Laurel Lake Retirement Community Foundation, Inc. and Subsidiary

YEAR ENDED DECEMBER 31, 2014

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CPAs & Advisors

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

CONTENTS

Independent Auditors' Report

The Board of Directors
Laurel Lake Retirement Community Foundation, Inc. and Subsidiary
Hudson, Ohio

We have audited the accompanying consolidated financial statements of Laurel Lake Retirement Community Foundation, Inc. and Subsidiary which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statement

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 the 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 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 Laurel Lake Retirement Community Foundation, Inc. and Subsidiary as of December 31, 2014, 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.

HW&Co.

Cleveland, Ohio
April 1, 2015

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2014

ASSETS

Current assets:		
Cash and cash equivalents	$	16,067,185
Accounts receivable, trade, net of allowance for doubtful accounts of $10,000		670,543
Accounts receivable, other		2,647
Entrance fees receivable		966,746
Prepaid expenses and other		303,478
Total current assets		18,010,599
Property and equipment:		
Land and improvements		4,941,592
Buildings and improvements		59,325,255
Equipment		1,473,403
Furniture and fixtures		1,720,223
Construction-in-progress		68,828
		67,529,301
Less accumulated depreciation		3,018,539
		64,510,762
Other assets:		
Assets limited as to use		3,662,492
Investments:		
Available-for-sale securities		4,938,529
Other		18,842
Deferred costs and intangibles:		
Financing, net		939,827
Operating rights to licensed beds		1,500,000
Other		247,872
		11,307,562
	$	**93,828,923**

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable, trade	$ 658,232
Accrued expenses:	
Salaries, wages and related liabilities	527,538
Compensated absences	268,166
Real estate taxes	351,074
Interest	236,485
Other	401,438
Current portion of refundable entrance fee liability	467,934
Current portion of long-term debt	1,389,583
Total current liabilities	4,300,450
Long-term liabilities:	
Security deposits	573,862
Long-term debt, net of current portion	47,605,344
Refundable entrance fee liability, net of current portion	3,091,775
Accrued real estate taxes, net of current portion	269,471
Gift annuities payable	602,003
Deferred revenue, entrance fees	30,212,546
Total liabilities	86,655,451
Net assets:	
Unrestricted	6,310,648
Temporarily restricted	674,443
Permanently restricted	188,381
Total net assets	7,173,472
	$ 93,828,923

See notes to consolidated financial statement.

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2014

Revenue and other support:	
Resident services:	
Service fees	$ 14,014,844
Amortization of deferred revenue	5,741,297
Nursing services and other	4,150,216
Investment income, net	179,676
Contributions	929,238
Total revenue and other support	25,015,271
Expenses:	
Salaries and wages	7,854,408
Employee benefits	2,692,223
Total employment expenses	10,546,631
Purchased services	2,478,556
Supplies	1,853,333
Utilities	1,424,191
Rent	21,663
Insurance	291,512
Interest	2,057,680
Depreciation and amortization	3,057,698
Other	925,357
Foundation expenses:	
Program	106,879
Operating	200,343
Total expenses	22,963,843
Excess of revenue and other support over expenses	2,051,428
Other changes in unrestricted net assets:	
Contributions of property and equipment	230,795
Net assets released from restriction for capital expenditures	284,841
Unrealized losses on investments, net	(146,112)
Reclassifications from temporarily restricted net assets (Note 1)	3,756,541
Increase in unrestricted net assets	6,177,493
Temporarily restricted net assets:	
Contributions	398,993
Unrealized losses on investments, net	(405,583)
Investment income, net	515,542
Net assets released from restrictions for capital expenditures	(284,841)
Reclassifications to unrestricted net assets (Note 1)	(3,756,541)
Decrease in temporarily restricted net assets	(3,532,430)
Permanently restricted net assets:	
Contributions	1,500
Increase in permanently restricted net assets	1,500
Increase in net assets	2,646,563
Net assets, beginning of year	4,526,909
Net assets, end of year	**$ 7,173,472**

See notes to consolidated financial statements.

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities:	
Increase in net assets	$ 2,646,563
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Unrealized losses on investments, net	(551,695)
Realized gains on investments, net	573,764
Depreciation and amortization	3,057,698
Amortization of bond discounts	3,320
Amortization of deferred revenue, entrance fees	(5,741,297)
Bad debt expense	28,741
Entrance fees received	8,300,766
Contributions restricted for long-lived assets and permanently restricted contributions	(232,295)
Changes in assets and liabilities:	
Decrease in accounts receivable and other assets	2,282,454
Increase in accounts payable and other current liabilities	1,145,750
Net cash provided by operating activities	11,513,769
Cash flows from investing activities:	
Expenditures for property and equipment	(1,526,660)
Proceeds from sale of investments	13,526,182
Purchase of investments	(13,207,171)
Net cash used in investing activities	(1,207,649)
Cash flows from financing activities:	
Change in gift annuities payable, net	(14,818)
Contributions received restricted for long-lived assets and permanently restricted contributions	232,295
Refunds of refundable fees	(467,934)
Increase in deferred financing costs	(78,245)
Payments on long-term debt	(1,100,417)
Net cash used in financing activities	(1,429,119)
Net increase in cash and cash equivalents	8,877,001
Cash and cash equivalents, beginning of year	7,190,184
Cash and cash equivalents, end of year	**$ 16,067,185**

See notes to consolidated financial statements.

1. Summary of significant accounting policies:

Description of organization and basis of consolidation:

The accompanying consolidated financial statements include the accounts of Laurel Lake Retirement Community Foundation, Inc. (the Foundation) and Laurel Lake Retirement Community, Inc. (the Community) (collectively, referred to as Laurel Lake). The Foundation is a not-for-profit foundation established to solicit donations for the benefit of Laurel Lake Retirement Community, Inc. The Community's sole member is Laurel Lake Retirement Community Foundation, Inc. All significant intercompany transactions have been eliminated in consolidation.

Laurel Lake, located in Hudson, Ohio, is a continuing care retirement community consisting of 293 residential units, 59 assisted living units and 75 licensed nursing beds. The Community operates under the "life care" concept in which residents enter into an occupancy agreement, which requires payment of a one-time entrance fee and a subsequent monthly service fee. Generally, these payments entitle residents to the use and privileges of the Community for life including certain nursing services provided in Laurel Lake's skilled nursing facility. The occupancy agreement does not entitle the residents to an interest in the real estate or other property owned by the Community.

The Community's sole member until December 30, 2013 was Catholic Health Partners (CHP), an integrated acute and long-term care health system headquartered in Cincinnati, Ohio.

On December 30, 2013, CHP donated 100% of its membership interest in the Foundation to the Foundation's Board of Directors. The Foundation then, on December 30, 2013, acquired a 100% membership interest in the Community from CHP (see Note 10). As a result, the Community was a wholly-owned subsidiary of the Foundation. Effective February 24, 2015, a Member Substitution agreement was executed between Laurel Lake Retirement Community Foundation, Inc. and Laurel Lake Retirement Community, Inc. As a result, Laurel Lake Retirement Community, Inc. became the sole member of Laurel Lake Retirement Community Foundation, Inc.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

At December 31, 2014, Laurel Lake maintained balances in various accounts in excess of federally insured limits. Laurel Lake does not expect to incur any losses resulting from cash held in financial institutions.

1. Summary of significant accounting policies (continued):

Assets limited as to use:

Assets limited as to use include assets held by the bond trustee under the terms of certain debt agreements (Notes 2 and 5).

Nursing services revenue and accounts receivable:

The Community receives a significant portion of its nursing service revenue from the Medicare program. Government payment systems and related funding for nursing facilities are subject to periodic review and modification by governmental payors. Changes in government payment systems and the effects are uncertain, and therefore such changes could have a material impact on the Community's future financial condition, results of operations and cash flows. The approximate Medicare revenue as a percentage of total nursing service revenue was 30% in 2014.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates under an acuity-based classification system. Rates are adjusted annually by the Center for Medicare Services on October 1, in conjunction with the beginning of the Federal fiscal year. Federal rates are subject to a county-specific wage adjustment based on the relative hospital wage level of the geographic area of the facility compared to the national average hospital wage level.

Collection of accounts receivable in the ordinary course of business is dependent on the Medicare program's ability to make timely payments to health care providers. Amounts included in accounts receivable, net of credit balances, with the program totaled $222,918 at December 31, 2014.

In evaluating the collectibility of accounts receivable and determination of an estimated allowance for doubtful accounts, the Community considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of accounts by payor type and general industry conditions. Amounts considered uncollectable are written off against the allowance for doubtful accounts.

Laws and regulations governing the Medicare program are complex and subject to interpretation. Potential noncompliance with laws and regulations can be subject to future government review and interpretation as well as regulatory action. The Community believes that it is in compliance with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of noncompliance.

Property and equipment:

Property and equipment acquired with the membership interest (Note 10) was allocated based on the fair market value at the date of acquisition. Additions to property and equipment are recorded at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation (straight-line method) is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives.

1. Summary of significant accounting policies (continued):

Investments:

Investments in equity securities that have readily determinable fair value are measured at fair value.

Laurel Lake invests in various investment securities. Investment securities 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 and that such changes could have a material effect on the consolidated statement of financial position, statement of activities and changes in net assets and cash flows.

Endowments and board-designated net assets:

Laurel Lake's endowment consists of several individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated funds are primarily intended to support various current and future programs, however board-designated funds, including principal, are expendable for any purpose, at any time, as may be deemed appropriate and as approved by the Board of Directors, and as such, are not considered to be an endowment by management and are included with unrestricted net assets. Primarily all investments held in the Foundation are board-designated funds.

Interpretation of relevant law:

Laurel Lake has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Laurel Lake classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Laurel Lake considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Laurel Lake and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Laurel Lake
- The investment policies of Laurel Lake

1. Summary of significant accounting policies (continued):

Interpretation of relevant law (continued):

Laurel Lake's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Laurel Lake must hold in perpetuity. In order to satisfy its long-term rate-of-return objectives, Laurel Lake relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Laurel Lake targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Since the donor has not restricted the use of investment income (interest and dividend, realized and unrealized gains and losses) on the donor-restricted endowment funds, Laurel Lake has the ability to utilize those earnings for its operations. At December 31, 2014, the investment income has been reclassed as temporarily restricted and will be released from restriction upon need for expenditure and a board resolution. In establishing this policy, Laurel Lake considered the long-term expected return on its endowment. This is consistent with Laurel Lake's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts.

Operating rights to licensed beds:

Intangible assets with indefinite useful lives are not to be amortized, but management is required to determine if the intangible asset has been impaired. Management of Laurel Lake has determined that operating rights to licensed beds are an intangible asset with an indefinite useful life. Laurel Lake has the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Laurel Lake electing to perform a qualitative assessment is not required to calculate the fair value of an indefinite-lived intangible asset (and perform the quantitative impairment test) unless Laurel Lake determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired. Management of Laurel Lake has determined that the carrying value of the operating rights to licensed beds has not been impaired.

Deferred financing costs:

Deferred financing costs represent costs incurred in obtaining financing related to the term loan obligations. These costs are amortized on a straight-line basis over the term of the related debt. Accumulated amortization totaled $39,160 at December 31, 2014.

Entrance fee deposits and receivables:

Entrance fee deposits represent amounts paid by prospective residents who have signed a residence agreement to reserve a specific living unit or to reserve a place on the waiting list for available units. Generally, a deposit of at least 10% of the entrance fee is collected when the residence agreement is signed. The balance of the fee is payable on or before the date the resident moves in, or otherwise establishes residency. Prospective residents may cancel their residence agreements at any time prior to occupancy and receive a full refund of the entrance fee deposit, less an application fee of $1,000 under certain circumstances.

1. Summary of significant accounting policies (continued):

Entrance fee deposits and receivables (continued):

The Community enters into promissory notes recorded as entrance fee receivables on the consolidated statement of financial position, with certain new residents who sign resident contracts. Interest accrues at 4% per annum. Principal plus accrued interest is receivable by the Community in one installment when certain conditions are met. The Community believes these notes are fully collectible. Therefore, there is no allowance for uncollectible amounts at December 31, 2014.

Deferred revenue and refundable entrance fees:

In accordance with Accounting Standards Update ("ASU") No. 2012-01, Continuing Care Retirement Communities-Refundable Advance Fees (Subtopic 954-430), Health Care Entities-Deferred Revenue, an organization recognizes a deferral of revenue when a contract between the Community and a resident stipulates that (1) a portion of the advance fee is refundable if the contract holder's unit is reoccupied by a subsequent resident, (2) the refund is limited to the proceeds of reoccupancy, and (3) the legal environment and the entity's management policy and practice supports the withholding of refunds under condition (2). Consequently, refundable advanced fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of the reoccupancy, are accounted for and reported as a liability. The Community's refundable advanced fees are refundable from reoccupancy; however they are not limited to the proceeds of the reoccupancy. Therefore, in accordance with the ASU, the Community records the refundable advance fees as a liability.

The Community offers three types of resident contracts (Plan A, Plan B and Plan C) with regard to the one-time entrance fee paid in addition to the monthly service fees. Under Plan A agreements, residents or their estates receive a refund equal to their entrance fee less a 10% cancellation fee and less 1.5% of their entrance fees for each month of residency. If the resident leaves within five years or expires within one year of establishing residency, the Community's responsibility is deemed fulfilled and no refund is given. Plan A entrance fees are recorded as deferred revenue in the consolidated statement of financial position, which is being amortized over the estimated remaining life expectancy of each resident.

Under Plan B agreements, 94% of a resident's entrance fee is refundable upon reoccupancy of the unit (including receipt of the entrance fee from the new occupant). The refundable portion of Plan B entrance fees (94% of the fee) is not amortized. The nonrefundable portion of Plan B entrance fees (6% of the fee) is amortized over the estimated life expectancy of each resident.

Under Plan C agreements, residents or their estates receive a refund upon reoccupancy of the unit (including receipt of the entrance fee from the new occupant). The refund is equal to their entrance fee less the sum of: a) 10% of the entrance fee paid and b) 1.5% of the entrance fee paid for each month of residency up to a maximum amount of 40% of the entrance fee. The refundable portion of Plan C entrance fees (50% of the fee) is not amortized. The nonrefundable portion of Plan C entrance fees (remaining 50% of fee) is amortized over the estimated life expectancy of each resident.

Entrance fees received in advance of residency and deposits are accounted for and reported as liabilities on the consolidated statement of financial position. The Community includes a portion of refundable entrance fee liability as current based on historical amounts paid within 12 months of year end.

1. Summary of significant accounting policies (continued):

Beneficial interest in charitable remainder trusts:

The Foundation has irrevocable rights to receive a portion of the specified cash flows from certain charitable remainder trusts. The recorded value of the trusts, included in other long-term assets on the consolidated statement of financial position, is based on the fair value of the Foundation's interest in the trusts as reported by the trustees. Due to the time and other restrictions of the Foundation's access to the assets held in these trusts, the Foundation's interests in the charitable remainder trusts are recorded as temporarily restricted net assets. Adjustments to the carrying value of the trust assets are recognized as increases or decreases in temporarily restricted contributions (as unrealized gains/losses on investments) in the consolidated statement of activities and changes in net assets.

Gift annuities:

The Foundation receives assets from donors under gift annuity agreements designating the Foundation as the trustee and charitable remainder beneficiary of these assets. The terms of the trust agreements require that the Foundation, as trustee, invest the assets and pay an annuity to the annuitant, the donor or a specified beneficiary over the remainder of the annuitants' or specified beneficiary's life. Upon the death of the named individual, the Foundation may use its remainder interest for any purpose consistent with its mission.

The Foundation has recorded the donated assets in the consolidated financial statements as investments and recorded a liability for the actuarial present value of the future annuity payments to reflect the time value of money (through discounts for interest). The discount rate used to compute the liability in 2014 was 6%. These rates are commensurate with the risk associated with the ultimate payment of the obligation. The Foundation records a contribution to temporarily restricted net assets for the difference between the assets received and the recorded liability for future annuity payments.

Net assets:

Temporarily restricted net assets are those whose use by Laurel Lake has been limited by donors to a specific time period or purpose from resources on which donors place no restriction or that arise as a result of the operations of Laurel Lake for its stated purposes. Earnings on investments of temporarily restricted net assets are added to temporarily restricted net assets. Restricted contributions, which are primarily related to the Foundation, are recorded as additions to temporarily restricted net assets. During 2014, Laurel Lake reclassified board-designated amounts previously included with temporarily restricted net assets totaling $3,756,541 to unrestricted net assets.

Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. Included within permanently restricted net assets are proceeds from gifts related to the Veraar Campus Endowment Fund. This fund utilizes investment income for maintenance of memorial and honorarium plantings on the Community campus.

1. Summary of significant accounting policies (continued):

Excess of revenue and other support over expenses:

The consolidated statement of activities and changes in net assets include a "performance indicator," excess of revenue and other support over expenses. Changes, if any, in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including contributions with donor restrictions used for the purpose of acquiring long-lived assets) and changes in net unrealized gains or losses on investments.

Obligation to provide future services and the use of facilities to current residents:

The Community annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future service obligations (FSO) and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with a corresponding charge to expense. As of December 31, 2014, no such liability was determined to be required. The discount rate used to estimate the FSO was 6% in 2014.

2. Assets limited as to use:

The following is a summary of assets limited as to use at December 31, 2014:

Debt service fund	$ 1,001
Debt service reserve fund	461,940
Renovation fund	3,199,551
	$ 3,662,492

3. Investments and investment income:

The composition of the fair value of investments at December 31, 2014 is summarized as follows:

Mutual funds	$ 4,938,529

Net investment return is summarized as follows:

Net investment income, included in unrestricted revenue:	
Interest and dividends	$ 42,796
Net realized gains on sales of securities	136,880
	179,676

3. Investments and investment income (continued):

Net investment income included in temporarily restricted revenue:	
Interest and dividends	78,658
Net realized gains on sales of securities	436,884
	515,542
Unrealized losses on investments:	
Unrestricted	(146,112)
Temporarily restricted	(405,583)
	(551,695)
Total net investment income	$ 143,523

4. Fair value:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FAS ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Community has the ability to access.

Level 2 – Inputs that are derived principally from or corroborated by observable market data by correlation or other means. Inputs to the methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

4. Fair value (continued):

The following fair value measurement information is presented in accordance with U.S. GAAP at December 31, 2014:

	Fair Value	Measurement Quoted Prices in Active Markets (Level 1)
Mutual funds:		
Fixed income	$ 3,054,930	$ 3,054,930
Equities	1,883,599	1,883,599
	$ 4,938,529	$ 4,938,529

Fair value for Level 1 is based upon quoted market prices in active markets. Inputs are obtained from various sources including market participants, dealers, and brokers.

5. Long-term debt:

Term loan payable to a bank, bearing interest at LIBOR plus applicable basis points ranging from 2.2% to 2.5% (2.655% at December 31, 2014). The applicable basis points are determined by the computation of a certain covenant under provisions of the term loan agreement. Monthly principal payments ranging from $47,500 to $83,333 through July 1, 2023, with a balloon payment of the remaining principal and interest due on July 1, 2023. The note is secured by primarily all assets of Laurel Lake and subject to certain covenants and restrictions	$ 22,227,500
Term loan payable to a bank, bearing interest at fixed rate of 5.168%. Due in monthly principal payments beginning ranging from $22,917 to $34,583 through July 1, 2023, with a balloon payment of the remaining principal and interest due on July 1, 2023. The note is secured by primarily all assets of Laurel Lake and subject to certain covenants and restrictions	12,742,083
Bonds payable, see (A) below	14,025,344
	48,994,927
Less current portion	1,389,583
	$ 47,605,344

5. Long-term debt (continued):

(A) Laurel Lake has an agreement with the County of Summit, Ohio for $14,280,000 of tax-exempt Healthcare Facilities Revenue Bonds consisting of:

$9,580,000 Tax-Exempt Health Care Facilities Revenue Bonds. Interest at 3.72096% for the initial rate period from the issue date of December 31, 2013 through July 1, 2023. The interest rate will reset under terms of the bond agreement on July 1, 2023. Principal and Interest payments due October 1 each year and continue until the bonds mature on October 1, 2038. The bonds are subject to certain mandatory sinking fund redemption requirements beginning in 2017.

$2,000,000 (less discount of $31,344) Tax-Exempt Subordinated Health Care Facilities Revenue Bonds. Interest at a fixed rate of 8.5%. Interest only payments begin April 1, 2014 and October 1, 2014 and continue semiannually until the bonds mature on October 1, 2038. Principal payments due annually beginning on October 1, 2017. The bonds are subject to certain mandatory sinking fund redemption requirements beginning on October 1, 2017 and optional redemption requirements on October 1, 2018.

$2,700,000 (less discount of $48,312) Tax-Exempt Subordinated Health Care Facilities Revenue Bonds. Interest only at 7.75% for the initial adjustable rate period from the issue date of December 30, 2013 through October 1, 2023. The interest rate will reset per the terms of the bond agreement on October 1, 2023. Interest only payments begin April 1, 2014 and October 1, 2014 and continue semiannually until the bonds mature on October 1, 2038. Principal payments due annually beginning on October 1, 2017. The bonds are subject to certain mandatory sinking fund redemption requirements beginning on October 1, 2017 and optional redemption requirements on October 1, 2018.

Future maturities of long-term debt are as follows (assuming the bonds are extended through January 1, 2020):

Year ending December 31,	
2015	$ 1,389,583
2016	1,454,583
2017	1,605,417
2018	1,645,883
2019	1,293,333
Thereafter	41,606,178
	$ 48,994,977

6. Taxes:

Laurel Lake is recognized as exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3).

Laurel Lake is no longer subject to Federal income tax examinations by tax authorities for years before 2011.

6. Taxes (continued):

On October 18, 1993, Laurel Lake granted a third mortgage on its real property to the Village of Hudson, Ohio to secure payments in lieu of property taxes under an agreement between the Village of Hudson and the Community. Annual payments are based on specified percentages of property taxes that would otherwise be due on the real property consisting of the residential units subject to taxation. Amounts and percentages per the agreement are as follows:

Period	Amount Due
2014–2017	Annually, the greater of $421,000 or 60% of the tax due without exemption
2018	The greater of one-twelfth of $421,000 or 60% of the tax due without exemption plus the difference between (i) the amount paid in 2018 and (ii) the greater of $421,000 or 60% of the tax due without exemption
After 2018	100% of the tax due without exemption

These amounts are expensed as incurred and totaled $421,000 in 2014. This expense is included in other expense on the consolidated statement of activities and changes in net assets.

7. Endowments:

Laurel Lake's disclosure of its endowment net asset composition by type of fund as of December 31, 2014, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 226,483	$ 188,381	$ 414,864

Changes in endowment net assets for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 265,218	$ 186,881	$ 452,009
Investment return:			
Investment income	12,850		12,850
Net realized and unrealized gain	12,821		12,821
Total investment return	25,671		25,671
Contributions		1,500	1,500
Appropriation of endowment assets for expenditure	(64,406)		(64,406)
Endowment net assets, end of year	$ 226,483	$ 188,381	$ 414,864

8. Net assets:

Net assets whose temporary restrictions expire by usage are as follows as of December 31:

Staff education	$ 21,622
Wellness	57,134
Stine – SN care	31,258
Other programs	337,946
Accumulated earnings on endowment funds not expended	226,483
	$ 674,443

Permanently restricted net assets consists of the following as of December 31:

Veraar Campus Endowment Fund	$ 174,473
Other endowments	13,908
	$ 188,381

9. Retirement plan:

The Community has a 403(b) defined contribution retirement plan (the Plan), for all eligible employees. The Plan provides for employee contributions through salary reduction. The Community matches either 33% or 50% of an employee's contribution up 6% of eligible salary depending on the length of service, as defined by the Plan. In addition, the Community has elected to contribute 1% of compensation for each eligible employee. Total expense under the Plan was approximately $153,700 in 2014.

10. Real estate taxes:

In January 2012, the Community was notified its pending application for exemption from taxation of certain real property had been dismissed. In June 2012, the Community reached an agreement with Summit County for the repayment of these taxes. The terms of the agreement require monthly payments of $13,391 for sixty months beginning in August 2012. The current and long-term portion of these amounts are included in the consolidated statement of financial position at December 31, 2014.

11. Acquisition of membership interest:

On December 30, 2013, the Foundation acquired a 100% membership interest in the Community from CHP, which included certain assets and liabilities, for $38,000,000. The acquisition was made for the purpose of purchasing the retirement community. The terms of the purchase agreement granted the Foundation several credits to the purchase price. These credits were determined at December 30, 2013 and were received during 2014.

11. Acquisition of membership interest (continued):

Consideration for this acquisition consisted of several credit facilities in the amount of $50,175,000 (Note 5). In addition to the acquisition of the membership interest, proceeds from borrowings were used to fund working capital, assets limited as to use, and for payment of acquisition costs. Acquisition costs paid from the proceeds and expensed in accordance with accounting principles generally accepted in the United States totaled $78,245 in 2014. Allocation of the purchase price was based on the fair market value of assets acquired and liabilities assumed as follows:

Accounts receivable, trade	$ 767,667
Entrance fees receivable	286,250
Prepaid expenses and other	568,095
Property and equipment	65,474,061
Operating rights to licensed beds	1,500,000
Accounts payable, trade	(818,538)
Accrued expenses and other	(2,024,119)
Refundable entrance fees	(3,402,063)
Deferred revenue	(28,121,011)
Net assets acquired	$ 34,230,342

12. Functional expenses:

Laurel Lake provides general health care services and resident services to residents of the community in addition to incurring general and administrative and fundraising expenses as follows:

Residential services	$ 15,498,251
Health care services	5,183,157
General and administrative	2,082,092
Fundraising	200,343
	$ 22,963,843

13. Commitments and contingent liabilities:

Professional medical liability insurance:

The Community has an agreement with a multi-provider risk retention group for its professional medical liability insurance which commenced January 1, 2014. The risk retention group obtained reinsurance with another insurance company. The risk retention group insurance coverage is a claims-made policy. Based on internal and external evaluations of the merits of the individual claims, analysis of claim history and the estimated reserves assigned by the Community's third-party risk manager, management has determined an accrual is not necessary at December 31, 2014. The Community has a self-insured retention per occurrence and the policy includes a reimbursement provision of a maximum amount per claim and a maximum aggregate claim per the term of the policy. Although Community management believes an accrual for self-insured losses in its 2014 consolidated financial statements is not necessary, the ultimate liability may be in excess of management's estimate. These estimates are subject to potential revisions and those revisions may be material.

13. Commitments and contingent liabilities (continued):

Professional medical liability insurance (continued):

As a requirement of the risk retention group, the Community was required to become a stockholder in the risk retention group. The Community's investment in the risk retention group was $18,842 at December 31, 2014, with an additional $75,366 due January 1, 2015. This investment is included in noncurrent investments, other and has been recorded at cost. The Community paid the risk retention group insurance premiums during 2014 which are included in insurance expense, in the accompanying consolidated statement of activities and changes in net assets.

14. Consolidated statement of cash flows:

Cash paid during the year for:

Interest	$ 1,821,195

Supplemental schedule of noncash investing and financing activities:

Additional purchase price allocation to building with corresponding decrease in receivable due from CHP	$ 423,331

15. Subsequent events:

In preparing this financial statement, Laurel Lake management has evaluated events and transactions for potential recognition or disclosure through April 1, 2015, the date Laurel Lake's financial statement were available to be issued.

HW&Co.
CPAs & Advisors

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Independent Auditors' Report on Accompanying Supplementary Information

The Board of Directors
Laurel Lake Retirement Community Foundation, Inc. and Subsidiary
Hudson, Ohio

We have audited the consolidated financial statements of Laurel Lake Retirement Community Foundation, Inc. and Subsidiary as of December 31, 2014, and have issued our report thereon dated April 1, 2015 which contained an unmodified opinion on these financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information included in this report on pages 20 through 22 is presented for the purposes of additional analysis and is not a required part of the consolidated 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 statement. 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.

HW&Co.

Cleveland, Ohio
April 1, 2015

Cleveland Columbus Mentor

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LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 898,611	$ 15,168,574		$ 16,067,185
Accounts receivable:				
Trade, net of allowance for doubtful accounts of $10,000		670,543		670,543
Intercompany	174,009	251,855	$ (425,864)	
Other		2,647		2,647
Entrance fees receivable		966,746		966,746
Prepaid expenses and other		303,478		303,478
Total current assets	1,072,620	17,363,843	(425,864)	18,010,599
Property and equipment:				
Land and improvements		4,941,592		4,941,592
Buildings and improvements		59,325,255		59,325,255
Equipment		1,473,403		1,473,403
Furniture and fixtures		1,720,223		1,720,223
Construction-in-progress		68,828		68,828
		67,529,301		67,529,301
Less accumulated depreciation		3,018,539		3,018,539
		64,510,762		64,510,762
Other assets:				
Assets limited as to use		3,662,492		3,662,492
Investments:				
Available-for-sale securities	4,938,529			4,938,529
Other		18,842		18,842
Deferred costs and intangibles:				
Financing, net		939,827		939,827
Operating rights to licensed beds		1,500,000		1,500,000
Other	247,872			247,872
	5,186,401	6,121,161		11,307,562
	$ 6,259,021	**$ 87,995,766**	**$ (425,864)**	**$ 93,828,923**

LIABILITIES AND NET ASSSETS

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Current liabilities:				
Accounts payable:				
Trade		$ 658,232		$ 658,232
Intercompany	$ 251,855	174,009	$ (425,864)	
Accrued expenses:				
Salaries, wages and related liabilities		527,538		527,538
Compensated absences		268,166		268,166
Real estate taxes		351,074		351,074
Interest		236,485		236,485
Other		401,438		401,438
Current portion of refundable entrance fee liability		467,934		467,934
Current portion of long-term debt		1,389,583		1,389,583
Total current liabilities	251,855	4,474,459	(425,864)	4,300,450
Long-term liabilities:				
Security deposits		573,862		573,862
Long-term debt, net of current portion		47,605,344		47,605,344
Refundable entrance fee liability, net of current portion		3,091,775		3,091,775
Accrued real estate taxes, net of current portion		269,471		269,471
Gift annuities payable	602,003			602,003
Deferred revenue, entrance fees		30,212,546		30,212,546
Total liabilities	853,858	86,227,457	(425,864)	86,655,451
Net assets:				
Unrestricted	4,542,339	1,768,309		6,310,648
Temporarily restricted	674,443			674,443
Permanently restricted	188,381			188,381
Total net assets	5,405,163	1,768,309		7,173,472
	$ 6,259,021	**$ 87,995,766**	**$ (425,864)**	**$ 93,828,923**

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2014

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Revenue and other support:				
Resident services:				
Service fees		$ 14,014,844		$ 14,014,844
Amortization of deferred revenue		5,741,297		5,741,297
Nursing services and other		4,150,216		4,150,216
Investment income, net	$ 176,739	2,937		179,676
Contributions	929,238			929,238
Total revenue and other support	1,105,977	23,909,294		25,015,271
Expenses:				
Salaries and wages		7,854,408		7,854,408
Employee benefits		2,692,223		2,692,223
Total employment expenses		10,546,631		10,546,631
Purchased services		2,478,556		2,478,556
Supplies		1,853,333		1,853,333
Utilities		1,424,191		1,424,191
Rent		21,663		21,663
Insurance		291,512		291,512
Interest		2,057,680		2,057,680
Depreciation and amortization		3,057,698		3,057,698
Other		925,357		925,357
Foundation expenses:				
Program	200,343			200,343
Operating	106,879			106,879
Total expenses	307,222	22,656,621		22,963,843
Excess of revenue and other support over expenses	798,755	1,252,673		2,051,428
Other changes in unrestricted net assets:				
Contributions of property and equipment		230,795		230,795
Net assets released from restriction for capital expenditures		284,841		284,841
Unrealized losses on investments, net	(146,112)			(146,112)
Reclassification from temporarily restricted net assets (Note 1)	3,756,541			3,756,541
Increase in unrestricted net assets	4,409,184	1,768,309		6,177,493
Temporarily restricted net assets:				
Contributions	398,993			398,993
Unrealized losses on investments, net	(405,583)			(405,583)
Investment income, net	515,542			515,542
Net assets released from restrictions for capital expenditures	(284,841)			(284,841)
Reclassifications to unrestricted net assets (Note 1)	(3,756,541)			(3,756,541)
Decrease in temporarily restricted net assets	(3,532,430)			(3,532,430)
Permanently restricted net assets:				
Contributions	1,500			1,500
Increase in permanently restricted net assets	1,500			1,500
Increase in net assets	878,254	1,768,309		2,646,563
Net assets, beginning of year	4,526,909			4,526,909
Net assets, end of year	**$ 5,405,163**	**$ 1,768,309**	**$**	**$ 7,173,472**

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Cash flows from operating activities:				
Increase in net assets	$ 878,254	$ 1,768,309		$ 2,646,563
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Unrealized losses on investments, net	(551,695)			(551,695)
Realized gains on investments, net	573,764			573,764
Depreciation and amortization		3,057,698		3,057,698
Amortization of bond discounts		3,320		3,320
Amortization of deferred revenue, entrance fees		(5,741,297)		(5,741,297)
Bad debt expense		28,741		28,741
Entrance fees received		8,300,766		8,300,766
Contributions restricted for long-lived assets and permanently restricted contributions	(232,295)			(232,295)
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable and other assets	(34,259)	2,403,440	$ (86,727)	2,282,454
Increase in accounts payable and other current liabilities	88,203	970,820	86,727	1,145,750
Net cash provided by operating activities	721,972	10,791,797		11,513,769
Cash flows from investing activities:				
Expenditures for property and equipment		(1,526,660)		(1,526,660)
Proceeds from sale of investments	12,736,070	790,112		13,526,182
Purchase of investments	(13,207,171)			(13,207,171)
Net cash used in investing activities	(471,101)	(736,548)		(1,207,649)
Cash flows from financing activities:				
Change in gift annuities payable, net	(14,818)			(14,818)
Contributions received restricted for long-lived assets and permanently restricted contributions	232,295			232,295
Refunds of refundable fees		(467,934)		(467,934)
Increase in deferred financing costs		(78,245)		(78,245)
Payments on long-term debt		(1,100,417)		(1,100,417)
Net cash used in financing activities	217,477	(1,646,596)		(1,429,119)
Net increase in cash and cash equivalents	468,348	8,408,653		8,877,001
Cash and cash equivalents, beginning of year	430,263	6,759,921		7,190,184
Cash and cash equivalents, end of year	**$ 898,611**	**$ 15,168,574**	**$**	**$ 16,067,185**