIONS** | (563,449) |
| **NONOPERATING GAINS** | |
| Unrestricted Contributions - Net | 113,331 |
| Investment Income | 567,444 |
| Net Realized Gains on Investments | 872,773 |
| Gain on Disposal of Equipment | 5,800 |
| Total Nonoperating Gains | 1,559,348 |
| **EXCESS OF REVENUES OVER EXPENSES** | 995,899 |
| **OTHER CHANGES IN UNRESTRICTED NET ASSETS** | |
| Change in Net Unrealized Gains on Investments | 1,822,497 |
| Pension Benefits Liability Adjustments | 51,272 |
| Increase in Unrestricted Net Assets | 2,869,668 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | |
| Contributions | 47,000 |
| Increase in Temporarily Restricted Net Assets | 47,000 |
| **INCREASE IN NET ASSETS** | 2,916,668 |
| **NET ASSETS - BEGINNING OF YEAR** | 38,543,851 |
| **NET ASSETS - END OF YEAR** | $ 41,460,519 |

*See accompanying Notes to Consolidated Financial Statements*

## LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.
## AND AFFILIATE
## CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Change in net assets | $ 2,916,668 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and Amortization expense | 1,589,440 |
| Gain on disposal of property and equipment | (5,800) |
| Net unrealized investment gain | (1,822,497) |
| Net gain on investments | (1,440,217) |
| Provision for bad debts | 128,737 |
| (Increase) decrease in assets: | |
| Patient accounts receivable | (275,766) |
| Other current assets | 72,487 |
| Pension asset | (250,101) |
| Increase (decrease) in liabilities: | |
| Accounts payable | 23,070 |
| Accrued expenses | 80,631 |
| Other current liabilities | 25,459 |
| **CASH PROVIDED BY OPERATING ACTIVITIES** | 1,042,111 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Proceeds from sales and maturities of investments | 25,986,461 |
| Purchase of investments | (25,018,017) |
| Purchase of property and equipment | (2,096,433) |
| Decrease in Other Assets | 158,296 |
| **CASH USED FOR INVESTING ACTIVITIES** | (969,693) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Principal payments on long term debt | (945,240) |
| **CASH USED FOR FINANCING ACTIVITIES** | (945,240) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (872,822) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 2,020,011 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 1,147,189 |
| **CASH PAID FOR INTERST** | $ 626,080 |

*See accompanying Notes to Consolidated Financial Statements*

## NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. (the "Residence") is a Florida not-for-profit corporation organized to provide a geriatric residential health care facility and home for the aged and infirm. Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. is sponsored by the Carmelite Sisters for the Aged and Infirm ("Carmelite Sisters") and the sole member of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. is The Carmelite System, Inc (the "System").

Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. consists of 132 bed skilled nursing facility, 34 unit assisted living facility, and a 6 unit independent living facility in Palm Beach County, Florida.

Lourdes Foundation, Inc. (the "Affiliate") was organized as a Florida not-for-profit corporation to raise, manage and disburse funds for the ultimate support and benefit of the activities of Lourdes Noreen McKeen Residence for Geriatric Care, Inc.

### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. and the Lourdes Foundation, Inc, which are collectively referred to herein as the "Organization". All significant intercompany transactions have been eliminated.

### Resident Service Revenue

Resident service revenue is reported at the estimated net realizable amounts. Third-party payor revenues are recorded as indicated in Note 2. All other revenue is recognized on the accrual basis of accounting.

### Net Assets

Net assets of the Organization are classified and reported as follows:

#### Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

#### Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

#### Permanently Restricted Net Assets

Include contributions which require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for operations in accordance with donor restrictions. The Organization has no permanently restricted net assets.

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

### Cash and Cash Equivalents

The Organization considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions are not considered cash and cash equivalents for purposes of the statement of cash flows.

### Accounts Receivable

Accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. Credit is extended to customers and collateral is not required. The Organization determines delinquent accounts based on individual facts and circumstances. Historically, the Organization has not charged interest on accounts that are deemed to be delinquent. The allowance for doubtful accounts as of December 31, 2013 was $383,004.

### Assets Limited as to Use

Assets limited as to use include assets restricted through internal designators by the Board of Directors, temporarily restricted by donors, assets set aside by a donor for permanent endowment, assets restricted by a mortgagee, assets held by a trustee under bond indenture agreement and trust arrangements, assets restricted by issuers of letters of credit, and security deposits held in escrow, as applicable.

Investments in money market funds and equity securities with readily determinable fair values and investments in debt securities are measured at their fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess revenues over expenses and unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues, over expenses.

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

### Property and Equipment

Property and equipment are recorded at cost. Assets are capitalized if they have an estimated useful life greater than one year and a value over $500. Donated property is recorded at its estimated fair value at the date of receipt. Gifts of long-lived assets are recorded at their fair market value at the date of donation and reported as unrestricted support unless explicit donor stipulations specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

### Deferred Financing Charges

Deferred financing charges are amortized over the period the obligation is outstanding using the interest method.

### Fair Value Measurement

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

### Fair Value Measurement (Continued)

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

### Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

### Promotional Advertising

Promotional advertising costs are expensed as incurred.

### Operating Income (Loss)

The Organization's statement of activities distinguishes between unrestricted operating and nonoperating gains (losses). Operating revenues result from transactions associated with providing health care services, the Organization's principal activity. The non-operating gains and losses are peripheral or incidental transactions of the Organization not deemed by management to be major or central to the provision of health care services and investment income and net realized gains and (losses) on investments.

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

**Excess Revenues over Expenses**

The statement of activities includes excess revenue over expenses and losses. Changes in unrestricted net assets which are excluded from excess of revenue, expenses, consistent with industry practice, include the change in net unrealized gains (losses) on investments, transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

**Income Taxes**

Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. and Affiliate are not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to section 501(a) of the code. The 2010 through 2013 tax years are open for examination by federal and state taxing authorities.

**Functional Expenses**

The costs of providing the various programs and other activities of the organization have been summarized on a functional basis in the consolidated statement of functional expenses. Certain costs have been allocated between program and supporting services.

**Estimates**

The preparation of 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 financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Insurance Claims and Recoveries**

In accordance with accounting standards, the Organization records expected insurance recoveries of claim settlements in the consolidated statement of financial position as assets, not netted against accrued losses. Receivables are evaluated for collectability. The Organization has recorded a gross receivable in other current assets and a gross liability in accrued expenses as further explained in Note 11. All pending claims are expected to be fully covered by insurance. The accruals had no impact on current year net income.

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

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 27, 2014, the date the financial statements were issued.

## NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS

**Summary of the Payment Arrangements with Third Party Payors:**

**Medicaid - Standard Payments to Nursing Facilities**

The Organization receives reimbursement from the State Medicaid Program under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided residents pursuant to regulations promulgated by the state in which the resident resides. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and may result in a retroactive rate adjustment for the current year.

**Medicare – Prospective Payment System**

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

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

## NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of the following:

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank may exceed FDIC insurable limits.

Accounts Receivable

The Organization extends unsecured credit to its private residents covered under third-party payor arrangements. Accounts receivable from private residents and third-party payors totaled $1,883,394 at December 31, 2013. See Note 2 for details of third-party payor arrangements.

**Assets Limited as to Use**

The Organization has investments in cash and cash equivalents and marketable securities in the amount of $33,564,328 as of December 31, 2013. These investments are restricted through various designations. See Note 1 for details of restricted purposes.

**Major Customers**

At December 31, 2013, approximately 7% and 53% of the Organization's operating revenue is derived from Medicare and Medicaid, respectively.

## NOTE 4 ASSETS LIMITED AS TO USE

As of December 31, 2013 assets limited as to use consists of the following:

The Organization has investments that are unrestricted and investments whose use is limited due to board designations. Investments as of December 31, are as follows:

| Investments: | Cost | Market |
|---|---|---|
| Cash Equivalents | $ 3,933,446 | $ 3,933,446 |
| Mutual Funds | 4,587,829 | 5,713,655 |
| Common Stocks | 6,517,528 | 9,712,119 |
| Government Obligations | 8,644,211 | 8,674,653 |
| Corporate Obligations | 5,335,065 | 5,437,879 |
| Interest Receivable | 92,576 | 92,576 |
| Total Investments | $ 29,110,655 | $ 33,564,328 |

| Investment Classifications: | Cost | Market |
|---|---|---|
| Investments Limited As To Use | $ 29,110,655 | $ 33,564,328 |
| Total Investments | $ 29,110,655 | $ 33,564,328 |

### Trust Indenture

Under the terms of a master trust indenture, the Organization is required to maintain and fund various escrow accounts. These escrows are held in trust and disbursements are made in accordance with the master trust indenture. Approved withdrawals from the escrow accounts not spent at December 31, 2013 amounted to $2,499,223.

## NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2013:

| | |
|---|---|
| Land & Land Improvements | $ 2,519,355 |
| Building & Building Improvements | 36,018,098 |
| Construction in Process | 90,493 |
| Equipment | 7,439,683 |
| Major Movable | 207,837 |
| | $ 46,275,466 |
| Less Accumulated Depreciation | (21,903,101) |
| | $ 24,372,365 |

Depreciation expense charged to operations was $1,509,396 for 2013.

## NOTE 6 LONG-TERM DEBT

The Organization is obligated under long-term debt at December 31, 2013 as follows:

| | | |
|---|---|---|
| Series 2002 Bonds, interest due semiannually on June 1, and December 1, with interest at fixed rates ranging from 2.5% to 5.125%. | $ | 19,815,000 |
| Less current portion of bonds payable | | (1,005,000) |
| Less unamortized bond discount | | (126,183) |
| Total long-term portion | $ | 18,683,817 |

In August 2002, the Palm Beach County Health and Housing Authority issued $28,770,000 of the Palm Beach County, Florida, Senior Health and Housing Facilities Revenue Refunding Bonds, Series 2002 Lourdes-Noreen McKeen Residence Project ("Series 2002 Bonds"). The Series 2002 Bonds mature on December 1, 2026. The proceeds from the issuance of the series 2002 Bonds were used to (1) defease the Series 1996 bonds; (2) fund a Debt Service Reserve Fund; and (3) pay certain costs of issuance of the Series 2002 bonds. The Series 2002 Bonds are collateralized by substantially all of the assets and gross revenues of the Residence.

Under the terms of the Series 2002 Bonds and related Trust Indenture, the Residence is required to maintain certain reserves (see Note 2) and to satisfy certain financial covenants. In the opinion of management, the Residence has complied with these requirements.

Annual maturities of long-term debt due in future years are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2014 | $ 1,005,000 |
| 2015 | 1,055,000 |
| 2016 | 1,105,000 |
| 2017 | 1,160,000 |
| 2018 | 1,220,000 |
| Thereafter | 14,270,000 |
| | $ 19,815,000 |

## NOTE 7 RETIREMENT PLAN

The Residence has a defined-benefit pension plan for the lay employees, providing retirement, death, and disability benefits to eligible employees over the age of 21 with at least one year of service. The annual retirement benefits, paid to employees with five or more years of service when they reach age 65, are based upon credited service and earnings, as defined by the plan. The Residence's funding policy is to annually contribute the minimum amount to the Plan, as determined by an actuary. Plan contributions are intended to provide not only for benefits attributed to service to date, but also for those benefits expected to be earned in the future. The assets and corresponding liabilities of the plan are not included in the Residence's financial statements since they are held in trust for the benefit of the employees and are not owned by the Residence.

Components of the Net Periodic Pension Cost and Other Amounts Recognized in Unrestricted Net Assets

Net periodic pension cost is determined as follows:

| | | |
|---|---|---|
| Service cost | $ | 107,596 |
| Interest cost | | 149,014 |
| Expected return on plan assets | | (144,684) |
| Prior service cost recognized | | 102 |
| Recognized losses | | 29,465 |
| Net periodic pension cost | $ | 141,493 |

Other changes in plan assets and benefit obligations recognized in unrestricted net assets, are as follows:

| | | |
|---|---|---|
| Pension-related changes other than net periodic cost | $ | 24,871 |

The following assumptions were used to determine the net periodic pension cost:

| | |
|---|---|
| Discount rate | 7.00% |
| Expected long-term rate of return on assets | 6.00% |
| Rate of increase in compensation levels | 3.00% |

The weighted-average expected long-term rate of return on plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

## NOTE 7 RETIREMENT PLAN (CONTINUED)

Reconciliation of Pension Benefit Obligation ("PBO")

The following table reconciles the plan's pension benefit obligation:

| | |
|---|---|
| Pension benefit obligation at beginning of year | $ 2,209,949 |
| Service cost | 107,596 |
| Interest cost | 149,014 |
| Actuarial loss (gain) | (13,429) |
| Benefits paid | (114,819) |
| Net periodic pension cost | $ 2,338,311 |

**Reconciliation of Plan Assets**

Changes in plan assets are as follows:

| | |
|---|---|
| Fair value of plan assets at beginning of year | $ 2,369,771 |
| Actual return on plan assets | 152,960 |
| Employer contributions | 180,500 |
| Benefits paid | (114,819) |
| Fair value of plan assets at end of year | $ 2,588,412 |

**Plan Asset Allocation**

The plan's weighted-average asset allocations at December 31, 2013 by asset category were as follows:

| | |
|---|---|
| Equity securities | 50% |
| Fixed income securities | 47% |
| Cash and cash equivalents | 3% |
| Total | 100% |

## NOTE 7 RETIREMENT PLAN (CONTINUED)

Plan assets are administered by a trustee and invested principally in cash and cash equivalents, U.S. Government securities, corporate bonds and debentures, and marketable equity securities. The overall objective of the plan's investment policy is to achieve a rate of return, which equals or exceeds the expected long-term rate of return assumed for measuring the plan's pension obligations. Management realizes that market performance varies and that this objective may not be meaningful during some periods. The policy is to invest in accordance with the following strategic guidelines:

| Asset Class | Target Allocation |
|---|---|
| Equities | 50% |
| Fixed income | 50% |

### Balance Sheet Recognition of Pension Plan

Reconciliation of the plan's obligations and funded status is as follows:

| | |
|---|---|
| Plan assets at fair value | $ 2,588,412 |
| Less: pension benefit obligation | (2,338,311) |
| Overfunded pension benefit obligation | $ 250,101 |

Amount not yet recognized in net periodic pension cost and included in net assets:

| | |
|---|---|
| Pension-related changes other than net periodic cost | $ 51,272 |

At December 31, 2013 the fair market value of plan assets exceeded the pension benefit obligation by $250,201. Pension accounting requires that an asset (liability) equal to the funded (unfunded) pension benefit obligation be recorded. Accordingly, the net assets of the Residence were increased by $51,272 for the year ended December 31, 2013 to recognize the funded status of the plan and recognize the period net loss.

## NOTE 7 RETIREMENT PLAN (CONTINUED)

### Employer Contributions and Benefit Payments

The Residence contributed approximately $181,000 to the pension plan in 2013. The minimum funding requirement for the Residence in 2014 is approximately $180,000. In addition, the following benefit payments are expected to be made by the plan for each of the years ending December 31:

| Year | Amount |
|---|---|
| 2014 | $ 114,859 |
| 2015 | 118,759 |
| 2016 | 123,882 |
| 2017 | 138,141 |
| 2018 | 148,272 |
| 2019 - 2023 | 856,789 |
| | $ 1,500,702 |

## NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments at December 31, 2013 is as follows:

Cash and cash equivalents carrying amount approximates fair value because of the short maturities of these financial instruments.

The fair value of assets limited as to use and level 1 marketable securities are obtained from various quotation services. Level 2 marketable securities consist mainly of commercial paper, mortgage-backed securities, foreign fixed government securities and foreign fixed corporate bonds measured based on quoted market prices of similar assets.

The carrying value of notes and loans payable approximate fair value because the financial instrument bears interest at rates which approximate current market rates for notes with similar maturities and credit quality.

## NOTE 9 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money Market Funds | $ 3,933,446 | $ - | $ - | $ 3,933,446 |
| Mutual Funds | 5,713,655 | - | - | 5,713,655 |
| Government Obligations: | | | | |
| U.S. Treasuries | - | 5,582,029 | - | 5,582,029 |
| Municipal Securities | - | 3,092,624 | - | 3,092,624 |
| Municipal Securities | - | | 329,288 | 329,288 |
| Total Government Obligations | - | 8,674,653 | 329,288 | 9,003,941 |
| Corporate Debt Securities | - | 5,108,591 | - | 5,108,591 |
| Common Stocks | 9,712,119 | - | - | 9,712,119 |
| Accrued Interest | 92,576 | - | - | 92,576 |
| Total | $ 19,451,796 | $ 13,783,244 | $ 329,288 | $ 33,564,328 |

### Valuation Techniques

Investments classified as Level 3 include corporate bonds, which have been customized by a large investment firm to target a specific risk/return objective based on 3-month LIBOR plus basis points. These offerings are structured by the investment firm and not publicly traded. The unobservable inputs used to determine the fair value of the investments in this category have been estimated using the net asset value per share of the investments.

## NOTE 10 RELATED PARTY TRANSACTIONS

Certain members of the administrative and supervisory personnel of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. are members of the Order of the Carmelite Sisters for the Aged and Infirm. The Carmelite Sisters' salaries amounted to $302,801 in 2013. Additionally, the Carmelite Sisters reimbursed $133,949 in 2013 for room and board. The Organization paid dues to the System of $78,803 for the year ended December 31, 2013.

### Centralized Insurance

In October 2003, the System acquired shares of stock in Preferred Professional Insurance Company ("PPIC"). PPIC is owned by Catholic Healthcare Systems and supports the Catholic health care ministry of its owners through an array of insurance products.

## NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

The acquisition of PPIC stock was accomplished through a contribution of capital to The Carmelite System by each of the System Affiliates. In accordance with the PPIC shareholders agreement, the shares of stock may be repurchased by PPIC upon request of the shareholder and subsequent to approval by the appropriate state insurance regulator.

In connection with this investment, the System established a centralized insurance program on behalf of the System Affiliates. Insurance coverage for various lines of insurance is available through the program under arrangements with PPIC and other carriers

<u>Health Insurance</u>
Effective January 1, 2008, the System established a Health and Welfare Trust ("Trust") for the purposes of funding a self-insured health benefit program on behalf of the Carmelite System Affiliates ("Affiliates").

In connection with formation of the Trust, the Affiliates have delegated administration of the program to the System. These administrative duties include collection of health benefit premiums from the Affiliates, payment of medical and pharmaceutical claims to the third party administrator and the purchase of stop-loss reinsurance for the program.

Annual funding levels are developed on an actuarial basis by the third party administrator using aggregate program claims history, national and regional medical trends and the balance in the Trust. Each participant in the program shares equally in the annual prospective funding determination.

The Health and Welfare Trust had an accumulated deficit in 2011 and as a result, the participants in the program provided a deposit to the Trust to serve as a reserve to offset a portion of the deficit. Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. made a deposit of $100,000 in 2011 which is reflected in other assets on the statement of financial position.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

**Third-Party Payors**

A significant portion of the Organization's net revenues and accounts receivable are derived from services reimbursable under the Medicaid and the Medicare programs. There are numerous healthcare reform proposals being considered on the federal and state levels. The Organization cannot predict at this time whether any of these proposals will be adopted or, if adopted and implemented, what effect such proposals would have on the Organization. The Organization's Medicare Claims are also subject to audit or medical review by the fiscal intermediary (FI). It is not possible at this time to determine whether the Organization's claims will be subjected to post payment review by the FI.

**Medical Malpractice Claims**

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through December 31, 2013, the Organization was covered by a claims-made basis policy. There are no known claims and incidents that may result in the assertion of additional claims, as well as no claims from unknown incidents that may be asserted arising from services provided to patients. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of December 31, 2013.

The Organization has a known claim pending against it which has arisen in the normal course of business. In the opinion of management, no claims have been asserted against the Organization which, either individually or in the aggregate, are considered to be material or will be in excess of its insurance coverage. However, an estimated accrual has been recorded in accrued expenses, with an offsetting receivable for expected recovery in other current assets as of December 31, 2013. The estimated accrual and offsetting accrual recorded as of December 31, 2013 was $110,000. There was no impact on operating results for the year ended December 31, 2013.

## NOTE 12 FUNCTIONAL EXPENSES

Program and management and general expenses for the year ended December 31, 2013 is as follows:

| | |
|---|---|
| Program Services | $ 15,704,141 |
| Management and General | 4,700,844 |
| Total | $ 20,404,985 |

# LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.
# AND AFFILIATE
# CONSOLIDATING STATEMENT OF FINANCIAL POSITION
# DECEMBER 31, 2013

| | Lourdes-Noreen McKeen Residence | Lourdes Foundation | Consolidated Total |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and Cash Equivalents | $ 841,384 | $ 305,805 | $ 1,147,189 |
| Accounts Receivable, Net | 1,883,394 | - | 1,883,394 |
| Prepaid Expenses | 524,310 | - | 524,310 |
| Assets Limited as to Use - Required for Current Liabilities | 647,362 | - | 647,362 |
| Other Current Assets | 172,824 | - | 172,824 |
| Total Current Assets | 4,069,274 | 305,805 | 4,375,079 |
| **ASSETS LIMITED AS TO USE** | | | |
| Board Designated | 30,585,131 | - | 30,585,131 |
| Trustee Indenture | 2,331,835 | - | 2,331,835 |
| Total Assets Limited as to Use | 32,916,966 | - | - |
| **PROPERTY AND EQUIPMENT, NET** | 24,372,365 | - | 24,372,365 |
| **OTHER ASSETS** | | | |
| Deferred Financing Costs, Net | 883,223 | - | 883,223 |
| Pension Asset | 250,101 | - | 250,101 |
| Other Assets | 352,954 | - | 352,954 |
| Total Other Assets | 1,486,278 | - | 1,486,278 |
| **TOTAL ASSETS** | $ 62,844,883 | $ 305,805 | $ 63,150,688 |
| **LIABILITIES AND NET ASSETS** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts Payable | $ 750,284 | $ - | $ 750,284 |
| Deferred Revenue | 120,254 | - | 120,254 |
| Accrued Expenses | 546,949 | - | 546,949 |
| Current Maturities on Long-Term Debt | 1,005,000 | - | 1,005,000 |
| Other Current Liabilities | 583,865 | - | 583,865 |
| Total Current Liabilities | 3,006,352 | - | - |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | 18,683,817 | - | 18,683,817 |
| **TOTAL LIABILITIES** | 21,690,169 | - | 21,690,169 |
| **NET ASSETS** | | | |
| Unrestricted | 41,154,714 | 253,504 | 41,408,218 |
| Temporarily Restricted | - | 52,301 | 52,301 |
| Total Net Assets | 41,154,714 | 305,805 | 41,460,519 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 62,844,883 | $ 305,805 | $ 63,150,688 |

## LOURDES-NOREEN MCKEEN RESIDENCE FOR GERIATRIC CARE, INC.
## AND AFFILIATE
## CONSOLIDATING STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2013

| | Lourdes-Noreen McKeen Residence | Lourdes Foundation | Consolidated Total |
|---|---|---|---|
| **UNRESTRICTED NET ASSETS REVENUES, GAINS, AND OTHER SUPPORT** | | | |
| Net Resident Services Revenue | $ 19,172,298 | $ - | $ 19,172,298 |
| Other Operating Income | 669,238 | - | 669,238 |
| Total Unrestricted Revenues, Gains, and Other Support | 19,841,536 | - | 19,841,536 |
| **OPERATING EXPENSES** | | | |
| Nursing service | 5,534,175 | - | 5,534,175 |
| General service | 3,182,890 | - | 3,182,890 |
| Dietary | 2,706,168 | - | 2,706,168 |
| Administrative | 4,409,547 | 9,528 | 4,419,075 |
| Bed Tax/Assessment | 982,931 | - | 982,931 |
| Insurance | 814,261 | - | 814,261 |
| Interest | 1,047,308 | - | 1,047,308 |
| Bad debts | 128,737 | - | 128,737 |
| Depreciation & Amortization | 1,589,440 | - | 1,589,440 |
| Total Expenses | 20,395,457 | 9,528 | 18,986,347 |
| **LOSS FROM OPERATIONS** | (553,921) | (9,528) | (563,449) |
| **NONOPERATING GAINS** | | | |
| Unrestricted Contributions - Net | 113,331 | - | 113,331 |
| Investment Income | 567,444 | - | 567,444 |
| Net Realized Gains on Investments | 872,773 | - | 872,773 |
| Gain on Disposal of Equipment | 5,800 | - | 5,800 |
| Total Nonoperating Gains | 1,559,348 | - | 1,559,348 |
| **EXCESS OF REVENUES OVER EXPENSES** | 1,005,427 | (9,528) | 995,899 |
| **OTHER CHANGES IN UNRESTRICTED NET ASSETS** | | | |
| Change in Net Unrealized Gains on Investments | 1,822,497 | - | 1,822,497 |
| Pension Benefits Liability Adjustments | 51,272 | - | 51,272 |
| Increase in Unrestricted Net Assets | 2,879,196 | (9,528) | 2,869,668 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | | | |
| Contributions | - | 47,000 | 47,000 |
| Increase in Temporarily Restricted Net Assets | - | 47,000 | 47,000 |
| **INCREASE IN NET ASSETS** | 2,879,196 | 37,472 | 2,916,668 |
| **NET ASSETS - BEGINNING OF YEAR** | 38,275,518 | 268,333 | 38,543,851 |
| **NET ASSETS - END OF YEAR** | $ 41,154,714 | $ 305,805 | $ 41,460,519 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES

## COMBINED FINANCIAL STATEMENTS
## AND SUPPLEMENTARY INFORMATION

## YEAR ENDED DECEMBER 31, 2013

THE CARMELITE SYSTEM
OBLIGATED GROUP AFFILIATES
COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
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YEAR ENDED DECEMBER 31, 2013

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

**INDEPENDENT AUDITORS' REPORT**

Board of Directors
Carmelite System, Inc. and Affiliates
Germantown, New York

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of Carmelite System Obligated Group Affiliates, which comprise the combined statement of financial position as of December 31, 2013, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Carmelite System Obligated Group Affiliates

*Opinion*

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Carmelite System Obligated Group Affiliates as of December 31, 2013, and the combined results of their operations and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information on pages 29 through 34 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Boston, Massachusetts
July 17, 2014

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINED STATEMENT OF FINANCIAL POSITION
# DECEMBER 31, 2013

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 11,968,336 |
| Investments | 1,978,993 |
| Accounts Receivable, Net | 10,050,023 |
| Prepaid Expenses | 1,638,130 |
| Assets Limited as to Use - Current Portion | 741,465 |
| Due From Related Party | 156,149 |
| Pledges Receivable, Current Portion | 234,707 |
| Other Current Assets | 926,018 |
| **Total Current Assets** | 27,693,821 |
| **ASSETS LIMITED AS TO USE** | |
| Board | 62,561,346 |
| Trustee | 2,805,492 |
| Temporarily Restricted | 597,665 |
| Permanently Restricted - Beneficial Interest in Perpetual Trusts | 2,513,394 |
| Permanently Restricted | 152,419 |
| **Total Assets Limited as to Use** | 68,630,316 |
| **PROPERTY, PLANT AND EQUIPMENT, NET** | 103,103,323 |
| **ASSETS HELD FOR SALE** | 900,000 |
| **OTHER ASSETS** | |
| Investments | 55,105,698 |
| Deferred Financing Costs, Net | 1,547,583 |
| Pledges Receivable, Long Term | 380,744 |
| Swap Agreement | 156,293 |
| Other Assets | 757,346 |
| Overfunded Pension Asset | 250,101 |
| **Total Other Assets** | 58,197,765 |
| **TOTAL ASSETS** | $ 258,525,225 |

*See accompanying Notes to Combined Financial Statements*

## THE CARMELITE SYSTEM
## OBLIGATED GROUP AFFILIATES
## COMBINED STATEMENT OF FINANCIAL POSITION (CONTINUED)
## DECEMBER 31, 2013

| | |
|---|---|
| **LIABILITIES AND NET ASSETS** | |
| **CURRENT LIABILITIES** | |
| Accounts Payable | $ 2,345,937 |
| Deferred Revenue | 423,897 |
| Accrued Expenses | 5,163,837 |
| Current Maturities on Long-Term Debt | 2,206,274 |
| Other Current Liabilities | 1,156,996 |
| **Total Current Liabilities** | 11,296,941 |
| | |
| **LONG-TERM DEBT AND OTHER LIABILITIES** | |
| Long-Term Debt, Net of Current Portion | 67,601,886 |
| Swap Agreement | 1,627,561 |
| Worker's Compensation Reserve | 126,015 |
| **Total Long-Term Debt and Other Liabilities** | 69,355,462 |
| | |
| **TOTAL LIABILITIES** | 80,652,403 |
| | |
| **NET ASSETS** | |
| Unrestricted | 173,993,891 |
| Temporarily Restricted | 1,213,158 |
| Permanently Restricted | 2,665,773 |
| **Total Net Assets** | 177,872,822 |
| | |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 258,525,225 |

*See accompanying Notes to Combined Financial Statements*

**THE CARMELITE SYSTEM**
**OBLIGATED GROUP AFFILIATES**
**COMBINED STATEMENT OF ACTIVITIES**
**YEAR ENDED DECEMBER 31, 2013**

| | |
|---|---|
| **UNRESTRICTED NET ASSETS REVENUES, GAINS, AND OTHER SUPPORT** | |
| Net Resident Services Revenue | $ 97,024,695 |
| Other Operating Income | 1,859,048 |
| Net Assets Released from Restrictions | 667,376 |
| **Total Unrestricted Revenues, Gains, and Other Support** | 99,551,119 |
| **OPERATING EXPENSES** | |
| Nursing Service | 44,083,903 |
| General Service | 11,279,542 |
| Dietary | 10,480,207 |
| Administrative | 22,837,816 |
| Bed Tax/Assessment | 2,759,330 |
| Insurance | 1,759,307 |
| Interest | 2,964,037 |
| Bad Debts | 986,758 |
| Depreciation and Amortization | 5,606,330 |
| **Total Expenses** | 102,757,230 |
| **LOSS FROM OPERATIONS** | (3,206,111) |
| **NONOPERATING GAINS (LOSSES)** | |
| Unrestricted Contributions - Net | 911,848 |
| Investment Income | 2,339,535 |
| Net Realized Gains on Investments | 1,943,113 |
| Impairment Loss | (1,504,603) |
| Net Loss on Disposal of Property and Equipment | (118,043) |
| Change in Fair Value of Interest Rate Swaps | 2,398,193 |
| Other Nonoperating Losses | (60,569) |
| **Total Nonoperating Gains** | 5,909,474 |
| **EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES AND LOSSES** | $ 2,703,363 |

*See accompanying Notes to Combined Financial Statements*

## THE CARMELITE SYSTEM
## OBLIGATED GROUP AFFILIATES
## COMBINED STATEMENT OF ACTIVITIES (CONTINUED)
## YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **CHANGE IN UNRESTRICTED NET ASSETS** | |
| Excess of Revenues, Gains, and Other Support Over Expenses and Losses(from previous page) | $ 2,703,363 |
| Change in Net Unrealized Gains on Investments | 7,484,716 |
| Pension Benefits Liability Adjustments | 51,272 |
| **INCREASE IN UNRESTRICTED NET ASSETS** | 10,239,351 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | |
| Contributions | 516,952 |
| Income on Temporarily Restricted Gifts | 36,515 |
| Temporarily Restricted Net Assets Released from Restriction | (600,835) |
| **DECREASE IN TEMPORARILY RESTRICTED NET ASSETS** | (47,368) |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | |
| Change in Fair Value of Beneficial Interest in Net Assets of Perpetual Trust | 351,325 |
| Income on Permanently Restricted Gifts | 1,987 |
| Permanently Restricted Net Assets Released from Restriction | (66,541) |
| **INCREASE IN PERMANENTLY RESTRICTED NET ASSETS** | 286,771 |
| **CHANGE IN NET ASSETS** | 10,478,754 |
| **NET ASSETS - BEGINNING OF YEAR, AS RESTATED** | 167,394,068 |
| **NET ASSETS - END OF YEAR** | $ 177,872,822 |

*See accompanying Notes to Combined Financial Statements*

**THE CARMELITE SYSTEM**
**OBLIGATED GROUP AFFILIATES**
**COMBINED STATEMENT OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2013**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in Net Assets | $ 10,478,754 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization Expense | 5,606,330 |
| Change in Fair Value of Beneficial Interest in Perpetual Trusts | (351,325) |
| Increase in Fair Value on Interest Rate Swaps | (2,398,193) |
| Loss on Disposal of Property and Equipment | 118,043 |
| Impairment Loss | 1,504,603 |
| Net Realized and Unrealized Investment Gain | (9,997,260) |
| Provision for Bad Debts | 974,427 |
| Restricted Contributions | (265,665) |
| (Increase) Decrease in Assets: | |
| Residents Accounts Receivable | (336,567) |
| Due from Related Party | (29,634) |
| Other Current Assets | (255,517) |
| Increase (Decrease) in Liabilities: | |
| Accounts Payable | (294,265) |
| Accrued Expenses | (164,666) |
| Due to Related Party | (105,287) |
| Other Current Liabilities | 171,996 |
| CASH PROVIDED BY OPERATING ACTIVITIES | 4,655,774 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from Sales and Maturities of Investments | 55,479,370 |
| Purchase of Investments | (52,917,376) |
| Purchase of Property, Plant, and Equipment | (4,695,856) |
| Proceeds from Beneficial Interest Distribution | 66,822 |
| Decrease in Other Assets | 158,296 |
| CASH USED FOR INVESTING ACTIVITIES | (1,908,744) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Contributions Received - Restricted | 265,665 |
| Principal Payments on Long Term Debt | (2,755,574) |
| CASH USED FOR FINANCING ACTIVITIES | (2,489,909) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 257,121 |
| CASH AND EQUIVALENTS AT BEGINNING OF YEAR | 11,711,215 |
| CASH AND EQUIVALENTS AT END OF YEAR | $ 11,968,336 |
| SUPPLEMENTAL INFORMATION | |
| Cash Paid for Interest | $ 2,502,007 |

*See accompanying Notes to Combined Financial Statements*

THE CARMELITE SYSTEM
OBLIGATED GROUP AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2013

## NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

The Carmelite System, Inc. (Hereafter, the "System") located in Germantown, New York is a New York not-for-profit corporation that supports the long term health ministry of its Affiliates. The Carmelite Sisters for the Aged and Infirm (The "Sponsor") is the Sponsor of the Affiliates and sole member of the System. The System is the sole member of each Affiliate.

In 2014, certain Affiliate corporations intend to initiate a comprehensive system-wide financing for the purpose of the advance refunding of certain debt. The Affiliates intend to establish an Obligated Group and related Master Trust whereby the obligated issuers will agree to be jointly and severally liable for timely payments of amounts due under the master trust indenture and supplemental trust indentures. The intended Obligated Group Affiliates ("Organization") will be comprised of the following:

- Carmel Terrace, Inc.—Framingham, Massachusetts
- Kahl Home for the Aged and Infirm—Davenport, Iowa
- Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.—West Palm Beach, Florida (exclusive of Lourdes Foundation, Inc.)
- Mother Angeline McCrory Manor, Inc.—Columbus, Ohio
- Saint Margaret Hall, Incorporated—Cincinnati, Ohio
- St. Patrick's Manor, Inc.—Framingham, Massachusetts
- Saint Patrick's Residence—Naperville, Illinois

### Basis of Combination

The accompanying financial statements present the combined financial position, results of activities, and changes in cash flows for the above named entities. All material inter-company balances and transactions have been eliminated in the combination.

### Resident Service Revenue

Resident service revenue is reported at the estimated net realizable amounts. Third-party payor revenues are recorded as indicated in Note 2. All other revenue is recognized on the accrual basis of accounting.

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

**Net Assets**

Net assets of the Organization are classified and reported as follows:

**Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets**

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

**Permanently Restricted Net Assets**

Include contributions which require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for operations in accordance with donor restrictions.

**Investments**

Investments in money market funds and equity securities with readily determinable fair values and investments in debt securities are measured at their fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues, gains, and other support over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues, gains and other support over expenses and losses.

**Cash and Cash Equivalents**

The Organization considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions are not considered cash and cash equivalents for purposes of the statement of cash flows.

**Accounts Receivable**

Accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. Credit is extended to customers and collateral is not required. The Organization determines delinquent accounts based on individual facts and circumstances. Historically, the Organization has not charged interest on accounts that are deemed to be delinquent. The allowance was $2,347,228 as of December 31, 2013.

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

### Pledges Receivable

Unconditional pledges receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Pledges receivable are measured based on the present value of their future cash flows. Discount rates are determined based on market conditions, historical information and experience with the donor.

### Assets Limited as to Use

Assets limited as to use include assets restricted through internal designators by the Board of Directors, temporarily restricted by donors, assets set aside by a donor for permanent endowment, assets restricted by a mortgagee, assets held by a trustee under bond indenture agreement and trust arrangements, assets restricted by issuers of letters of credit, and security deposits held in escrow.

### Property, Plant and Equipment

Property and equipment are recorded at cost. Assets are capitalized if they have an estimated useful life greater than one year and a value ranging from $500 to $2,500. Donated property is recorded at its estimated fair value at the date of receipt. Gifts of long-lived assets are recorded at their fair market value at the date of donation and reported as unrestricted support unless explicit donor stipulations specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The Organization uses estimated lives between 3 and 50 years.

### Assets Held for Sale

Assets held for sale are reported in the statement of financial position at the lower of its carrying amount or fair value, less cost to sell. Assets held for sale are assessed for impairment when management believes certain events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on this assessment, assets held for sale that are considered impaired are written down to their fair value. Management determined that the carrying value of the assets held for sale during 2013 exceeded the current fair value at Kahl Home. Therefore, an impairment loss of $1,504,603 was recognized.

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

### Deferred Financing Charges

Deferred financing charges are amortized over the period the obligation is outstanding using the interest method.

### Fair Value Measurement

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

<u>Level 1</u> – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

<u>Level 2</u> – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

<u>Level 3</u> – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

### Interest Rate Swaps

The Organization has interest rate swap contracts that are being accounted for as non-hedging transactions. The carrying value of the interest rate swaps are adjusted to their fair value at the end of the year, with the change in fair value of interest rate swaps reflected in the combined statement of activities.

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

### Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

### Promotional Advertising

Promotional advertising costs are expensed as incurred.

### Operating Income (Loss)

The Organization's statement of activities distinguishes between unrestricted operating and nonoperating gains (losses). Operating revenues result from transactions associated with providing health care services, the Organization's principal activity. The nonoperating gains and losses are peripheral or incidental transactions of the Organization not deemed by management to be major or central to the provision of health care services and investment income and net realized gain on investments.

### Excess (Deficiency) of Revenues, Gains, and Other Support over Expenses and Losses

The statement of activities includes excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include the change in net unrealized gains (losses) on investments, transfers of assets to and from affiliates for other than goods and services, changes in the pension benefit liability adjustment, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

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

### Income Taxes

The Carmelite System Obligated Group Affiliates are not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to section 501(a) of the code. The 2010 through 2013 tax years are open for examination by federal and state taxing authorities.

### Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized in Note 16. Certain costs have been allocated between program and supporting services.

### Estimates

The preparation of 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 financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Insurance Claims and Recoveries

In accordance with accounting standards, the Organization records expected insurance recoveries of claim settlements in the statement of financial position, not netted against accrued losses. Receivables are evaluated for collectability. The Organization has recorded a gross receivable in other current assets and a gross liability in accrued expenses as further explained in Note 14. All pending claims are expected to be fully covered by insurance. The accruals had no impact on current year net income.

### Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 17, 2014 the date the financial statements were issued.

## NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS

**Summary of the Payment Arrangements with Third Party Payors:**

**Medicaid - Standard Payments to Nursing Facilities (Facility Specific)**

The Organization receives reimbursement from the Residents State Medicaid Programs under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients pursuant to regulations promulgated by the state in which the resident resides. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and may result in a retroactive rate adjustment for the current year.

**Medicare – Prospective Payment System**

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

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

## NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of the following:

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank may exceed FDIC insurable limits.

**Investments**

The Organization has investments in the amount of $ 123,848,975 at December 31, 2013.

**Accounts Receivable**

The Organization extends unsecured credit to its private residents covered under third-party payor arrangements. Accounts receivable from private residents and third-party payors totaled $ 10,050,023 at December 31, 2013. See Note 2 for details of third-party payor arrangements.

**Assets Limited as to Use**

In addition to amounts included in investments, the Organization has assets limited as to use in the amount of $ 2,694,232 as of December 31, 2013.

**Pledges Receivable**

At December 31, 2013, the Organization has $615,451 of unsecured pledges receivable.

**Major Customers**

At December 31, 2013, approximately 15% and 40% of the Organization's operating revenue is derived from Medicare and Medicaid, respectively.

## NOTE 4 INVESTMENTS

As of December 31, 2013 assets limited as to use consists of the following:

| **Investments:** | Cost | Market |
|---|---|---|
| Cash Equivalents | $ 7,399,125 | $ 7,509,810 |
| Mutual Funds | 16,182,463 | 20,811,323 |
| Common Stocks | 34,448,837 | 46,457,909 |
| U.S. Government Obligations | 22,714,499 | 22,552,463 |
| Close End Funds & Exchange Traded Funds | 271,319 | 401,850 |
| Assets Limited As To Use | 12,511 | 13,074 |
| Municipal Bonds | 187,283 | 196,992 |
| Interest Receivable | 145,667 | 145,667 |
| Corporate Obligations | 25,752,846 | 25,759,887 |
| **Total Investments** | $ 107,114,550 | $ 123,848,975 |

The Organization has investments that are unrestricted and investments whose use is limited due to board designations. Investments as of December 31 are as follows:

| **Investment Classifications:** | |
|---|---|
| Investments Limited As To Use | $ 66,764,284 |
| Investments Unrestricted | 57,084,691 |
| **Total Investments** | $ 123,848,975 |

### Trust Indenture

Under the terms of master trust indentures, the Organization is required to maintain and fund various escrow accounts. These escrows are held in trust and disbursements are made in accordance with the master trust indenture. Approved withdrawals from the escrow accounts not spent at December 31, 2013 amounted to $2,805,492.

## NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property and equipment consist of the following at December 31, 2013:

| | | |
|---|---|---|
| Land & Land Improvements | $ | 11,250,503 |
| Building & Building Improvements | | 131,917,514 |
| Construction In Process | | 1,015,673 |
| Equipment | | 28,049,874 |
| Major Movable | | 769,024 |
| | | 173,002,588 |
| Less: Accumulated Depreciation | | (69,899,265) |
| | $ | 103,103,323 |

Depreciation expense charged to operations was $ 5,491,325 for 2013.

The Organization is currently undergoing multiple construction projects, at various stages of completion. The total estimated costs and completion dates of these projects are currently undeterminable.

## NOTE 6 PLEDGES RECEIVABLE

Pledges receivable amounted to $615,451 as of December 31, 2013. Kahl Home for the Aged and Infirm conducted a capital campaign to fund the construction of the nursing facility campus. Promises to give are restricted to the campaign objectives. Unconditional promises to give are as follows at December 31:

| | | |
|---|---|---|
| **Pledges expected to be collected in:** | | |
| One Year or Less | $ | 234,707 |
| One to Five Years | | 418,845 |
| **Total Pledges Receivable** | | 653,552 |
| Less: Discount on Pledges | | (38,101) |
| Net Pledges Receivable | $ | 615,451 |

Pledges Receivable are recorded at the present value of their future estimated cash flows. The discounts on those amounts are computed using rates applicable to the years in which the pledges were received. The rate applied during 2013 was 3.00%.

## NOTE 7 LONG-TERM DEBT

The Organization is obligated under long-term debt at December 31, 2013 as follows:

| Description | |
|---|---|
| Tax exempt bonds, issued by various state financing agencies, with interest rates ranging from 0.08% to 5.125%, secured by underlying assets of the Organization, with maturity dates ranging from December, 2026 to December, 2042. Certain interest rates are indexed to the one month LIBOR rate. The Organization has agreed to maintain financial covenants for certain bonds outstanding as of December 31, 2013. | $ 63,445,216 |
| Notes from the Carmelite Sisters for the Aged and Infirm with interest rates ranging from 5.00% to 6.00%, secured by underlying assets of the Organization, with maturity dates ranging form August, 2026 to certain notes which do not have set repayment terms. | 6,489,127 |
| Total | 69,934,343 |
| Less Current Portion | (2,206,274) |
| Less Unamortized Bond Discount | (126,183) |
| Long-Term Debt, Net | $ 67,601,886 |

Future Maturities:

Following are maturities of long-term debt for each of the next five years:

| | |
|---|---|
| 2014 | $ 2,206,274 |
| 2015 | 2,305,802 |
| 2016 | 2,402,187 |
| 2017 | 7,098,057 |
| 2018 | 2,495,296 |
| Thereafter | 53,426,727 |
| | $ 69,934,343 |

## NOTE 8 LINE OF CREDIT

The Organization has available $1,500,000 through a revolving line of credit, with an interest rate at prime (3.25% as of December 31, 2013), maturing on June 1, 2014. The line of credit is unsecured. The balance on the line of credit was zero as of December 31, 2013.

The Interest incurred on the above line of credit was $6,640 in 2013.

## NOTE 9 INTEREST RATE SWAPS

The Organization entered into two interest rate swap contracts on September 1, 2008 and January 1, 2012 with original notional amounts of $38,945,000 to establish an effective fixed interest rate on the Bonds. Under the two contracts, the Organization pays 3.4% and 2.68%, respectively, and received interest at the Index rate. The interest rate swap contracts expire April 2035 and December 2042 respectively.

At December 31, 2013 the Organization recorded a net liability for the fair value of interest rate swaps on the combined statement of financial position in the amount of $1,471,268. The Organization reported a change in fair value of interest rate swaps on the combined statement of activities of $2,398,193 for 2013.

The net interest expense incurred by the Organization from the interest rate swaps are recognized over the life of the agreements in the combined statement of activities. The net interest expense amounted to $1,552,615 for 2013.

## NOTE 10 RETIREMENT PLANS

**Defined Contribution Plans:**

The Organization has defined contribution retirement plans covering substantially all employees who qualify as to age and length of service. Matching contributions range between 1% and 5% of each eligible employee's salary. Total defined contribution retirement plan expense was $785,438 for 2013.

**Defined Benefit Plans:**

The Organization has a defined-benefit pension plan for the lay employees, providing retirement, death, and disability benefits to eligible employees over the age of 21 with at least one year of service. The annual retirement benefits, paid to employees with five or more years of service when they reach age 65, are based upon credited service and earnings, as defined by the plan. The funding policy is to annually contribute the minimum amount to the Plan, as determined by an actuary.

## NOTE 10 RETIREMENT PLANS (CONTINUED)

Plan contributions are intended to provide not only for benefits attributed to service to date, but also for those benefits expected to be earned in the future. The assets and corresponding liabilities of the plan are not included in the financial statements since they are held in trust for the benefit of the employees and are not owned by the Organization.

Components of the Net Periodic Pension Cost and Other Amounts Recognized in Unrestricted Net Assets

Net periodic pension cost is determined as follows:

| | | |
|---|---|---|
| Service cost | $ | 107,596 |
| Interest cost | | 149,014 |
| Expected return on plan assets | | (144,684) |
| Prior service cost recognized | | 102 |
| Recognized gains and losses | | 29,465 |
| Net periodic pension cost | $ | 141,493 |

Other changes in plan assets and benefit obligations recognized in unrestricted net assets are as follows:

| | | |
|---|---|---|
| Pension-related changes other than net periodic cost | $ | 24,871 |

The following assumptions were used to determine the net periodic pension cost:

| | |
|---|---|
| Discount rate | 7.00% |
| Expected long-term rate of return on assets | 6.00% |
| Rate of increase in compensation levels | 3.00% |

The weighted-average expected long-term rate of return on plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

## NOTE 10 RETIREMENT PLAN (CONTINUED)

Reconciliation of Pension Benefit Obligation ("PBO")

The following table reconciles the plan's pension benefit obligation:

| | | |
|---|---|---|
| Pension benefit obligation at beginning of year | $ | 2,209,949 |
| Service cost | | 107,596 |
| Interest cost | | 149,014 |
| Actuarial loss (gain) | | (13,429) |
| Benefits paid | | (114,819) |
| Pension benefit obligation at end of year | $ | 2,338,311 |

### Reconciliation of Plan Assets

Changes in plan assets are as follows:

| | | |
|---|---|---|
| Fair value of plan assets at beginning of year | $ | 2,369,771 |
| Actual return on plan assets | | 152,960 |
| Employer contributions | | 180,500 |
| Benefits paid | | (114,819) |
| Fair value of plan assets at end of year | $ | 2,588,412 |

### Plan Asset Allocation

The plan's weighted-average asset allocations at December 31, 2013 by asset category were as follows:

| | |
|---|---|
| Equity securities | 50% |
| Fixed income securities | 47% |
| Cash and cash equivalents | 3% |
| Total | 100% |

Plan assets are administered by a trustee and invested principally in cash and cash equivalents, U.S. Government securities, corporate bonds and debentures, and marketable equity securities. The overall objective of the plan's investment policy is to achieve a rate of return, which equals or exceeds the expected long-term rate of return assumed for measuring the plan's pension obligations. Management realizes that market performance varies and that this objective may not be meaningful during some periods. The policy is to invest in accordance with the following strategic guidelines:

NOTE 10 RETIREMENT PLAN (CONTINUED)

| Asset Class | Target Allocation |
|---|---|
| Equities | 50% |
| Fixed income | 50% |

**Balance Sheet Recognition of Pension Plan**

Reconciliation of the plan's obligations and funded status is as follows:

| | | |
|---|---|---|
| Plan assets at fair value | $ | 2,588,412 |
| Less: pension benefit obligation | | (2,338,311) |
| Overfunded pension benefit obligation | $ | 250,101 |

Amount not yet recognized in net periodic pension cost and included in net assets:

Pension-related changes other than net periodic cost $51,272

At December 31, 2013 the fair market value of plan assets exceeded the pension benefit obligation by $250,101. Pension accounting requires that an asset (liability) equal to the funded (unfunded) pension benefit obligation be recorded. Accordingly, the net assets of the Organization were increased by $51,272 for the year ended December 31, 2013 to recognize the funded status of the plan and recognize the period net loss.

**Employer Contributions and Benefit Payments**

The Organization contributed approximately $181,000 to the pension plans in 2013. In addition, the following benefit payments are expected to be made by the plan for each of the years ending December 31:

| Year | Amount |
|---|---|
| 2014 | $ 114,859 |
| 2015 | 118,759 |
| 2016 | 123,882 |
| 2017 | 138,141 |
| 2018 | 148,272 |
| 2019-2023 | 856,789 |
| | $1,500,702 |

## NOTE 11 RESTRICTED NET ASSETS

**Temporarily Restricted Net Assets**—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated funds. Upon satisfaction of purpose or time restrictions, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions.

Temporarily restricted net assets totaling $1,213,158 at December 31, 2013 have been limited by donors for future capital improvements, purchase of equipment and program expenses.

**Beneficial Interest in Perpetual Trusts**—St. Patrick's Manor, Inc. has received as contributions split-interest agreements in the form of perpetual trusts. In accounting for these arrangements, St. Patrick's Manor, Inc. has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of St. Patrick's Manor, Inc.'s beneficial interest in the trust assets. Investment income received on the trust assets are recorded as unrestricted revenue in the statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in perpetual trusts are recorded on the statement of changes in net assets as an increase or decrease in permanently restricted net assets. As of December 31, 2013, St. Patrick's Manor, Inc.'s proportionate share of the fair market value of the assets in these trusts amounted to approximately $2,513,000.

### Prior Period Adjustment

The beginning net assets and beneficial interest in perpetual trusts have been restated to properly reflect the Organization's interest in the trusts. The adjustment includes the recording of a beneficial interest in third-party trust in the amount of $2,228,610, a decrease in unrestricted net assets and investments of $1,743, 281, and a corresponding increase in permanently restricted net assets of $2,228,610 as of January 1, 2013.

## NOTE 11 RESTRICTED NET ASSETS (CONTINUED)

**Permanently Restricted Net Assets**—The Organization's endowments consists of individual funds in the amount of $13,074 established for the general support of the Organization. Per the donor's restriction, all of the related interest income is to be used to support the programs, capital purchase and facility renovations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are clarified and reported based on the existence or absence of various donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift of an endowment fund as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization 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) the value of 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. "Net appreciation" on endowment funds, unless stipulated otherwise, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

## NOTE 12 FAIR VALUE MEASUREMENTS

Cash and cash equivalents carrying amount approximates fair value because of the short maturities of these financial instruments.

The fair value of assets limited as to use and level 1 marketable securities are obtained from various quotation services. Level 2 marketable securities consist mainly of commercial paper, mortgage-backed securities, foreign fixed government securities and foreign fixed corporate bonds measured based on quoted market prices of similar assets. Level 3 assets measured at fair value consist of beneficial interests in perpetual trusts.

The carrying value of notes and loans payable approximate fair value because the financial instrument bears interest at rates which approximate current market rates for notes with similar maturities and credit quality.

## NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The Organization uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

### Recurring Basis

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

| | Level 1<br>Quoted Prices in Active Markets for Identical Assets | Level 2<br>Significant Other Observable Inputs | Level 3<br>Significant Unobservable Inputs | Balance |
|---|---|---|---|---|
| Investments | | | | |
| Cash and Cash Equivalents | $ 7,655,478 | $ - | $ - | $ 7,655,478 |
| Corporate Bonds | - | 25,430,599 | - | 25,430,599 |
| Government Securities | - | 22,749,455 | 329,288 | 23,078,743 |
| Equity | 46,457,908 | - | - | 46,457,908 |
| Equity Mutual Funds | 16,549,932 | 4,261,391 | - | 20,811,323 |
| Exchange Traded Funds | 401,850 | - | - | 401,850 |
| Endowment fund | - | 13,074 | - | 13,074 |
| Total Investments at Fair Value | 71,065,168 | 52,454,519 | 329,288 | 123,848,975 |
| Beneficial Interest in Perpetual Trusts | - | - | 2,513,394 | 2,513,394 |
| Total Assets at Fair Value | $ 71,065,168 | $ 52,454,519 | $ 2,842,682 | $ 126,362,369 |
| Interest Rate Swap Contracts, Net | - | (1,471,268) | - | (1,471,268) |
| Total Liabilities at Fair Value | $ - | $ (1,471,268) | $ - | $ (1,471,268) |

The changes in investments measured at fair value on a recurring basis for which the Organization has used level 3 inputs to determine fair value are as follows:

| | Beneficial Interest in Perpetual Trusts | Government Securities | Total |
|---|---|---|---|
| **Balance December 31, 2012** | $ 2,228,610 | $ 330,391 | $ 2,559,001 |
| Net Realized / Unrealized Gains (Losses) | 351,325 | (1,103) | 350,222 |
| Distribution of Principal | (66,541) | - | (66,541) |
| **Balance December 31, 2013** | $ 2,513,394 | $ 329,288 | $ 2,842,682 |

## NOTE 13 RELATED PARTY TRANSACTIONS

Certain of the personnel of the Organization are members of the Order of the Carmelite Sisters for the Aged and Infirm. The Sisters' salaries amounted to $1,883,392 in 2013. Additionally, the Sisters reimbursed $523,606 in 2013 for room and board, of which $19,029 is owed to the Organization at December 31, 2013. The Organization paid dues to the System of $608,368 in 2013.

**Centralized Insurance:**

In October 2003, the System acquired shares of stock in Preferred Professional Insurance Company ("PPIC"). PPIC is owned by Catholic Healthcare Systems and supports the Catholic health care ministry of its owners through an array of insurance products.

The acquisition of PPIC stock was accomplished through a contribution of capital to the Carmelite System by each of the System Affiliates. In accordance with the PPIC shareholders agreement, the shares of stock may be repurchased by PPIC upon request of the shareholder and subsequent to approval by the appropriate state insurance regulator.

In connection with this investment, the System established a centralized insurance program on behalf of the System Affiliates. Insurance coverage for various lines of insurance is available through the program under arrangements with PPIC and other carriers

**Health Insurance:**

Effective January 1, 2008, the Carmelite System established a Health and Welfare Trust ("Trust") for the purposes of funding a self-insured health benefit program on behalf of the Carmelite System Affiliates ("Affiliates"). All eligible employees that elect the health benefit are covered by the Trust.

In connection with formation of the Trust, the Affiliates have delegated administration of the program to the Carmelite System. These administrative duties include collection of health benefit premiums from the Affiliates, payment of medical and pharmaceutical claims to the third party administrator and the purchase of stop-loss reinsurance for the program.

Annual funding levels are developed on an actuarial basis by the third party administrator using aggregate program claims history, national and regional medical trends and the balance in the Trust. Each participant in the program shares equally in the annual prospective funding determination.

The assets and corresponding liabilities of the Plan are not included in the Organization's financial statements since they are held in trust for the benefit of the employees and are not owned by the Organization.

## NOTE 13 RELATED PARTY TRACSACTIONS (CONTINUED)

**Other:**

In 2013, the Organization held a joint fundraising event with a related party, for the benefit of all participants. At December 31, 2013 the Organization is owed $137,120 for its share of the event's fundraising proceeds.

## NOTE 14 COMMITMENTS AND CONTINGENCIES

**Third-Party Payors**

A significant portion of the Organization's net revenues and accounts receivable are derived from services reimbursable under the Medicaid and the Medicare programs. There are numerous healthcare reform proposals being considered on the federal and state levels. The Organization cannot predict at this time whether any of these proposals will be adopted or, if adopted and implemented, what effect such proposals would have on the Organization. The Organization's Medicare Claims are also subject to audit or medical review by the fiscal intermediary (FI). It is not possible at this time to determine whether the Organization's claims will be subjected to post payment review by the FI.

**Medical Malpractice Claims**

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through December 31, 2013, the Organization was covered by a claims-made basis policy. There are no known claims and incidents that may result in the assertion of additional claims, as well as no claims from unknown incidents that may be asserted arising from services provided to patients. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of December 31, 2013.

The Organization has known claims pending against it which have arisen in the normal course of business. In the opinion of management, other than the claims noted above, no claims have been asserted against the Organization which, either individually or in the aggregate, are considered to be material or will be in excess of its insurance coverage. However, an estimated accrual has been recorded under accrued expenses; with an offsetting receivable under the caption other current assets in the amount of $577,000 for the expected recovery of the above noted claims as of December 31, 2013. There was no impact on operating results for the year ended December 31, 2013.

## NOTE 15 SELF FUNDED WORKERS COMPENSATION

The System sponsors a self-funded workers compensation plan, which the Organization has adopted, whereby workers compensation insurance is provided for eligible employees. The Plan calls for the premiums to be paid into a benefit pool held for and managed by Sentry Insurance. The Organization is responsible up to a maximum of $250,000 per occurrence, after which a stop loss policy covers costs in excess of the stated limits. There is a $1,000,000 aggregate stop loss which covers all of the Plan participants (the Organization and other affiliates of the System) based on relative employer enrollment of employees. The Organization's expense related to the Plan amounted to approximately $1,300,000 for the year ended December 31, 2013.

## NOTE 16 FUNCTIONAL EXPENSES

The Organization's expenses related to the provision of its mission based on services are classified as follows for the year ended December 31, 2013:

| | | |
|---|---|---|
| Program Expenses | $ | 86,597,508 |
| Administrative Expenses | | 16,159,722 |
| Total Expenses | $ | 102,757,230 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF FINANCIAL POSITION
# DECEMBER 31, 2013

| ASSETS | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | | | | | |
| Cash and Cash Equivalents | $ 553,359 | $ 1,294,467 | $ 841,384 | $ 2,822,121 | $ 1,304,960 | $ 4,497,735 | $ 654,310 | $ 11,968,336 | $ - | $ 11,968,336 |
| Investments | 101,049 | - | - | 293,370 | - | 1,584,574 | - | 1,978,993 | - | 1,978,993 |
| Accounts Receivable, Net | 443 | 1,162,006 | 1,883,394 | 1,504,182 | 641,966 | 3,024,133 | 1,833,899 | 10,050,023 | - | 10,050,023 |
| Prepaid Expenses | 186,686 | 100,234 | 524,310 | 60,846 | 106,738 | 654,364 | 4,952 | 1,638,130 | - | 1,638,130 |
| Assets Limited as to Use - Current Portion | 11,872 | 16,542 | 647,362 | - | 19,816 | 27,160 | 18,713 | 741,465 | - | 741,465 |
| Due From Related Party | 68,560 | - | - | - | - | 112,462 | - | 181,022 | (24,873) | 156,149 |
| Pledges Receivable, Current Portion | - | 234,707 | - | - | - | - | - | 234,707 | - | 234,707 |
| Other Current Assets | 20,519 | 37,073 | 172,824 | 189,802 | 31,690 | 420,941 | 53,169 | 926,018 | - | 926,018 |
| **Total Current Assets** | 942,488 | 2,845,029 | 4,069,274 | 4,870,321 | 2,105,170 | 10,321,369 | 2,565,043 | 27,718,694 | (24,873) | 27,693,821 |
| ASSETS LIMITED AS TO USE | | | | | | | | | | |
| Board | 6,251,000 | 5,698,771 | 30,585,131 | - | 3,921,617 | 9,468,625 | 6,636,202 | 62,561,346 | - | 62,561,346 |
| Trustee | - | 473,657 | 2,331,835 | - | - | - | - | 2,805,492 | - | 2,805,492 |
| Temporarily Restricted | - | - | - | - | 317,161 | 71,623 | 208,881 | 597,665 | - | 597,665 |
| Permanently Restricted - Beneficial Interest in Perpetual Trusts | - | - | - | - | - | 2,513,394 | - | 2,513,394 | - | 2,513,394 |
| Permanently Restricted | - | - | - | 13,074 | - | 139,345 | - | 152,419 | - | 152,419 |
| **Total Assets Limited as to Use** | 6,251,000 | 6,172,428 | 32,916,966 | 13,074 | 4,238,778 | 12,192,987 | 6,845,083 | 68,630,316 | - | 68,630,316 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 7,916,977 | 34,041,616 | 24,372,365 | 17,893,606 | 1,974,107 | 8,519,305 | 8,385,347 | 103,103,323 | - | 103,103,323 |
| ASSETS HELD FOR SALE | - | 900,000 | - | - | - | - | - | 900,000 | - | 900,000 |
| OTHER ASSETS | | | | | | | | | | |
| Investments | 309,702 | 9,048,805 | - | 2,877,223 | 13,125,737 | 29,744,231 | - | 55,105,698 | - | 55,105,698 |
| Deferred Financing Costs, Net | - | 296,396 | 883,223 | 304,330 | - | 63,634 | - | 1,547,583 | - | 1,547,583 |
| Pledges Receivable, Long Term | - | 380,744 | - | - | - | - | - | 380,744 | - | 380,744 |
| Swap Agreement | - | 156,293 | - | - | - | - | - | 156,293 | - | 156,293 |
| Other Assets | 8,264 | 28,934 | 352,954 | 152,517 | 44,812 | 62,000 | 107,865 | 757,346 | - | 757,346 |
| Overfunded Pension Asset | - | - | 250,101 | - | - | - | - | 250,101 | - | 250,101 |
| **Total Other Assets** | 317,966 | 9,911,172 | 1,486,278 | 3,334,070 | 13,170,549 | 29,869,865 | 107,865 | 58,197,765 | - | 58,197,765 |
| TOTAL ASSETS | $ 15,428,431 | $ 53,870,245 | $ 62,844,883 | $ 26,111,071 | $ 21,488,604 | $ 60,903,526 | $ 17,903,338 | $ 258,550,098 | $ (24,873) | $ 258,525,225 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF FINANCIAL POSITION (CONTINUED)
# DECEMBER 31, 2013

| LIABILITIES AND NET ASSETS | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | | | | | | | |
| Accounts Payable | $ 149,259 | $ 354,908 | $ 750,284 | $ 263,491 | $ 170,730 | $ 187,757 | $ 469,508 | $ 2,345,937 | $ - | $ 2,345,937 |
| Deferred Revenue | 68,725 | - | 120,254 | - | - | 234,918 | - | 423,897 | - | 423,897 |
| Accrued Expenses | 104,186 | 331,279 | 546,949 | 942,866 | 891,594 | 1,491,548 | 855,415 | 5,163,837 | - | 5,163,837 |
| Current Maturities on Long-Term Debt | 189,136 | 470,000 | 1,005,000 | 420,000 | - | 122,138 | - | 2,206,274 | - | 2,206,274 |
| Due to Related Party | 24,873 | - | - | - | - | - | - | 24,873 | (24,873) | - |
| Other Current Liabilities | 11,872 | 18,241 | 583,865 | 183,535 | 21,722 | 145,983 | 191,778 | 1,156,996 | - | 1,156,996 |
| **Total Current Liabilities** | 548,051 | 1,174,428 | 3,006,352 | 1,809,892 | 1,084,046 | 2,182,344 | 1,516,701 | 11,321,814 | (24,873) | 11,296,941 |
| **LONG-TERM DEBT AND OTHER LIABILITIES** | | | | | | | | | | |
| Long-Term Debt, Net of Current Portion | 3,299,991 | 23,557,357 | 18,683,817 | 17,090,000 | - | 4,970,721 | - | 67,601,886 | - | 67,601,886 |
| Swap Agreement | - | - | - | 1,627,561 | - | - | - | 1,627,561 | - | 1,627,561 |
| Worker's Compensation Reserve | - | - | - | - | - | 126,015 | - | 126,015 | - | 126,015 |
| **Total Long-Term Debt and Other Liabilities** | 3,299,991 | 23,557,357 | 18,683,817 | 18,717,561 | - | 5,096,736 | - | 69,355,462 | - | 69,355,462 |
| **TOTAL LIABILITIES** | 3,848,042 | 24,731,785 | 21,690,169 | 20,527,453 | 1,084,046 | 7,279,080 | 1,516,701 | 80,677,276 | (24,873) | 80,652,403 |
| **NET ASSETS** | | | | | | | | | | |
| Unrestricted | 11,580,389 | 28,523,009 | 41,154,714 | 5,570,544 | 20,087,397 | 50,900,082 | 16,177,756 | 173,993,891 | - | 173,993,891 |
| Temporarily Restricted | - | 615,451 | - | - | 317,161 | 71,665 | 208,881 | 1,213,158 | - | 1,213,158 |
| Permanently Restricted | - | - | - | 13,074 | - | 2,652,699 | - | 2,665,773 | - | 2,665,773 |
| **Total Net Assets** | 11,580,389 | 29,138,460 | 41,154,714 | 5,583,618 | 20,404,558 | 53,624,446 | 16,386,637 | 177,872,822 | - | 177,872,822 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 15,428,431 | $ 53,870,245 | $ 62,844,883 | $ 26,111,071 | $ 21,488,604 | $ 60,903,526 | $ 17,903,338 | $ 258,550,098 | $ (24,873) | $ 258,525,225 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF ACTIVITIES
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS REVENUES, GAINS, AND OTHER SUPPORT** | | | | | | | | | | |
| Net Resident Services Revenue | $ 3,986,891 | $ 10,730,148 | $ 19,172,298 | $ 11,977,319 | $ 8,854,639 | $ 27,616,903 | $ 14,686,497 | $ 97,024,695 | $ - | $ 97,024,695 |
| Other Operating Income | 42,431 | 135,569 | 669,238 | 421,132 | 228,423 | 92,204 | 270,051 | 1,859,048 | - | 1,859,048 |
| Net Assets Released from Restrictions | - | 422,163 | - | - | 9.177 | 68,918 | 167,118 | 667,376 | - | 667,376 |
| **Total Unrestricted Revenues, Gains, and Other Support** | 4,029,322 | 11,287,880 | 19,841,536 | 12,398,451 | 9,092,239 | 27,778,025 | 15,123,666 | 99,551,119 | - | 99,551,119 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| Nursing Service | 492,243 | 5,397,270 | 5,534,175 | 5,908,777 | 3,962,027 | 14,703,955 | 8,085,456 | 44,083,903 | - | 44,083,903 |
| General Service | 816,253 | 1,082,894 | 3,182,890 | 1,214,203 | 766,698 | 2,790,218 | 1,426,386 | 11,279,542 | - | 11,279,542 |
| Dietary | 957,683 | 975,077 | 2,706,168 | 1,278,816 | 904,356 | 2,357,251 | 1,300,856 | 10,480,207 | - | 10,480,207 |
| Administrative | 995,391 | 2,459,888 | 4,409,547 | 2,283,342 | 2,482,640 | 7,501,706 | 2,705,302 | 22,837,816 | - | 22,837,816 |
| Bed Tax/Assessment | - | 39,107 | 982,931 | 638,299 | 426,869 | 165,966 | 506,158 | 2,759,330 | - | 2.759,330 |
| Insurance | 59,850 | 119,380 | 814,261 | 167,748 | 126,212 | 256,068 | 215,788 | 1,759,307 | - | 1.759.307 |
| Interest | 214,304 | 822,268 | 1,047,308 | 730,347 | - | 138,990 | 10,820 | 2,964,037 | - | 2.964,037 |
| Bad Debts | - | 78,331 | 128,737 | - | 64,815 | 664,700 | 50,175 | 986,758 | - | 986,758 |
| Depreciation and Amortization | 476,984 | 1,172,657 | 1,589,440 | 719,170 | 212,903 | 876,181 | 558,995 | 5,606,330 | - | 5,606.330 |
| **Total Expenses** | 4.012,708 | 12.146,872 | 20,395,457 | 12.940,702 | 8,946,520 | 29.455,035 | 14,859,936 | 102,757,230 | - | 102,757.230 |
| **GAIN (LOSS) FROM OPERATIONS** | 16,614 | (858,992) | (553,921) | (542,251) | 145,719 | (1,677,010) | 263,730 | (3,206,111) | - | (3,206,111) |
| **NONOPERATING GAINS (LOSSES)** | | | | | | | | | | |
| Unrestricted Contributions - Net | 70,414 | 47,818 | 113,331 | 152,092 | 71,572 | 325,316 | 131,305 | 911,848 | - | 911,848 |
| Investment Income | 149,633 | 167,948 | 567,444 | 108,049 | 289,038 | 894,682 | 162,741 | 2,339,535 | - | 2,339,535 |
| Net Realized Gains (Losses) on Investments | (39,543) | - | 872,773 | - | 950,203 | (110,160) | 269,840 | 1,943,113 | - | 1,943,113 |
| Impairment Loss | - | (1,504,603) | - | - | - | - | - | (1,504,603) | - | (1,504,603) |
| Net Gain (Loss) on Disposal of Property and Equipment | - | - | 5,800 | - | (123,843) | - | - | (118,043) | - | (118,043) |
| Change in Fair Value of Interest Rate Swaps | - | 915,845 | - | 1,482,348 | - | - | - | 2,398,193 | - | 2,398,193 |
| Other Nonoperating Losses | 30,000 | (162,555) | - | 71,986 | - | - | - | (60,569) | - | (60,569) |
| **Total Nonoperating Gains (Losses)** | 210,504 | (535,547) | 1,559,348 | 1,814,475 | 1,186,970 | 1,109,838 | 563,886 | 5,909,474 | - | 5,909,474 |
| **EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES AND LOSSES** | $ 227,118 | $ (1,394,539) | $ 1,005,427 | $ 1,272,224 | $ 1,332,689 | $ (567,172) | $ 827,616 | $ 2,703,363 | $ - | $ 2,703,363 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF ACTIVITIES (CONTINUED)
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| **CHANGE IN UNRESTRICTED NET ASSETS** | | | | | | | | | | |
| Excess (Deficiency) of Revenues, Gains, and Other Support Over Expenses and Losses(from previous page) | $ 227,118 | $ (1,394,539) | $ 1,005,427 | $ 1,272,224 | $ 1,332,689 | $ (567,172) | $ 827,616 | $ 2,703,363 | $ - | $ 2,703,363 |
| Change in Net Unrealized Gains on Investments | 386,733 | 1,231,634 | 1,822,497 | 474,882 | 856,436 | 2,494,866 | 217,668 | 7,484,716 | - | 7,484,716 |
| Pension Benefits Liability Adjustments | - | - | 51,272 | - | - | - | - | 51,272 | - | 51,272 |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | 613,851 | (162,905) | 2,879,196 | 1,747,106 | 2,189,125 | 1,927,694 | 1,045,284 | 10,239,351 | - | 10,239,351 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | | | | | | | | | | |
| Contributions | - | 265,665 | - | - | 102,388 | - | 148,899 | 516,952 | - | 516,952 |
| Income on Temporarily Restricted Gifts | - | - | - | - | 24,808 | 11,707 | - | 36,515 | - | 36,515 |
| Temporarily Restricted Net Assets Released from Restriction | - | (422,163) | - | - | (9,177) | (2,377) | (167,118) | (600,835) | - | (600,835) |
| INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS | - | (156,498) | - | - | 118,019 | 9,330 | (18,219) | (47,368) | - | (47,368) |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | | | | | | | | | | |
| Change in Fair Value of Beneficial Interest in Net Assets of Perpetual Trust | - | - | - | - | - | 351,325 | - | 351,325 | - | 351,325 |
| Income on Permanently Restricted Gifts | - | - | - | 1,987 | - | - | - | 1,987 | - | 1,987 |
| Permanently Restricted Net Assets Released from Restriction | - | - | - | - | - | (66,541) | - | (66,541) | - | (66,541) |
| INCREASE IN PERMANENTLY RESTRICTED NET ASSETS | - | - | - | 1,987 | - | 284,784 | - | 286,771 | - | 286,771 |
| **CHANGE IN NET ASSETS** | 613,851 | (319,403) | 2,879,196 | 1,749,093 | 2,307,144 | 2,221,808 | 1,027,065 | 10,478,754 | - | 10,478,754 |
| **NET ASSETS - BEGINNING OF YEAR, AS RESTATED** | 10,966,538 | 29,457,863 | 38,275,518 | 3,834,525 | 18,097,414 | 51,402,638 | 15,359,572 | 167,394,068 | - | 167,394,068 |
| **NET ASSETS - END OF YEAR** | $ 11,580,389 | $ 29,138,460 | $ 41,154,714 | $ 5,583,618 | $ 20,404,558 | $ 53,624,446 | $ 16,386,637 | $ 177,872,822 | $ - | $ 177,872,822 |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF CASH FLOWS
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | | |
| Change in Net Assets | $ 613,851 | $ (319,403) | $ 2,879,196 | $ 1,749,093 | $ 2,307,144 | $ 2,221,808 | $ 1,027,065 | $ 10,478,754 | $ - | $ 10,478,754 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | | | | | | | | | |
| Depreciation and Amortization Expense | 476,984 | 1,172,657 | 1,589,440 | 719,170 | 212,903 | 876,181 | 558,995 | 5,606,330 | - | 5,606,330 |
| Change in Fair Value of Beneficial Interest in Perpetual Trusts | - | - | - | - | - | (351,325) | - | (351,325) | - | (351,325) |
| Increase in Fair Value on Interest Rate Swaps | - | (915,845) | - | (1,482,348) | - | - | - | (2,398,193) | - | (2,398,193) |
| Loss on Disposal of Property and Equipment | - | - | (5,800) | - | 123,843 | - | - | 118,043 | - | 118,043 |
| Impairment Loss | - | 1,504,603 | - | - | - | - | - | 1,504,603 | - | 1,504,603 |
| Net Realized and Unrealized Investment Gain | (347,190) | (1,231,634) | (3,262,714) | (476,869) | (1,806,639) | (2,384,706) | (487,508) | (9,997,260) | - | (9,997,260) |
| Provision for Bad Debts | - | 66,000 | 128,737 | - | 64,815 | 664,700 | 50,175 | 974,427 | - | 974,427 |
| Restricted Contributions | - | (265,665) | - | - | - | - | - | (265,665) | - | (265,665) |
| (Increase) Decrease in Assets: | | | | | | | | | | |
| Residents Accounts Receivable | 11,873 | (281,338) | (275,766) | 7,798 | 198,103 | (353,803) | 356,566 | (336,567) | - | (336,567) |
| Due from Related Party | (68,560) | - | - | - | - | 38,926 | - | (29,634) | - | (29,634) |
| Other Current Assets | 601 | 225,600 | (177,614) | (122,975) | 51,052 | (296,252) | 64,071 | (255,517) | - | (255,517) |
| Increase (Decrease) in Liabilities: | | | | | | | | | | |
| Accounts Payable | 55,395 | 37,719 | 23,070 | (57,759) | (18,343) | (261,589) | (72,758) | (294,265) | - | (294,265) |
| Accrued Expenses | (17,018) | - | 80,631 | (419,952) | (39,209) | 266,659 | (35,777) | (164,666) | - | (164,666) |
| Due to Related Party | (90,350) | (14,937) | - | - | - | - | - | (105,287) | - | (105,287) |
| Other Current Liabilities | (17,649) | 2,957 | 25,459 | 165,406 | (30,810) | 44,301 | (17,668) | 171,996 | - | 171,996 |
| CASH PROVIDED BY (USED FOR ) OPERATING ACTIVITIES | 617,937 | (19,286) | 1,004,639 | 81,564 | 1,062,859 | 464,900 | 1,443,161 | 4,655,774 | - | 4,655,774 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | |
| Proceeds from Sales and Maturities of Investments | 1,833,340 | 5,055,557 | 25,986,461 | - | 9,233,049 | 13,370,963 | - | 55,479,370 | - | 55,479,370 |
| Purchase of Investments | (1,981,024) | (4,116,874) | (25,018,017) | (94,411) | (8,676,819) | (12,510,356) | (519,875) | (52,917,376) | - | (52,917,376) |
| Purchase of Property, Plant, and Equipment | (319,468) | (304,159) | (2,096,433) | (103,555) | (621,631) | (1,064,770) | (185,840) | (4,695,856) | - | (4,695,856) |
| Proceeds from Beneficial Interest Distribution | - | - | - | - | - | 66,822 | - | 66,822 | - | 66,822 |
| Decrease in Other Assets | - | - | 158,296 | - | - | - | - | 158,296 | - | 158,296 |
| CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (467,152) | 634,524 | (969,693) | (197,966) | (65,401) | (137,341) | (705,715) | (1,908,744) | - | (1,908,744) |

# THE CARMELITE SYSTEM
# OBLIGATED GROUP AFFILIATES
# COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Mother Angeline McCrory Manor | St. Margaret Hall | St. Patrick's Manor | St. Patrick's Residence | Combined Totals Prior to Eliminations | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | | | |
| Contributions Received - Restricted | - | 265,665 | - | - | - | - | - | 265,665 | - | 265,665 |
| Principal Payments on Long Term Debt | (178,149) | (450,000) | (945,240) | (438,725) | - | (107,141) | (636,319) | (2,755,574) | - | (2,755,574) |
| CASH USED FOR FINANCING ACTIVITIES | (178,149) | (184,335) | (945,240) | (438,725) | - | (107,141) | (636,319) | (2,489,909) | - | (2,489,909) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (27,364) | 430,903 | (910,294) | (555,127) | 997,458 | 220,418 | 101,127 | 257,121 | - | 257,121 |
| CASH AND EQUIVALENTS AT BEGINNING OF YEAR | 580,723 | 863,564 | 1,751,678 | 3,377,248 | 307,502 | 4,277,317 | 553,183 | 11,711,215 | - | 11,711,215 |
| CASH AND EQUIVALENTS AT END OF YEAR | $ 553,359 | $ 1,294,467 | $ 841,384 | $ 2,822,121 | $ 1,304,960 | $ 4,497,735 | $ 654,310 | $ 11,968,336 | $ - | $ 11,968,336 |
| SUPPLEMENTAL INFORMATION | | | | | | | | | | |
| Cash Paid for Interest | $ 215,190 | $ 790,024 | $ 626,080 | $ 713,718 | $ - | $ 139,234 | $ 17,761 | $ 2,502,007 | $ - | $ 2,502,007 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES

## CONSOLIDATED FINANCIAL STATEMENTS
## AND SUPPLEMENTARY INFORMATION

## YEAR ENDED DECEMBER 31, 2013

THE CARMELITE SYSTEM, INC.
AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
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YEAR ENDED DECEMBER 31, 2013

CliftonLarsonAllen

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## INDEPENDENT AUDITORS' REPORT

Board of Directors
Carmelite System, Inc. and Affiliates
Germantown, New York

We have audited the accompanying consolidated financial statements of Carmelite System, Inc. and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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.

Board of Directors
Carmelite System, Inc. and Affiliates

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carmelite System, Inc. and Affiliates as of December 31, 2013, and the consolidated results of their operations and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 31 through 38 are presented for purposes of additional analysis and is not a required part of the financial statements. Such 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Matter**

As discussed in Note 17 to the financial statements, beginning net assets have been restated to reflect the consolidation of a Health & Welfare Plan. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Boston, Massachusetts
June 27, 2014

**THE CARMELITE SYSTEM, INC.**
**AND AFFILIATES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**DECEMBER 31, 2013**

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and Cash Equivalents | $ 15,157,484 |
| Investments | 4,569,776 |
| Accounts Receivable, Net | 18,305,581 |
| Prepaid Expenses | 2,114,368 |
| Assets Limited as to Use - Current Portion | 1,073,226 |
| Due From Related Party | 19,029 |
| Pledges Receivable, Current Portion | 234,707 |
| Other Current Assets | 1,121,589 |
| **Total Current Assets** | 42,595,760 |
| **ASSETS LIMITED AS TO USE** | |
| Board | 73,030,022 |
| Trustee | 5,468,674 |
| Temporary Restricted | 739,005 |
| Permanently Restricted - Beneficial Interest in Perpetual Trusts | 2,513,394 |
| Permanently Restricted | 202,419 |
| **Total Assets Limited as to Use** | 81,953,514 |
| **PROPERTY, PLANT AND EQUIPMENT, NET** | 133,893,752 |
| **ASSETS HELD FOR SALE** | 5,912,738 |
| **OTHER ASSETS** | |
| Investments | 55,609,603 |
| Deferred Financing Costs, Net | 1,547,583 |
| Pledges Receivable, Long Term | 380,744 |
| Swap Agreement | 156,293 |
| Due from Third Party Payors | 2,489,100 |
| Other Assets | 337,863 |
| Health & Welfare Trust Excess | 395,017 |
| Overfunded Pension Asset | 1,451,452 |
| **Total Other Assets** | 62,367,655 |
| **TOTAL ASSETS** | $ 326,723,419 |

*See accompanying Notes to Consolidated Financial Statements*

THE CARMELITE SYSTEM, INC.
AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2013

| | |
|---|---|
| **LIABILITIES AND NET ASSETS** | |
| **CURRENT LIABILITIES** | |
| Accounts Payable | $ 5,382,966 |
| Deferred Revenue | 501,859 |
| Accrued Expenses | 8,860,381 |
| Current Maturities on Long-Term Debt | 5,791,892 |
| Due to Third Party Payors - Current | 393,195 |
| Other Current Liabilities | 1,662,274 |
| **Total Current Liabilities** | 22,592,567 |
| **LONG-TERM DEBT AND OTHER LIABILITIES** | |
| Long-Term Debt, Net of Current Portion | 87,179,214 |
| Swap Agreement | 1,627,561 |
| Worker's Compensation Reserve | 748,392 |
| Due to Third Party Payors | 258,468 |
| Other Long Term Liabilities | 59,982 |
| **Total Long-Term Debt and Other Liabilities** | 89,873,617 |
| **TOTAL LIABILITIES** | 112,466,184 |
| **NET ASSETS** | |
| Unrestricted | 210,134,663 |
| Temporarily Restricted | 1,406,799 |
| Permanently Restricted | 2,715,773 |
| **Total Net Assets** | 214,257,235 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 326,723,419 |

*See accompanying Notes to Consolidated Financial Statements*

## THE CARMELITE SYSTEM, INC.
## AND AFFILIATES
## CONSOLIDATED STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **UNRESTRICTED NET ASSETS REVENUES, GAINS, AND OTHER SUPPORT** | |
| Net Resident Services Revenue | $ 154,454,345 |
| Other Operating Income | 2,952,946 |
| Net Assets Released from Restrictions | 712,471 |
| **Total Unrestricted Revenues, Gains, and Other Support** | 158,119,762 |
| **OPERATING EXPENSES** | |
| Nursing Service | 72,942,693 |
| General Service | 17,944,546 |
| Dietary | 16,783,080 |
| Administrative | 38,659,444 |
| Bed Tax/Assessment | 4,573,802 |
| Insurance | 2,621,676 |
| Interest | 3,409,336 |
| Bad Debts | 3,426,400 |
| Depreciation & Amortization | 8,026,035 |
| **Total Expenses** | 168,387,012 |
| **LOSS FROM OPERATIONS** | (10,267,250) |
| **NONOPERATING GAINS (LOSSES)** | |
| Unrestricted Contributions - Net | 1,397,095 |
| Investment Income | 2,592,092 |
| Net Realized Gains on Investments | 1,943,113 |
| Impairment Loss | (1,504,603) |
| Net Loss on Disposal of Property and Equipment | (118,043) |
| Change in Fair Value of Interest Rate Swaps | 2,398,193 |
| Change in Health & Welfare Trust | 843,260 |
| Other Nonoperating Losses | (225,897) |
| **Total Nonoperating Gains** | 7,325,210 |
| **DEFICIENCY OF UNRESTRICTED REVENUES OVER EXPENSES** | $ (2,942,040) |

**THE CARMELITE SYSTEM, INC.**
**AND AFFILIATES**
**CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)**
**YEAR ENDED DECEMBER 31, 2013**

| | |
|---|---|
| **CHANGE IN UNRESTRICTED NET ASSETS** | |
| Deficiency of Revenues Over Expenses (from previous page) | $ (2,942,040) |
| Change in Net Unrealized Gains (Losses) on Investments | 7,935,034 |
| Pension Benefits Liability Adjustments | 1,885,199 |
| **INCREASE IN UNRESTRICTED NET ASSETS** | 6,878,193 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | |
| Contributions | 563,952 |
| Income on Temporarily Restricted Gifts | 36,537 |
| Temporarily Restricted Net Assets Released from Restriction | (645,930) |
| **DECREASE IN TEMPORARILY RESTRICTED NET ASSETS** | (45,441) |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | |
| Change in Fair Value of Beneficial Interest in Net Assets of Perpetual Trust | 351,325 |
| Income on Permanently Restricted Gifts | 1,987 |
| Permanently Restricted Net Assets Released from Restriction | (66,541) |
| **INCREASE IN PERMANENTLY RESTRICTED NET ASSETS** | 286,771 |
| **CHANGE IN NET ASSETS** | 7,119,523 |
| **NET ASSETS - BEGINNING OF YEAR, AS RESTATED** | 207,137,712 |
| **NET ASSETS - END OF YEAR** | $ 214,257,235 |

## THE CARMELITE SYSTEM, INC.
## AND AFFILIATES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Change in Net Assets | $ 7,119,523 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization Expense | 8,026,035 |
| Change in Fair Value of Beneficial Interest in Perpetual Trusts | (351,325) |
| Increase in Fair Value on Interest Rate Swaps | (2,398,193) |
| Loss on Disposal of Land, Buildings, and Equipment | 118,043 |
| Change in Health & Welfare Trust Liability | (193,260) |
| Impairment Loss | 1,504,603 |
| Net Realized and Unrealized Investment Gain | (10,514,739) |
| Decrease in Pension Liability | (1,833,927) |
| Provision for Bad Debts | 3,414,069 |
| Restricted Contributions | (265,665) |
| (Increase) Decrease in Assets: | |
| Residents Accounts Receivable | (2,398,081) |
| Due from Related Party | (29,634) |
| Other Current Assets | (362,046) |
| Increase (Decrease) in Liabilities: | |
| Accounts Payable | (4,411) |
| Accrued Expenses | 211,744 |
| Due to Related Party | 156,200 |
| Deferred Revenue | 52,203 |
| Other Current Liabilities | (437,363) |
| **CASH PROVIDED BY OPERATING ACTIVITIES** | 1,813,776 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Proceeds from Sales and Maturities of Investments | 56,601,045 |
| Purchase of Investments | (54,088,954) |
| Purchase of Land, Buildings, and Equipment | (6,628,941) |
| Assets Limited as to Use Fund Transfers | 4,215,858 |
| Proceeds from Beneficial Interest Distribution | 66,822 |
| Decrease in Other Assets | (58,990) |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | 106,840 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Proceeds from Issuance of Long Term Debt | 1,000,000 |
| Contributions Received - Restricted | 265,665 |
| Principal Payments on Long Term Debt | (4,497,326) |
| Increase in Other Liabilities | (242,805) |
| **CASH USED FOR FINANCING ACTIVITIES** | (3,474,466) |
| **NET DECREASE IN CASH** | (1,553,850) |
| **CASH AND EQUIVALENTS AT BEGINNING OF YEAR** | 16,711,334 |
| **CASH AND EQUIVALENTS AT END OF YEAR** | $ 15,157,484 |

THE CARMELITE SYSTEM, INC.
AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2013

| | |
|---|---|
| **SUPPLEMENTAL INFORMATION** | |
| Cash Paid for Interest | $ 2,782,393 |
| | |
| **NON-CASH FINANCING ACTIVITIES** | |
| Additions to Property and Equipment | $ 12,548,540 |
| Less: Long Term Debt Obligations Thereon | (5,919,599) |
| Cash Paid For Property and Equipment | $ 6,628,941 |
| | |
| Long Term Debt Incurred | $ 6,919,599 |
| Less: Property and Equipment Acquired via Long Term Debt | (5,919,599) |
| Proceeds From Long Term Debt | $ 1,000,000 |

THE CARMELITE SYSTEM, INC.
AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

## NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

The Carmelite System, Inc. (Hereafter, The "System") located in Germantown, New York is a New York not-for-profit corporation that supports the long term health ministry of its Affiliates. The Affiliates consist of skilled nursing, assisted living, and independent living facilities. The Carmelite Sisters for the Aged and Infirm (The "Sponsor") is the Sponsor of the Affiliates and sole member of the System. The System is the sole member of the Affiliates listed below:

- Carmel Manor, Inc.—Ft. Thomas, Kentucky
- Carmel Terrace, Inc.—Framingham, Massachusetts
- Kahl Home for the Aged and Infirm—Davenport, Iowa
- Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.—West Palm Beach, Florida
- Mother Angeline McCrory Manor, Inc.—Columbus, Ohio
- Marian Manor for the Aged and Infirm, Inc.—South Boston, Massachusetts
- Mount Carmel Care Center, Inc.—Lenox, Massachusetts
- Saint Margaret Hall, Incorporated—Cincinnati, Ohio
- St. Patrick's Home for the Aged and Infirm—Bronx, New York
- St. Patrick's Manor, Inc.—Framingham, Massachusetts
- Saint Patrick's Residence—Naperville, Illinois

### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of The Carmelite System, Inc. and the Affiliates. All significant intercompany transactions have been eliminated.

### Resident Service Revenue

Resident service revenue is reported at the estimated net realizable amounts. Third-party payor revenues are recorded as indicated in Note 2. All other revenue is recognized on the accrual basis of accounting.

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

**Net Assets**

Net assets of the Organization are classified and reported as follows:

**Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets**

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

**Permanently Restricted Net Assets**

Include contributions which require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for operations in accordance with donor restrictions.

**Investments**

Investments in money market funds and equity securities with readily determinable fair values and investments in debt securities are measured at their fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues, gains, and other support over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues, gains and other support over expenses and losses.

**Cash and Cash Equivalents**

The Organization considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions are not considered cash and cash equivalents for purposes of the statement of cash flows.

**Accounts Receivable**

Accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. Credit is extended to customers and collateral is not required. The Organization determines delinquent accounts based on individual facts and circumstances. Historically, the Organization has not charged interest on accounts that are deemed to be delinquent. The allowance was $4,446,790 as of December 31, 2013.

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

### Pledges Receivable

Unconditional pledges receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Pledges receivable are measured based on the present value of their future cash flows. Discount rates are determined based on market conditions, historical information and experience with the donor.

### Assets Limited as to Use

Assets limited as to use include assets restricted through internal designators by the Board of Directors, temporarily restricted by donors, assets set aside by a donor for permanent endowment, assets restricted by a mortgagee, assets held by a trustee under bond indenture agreement and trust arrangements, assets restricted by issuers of letters of credit, and security deposits held in escrow.

### Property, Plant and Equipment

Property and equipment are recorded at cost. Assets are capitalized if they have an estimated useful life greater than one year and a value ranging from $250 to $2,500. Donated property is recorded at its estimated fair value at the date of receipt. Gifts of long-lived assets are recorded at their fair market value at the date of donation and reported as unrestricted support unless explicit donor stipulations specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The organization uses estimated lives between 3 and 50 years.

### Assets Held for Sale

Assets held for sale are reported in the statement of financial position at the lower of its carrying amount or fair value, less cost to sell. Assets held for sale are assessed for impairment when management believes certain events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on this assessment, assets held for sale that are considered impaired are written down to their fair value. Management determined that the carrying value of the assets held for sale during 2013 exceeded the current fair value at Kahl Home. Therefore, an impairment loss of $1,504,603 was recognized.

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

### Deferred Financing Charges

Deferred financing charges are amortized over the period the obligation is outstanding using the interest method.

### Fair Value Measurement

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

<u>Level 1</u> – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

<u>Level 2</u> – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

<u>Level 3</u> – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

### Interest Rate Swaps

The Organization has interest rate swap contracts that are being accounted for as non-hedging transactions. The carrying value of the interest rate swaps are adjusted to their fair value at the end of the year, with the change in fair value of interest rate swaps reflected in the consolidated statement of activities.

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

### Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

### Promotional Advertising

Promotional advertising costs are expensed as incurred.

### Operating Income (Loss)

The Organization's statement of activities distinguishes between unrestricted operating and nonoperating gains (losses). Operating revenues result from transactions associated with providing health care services, the Organization's principal activity. The nonoperating gains and losses are peripheral or incidental transactions of the organization not deemed by management to be major or central to the provision of health care services and investment income and net realized gain on investments.

### Excess (Deficiency) of Revenues, Gains, and Other Support over Expenses and Losses

The statement of activities includes excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include the change in net unrealized gains (losses) on investments, transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

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

Income Taxes

The Carmelite System, Inc. is a not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to section 501(a) of the code. The 2010 through 2013 tax years are open for examination by federal and state taxing authorities.

**Functional Expenses**

The costs of providing the various programs and other activities of the organization have been summarized in Note 15. Certain costs have been allocated between program and supporting services.

Estimates

The preparation of 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 financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Insurance Claims and Recoveries

In accordance with accounting standards, the Organization records expected insurance recoveries of claim settlements in the statement of financial position, not netted against accrued losses. Receivables are evaluated for collectability. The Organization has recorded a gross receivable in other current assets and a gross liability in accrued expenses as further explained in Note 14. All pending claims are expected to be fully covered by insurance. The accruals had no impact on current year net income.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 27, 2014 the date the financial statements were issued.

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS

**Summary of the Payment Arrangements with Third Party Payors:**

**Medicaid - Standard Payments to Nursing Facilities (Facility Specific)**

The Organization receives reimbursement from the Residents State Medicaid Programs under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients pursuant to regulations promulgated by the state in which the resident resides. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and may result in a retroactive rate adjustment for the current year.

**Medicare – Prospective Payment System**

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

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

**Due From/To Third Party Payors**

At December 31, 2013, the Organization recorded a receivable of approximately $2,489,000 from the New York State Department of Health Medicaid program for the appeal of reimbursable depreciation related to the renovation of an Affiliate's exterior. Management believes this amount to be fully collectible and has not established an allowance for doubtful accounts related to the above.

In addition to the above, the Organization has recorded a provision for estimated settlements of any negative retroactive revenue adjustments of approximately $652,000 under the caption due to third party payors as of December 31, 2013. The amounts have also been reflected under the caption net resident services revenue on the statement of activities and changes in net assets to the extent not previously recorded.

## NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of the following:

### Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank may exceed FDIC insurable limits.

### Investments

The Organization has investments in the amount of $ 130,204,201 at December 31, 2013.

### Accounts Receivable

The Organization extends unsecured credit to its private residents covered under third-party payor arrangements. Accounts receivable from private residents and third-party payors totaled $ 18,305,581 at December 31, 2013. See Note 2 for details of third-party payor arrangements.

### Assets Limited as to Use

The Organization has investments in cash and cash equivalents and marketable securities in the amount of $ 15,157,484 as of December 31, 2013.

### Pledges Receivable

At December 31, 2013, the Organization has $615,451 of unsecured pledges receivable.

### Major Customers

At December 31, 2013, approximately 15% and 42% of the Organization's operating revenue is derived from Medicare and Medicaid, respectively.

## NOTE 4 INVESTMENTS

As of December 31, 2013 assets limited as to use consists of the following:

| Investments: | | Cost | | Market |
|---|---|---|---|---|
| Cash Equivalents | $ | 8,641,084 | $ | 8,761,769 |
| Mutual Funds | | 16,344,907 | | 20,978,870 |
| Common Stocks | | 36,164,448 | | 49,299,691 |
| U.S. Government Obligations | | 23,362,610 | | 23,248,284 |
| Close End Funds & Exchange Traded Funds | | 480,911 | | 611,219 |
| Assets Limited As To Use | | 12,511 | | 13,074 |
| Municipal Bonds | | 187,283 | | 196,992 |
| Interest Receivable | | 145,667 | | 145,667 |
| Corporate Obligations | | 26,905,683 | | 26,948,635 |
| **Total Investments** | $ | 112,245,104 | $ | 130,204,201 |

The Organization has investments that are unrestricted and investments whose use is limited due to board designations. Investments as of December 31 are as follows:

| Investment Classifications: | | |
|---|---|---|
| Investments Limited As To Use | $ | 62,865,487 |
| Investments Unrestricted | | 67,338,714 |
| Total Investments | $ | 130,204,201 |

### Trust Indenture

Under the terms of master trust indentures, the Organization is required to maintain and fund various escrow accounts. These escrows are held in trust and disbursements are made in accordance with the master trust indenture. Approved withdrawals from the escrow accounts not spent at December 31, 2013 amounted to $4,972,880.

## NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property and equipment consist of the following at December 31, 2013:

| | | |
|---|---|---|
| Land & Land Improvements | $ | 13,046,204 |
| Building & Building Improvements | | 205,057,949 |
| Construction in Process | | 3,449,072 |
| Equipment | | 35,829,698 |
| Major Movable | | 6,848,849 |
| | | 264,231,772 |
| Less Accumulated Depreciation | | (130,338,020) |
| | $ | 133,893,752 |

Depreciation expense charged to operations was $ 7,911,030 for 2013.

The Organization is currently undergoing multiple construction projects, at various stages of completion. The total estimated costs and completion dates of these projects are currently undeterminable.

## NOTE 6 PLEDGES RECEIVABLE

Pledges receivable amounted to $615,451 as of December 31, 2013. Kahl Home for the Aged and Infirm conducted a capital campaign to fund the construction of the nursing facility campus. Promises to give are restricted to the campaign objectives. Unconditional promises to give are as follows at December 31:

| | | |
|---|---|---|
| **Pledges expected to be collected in:** | | |
| One Year or Less | $ | 234,707 |
| One to Five Years | | 418,845 |
| **Total Pledges Receivable** | | 653,552 |
| Less: Discount on Pledges | | (38,101) |
| Net Pledges Receivable | $ | 615,451 |

Pledges Receivable are recorded at the present value of their future estimated cash flows. The discounts on those amounts are computed using rates applicable to the years in which the pledges were received. The rate applied during 2013 was 3.00%.

## NOTE 7 LONG-TERM DEBT

The Organization is obligated under long-term debt at December 31, 2013 as follows:

| Description | | |
|---|---|---|
| Tax exempt bonds, issued by various state financing agencies, with interest rates ranging from 0.08% to 5.125%, with maturity dates ranging from December, 2026 to December, 2042. Certain interest rates are indexed to the one month LIBOR rate. The Organization has agreed to maintain financial covenants for certain bonds outstanding as of December 31, 2013. | $ | 63,445,216 |
| Mortgage and construction loan with interest rates ranging from 1.67% to 4.25%, with maturity dates ranging from November, 2017 to November, 2019. | | 10,823,742 |
| Notes from the Carmelite Sisters for the Aged and Infirm with interest rates ranging from 2.50% to 6.00%, with maturity dates ranging from August, 2015 to August, 2026. Certain notes from the Sisters for the Aged and Infirm do not have set repayment terms. | | 18,476,792 |
| A capital lease with an interest rate of 5.44%, with monthly payments of principal and interest of approximately $14,500, maturing in November, 2015. | | 351,539 |
| Total | | 93,097,289 |
| Less Current Portion | | (5,791,892) |
| Less Unamortized Bond Discount | | (126,183) |
| Long-Term Debt, Net | $ | 87,179,214 |

Future Maturities:

Following are maturities of long-term debt for each of the next five years:

| | | |
|---|---|---|
| 2014 | $ | 5,791,892 |
| 2015 | | 3,850,680 |
| 2016 | | 4,304,210 |
| 2017 | | 9,553,092 |
| 2018 | | 2,770,296 |
| Thereafter | | 66,827,119 |
| | $ | 93,097,289 |

## NOTE 8 LINE OF CREDIT

The Organization has available $2,500,000 through revolving lines of credit, with interest rates ranging from 2.67% to 3.25%, secured by the assets of the Organization, renewed annually with expiration dates between June 1, 2014 and November 30, 2014. At December 31, 2013 the Organization has $2,500,000 of available funds from this line of credit.

The Interest incurred on the above line of credit was $6,640 in 2013.

## NOTE 9 INTEREST RATE SWAPS

The Organization entered into two interest rate swap contracts on September 1, 2008 and January 1, 2012 with original notional amounts of $38,945,000 to establish an effective fixed interest rate on the Bonds. Under the two contracts, the Organization pays 3.4% and 2.68%, respectively, and received interest at the Index rate. The interest rate swap contracts expire April 2035 and December 2042 respectively.

At December 31, 2013 the Organization recorded a net liability for the fair value of interest rate swaps on the consolidated statement of financial position in the amount of $1,471,268. The Organization reported a change in fair value of interest rate swaps on the consolidated statement of activities of $2,398,193 for 2013.

The net interest expense incurred by the Organization from the interest rate swaps are recognized over the life of the agreements in the consolidated statement of activities. The net interest expense amounted to $1,552,615 for 2013.

## NOTE 10 RETIREMENT PLAN

### Defined Contribution Plans:

The Organization has defined contribution retirement plans covering substantially all employees who qualify as to age and length of service. Matching contributions range between 0% and 5% of each eligible employee's salary. Total defined contribution retirement plan expense was $1,162,523 for 2013.

### Defined Benefit Plans:

The Organization has defined-benefit pension plans for the lay employees, providing retirement, death, and disability benefits to eligible employees over the age of 21 with at least one year of service. The annual retirement benefits, paid to employees with five or more years of service when they reach age 65, are based upon credited service and earnings, as defined by the plan. The funding policy is to annually contribute the minimum amount to the Plan, as determined by an actuary.

## NOTE 10 RETIREMENT PLAN (CONTINUED)

Plan contributions are intended to provide not only for benefits attributed to service to date, but also for those benefits expected to be earned in the future. The assets and corresponding liabilities of the plan are not included in the financial statements since they are held in trust for the benefit of the employees and are not owned by the Organization.

Components of the Net Periodic Pension Cost and Other Amounts Recognized in Unrestricted Net Assets

Net periodic pension cost is determined as follows:

| | | |
|---|---|---|
| Service cost | $ | 292,332 |
| Interest cost | | 444,782 |
| Expected return on plan assets | | (1,131,054) |
| Prior service cost recognized | | 94,944 |
| Recognized gains and losses | | 589,359 |
| Net periodic pension cost | $ | 290,363 |

Other changes in plan assets and benefit obligations recognized in unrestricted net assets are as follows:

| | | |
|---|---|---|
| Pension-related changes other than net periodic cost | $ | 24,871 |

The following assumptions were used to determine the net periodic pension cost:

| | |
|---|---|
| Discount rate | 6.25% to 7.00% |
| Expected long-term rate of return on assets | 6.00% to 7.50% |
| Rate of increase in compensation levels | 3.00% |

The weighted-average expected long-term rate of return on plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

## NOTE 10 RETIREMENT PLAN (CONTINUED)

Reconciliation of Pension Benefit Obligation ("PBO")

The following table reconciles the plan's pension benefit obligation:

| | | |
|---|---|---|
| Pension benefit obligation at beginning of year | $ | 7,824,007 |
| Service cost | | 292,332 |
| Interest cost | | 444,782 |
| Actuarial Loss (gain) | | (522,371) |
| Benefits paid | | (254,071) |
| Plan amendment | | (646,508) |
| **Pension benefit obligation at end of year** | **$** | **7,138,171** |

**Reconciliation of Plan Assets**

Changes in plan assets are as follows:

| | | |
|---|---|---|
| Fair value of plan assets at beginning of year | $ | 7,368,190 |
| Actual return on plan assets | | 528,457 |
| Employer contributions | | 336,174 |
| Benefits paid | | (254,071) |
| Asset gain or (loss) | | 610,873 |
| **Fair value of plan assets at end of year** | **$** | **8,589,623** |

**Plan Asset Allocation**
The plan's weighted-average asset allocations at December 31, 2013 by asset category were as follows:

| | |
|---|---|
| Equity securities | 50% to 57% |
| Fixed income securities | 37% to 47% |
| Cash and cash equivalents | 0% to 3% |
| Total | 100% |

Plan assets are administered by a trustee and invested principally in cash and cash equivalents, U.S. Government securities, corporate bonds and debentures, and marketable equity securities. The overall objective of the plan's investment policy is to achieve a rate of return, which equals or exceeds the expected long-term rate of return assumed for measuring the plan's pension obligations. Management realizes that market performance varies and that this objective may not be meaningful during some periods. The policy is to invest in accordance with the following strategic guidelines:

NOTE 10 RETIREMENT PLAN (CONTINUED)

| Asset Class | Target Allocation |
|---|---|
| Equities | 50% |
| Fixed income | 50% |

**Balance Sheet Recognition of Pension Plan**

Reconciliation of the plan's obligations and funded status is as follows:

| | |
|---|---|
| Plan assets at fair value | $ 8,589,623 |
| Plan assets at fair value | (7,138,171) |
| Overfunded pension benefit obligation | $ 1,451,452 |

Amount not yet recognized in net periodic pension cost and included in net assets:

Pension-related changes other than net periodic cost $1,885,199

At December 31, 2013 the fair market value of plan assets exceeded the pension benefit obligation by $1,451,552. Pension accounting requires that an asset (liability) equal to the funded (unfunded) pension benefit obligation be recorded. Accordingly, the net assets of the Organization were increased by $1,885,199 for the year ended December 31, 2013 to recognize the funded status of the plan and recognize the period net loss.

**Employer Contributions and Benefit Payments**

The Organization contributed approximately $336,674 to the pension plans in 2013. In addition, the following benefit payments are expected to be made by the plan for each of the years ending December 31:

| Year | Amount |
|---|---|
| 2014 | $ 278,811 |
| 2015 | 287,527 |
| 2016 | 298,723 |
| 2017 | 347,750 |
| 2018 | 491,830 |
| 2019-2023 | 3,438,864 |
| | $ 5,143,505 |

## NOTE 10 RETIREMENT PLAN (CONTINUED)

**Other Retirement Plans:**

The Organization participates in a pension plan for the Archdiocese of New York. Currently, the plan is underfunded by an undetermined amount. The Organization has not evaluated the effect of such underfunding on future contributions as information is not available as to vested and non-vested earned benefits and plan assets for only the employees of the Organization, but believes any increased contributions will not materially impact its financial condition in the near term. Additionally, pursuant to the Organization's agreement with Local 1199, Health Care Employees Pension Fund (Union), the Organization contributed to the Union's pension fund at amounts ranging from 11.50% to 16.11% of eligible union employee wages for 2013. Pension costs totaled approximately $525,000 and $703,000 for the Archdiocese and Union plans respectively, for 2013. As of December 31, 2013 the Organization has an outstanding liability of approximately $350,000 recorded under the caption "Accrued Expenses" on the Statement of Financial Position.

## NOTE 11 RESTRICTED NET ASSETS

**Temporarily Restricted Net Assets**—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated funds. Upon satisfaction of purpose or time restrictions, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions.

Temporarily restricted net assets totaling $1,406,799 at December 31, 2013 have been limited by donors for future capital improvements, purchase of equipment and program expenses.

**Beneficial Interest in Perpetual Trusts**—St. Patrick's Manor, Inc. has received as contributions split-interest agreements in the form of perpetual trusts. In accounting for these arrangements, St. Patrick's Manor, Inc. has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of St. Patrick's Manor, Inc.'s beneficial interest in the trust assets. Investment income received on the trust assets are recorded as unrestricted revenue in the statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in perpetual trusts are recorded on the statement of changes in net assets as an increase or decrease in permanently restricted net assets. As of December 31, 2013, St. Patrick's Manor, Inc.'s proportionate share of the fair market value of the assets in these trusts amounted to approximately $2,513,000.

## NOTE 11 RESTRICTED NET ASSETS (CONTINUED)

**Prior Period Adjustment**

The beginning net assets and beneficial interest in perpetual trusts have been restated to properly reflect the Organization's interest in the trusts. The adjustment includes the recording of a beneficial interest in third-party trust in the amount of $2,228,610, a decrease in unrestricted net assets and investments of $1,743, 281, and a corresponding increase in permanently restricted net assets of $2,228,610 as of January 1, 2013.

**Permanently Restricted Net Assets**—The organization's endowments consists of individual funds in the amount of $202,773 established for the general support of the Corporation. Per the donor's restriction, all of the related interest income is to be used to support the programs, capital purchase and facility renovations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are clarified and reported based on the existence or absence of various donor-imposed restrictions.

The organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift of an endowment fund as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization 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) the value of 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. "Net appreciation" on endowment funds, unless stipulated otherwise, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

## NOTE 12 FAIR VALUE MEASUREMENTS

Cash and cash equivalents carrying amount approximates fair value because of the short maturities of these financial instruments.

The fair value of assets limited as to use and level 1 marketable securities are obtained from various quotation services. Level 2 marketable securities consist mainly of commercial paper, mortgage-backed securities, foreign fixed government securities and foreign fixed corporate bonds measured based on quoted market prices of similar assets. Level 3 assets measured at fair value consist of beneficial interests in perpetual trusts.

The carrying value of notes and loans payable approximate fair value because the financial instrument bears interest at rates which approximate current market rates for notes with similar maturities and credit quality.

## NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The Organization uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

### Recurring Basis

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013.

| | Level 1<br>Quoted Prices In Active Markets for Identical Assets | Level 2<br>Significant Other Observable Inputs | Level 3<br>Significant Unobservable Inputs | Balance |
|---|---|---|---|---|
| Investments | | | | |
| Cash and Cash Equivalents | $ 8,907,437 | $ - | $ - | $ 8,907,437 |
| Corporate Bonds | - | 26,619,347 | - | 26,619,347 |
| Government Securities | - | 23,445,276 | 329,288 | 23,774,564 |
| Equity | 49,299,690 | - | - | 49,299,690 |
| Equity Mutual Funds | 16,717,479 | 4,261,391 | - | 20,978,870 |
| Exchange Traded Funds | 611,219 | - | - | 611,219 |
| Endowment fund | - | 13,074 | - | 13,074 |
| Total Investments at Fair Value | 75,535,825 | 54,339,088 | 329,288 | 130,204,201 |
| Beneficial Interest in Perpetual Trusts | - | - | 2,513,394 | 2,513,394 |
| Total Assets at Fair Value | $ 75,535,825 | $ 54,339,088 | $ 2,842,682 | $ 132,717,595 |
| Interest Rate Swap Contracts, Net | - | (1,471,268) | - | (1,471,268) |
| Total Liabilities at Fair Value | $ - | $ (1,471,268) | $ - | $ (1,471,268) |

The changes in investments measured at fair value on a recurring basis for which the Organization has used level 3 inputs to determine fair value are as follows:

| | Beneficial Interest in Perpetual Trusts | Government Securities | Total |
|---|---|---|---|
| **Balance December 31, 2012** | $ 2,228,610 | $ 330,391 | $ 2,559,001 |
| Net Realized / Unrealized Gains (Losses) | 351,325 | (1,103) | 350,222 |
| Distribution of Principal | (66,541) | - | (66,541) |
| **Balance December 31, 2013** | $ 2,513,394 | $ 329,288 | $ 2,842,682 |

## NOTE 13 RELATED PARTY TRANSACTIONS

Certain of the personnel of the organization and affiliates are members of the Order of the Carmelite Sisters for the Aged and Infirm. The Sisters' salaries amounted to $3,073,890 in 2013. Additionally, the Sisters reimbursed $768,243 in 2013 for room and board. The Affiliates paid dues to the System of $1,005,996 in 2013.

**Centralized Insurance:**

In October 2003, the System acquired shares of stock in Preferred Professional Insurance Company ("PPIC"). PPIC is owned by Catholic Healthcare Systems and supports the Catholic health care ministry of its owners through an array of insurance products.

The acquisition of PPIC stock was accomplished through a contribution of capital to the Carmelite System by each of the System Affiliates. In accordance with the PPIC shareholders agreement, the shares of stock may be repurchased by PPIC upon request of the shareholder and subsequent to approval by the appropriate state insurance regulator.

In connection with this investment, the System established a centralized insurance program on behalf of the System Affiliates. Insurance coverage for various lines of insurance is available through the program under arrangements with PPIC and other carriers

**Health Insurance:**

Effective January 1, 2008, the Carmelite System established a Health and Welfare Trust ("Trust") for the purposes of funding a self-insured health benefit program on behalf of the Carmelite System Affiliates ("Affiliates"). All eligible employees that elect the health benefit are covered by the Trust.

In connection with formation of the Trust, the Affiliates have delegated administration of the program to the Carmelite System. These administrative duties include collection of health benefit premiums from the Affiliates, payment of medical and pharmaceutical claims to the third party administrator and the purchase of stop-loss reinsurance for the program.

Annual funding levels are developed on an actuarial basis by the third party administrator using aggregate program claims history, national and regional medical trends and the balance in the Trust. Each participant in the program shares equally in the annual prospective funding determination.

The assets and corresponding liabilities of the Plan are not included in the Organization's financial statements since they are held in trust for the benefit of the employees and are not owned by the Organization.

## NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

Effective December 31, 2013, the Organization had an overfunded position of approximately $395,000, recorded as a non-current asset on the statement of financial position. Assets consist primarily of cash of approximately $ 675,000 offset by accounts payable and accrued expenses of approximately $ 280,000. The change in the over (under) funded position of $ 843,260 is included in the non-operating section of the statement of activities. Total contributions made to the plan by employers and employees during the year ended December 31, 2013 were $ 11,912,662 and $2,417,965, respectively. Benefits paid to the carrier and insurance premiums paid for stop-loss reinsurance policies during the year ended December 31, 2013 were $11,720,296 and $ 1,485,705, respectively.

## NOTE 14 COMMITMENTS AND CONTINGENCIES

### Third-Party Payors

A significant portion of the Organization's net revenues and accounts receivable are derived from services reimbursable under the Medicaid and the Medicare programs. There are numerous healthcare reform proposals being considered on the federal and state levels. The Organization cannot predict at this time whether any of these proposals will be adopted or, if adopted and implemented, what effect such proposals would have on the Organization. The Organization's Medicare Claims are also subject to audit or medical review by the fiscal intermediary (FI). It is not possible at this time to determine whether the Organization's claims will be subjected to post payment review by the FI.

### Medical Malpractice Claims

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through December 31, 2013, the Organization was covered by a claims-made basis policy. There are no known claims and incidents that may result in the assertion of additional claims, as well as no claims from unknown incidents that may be asserted arising from services provided to patients. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of December 31, 2013.

### Collective Bargaining Agreement

The Organization is a member of the League of Voluntary Hospitals and Homes of New York, and thus bound by the provisions of the Collective Bargaining Agreement (CBA) with the Union. The current memorandum of understanding expires July 31, 2014.

## NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Certain Affiliates have known claims pending against them which have arisen in the normal course of business. In the opinion of management, other than the claims noted above, no claims have been asserted against the Organization or Affiliates which, either individually or in the aggregate, are considered to be material or will be in excess of its insurance coverage. However, an estimated accrual has been recorded under accrued expenses; with an offsetting receivable under the caption other current assets in the amount of $577,000 for the expected recovery of the above noted claims as of December 31, 2013. There was no impact on operating results for the year ended December 31, 2013.

## NOTE 15 SELF FUNDED WORKERS COMPENSATION

The Organization has adopted a self-funded workers compensation plan whereby workers compensation insurance is provided for eligible employees. The Plan calls for the premiums to be paid into a benefit pool held and managed by Sentry Insurance. The Organization is responsible up to a maximum of $250,000 per occurrence, after which a stop loss policy covers costs in excess of the stated limits. There is a $1,000,000 aggregate stop loss which covers all of the Plan participants. Stop loss and administrative costs of the Plan are shared by all Plan participants (the Organization and its Affiliates) based on relative employer enrollment of employees. The Organization's payments into the Plan amounted to approximately $1,200,000 for the year ended December 31, 2013. There are currently multiple open claims against the Organization and its Affiliates as of December 31, 2013, for which the Organization and its Affiliates have accrued an estimated liability of approximately $748,392.

## NOTE 16 FUNCTIONAL EXPENSES

The Organization's expenses related to the provision of its mission based on services are classified as follows for the year ended December 31, 2013:

| | | |
|---|---|---|
| Program Expenses | $ | 141,696,804 |
| Administrative Expenses | | 26,836,920 |
| Total Expenses | $ | 168,533,724 |

## NOTE 17 PRIOR PERIOD ADJUSTMENT

The beginning net assets and health & welfare trust excess have been restated to properly reflect the Organization's consolidation of the Health & Welfare Plan. The adjustment includes the recording of a health & welfare trust excess in the amount of ($1,353,743) and a corresponding decrease in unrestricted net assets of $1,353,743 as of January 1 2013.

## NOTE 18 SUBSEQUENT EVENT

The Organization increased its available credit from its lines of credit to $3,500,000 on February 20, 2014.

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF FINANCIAL POSITION
# DECEMBER 31, 2013

| | Carmel Manor | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Marian Manor | Mother Angeline McCrory Manor |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and Cash Equivalents | $ 226,816 | $ 553,359 | $ 1,294,467 | $ 1,147,189 | $ 652,861 | $ 2,822,121 |
| Investments | 2,590,783 | 101,049 | - | - | - | 293,370 |
| Accounts Receivable, Net | 440,450 | 443 | 1,162,006 | 1,883,394 | 2,385,715 | 1,504,182 |
| Prepaid Expenses | 10,129 | 186,686 | 100,234 | 524,310 | 466,544 | 60,846 |
| Assets Limited as to Use - Current Portion | 23,578 | 11,872 | 16,542 | 647,362 | 116,542 | - |
| Due From Related Party | - | 68,560 | - | - | - | - |
| Pledges Receivable, Current Portion | - | - | 234,707 | - | - | - |
| Other Current Assets | 41,523 | 20,519 | 37,073 | 172,824 | - | 189,802 |
| Total Current Assets | 3,333,279 | 942,488 | 2,845,029 | 4,375,079 | 3,621,662 | 4,870,321 |
| ASSETS LIMITED AS TO USE | | | | | | |
| Board | 2,896,286 | 6,251,000 | 5,698,771 | 30,585,131 | - | - |
| Trustee | - | - | 473,657 | 2,331,835 | - | - |
| Temporary Restricted | - | - | - | - | 106,340 | - |
| Permanently Restricted - Beneficial Interest in Perpetual Trusts | - | - | - | - | - | - |
| Permanently Restricted | - | - | - | - | 50,000 | 13,074 |
| Total Assets Limited as to Use | 2,896,286 | 6,251,000 | 6,172,428 | 32,916,966 | 156,340 | 13,074 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 3,262,933 | 7,916,977 | 34,041,616 | 24,372,365 | 3,074,911 | 17,893,606 |
| ASSETS HELD FOR SALE | - | - | 900,000 | - | 5,012,738 | - |
| OTHER ASSETS | | | | | | |
| Investments | - | 309,702 | 9,048,805 | - | 503,905 | 2,877,223 |
| Deferred Financing Costs, Net | - | - | 296,396 | 883,223 | - | 304,330 |
| Pledges Receivable, Long Term | - | - | 380,744 | - | - | - |
| Swap Agreement | - | - | 156,293 | - | - | - |
| Due from Third Party Payors | - | - | - | - | - | - |
| Other Assets | 73,933 | 8,264 | 28,934 | 352,954 | 53,724 | 152,517 |
| Health & Welfare Trust Excess | - | - | - | - | - | - |
| Overfunded Pension Asset | - | - | - | 250,101 | - | - |
| Total Other Assets | 73,933 | 317,966 | 9,911,172 | 1,486,278 | 557,629 | 3,334,070 |
| TOTAL ASSETS | $ 9,566,431 | $ 15,428,431 | $ 53,870,245 | $ 63,150,688 | $ 12,423,280 | $ 26,111,071 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
# DECEMBER 31, 2013

| Mount Carmel Care Center | St. Margaret Hall | St. Patrick's Home | St. Patrick's Manor | St. Patrick's Residence | Carmelite System | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|
| $ 431,198 | $ 1,304,960 | $ 412,812 | $ 4,497,735 | $ 654,310 | $ 1,159,656 | $ 15,157,484 | $ - | $ 15,157,484 |
| - | - | - | 1,584,574 | - | - | 4,569,776 | - | 4,569,776 |
| 1,115,326 | 641,966 | 4,314,067 | 3,024,133 | 1,833,899 | - | 18,305,581 | - | 18,305,581 |
| 50,354 | 106,738 | 315,950 | 654,364 | 4,952 | 9,180 | 2,490,287 | (375,919) | 2,114,368 |
| 22,347 | 19,816 | 169,294 | 27,160 | 18,713 | - | 1,073,226 | - | 1,073,226 |
| - | - | - | 112,462 | - | - | 181,022 | (161,993) | 19,029 |
| - | - | - | - | - | - | 234,707 | - | 234,707 |
| - | 31,690 | 43,964 | 420,941 | 53,169 | 110,084 | 1,121,589 | - | 1,121,589 |
| 1,619,225 | 2,105,170 | 5,256,087 | 10,321,369 | 2,565,043 | 1,278,920 | 43,133,672 | (537,912) | 42,595,760 |
| | | | | | | | | |
| - | 3,921,617 | 7,572,390 | 9,468,625 | 6,636,202 | - | 73,030,022 | - | 73,030,022 |
| - | - | 2,000,000 | - | - | 663,182 | 5,468,674 | - | 5,468,674 |
| - | 317,161 | 10,000 | 71,623 | 208,881 | 25,000 | 739,005 | - | 739,005 |
| - | - | - | 2,513,394 | - | - | 2,513,394 | - | 2,513,394 |
| - | - | - | 139,345 | - | - | 202,419 | - | 202,419 |
| - | 4,238,778 | 9,582,390 | 12,192,987 | 6,845,083 | 688,182 | 81,953,514 | - | 81,953,514 |
| | | | | | | | | |
| 5,878,954 | 1,974,107 | 18,531,057 | 8,519,305 | 8,385,347 | 42,574 | 133,893,752 | - | 133,893,752 |
| | | | | | | | | |
| - | - | - | - | - | - | 5,912,738 | - | 5,912,738 |
| | | | | | | | | |
| - | 13,125,737 | - | 29,744,231 | - | - | 55,609,603 | - | 55,609,603 |
| - | - | - | 63,634 | - | - | 1,547,583 | - | 1,547,583 |
| - | - | - | - | - | - | 380,744 | - | 380,744 |
| - | - | - | - | - | - | 156,293 | - | 156,293 |
| - | - | 2,489,100 | - | - | - | 2,489,100 | - | 2,489,100 |
| 3,120 | 44,812 | - | 62,000 | 107,865 | 355,240 | 1,243,363 | (905,500) | 337,863 |
| - | - | - | - | - | (510,483) | (510,483) | 905,500 | 395,017 |
| - | - | 1,201,351 | - | - | - | 1,451,452 | - | 1,451,452 |
| 3,120 | 13,170,549 | 3,690,451 | 29,869,865 | 107,865 | (155,243) | 62,367,655 | - | 62,367,655 |
| | | | | | | - | | |
| $ 7,501,299 | $ 21,488,604 | $ 37,059,985 | $ 60,903,526 | $ 17,903,338 | $ 1,854,433 | $ 327,261,331 | $ (537,912) | $ 326,723,419 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
# DECEMBER 31, 2013

| LIABILITIES AND NET ASSETS | Carmel Manor | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Marian Manor | Mother Angeline McCrory Manor |
|---|---|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | | | |
| Accounts Payable | $ 408,491 | $ 149,259 | $ 354,908 | $ 750,284 | $ 628,360 | $ 263,491 |
| Deferred Revenue | - | 68,725 | - | 120,254 | - | - |
| Accrued Expenses | 235,240 | 104,186 | 331,279 | 546,949 | 1,871,030 | 942,866 |
| Current Maturities on Long-Term Debt | - | 189,136 | 470,000 | 1,005,000 | - | 420,000 |
| Due to Related Party | - | 24,873 | - | - | 137,120 | - |
| Due to Third Party Payors - Current | - | - | - | - | - | - |
| Other Current Liabilities | 90,578 | 11,872 | 18,241 | 583,865 | 80,542 | 183,535 |
| **Total Current Liabilities** | 734,309 | 548,051 | 1,174,428 | 3,006,352 | 2,717,052 | 1,809,892 |
| **LONG-TERM DEBT AND OTHER LIABILITIES** | | | | | | |
| Long-Term Debt, Net of Current Portion | - | 3,299,991 | 23,557,357 | 18,683,817 | 4,658,051 | 17,090,000 |
| Swap Agreement | - | - | - | - | - | 1,627,561 |
| Worker's Compensation Reserve | - | - | - | - | 36,000 | - |
| Due to Third Party Payors | - | - | - | - | - | - |
| Other Long Term Liabilities | - | - | - | - | - | - |
| **Total Long-Term Debt and Other Liabilities** | - | 3,299,991 | 23,557,357 | 18,683,817 | 4,694,051 | 18,717,561 |
| **TOTAL LIABILITIES** | 734,309 | 3,848,042 | 24,731,785 | 21,690,169 | 7,411,103 | 20,527,453 |
| **NET ASSETS** | | | | | | |
| Unrestricted | 8,832,122 | 11,580,389 | 28,523,009 | 41,408,218 | 4,855,837 | 5,570,544 |
| Temporarily Restricted | - | - | 615,451 | 52,301 | 106,340 | - |
| Permanently Restricted | - | - | - | - | 50,000 | 13,074 |
| **Total Net Assets** | 8,832,122 | 11,580,389 | 29,138,460 | 41,460,519 | 5,012,177 | 5,583,618 |
| | | | - | | | |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 9,566,431 | $ 15,428,431 | $ 53,870,245 | $ 63,150,688 | $ 12,423,280 | $ 26,111,071 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
# DECEMBER 31, 2013

| Mount Carmel Care Center | St. Margaret Hall | St. Patrick's Home | St. Patrick's Manor | St. Patrick's Residence | Carmelite System | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|
| $ 294,513 | $ 170,730 | $ 1,705,665 | $ 187,757 | $ 469,508 | $ - | $ 5,382,966 | $ - | $ 5,382,966 |
| 52,203 | - | 25,759 | 234,918 | - | - | 501,859 | - | 501,859 |
| 242,267 | 891,594 | 1,266,650 | 1,491,548 | 855,415 | 81,357 | 8,860,381 | - | 8,860,381 |
| - | - | 3,474,827 | 122,138 | - | 111,281 | 5,792,382 | (490) | 5,791,892 |
| - | - | - | - | - | 375,429 | 537,422 | (537,422) | - |
| - | - | 393,195 | - | - | - | 393,195 | - | 393,195 |
| 22,347 | 21,722 | 169,294 | 145,983 | 191,778 | 142,517 | 1,662,274 | - | 1,662,274 |
| 611,330 | 1,084,046 | 7,035,390 | 2,182,344 | 1,516,701 | 710,584 | 23,130,479 | (537,912) | 22,592,567 |
| | | | | | | | | |
| 6,919,599 | - | 7,700,454 | 4,970,721 | - | 299,224 | 87,179,214 | - | 87,179,214 |
| - | - | - | - | - | - | 1,627,561 | - | 1,627,561 |
| - | - | - | 126,015 | - | 586,377 | 748,392 | - | 748,392 |
| - | - | 258,468 | - | - | - | 258,468 | - | 258,468 |
| - | - | - | - | - | 59,982 | 59,982 | - | 59,982 |
| 6,919,599 | - | 7,958,922 | 5,096,736 | - | 945,583 | 89,873,617 | - | 89,873,617 |
| | | | | | | | | |
| 7,530,929 | 1,084,046 | 14,994,312 | 7,279,080 | 1,516,701 | 1,656,167 | 113,004,096 | (537,912) | 112,466,184 |
| | | | | | | | | |
| (29,630) | 20,087,397 | 22,055,673 | 50,900,082 | 16,177,756 | 173,266 | 210,134,663 | - | 210,134,663 |
| - | 317,161 | 10,000 | 71,665 | 208,881 | 25,000 | 1,406,799 | - | 1,406,799 |
| - | - | - | 2,652,699 | - | - | 2,715,773 | - | 2,715,773 |
| (29,630) | 20,404,558 | 22,065,673 | 53,624,446 | 16,386,637 | 198,266 | 214,257,235 | - | 214,257,235 |
| | | | | | | | | |
| $ 7,501,299 | $ 21,488,604 | $ 37,059,985 | $ 60,903,526 | $ 17,903,338 | $ 1,854,433 | $ 327,261,331 | $ (537,912) | $ 326,723,419 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF ACTIVITIES
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Manor | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Marian Manor |
|---|---|---|---|---|---|
| UNRESTRICTED NET ASSETS REVENUES, GAINS, AND OTHER SUPPORT | | | | | |
| Net Resident Services Revenue | $ 7,104,001 | $ 3,986,891 | $ 10,730,148 | $ 19,172,298 | $ 23,044,726 |
| Other Operating Income | 163,562 | 42,431 | 135,569 | 669,238 | 13,248 |
| Net Assets Released from Restrictions | - | - | 422,163 | - | - |
| Total Unrestricted Revenues, Gains, and Other Support | 7,267,563 | 4,029,322 | 11,287,880 | 19,841,536 | 23,057,974 |
| OPERATING EXPENSES | | | | | |
| Nursing Service | 3,123,769 | 492,243 | 5,397,270 | 5,534,175 | 14,292,579 |
| General Service | 886,345 | 816,253 | 1,082,894 | 3,182,890 | 2,461,704 |
| Dietary | 932,312 | 957,683 | 975,077 | 2,706,168 | 1,992,446 |
| Administrative | 1,733,068 | 995,391 | 2,459,888 | 4,419,075 | 4,883,259 |
| Bed Tax/Assessment | 236,658 | - | 39,107 | 982,931 | 145,180 |
| Insurance | 100,941 | 59,850 | 119,380 | 814,261 | 110,360 |
| Interest | 1,801 | 214,304 | 822,268 | 1,047,308 | 163,032 |
| Bad Debts | 9,620 | - | 78,331 | 128,737 | 1,761,442 |
| Depreciation & Amortization | 358,366 | 476,984 | 1,172,657 | 1,589,440 | 462,219 |
| Total Expenses | 7,382,880 | 4,012,708 | 12,146,872 | 20,404,985 | 26,272,221 |
| GAIN (LOSS) FROM OPERATIONS | (115,317) | 16,614 | (858,992) | (563,449) | (3,214,247) |
| NONOPERATING GAINS (LOSSES) | | | | | |
| Unrestricted Contributions - Net | 109,578 | 70,414 | 47,818 | 113,331 | 114,823 |
| Investment Income | 218,615 | 149,633 | 167,948 | 567,444 | - |
| Net Realized Gains (Losses) on Investments | - | (39,543) | - | 872,773 | - |
| Impairment Loss | - | - | (1,504,603) | - | - |
| Net Loss on Disposal of Property and Equipment | - | - | - | 5,800 | - |
| Change in Fair Value of Interest Rate Swaps | - | - | 915,846 | - | - |
| Change in Health & Welfare Trust | - | - | - | - | - |
| Other Nonoperating Losses | - | 30,000 | (162,555) | - | (165,328) |
| Total Nonoperating Gains (Losses) | 328,193 | 210,504 | (535,547) | 1,559,348 | (50,505) |
| SURPLUS (DEFICIENCY) OF UNRESTRICTED REVENUES OVER EXPEN: | $ 212,876 | $ 227,118 | $ (1,394,539) | $ 995,899 | $ (3,264,752) |
| CHANGE IN UNRESTRICTED NET ASSETS | | | | | |
| Surplus (Deficiency) of Revenues Over Expenses (from previous page) | $ 212,876 | $ 227,118 | $ (1,394,539) | $ 995,899 | $ (3,264,752) |
| Change in Net Unrealized Gains on Investments | 450,318 | 386,733 | 1,231,634 | 1,822,497 | - |
| Pension Benefits Liability Adjustments | - | - | - | 51,272 | - |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | 663,194 | 613,851 | (162,905) | 2,869,668 | (3,264,752) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | | | | | |
| Contributions | - | - | 265,665 | 47,000 | - |
| Income on Temporarily Restricted Gifts | - | - | - | - | 22 |
| Temporarily Restricted Net Assets Released from Restriction | - | - | (422,163) | - | - |
| DECREASE IN TEMPORARILY RESTRICTED NET ASSETS | - | - | (156,498) | 47,000 | 22 |
| CHANGE IN PERMANENTLY RESTRICTED NET ASSETS | | | | | |
| Change in Fair Value of Beneficial Interest in Net Assets of Perpetual Trust | - | - | - | - | - |
| Income on Permanently Restricted Gifts | - | - | - | - | - |
| Permanently Restricted Net Assets Released from Restriction | - | - | - | - | - |
| INCREASE IN PERMANENTLY RESTRICTED NET ASSETS | - | - | - | - | - |
| CHANGE IN NET ASSETS | 663,194 | 613,851 | (319,403) | 2,916,668 | (3,264,730) |
| NET ASSETS - BEGINNING OF YEAR, AS RESTATED | 8,168,928 | 10,966,538 | 29,457,863 | 38,543,851 | 8,276,907 |
| NET ASSETS - END OF YEAR | $ 8,832,122 | $ 11,580,389 | $ 29,138,460 | $ 41,460,519 | $ 5,012,177 |

# THE CARMELITE SYSTEM, INC.
## AND AFFILIATES
## CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
## YEAR ENDED DECEMBER 31, 2013

| Mother Angeline McCrory Manor | Mount Carmel Care Center | St. Margaret Hall | St. Patrick's Home | St. Patrick's Manor | St. Patrick's Residence | Carmelite System | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|---|
| $ 11,977,319 | $ 1,539,916 | $ 8,854,639 | $ 25,741,007 | $ 27,616,903 | $ 14,686,497 | $ - | $ 154,454,345 | $ - | $ 154,454,345 |
| 421,132 | 2,064 | 228,423 | 292,181 | 92,204 | 270,051 | 1,628,839 | 3,958,942 | (1,005,996) | 2,952,946 |
| - | - | 9,177 | 45,095 | 68,918 | 167,118 | - | 712,471 | - | 712,471 |
| 12,398,451 | 1,541,980 | 9,092,239 | 26,078,283 | 27,778,025 | 15,123,666 | 1,628,839 | 159,125,758 | (1,005,996) | 158,119,762 |
| | | | | | | | | | |
| 5,908,777 | 737,185 | 3,962,027 | 10,705,257 | 14,703,955 | 8,085,456 | - | 72,942,693 | - | 72,942,693 |
| 1,214,203 | 123,299 | 766,698 | 3,193,656 | 2,790,218 | 1,426,386 | - | 17,944,546 | - | 17,944,546 |
| 1,278,816 | 126,611 | 904,356 | 3,251,504 | 2,357,251 | 1,300,856 | - | 16,783,080 | - | 16,783,080 |
| 2,283,342 | 400,925 | 2,482,640 | 8,038,790 | 7,501,706 | 2,705,302 | 1,762,054 | 39,665,440 | (1,005,996) | 38,659,444 |
| 638,299 | 90,577 | 426,869 | 1,342,057 | 165,966 | 506,158 | - | 4,573,802 | - | 4,573,802 |
| 167,748 | 8,154 | 126,212 | 614,608 | 256,068 | 215,788 | 28,306 | 2,621,676 | - | 2,621,676 |
| 730,347 | 80 | - | 280,386 | 138,990 | 10,820 | - | 3,409,336 | - | 3,409,336 |
| - | 7,699 | 64,815 | 660,881 | 664,700 | 50,175 | - | 3,426,400 | - | 3,426,400 |
| 719,170 | 81,732 | 212,903 | 1,502,087 | 876,181 | 558,995 | 15,301 | 8,026,035 | - | 8,026,035 |
| 12,940,702 | 1,576,262 | 8,946,520 | 29,589,226 | 29,455,035 | 14,859,936 | 1,805,661 | 169,393,008 | (1,005,996) | 168,387,012 |
| | | | | | | | | | |
| (542,251) | (34,282) | 145,719 | (3,510,943) | (1,677,010) | 263,730 | (176,822) | (10,267,250) | - | (10,267,250) |
| | | | | | | | | | |
| 152,092 | 4,652 | 71,572 | 256,194 | 325,316 | 131,305 | - | 1,397,095 | - | 1,397,095 |
| 108,049 | - | 289,038 | 25,957 | 894,682 | 162,741 | 7,985 | 2,592,092 | - | 2,592,092 |
| - | - | 950,203 | - | (110,160) | 269,840 | - | 1,943,113 | - | 1,943,113 |
| - | - | - | - | - | - | - | (1,504,603) | - | (1,504,603) |
| - | - | (123,843) | - | - | - | - | (118,043) | - | (118,043) |
| 1,482,348 | - | - | - | - | - | - | 2,398,193 | - | 2,398,193 |
| - | - | - | - | - | - | 843,260 | 843,260 | - | 843,260 |
| 71,986 | - | - | - | - | - | - | (225,897) | - | (225,897) |
| 1,814,475 | 4,652 | 1,186,970 | 282,151 | 1,109,838 | 563,886 | 851,245 | 7,325,210 | - | 7,325,210 |
| | | | | | | | | | |
| $ 1,272,224 | $ (29,630) | $ 1,332,689 | $ (3,228,792) | $ (567,172) | $ 827,616 | $ 674,423 | $ (2,942,040) | $ - | $ (2,942,040) |
| | | | | | | | | | |
| $ 1,272,224 | $ (29,630) | $ 1,332,689 | $ (3,228,792) | $ (567,172) | $ 827,616 | $ 674,423 | $ (2,942,040) | $ - | $ (2,942,040) |
| 474,882 | - | 856,436 | - | 2,494,866 | 217,668 | - | 7,935,034 | - | 7,935,034 |
| - | - | - | 1,833,927 | - | - | - | 1,885,199 | - | 1,885,199 |
| 1,747,106 | (29,630) | 2,189,125 | (1,394,865) | 1,927,694 | 1,045,284 | 674,423 | 6,878,193 | - | 6,878,193 |
| | | | | | | | | | |
| - | - | 102,388 | - | - | 148,899 | - | 563,952 | - | 563,952 |
| - | - | 24,808 | - | 11,707 | - | - | 36,537 | - | 36,537 |
| - | - | (9,177) | (45,095) | (2,377) | (167,118) | - | (645,930) | - | (645,930) |
| - | - | 118,019 | (45,095) | 9,330 | (18,219) | - | (45,441) | - | (45,441) |
| | | | | | | | | | |
| - | - | - | - | 351,325 | - | - | 351,325 | - | 351,325 |
| 1,987 | - | - | - | - | - | - | 1,987 | - | 1,987 |
| - | - | - | - | (66,541) | - | - | (66,541) | - | (66,541) |
| 1,987 | - | - | - | 284,784 | - | - | 286,771 | - | 286,771 |
| | | | | | | | | | |
| 1,749,093 | (29,630) | 2,307,144 | (1,439,960) | 2,221,808 | 1,027,065 | 674,423 | 7,119,523 | - | 7,119,523 |
| | | | | | | | | | |
| 3,834,525 | - | 18,097,414 | 23,505,633 | 51,402,638 | 15,359,572 | (476,157) | 207,137,712 | - | 207,137,712 |
| | | | | | | | | | |
| $ 5,583,618 | $ (29,630) | $ 20,404,558 | $ 22,065,673 | $ 53,624,446 | $ 16,386,637 | $ 198,266 | $ 214,257,235 | $ - | $ 214,257,235 |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF CASH FLOWS
# YEAR ENDED DECEMBER 31, 2013

| | Carmel Manor | Carmel Terrace | Kahl Home | Lourdes Noreen McKeen | Marian Manor |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Change in Net Assets | $ 663,194 | $ 613,851 | $ (319,403) | $ 2,916,668 | $ (3,264,730) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation and Amortization Expense | 358,366 | 476,984 | 1,172,657 | 1,589,440 | 462,219 |
| Change in Fair Value of Beneficial Interest in Perpetual Trusts | - | - | - | - | - |
| Increase (Decrease) in Fair Value on Interest Rate Swaps | - | - | (915,845) | - | - |
| Loss on Disposal of Land, Buildings, and Equipment | - | - | - | (5,800) | - |
| Change in Health & Welfare Trust Liability | - | - | - | - | - |
| Impairment Loss | - | - | 1,504,603 | - | - |
| Net Realized and Unrealized Investment Gain (Loss) | (517,479) | (347,190) | (1,231,634) | (3,262,714) | - |
| Decrease in Pension Liability | - | - | - | - | - |
| Provision for Bad Debts | 9,620 | - | 66,000 | 128,737 | 1,761,442 |
| Restricted Contributions | - | - | (265,665) | - | - |
| (Increase) Decrease in Assets: | | | | | |
| Residents Accounts Receivable | (90,829) | 11,873 | (281,338) | (275,766) | 80,390 |
| Due from Related Party | - | (68,560) | - | - | - |
| Other Current Assets | 7,279 | 601 | 225,600 | (177,614) | (58,714) |
| Increase (Decrease) in Liabilities: | | | | | |
| Accounts Payable | 308,862 | 55,395 | 37,719 | 23,070 | 51,376 |
| Accrued Expenses | (71,986) | (17,018) | - | 80,631 | 52,368 |
| Due to Related Party | - | (90,350) | (14,937) | - | 137,120 |
| Deferred Revenue | - | - | - | - | - |
| Other Current Liabilities | (20,275) | (17,649) | 2,957 | 25,459 | - |
| CASH PROVIDED BY (USED FOR ) OPERATING ACTIVITIES | 646,752 | 617,937 | (19,286) | 1,042,111 | (778,529) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from Sales and Maturities of Investments | 1,121,539 | 1,833,340 | 5,055,557 | 25,986,461 | 136 |
| Purchase of Investments | (1,171,578) | (1,981,024) | (4,116,874) | (25,018,017) | - |
| Purchase of Land, Buildings, and Equipment | (600,993) | (319,468) | (304,159) | (2,096,433) | (421,685) |
| Proceeds from Loans Receivable | - | - | - | - | - |
| Assets Limited as to Use Fund Transfers | - | - | - | - | - |
| Proceeds from Beneficial Interest Distribution | - | - | - | - | - |
| Decrease in Other Assets | - | - | - | 158,296 | - |
| CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (651,032) | (467,152) | 634,524 | (969,693) | (421,549) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from Issuance of Long Term Debt | - | - | - | - | - |
| Contributions Received - Restricted | - | - | 265,665 | - | - |
| Principal Payments on Long Term Debt | (209,123) | (178,149) | (450,000) | (945,240) | - |
| Increase in Other Liabilities | - | - | - | - | - |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | (209,123) | (178,149) | (184,335) | (945,240) | - |
| **NET CHANGE IN CASH** | (213,403) | (27,364) | 430,903 | (872,822) | (1,200,078) |
| **CASH AND EQUIVALENTS AT BEGINNING OF YEAR** | 440,219 | 580,723 | 863,564 | 2,020,011 | 1,852,939 |
| **CASH AND EQUIVALENTS AT END OF YEAR** | $ 226,816 | $ 553,359 | $ 1,294,467 | $ 1,147,189 | $ 652,861 |
| **SUPPLEMENTAL INFORMATION** | | | | | |
| Cash Paid for Interest | $ - | $ 215,190 | $ 790,024 | $ 626,080 | $ - |
| **NON-CASH FINANCING ACTIVITIES** | | | | | |
| Additions to Property and Equipment | $ 600,993 | $ 319,468 | $ 304,159 | $ 2,096,433 | $ 421,685 |
| Less: Long Term Debt Obligations Thereon | - | - | - | - | - |
| Cash Paid For Property and Equipment | $ 600,993 | $ 319,468 | $ 304,159 | $ 2,096,433 | $ 421,685 |
| Long Term Debt Incurred | $ - | $ - | $ - | $ - | $ - |
| Less: Property and Equipment Acquired via Long Term Debt | - | - | - | - | - |
| Proceeds From Long Term Debt | $ - | $ - | $ - | $ - | $ - |

# THE CARMELITE SYSTEM, INC.
# AND AFFILIATES
# CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)
# YEAR ENDED DECEMBER 31, 2013

| | Mother Angeline McCrory Manor | Mount Carmel Care Center | St. Margaret Hall | St. Patrick's Home | St. Patrick's Manor | St. Patrick's Residence | Carmelite System | Consolidated Totals Prior to Eliminations | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ 1,749,093 | $ (29,630) | $ 2,307,144 | $ (1,439,960) | $ 2,221,808 | $ 1,027,065 | $ 674,423 | $ 7,119,523 | $ - | $ 7,119,523 |
| | 719,170 | 81,732 | 212,903 | 1,502,087 | 876,181 | 558,995 | 15,301 | 8,026,035 | - | 8,026,035 |
| | - | - | - | - | (351,325) | - | - | (351,325) | - | (351,325) |
| | (1,482,348) | - | - | - | - | - | - | (2,398,193) | - | (2,398,193) |
| | - | - | 123,843 | - | - | - | - | 118,043 | - | 118,043 |
| | - | - | - | - | - | - | (843,260) | (843,260) | 650,000 | (193,260) |
| | - | - | - | - | - | - | - | 1,504,603 | - | 1,504,603 |
| | (476,869) | - | (1,806,639) | - | (2,384,706) | (487,508) | - | (10,514,739) | - | (10,514,739) |
| | - | - | - | (1,833,927) | - | - | - | (1,833,927) | - | (1,833,927) |
| | - | 7,699 | 64,815 | 660,881 | 664,700 | 50,175 | - | 3,414,069 | - | 3,414,069 |
| | - | - | - | - | - | - | - | (265,665) | - | (265,665) |
| | 7,798 | (1,123,025) | 198,103 | (928,050) | (353,803) | 356,566 | - | (2,398,081) | - | (2,398,081) |
| | - | - | - | - | 38,926 | - | - | (29,634) | - | (29,634) |
| | (122,975) | (72,701) | 51,052 | 48,302 | (296,252) | 64,071 | (30,695) | (362,046) | - | (362,046) |
| | (57,759) | 294,513 | (18,343) | (364,897) | (261,589) | (72,758) | - | (4,411) | - | (4,411) |
| | (419,952) | 242,267 | (39,209) | 144,072 | 266,659 | (35,777) | 9,689 | 211,744 | - | 211,744 |
| | - | - | - | - | - | - | 124,367 | 156,200 | - | 156,200 |
| | - | 52,203 | - | - | - | - | - | 52,203 | - | 52,203 |
| | 165,406 | 22,347 | (30,810) | (618,328) | 44,301 | (17,668) | 6,897 | (437,363) | - | (437,363) |
| | 81,564 | (524,595) | 1,062,859 | (2,829,820) | 464,900 | 1,443,161 | (43,278) | 1,163,776 | 650,000 | 1,813,776 |
| | - | - | 9,233,049 | - | 13,370,963 | - | - | 56,601,045 | - | 56,601,045 |
| | (94,411) | - | (8,676,819) | - | (12,510,356) | (519,875) | - | (54,088,954) | - | (54,088,954) |
| | (103,555) | (41,088) | (621,631) | (863,481) | (1,064,770) | (185,840) | (5,838) | (6,628,941) | - | (6,628,941) |
| | - | - | - | - | - | - | 650,000 | 650,000 | (650,000) | - |
| | - | - | - | 3,989,876 | - | - | 225,982 | 4,215,858 | - | 4,215,858 |
| | - | - | - | - | 66,822 | - | - | 66,822 | - | 66,822 |
| | - | (3,119) | - | - | - | - | (214,167) | (58,990) | - | (58,990) |
| | (197,966) | (44,207) | (65,401) | 3,126,395 | (137,341) | (705,715) | 655,977 | 756,840 | (650,000) | 106,840 |
| | - | 1,000,000 | - | - | - | - | - | 1,000,000 | - | 1,000,000 |
| | - | - | - | - | - | - | - | 265,665 | - | 265,665 |
| | (438,725) | - | - | (1,424,759) | (107,141) | (636,319) | (107,870) | (4,497,326) | - | (4,497,326) |
| | - | - | - | - | - | - | (242,805) | (242,805) | - | (242,805) |
| | (438,725) | 1,000,000 | - | (1,424,759) | (107,141) | (636,319) | (350,675) | (3,474,466) | - | (3,474,466) |
| | (555,127) | 431,198 | 997,458 | (1,128,184) | 220,418 | 101,127 | 262,024 | (1,553,850) | - | (1,553,850) |
| | 3,377,248 | - | 307,502 | 1,540,996 | 4,277,317 | 553,183 | 897,632 | 16,711,334 | - | 16,711,334 |
| | $ 2,822,121 | $ 431,198 | $ 1,304,960 | $ 412,812 | $ 4,497,735 | $ 654,310 | $ 1,159,656 | $ 15,157,484 | $ - | $ 15,157,484 |
| | $ 713,718 | $ - | $ - | $ 280,386 | $ 139,234 | $ 17,761 | $ - | $ 2,782,393 | $ - | $ 2,782,393 |
| | $ 103,555 | $ 5,960,687 | $ 621,631 | $ 863,481 | $ 1,064,770 | $ 185,840 | $ 5,838 | $ 12,548,540 | $ - | $ 12,548,540 |
| | - | (5,919,599) | - | - | - | - | - | (5,919,599) | - | (5,919,599) |
| | $ 103,555 | $ 41,088 | $ 621,631 | $ 863,481 | $ 1,064,770 | $ 185,840 | $ 5,838 | $ 6,628,941 | $ - | $ 6,628,941 |
| | $ - | $ 6,919,599 | $ - | $ - | $ - | $ - | $ - | $ 6,919,599 | $ - | $ 6,919,599 |
| | - | (5,919,599) | - | - | - | - | - | (5,919,599) | - | (5,919,599) |
| | $ - | $ 1,000,000 | $ - | $ - | $ - | $ - | $ - | $ 1,000,000 | $ - | $ 1,000,000 |

*Distribution List*

**_Palm Beach County/Lourdes Noreen McKeen_**
*Series 2014 Bank Direct Purchase Financing*
*As of July 8, 2014*

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***Palm Beach County/Lourdes Noreen McKeen***
*Series 2014 Bank Direct Purchase Financing*
*As of July 8, 2014*

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**COMPANY PROFILE**
as submitted by
ICE MILLER LLP

Ice Miller LLP is a law partnership with 289 attorneys. The Firm has been approving bond issues since its founding in 1910 (one of the oldest Midwestern bond counsel firms) and is a national leader in the bond counsel practice. Ice Miller is frequently ranked in the top fifteen law firms in total number of long term bond issues approved among bond counsel firms nationwide according to national statistics. The Firm is consistently among the national bond counsel leaders in number and volume of infrastructure, tax increment and economic development, school, hospital and university financings. The Firm's Municipal Finance Section, consisting of 31 professionals, works with

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hundreds of cities, counties, towns and other local government units, ranging from the largest to the smallest, on municipal finance matters as their bond counsel. Members of the Firm are nationally recognized in the bond counsel community and have served as Founding Fellows, Officers, and on the Board of Directors of the American College of Bond Counsel. Ice Miller attorneys have also served, or serve, on the Board of Directors of the National Association of Bond Lawyers' and the Indiana Municipal Lawyers' Association (Founding Director); on the National Association of Bond Lawyers' Nominating Committee; on the National Bond Attorneys' Workshop Steering Committee and panels; as Chairman of the National Association of Bond Lawyers' Fundamentals of Municipal Law Seminar; Chairman of the National Association of Bond Lawyers' Washington, D.C. Seminar; Chairman of the National Association of Bond Lawyers' Committee on Professional Responsibility; and as faculty on dozens of national and local seminars or task forces and study commissions that address public infrastructure, redevelopment and economic development finance.

Ice Miller also has a full service practice relating to the federal tax aspects of municipal bonds. Ice Miller has significant expertise in providing post issuance compliance services for issuers and conduit borrowers and tax controversy representation relating to IRS bond audits and Voluntary Closing Agreements. See our listings in the Arbitrage Rebate section in Chicago, Illinois and Indianapolis, Indiana.

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**ADMITTED IN ILLINOIS ONLY

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**Department of Economic Sustainability**

**Business & Housing Investments**

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West Palm Beach, FL 33406

(561) 233-3660

FAX: (561) 656-7553

www.pbcgov.com/pubinf/hcd




# INTEROFFICE MEMORANDUM

**TO:** Paul King
Assistant County Attorney

**FROM:** Sherry Howard SH
Deputy Director, Department of Economic Sustainability

**DATE:** August 21, 2014

**RE:** Industrial Development Bond Application
Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

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The Palm Beach County Department of Economic Sustainability (DES) has reviewed the Industrial Development Bond Application (specifically for a 501(c)(3) bond) submitted by Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. ("The Borrower") to be used for refinancing series 2002 Bonds as previously issued by Palm Beach County.

The Application requests that Palm Beach County issue $19,500,000 in Industrial Development Bonds (IDB). The proceeds from the bond sales will be used to pay down the 2002 bonds

## Economic Analysis

The Application states that when the project is completed, The Borrower will continue to employ a minimum of 250 employees and maintain revenues at a consistent level as done for the past three years. DES conducted a Regional Economic Models Inc. (REMI) analysis showing the following economic impact for the project, which reflects direct and indirect jobs as well as GDP, representing both compensation and profits.

REMI results indicate there is a positive economic impact of $92.1 M over the two years of construction and resulting in the employment of 341 full-time equivalents (combined direct and indirect employees). There is no impact on taxes as the Applicant qualifies as a non-profit organization.

## Financial Overview

- Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. was formed in October 1962 as a non-profit corporation and has been serving the geriatric community ever since.

ATTACHMENT 2

## Summary of Financial Statement for the Period Ended December 31, 2013

- The consolidated financial statements are prepared on the accrual basis of accounting and are deemed sufficient by the audit firm, "Clifton Larson Allen LLP." who state that audit evidence obtained is sufficient and appropriate to provide a basis for their audit opinion. Per the audit opinion offered, the financial statements fairly present the financial position of Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

- For the period ending December 31, 2013, The Borrower had an increase in net assets of approximately $10 M. The change is primarily attributable to increases in Excess of Revenues (including unrestricted contributions and investment income) as well as Return on Investments,

## Contributions of Project to Palm Beach County

Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. has been in operation since 1962 and currently has 132 beds for skilled nursing services and short term rehabilitation; 69 independent living apartments and 34 assisted living apartments. The Borrower operates in downtown West Palm Beach.

## Recommendation

Based on the review of the initial Application, updated financial statements, retained/created jobs, and the County's limited obligation, the Department of Economic Sustainability supports the application by Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.

cc: Shannon LaRocque-Baas, P.E.
Assistant County Administrator

## BOARD OF COUNTY COMMISSIONERS OF PALM BEACH COUNTY, FLORIDA
## NOTICE OF PUBLIC HEARING

The Board of County Commissioners (the "Commission") of Palm Beach County, Florida (the "County") will hold a public hearing on Tuesday, September 9, 2014 at 9:30 A.M., or as soon thereafter as practicable, at 301 N. Olive Ave., West Palm Beach, Florida, 33401 on the proposed issuance by the County of its industrial revenue bonds (the "Bonds") in a principal amount not to exceed $19,500,000 in one or more series of bonds. The proceeds of the Bonds will be loaned by the County to Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. (the "Borrower"). The Borrower will use the proceeds of the Bonds, together with other available funds of the Borrower to (A) refund the County's Senior Health and Housing Facilities Revenue Refunding Bonds, Series 2002 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc.) (the "Refunded Bonds"); and (B) pay costs associated with the issuance of the Bonds. The proceeds of the Refunded Bonds were used to refund the County's Industrial Development Bonds, Series 1996 (Lourdes-Noreen McKeen Residence for Geriatric Care, Inc. Project), the proceeds of which were used to provide funds to the Borrower to acquire, construct and equip a nursing home/assisted/independent living facility (the "Project") owned and operated by the Borrower and located at 311 South Flagler Drive, West Palm Beach, Florida.

The aforementioned meeting shall be a public meeting and all persons who may be interested will be given an opportunity to be heard concerning the same. Written comments may also be submitted prior to the hearing to the County Administrator, 11th Floor, 301 North Olive Avenue, West Palm Beach, Florida 33401 prior to the hearing. Written comments should be received by the County on or before 5:00 p.m. September 8, 2014.

ALL PERSONS FOR OR AGAINST SAID APPROVAL CAN BE HEARD AT SAID TIME AND PLACE. IF A PERSON DECIDES TO APPEAL ANY DECISION MADE BY THE COMMISSION WITH RESPECT TO SUCH HEARING OR MEETING (S)HE WILL NEED TO ENSURE THAT A VERBATIM RECORD OF SUCH HEARING OR MEETING IS MADE WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS BASED.

In accordance with the Americans with Disabilities Act, persons needing a special accommodation to participate in this proceeding should contact the County no later than seven (7) days prior to the proceeding at the address given in this notice or by telephone at (561) 233-3619.

ATTACHMENT 3