June 30, 2014

ARCHDIOCESE OF PHILADELPHIA ANNOUNCES AGREEMENT OF SALE WITH CENTER MANAGEMENT GROUP REGARDING NURSING HOMES OPERATED BY CATHOLIC HEALTH CARE SERVICES

Today’s announcement details the latest in a series of actions taken by the Archdiocese to rebuild a firm fiscal foundation; Nursing homes, assisted living communities and adult daycare programs to retain their Catholic identity and continue their mission with no perceptible change.

Contextual Background

Last July, the Archdiocese of Philadelphia published audited financial statements for the fiscal year ended June 30, 2012. The financial statements disclosed a $39.2 million operating deficit for that period as well as very significant underfunded balance sheet liabilities that measured in the hundreds of millions of dollars.

Since his arrival in Philadelphia nearly three years ago, Archbishop Chaput has repeatedly expressed his commitment to financial transparency and prudent stewardship of the resources of the Archdiocese.

Beginning in the summer of 2012, a series of steps were taken to begin to remedy Archdiocesan fiscal challenges. The Archbishop’s residence along with a property in Ventnor, New Jersey, were both sold to provide necessary immediate cash flow. Many other actions followed including a reduction of 25% of the workforce at the Archdiocesan Pastoral Center in order to stem the operating deficit. None of those measures were taken lightly, but all were essential to maintaining the presence of the Catholic Church in the Philadelphia region and the good works accomplished through its various ministries.

The audited financial statements published by the Archdiocese last December for the fiscal year ended June 30, 2013 illustrated the beginning of the positive impact of these actions with an "as reported" surplus of $3.9 million and a core operational deficit that had shrunk to $4.9 million from the $17.9 million core deficit that had been reported for the fiscal year ended June 30, 2012. The report did indicate, however, that significant underfunded balance sheet liabilities remained in the categories of the Trust and Loan Fund, the Self Insurance Reserve, the Priests' Pension Plan and the Lay Employees' Retirement Plan.

Background Regarding Today’s Announcement

In an effort to address the underfunded balance sheet liabilities noted above, an evaluation of Archdiocesan real estate assets and operating entities was undertaken. This evaluation focused on assets that could potentially be used to remedy the underfunded balance sheet obligations.
Among the operating entities evaluated was Catholic Health Care Services (CHCS), which has been well managed for many years. Archbishop Chaput decided to market the six nursing homes and one assisted living facility operated by CHCS for potential sale last August. At that time an announcement regarding his decision was made to CHCS employees as well nursing home residents, families of residents and the general public.

Today, the Archdiocese of Philadelphia announced that it has entered into an agreement to sell the nursing homes to Center Management Group (CMG), headquartered in Flushing, New York.

Founded in 1999, CMG is a regional health care management company that specializes in long term care. Its skilled nursing operations include short term rehabilitation, sub-acute care, long term care and ventilator care. CMG also offers independent and assisted living, as well as homecare, and adult medical day care programs.

CMG currently owns and operates 15 nursing homes in New York and New Jersey. Two of these homes, formerly known as the Bishop Mugavero Center for Geriatric Care and the Holy Family Home, were once part of the Saint Vincent's Catholic Medical Centers of New York System, and continue to be operated in a Catholic, faith-based manner.

"This agreement will serve the Archdiocese and its people well by ensuring the nursing homes presently operated by Catholic Health Care Services will continue to be dignified centers of care for the elderly in the Catholic tradition and in accord with the moral and ethical teachings of the Church," said Archbishop Charles J. Chaput, O.F.M. Cap. "I did not arrive at this decision lightly."

"It came only after a great deal of consultation, discussion and prayer," he continued. "Center Management Group has a great deal of experience in the operation of nursing homes and they've guaranteed the conditions I set forth some time ago in terms of fair treatment of current employees and residents. Center Management Group was selected from a group of nearly 30 initial bidders in a competitive process that focused largely on the personal commitment of potential buyers to provide the highest possible quality of health care in a manner consistent with Catholic identity and moral teaching.

"As I've said time and again, I'm committed to talking about our financial issues and how we are dealing with them in a transparent fashion. We're making progress and we become a little more stable with each step we take. We still have a way to go, but everything is being done so that we can best fulfill the Church's mission of evangelization and service to those in need."

"Center Management Group is excited about the culmination of the more than six months of meetings and discussions with the senior administration of the Archdiocese of Philadelphia and Catholic Health Care Services that led to today's agreement," said Charles-Edouard Gros, MPH, LNHA, EMT-P, Chief Executive Officer of Center
Management Group LLC. “Collaborative and careful deliberations over the past months have allowed us to finalize a transaction that will provide for the seamless continuation of the seven skilled nursing and assisted living facilities as well as adult medical day care programs and continuing care retirement communities that have been optimally operated and maintained by Catholic Health Care Services. We are enthusiastic about the future and grateful for Archbishop Chaput's confidence in our ability. The experience we bring to delivering premier healthcare to our residents, coupled with our commitment to safeguard and fortify the Catholic religious and ethical practices currently in place, will allow the facilities to continue flourishing. We look forward to working alongside those who have staffed and managed them so well as we move forward.”

Financial Aspects of the Transaction

Upon closing, subject to satisfaction of certain pre-closing conditions, CMG will provide a payment of $145 million to the Archdiocese. The net proceeds available will be reduced by CMG's retention of resident accounts receivable; the paying down of CHCS' outstanding external debt; the setting aside of certain amounts for ongoing ministries of Catholic Human Services of the Archdiocese of Philadelphia, and closing costs.

The net proceeds will be applied to lessen the previously disclosed underfunded balance sheet liabilities noted in the bullet points below. The exact allocations to be made to each have not yet been determined.

Please note that the amounts presented below and labeled as "current underfunding" are unaudited approximations as of June 30, 2014. The current estimates of the underfunded balance sheet liabilities have been positively impacted by proceeds applied from the recently completed transaction involving the Archdiocesan cemeteries. Amounts noted as of June 30, 2013 are audited figures previously published by the Archdiocese.

- Trust and Loan Fund-current underfunding estimated at $49.8 million after an allocation of $30 million from the cemeteries transaction (i.e. this liability was underfunded by $79.8 million as of June 30, 2013).
- The Self Insurance Reserve-current underfunding estimated at $18.9 million after an allocation of $11.5 million from the cemeteries transaction (i.e. this liability was underfunded by $30.4 million as of June 30, 2013).
- The Priests' Pension Plan-current underfunding estimated at $76.3 million after an allocation of $11.5 million from the cemeteries transaction (i.e. this liability was underfunded by $87.8 million as of June 30, 2013).
- The Lay Employees' Retirement Plan (underfunded by $142 million as of June 30, 2013). Note: On November 5, 2013, the Archdiocese announced that it would freeze its Lay Employees' Retirement Plan (LERP) effective July 1, 2014. More information on that announcement can be found at http://archphila.org/press releases/pr002266.php.)
Aspects of the Transaction Pertaining to Continued Catholic Identity

- The Archdiocese and CMG will enter into a stewardship agreement to ensure the continued Catholic identity of all facilities involved in the sale.
- CMG will operate each facility in accordance with the moral, ethical and social teachings of the Catholic Church as expressed in the Ethical and Religious Directives for Catholic Health Care Services.
- CMG will maintain the presence of Roman Catholic priests as chaplains at each facility, at their expense, along with a pastoral care department.
- CMG will maintain existing chapels and places of worship along with all signs and symbols of Catholic identity.
- An advisory board will be established and maintain responsibility for advising Center Management Group and the management of each facility on issues relating to Catholic identity and practices as they apply to operation of the nursing homes. This board will consist of five Catholic members. Three will be appointed by the Archbishop of Philadelphia and two will be selected by CMG with the approval of the Archbishop.
- Mass and the sacraments are required to be celebrated regularly at each facility.
- The Archbishop will retain sole and absolute discretion, to revoke the Catholic identity of the nursing homes if CMG fails to operate one or more of the facilities or provide services in accordance with the terms of the stewardship agreement and correct noted deficiencies within a reasonable time frame.

The agreement announced today is the latest in a series of strategic actions taken by the Archdiocese of Philadelphia to help restore a solid financial foundation. In September 2013, the Archdiocese announced that it has entered into an outsourced management agreement and long-term lease with StoneMor Partners, L.P. regarding its Archdiocese cemeteries that provided an initial lease payment of $53 million to the Archdiocese (an explanation of how these funds were allocated is outlined above) as well as future lease payments that will total an additional $36 million in the years to come.

The cemeteries transaction, which closed in May 2014, along with the one being announced today, are part of the ongoing Archdiocesan effort to build the strongest possible Catholic Church in Philadelphia-one that will be sustainable now and into the future.

Facilities Included in the Agreement of Sale

The following is a list of the facilities included in the sale agreement with Center Management Group: Immaculate Mary Home (skilled nursing facility), Philadelphia; Villa Saint Martha (senior living community, assisted and independent living), Downingtown (Chester County); Saint Francis Country House (skilled nursing facility), Darby (Delaware County); Saint John Neumann Home (skilled nursing facility), Philadelphia; Saint Martha Manor (skilled nursing facility), Downingtown (Chester County); Saint Mary
Manor (senior living community, with skilled nursing care, and assisted and independent living), Lansdale (Montgomery County); and Saint Monica Manor (skilled nursing facility), Philadelphia.

**Impact on Current Nursing Home Employees and Residents**

The Archdiocese is committed to working closely with Center Management Group to ensure that all who work in and are served by the nursing homes experience the smoothest possible transition.

Employees at all locations affected by this transaction are being informed at ongoing meetings today. Written follow-up communication will also be sent to their homes. Letters providing detailed information regarding the transaction have also been sent to the families of all current residents.

**Impact on Employees**

Center Management Group has guaranteed fair treatment of current employees. Current nursing home staff members will become employees of CMG effective on the closing date at their current rate of base pay and with reasonable protection packages if the employee is not retained in the first year.

Employees will also receive health benefits under Center Management Group's healthcare plans.

Additionally, current employee eligibility, accrual and vesting for benefit plans, vacation and sick time will be carried over along with any unused sick, holiday, vacation and personal time that has been earned but not used prior to closing of the transaction.

**Impact on Residents**

The Archdiocese stated previously that a condition of any sale of the nursing homes would be the retention of all current residents regardless of payor status. Center Management Group has agreed to retain all residents living in the facilities as of the closing date regardless of their Medicare, Medicaid, private or commercial payor status.

Given that the Catholic identity of all facilities will remain in place as demonstrated by the continued presence of Roman Catholic priests as chaplains, the ongoing celebration of daily as well as Sunday Mass and the administration of the Sacraments on a regular basis, there will be no perceptible change in operations for residents after closing of the transaction.

**Future Elder Care and Ministerial Outreach by Catholic Health Care Services**
After the completion of the sale of the nursing homes, Catholic Health Care Services of the Archdiocese of Philadelphia will remain in existence and continue in its commitment to care for senior citizens in the Philadelphia region. It will continue to fulfill its mission of ministering to those in need by expanding upon its existing community based programs. Using a successful model which encompasses a variety of community and in home programs, Community Based Services for Seniors will continue to build its network of senior day centers, geriatric care management programs and information and referral services.

CHCS will also continue to expand its growing portfolio of affordable housing for independent seniors in neighborhoods across the City of Philadelphia. Three new projects currently under development will create 155 housing units for seniors to age in place. These combined initiatives demonstrate CHCS' strong commitment to support and serve senior citizens in the five county Archdiocese.

Finally, CHCS will continue to oversee operations at the Saint John Vianney Center as well as the Villa Saint Joseph Retirement facility for priests while providing additional priest retirement services in general.

About Catholic Health Care Services in the Archdiocese of Philadelphia: Founded in 1913, Catholic Health Care Services of the Archdiocese of Philadelphia is the seventh largest faith-based provider of skilled nursing and assisted living care in the country with a total capacity of just over 1,400 beds. It also provides adult day care, rehabilitation therapy, memory support, affordable housing, community support outreach and end-of-life care programs. For additional information about the Catholic Health Care Services of the Archdiocese of Philadelphia, please visit www.Catholichealthcareservices.org.

About Center Management Group: Founded in 1999, Center Management Group, led by its principal, Charles-Edouard Gros, is a leader in the operation and management of high quality healthcare providers. Center Management Group is dedicated to providing all of its residents with the highest quality health care in a homelike environment. The team at Center Management Group possesses a keen understanding of the vast array of issues that face the frail and elderly population, individuals who are sick and those who are in need of emergency care. Center Management Group has vast experience in providing skilled nursing, independent living, and assisted living care, sub-acute care, rehabilitation therapy, adult day care programs, and personal home care. For additional information about Center Management Group, please contact Pamela Zelcer at PZelcer@CenterMgt.com.