Laurel Lake Retirement Community Foundation, Inc. and Subsidiary

DECEMBER 31, 2013

Howard, Wershbale & Co.
CPAs & Advisors

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENT

DECEMBER 31, 2013

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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of Laurel Lake Retirement Community Foundation, Inc. and Subsidiary as of December 31, 2013, and the related notes to the consolidated financial statement.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement 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 financial statement is free from material misstatement.

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

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 statement 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, 2013, in accordance with accounting principles generally accepted in the United States of America.

HW&Co.

Cleveland, Ohio
May 29, 2014

LAUREL LAKE RETIREMENT COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2013

ASSETS

Current assets:	
Cash and cash equivalents	$ 7,190,184
Accounts receivable, trade, net of allowance for doubtful accounts of $5,000	767,667
Due from Catholic Health Partners	3,571,132
Entrance fees receivable	286,250
Prepaid expenses and other	367,329
Total current assets	12,182,562
Property and equipment:	
Land and improvements	4,834,913
Buildings and improvements	57,719,839
Equipment	180,293
Furniture and fixtures	2,673,689
Construction-in-progress	65,327
	65,474,061
Other assets:	
Assets limited as to use	4,471,446
Investments	4,489,497
Deferred costs and intangibles:	
Financing	900,741
Operating rights to licensed beds	1,500,000
Other	13,613
	11,375,297
	$ 89,031,920

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable, trade	$	818,538
Accrued expenses:		
Salaries, wages and related liabilities		627,944
Compensated absences		248,085
Real estate taxes		362,071
Current portion of long-term debt		1,195,833
Total current liabilities		3,252,471
Long-term liabilities:		
Long-term debt, net of current portion		48,896,192
Refundable entrance fees		3,402,063
Accrued real estate taxes, net of current portion		414,978
Gift annuities payable		616,821
Deferred revenue		28,121,011
Total liabilities		84,703,536
Net assets:		
Unrestricted		(65,370)
Temporarily restricted		4,206,873
Permanently restricted		186,881
Total net assets		4,328,384
	$	**89,031,920**

See notes to consolidated financial statement.

1. Summary of significant accounting policies:

Description of organization and basis of consolidation:

The accompanying consolidated financial statement includes 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 is a wholly-owned subsidiary of the Foundation.

Use of estimates:

The preparation of a consolidated financial statement 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, 2013, 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).

Due from Catholic Health Partners:

Due from Catholic Health Partners includes items credited to the Foundation in conjunction with the acquisition of the membership interest from CHP. The amount due is presented as current asset and expected to be collected in 2014 (Note 10).

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.

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 $235,100 at December 31, 2013.

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.

1. Summary of significant accounting policies (continued):

Property and equipment:

Property and equipment acquired with the membership interest (Note 10) are allocated based on the fair market value at the date of acquisition. Additions to property and equipment will be 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) will be provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives.

Investments:

Investments in equity securities that have readily determinable fair values and all investments in debt securities 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 balance sheets, consolidated statements of activities and changes in net assets and cash flows.

Endowments:

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.

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:

1. Summary of significant accounting policies (continued):

Interpretation of relevant law (continued):

- 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

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.

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 will be amortized on a straight-line basis over the term of the related debt.

1. Summary of significant accounting policies (continued):

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.

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, 2013.

Deferred revenue and refundable entrance fees:

During July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-01, Continuing Care Retirement Communities-Refundable Advance Fees (Subtopic 954-430), Health Care Entities-Deferred Revenue. The amendments require that a continuing care retirement community recognize a deferral of revenue when a contract between a continuing care retirement 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, should be accounted for and reported as a liability. For nonpublic companies, the amendments in this ASU are effective for fiscal periods beginning after December 15, 2013. Early adoption is permitted. The amendments in this ASU should be applied retrospectively by recording a cumulative effect adjustment to opening unrestricted net assets as of the beginning of the earliest period presented. Prior to the acquisition date, the Community adopted the guidance related to this ASU effective January 1, 2013.

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 balance sheets, which is being amortized over the estimated remaining life expectancy of each resident.

1. Summary of significant accounting policies (continued):

Deferred revenue and refundable entrance fees (continued):

Under Plan B agreements, 94% of a resident's entrance fee is refundable upon re-occupancy of the unit (including receipt of the entrance fee from the new occupant). Plan B entrance fees are accounted for as deferred revenue in the consolidated balance sheets. The refundable portion of Plan B entrance fees (94% of the fee) is amortized over the estimated remaining useful life of the facility. 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 re-occupancy 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. Plan C entrance fees are accounted for as deferred revenue in the consolidated balance sheets. The refundable portion of Plan C entrance fees (50% of the fee) is amortized over the estimated useful life of the facility. The nonrefundable portion of Plan C entrance fees (remaining 50% of fee) is amortized over the estimated life expectancy of each resident.

The amount of contractually refundable entrance fees under resident occupancy agreements is approximately $17,170,000 at December 31, 2013, and is included in deferred revenue in the consolidated statement of financial position. The estimated amounts of refundable entrance fees are reflected as a current liability in the consolidated statement of financial position. There were no estimated refundable entrance fees at December 31, 2013. Certain contracts require an immediate refund if the resident expires in the first twelve months of residency or cancels the agreement within the first five years. There were no refunds of this type in 2013. Entrance fees received in advance of residency and deposits are accounted for and reported as liabilities on the consolidated statement of financial position.

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 2013 and 2012 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.

1. Summary of significant accounting policies (continued):

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. Temporarily restricted contributions, which are primarily related to the Foundation, are recorded as additions to temporarily restricted net assets. The temporarily restricted net assets are primarily comprised of charitable gift annuities received and the life care fund.

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.

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, 2013, no such liability was determined to be required. The discount rate used to estimate the FSO was 6% in 2013.

2. Assets limited as to use:

The following is a summary of assets limited as to use at December 31, 2013:

Debt service fund	$ 285,433
Debt service reserve fund	461,813
Renovations fund	3,724,200
	$ 4,471,446

3. Investments:

The composition of the fair value of investments at December 31, 2013 is summarized as follows:

Mutual funds	$ 4,489,497

4. Fair value measurement:

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. 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;

Level 2 – Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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.

The following fair value measurement information is presented in accordance with U.S. GAAP at December 31, 2013:

		Measurement
	Fair Value	Quoted Prices in Active Markets (Level 1)
Mutual funds:		
Fixed income	$ 914,835	$ 914,835
Equities	3,574,662	3,574,662

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%. The applicable basis points are determined by the computation of a certain covenant under provisions of the term loan agreement. Monthly principal payments begin in February 2014 and range from $70,000 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	$ 22,930,000
Term loan payable to a bank, bearing interest at fixed rate of 5.168%. Due in monthly principal payments beginning in February 2014 ranging from $22,222 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	12,965,000
Bonds payable, see (A) below	14,197,025
	50,092,025
Less current portion	1,195,833
	$ 48,896,192

(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 monthly beginning in February 2014 and continue until the bonds mature on October 1, 2038. The bonds are subject to certain mandatory sinking fund redemption requirements beginning in 2017, if certain provisions are met.

$2,000,000 (less discount of $32,650) 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 semi-annually 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, if certain provisions are met.

$2,700,000 (less discount of $50,325) 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 semi-annually 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, if certain provisions are met.

5. Long-term debt (continued):

Future maturities of long-term debt are as follows:

Year ending December 31,	
2014	$ 1,195,833
2015	1,394,167
2016	1,459,167
2017	1,610,833
2018	1,611,667
Thereafter	42,820,358
	$ 50,092,025

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 2010.

7. Endowments:

Laurel Lake's disclosure of its endowment net asset composition by type of fund as of December 31, 2013, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 47,902	$ 186,881	$ 234,783

8. Insurance coverage:

Laurel Lake was insured under CHP's property, professional, general and excess liability policy and reimburses CHP for insurance costs incurred on Laurel Lake's behalf. Laurel Lake was also insured under HMHP's Health Insurance Self Funded Plan. Laurel Lake has no separately recorded professional or general liability accrual recorded at December 30, 2013 as Laurel Lake management does not believe there are claims that require a reserve for potential payment of deductible amounts. There may be unknown incidents, which may result in the assertion of claims, however, Laurel Lake management does not believe there are any material potential liabilities.

9. Real estate taxes:

In June 2012, the Community reached an agreement with Summit County for the repayment of these taxes. The terms of the agreement required monthly payments of $13,391 for sixty months beginning in August 2012. The current and long-term portions of these amounts are included in the consolidated statement of financial position at December 31, 2013.

10. 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 items were computed at $3,571,132 and are recorded as the current asset due from Catholic Health Partners on the consolidated statement of financial position at December 31, 2013.

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 at December 30, 2013 were $198,525. 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

11. Subsequent events:

In preparing this financial statement, Laurel Lake management has evaluated events and transactions for potential recognition or disclosure through May 29, 2014, the date Laurel Lake's financial statement were available to be issued.

HW &Co.
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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 statement of Laurel Lake Retirement Community Foundation, Inc. and Subsidiary as of December 31, 2013, and have issued our report thereon dated May 29, 2014 which contained an unmodified opinion on that financial statement. Our audit was performed for the purpose of forming an opinion on the consolidated financial statement as a whole shown on pages 2 to 13 of this report. The supplementary information included in this report on page 15 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statement. 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 statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statement or to the consolidated financial statement 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 statement as a whole.

HW&Co.

Cleveland, Ohio
May 29, 2014

Cleveland Columbus Mentor

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2013

ASSETS

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 430,263	$ 6,759,921		$ 7,190,184
Accounts receivable:				
Trade, net of allowance for doubtful accounts of $5,000		767,667		767,667
Related party	175,485	163,653	$ (339,138)	
Due from Catholic Health Partners		3,571,132		3,571,132
Entrance fees receivable and other		286,250		286,250
Prepaid expenses and other		367,329		367,329
Total current assets	605,748	11,915,952	(339,138)	12,182,562
Property and equipment:				
Land and improvements		4,834,913		4,834,913
Buildings and improvements		57,719,839		57,719,839
Equipment		180,293		180,293
Furniture and fixtures		2,673,689		2,673,689
Construction-in-progress		65,327		65,327
		65,474,061		65,474,061
Other assets:				
Amounts held by bond trustee		4,471,446		4,471,446
Investments	4,489,497			4,489,497
Deferred costs and intangibles:				
Financing		900,741		900,741
Operating rights to licensed beds		1,500,000		1,500,000
Other	13,613			13,613
	4,503,110	6,872,187		11,375,297
	$ 5,108,858	**$ 84,262,200**	**$ (339,138)**	**$ 89,031,920**

LIABILITIES AND NET ASSSETS

	Laurel Lake Retirement Community Foundation, Inc.	Laurel Lake Retirement Community, Inc.	Eliminations	Consolidated
Current liabilities:				
Accounts payable:				
Trade		$ 818,538		$ 818,538
Related party	$ 163,653	175,485	$ (339,138)	
Accrued expenses:				
Salaries, wages and related liabilities		627,944		627,944
Compensated absences		248,085		248,085
Real estate taxes		362,071		362,071
Current portion of long-term debt		1,195,833		1,195,833
Total current liabilities	163,653	3,427,956	(339,138)	3,252,471
Long-term liabilities:				
Long-term debt, net of current portion		48,896,192		48,896,192
Refundable entrance fees		3,402,063		3,402,063
Accrued real estate taxes, net of current portion		414,978		414,978
Gift annuities payable	616,821			616,821
Deferred revenue		28,121,011		28,121,011
Total liabilities	780,474	84,262,200	(339,138)	84,703,536
Net assets:				
Unrestricted	(65,370)			(65,370)
Temporarily restricted	4,206,873			4,206,873
Permanently restricted	186,881			186,881
Total net assets	4,328,384			4,328,384
	$ 5,108,858	$ 84,262,200	$ (339,138)	$ 89,031,920