

THE McAULEY

PART OF THE MERCY COMMUNITY

McAULEY CENTER, INCORPORATED

DISCLOSURE STATEMENT

June 30, 2018

(For Fiscal Year Ending June 30, 2018)

(Based on: Pre Residency Agreement to Reserve a Unit;
Residency Agreement with Lifecare Coverage Options;
Residency Agreement With One Hundred Fifty Days of Long Term Care Coverage;
Residency Agreement Without Long Term Care Coverage;
Residency Agreement for Assisted Living Services)

McAULEY CENTER, INCORPORATED

275 Steele Road

West Hartford, Connecticut 06117-2716

(860) 920-6300 Fax (860) 232-4077

In accordance with Connecticut General Statute P.A. 98-250, Section 23(a), "...the Registration of this Disclosure Statement does not constitute approval, recommendation or endorsement by the Department or State, nor does such registration evidence the accuracy or completeness of the information set out in this Disclosure Statement.

McAULEY CENTER, INCORPORATED

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McAULEY CENTER, INCORPORATED

Part A - Descriptive Disclosures

INTRODUCTION

McAuley Center, Incorporated (hereafter referred to as “The McAuley”), a continuing care retirement community was founded and originally sponsored by The Sisters of Mercy, Northeast Community, but since the Trinity merger, is now sponsored by Catholic Health Ministries (hereafter referred to as “The Sponsor”), which offers to individuals 62 years of age and older lifetime use of independent living units and certain personal services including: housekeeping, food service, transportation, 24 hour concierge, security, maintenance and health care.

Effective May, 1997, The McAuley became a primary subsidiary corporation of Mercy Community Health. Mercy Community Health is the sole member of McAuley Center Incorporated. Mercy Community Health, Inc. is a Connecticut corporation with its principal office located at 2021 Albany Avenue, West Hartford, Connecticut.

Mercy Community Health, Inc. has a Board of Directors appointed by Trinity Continuing Care Services. Mercy Community Health was founded in 1997 to integrate the facilities and campus activities of Saint Mary Home, Mercyknoll, Mercy Community HomeCare and The McAuley on its campus in West Hartford.

Mercy Community Health was also a member of Catholic Health East, a holding company founded in 1997. Catholic Health East was a multi-institutional Catholic health system co-sponsored by religious communities to strengthen the role and identity of Catholic health ministry. The organization of Mercy Community Health and Catholic Health East does not change the existing contractual obligations between The McAuley and its residents and will have no impact on the liabilities or assets of current or future residents of The McAuley.

The former parent organization, Catholic Health East, has merged with and into Trinity Health Corporation, an Indiana not-for-profit corporation, on June 30, 2014. The new entity is known as Trinity Health. Trinity Health is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. Trinity Health operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services in 22 states.

The consolidation into Trinity Health represents a significant step forward for the two systems. The entity McAuley Center, Incorporated will remain in existence and its parent corporation will still be Mercy Community Health.

McAULEY CENTER, INCORPORATED

1. NAME AND ADDRESS OF PROVIDER

A Connecticut non-stock, non-profit corporation, McAuley Center, Inc. (dba The McAuley) is located at 275 Steele Road, West Hartford, Connecticut 06117-2716.

2. OFFICERS AND DIRECTORS

The Officers of the Corporation, McAuley Center, Incorporated, shall consist of the Officers and Directors of Mercy Community Health and include the President and the Secretary and Treasurer (Attachment A).

The Board of Directors of Mercy Community Health shall be appointed by Trinity Continuing Care Services and consist of at least one representative of Trinity Continuing Care Services, members of the local community or members or associates of a Roman Catholic religious congregation who need not reside in the local community.

3. BUSINESS EXPERIENCE

The Board of Directors of Mercy Community Health will have diverse backgrounds which reflect the population demographics of the community served including gender, race and ethnicity. Management of the day-to-day operations of The McAuley rests with the Executive Director who is directed by the President/Chief Executive Officer of Mercy Community Health.

4. JUDICIAL PROCEEDINGS

Not any among The McAuley, its Officers, Management Staff or the Board of Directors of Mercy Community Health described in Attachment A of this disclosure statement has been convicted of a felony or pleaded nolo contendere to a felony charge, nor held liable or enjoined in a civil action by final judgment, if the felony or civil action involved fraud, embezzlement, fraudulent conversion or misappropriation of property; nor is subject to a currently effective injunction or restrictive or remedial order of a court of record, and within the past five years has not had any state or federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, rising out of or relating to business activity or health care, including but not limited to actions affecting the operation of a foster care facility, nursing home, retirement home, home for the aged, or any facility subject to sections 17-535 to 17-550 inclusive of the Connecticut General Statutes, or a similar statute in another state or country.

5. AFFILIATION - TAX EXEMPT STATUS

The previous Sponsor, a Roman Catholic community of religious Sisters, has no financial or other legal responsibility with regard to the operations of McAuley Center, Incorporated.

The McAuley is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as part of Group Tax Exemption 0928 – United States Conference of Catholic Bishops.

McAULEY CENTER, INCORPORATED

6. LOCATION AND DESCRIPTION OF PROPERTY

The McAuley is located on a 15 plus acre tract of land in West Hartford, Connecticut, which is now owned by The McAuley. The site is immediately adjacent to Saint Joseph College and Saint Mary Home, with the land for all three institutions comprising 120 plus acres.

The McAuley contains 203 independent living units consisting of studio, one-bedroom and two-bedroom apartments and 25 assisted living units consisting of studio and one-bedroom and two bedroom apartments. The facility totals approximately 335,000 square feet, which includes approximately 74,000 square feet of common/support space.

7. BENEFITS - THE RESIDENCY AGREEMENT

Section IV of the Lifecare Residency Agreement (Attachment B-2) describes the goods and services to be provided to residents of The McAuley without any additional charge, including nursing care and other health related benefits. These Sections also describes those goods and services that are available at an additional cost.

Article I of the Assisted Living Residency Agreement (Attachment B-5) describes the goods and services to be provided to assisted living residents of The McAuley without any additional charge as well as those services available for an additional charge, including nursing care and other health related benefits. Exhibit 3 of the Assisted Living Residency Agreement describes the schedule of charges for additional services for residents with this Agreement.

Section IV of the Residency Agreement With One Hundred Fifty Days Long Term Care Coverage and the Residency Agreement Without Long Term Care Coverage (Attachments B-3 and B-4 respectively) describes the goods and services to be provided to residents of The McAuley without any additional charge and those goods and services available at an additional cost.

The McAuley has a contractual relationship with Saint Mary Home, a 353 bed multi-level health care facility, to provide nursing and other therapeutic services for The McAuley residents (Attachment C).

8. INTEREST ON DEPOSITS

The Independent Living Residency Agreements describes the payment of specified deposit amounts, which are a portion of the total entrance fee at the time the resident signs the document. The interest earned on this deposit inures to the benefit of The McAuley. (Section III. B. of the Agreements as provided in Attachments B-2, B-3 and B-4.)

The Assisted Living Residency Agreement describes the payment of a security deposit equal to one month's rental at the time the resident signs the document. The interest earned on this security deposit inures to the benefit of the resident (Attachment B-5).

9. TERMINATION OF CONTRACT

The Residency Agreements describe the conditions under which the contract may be terminated, whether before or after occupancy, by The McAuley or by the resident. (Section VI of the Agreements in Attachments B-2, B-3, and B-4).

McAULEY CENTER, INCORPORATED

The resident may appeal termination of the Residency Agreement for non-medical reasons by writing to the Executive Director and Chairperson of the Board of Directors of Mercy Community Health, who will respond in writing. Termination for medical reasons may be appealed in writing by the resident's personal physician to The McAuley's Executive Director and The McAuley's Medical Director, who will respond in writing.

The Assisted Living Residency Agreement describes the conditions under which the Agreement may be terminated, whether before or after occupancy, by The McAuley (We, Us or Our) or by the Resident (You) (Article VI in Attachment B-5).

10. RIGHTS OF SURVIVING SPOUSE

The Residency Agreement sets forth the rights of a surviving spouse who is a resident of the facility, as well as the rights of a surviving spouse who is not a resident. (Section VI of the Agreements in Attachment B-2, B-3 and B-4).

The Assisted Living Residency Agreement sets forth the rights of a surviving resident, should one resident die (Article VI. Section D & E in Attachment B-5).

11. MARRIAGE OF A RESIDENT

The Residency Agreement covers the effect of a resident's marriage to another resident. If the resident marries an individual who is not a resident, and that individual wishes to reside at the facility and receive the benefits included in the continuing care contract, the individual must comply with the admission requirements covered in the Residency Agreement and pay the second person entrance fee and second person monthly maintenance fee. (Section VI. C of the Agreements in Attachments B-2, B-3, and B-4).

The Assisted Living Residency Agreement does not cover the effect of a resident's marriage to another resident.

12. DISPOSITION OF PERSONAL PROPERTY

The Residency Agreement covers the disposition of a resident's personal property in the event of death or permanent transfer to a nursing facility, or termination of the contract by The McAuley. (Section X of the Agreements in Attachments B-2, B-3 and B-4.)

The Assisted Living Residency Agreement covers the disposition of a resident's personal property in the event of death or termination of the Agreement (Article VI. H. in Attachment B-5).

13. TAX CONSEQUENCES

Payment of an entrance fee pursuant to a continuing care contract may have significant tax consequences. Any person considering such payment may wish to consult with a qualified advisor.

McAULEY CENTER, INCORPORATED

Part B - Financial Disclosures

14. ESCROW ACCOUNTS

ENTRANCE FEE ESCROW ACCOUNT

The McAuley maintains an entrance fee deposit escrow account with People's Bank, 962 Farmington Avenue, West Hartford, CT 06107, and deposits within 72 hours of receipt each entrance fee deposit or portion of an entrance fee deposit from or on behalf of a resident. Entrance fee deposits on deposit with the Escrow Agent are invested in interest bearing accounts (Attachment D). Any interest inures to the benefit of The McAuley.

RESERVE FUND ESCROW ACCOUNT

The McAuley is required to maintain a reserve fund under an investment management agreement sufficient to cover: (1) the total cost of operations of The McAuley facility for a one month period, excluding interest, depreciation, and amortization and (2) six months of debt service coverage. This requirement had been met in the past with a separate escrow account of almost \$1,000,000 in conjunction with other required debt reserves. Trinity Health had discharged the separately held loans and mortgages and established intercompany loans for these other loans and mortgages thereby eliminating the separate reserves which had been maintained. As of June 30, 2018, the separately maintained escrow account balance is slightly in excess of \$1,500,000 which meets the required reserve calculation.

15. FINANCIAL STATEMENTS

The former parent organization, Catholic Health East, has merged with and into Trinity Health Corporation, an Indiana not for profit corporation on June 30, 2014. The new entity is known as Trinity Health. Trinity Health operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services in 21 states. The consolidation into Trinity Health represents a significant step forward for the two systems.

The entity McAuley Center, Incorporated will remain in existence and its parent corporation will still be Mercy Community Health. Our organizations have elected a year-end of June 30th and our first consolidated audit was for the period ended June 30, 2015. Attachment F includes the audited financial statements, which includes the Balance Sheets, Statements of Operations, Statements of Changes in Net Assets, and Statements of Cash Flows for the periods ended June 30, 2017 and June 30, 2018.

16. NEW FACILITY OR CONSTRUCTION

Not Applicable.

17. PRO FORMA STATEMENTS OF OPERATIONS

The pro forma statements of operations for The McAuley for the next three (3) fiscal years are contained in Attachment G. Operating projections show a continual increase in net income as occupancy rebounds from the recent census decrease and operating costs are closely monitored.

McAULEY CENTER, INCORPORATED

18. CURRENT RATE SCHEDULES AND OCCUPANCY

The current rate schedule of the standard initial entrance fees and monthly service fees including ancillary fees, not included in the monthly service fee, for The McAuley is included as Attachments I-1 through I-8.

19. ENTRANCE FEES/PERIODIC CHARGES

The standard initial entrance fees and monthly service fees schedule for The McAuley is included as Attachments I-1 through I-4. A schedule of entrance fees and monthly service fees for the past five years is included as Attachment J.

The monthly rental fees for Assisted Living apartments at The McAuley are included as Attachment I-5. A schedule of monthly fees for prior years is included in Attachment J. The monthly service fees for additional Assisted Living Services is included as Attachment I-6

A schedule of the ancillary services not included in the monthly service fee is included as Attachment I-7.

A schedule of the 2018 Occupancy Rates is included as Attachment I-8.

20. DEPARTMENT OF SOCIAL SERVICES FILINGS

The McAuley has submitted to the State of Connecticut, Department of Social Services, Elderly Services Division, all materials that it understands are necessary to file, including a Disclosure Statement and Residency Agreements, which are required for compliance with State regulations on the management of continuing care facilities. These materials are available for review at:

State of Connecticut
Department of Social Services
55 Farmington Avenue
Hartford, Connecticut 06105

21. DISCLOSURE STATEMENT COVER PAGE NOTICE

The McAuley has included on its front cover of the Disclosure Statement in prominent typeface the period covered by the Disclosure Statement and the required notice:

In accordance with Connecticut General Statute P.A. 98-250, section 23(a), "...the Registration of this Disclosure Statement does not constitute approval, recommendation or endorsement by the Department or State, nor does such registration evidence the accuracy or completeness of the information set out in this Disclosure Statement.

22. CONSTRUCTION COMPLETED IN STAGES

Not Applicable.

23. ESCROW AGENT SWORN STATEMENT

The McAuley has provided the sworn statement from Peoples United Bank, as escrow agent, that the required funds have been established and maintained and is included as Attachment L.

McAULEY CENTER, INCORPORATED

ATTACHMENT A

OFFICERS OF McAULEY CENTER, INCORPORATED
as of August 2018

Janice Hamilton-Crawford
Maureen Reardon, RSM, Ph.D.

President:
Secretary/Treasurer:

BOARD OF DIRECTORS OF MERCY COMMUNITY HEALTH, INCORPORATED

<u>Name</u>	<u>Title (Director unless otherwise noted)</u>
Camille Alvarado, DO	
Dalia Giedrimiene, MD	
Daniel J. O'Connell	
David Harris	
Jean McGinty, RSM, RN	
John Capasso	(Ex-officio)
Luis Perez	
Patricia Cook, RSM	
Patrick J. Johnson, Jr.	(Board Chair)
Peter Murphy	(Board Vice-Chair)
Janice Hamilton-Crawford	(Ex-officio)
Ann Kane, C.S.J.	
Patricia McKeon, RSM	

McAULEY CENTER, INCORPORATED

ATTACHMENT B

RESIDENCY AGREEMENTS

(See Separate Documents)

1. Pre-Residency Agreement
2. Residency Agreement – Lifecare Options
3. Residency Agreement With One Hundred Fifty Days Long Term Care Coverage
4. Residency Agreement Without Long Term Care Coverage
5. Assisted Living Residency Agreement

THE McAULEY
PART OF THE MERCY COMMUNITY†

PRE-RESIDENCY AGREEMENT

275 Steele Road, West Hartford, CT 06117-2716
Telephone 860.920.6319 FAX 860.232.4077

PRE-RESIDENCY AGREEMENT

This Pre-Residency Agreement (the “Agreement”) is entered into this _____ day of _____ between McAuley Center, Incorporated, a Connecticut non-stock corporation (“The McAuley” or “Provider”), and _____, The McAuley Prospective Resident (“Prospective Resident”). (If two persons sign this Agreement, “Prospective Resident” shall apply to both Prospective Residents, jointly and severally.)

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

The McAuley considers all applications for residency without regard to race, creed, color, sex, religion, disability, national origin or ancestry, marital or familial status and lawful sources of income, and affords equal treatment and access to all its residents.

I. APPLICATION PROCESS

A. Once Prospective Resident has accepted the available apartment (Apartment Acceptance), Prospective Resident must secure this commitment with an Entrance Fee Deposit. The Entrance Fee Deposit for each apartment is \$10,000.00.

B. The Entrance Fee Deposit will be payable within two (2) business days of Prospective Resident accepting the available apartment. A current copy of the Disclosure Statement will be given to Prospective Resident when the Entrance Fee Deposit is collected. Provider will retain any interest earned on the Entrance Fee Deposit.

C. As part of the Application Process and within ten (10) business days of the Apartment Acceptance (see Section I. B), Prospective Resident is required to provide a confidential financial disclosure to Provider. This financial disclosure is maintained with the Prospective Resident's Pre-Residency Agreement.

D. As part of the Application Process and within thirty (30) business days of the Apartment Acceptance (see Section B), Prospective Resident is required to provide a confidential, comprehensive medical history prepared by Prospective Resident's primary care physician. This medical history is maintained with the Prospective Resident's Pre-Residency Agreement.

E. As part of the Application Process, Provider reserves the right for Provider's representative(s) to visit Prospective Resident in Prospective Resident's home. The purpose of this visit will be to determine Prospective Resident's ability to live independently while at The McAuley.

F. If applicable based on Resident Agreement type and upon receipt of the medical history and financial disclosure, Provider will schedule an appointment for Prospective Resident with The McAuley's Medical Director, a Board-certified geriatrician. Provider's Medical Director will meet with Prospective Resident to review the Prospective Resident's medical history and to conduct a medical evaluation of the Prospective Resident.

II. ADMISSION PROCESS

A. Upon receipt of the financial disclosure, medical history, notes from the in-home visit (if applicable), and the medical evaluation conducted by Provider's Medical Director (if applicable), the Provider's Entrance Committee will meet to review the Prospective Resident's Application. Membership on the Entrance Committee is determined by The McAuley's Executive Director. The decision of the Entrance Committee is final.

B. In the event that the Prospective Resident's Application is accepted, Prospective Resident will be notified of this decision in writing. The Letter of Acceptance will notify Prospective Resident of medical exclusions, if applicable and if any are noted, that will be added to the Residency Agreement in the form of an Addendum. The Letter of Acceptance will specify the Prospective Resident's Occupancy Date.

C. The Occupancy Date will be the 60th day following Prospective Resident's receipt of the Letter of Acceptance. Prospective Resident may choose to occupy the apartment prior to the Occupancy Date.

D. In the event that Prospective Resident elects not to accept the available apartment after receipt of the Letter of Acceptance, the Entrance Fee Deposit, minus an administrative fee of \$500.00, will be refunded within

five (5) business days upon Provider's receipt of written notification of Prospective Resident's decision not to accept the available apartment. In the event that Prospective Resident's Application is declined, the Entrance Fee Deposit, minus an administrative fee of \$250.00, will be refunded within five (5) business days.

III. OCCUPANCY PROCESS

A. Before the Occupancy Date, as specified in Sections II. C., Prospective Resident and Provider will execute a Residency Agreement and, if applicable, any Addendum related to the Prospective Resident's Residency Agreement.

B. The balance of the Entrance Fee is payable to Provider at the time that the Residency Agreement is executed.

C. Once the Residency Agreement is executed, but at least 30 days prior to the Occupancy Date, Prospective Resident may request an extension of the Occupancy Date. Such request should be made in writing to The McAuley's Executive Director. The decision of the Provider is final.

D. During the period of time prior to the Occupancy Date, Provider's representatives will assist Prospective Resident with preparations for Prospective Resident's move to The McAuley. Provider's representative will assist Prospective Resident with various logistical issues related to the move and subsequent occupancy. In addition, Provider's representative will provide additional support including, but not limited to visits in the Prospective Resident's home, orientation to programs and services at The McAuley, and general assistance with respect to the occupancy process.

IV. TERMINATION OF AGREEMENT

A. Prospective Resident may rescind this Agreement at any time and for any reason by giving written notice to Provider (see Section V. B.).

An administrative fee will be deducted from any deposit already made to Provider as applicable and as outlined in Sections II.D. and II.E.

B. If Prospective Resident is unable to occupy the apartment due to Prospective Resident's death or due to illness, injury or incapacity, the Agreement shall terminate upon written notice to Provider. An administrative fee of \$250.00 will be deducted from any deposit already made to Provider as outlined in Sections and II.E.

C. Provider may rescind this Agreement at any time and for any reason by giving written notice to Prospective Resident (see Section V. B.). Some possible reasons may include, but not be limited to:

1. A misrepresentation on Prospective Resident's financial disclosure;
2. A disposition of Prospective Resident's assets that, in the judgment of Provider, materially impairs Prospective Resident's ability to pay future monthly service fees;
3. A decline in Prospective Resident's medical and/or cognitive condition that, in the judgment of Provider, impairs Prospective Resident's ability to live independently.

V. MISCELLANEOUS

A. Prospective Resident represents and warrants that all information that Prospective Resident has submitted or will submit to Provider, including but not limited to the Application and financial statements, is true and complete.

Prospective Resident understands and acknowledges that Provider is relying on the accuracy of such information.

B. All written notices required by this Agreement must be sent via registered or certified mail and be addressed as follows:

1. If to Prospective Resident, to Prospective Resident's most current address according to Provider's records;
2. If to Provider, to the attention of the Executive Director, The McAuley, 275 Steele Road, West Hartford, CT 06117.

Registered or certified mail shall be deemed issued when delivered or when acceptance is refused.

C. The failure of Provider in any one or more instances to insist upon strict compliance by Prospective Resident with any of the terms of this Agreement shall not be construed to be a waiver by Provider of such term(s) or of the right to insist upon strict compliance by Prospective Resident with any of the other terms of this Agreement.

D. This Agreement, including all exhibits, constitutes the entire agreement between Provider and Prospective Resident. Provider is not liable for nor bound in any manner by any statements, representations or promises made by any person representing or proposing to represent Provider unless such statements, representations, or promises are set forth in the Agreement.

E. No amendment of this Agreement will be valid unless executed in writing by both Provider and Prospective Resident. The invalidity of any restriction, condition or other provision of this Agreement will not impair or affect in any way the validity or enforceability of the remainder of this Agreement. This Agreement will be interpreted according to the laws of the State of Connecticut.

F. The MRC (The McAuley) will comply with all municipal, state and federal laws and regulations regarding consumer protection and protection

from financial exploitation. If the Prospective Resident enters into a continuing care agreement, The MRC will afford the resident all rights and privileges under Connecticut General Statutes 17b-520 et seq. and any other applicable laws. If the Prospective Resident is entering into a rental agreement, the MRC will afford the Prospective Resident all rights and privileges under landlord tenant law, title 47a of the Connecticut General Statutes.

G. The provisions of this Agreement may be modified by Provider by providing written notification of such changes to Prospective Resident. Such changes shall be provided at least thirty (30) days in advance of the effective date.

H. This Agreement becomes valid when executed by both parties and when the Entrance Fee Deposit is placed with Provider. This Agreement remains in force until the earlier of:

1. Prospective Resident's Occupancy Date; or
2. Terminated by Prospective Resident; or
3. Terminated by Provider.

Executed at West Hartford, Connecticut

on this _____ day of _____, 20 _____

PROSPECTIVE RESIDENT(S):

THE PROVIDER:

McAuley Center, Inc.
a Connecticut not-for-profit
corporation.

(Signature)

By: _____
Its Executive Director

(Printed Name)

(Signature)

(Printed Name)

APARTMENT TYPE SELECTION

According to the terms of this Agreement, Prospective Resident is encouraged to select the type of Apartment that Prospective Resident will consider for future occupancy at The McAuley.

Apartment Type Preferred

- Studio Apartment
- One Bedroom Apartment
- One Bedroom Deluxe Apartment
- Two Bedroom Apartment
- Executive Apartment



THE McAULEY
PART OF THE MERCY COMMUNITY†

RESIDENCY AGREEMENT

275 Steele Road, West Hartford, CT 06117-2716
Telephone 860.920.6319 FAX 860.232.4077

THE McAULEY RESIDENCY AGREEMENT

This Residency Agreement (the “Agreement”) is entered into this _____ day of _____ between McAuley Center, Incorporated, a Connecticut non-stock corporation (or “The McAuley” or “Us”), and _____, (“You”).

This Agreement applies to Apartment _____ a _____ bedroom Apartment (the “Apartment”). (If more than one person intending to reside at The McAuley signs this Agreement, “You” shall apply to all, jointly and severally.)

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

I. BASIC AGREEMENT

A. You agree to pay the Entrance Fee, Monthly Service Fee and any additional fees specified in Section III of this Agreement. In exchange for such payments, You will have the right, subject to the terms of this Agreement, for You to occupy the Apartment and to have access to General Services at The McAuley set forth in Section IV. A. and B. of this Agreement.

B. You have completed the Application and Admission process and have executed a Pre-Residency Agreement that is incorporated by reference into this Agreement.

C. Your Occupancy Date was specified by Us in your Letter of Acceptance. This Agreement must be executed by both You and Us prior to the Occupancy Date. The balance of the Entrance Fee by You will be payable to Us at the time this Agreement is executed by both You and Us.

D. Following the execution of this Agreement, but at least thirty (30) days prior to the Occupancy Date, You may request an extension of the Occupancy Date. Such request should be made in writing to Us (see Section XI. J). Our decision is final.

II. ACCOMMODATIONS AT THE COMMUNITY

A. Alterations

Any physical alteration of the Apartment by You requires the prior written approval by Us. Such alterations shall be at Your expense, and must be performed by craftsmen approved by Us. Upon death or termination of occupancy by You (or the second person if there are two people in the Apartment) We in our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You or Your estate.

B. Access

You agree that We and our employees and agents shall have the right, at all reasonable times, subject to our policy described below regarding housekeeping, maintenance and laundry services, to enter your Apartment for purposes of management, housekeeping, maintenance, health services, enforcement of applicable laws and regulations, emergency purposes, or any other reasonable purpose. Our policy is that at least one of You must remain in the Apartment while housekeeping, maintenance and laundry services are provided, unless You waive this policy in writing by executing an Environmental Services Waiver.

C. Property Protection and Insurance

We will not be responsible for the loss of any personal property due to any cause other than our gross negligence. You agree to indemnify Us for any loss or damage to our personal property and for any injury or damage to others or to the property of others resulting from the acts, omissions, negligence or fault of You or Your guests and invitees. You shall maintain both

personal liability and personal property insurance coverage in accordance with our rules and regulations and shall provide Us with a copy of that policy or proof of purchase, upon our request.

D. Moving Expenses

You will be responsible for all moving expenses associated with Your move into and out of The McAuley. In the event that You transfer Apartments during Your occupancy at The McAuley, You will be responsible for all moving expenses associated with such transfer. In the event that You, upon meeting the terms set forth by Us for carpet replacement and re-painting, should request that We provide carpet replacement and repainting for the Apartment, You will be responsible for all moving expenses associated with these services.

III. FINANCIAL ARRANGEMENTS

A. Contract Type

We offer two (2) different contract options. The contracts differ only with respect to the Entrance Fee amount and the Terms of the Entrance Fee Refund. The two (2) plans are described below.

_____ **Standard Refund Plan:** You pay a standard Entrance Fee based on Apartment type. At the time that the Agreement is terminated, You or Your Estate (or the estate of the last surviving Resident if there are two of You) may be entitled to a refund of 2/3 of the Entrance Fee. Any interest earned on the Entrance Fee will be retained by Us.

(Your initials on the line next to "Standard Refund Plan" indicates Your choice of this Contract.)

OR

_____ **Zero Refund Plan:** You pay a reduced Entrance Fee based on Apartment type. If the contract is terminated within the first fifty (50) months from the Occupancy Date, you may be entitled to a refund of the Entrance Fee paid, without interest, less two percent (2%) of that amount of each full month that you occupied the Apartment. After fifty (50) months, there will be no refund issued. Any interest earned on the Entrance Fee will be retained by Us.

(Your initials on the line next to "Zero Refund Plan" indicates Your choice of this Contract.)

B. Entrance Fee

The Entrance Fee for the Apartment is \$ _____. You paid a \$10,000.00 Entrance Fee Deposit prior to the execution of this Agreement. The balance of the Entrance Fee is payable in full on the date this Agreement is executed. Any interest earned on the Entrance Fee will be held in escrow and released pursuant to Connecticut law. Any interest earned on the Entrance Fee Deposit will be retained by Us.

C. Monthly Service Fees

The "Monthly Service Fee" for one person in the Apartment is \$ _____, and for a second person is \$ _____. You agree to pay the Monthly Service Fee beginning on the Occupancy Date (prorated for the actual number of days from the Occupancy Date to the end of the month in which the Occupancy Date occurs) and each month thereafter.

D. Adjustments

The amount of the Monthly Service Fee is Your share of our estimated monthly cost to operate The McAuley. The Monthly Service Fee may be adjusted from time to time, at our discretion, upon sixty (60) days written notice to You, to reflect changes in those costs. We will limit such adjustments to amounts necessary to maintain the financial stability of The McAuley. You agree to pay the adjusted Monthly Service Fee.

E. Additional Fees

In addition to the Monthly Service Fee, You will pay our fees for any Optional Services (as defined in Section IV. B. below) rendered at The McAuley. The fees for Optional Services as of the date this Agreement is executed are set forth in the Fee Schedule found in the *Resident Handbook*. We may, from time to time, adjust fees for any Optional Services at our discretion.

F. Monthly Statement

Upon occupancy, We will issue monthly statements to You by the tenth of each month requiring payment of the Monthly Service Fee plus fees for any Optional Services defined in Section IV. B. of this Agreement. Payment will be due within ten (10) days of receipt of the monthly statement. Any outstanding amounts owed to us ten (10) days after the due date will be charged a late fee of one and one half percent (1.5%) per month until the amount owed is paid in full. If You fail to pay the amounts charged under the terms of the Agreement and We must refer the account to an attorney or collection agency, You agree to pay all charges, expenses, court costs and attorneys fees incurred by Us, not to exceed any lawful limits.

G. Transfers

In the event that You temporarily transfer to any licensed care facility including a licensed skilled nursing facility and this Agreement is not otherwise terminated, You will continue to be obligated to pay the Monthly Service Fee to Us. Your Apartment will be held as provided in Article IV, Paragraphs C and D.

H. Surviving Resident

If this Agreement is executed by two of You and either one dies, effective on the first day of the month following the death, the surviving Resident will be obligated to pay the Monthly Service Fee for single occupancy in the Apartment.

I. Personal Obligations

We shall not be liable or responsible for any expenses, debts, or other obligations incurred by You on Your own account, nor shall it be obligated to furnish, supply, or give You any support, maintenance, board or lodging

while You are absent from The McAuley, except as may be provided in this Agreement.

J. Health Insurance

If You are sixty-five (65) years of age or older, You agree to enroll in and be covered by, at Your own expense, Medicare Part A and Part B, and Part D, or equivalent insurance coverage acceptable to Us under a public or private insurance plan. In addition, You agree to enroll in and be covered by a supplemental insurance policy to pay Medicare co-insurance and deductible amounts. If You are younger than sixty-five (65) years of age, You will enroll in and be covered by medical insurance coverage equivalent to the coverage provided under Medicare Part A and Part B.

You agree to provide proof of insurance coverage upon our request.

Any amounts paid or owing to You from federal, state, municipal, private, or supplemental insurance plans for services rendered to You by Us shall be paid to Us. You agree to diligently obtain all reimbursements, payments, proceeds or other benefits available under such plans or programs and authorizes Us to take such action as may be required to obtain and recover same. Any insurance proceeds received by Us in excess of the cost of such services shall be paid to You, or in the event of Your death, to Your estate.

K. Financial Requirements for Residency

As part of the Application and Admission Process, You completed a Financial Disclosure. Your Financial Disclosure is attached to this Agreement. You agree that as a condition of continued residency at The McAuley, You will provide on an annual basis or as requested by Us, an update of all information contained

in the Financial Disclosure on forms that will be given to You by Us.

You agree to make all reasonable efforts to conserve Your financial resources in order to enable You to meet your financial obligations under this Agreement.

IV. GENERAL SERVICES

A. Services Included in Monthly Service Fee

These services and amenities are included in the Monthly Service Fee:

1. Services:

- a. Normal repair and maintenance of the Apartment appliances that are provided by Us
- b. All utility expenses, except cable TV, internet, and telephone charges
- c. Town of West Hartford real estate taxes.
- d. Property and building insurance (Such insurance does not cover Your personal liability and Apartment furnishings. See Section II.)
- e. Trash removal from designated areas in accordance with environmental waste management laws and regulations

2. Amenities:

- a. Full kitchen facilities, including electric range, refrigerator/freezer, microwave and garbage disposal
- b. Individually controlled heating and air conditioning
- c. Sheer window treatments

- d. Emergency-alert system with call switches in each bedroom and bathroom of Apartment
- e. Smoke detector and sprinkler system in each Apartment
- f. Automatic washers and dryers located on each floor for personal laundry
- g. Apartment is pre-wired for telephones and cable television
- h. Individual mailboxes located in the Abbeyleix Building.
- i. Assigned uncovered parking space for one car (This parking space is assigned *exclusively* for vehicles driven *personally* by the resident.)
- j. Storage unit

3. Dietary Services:

- a. Continental breakfast and Your choice of lunch or dinner daily in the dining room and/or café
- b. To the extent reasonably possible, food selection will be made available to You in order to accommodate some physician-ordered dietary restrictions
- c. In the event of illness or physical inability, complimentary tray delivery may be provided to your apartment upon approval of the nurse on duty

4. Housekeeping and Laundry Services:

- a. General cleaning of Apartment every other week
- b. Weekly laundry service for The McAuley-provided bed and bath linens

5. Transportation Services:

- a. Scheduled transportation services to local shopping, banking, medical appointments and religious services

6. 24-Hour Services/Coverage:

- a. 24-hour concierge service, located in the A Building
- b. 24-hour health staff coverage
- c. 24-hour in Apartment emergency response system

7. Social and Recreational Activities

8. Building and grounds maintenance and custodial service:

- a. Maintenance of all community buildings, common areas and grounds, including lawns, walkways and driveways
- b. All necessary repairs, maintenance and replacement of community property and equipment located in Your Apartment, in accordance with the *Resident Handbook*

9. Health Promotion Services:

- a. You may visit our Health and Wellness Office at regularly scheduled daily times for wellness counseling and blood pressure checks.

B. Optional Services available at additional expense to You as outlined in the *Resident Handbook*

- 1. Additional meals not included under Dietary Services described in Section IV. A. 3
- 2. Guest accommodations and meals
- 3. Additional housekeeping, maintenance and custodial services not included in Sections IV. A. 1., IV. 4., and IV. A. 8

4. Beauty Salon/Barber Shop Services
5. Expenses incurred by Us on Your behalf that are not included in the scope of services as described in Section IV. A. above
6. Access to health services in addition to those described in Section IV. A. 9. above, including Medicare reimbursable services through a licensed home health care agency and assistance with transfers to nursing homes and hospitals
7. Assisted Living Services provided by The McAuley Assisted Living Services Agency to those who reside in an independent living Apartment and who have a chronic and stable condition which necessitates assistance with some activities of daily living, but who do not require skilled nursing care

C. Skilled Nursing Services

- 1. Temporary Placement:** During Your temporary stay in Saint Mary Home or other skilled nursing facility, Your right to occupy the Apartment will continue and You will continue to pay the Monthly Service Fee. Expenses incurred by You while temporarily placed in a skilled nursing facility shall be your obligation.

- 2. Permanent Placement:** We will be responsible for the cost of skilled nursing care at Saint Mary Home once the following criteria have been met:
 - a. You or Your legal representative have notified Us, in writing, that your placement in the skilled nursing facility is permanent; and
 - b. Your primary care physician has certified in writing that the permanent placement is medically necessary; and

- c. You vacate Your living unit at The McAuley as defined in Section X.
3. You have a preferred access agreement with Saint Mary Home for the provision of skilled nursing services for residents of The McAuley. You may be permanently admitted to Saint Mary Home on an order from Your personal physician after consultation with You, Your family or legal representative and Our representative. Accommodations at Saint Mary Home will be in a semi-private room. If You choose a permanent placement at Saint Mary Home and no bed is available, We will arrange for You to be placed in a skilled nursing facility in the area, reasonably acceptable to both You and Us, at the semi- private room rate, until a bed becomes available at Saint Mary Home.
4. During Your permanent stay at Saint Mary Home, You will continue to pay the Monthly Service Fee.
5. If You are permanently placed at Saint Mary Home, We will be responsible for the *per diem* semi-private rate at Saint Mary Home, all Your other expenses incurred while at Saint Mary Home shall be your obligation. If You should become eligible for a Medicare benefit or for benefits payable from Your personal long term care insurance instrument, the proceeds from Medicare or Your long term care insurance or other insurance will be applied, if applicable, to the semi-private room rate. You will be responsible for charges for all services and items provided at the skilled nursing facility in excess of those paid from Medicare or other insurance for non-covered items and services including personal expenses.

6. In the event that you receive services at Saint Mary Home, We will advance to Saint Mary Home the monthly fees that correspond to the semi-private room rate.
7. The long term care coverage (as described in Section IV.C) offered to Residents of The McAuley who are permanently placed in a skilled nursing facility can only be applied after you have been discontinued from coverage under the Medicare program and the provisions of Section IV.C.2 have been met.
8. All permanent placement decisions may be reviewed by The Mercy Community Medical Director.

D. Hospitals and Other Health Care Services

We will not provide, pay for, or indemnify You for hospital, physician, ambulance, surgical, home health care services, or for drugs, medical supplies, X-rays, laboratory and other diagnostic tests, eyeglasses or refractions, hearing aids, dentistry, dentures, inlays, orthopedic appliances, private duty nursing care, podiatric services, physical therapy, treatment for psychiatric disorders, alcoholism, or similar items or services.

In the event that You are temporarily absent from The McAuley due to hospitalization, Your right to occupy the Apartment will continue and You will remain responsible for payment of the Monthly Service Fee.

E. Private Duty Care

In the event that You wish to employ outside caregivers, companions, private duty aides or other personnel to provide services to You, You must notify the Director of Health and Wellness prior to obtaining any these services. These outside caregivers, companions, private duty aides or other personnel must comply with the personnel policies, and the rules and regulations set forth by The McAuley and The Mercy Community.

V. TERMINATION OF AGREEMENT

A. Termination by Resident

1. Prior to Occupancy

- a. You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving Us written notice by registered or certified mail. We will refund to You all fees paid to You minus an administrative fee of \$1000.00.
- b. If You (or both of You if there are two of You) die before the Occupancy Date, We will terminate this Agreement upon receipt of written notification from Your legal representative. We will refund to Your estate or representative all fees paid to Us minus an administrative fee of \$500.00.
- c. If You cannot occupy the Apartment on the Occupancy Date due to illness, injury or incapacity of You (or both of You if there are two of You), We will terminate this Agreement upon receipt of written notification from You or Your legal representative by registered

or certified mail. We will refund to You all fees paid to Us minus an administrative fee of \$500.00.

- d. If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement by giving Us written notice by registered or certified mail. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee.
- e. If You fail to occupy the Apartment for any other reason at least thirty (30) days following the execution of this Agreement, we will refund to You all fees paid to Us minus an administrative fee of \$1000.00.

2. After Occupancy

- a. You may terminate this Agreement for any reason subsequent to the Occupancy Date by giving at least one hundred twenty (120) days advance written notice of the intent to terminate this Agreement and vacate the Apartment. Notice shall be sent to Us by registered or certified mail (see Section XI. J.). The notice shall specify the date upon which You will vacate the Apartment; that date shall be no earlier than one hundred and twenty (120) days from date of notice. The actual date of termination will be the latest to occur of the date specified in the notice and the date by which all of Your personal property has been removed from the Apartment. You will be responsible for paying the Monthly Service Fee until the Apartment is vacated.
- b. Subsequent to occupancy, upon Your death, or the occurrence of an illness, hospitalization or injury, which precludes You from living at The McAuley:

- i. If You are the sole occupant of the Apartment, this Agreement will terminate when all of Your personal property has been removed from the Apartment.
 - ii. If this Agreement covers two of You, this Agreement will terminate as to the deceased or ill Resident who can no longer reside at The McAuley upon written notice of that Resident's death or notice of intent to move out. This Agreement shall remain in effect as to the surviving Resident with appropriate adjustment of the Monthly Service Fee, as set forth in Section III. B. of this Agreement.
 - iii. In the event of a Resident's death, the Resident's estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following the date of death as long as the Resident's personal property has been removed from the Apartment.
3. Entrance Fee refund procedures are set forth in Section VIII.

B. Termination by Us

We may terminate this Agreement upon the occurrence of any of the following events, by sending You a written notice:

1. Termination Prior to Occupancy Date

- a. A misrepresentation on Your Financial Disclosure;
- b. A disposition of Your assets that, in Our judgment, materially impairs Your ability to pay future Monthly Service Fees;

- c. A decline in Your medical and/or cognitive condition that, in Our judgment, impairs Your ability to live independently;
- d. You fail to pay the balance of the Entrance Fee when due.

2. Termination Subsequent to Occupancy for Non-Medical Reasons

If You default under this Agreement, We will give You written notice of Your default. You will have thirty (30) days from date of such notice to cure the default. If the default is not cured within such thirty (30) day period, this Agreement will terminate. The following shall constitute Your default:

- a. If We determine that information on the Application for Residency is erroneous or that any material facts affecting qualification for residency were not disclosed.
- b. If You (or either of You if there are two of You) fail to comply with Our rules and regulations of Us or the terms of this Agreement.
- c. If You (or either of You if there are two of You) create a situation detrimental to the health, safety or peaceful living of You, other Residents or Our staff as determined by Us.
- d. If You make any disposition of Your assets which, in Our judgment, materially impairs Your ability to pay the current or future Monthly Service Fee or other costs pursuant to this Agreement.
- e. If You fail to pay the Monthly Service Fee or other amounts owing to Us within ten (10) days of the due date, unless other mutually satisfactory arrangements have been made. It is Our intention that this Agreement shall not be terminated solely

because of financial inability to pay the fees to the extent that:
a) the inability to pay is not the result of the willful action of You; and b) in Our judgment, the financial viability of The McAuley will not be jeopardized by such failure to pay amounts due. In the event that You are unable to pay Your Monthly Service Fee as described above, The McAuley will assist You in finding alternative living arrangements that, in Our assessment, will meet Your needs. During such time that We are assisting You to find alternative living arrangements, but not to exceed thirty (30) days, You will not be required to pay Your Monthly Service Fee to The McAuley. Once, in Our opinion, an suitable alternate living arrangement has been identified, the move out must occur within thirty (30) days. Moving expenses will be Your responsibility.

We reserve the right to terminate this Agreement immediately without advance notice in the event a default under b. or c. of this subsection jeopardizes the health, safety or welfare of You or other Residents of The McAuley.

3. Termination Subsequent to Occupancy for Medical Reasons

We may terminate this Agreement after occupancy, if You are in need of treatment and services for any condition for which We are not licensed or for which care is not customarily provided in The McAuley or a skilled nursing facility. If any of the above situations is determined to be temporary in nature, the Apartment will remain reserved for You and You will remain responsible for payment of the Monthly Service Fee. If it is determined that the situation is not temporary in nature,

all Our obligations and all of Your rights in this Agreement will terminate as of the date of such determination; provided, however, that any right You may have to receive a refund of any portion of the Entrance Fee in accordance with Section VIII. and Your obligations to make payments to Us for any balance that accrued prior to the termination, will survive the termination.

4. **Entrance Fee**

Entrance Fees shall be refunded in accordance with Section VIII of this Agreement.

VI. SPECIAL OCCUPANCY CIRCUMSTANCES

A. Death of Resident

If two of You sign this Agreement and one of You dies, this Agreement shall remain in effect as to the surviving Resident.

B. Separation

1. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You desire separate Apartments, one of You may remain in the Apartment and the other may transfer to another Apartment (subject to Our Internal Transfer Guidelines) upon payment of the then current monthly Service Fees and Entrance Fee pertaining to that other Apartment. In addition, the Resident securing the second

Apartment will be required to execute a new and separate Agreement. The Resident remaining in the Apartment will be obligated to pay the single occupancy Monthly Service Fee for that Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the Resident remaining in the Apartment and the refund provisions of the new Agreement will apply with respect to the Resident moving to the new Apartment.

2. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You both choose to reside in different Apartments, You both may transfer, subject to Apartment availability (refer to Our Internal Transfer Guidelines) upon payment of the then current Monthly Service Fee and Entrance Fee pertaining to the new Apartments. In addition, You both will be required to execute new and separate Agreements. There will not be a refund of any portion of the original Entrance Fee paid by both of You for the original Apartment at that time. The refund provisions of the new Agreements will apply with respect to both of You.

3. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy one of You desires to leave The McAuley permanently for another residence, then the Resident leaving The McAuley will surrender all rights under this Agreement (see Termination by Resident). The remaining Resident will retain all rights under this Agreement (see Termination

by Resident). The remaining Resident will retain all rights as a Resident and will pay the single occupancy Monthly Service Fee for the Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the person remaining in the Apartment. The refund provisions of this Agreement will be operative only upon the death or termination of occupancy of the remaining Resident.

C. Resident Marriage

1. If You marry another Resident and both of You desire to reside in the same Apartment, You both may either, a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines). In either case, We will honor the existing Agreement for each of You. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Residents, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the couple resides, and the second Resident will pay the Monthly Service Fee for a Studio Apartment.

2. If You marry a non-resident and You both desire to live in Your Apartment, the non-Resident must apply to Us for residency and meet all applicable Application and Admission requirements.
 - i. If the non-Resident spouse is accepted for residency, a new Residency Agreement must be executed by all parties. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, Your Spouse and Us.
 - ii. If the non-Resident spouse is not accepted for residency, We and You will execute an Addendum to the Agreement with respect to living arrangements for the non-Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident spouse will be subject to Our rules and regulations, as amended from time to time.

D. Special Resident Occupancy

1. If You decide to reside in the same apartment with another current Resident who previously resided in a different Apartment, You and the other Resident may either: a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines).

In either case, We will honor the existing Agreement for You and for the other Resident. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Yous, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the two of You reside, and the second will pay the Monthly Service Fee for a Studio Apartment.

2. If a You and a non-Resident desire to live in Your Apartment, the non-Resident must apply to Us for residency and meet all applicable Application and Admission requirements.
 - i. If the non-Resident is accepted for residency, a new Residency Agreement must be executed by You and the non-Resident. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, the non-Resident, and Us.
 - ii. If the non-Resident is not accepted for residency, We and You will execute an Addendum to Your Agreement with respect to living arrangements for the non-Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident will be subject to Our rules and regulations, as amended from time to time.

E. Guests

Guests staying in Resident Apartments are welcome at all times. Any visitation in the Apartment by a non-Resident for more than a two-week period in any calendar year must be arranged with, and expressly approved in writing by Us. Guest meals will be available for an additional charge that will be added to Your Monthly Statement.

VII. TRANSFER TO A DIFFERENT APARTMENT

If You wish to transfer to a different Apartment, You must notify Us in writing of the desire to transfer Apartments. A Fee of \$10,000.00 will be assessed once the transfer is approved. We will assist You with such a transfer, subject to Our Internal Transfer Guidelines. Our Internal Transfer Guidelines are incorporated by reference into, and attached as Exhibit 1 of this Agreement. When a new Apartment is available and You transfer, the Monthly Service Fee and the Entrance Fee will be adjusted to the then current charges for that Apartment type. The parties will amend this Agreement in writing prior to the transfer becoming effective to reflect such adjustments. If the current Entrance Fee for the new Apartment is less than the original Entrance Fee paid by You, there will be no refund of any portion of the Entrance Fee. All refunds will be made in accordance with Section VIII upon termination of this Agreement. We have established policies on the procedures and charges for transfers and may, from time to time, adjust this policy.

VIII. REFUND OF ENTRANCE FEE

In the event this Agreement is executed by two persons, the Entrance Fee refund Procedures set forth below in this Section shall not apply until the last of the two of You dies or this Agreement is otherwise terminated by both of You as set forth in Section V of this Agreement.

A. Prior to the Occupancy Date

1. Apartment Not Available

If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee. Such refund will be issued within thirty (30) days of the receipt of the notice of termination.

2. Death, Illness, Injury or Incapacity of Resident

If for reason of death, illness or injury, or incapacity, You are not able to occupy Apartment on the Occupancy Date, We will refund the Entrance Fee paid, without interest, minus a \$500.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V. A.1 above.

3. Termination Within Thirty (30) Days of Execution of this Agreement

You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving us written notice by registered, or certified mail. We will refund to you all fees paid to you minus an administrative fee of \$1,000.00.

4. If for any other reason, You are not able to or choose not to occupy Apartment on the Occupancy Date and more than thirty (30) days have passed since execution of this Agreement, We will refund the Entrance Fee paid, without interest, minus a \$1,000.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V.A.1.

B. Subsequent to the Occupancy Date – Standard Rental Refund Plan

_____ **Standard Refund Plan**

(Your initials on the line next to “Standard Refund Plan” indicates Your choice of this Contract.)

You, at the time this Agreement was executed, selected the Standard Rental Refund Plan. If this Agreement is terminated after the Occupancy Date but within the first year of occupancy, that is prior to the first anniversary of the Occupancy Date, We will refund the Entrance Fee, without interest, less two percent (2%), of that amount for each thirty (30) day periods prorated on a per diem basis. If this Agreement is terminated after the first anniversary of the Occupancy Date, We will refund two-thirds (66.667%) of the Entrance Fee paid. Any interest earned on the Entrance Fee will be retained by Us.

C. Subsequent to the Occupancy Date – Zero Refund Plan

Zero Refund Plan

(Your initials on the line next to “Zero Refund Plan” indicates Your choice of this Contract.)

You, at the time this Agreement was executed, selected the Zero Refund Plan. During the first fifty (50) months from the Occupancy Date, We will refund the original Entrance Fee Paid, without interest, less two percent (2%) of that amount for each full month from the Occupancy Date to the date the Apartment is vacated and empty of all personal possessions or the Agreement is terminated, whichever comes later.

Subsequent to the first fifty (50) months from the Occupancy Date, there will be zero refund of the original Entrance Fee paid by You.

D. Refund Payment

Any refunds due to You or Your estate pursuant to the prior two paragraphs will be payable within sixty (60) days following the later date when both of the following events first occur, *but in no case shall the refund be delivered to you or your estate later than three years from the date this contract is terminated:*

1. We receive an Entrance Fee for an Apartment similar in style (*e.g.* studio, one bedroom, *etc.*) to Your Apartment; and
2. We have refunded all other entrance fees due and payable pursuant

to residency agreements for like Apartment styles pursuant to residency agreements that terminated prior to the termination of this Agreement.

Notwithstanding the foregoing, We may, at our option, deduct from any Entrance Fee refund any monies advanced to You by Us and any monies owed Us under Section III of this Agreement or under any other provision of this Agreement. In the event that You have incurred charges which exceed the Entrance Fee refund balance, no refund will be issued and You or Your estate will be liable and billed for the excess amount.

We will pay any refund due hereunder to You or Your estate if You are deceased, unless We are otherwise directed by written instructions signed by You and accepted by Us.

IX. EXTENDED ABSENCE

If You are away from The McAuley for fourteen (14) or more consecutive days due to an admission into an acute care setting, a rehabilitation stay or a temporary stay in a skilled nursing facility, You will receive a daily meal credit on Your Monthly Statement for those days when You were away from The McAuley. The credit for missed meals will be calculated upon your return and will be reflected in your following months statement. Your right to occupy the Apartment and Your payment obligations will be as set forth in Section IV.D above.

X. VACATING APARTMENT

Upon termination of this Agreement, You must vacate the Apartment within thirty (30) days. For purposes of this Agreement, the Apartment will not be considered vacated until all of Your personal property is removed from the Apartment. You will be responsible for the Monthly Service Fee during this thirty (30) day period; provided, however, that if the Agreement is terminated as a result of Your death, Your estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following Your death as long as Your Apartment has been vacated. If the Apartment is not vacated within the thirty (30) days, We will have the right to remove and store all property left in the Apartment after thirty (30) days. You will be responsible for the costs incurred as a result of moving and storing such items. Property left in storage for ninety (90) days or more may be disposed of by Us at Your expense.

When You vacate the Apartment, We expect that the Apartment will be left in the same condition as of the Occupancy Date, ordinary wear and tear excluded. We may charge You for any damage to the Apartment that, at Our discretion, is deemed as not the result of ordinary wear and tear. If with Our permission, You physically altered the Apartment, We, in Our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You.

XI. MISCELLANEOUS

A. Fees Not Held in Trust

All fees paid to Us, including Entrance Fees, shall become the sole property of Us as payment for residence and services, except to the extent that Entrance Fees may be refundable under this Agreement.

B. Subordination

All Your rights under this Agreement are subordinate to any existing or future mortgages on The McAuley and to any of Our other creditors with respect to The McAuley. You agree to execute any documents requested by Us in order to carry out the terms of this Section.

C. Property Rights

This Agreement grants You a revocable license to occupy and use space in The McAuley. This Agreement is not a lease and does not transfer or grant to You any ownership interest or rights of tenancy in real or personal property owned or leased by Us. Your rights under this Agreement, except Your rights to any refunds to which You are entitled under this Agreement, are subject to all terms and conditions of this Agreement and are subordinate to any mortgage, financing deed, deed of trust, or other financing on The McAuley.

D. Arrangements for Conservatorship

If You become unable to care properly for Yourself or Your property and have made no designation of a conservator or trustee, then We are authorized to institute proceedings for appointment of a person or entity to serve as conservator for You.

E. Rules and Regulations

We shall have the right to adopt or amend such reasonable policies, rules, regulations, guidelines and operating procedures (“Rules and Regulations”) as deemed necessary or desirable for proper management and operation and for the health, safety and comfort of the Residents. The *Resident Handbook* summarizes many of Our Rules and Regulations, and is incorporated by reference into this Agreement. You agree to abide by the Rules and Regulations.

F. Smoking

The McAuley is a smoke-free campus; therefore, smoking is prohibited. This applies to all areas in The McAuley, including but not limited to: The McAuley vehicles, Your apartments, apartment balconies, the front entrances to each building, all dining areas, meeting rooms, activity areas and all corridors, and all grounds belonging to The Mercy Community. This prohibition applies to everyone, including all Residents, family members, overnight guests, visitors, and private duty assistants.

G. Compliance with Laws and Regulations

We will comply with all municipal, state and federal laws and regulations regarding consumer protection and protection from financial exploitation. We will afford You all rights and privileges under Section 17b-520 *et seq.* Connecticut General Statutes.

H. Grievance Procedure

You may present a formal complaint about any alleged violation of the Residency Agreement. The complaint must be submitted in writing and delivered to the Executive Director at the address specified in Paragraph J below. Upon receipt of a formal written complaint, the Executive Director or designee will respond within five (5) business days. The Executive Director or designee will respond in writing after conducting an investigation. If You are not satisfied with the response, You may appeal the decision to the Chief Executive Officer (CEO) of Mercy Community Health. This appeal must be made in writing and delivered to the CEO at The McAuley, 275 Steele Road, West Hartford, CT, 06117, Attn.: Chief Executive Officer. Under no circumstances will The McAuley, its Executive Director, or the CEO or any other agent allow or permit retaliation against a Resident who has filed a complaint.

I. Accuracy of Information

You represent and warrant that all information that You have submitted or will submit to Us, including but not limited to annual financial statements, is true and complete. You understand and acknowledge that We are relying on such information.

J. Notices

All written notices required by this Agreement will be sufficient if addressed:

1. If to You: to Your Apartment at The McAuley;
2. If to Us, to the Executive Director, The McAuley, 275 Steele Road, West Hartford, CT 06117.

Unless otherwise specified in this Agreement, all written notices shall be sent by registered or certified U.S. Mail, overnight express courier service, or messenger service and shall be deemed issued when delivered or when acceptance is refused.

K. Waiver

Our failure in any one or more instances to insist upon strict compliance by You with any of the terms of this Agreement shall not be construed to be a waiver by Us of such term(s) or of the right to insist upon strict compliance by You with any of the other terms of this Agreement.

L. Assignment

Your rights and benefits under this Agreement (except for the possible right to a refund of some part of the Entrance Fee) are not assignable and will not inure to the use or benefit of the heirs, legatees, assignees or representatives of You, but Your obligations under this Agreement

shall bind Your heirs, legatees, assignees or representatives. The Agreement shall bind and inure to the benefit of Our successors and assigns.

M. Entire Agreement

This Agreement, including all exhibits, constitutes the entire agreement between Us and You. We are not liable for nor bound in any manner by any statements, representations or promises made by any person representing or proposing to represent Us unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing and signed by Us and You.

N. Interpretation of Agreement

No amendment of this Agreement will be valid unless executed in writing by both You and Us.

The invalidity of any restriction, condition or other provision of this Agreement will not impair or affect in any way the validity or enforceability of the remainder of this Agreement. This Agreement will be interpreted according to the laws of the State of Connecticut.

O. Counterparts

This Agreement may be executed in counterparts.

Executed at West Hartford, Connecticut on this _____ day
of _____, 20 ____.

RESIDENT(S):

(Signature)

(Printed Name)

(Signature)

(Printed Name)

THE PROVIDER:

McAuley Center, Inc.
a Connecticut not-for-profit
corporation.

By: _____
Its Executive Director

**Summary of Key Information
Contained in this Residency Agreement**

Resident Name(s):

Contract Type:

_____ Standard Refund Plan, or

_____ Zero Refund Plan

Occupancy Date: _____

Unit Number: _____ Unit Type: _____

Entrance Fee Amount: _____

Monthly Service Fee: First Person: _____

Second Person: _____

EXHIBIT 1 (Internal Transfers and Guidelines)

1. Policy Statement

- A. All residents choose their independent living unit prior to occupancy. Once the resident occupies the living unit, the applicable unit is considered the resident's primary residence. From time to time, and in consideration of a number of factors, it may be necessary for the resident to move to a different independent living unit. Any internal transfer from the primary residence to another living unit at The McAuley is subject to the Internal Transfer Guidelines.
- B. Current residents who desire to change units and make these requests are also placed on a waiting list. In this case, the name is placed in the last position for the living unit type requested.
- C. In certain circumstances, a current resident of The McAuley may request a living unit change for financial or medical reasons. In this case, The McAuley will give priority placement on the applicable waiting list. Priority consideration means that the current resident will be placed in the first position on the waiting list.

2. Internal Transfer Procedure

There are four (4) possible scenarios with respect to an internal transfer of living units. The following guidelines apply to these specific unit transfers.

A. Pre-Arranged Move (Prior to Move-In) to a Different Living Unit

1. In certain circumstances, a resident may elect to move to The McAuley and into an available living unit, even if that unit is not the resident's choice.
2. In this situation, The McAuley and the resident will enter into an Addendum as part of the Residency Agreement. The Addendum will specify that the resident is entitled to move into an alternative unit and will specify the details of this relocation. In this situation, the resident will be given priority placement on the applicable living unit wait list. All moving expenses are the responsibility of the resident.

B. Planned Move (After Move-In) to a Different Living Unit

1. In certain circumstances, a resident will select a living unit and, once residing in that unit, will desire to relocate to another living unit. For example, a resident chooses a living unit with a view of the parking lot and then decides that a view of the University of Saint Joseph would be more appealing.
2. In this situation, the resident must notify the Sales Department of the desire to change living units. The resident's request will be noted on the applicable waiting list for the unit desired. At that time, the resident's name will be placed in the last position on the applicable wait list.
3. In the event that a unit comes available and the resident selects this unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new

entrance fee is less than the original entrance fee, no entrance refund will be provided to the resident. The Resident must also be aware that a change in monthly fees may also apply as a result of a living unit transfer. All moving expenses are the responsibility of the resident.

C. Required Move (after Move-In) to a Smaller Living Unit for Financial Reasons

1. In certain instances, due to a loss of financial means, it may become necessary to relocate to a smaller living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the size living unit that the resident is requesting. The Executive Director will review the request and meet with the resident to review his/her financial position. After due consideration, if the request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.
3. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.

D. Required Move (after Move-In) to a Different Living Unit for Medical Reasons

1. In certain instances, due to a change in resident's medical status, it may become necessary for the resident to relocate to a different living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the location of the unit that the resident is requesting.
3. The Executive Director will review the request and meet with the representatives of The McAuley to review the resident's change in medical status and the relocation request. After due consideration, if the resident's request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to a different living unit, the resident's monthly fee will be adjusted. If the resident relocates to a larger living unit, the resident's monthly fee will be adjusted. Further, if the resident relocates to a larger living unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.
4. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The resident's original entrance fee will be applied to the

entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.



THE McAULEY
PART OF THE MERCY COMMUNITY†

RESIDENCY AGREEMENT
WITH 150 DAYS LONG TERM CARE COVERAGE

275 Steele Road, West Hartford, CT 06117-2716
Telephone 860.920.6319 FAX 860.232.4077

THE McAULEY RESIDENCY AGREEMENT

This Residency Agreement (the “Agreement”) is entered into this _____ day of _____ between McAuley Center, Incorporated, a Connecticut non-stock corporation (or “The McAuley” or “Us”), and _____, (“You”).

This Agreement applies to Apartment _____ a _____ bedroom Apartment (the “Apartment”). (If more than one person intending to reside at The McAuley signs this Agreement, “You” shall apply to all, jointly and severally.)

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

I. BASIC AGREEMENT

A. You agree to pay the Entrance Fee, Monthly Service Fee and any additional fees specified in Section III of this Agreement. In exchange for such payments, You will have the right, subject to the terms of this Agreement, for You to occupy the Apartment and to have access to General Services at The McAuley set forth in Section IV. A and B of this Agreement.

B. You have completed the Application and Admission process and have executed a Pre-Residency Agreement that is incorporated by reference into this Agreement.

C. Your Occupancy Date was specified by Us in your Letter of Acceptance. This Agreement must be executed by both You and Us prior to the Occupancy Date. The balance of the Entrance Fee by You will be payable to Us at the time this Agreement is executed by both You and Us.

D. Following the execution of this Agreement, but at least thirty (30) days prior to the Occupancy Date, You may request an extension of the Occupancy Date. Such request should be made in writing to Us (see Section XI. J) Our decision is final.

II. ACCOMMODATIONS AT THE COMMUNITY

A. Alterations

Any physical alteration of the Apartment by You requires the prior written approval by Us. Such alterations shall be at Your expense, and must be performed by craftsmen approved by Us. Upon death or termination of occupancy by You (or the second person if there are two people in the Apartment.) We in our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You or Your estate.

B. Access

You agree that We and our employees and agents shall have the right, at all reasonable times, subject to our policy described below regarding housekeeping, maintenance and laundry services, to enter your Apartment for purposes of management, housekeeping, maintenance, health services, enforcement of applicable laws and regulations, emergency purposes, or any other reasonable purpose. Our policy is that at least one of You must remain in the Apartment while housekeeping, maintenance and laundry services are provided, unless You waive this policy in writing by executing an Environmental Services Waiver.

C. Property Protection and Insurance

We will not be responsible for the loss of any personal property due to any cause other than our gross negligence. You agree to indemnify Us for any loss or damage to our personal property and for any injury or damage to others or to the property of others resulting from the acts, omissions, negligence or fault of You or Your guests and invitees. You shall maintain both

personal liability and personal property insurance coverage in accordance with our rules and regulations and shall provide Us with a copy of that policy or proof of purchase, upon our request.

D. Moving Expenses

You will be responsible for all moving expenses associated with Your move into and out of The McAuley. In the event that You transfer Apartments during Your occupancy at The McAuley, You will be responsible for all moving expenses associated with such transfer. In the event that You, upon meeting the terms set forth by Us for carpet replacement and re-painting, should request that We provide carpet replacement and repainting for the Apartment, You will be responsible for all moving expenses associated with these services.

III. FINANCIAL ARRANGEMENTS

A. Contract Type

Standard Refund Plan: You pay a standard Entrance Fee based on Apartment type. At the time that the Agreement is terminated, You or Your Estate (or the estate of the last surviving Resident if there are two of You) may be entitled to a refund of eighty percent (80%) of the Entrance Fee. Any interest earned on the Entrance Fee will be retained by Us.

B. Entrance Fee

The Entrance Fee for the Apartment is \$ _____. You paid a \$10,000.00 Entrance Fee Deposit prior to the execution of this Agreement. The balance of the Entrance Fee is payable in full on the date this Agreement is executed. Any interest earned on the Entrance Fee will be held in escrow and released pursuant to Connecticut law. Any interest earned on the Entrance Fee Deposit will be retained by Us.

C. Monthly Service Fees

The "Monthly Service Fee" for one person in the Apartment is \$ _____, and for a second person is \$ _____. You agree to pay the Monthly Service Fee beginning on the Occupancy Date (prorated for the actual number of days from the Occupancy Date to the end of the month in which the Occupancy Date occurs) and each month thereafter.

D. Adjustments

The amount of the Monthly Service Fee is Your share of our estimated monthly cost to operate The McAuley. The Monthly Service Fee may be adjusted from time to time, at our discretion, upon sixty (60) days

written notice to You, to reflect changes in those costs. We will limit such adjustments to amounts necessary to maintain the financial stability of The McAuley. You agree to pay the adjusted Monthly Service Fee.

E. Additional Fees

In addition to the Monthly Service Fee, You will pay our fees for any Optional Services (as defined in Section IV. B. below) rendered at The McAuley. The fees for Optional Services as of the date this Agreement is executed are set forth in the Fee Schedule found in the *Resident Handbook*. We may, from time to time, adjust fees for any Optional Services at our discretion.

F. Monthly Statement

Upon occupancy, We will issue monthly statements to You by the tenth of each month requiring payment of the Monthly Service Fee plus fees for any Optional Services defined in Section IV. B. of this Agreement. Payment will be due within ten (10) days of receipt of the monthly statement. Any outstanding amounts owed to us ten (10) days after the due date will be charged a late fee of one and one half percent (1.5%) per month until the amount owed is paid in full. If You fail to pay the amounts charged under the terms of the Agreement and We must refer the account to an attorney or collection agency, You agree to pay all charges, expenses, court costs and attorneys fees incurred by Us, not to exceed any lawful limits.

G. Transfers

In the event that You temporarily transfer to any licensed care facility including a licensed skilled nursing facility and this Agreement is not otherwise terminated, You will continue to be obligated to pay the Monthly Service Fee to Us. Your Apartment will be held as provided in Article IV, Paragraphs C and D.

H. Surviving Resident

If this Agreement is executed by two of You and either one dies, effective on the first day of the month following the death, the surviving Resident will be obligated to pay the Monthly Service Fee for single occupancy in the Apartment.

I. Personal Obligations

We shall not be liable or responsible for any expenses, debts, or other obligations incurred by You on Your own account, nor shall it be obligated to furnish, supply, or give You any support, maintenance, board or lodging while You are absent from The McAuley, except as may be provided in this Agreement.

J. Health Insurance

If You are sixty-five (65) years of age or older, You agree to enroll in and be covered by, at Your own expense, Medicare Part A and Part B, and Part D, or equivalent insurance coverage acceptable to Us under a public or private insurance plan. In addition, You agree to enroll in and be covered by a supplemental insurance policy to pay Medicare co-insurance and deductible amounts. If You are younger than sixty-five (65) years of age, You will enroll in and be covered by medical insurance coverage equivalent to the coverage provided under Medicare Part A and Part B.

You agree to provide proof of insurance coverage upon our request.

Any amounts paid or owing to You from federal, state, municipal, private, or supplemental insurance plans for services rendered to You by Us shall be paid to Us. You agree to diligently obtain all reimbursements, payments, proceeds

or other benefits available under such plans or programs and authorizes Us to take such action as may be required to obtain and recover same. Any insurance proceeds received by Us in excess of the cost of such services shall be paid to You, or in the event of Your death, to Your estate.

K. Financial Requirements for Residency

As part of the Application and Admission Process, You completed a financial disclosure. Your Financial Disclosure is attached to this Agreement. You agree that as a condition of continued residency at The McAuley, You will provide on an annual basis or as requested by Us, an update of all information contained in the Financial Disclosure on forms that will be given to You by Us.

You agree to make all reasonable efforts to conserve Your financial resources in order to enable You to meet your financial obligations under this Agreement.

IV. GENERAL SERVICES

A. Services Included in Monthly Service Fee

These services and amenities are included in the Monthly Service Fee:

1. Services:

- a. Normal repair and maintenance of the Apartment appliances that are provided by Us
- b. All utility expenses, except cable TV, internet, and telephone charges
- c. Town of West Hartford real estate taxes.
- d. Property and building insurance (Such insurance does not cover Your personal liability and Apartment furnishings. See Section II.)
- e. Trash removal from designated areas in accordance with environmental waste management laws and regulations

2. Amenities:

- a. Full kitchen facilities, including electric range, refrigerator/freezer, microwave and garbage disposal
- b. Individually controlled heating and air conditioning
- c. Sheer window treatments
- d. Emergency-alert system with call switches in each bedroom and bathroom of Apartment
- e. Smoke detector and sprinkler system in each Apartment
- f. Automatic washers and dryers located on each floor for personal laundry
- g. Apartment is pre-wired for telephones and cable television
- h. Individual mailboxes located in the Abbeyleix Building.

- i. Assigned uncovered parking space for one car (This parking space is assigned *exclusively* for vehicles driven *personally* by the resident.)
- j. Storage unit

3. Dietary Services:

- a. Continental breakfast and Your choice of lunch or dinner daily in the dining room and/or café
- b. To the extent reasonably possible, food selection will be made available to You in order to accommodate some physician-ordered dietary restrictions
- c. In the event of illness or physical inability, complimentary tray delivery may be provided to your apartment upon approval of the nurse on duty

4. Housekeeping and Laundry Services:

- a. General cleaning of Apartment every other week
- b. Weekly laundry service for The McAuley-provided bed and bath linens

5. Transportation Services:

- a. Scheduled transportation services to local shopping, banking, medical appointments and religious services

6. 24-Hour Services/Coverage:

- a. 24-hour concierge service, located in the Abbeyleix Building
- b. 24-hour health staff coverage
- c. 24-hour in Apartment emergency response system

7. Social and Recreational Activities

8. Building and grounds maintenance and custodial service:

- a. Maintenance of all community buildings, common areas and grounds, including lawns, walkways and driveways
- b. All necessary repairs, maintenance and replacement of community property and equipment located in Your Apartment, in accordance with the *Resident Handbook*

9. Health Promotion Services:

- a. You may visit our Health and Wellness Office at regularly scheduled daily times for wellness counseling and blood pressure checks.

B. Optional Services available at additional expense to You as outlined in the *Resident Handbook*

1. Additional meals not included under Dietary Services described in Section IV. A. 3
2. Guest accommodations and meals
3. Additional housekeeping, maintenance and custodial services not included in Sections IV. A. 1., IV. 4., and IV. A. 8
4. Beauty Salon/Barber Shop Services
5. Expenses incurred by Us on Your behalf that are not included in the scope of services as described in Section IV. A. above
6. Access to health services in addition to those described in Section IV. A. 9. above, including Medicare reimbursable services through a licensed home health care agency and assistance with transfers to nursing homes and hospitals
7. Assisted Living Services provided by The McAuley Assisted Living

Services Agency to those who reside in an independent living Apartment and who have a chronic and stable condition which necessitates assistance with some activities of daily living, but who do not require skilled nursing care

C. Skilled Nursing Services

1. As a resident of The McAuley, You have preferred access to Saint Mary Home for the provision of skilled nursing services based on the terms that follow below in the Section of the Agreement.
2. We will be responsible for the cost of skilled nursing care at Saint Mary Home for a maximum of one hundred fifty (150) days during Your lifetime. This skilled nursing coverage will only be applied after you have exhausted any Medicare benefits that may apply for each nursing home stay. In addition, this coverage only applies when You are admitted to Saint Mary Home.

Accommodations in Saint Mary Home will be in a semi-private room. Private rooms, Sub-Acute Rehabilitation Rooms and other specialty Unit Rooms are available for an additional fee. Once You have utilized Your one hundred fifty (150) days of skilled nursing benefit, You will be responsible for all skilled nursing charges at the then current applicable *per diem* rate.

3. If no bed is available at Saint Mary Home, We will arrange for You to be placed in a licensed skilled nursing facility in the area, reasonably acceptable to both You and Us, until a bed becomes available at Saint Mary Home.

While you are in a skilled nursing facility other than Saint Mary Home, because no bed is available for You, We will be responsible for the cost of the semi-private room rate at that skilled nursing facility, not to exceed the then current semi-private rate at Saint Mary Home. At such time as a bed becomes available at Saint Mary Home, You will be required to transfer to Saint Mary Home, In the event that you refuse to relocate to Saint Mary Home, We will no longer be responsible for the semi-private rate at Your current facility.

4. In the event that You are admitted to Saint Mary Home, We will advance to Saint Mary Home the fees that correspond to the semi-private room rate up to one hundred and fifty (150) days of a lifetime maximum benefit. If you choose another skilled nursing facility approved by Us because no bed is available at Saint Mary Home, you will be responsible to provide us with an invoice from the skilled nursing facility used by you for payment up to the one hundred fifty (150) days of lifetime maximum benefit in accordance with the terms in the preceding paragraph.
5. Placement in Saint Mary Home, whether temporary or permanent must be based on an order from your personal physician after consultation with You, Your family or legal representative and Us.
6. During your stay at Saint Mary Home, Your right to occupy the Apartment will continue and you will continue to pay the Monthly Service Fee.

D. Hospitals and Other Health Care Services

We will not provide, pay for, or indemnify You for hospital, physician, ambulance, surgical, home health care services, or for drugs, medical supplies, X-rays, laboratory and other diagnostic tests, eyeglasses or refractions, hearing aids, dentistry, dentures, inlays, orthopedic appliances, private duty nursing care, podiatric services, physical therapy, treatment for psychiatric disorders, alcoholism, or similar items or services.

In the event that You are temporarily absent from The McAuley due to hospitalization, Your right to occupy the Apartment will continue and You will remain responsible for payment of the Monthly Service Fee.

E. Private Duty Care

In the event that You wish to employ outside caregivers, companions, private duty aides or other personnel to provide services to You, You must notify the Director of Health and Wellness prior to obtaining any these services. These outside caregivers, companions, private duty aides or other personnel must comply with the personnel policies, and the rules and regulations set forth by The McAuley and The Mercy Community.

V. TERMINATION OF AGREEMENT

A. Termination by Resident

1. Prior to Occupancy

- a. You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving Us written notice by registered or certified mail. We will refund to You all fees paid to You minus an administrative fee of \$1,000.00.
- b. If You (or both of You if there are two of You) die before the Occupancy Date, We will terminate this Agreement upon receipt of written notification from Your legal representative. We will refund to Your estate or representative all fees paid to Us minus an administrative fee of \$500.00.
- c. If You cannot occupy the Apartment on the Occupancy Date due to illness, injury or incapacity of You (or both of You if there are two of You), We will terminate this Agreement upon receipt of written notification from You or Your legal representative by registered or certified mail. We will refund to You all fees paid to Us minus an administrative fee of \$500.00.
- d. If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement by giving Us written notice by registered or certified mail. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee.
- e. If You fail to occupy the Apartment for any other reason at least thirty (30) days following the execution of this Agreement, we will refund to You all fees paid to Us minus an administrative fee of \$1,000.00.

2. After Occupancy

- a. You may terminate this Agreement for any reason subsequent to the Occupancy Date by giving at least one hundred twenty (120) days advance written notice of the intent to terminate this Agreement and vacate the Apartment. Notice shall be sent to Us by registered or certified mail (see Section XI. J.). The notice shall specify the date upon which You will vacate the Apartment; that date shall be no earlier than one hundred and twenty (120) days from date of notice. The actual date of termination will be the latest to occur of the date specified in the notice and the date by which all of Your personal property has been removed from the Apartment. You will be responsible for paying the Monthly Service Fee until the Apartment is vacated.

- b. Subsequent to occupancy, upon Your death, or the occurrence of an illness, hospitalization or injury, which precludes You from living at The McAuley:
 - i. If You are the sole occupant of the Apartment, this Agreement will terminate when all of Your personal property has been removed from the Apartment.
 - ii. If this Agreement covers two of You, this Agreement will terminate as to the deceased or ill Resident who can no longer reside at The McAuley upon written notice of that Resident's death or notice of intent to move out. This Agreement shall remain in effect as to the surviving Resident with appropriate adjustment of the Monthly Service Fee, as set forth in Section III. B. of this Agreement.

iii. In the event of a Resident's death, the Resident's estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following the date of death as long as the Resident's personal property has been removed from the Apartment.

3. Entrance Fee refund procedures are set forth in Section VIII.

B. Termination by Us

We may terminate this Agreement upon the occurrence of any of the following events, by sending You a written notice:

1. Termination Prior to Occupancy Date

- a. A misrepresentation on Your Financial Disclosure;
- b. A disposition of Your assets that, in Our judgment, materially impairs Your ability to pay future Monthly Service Fees;
- c. A decline in Your medical and/or cognitive condition that, in Our judgment, impairs Your ability to live independently;
- d. You fail to pay the balance of the Entrance Fee when due.

2. Termination Subsequent to Occupancy for Non-Medical Reasons

If You default under this Agreement, We will give You written notice of Your default. You will have thirty (30) days from date of such notice to cure the default. If the default is not cured within such thirty (30) day

period, this Agreement will terminate. The following shall constitute Your default:

- a. If We determine that information on the Application for Residency is erroneous or that any material facts affecting qualification for residency were not disclosed.
- b. If You (or either of You if there are two of You) fail to comply with Our rules and regulations of Us or the terms of this Agreement.
- c. If You (or either of You if there are two of You) create a situation detrimental to the health, safety or peaceful living of You, other Residents or Our staff as determined by Us.
- d. If You make any disposition of Your assets which, in Our judgment, materially impairs Your ability to pay the current or future Monthly Service Fee or other costs pursuant to this Agreement.
- e. If You fail to pay the Monthly Service Fee or other amounts owing to Us within ten (10) days of the due date, unless other mutually satisfactory arrangements have been made. It is Our intention that this Agreement shall not be terminated solely because of financial inability to pay the fees to the extent that:
 - a) the inability to pay is not the result of the willful action of You; and
 - b) in Our judgment, the financial viability of The McAuley will not be jeopardized by such failure to pay amounts due. In the event that You are unable to pay Your Monthly Service Fee as described above, The McAuley will assist You in finding alternative living arrangements that, in Our assessment, will meet Your needs. During such time that We are assisting You to find alternative living arrangements, but not to exceed thirty

(30) days, You will not be required to pay Your Monthly Service Fee to The McAuley. Once, in Our opinion, an suitable alternate living arrangement has been identified, the move out must occur within thirty (30) days. Moving expenses will be Your responsibility.

We reserve the right to terminate this Agreement immediately without advance notice in the event a default under b. or c. of this subsection jeopardizes the health, safety or welfare of You or other Residents of The McAuley.

3. Termination Subsequent to Occupancy for Medical Reasons

We may terminate this Agreement after occupancy, if You are in need of treatment and services for any condition for which We are not licensed or for which care is not customarily provided in The McAuley or a skilled nursing facility. If any of the above situations is determined to be temporary in nature, the Apartment will remain reserved for You and You will remain responsible for payment of the Monthly Service Fee. If it is determined that the situation is not temporary in nature, all Our obligations and all of Your rights in this Agreement will terminate as of the date of such determination; provided, however, that any right You may have to receive a refund of any portion of the Entrance Fee in accordance with Section VIII. and Your obligations to make payments to Us for any balance that accrued prior to the termination, will survive the termination.

4. Entrance Fee

Entrance Fees shall be refunded in accordance with Section VIII of this Agreement.

VI. SPECIAL OCCUPANCY CIRCUMSTANCES

A. Death of Resident

If two of You sign this Agreement and one of You dies, this Agreement shall remain in effect as to the surviving Resident.

B. Separation

1. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You desire separate Apartments, one of You may remain in the Apartment and the other may transfer to another Apartment (subject to Our Internal Transfer Guidelines) upon payment of the then current monthly Service Fees and Entrance Fee pertaining to that other Apartment. In addition, the Resident securing the second Apartment will be required to execute a new and separate Agreement. The Resident remaining in the Apartment will be obligated to pay the single occupancy Monthly Service Fee for that Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the Resident remaining in the Apartment and the refund

provisions of the new Agreement will apply with respect to the Resident moving to the new Apartment.

2. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You both choose to reside in different Apartments, You both may transfer, subject to Apartment availability (refer to Our Internal Transfer Guidelines) upon payment of the then current Monthly Service Fee and Entrance Fee pertaining to the new Apartments. In addition, You both will be required to execute new and separate Agreements. There will not be a refund of any portion of the original Entrance Fee paid by both of You for the original Apartment at that time. The refund provisions of the new Agreements will apply with respect to both of You.

3. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy one of You desires to leave The McAuley permanently for another residence, then the Resident leaving The McAuley will surrender all rights under this Agreement (see Termination by Resident). The remaining Resident will retain all rights under this Agreement (see Termination by Resident). The remaining Resident will retain all rights as a Resident and will pay the single occupancy Monthly Service Fee for the Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the person remaining in the Apartment. The refund provisions of this Agreement will be operative only upon the death or termination of occupancy of the remaining Resident.

C. Resident Marriage

1. If You marry another Resident and both of You desire to reside in the same Apartment, You both may either, a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines). In either case, We will honor the existing Agreement for each of You. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Residents, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the couple resides, and the second Resident will pay the Monthly Service Fee for a Studio Apartment.

2. If You marry a non-resident and You both desire to live in Your Apartment, the non-Resident must apply to Us for residency and meet all applicable Application and Admission requirements.
 - i. If the non-Resident spouse is accepted for residency, a new Residency Agreement must be executed by all parties. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original

- Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, Your Spouse and Us.
- ii. If the non-Resident spouse is not accepted for residency, We and You will execute an Addendum to the Agreement with respect to living arrangements for the non- Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident spouse will be subject to Our rules and regulations, as amended from time to time.

D. Special Resident Occupancy

1. If You decide to reside in the same apartment with another current Resident who previously resided in a different Apartment, You and the other Resident may either: a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines). In either case, We will honor the existing Agreement for You and for the other Resident. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Yous, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the two of You reside, and the second will pay the Monthly Service Fee for a Studio Apartment.

2. If a You and a non-Resident desire to live in Your Apartment, the non-Resident must apply to Us for residency and meet all applicable Application and Admission requirements.
 - i. If the non-Resident is accepted for residency, a new Residency Agreement must be executed by You and the non-Resident. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, the non-Resident, and Us.
 - ii. If the non-Resident is not accepted for residency, We and You will execute an Addendum to Your Agreement with respect to living arrangements for the non-Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident will be subject to Our rules and regulations, as amended from time to time.

E. Guests

Guests staying in Resident Apartments are welcome at all times. Any visitation in the Apartment by a non-Resident for more than a two-week period in any calendar year must be arranged with, and expressly approved in writing by Us. Guest meals will be available for an additional charge that will be added to Your Monthly Statement.

VII. TRANSFER TO A DIFFERENT APARTMENT

If You wish to transfer to a different Apartment, You must notify Us in writing of the desire to transfer Apartments. A Fee of \$10,000.00 will be assessed once the transfer is approved. We will assist You with such a transfer, subject to Our Internal Transfer Guidelines. Our Internal Transfer Guidelines are incorporated by reference into, and attached as Exhibit 1 of this Agreement. When a new Apartment is available and You transfer, the Monthly Service Fee and the Entrance Fee will be adjusted to the then current charges for that Apartment type. The parties will amend this Agreement in writing prior to the transfer becoming effective to reflect such adjustments. If the current Entrance Fee for the new Apartment is less than the original Entrance Fee paid by You, there will be no refund of any portion of the Entrance Fee. All refunds will be made in accordance with Section VIII upon termination of this Agreement. We have established policies on the procedures and charges for transfers and may, from time to time, adjust this policy.

VIII. REFUND OF ENTRANCE FEE

In the event this Agreement is executed by two persons, the Entrance Fee refund Procedures set forth below in this Section shall not apply until the last of the two of You dies or this Agreement is otherwise terminated by both of You as set forth in Section V of this Agreement.

A. Prior to the Occupancy Date

1. Apartment Not Available

If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee. Such refund will be issued within thirty (30) days of the receipt of the notice of termination.

2. Death, Illness, Injury or Incapacity of Resident

If for reason of death, illness or injury, or incapacity, You are not able to occupy Apartment on the Occupancy Date, We will refund the Entrance Fee paid, without interest, minus a \$500.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V. A.1 above.

3. Termination Within Thirty (30) Days of Execution of this Agreement

You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving us written notice by registered, or certified mail. We will refund to you all fees paid to you minus an administrative fee of \$1,000.00.

4. If for any other reason, You are not able to or choose not to occupy Apartment on the Occupancy Date and more than thirty (30) days have passed since execution of this Agreement, We will refund the Entrance Fee paid, without interest, minus a \$1,000.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V.A.1.

B. Subsequent to the Occupancy Date – Standard Rental Refund Plan

Standard Refund Plan

You, at the time this Agreement was executed, selected the Standard Refund Plan. During the first twenty-four month (24) months from the Occupancy Date, there will be a refund of eighty percent (80%) of the original entrance fee paid, less four percent (4%) of that amount for each full month from the Occupancy Date to the date the Apartment is vacated (and empty of all personal possessions) or the Agreement is terminated, whichever comes later. Any interest earned on the Entrance Fee will be retained by us.

In situations involving serious deterioration of your health requiring nursing home placement or your death (or, if there are two of you, the nursing home placement or death of both of you) during the first twenty-four (24) months from the Occupancy Date, there will be an eighty percent (80%) refund, without interest, of the original Entrance Fee paid by the You.

Subsequent to the first twenty-four (24) months from the Occupancy Date, there will be an eighty percent (80%) refund, without interest, of the original Entrance Fee paid by You.

C. Refund Payment

Any refunds due to You or Your estate pursuant to the prior two paragraphs will be payable within sixty (60) days following the later date when both of the following events first occur, *but in no case shall the refund be delivered to you or your estate later than three years from the date this contract is terminated:*

1. We receive an Entrance Fee for an Apartment similar in style (*e.g.* studio, one bedroom, *etc.*) to Your Apartment; and
2. We have refunded all other entrance fees due and payable pursuant to residency agreements for like Apartment styles pursuant to residency agreements that terminated prior to the termination of this Agreement.

Notwithstanding the foregoing, We may, at our option, deduct from any Entrance Fee refund any monies advanced to You by Us and any monies owed Us under Section III of this Agreement or under any other provision of this Agreement. In the event that You have incurred charges which exceed the Entrance Fee refund balance, no refund will be issued and You or Your estate will be liable and billed for the excess amount.

We will pay any refund due hereunder to You or Your estate if You are deceased, unless We are otherwise directed by written instructions signed by You and accepted by Us.

IX. EXTENDED ABSENCE

If You are away from The McAuley for fourteen (14) or more consecutive days due to an admission into an acute care setting, a rehabilitation stay or a temporary stay in a skilled nursing facility, You will receive a daily meal credit on Your Monthly Statement for those days when You were away from The McAuley. The credit for missed meals will be calculated upon your return and will be reflected in your following months statement. Your right to occupy the Apartment and Your payment obligations will be as set forth in Section IV.D above.

X. VACATING APARTMENT

Upon termination of this Agreement, You must vacate the Apartment within thirty (30) days. For purposes of this Agreement, the Apartment will not be considered vacated until all of Your personal property is removed from the Apartment. You will be responsible for the Monthly Service Fee during this thirty (30) day period; provided, however, that if the Agreement is terminated as a result of Your death, Your estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following Your death as long as Your Apartment has been vacated. If the Apartment is not vacated within the thirty (30) days, We will have the right to remove and store all property left in the Apartment after thirty (30) days. You will be responsible for the costs incurred as a result of moving and storing such items. Property left in storage for ninety (90) days or more may be disposed of by Us at Your expense.

When You vacate the Apartment, We expect that the Apartment will be left in the same condition as of the Occupancy Date, ordinary wear and tear excluded. We may charge You for any damage to the Apartment that, at Our discretion, is deemed as not the result of ordinary wear and tear. If with Our permission, You physically altered the Apartment, We, in Our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You.

XI. MISCELLANEOUS

A. Fees Not Held in Trust

All fees paid to Us, including Entrance Fees, shall become the sole property of Us as payment for residence and services, except to the extent that Entrance Fees may be refundable under this Agreement.

B. Subordination

All Your rights under this Agreement are subordinate to any existing or future mortgages on The McAuley and to any of Our other creditors with respect to The McAuley. You agree to execute any documents requested by Us in order to carry out the terms of this Section.

C. Property Rights

This Agreement grants You a revocable license to occupy and use space in The McAuley. This Agreement is not a lease and does not

transfer or grant to You any ownership interest or rights of tenancy in real or personal property owned or leased by Us. Your rights under this Agreement, except Your rights to any refunds to which You are entitled under this Agreement, are subject to all terms and conditions of this Agreement and are subordinate to any mortgage, financing deed, deed of trust, or other financing on The McAuley.

D. Arrangements for Conservatorship

If You become unable to care properly for Yourself or Your property and have made no designation of a conservator or trustee, then We are authorized to institute proceedings for appointment of a person or entity to serve as conservator for You.

E. Rules and Regulations

We shall have the right to adopt or amend such reasonable policies, rules, regulations, guidelines and operating procedures (“Rules and Regulations”) as deemed necessary or desirable for proper management and operation and for the health, safety and comfort of the Residents. The *Resident Handbook* summarizes many of Our Rules and Regulations, and is incorporated by reference into this Agreement. You agree to abide by the Rules and Regulations.

F. Smoking

The McAuley is a smoke-free campus; therefore, smoking is prohibited. This applies to all areas in The McAuley, including but not

limited to: The McAuley vehicles, Your apartments, apartment balconies, the front entrances to each building, all dining areas, meeting rooms, activity areas and all corridors, and all grounds belonging to The Mercy Community. This prohibition applies to everyone, including all Residents, family members, overnight guests, visitors, and private duty assistants.

G. Compliance with Laws and Regulations

We will comply with all municipal, state and federal laws and regulations regarding consumer protection and protection from financial exploitation. We will afford You all rights and privileges under Section 17b-520 *et seq.* Connecticut General Statutes.

H. Grievance Procedure

You may present a formal complaint about any alleged violation of the Residency Agreement. The complaint must be submitted in writing and delivered to the Executive Director at the address specified in Paragraph J below. Upon receipt of a formal written complaint, the Executive Director or designee will respond within five (5) business days. The Executive Director or designee will respond in writing after conducting an investigation. If You are not satisfied with the response, You may appeal the decision to the Chief Executive Officer (CEO) of Mercy Community Health. This appeal must be made in writing and delivered to the CEO at The McAuley, 275 Steele Road, West Hartford, CT, 06117, Attn.: Chief Executive Officer. Under no circumstances will The McAuley, its Executive Director, or the CEO or any other agent allow or permit retaliation against a Resident who has filed a complaint.

I. Accuracy of Information

You represent and warrant that all information that You have submitted or will submit to Us, including but not limited to annual financial statements, is true and complete. You understand and acknowledge that We are relying on such information.

J. Notices

All written notices required by this Agreement will be sufficient if addressed:

1. If to You: to Your Apartment at The McAuley;
2. If to Us, to the Executive Director, The McAuley, 275 Steele Road, West Hartford, CT 06117.

Unless otherwise specified in this Agreement, all written notices shall be sent by registered or certified U.S. Mail, overnight express courier service, or messenger service and shall be deemed issued when delivered or when acceptance is refused.

K. Waiver

Our failure in any one or more instances to insist upon strict compliance by You with any of the terms of this Agreement shall not be construed to be a waiver by Us of such term(s) or of the right to insist upon strict compliance by You with any of the other terms of this Agreement.

L. Assignment

Your rights and benefits under this Agreement (except for the possible right to a refund of some part of the Entrance Fee) are not assignable and will not inure to the use or benefit of the heirs, legatees, assignees or representatives of You, but Your obligations under this Agreement shall bind Your heirs, legatees, assignees or representatives. The Agreement shall bind and inure to the benefit of Our successors and assigns.

M. Entire Agreement

This Agreement, including all exhibits, constitutes the entire agreement between Us and You. We are not liable for nor bound in any manner by any statements, representations or promises made by any person representing or proposing to represent Us unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing and signed by Us and You.

N. Interpretation of Agreement

No amendment of this Agreement will be valid unless executed in writing by both You and Us.

The invalidity of any restriction, condition or other provision of this Agreement will not impair or affect in any way the validity or enforceability of the remainder of this Agreement. This Agreement will be interpreted according to the laws of the State of Connecticut.

O. Counterparts

This Agreement may be executed in counterparts.

Executed at West Hartford, Connecticut on this _____ day
of _____, 20 ____ .

RESIDENT(S):

THE PROVIDER:

McAuley Center, Inc.
a Connecticut not-for-profit
corporation.

(Signature)

By: _____
Its Executive Director

(Printed Name)

(Signature)

(Printed Name)

EXHIBIT 1 (Internal Transfers and Guidelines)

1. Policy Statement

- A. All residents choose their independent living unit prior to occupancy. Once the resident occupies the living unit, the applicable unit is considered the resident's primary residence. From time to time, and in consideration of a number of factors, it may be necessary for the resident to move to a different independent living unit. Any internal transfer from the primary residence to another living unit at The McAuley is subject to the Internal Transfer Guidelines.
- B. Current residents who desire to change units and make these requests are also placed on a waiting list. In this case, the name is placed in the last position for the living unit type requested.
- C. In certain circumstances, a current resident of The McAuley may request a living unit change for financial or medical reasons. In this case, The McAuley will give priority placement on the applicable waiting list. Priority consideration means that the current resident will be placed in the first position on the waiting list.

2. Internal Transfer Procedure

There are four (4) possible scenarios with respect to an internal transfer of living units. The following guidelines apply to these specific unit transfers.

A. Pre-Arranged Move (Prior to Move-In) to a Different Living Unit

1. In certain circumstances, a resident may elect to move to The McAuley and into an available living unit, even if that unit is not the resident's choice.
2. In this situation, The McAuley and the resident will enter into an Addendum as part of the Residency Agreement. The Addendum will specify that the resident is entitled to move into an alternative unit and will specify the details of this relocation. In this situation, the resident will be given priority placement on the applicable living unit wait list. All moving expenses are the responsibility of the resident.

B. Planned Move (After Move-In) to a Different Living Unit

1. In certain circumstances, a resident will select a living unit and, once residing in that unit, will desire to relocate to another living unit. For example, a resident chooses a living unit with a view of the parking lot and then decides that a view of the University of Saint Joseph would be more appealing.
2. In this situation, the resident must notify the Sales Department of the desire to change living units. The resident's request will be noted on the applicable waiting list for the unit desired. At that time, the resident's name will be placed in the last position on the applicable wait list.
3. In the event that a unit comes available and the resident selects this unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new

entrance fee is less than the original entrance fee, no entrance refund will be provided to the resident. The Resident must also be aware that a change in monthly fees may also apply as a result of a living unit transfer. All moving expenses are the responsibility of the resident.

C. Required Move (after Move-In) to a Smaller Living Unit for Financial Reasons

1. In certain instances, due to a loss of financial means, it may become necessary to relocate to a smaller living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the size living unit that the resident is requesting. The Executive Director will review the request and meet with the resident to review his/her financial position. After due consideration, if the request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.
3. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.

D. Required Move (after Move-In) to a Different Living Unit for Medical Reasons

1. In certain instances, due to a change in resident's medical status, it may become necessary for the resident to relocate to a different living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the location of the unit that the resident is requesting.
3. The Executive Director will review the request and meet with the representatives of The McAuley to review the resident's change in medical status and the relocation request. After due consideration, if the resident's request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to a different living unit, the resident's monthly fee will be adjusted. If the resident relocates to a larger living unit, the resident's monthly fee will be adjusted. Further, if the resident relocates to a larger living unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.
4. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The resident's original entrance fee will be applied to the

entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.



THE McAULEY

PART OF THE MERCY COMMUNITY†

RESIDENCY AGREEMENT WITHOUT LONG TERM CARE COVERAGE

275 Steele Road, West Hartford, CT 06117-2716
Telephone 860.920.6319 FAX 860.232.4077

THE McAULEY RESIDENCY AGREEMENT

This Residency Agreement (the “Agreement”) is entered into this _____ day of _____ between McAuley Center, Incorporated, a Connecticut non-stock corporation (or “The McAuley” or “Us”), and _____, (“You”).

This Agreement applies to Apartment _____ a _____ bedroom Apartment (the “Apartment”). (If more than one person intending to reside at The McAuley signs this Agreement, “You” shall apply to all, jointly and severally.)

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

I. BASIC AGREEMENT

A. You agree to pay the Entrance Fee, Monthly Service Fee and any additional fees specified in Section III of this Agreement. In exchange for such payments, You will have the right, subject to the terms of this Agreement, for You to occupy the Apartment and to have access to General Services at The McAuley set forth in Section IV. A and B of this Agreement.

B. You have completed the Application and Admission process and have executed a Pre-Residency Agreement that is incorporated by reference into this Agreement.

C. Your Occupancy Date was specified by Us in your Letter of Acceptance. This Agreement must be executed by both You and Us prior to the Occupancy Date. The balance of the Entrance Fee by You will be payable to Us at the time this Agreement is executed by both You and Us.

D. Following the execution of this Agreement, but at least thirty (30) days prior to the Occupancy Date, You may request an extension of the Occupancy Date. Such request should be made in writing to Us (see Section XI. J) Our decision is final.

II. ACCOMMODATIONS AT THE COMMUNITY

A. Alterations

Any physical alteration of the Apartment by You requires the prior written approval by Us. Such alterations shall be at Your expense, and must be performed by craftsmen approved by Us. Upon death or termination of occupancy by You (or the second person if there are two people in the Apartment.) We in our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You or Your estate.

B. Access

You agree that We and our employees and agents shall have the right, at all reasonable times, subject to our policy described below regarding housekeeping, maintenance and laundry services, to enter your Apartment for purposes of management, housekeeping, maintenance, health services, enforcement of applicable laws and regulations, emergency purposes, or any other reasonable purpose. Our policy is that at least one of You must remain in the Apartment while housekeeping, maintenance and laundry services are provided, unless You waive this policy in writing by executing an Environmental Services Waiver.

C. Property Protection and Insurance

We will not be responsible for the loss of any personal property due to any cause other than our gross negligence. You agree to indemnify Us for any loss or damage to our personal property and for any injury or damage to others or to the property of others resulting from the acts, omissions, negligence or fault of You or Your guests and invitees. You shall maintain both

personal liability and personal property insurance coverage in accordance with our rules and regulations and shall provide Us with a copy of that policy or proof of purchase, upon our request.

D. Moving Expenses

You will be responsible for all moving expenses associated with Your move into and out of The McAuley. In the event that You transfer Apartments during Your occupancy at The McAuley, You will be responsible for all moving expenses associated with such transfer. In the event that You, upon meeting the terms set forth by Us for carpet replacement and re-painting, should request that We provide carpet replacement and repainting for the Apartment, You will be responsible for all moving expenses associated with these services.

III. FINANCIAL ARRANGEMENTS

A. Contract Type

Standard Refund Plan: You pay a standard Entrance Fee based on Apartment type. At the time that the Agreement is terminated, You or Your Estate (or the estate of the last surviving Resident if there are two of You) may be entitled to a refund of the Entrance Fee as described in this Agreement. Any interest earned on the Entrance Fee will be retained by Us.

B. Entrance Fee

The Entrance Fee for the Apartment is \$ _____. You paid a \$10,000.00 Entrance Fee Deposit prior to the execution of this Agreement. The balance of the Entrance Fee is payable in full on the date this Agreement is executed. Any interest earned on the Entrance Fee will be held in escrow and released pursuant to Connecticut law. Any interest earned on the Entrance Fee Deposit will be retained by Us.

C. Monthly Service Fees

The "Monthly Service Fee" for one person in the Apartment is \$ _____, and for a second person is \$ _____. You agree to pay the Monthly Service Fee beginning on the Occupancy Date (prorated for the actual number of days from the Occupancy Date to the end of the month in which the Occupancy Date occurs) and each month thereafter.

D. Adjustments

The amount of the Monthly Service Fee is Your share of our estimated monthly cost to operate The McAuley. The Monthly Service Fee may be adjusted from time to time, at our discretion, upon sixty (60) days

written notice to You, to reflect changes in those costs. We will limit such adjustments to amounts necessary to maintain the financial stability of The McAuley. You agree to pay the adjusted Monthly Service Fee.

E. Additional Fees

In addition to the Monthly Service Fee, You will pay our fees for any Optional Services (as defined in Section IV. B. below) rendered at The McAuley. The fees for Optional Services as of the date this Agreement is executed are set forth in the Fee Schedule found in the *Resident Handbook*. We may, from time to time, adjust fees for any Optional Services at our discretion.

F. Monthly Statement

Upon occupancy, We will issue monthly statements to You by the tenth of each month requiring payment of the Monthly Service Fee plus fees for any Optional Services defined in Section IV. B. of this Agreement. Payment will be due within ten (10) days of receipt of the monthly statement. Any outstanding amounts owed to us ten (10) days after the due date will be charged a late fee of one and one half percent (1.5%) per month until the amount owed is paid in full. If You fail to pay the amounts charged under the terms of the Agreement and We must refer the account to an attorney or collection agency, You agree to pay all charges, expenses, court costs and attorneys fees incurred by Us, not to exceed any lawful limits.

G. Transfers

In the event that You temporarily transfer to any licensed care facility including a licensed skilled nursing facility and this Agreement is not otherwise terminated, You will continue to be obligated to pay the Monthly Service Fee to Us. Your Apartment will be held as provided in Article IV, Paragraphs C and D.

H. Surviving Resident

If this Agreement is executed by two of You and either one dies, effective on the first day of the month following the death, the surviving Resident will be obligated to pay the Monthly Service Fee for single occupancy in the Apartment.

I. Personal Obligations

We shall not be liable or responsible for any expenses, debts, or other obligations incurred by You on Your own account, nor shall it be obligated to furnish, supply, or give You any support, maintenance, board or lodging while You are absent from The McAuley, except as may be provided in this Agreement.

J. Health Insurance

If You are sixty-five (65) years of age or older, You agree to enroll in and be covered by, at Your own expense, Medicare Part A and Part B, and Part D, or equivalent insurance coverage acceptable to Us under a public or private insurance plan. In addition, You agree to enroll in and be covered by a supplemental insurance policy to pay Medicare co-insurance and deductible amounts. If You are younger than sixty-five (65) years of age, You will enroll in and be covered by medical insurance coverage equivalent to the coverage provided under Medicare Part A and Part B.

You agree to provide proof of insurance coverage upon our request.

Any amounts paid or owing to You from federal, state, municipal, private, or supplemental insurance plans for services rendered to You by Us shall be paid to Us. You agree to diligently obtain all reimbursements, payments, proceeds

or other benefits available under such plans or programs and authorizes Us to take such action as may be required to obtain and recover same. Any insurance proceeds received by Us in excess of the cost of such services shall be paid to You, or in the event of Your death, to Your estate.

K. Financial Requirements for Residency

As part of the Application and Admission Process, You completed a financial disclosure. Your Financial Disclosure is attached to this Agreement. You agree that as a condition of continued residency at The McAuley, You will provide on an annual basis or as requested by Us, an update of all information contained in the Financial Disclosure on forms that will be given to You by Us.

You agree to make all reasonable efforts to conserve Your financial resources in order to enable You to meet your financial obligations under this Agreement.

IV. GENERAL SERVICES

A. Services Included in Monthly Service Fee

These services and amenities are included in the Monthly Service Fee:

1. Services:

- a. Normal repair and maintenance of the Apartment appliances that are provided by Us
- b. All utility expenses, except cable TV, internet, and telephone charges
- c. Town of West Hartford real estate taxes.
- d. Property and building insurance (Such insurance does not cover Your personal liability and Apartment furnishings. See Section II.)
- e. Trash removal from designated areas in accordance with environmental waste management laws and regulations

2. Amenities:

- a. Full kitchen facilities, including electric range, refrigerator/freezer, microwave and garbage disposal
- b. Individually controlled heating and air conditioning
- c. Sheer window treatments
- d. Emergency-alert system with call switches in each bedroom and bathroom of Apartment
- e. Smoke detector and sprinkler system in each Apartment
- f. Automatic washers and dryers located on each floor for personal laundry
- g. Apartment is pre-wired for telephones and cable television
- h. Individual mailboxes located in the Abbeyleix Building.

- i. Assigned uncovered parking space for one car (This parking space is assigned *exclusively* for vehicles driven *personally* by the resident.)
- j. Storage unit

3. Dietary Services:

- a. Continental breakfast and Your choice of lunch or dinner daily in the dining room and/or café
- b. To the extent reasonably possible, food selection will be made available to You in order to accommodate some physician-ordered dietary restrictions
- c. In the event of illness or physical inability, complimentary tray delivery may be provided to your apartment upon approval of the nurse on duty

4. Housekeeping and Laundry Services:

- a. General cleaning of Apartment every other week
- b. Weekly laundry service for The McAuley-provided bed and bath linens

5. Transportation Services:

- a. Scheduled transportation services to local shopping, banking, medical appointments and religious services

6. 24-Hour Services/Coverage:

- a. 24-hour concierge service, located in the Abbeyleix Building
- b. 24-hour health staff coverage
- c. 24-hour in Apartment emergency response system

7. Social and Recreational Activities

8. Building and grounds maintenance and custodial service:

- a. Maintenance of all community buildings, common areas and grounds, including lawns, walkways and driveways
- b. All necessary repairs, maintenance and replacement of community property and equipment located in Your Apartment, in accordance with the *Resident Handbook*

9. Health Promotion Services:

- a. You may visit our Health and Wellness Office at regularly scheduled daily times for wellness counseling and blood pressure checks.

B. Optional Services available at additional expense to You as outlined in the *Resident Handbook*

1. Additional meals not included under Dietary Services described in Section IV. A. 3
2. Guest accommodations and meals
3. Additional housekeeping, maintenance and custodial services not included in Sections IV. A. 1., IV. 4., and IV. A. 8
4. Beauty Salon/Barber Shop Services
5. Expenses incurred by Us on Your behalf that are not included in the scope of services as described in Section IV. A. above
6. Access to health services in addition to those described in Section IV. A. 9. above, including Medicare reimbursable services through a licensed home health care agency and assistance with transfers to nursing homes and hospitals
7. Assisted Living Services provided by The McAuley Assisted Living

Services Agency to those who reside in an independent living Apartment and who have a chronic and stable condition which necessitates assistance with some activities of daily living, but who do not require skilled nursing care

C. Skilled Nursing Services

1. As a resident of The McAuley, You have preferred access to Saint Mary Home for the provision of skilled nursing services for residents of The McAuley.
2. During your temporary stay in a skilled nursing facility, including Saint Mary Home, your right to occupy the Apartment will continue and you will continue to pay the Monthly Rental Fee. Expenses incurred by You while temporarily placed in a skilled nursing facility shall be your obligation.

D. Hospitals and Other Health Care Services

We will not provide, pay for, or indemnify You for hospital, physician, ambulance, surgical, home health care services, or for drugs, medical supplies, X-rays, laboratory and other diagnostic tests, eyeglasses or refractions, hearing aids, dentistry, dentures, inlays, orthopedic appliances, private duty nursing care, podiatric services, physical therapy, treatment for psychiatric disorders, alcoholism, or similar items or services.

In the event that You are temporarily absent from The McAuley due to hospitalization, Your right to occupy the Apartment will continue and You will remain responsible for payment of the Monthly Service Fee.

E. Private Duty Care

In the event that You wish to employ outside caregivers, companions, private duty aides or other personnel to provide services to You, You must notify the Director of Health and Wellness prior to obtaining any these services. These outside caregivers, companions, private duty aides or other personnel must comply with the personnel policies, and the rules and regulations set forth by The McAuley and The Mercy Community.

V. TERMINATION OF AGREEMENT

A. Termination by Resident

1. Prior to Occupancy

- a. You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving Us written notice by registered or certified mail. We will refund to You all fees paid to You minus an administrative fee of \$1,000.00.
- b. If You (or both of You if there are two of You) die before the Occupancy Date, We will terminate this Agreement upon receipt of written notification from Your legal representative. We will refund to Your estate or representative all fees paid to Us minus an administrative fee of \$500.00.

- c. If You cannot occupy the Apartment on the Occupancy Date due to illness, injury or incapacity of You (or both of You if there are two of You), We will terminate this Agreement upon receipt of written notification from You or Your legal representative by registered or certified mail. We will refund to You all fees paid to Us minus an administrative fee of \$500.00.
- d. If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement by giving Us written notice by registered or certified mail. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee.
- e. If You fail to occupy the Apartment for any other reason at least thirty (30) days following the execution of this Agreement, we will refund to You all fees paid to Us minus an administrative fee of \$1,000.00.

2. After Occupancy

- a. You may terminate this Agreement for any reason subsequent to the Occupancy Date by giving at least one hundred twenty (120) days advance written notice of the intent to terminate this Agreement and vacate the Apartment. Notice shall be sent to Us by registered or certified mail (see Section XI. J.). The notice shall specify the date upon which You will vacate the Apartment; that date shall be no earlier than one hundred and twenty (120) days from date of notice. The actual date of termination will be the latest to occur of the date specified in the notice and the date by which all of Your personal property has been removed from the Apartment. You will be responsible for paying the Monthly Service Fee until the Apartment is vacated.

b. Subsequent to occupancy, upon Your death, or the occurrence of an illness, hospitalization or injury, which precludes You from living at The McAuley:

- i. If You are the sole occupant of the Apartment, this Agreement will terminate when all of Your personal property has been removed from the Apartment.
- ii. If this Agreement covers two of You, this Agreement will terminate as to the deceased or ill Resident who can no longer reside at The McAuley upon written notice of that Resident's death or notice of intent to move out. This Agreement shall remain in effect as to the surviving Resident with appropriate adjustment of the Monthly Service Fee, as set forth in Section III. B. of this Agreement.
- iii. In the event of a Resident's death, the Resident's estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following the date of death as long as the Resident's personal property has been removed from the Apartment.

3. Entrance Fee refund procedures are set forth in Section VIII.

B. Termination by Us

We may terminate this Agreement upon the occurrence of any of the following events, by sending You a written notice:

1. Termination Prior to Occupancy Date

- a. A misrepresentation on Your Financial Disclosure;

- b. A disposition of Your assets that, in Our judgment, materially impairs Your ability to pay future Monthly Service Fees;
- c. A decline in Your medical and/or cognitive condition that, in Our judgment, impairs Your ability to live independently;
- d. You fail to pay the balance of the Entrance Fee when due.

2. Termination Subsequent to Occupancy for Non-Medical Reasons

If You default under this Agreement, We will give You written notice of Your default. You will have thirty (30) days from date of such notice to cure the default. If the default is not cured within such thirty (30) day period, this Agreement will terminate. The following shall constitute Your default:

- a. If We determine that information on the Application for Residency is erroneous or that any material facts affecting qualification for residency were not disclosed.
- b. If You (or either of You if there are two of You) fail to comply with Our rules and regulations of Us or the terms of this Agreement.
- c. If You (or either of You if there are two of You) create a situation detrimental to the health, safety or peaceful living of You, other Residents or Our staff as determined by Us.
- d. If You make any disposition of Your assets which, in Our judgment, materially impairs Your ability to pay the current or future Monthly Service Fee or other costs pursuant to this Agreement.
- e. If You fail to pay the Monthly Service Fee or other amounts owing to Us within ten (10) days of the due date, unless other mutually satisfactory arrangements have been made. It is

Our intention that this Agreement shall not be terminated solely because of financial inability to pay the fees to the extent that: a) the inability to pay is not the result of the willful action of You; and b) in Our judgment, the financial viability of The McAuley will not be jeopardized by such failure to pay amounts due. In the event that You are unable to pay Your Monthly Service Fee as described above, The McAuley will assist You in finding alternative living arrangements that, in Our assessment, will meet Your needs. During such time that We are assisting You to find alternative living arrangements, but not to exceed thirty (30) days, You will not be required to pay Your Monthly Service Fee to The McAuley. Once, in Our opinion, an suitable alternate living arrangement has been identified, the move out must occur within thirty (30) days. Moving expenses will be Your responsibility.

We reserve the right to terminate this Agreement immediately without advance notice in the event a default under b. or c. of this subsection jeopardizes the health, safety or welfare of You or other Residents of The McAuley.

3. Termination Subsequent to Occupancy for Medical Reasons

We may terminate this Agreement after occupancy, if You are in need of treatment and services for any condition for which We are not licensed or for which care is not customarily provided in The McAuley or a skilled nursing facility. If any of the above situations is determined to be temporary in nature, the Apartment will remain reserved for You and You will remain responsible for payment of the Monthly Service

Fee. If it is determined that the situation is not temporary in nature, all Our obligations and all of Your rights in this Agreement will terminate as of the date of such determination; provided, however, that any right You may have to receive a refund of any portion of the Entrance Fee in accordance with Section VIII. and Your obligations to make payments to Us for any balance that accrued prior to the termination, will survive the termination.

4. Entrance Fee

Entrance Fees shall be refunded in accordance with Section VIII of this Agreement.

VI. SPECIAL OCCUPANCY CIRCUMSTANCES

A. Death of Resident

If two of You sign this Agreement and one of You dies, this Agreement shall remain in effect as to the surviving Resident.

B. Separation

1. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You desire separate Apartments, one of You may remain in the Apartment and the other may transfer to another Apartment (subject to Our Internal Transfer Guidelines) upon payment of the then current monthly Service Fees and Entrance Fee pertaining to that

other Apartment. In addition, the Resident securing the second Apartment will be required to execute a new and separate Agreement. The Resident remaining in the Apartment will be obligated to pay the single occupancy Monthly Service Fee for that Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the Resident remaining in the Apartment and the refund provisions of the new Agreement will apply with respect to the Resident moving to the new Apartment.

2. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy You both choose to reside in different Apartments, You both may transfer, subject to Apartment availability (refer to Our Internal Transfer Guidelines) upon payment of the then current Monthly Service Fee and Entrance Fee pertaining to the new Apartments. In addition, You both will be required to execute new and separate Agreements. There will not be a refund of any portion of the original Entrance Fee paid by both of You for the original Apartment at that time. The refund provisions of the new Agreements will apply with respect to both of You.

3. If two of You sign this Agreement with the intention of residing in the same Apartment, and at a later date following occupancy one of You desires to leave The McAuley permanently for another residence,

then the Resident leaving The McAuley will surrender all rights under this Agreement (see Termination by Resident). The remaining Resident will retain all rights under this Agreement (see Termination by Resident). The remaining Resident will retain all rights as a Resident and will pay the single occupancy Monthly Service Fee for the Apartment. There will not be a refund of any portion of the original Entrance Fee paid by both parties for the original Apartment at that time. The refund provisions of this Agreement will apply with respect to the person remaining in the Apartment. The refund provisions of this Agreement will be operative only upon the death or termination of occupancy of the remaining Resident.

C. Resident Marriage

1. If You marry another Resident and both of You desire to reside in the same Apartment, You both may either, a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines). In either case, We will honor the existing Agreement for each of You. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Residents, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the couple

resides, and the second Resident will pay the Monthly Service Fee for a Studio Apartment.

2. If You marry a non-resident and You both desire to live in Your Apartment, the non-Resident must apply to Us for residency and meet all applicable Application and Admission requirements.
 - i. If the non-Resident spouse is accepted for residency, a new Residency Agreement must be executed by all parties. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, Your Spouse and Us.
 - ii. If the non-Resident spouse is not accepted for residency, We and You will execute an Addendum to the Agreement with respect to living arrangements for the non- Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident spouse will be subject to Our rules and regulations, as amended from time to time.

D. Special Resident Occupancy

1. If You decide to reside in the same apartment with another current Resident who previously resided in a different Apartment, You and the other Resident may either: a) release one Apartment and reside together in the other Apartment, or b) release both Apartments and reside together in a different Apartment. If You and the other

Resident choose to release both Apartments and reside together in a different Apartment, transfer to an available Apartment will be facilitated by Us (subject to Our Internal Transfer Guidelines). In either case, We will honor the existing Agreement for You and for the other Resident. If the Entrance Fee for the new Apartment is greater than the sum of the original Entrance Fees paid by the two Yous, You will pay the difference between the current applicable Entrance Fee and the sum of the original Entrance Fees. Once residing together, the Monthly Service Fee will be adjusted so that one of You will pay the Monthly Service Fee for the Apartment style in which the two of You reside, and the second will pay the Monthly Service Fee for a Studio Apartment.

2. If You and a non-Resident desire to live in Your Apartment, the non-Resident must apply to Us for residency.
 - i. If the non-Resident is accepted for residency, a new Residency Agreement must be executed by You and the non-Resident. An applicable Monthly Service Fee adjustment will apply. If the applicable current Entrance Fee is greater than the original Entrance Fee paid by You, the difference between the original Entrance Fee and the current Entrance Fee will be paid at the time the new Agreement is executed by You, the non-Resident, and Us.
 - ii. If the non-Resident is not accepted for residency, We and You will execute an Addendum to Your Agreement with respect to living arrangements for the non-Resident spouse. An applicable Monthly Service Fee adjustment will apply. The non-Resident will be subject to Our rules and regulations, as amended from time to time.

E. Guests

Guests staying in Resident Apartments are welcome at all times. Any visitation in the Apartment by a non-Resident for more than a two-week period in any calendar year must be arranged with, and expressly approved in writing by Us. Guest meals will be available for an additional charge that will be added to Your Monthly Statement.

VII. TRANSFER TO A DIFFERENT APARTMENT

If You wish to transfer to a different Apartment, You must notify Us in writing of the desire to transfer Apartments. A Fee of \$10,000.00 will be assessed once the transfer is approved. We will assist You with such a transfer, subject to Our Internal Transfer Guidelines. Our Internal Transfer Guidelines are incorporated by reference into, and attached as Exhibit 1 of this Agreement. When a new Apartment is available and You transfer, the Monthly Service Fee and the Entrance Fee will be adjusted to the then current charges for that Apartment type. The parties will amend this Agreement in writing prior to the transfer becoming effective to reflect such adjustments. If the current Entrance Fee for the new Apartment is less than the original Entrance Fee paid by You, there will be no refund of any portion of the Entrance Fee. All refunds will be made in accordance with Section VIII upon termination of this Agreement. We have established policies on the procedures and charges for transfers and may, from time to time, adjust this policy.

VIII. REFUND OF ENTRANCE FEE

In the event this Agreement is executed by two persons, the Entrance Fee refund Procedures set forth below in this Section shall not apply until the last of the two of You dies or this Agreement is otherwise terminated by both of You as set forth in Section V of this Agreement.

A. Prior to the Occupancy Date

1. Apartment Not Available

If for any reason the Apartment is not available for occupancy on the Occupancy Date, You may terminate this Agreement. Upon termination of the Agreement, You will be paid, upon request, a full refund of the Entrance Fee, without interest, minus a \$500.00 administrative fee. Such refund will be issued within thirty (30) days of the receipt of the notice of termination.

2. Death, Illness, Injury or Incapacity of Resident

If for reason of death, illness or injury, or incapacity, You are not able to occupy Apartment on the Occupancy Date, We will refund the Entrance Fee paid, without interest, minus a \$500.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V. A.1.

3. Termination Within Thirty (30) Days of Execution of this Agreement

You may terminate this Agreement for any reason up to thirty (30) days after the execution of this Agreement by giving us written notice by registered, or certified mail. We will refund to you all fees paid to you minus an administrative fee of \$1,000.00.

4. If for any other reason, You are not able to or choose not to occupy Apartment on the Occupancy Date and more than thirty (30) days have passed since execution of this Agreement, We will refund the Entrance Fee paid, without interest, minus a \$1,000.00 administrative fee, within thirty (30) days of receipt of the notice required under Section V.A.1.

B. Subsequent to the Occupancy Date – Standard Rental Refund Plan

Standard Refund Plan

You, at the time this Agreement was executed, selected the Standard Refund Plan. During the first twenty-four month (24) months from the Occupancy Date, there will be a refund of the original entrance fee paid, less four percent (4%) of that amount for each full month from the Occupancy Date to the date the Apartment is vacated (and empty of all personal possessions) or the Agreement is terminated, whichever comes later. Any interest earned on the Entrance Fee will be retained by us.

In situations involving serious deterioration of your health requiring nursing home placement or your death (or, if there are two of you, the nursing home placement or death of both of you) during the first twenty-four (24) months from the Occupancy Date, there will be a full refund, without interest, of the original Entrance Fee paid by the You.

Subsequent to the first twenty-four (24) months from the Occupancy Date, there will be a full refund, without interest, of the original Entrance Fee paid by You.

C. Refund Payment

Any refunds due to You or Your estate pursuant to the prior two paragraphs will be payable within sixty (60) days following the later date when both of the following events first occur, *but in no case shall the refund be delivered to you or your estate later than three years from the date this contract is terminated:*

1. We receive an Entrance Fee for an Apartment similar in style (*e.g.* studio, one bedroom, *etc.*) to Your Apartment; and
2. We have refunded all other entrance fees due and payable pursuant to residency agreements for like Apartment styles pursuant to residency agreements that terminated prior to the termination of this Agreement.

Notwithstanding the foregoing, We may, at our option, deduct from any Entrance Fee refund any monies advanced to You by Us and any monies

owed Us under Section III of this Agreement or under any other provision of this Agreement. In the event that You have incurred charges which exceed the Entrance Fee refund balance, no refund will be issued and You or Your estate will be liable and billed for the excess amount.

We will pay any refund due hereunder to You or Your estate if You are deceased, unless We are otherwise directed by written instructions signed by You and accepted by Us.

IX. EXTENDED ABSENCE

If You are away from The McAuley for fourteen (14) or more consecutive days due to an admission into an acute care setting, a rehabilitation stay or a temporary stay in a skilled nursing facility, You will receive a daily meal credit on Your Monthly Statement for those days when You were away from The McAuley. The credit for missed meals will be calculated upon your return and will be reflected in your following months statement. Your right to occupy the Apartment and Your payment obligations will be as set forth in Section IV.D above.

X. VACATING APARTMENT

Upon termination of this Agreement, You must vacate the Apartment within thirty (30) days. For purposes of this Agreement, the Apartment will not be considered vacated until all of Your personal property is removed from the Apartment. You will be responsible for the Monthly Service Fee during this thirty (30) day period; provided, however, that if

the Agreement is terminated as a result of Your death, Your estate or family will only be responsible for payment of the Monthly Service Fee for a period of time not to exceed fifteen (15) days following Your death as long as Your Apartment has been vacated. If the Apartment is not vacated within the thirty (30) days, We will have the right to remove and store all property left in the Apartment after thirty (30) days. You will be responsible for the costs incurred as a result of moving and storing such items. Property left in storage for ninety (90) days or more may be disposed of by Us at Your expense.

When You vacate the Apartment, We expect that the Apartment will be left in the same condition as of the Occupancy Date, ordinary wear and tear excluded. We may charge You for any damage to the Apartment that, at Our discretion, is deemed as not the result of ordinary wear and tear. If with Our permission, You physically altered the Apartment, We, in Our sole discretion, may return the Apartment to its condition prior to such alterations, and all costs for this restoration incurred by Us will be charged to You.

XI. MISCELLANEOUS

A. Fees Not Held in Trust

All fees paid to Us, including Entrance Fees, shall become the sole property of Us as payment for residence and services, except to the extent that Entrance Fees may be refundable under this Agreement.

B. Subordination

All Your rights under this Agreement are subordinate to any existing or future mortgages on The McAuley and to any of Our other creditors with respect to The McAuley. You agree to execute any documents requested by Us in order to carry out the terms of this Section.

C. Property Rights

This Agreement grants You a revocable license to occupy and use space in The McAuley. This Agreement is not a lease and does not transfer or grant to You any ownership interest or rights of tenancy in real or personal property owned or leased by Us. Your rights under this Agreement, except Your rights to any refunds to which You are entitled under this Agreement, are subject to all terms and conditions of this Agreement and are subordinate to any mortgage, financing deed, deed of trust, or other financing on The McAuley.

D. Arrangements for Conservatorship

If You become unable to care properly for Yourself or Your property and have made no designation of a conservator or trustee, then We are authorized to institute proceedings for appointment of a person or entity to serve as conservator for You.

E. Rules and Regulations

We shall have the right to adopt or amend such reasonable policies, rules, regulations, guidelines and operating procedures (“Rules and

Regulations”) as deemed necessary or desirable for proper management and operation and for the health, safety and comfort of the Residents. The *Resident Handbook* summarizes many of Our Rules and Regulations, and is incorporated by reference into this Agreement. You agree to abide by the Rules and Regulations.

F. Smoking

The McAuley is a smoke-free campus; therefore, smoking is prohibited. This applies to all areas in The McAuley, including but not limited to: The McAuley vehicles, Your apartments, apartment balconies, the front entrances to each building, all dining areas, meeting rooms, activity areas and all corridors, and all grounds belonging to The Mercy Community. This prohibition applies to everyone, including all Residents, family members, overnight guests, visitors, and private duty assistants.

G. Compliance with Laws and Regulations

We will comply with all municipal, state and federal laws and regulations regarding consumer protection and protection from financial exploitation. We will afford You all rights and privileges under Section 17b-520 *et seq.* Connecticut General Statutes.

H. Grievance Procedure

You may present a formal complaint about any alleged violation of the Residency Agreement. The complaint must be submitted in writing and

delivered to the Executive Director at the address specified in Paragraph J below. Upon receipt of a formal written complaint, the Executive Director or designee will respond within five (5) business days. The Executive Director or designee will respond in writing after conducting an investigation. If You are not satisfied with the response, You may appeal the decision to the Chief Executive Officer (CEO) of Mercy Community Health. This appeal must be made in writing and delivered to the CEO at The McAuley, 275 Steele Road, West Hartford, CT, 06117, Attn.: Chief Executive Officer. Under no circumstances will The McAuley, its Executive Director, or the CEO or any other agent allow or permit retaliation against a Resident who has filed a complaint.

I. Accuracy of Information

You represent and warrant that all information that You have submitted or will submit to Us, including but not limited to annual financial statements, is true and complete. You understand and acknowledge that We are relying on such information.

J. Notices

All written notices required by this Agreement will be sufficient if addressed:

1. If to You: to Your Apartment at The McAuley;
2. If to Us, to the Executive Director, The McAuley, 275 Steele Road, West Hartford, CT 06117.

Unless otherwise specified in this Agreement, all written notices shall be sent by registered or certified U.S. Mail, overnight express courier service, or messenger service and shall be deemed issued when delivered or when acceptance is refused.

K. Waiver

Our failure in any one or more instances to insist upon strict compliance by You with any of the terms of this Agreement shall not be construed to be a waiver by Us of such term(s) or of the right to insist upon strict compliance by You with any of the other terms of this Agreement.

L. Assignment

Your rights and benefits under this Agreement (except for the possible right to a refund of some part of the Entrance Fee) are not assignable and will not inure to the use or benefit of the heirs, legatees, assignees or representatives of You, but Your obligations under this Agreement shall bind Your heirs, legatees, assignees or representatives. The Agreement shall bind and inure to the benefit of Our successors and assigns.

M. Entire Agreement

This Agreement, including all exhibits, constitutes the entire agreement between Us and You. We are not liable for nor bound in any manner by any statements, representations or promises made by any

person representing or proposing to represent Us unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing and signed by Us and You.

N. Interpretation of Agreement

No amendment of this Agreement will be valid unless executed in writing by both You and Us.

The invalidity of any restriction, condition or other provision of this Agreement will not impair or affect in any way the validity or enforceability of the remainder of this Agreement. This Agreement will be interpreted according to the laws of the State of Connecticut.

O. Counterparts

This Agreement may be executed in counterparts.

Executed at West Hartford, Connecticut on this _____ day
of _____, 20 ____ .

RESIDENT(S):

THE PROVIDER:

McAuley Center, Inc.
a Connecticut not-for-profit
corporation.

(Signature)

By: _____
Its Executive Director

(Printed Name)

(Signature)

(Printed Name)

Summary of Key Information Contained in this Residency Agreement

Resident Name(s):

Contract Type: _____ Modified Agreement (100% Refund)

Occupancy Date: _____

Unit Number: _____ Unit Type: _____

Entrance Fee Amount: _____

Monthly Service Fee: First Person: _____

Second Person: _____

EXHIBIT 1 (Internal Transfers and Guidelines)

1. Policy Statement

- A. All residents choose their independent living unit prior to occupancy. Once the resident occupies the living unit, the applicable unit is considered the resident's primary residence. From time to time, and in consideration of a number of factors, it may be necessary for the resident to move to a different independent living unit. Any internal transfer from the primary residence to another living unit at The McAuley is subject to the Internal Transfer Guidelines.
- B. Current residents who desire to change units and make these requests are also placed on a waiting list. In this case, the name is placed in the last position for the living unit type requested.
- C. In certain circumstances, a current resident of The McAuley may request a living unit change for financial or medical reasons. In this case, The McAuley will give priority placement on the applicable waiting list. Priority consideration means that the current resident will be placed in the first position on the waiting list.

2. Internal Transfer Procedure

There are four (4) possible scenarios with respect to an internal transfer of living units. The following guidelines apply to these specific unit transfers.

A. Pre-Arranged Move (Prior to Move-In) to a Different Living Unit

1. In certain circumstances, a resident may elect to move to The McAuley and into an available living unit, even if that unit is not the resident's choice.
2. In this situation, The McAuley and the resident will enter into an Addendum as part of the Residency Agreement. The Addendum will specify that the resident is entitled to move into an alternative unit and will specify the details of this relocation. In this situation, the resident will be given priority placement on the applicable living unit wait list. All moving expenses are the responsibility of the resident.

B. Planned Move (After Move-In) to a Different Living Unit

1. In certain circumstances, a resident will select a living unit and, once residing in that unit, will desire to relocate to another living unit. For example, a resident chooses a living unit with a view of the parking lot and then decides that a view of the University of Saint Joseph would be more appealing.
2. In this situation, the resident must notify the Sales Department of the desire to change living units. The resident's request will be noted on the applicable waiting list for the unit desired. At that time, the resident's name will be placed in the last position on the applicable wait list.
3. In the event that a unit comes available and the resident selects this unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new

entrance fee is less than the original entrance fee, no entrance refund will be provided to the resident. The Resident must also be aware that a change in monthly fees may also apply as a result of a living unit transfer. All moving expenses are the responsibility of the resident.

C. Required Move (after Move-In) to a Smaller Living Unit for Financial Reasons

1. In certain instances, due to a loss of financial means, it may become necessary to relocate to a smaller living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the size living unit that the resident is requesting. The Executive Director will review the request and meet with the resident to review his/her financial position. After due consideration, if the request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.
3. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The original entrance fee will not be adjusted. All moving expenses will be the responsibility of the resident.

D. Required Move (after Move-In) to a Different Living Unit for Medical Reasons

1. In certain instances, due to a change in resident's medical status, it may become necessary for the resident to relocate to a different living unit.
2. In this situation, the resident must send a written request to relocate to the Executive Director. The letter should request the living unit change and should note the location of the unit that the resident is requesting.
3. The Executive Director will review the request and meet with the representatives of The McAuley to review the resident's change in medical status and the relocation request. After due consideration, if the resident's request is approved, the resident will be given priority placement on the applicable unit wait list. At the time that the resident relocates to a different living unit, the resident's monthly fee will be adjusted. If the resident relocates to a larger living unit, the resident's monthly fee will be adjusted. Further, if the resident relocates to a larger living unit, the resident will be required to pay the current entrance fee for that living unit. The resident's original entrance fee will be applied to the entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.
4. If the resident's request is not approved, the resident's name will be placed on the unit wait list in the last position. At the time that the resident relocates to the smaller unit, the resident's monthly fee will be adjusted. The resident's original entrance fee will be applied to the

entrance fee for the new living unit. In the event that the new entrance fee is less than the original entrance fee, no entrance fee will be provided to the resident. All moving expenses will be the responsibility of the resident.



THE McAULEY

PART OF THE MERCY COMMUNITY†

RESIDENCY AGREEMENT ASSISTED LIVING

275 Steele Road, West Hartford, CT 06117-2716
Telephone 860.920.6319 FAX 860.232.4077

**THE McAULEY
ASSISTED LIVING
RESIDENCY AGREEMENT**

This Residency Agreement (the “Agreement”) is entered into this _____ day of _____ between McAuley Center, Incorporated, a Connecticut non-stock corporation (or “The McAuley” or “Us”), and _____, (“You”) or _____ (“Designated Representative”).

This Agreement applies to Apartment _____: a _____ bedroom Apartment. If more than one person is signing this Residency Agreement, “You” or “Your” refers to each of you individually and both of you together.”

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

This Residency Agreement applies to your rental of an apartment in The McAuley and sets forth Your Obligations as a resident of The McAuley.

ARTICLE I ACCOMMODATIONS

A. Apartment

You will occupy the Apartment number identified in Exhibit 1 of this Residency Agreement (the “Apartment”). You may move into the Apartment as of the occupancy date listed in Exhibit 1 (“the Occupancy Date”).

If the Apartment is for double occupancy, You acknowledge that You have chosen and consented to a double occupancy apartment. If You prefer a single occupancy Apartment and notify Us in writing of this preference, Your name will be placed on a waiting list, in order of receipt of notice, to fill future vacancies in Our single occupancy apartments.

B. Furnishings Provided

Your Apartment will be furnished with a private bathroom and full kitchen. You are responsible for all other furnishings, and You may furnish and decorate Your Apartment according to Your own individual tastes and preferences as long as You do not interfere with Our safety standards. Please refer to the Resident Handbook for more information.

C. Emergency Response

Your Apartment will include a 24-hour emergency call system, which includes individual smoke detectors and a sprinkler system. It also will be equipped with one or more emergency pull cords to alert staff to any emergencies that may arise. We will provide 24-hour staffing at the Abbeyleix concierge desk. The staff will provide emergency response to the emergency call system, including obtaining emergency medical assistance and notification of

Your Designated Representative or other designated family member(s) and personal physician. The costs associated with any and all types of medical treatment including emergency medical assistance, will be borne by You or Your insurer and are not included in the Rental Fee set forth in Exhibit 1.

D. Utilities

All utility expenses, except cable TV, internet and telephone charges are included in the monthly fee.

E. Parking

Parking is available outside The McAuley building in assigned parking spaces.

F. Common Facilities

As a resident of The McAuley, You are welcome to share, with all other residents, access to all common areas.

G. Core Services

In addition to the accommodations and access to common areas, Your Rental Fee also includes the following “core services”

1. Meals

We provide three nutritionally well-balanced meals per day served at designated hours in the assisted living community dining room. If You are away from The McAuley for fourteen (14) or more consecutive days due to an admission into an acute care setting, a rehabilitation stay or a temporary stay in a skilled nursing facility, You may apply for a meal credit. Meal credits are not available if You choose to dine out or are absent from The McAuley for fewer than fourteen (14) consecutive days. Take-out meals are available for an additional

charge if You are unable to come to the dining room. You may invite guests for meals, at an additional charge, on a space - available basis, provided You make reservations in advance.

2. Transportation

Scheduled transportation services to local shopping, banking, medical appointments and religious services.

3. Housekeeping

We will provide weekly basic housekeeping services. In addition, We will provide a thorough, heavy-duty cleaning once per year. You can arrange for additional or more frequent housekeeping services for an additional charge.

4. Maintenance

We will do any routine repairs and chore services for routine domestic tasks in Your Apartment. We will take care of all grounds keeping and exterior maintenance, including landscaping, snow removal from sidewalks and parking areas, painting, exterior window cleaning, and regularly scheduled rubbish removal from designated locations. You will securely wrap all rubbish and garbage and shall regularly take all rubbish and garbage to containers provided by Us at designated locations.

5. Laundry

We will provide and launder bed and bath linens (towels and sheets) on a weekly basis. If required more frequently, an additional charge will apply. You are free to use our laundry facilities with or without

assistance. Personal laundry service may be included in the one hour per day of assistance. If additional assistance is required, an additional fee will apply.

6. Social and Recreational Activities

Our staff will arrange for a variety of social and recreational activities.

H. Assisted Living Services and Other Health Care Services

You may receive up to one hour per day of personal care provided by a Certified Nursing Assistant. The hour of personal care will be delivered in intervals of time after the care plan has been completed and agreed on by You and the Supervisor of Assisted Living. Other assisted living services are available to You from the ALSA at an additional cost. You will need to execute a separate agreement for the provision of assisted living services (the “Agreement for Assisted Living Services”).

In the event that You wish to employ outside caregivers, companions, private duty aides or other personnel to provide services to You, You must notify the Director of Health and Wellness prior to obtaining any these services. These outside caregivers, companions, private duty aides or other personnel must comply with the personnel policies, and the rules and regulations set forth by The McAuley and The Mercy Community.

I. Additional Charges

Additional charges for items and services not included in Your Rental Fee are listed in your Resident Handbook.

ARTICLE II FINANCIAL ARRANGEMENTS

A. Rental Fee

Upon occupancy, We will issue monthly statements to You by the tenth of each month requiring payment of the Monthly Rental Fee plus fees for any Optional Services defined in Article I Section I.

B. Rate Changes

The amount of the Monthly Service Fee is Your share of our estimated monthly cost to operate The McAuley. The Monthly Service Fee may be adjusted from time to time, at our discretion, upon sixty (60) days written notice to You, to reflect changes in those costs. We will limit such adjustments to amounts necessary to maintain the financial stability of The McAuley. You agree to pay the adjusted Monthly Service Fee.

C. Payment Schedule

Prior to or on the Occupancy Date, You shall pay Us an amount equal to one month's Rental Fee. This advance payment shall be prorated accordingly, and the residual amount will be credited to the following month's Rental Fee. If You have paid a reservation fee, that fee has been applied to the first month's Rental Fee. Thereafter the Rental Fee shall be due 10 days from receipt of the monthly statement.

D. Late Payment Charge

Payment will be due within ten (10) days of receipt of the monthly statement. Any outstanding amounts owed to us ten (10) days after the due date will be charged a late fee of one and one half percent (1.5%) per month until the amount owed is paid in full. If You fail to pay the amounts charged under

the terms of the Agreement and We must refer the account to an attorney or collection agency, You agree to pay all charges, expenses, court costs and attorney's fees incurred by Us, not to exceed any lawful limits.

E. Fees in the Event of an Apartment Hold

If You temporarily transfer to another facility or are otherwise away from Your Apartment for medical reasons (e.g., temporary hospitalization), We will hold Your Apartment for Your return, as described in Article VI, paragraph I.

1. Single Occupancy

If you do not return for up to fourteen (14) consecutive days, you will continue to be responsible for the Rental Fee. After the fourteenth (14th) day, You will be responsible for the Rental Fee; however, You may request a meal credit for the time away in excess of fourteen (14) days.

2. Double Occupancy

If two persons occupy Your Apartment and one of You is permanently transferred to another facility, Your Rental Fee will be adjusted to reflect single occupancy.

F. Refunds

1. If this Agreement is terminated at any time on or after the Occupancy Date, We will refund any payments to which You are entitled within thirty (30) days of the last day of the month in which this Agreement is terminated. In no case, however, will a refund be made before Your Apartment is vacated in the event this Residency Agreement is

terminated or before You have settled any outstanding bills for services rendered or arranged through Us.

2. If You die, or are prevented by a medical or cognitive change in Your health from occupying the Apartment prior to the Occupancy Date, We will refund the first month's Rental Fee and the Security Deposit, provided that We receive written notice of death or significant change in health on or before the Occupancy Date. Refunds will be made within 30 days of Our receipt of the required written notice.
3. In the event that You terminate this Agreement before the Occupancy Date for any reason other than death or significant change in health, We will refund the first month's Rental Fee and the Security Deposit, less a charge of \$1000.00, provided that You give written notice of termination no later than 10 days prior to the Occupancy Date. This \$1000.00 charge is intended to compensate Us for the inability to market the Unit during the time it has been reserved for You, for costs associated with remarketing the Apartment and processing costs.
4. In the event of Your death, We shall return any applicable refund to Your estate, or as otherwise required by law.
5. If We discontinue operations, any advance payments for services that You have not received shall be refunded to You within thirty (30) days of closure, whether or not such refund is requested.

G. Security Deposit

Upon signing this Residency Agreement, You agree to deposit with Us the sum of \$_____ (the "Security Deposit") as security for performance

of Your obligations under the Residency Agreement. The Security Deposit equals one month's Rental Fee. Within thirty (30) days after termination of the Residency Agreement, We will return the Security Deposit with interest to You after deducting any outstanding fees or charges in accordance with Connecticut law. We may deduct from Your Security Deposit the cost of any repairs or replacements required in connection with any damage, beyond normal wear and tear, which We determine in Our sole discretion to be Your responsibility. In no event may You apply the Security Deposit to the last month's rental.

H. Financial Requirements for Residency and Notification of Exhausted Assets

We will review Your financial status at least yearly. To assist Us in Our review, You agree, upon request, to update the financial disclosure form that You submitted for admission to Us. You agree to make all reasonable efforts to conserve Your financial resources to enable You to meet Your financial obligations under this Residency Agreement.

You further agree to notify Us at such time as You have spent down income and assets so that You have funds available for only six (6) months of the Rental Fee. You further agree not to impair Your ability to meet these obligations. In addition, You agree not to transfer assets or income, other than for ordinary living expenses, so as to impair Your eventual eligibility for benefits under Title XIX of the Social Security Act (Medicaid) in the event You require skilled nursing services. If You are unsure whether a contemplated transaction will place You in jeopardy of violating this Residency Agreement, contact Us for assistance.

ARTICLE III YOUR RIGHTS AND OBLIGATIONS

A. Monthly Rental Charges

You will pay the Rental Fee and all other charges in accordance with this Residency Agreement.

B. Maintenance of the Apartment

You will maintain the Apartment in a clean, sanitary and orderly condition. We reserve the right to determine in Our sole discretion whether You are complying with this obligation.

C. Damage

You will reimburse Us for the repair or replacement of fixtures (including carpeting) if Your Apartment is damaged beyond normal wear and tear. In addition, You agree to reimburse Us for any loss or damage to Our real or personal property (whether located within Your Apartment or not) caused either intentionally or negligently by You or by Your guest or invitees.

D. Alterations; Waste

You may not cause or permit any alterations, additions or changes to any part of Your Apartment without first obtaining Our written consent. All such alterations, additions or changes shall be at Your expense and shall become Our property. If You alter Your Apartment, You must return it to its original condition at Your expense, or pay for the labor required to have it done prior to terminating this Residency Agreement.

E. Subletting; Assignment

You may not sublet the Apartment or any part of the Apartment or assign this Agreement to any party.

F. Designation of Family Members and Physician

You will provide Us with the name(s), including address and telephone number of one or more designated family members to be contacted in an emergency and to be consulted regarding any need for assisted living or other health services (with Your consent) and with the name, address and telephone number of Your primary care physician.

G. Pets

You may maintain a small and orderly pet upon the written approval of and on terms and special conditions prescribed by Us. You will be responsible for ensuring that any pet is properly cared for and that Your pet does not create any disturbance or otherwise constitute a nuisance. You agree to comply with Our “Pet Policy,” which is published in the *Resident Handbook*.

H. Guests

You may invite guests to The McAuley. Guest accommodations are available in a guest apartment, on a first come, first served, prior reservation basis. We will charge a daily guest room rate. A “guest” is anyone staying overnight who has not signed this Residency Agreement. If You wish to have a guest stay in Your Apartment, You may do so provided You obtain Our prior approval. A guest’s stay in Your Apartment is limited to a total of fourteen (14) days within any six (6) month period. All guests are subject to Our rules and regulations and have no rights under this Residency Agreement. Guests are not permitted to stay in your apartment while you are away on vacation. Exceptions may be

made during your hospitalization or short term rehab stay, with the discretion and approval of the Executive Director.

I. Right to Occupancy and Use

You (and the person sharing the Apartment, if applicable) have the exclusive right to occupy the Apartment. You have the non-exclusive right to use community areas together with all other persons entitled to use such areas, including but not limited to all other Residents, guests, and Our employees and agents.

J. Services

You will have access to all services described in Article I. It is expressly agreed and understood that some services and programs, including transportation and recreational and social programs, may be accessed only on a space-available or first come, first served basis.

K. Community Rules and Regulations

We have established certain rules and regulations for the proper management and operation of the community and the health, safety and comfort of the residents. These rules and regulations are contained in the *Resident Handbook* which is incorporated into and made part of the Agreement. You agree to observe and abide by these rules and regulations. We reserve the right to modify the rules and regulations at any time. By signing this Residency Agreement, You acknowledge that You have received a copy of Our *Resident Handbook*.

L. Appropriateness

You acknowledge and agree that the Apartment is appropriate for occupancy

by persons who can live independently, if necessary with assistance from our an Assisted Living Services Agency, Home Health Agency or other qualified provider, but that the Apartment is not appropriate for occupancy by persons who need 24-hour skilled nursing care or whose physical, mental or psychological condition otherwise results in their inability to live appropriately in a residential setting. You agree that You will vacate the Apartment upon 30 days' notice, or lesser notice if an emergency exists, if it is determined by Us in Our sole discretion that Your physical, mental, or psychological condition is no longer appropriate for continued residency in the Apartment.

M. Property Interest

This Residency Agreement shall give You no property rights to The McAuley or any of Our assets. In addition, You shall have no right to any of Our personal property, including any of its furnishings and fixtures in Your Apartment and in common areas.

N. Miscellaneous

You will not make or permit any loud or disturbing noises; cause odors or disturbances; place foreign matter in toilets or sinks; obstruct or permit to be obstructed sidewalks, driveways, walkways, hallways or parking areas; cause any damage to the exterior of the residence; store flammable materials; leave rubbish or personal articles in hallways, common areas, or the exterior premises or grounds; install exterior antennas or aerials without Our consent; park cars in areas other than as designated by Us; change or add locks except with Our written consent; use the Apartment or the community areas other than for residential and usual and customary social and recreational purposes or in any manner that is offensive, improper, or contrary to any law or ordinance or in violation of The Residents' Handbook; or default under the

terms of Your Agreement for the Provision of Assisted Living Services.

O. Bill of Rights You are entitled to all of the rights set for the in the Managed Residential Community Residents' Bill of Rights.

ARTICLE IV THE McAULEY'S RIGHTS AND OBLIGATIONS

A. The Apartment, Facilities and Services

We will provide and maintain the Apartment, facilities and services as described in Article I.

B. Maintenance

We will maintain the building, community areas, heating and air conditioning, electrical, plumbing, and septic system in good and reasonable operating condition and shall maintain the exterior premises and grounds in good and reasonable repair.

C. Right of Entry

Our employees or agents may enter Your Apartment at reasonable times with your consent, which consent shall not unreasonably be withheld, in order to provide services to You, to perform building inspection and maintenance functions and otherwise to carry out Our obligations under this Residency Agreement. Our employees and agents may enter Your Apartment at any time when responding to the medical alert system, fire alert system or other emergency as determined by Us at Our discretion.

D. Emergency Medical Care

In an emergency, the existence of which shall be determined by Us in Our sole discretion, We have the right to arrange for Your immediate emergency medical treatment by an emergency medical service or other licensed health care provider or professional as needed, at Your sole expense. We will notify Your designated family member and physician as soon as practical thereafter.

**ARTICLE V
GENERAL CONDITIONS**

A. Damage to Personal Property

You are responsible, at Your discretion, for providing all personal property and liability insurance for You, Your property and Your guests. Except when Our staff are negligently or intentionally at fault, We shall not be responsible for, and Our insurance will not protect You against, personal liability for injury to guests or other persons in Your Apartment or any loss or damage to Your personal property from theft, fire or other cause. In the event that You or Your personal property shall suffer any injury or damage as the result of the act of a third party or parties, We shall be subrogated to Your claims for all expenses We may incur arising from such injury or damage, and We may take all steps necessary in Your name or otherwise to enforce payment of such expenses by the person(s) responsible or their insurer(s).

B. Lessor's Covenants

We covenant that We have the right to enter into this Agreement and that, upon Your payment of the Rental Fee and keeping the promises made in this Agreement, You have the right to undisturbed occupancy of the Apartment

for the term of this Agreement, all in accordance with the terms of this Agreement.

C. Casualty; Condemnation

In the event that damage to the Apartment or building by fire, the elements, unavoidable accident or other casualty (“casualty”) causes the Apartment to be unfit for occupancy, We in Our sole discretion shall determine whether the damage is so substantial that repairs and restoration are not feasible or whether the Apartment and building shall be repaired and restored. If We determine that repair and restoration are not feasible, You will be offered occupancy of any other available Unit at the usual and customary monthly rental fee for that Unit, and that Unit shall constitute the “Apartment”. If You elect not to occupy the offered Unit or if no Unit is available, this Agreement shall terminate pursuant to the provisions of Article VI, Paragraph F. If We determine that repairs and restoration will be made, You will be offered any other available Unit and this Agreement shall remain in full force and effect. If no other Apartment is available, the Rental Fee set forth in Exhibit I of this Agreement shall be suspended until the Apartment is restored and available for occupancy. In the event of a casualty affecting the community areas, which may result in Your inability to use the community areas or a portion of the building but not Your Apartment, there shall be no reduction in the Rental Fee as long as the Apartment is suitable for occupancy; provided, however, that We will cause the community areas to be restored at the earliest practical date.

In the event of a condemnation or taking of the Apartment or the building containing the Apartment, which renders the Apartment or the community areas unusable by You, this Agreement shall terminate pursuant to the provisions of Article VI, Paragraph F.

ARTICLE VI TERM AND TERMINATION

A. Effective Date; Term: Renewal

This Residency Agreement is effective upon execution by all parties (the “Effective Date”); provided, however, that Your obligation to pay the Rental Fee and Our obligation to provide services pursuant to this Residency Agreement shall not become effective until the Occupancy Date.

The initial term of this Residency Agreement shall be from the Effective Date until one month from the Occupancy Date and shall automatically renew and continue on a month to month basis thereafter unless terminated sooner as set forth herein.

B. Termination by Resident

1. Termination Prior to the Occupancy Date

You may terminate this Agreement before the Occupancy Date by providing prior written notice to Us.

2. Termination On or After the Occupancy Date

You may terminate this Agreement on or after the Occupancy Date as of the last day of the initial term or the last day of any succeeding one-month term, provided that You give Us thirty (30) days prior written notice of intent not to renew the Agreement. If You fail to provide thirty (30) days prior written notice to Us, You will be responsible for paying the daily rate for the difference between the termination date and the full 30-day notice period. For example, if

We receive notice from You on the 24th day of the month (*i.e.*, You provide only seven (7) days' notice of termination) You will be responsible for the daily charges for an additional twenty three (23) days. Notwithstanding the foregoing, this notice of termination requirement shall be waived in the event of Your death.

C. Termination by The McAuley

We may terminate this Residency Agreement at any time with or without cause upon thirty (30) days' prior written notice delivered to You and to Your designated representative signing this Residency Agreement on Your behalf. Our policy is to terminate a Residency Agreement, in Our sole discretion in the event of:

1. Failure to perform Your obligations under this Agreement, including Your obligation to pay the Rental Fee and other charges on a timely basis and failure to conserve appropriately Your financial resources, as defined in Article II, Paragraph H above;
2. Failure to abide by Our rules and regulations, including conduct by You that, in Our judgment, is detrimental to the health, safety, comfort or peaceful living of any of the other residents or staff;
3. Your refusal of treatment or care, or refusal to be transferred to an appropriate facility to receive treatment or care that in the opinion of the Our staff, is medically required for Your physical or mental health or for the health and safety of other residents and staff;

4. Material misstatements or failure to state a material fact in Your application, financial disclosure statement, or health history statement filed with Us.
5. Permanent transfer to another public or private institution for medical reasons when it is determined that We do not have adequate facilities or staff to provide medical services needed by You or that Your continued occupancy of Your Apartment constitutes a danger to other residents or to Yourself, or is detrimental to the peace or health of other residents.

We may terminate this Residency Agreement sooner than thirty (30) days if in Our sole discretion We determine that such an earlier termination is necessary for Your welfare, or because the health, safety and peaceful living of other residents is in jeopardy.

D. Termination by Reason of Death

1. Sole Occupant

In the event of Your death, if You are the sole occupant of Your Apartment, this Residency Agreement will be deemed terminated thirty (30) days following Your death.

2. Surviving Spouse or Roommate

In the event of Your death, if Your spouse or roommate remains in the Apartment, the Rental Fee will be adjusted appropriately to reflect a single occupant. (“Roommate” means the person who signed the Residency Agreement with You.) The Security Deposit will not be returned at this time.

E. Termination by Reason of Separation or Divorce

If You are married and are living in a double occupancy and You become separated or divorced, or in the case of any other double occupancy and You no longer desire to live in a double occupancy apartment at The McAuley, You have three options under this Agreement:

1. Both residents may remain at The McAuley in separate apartments. Each will be responsible for the appropriate Rental Fee for his or her apartment, and each must sign a new Residency Agreement with a Security Deposit for the second apartment. If the original apartment is retained, the Residency Agreement for that apartment will be amended to show a single occupant.
2. If one resident desires to leave The McAuley, and the other resident chooses to remain in the original apartment, the Residency Agreement for that apartment will be amended to show a single occupant.
3. If both residents choose to terminate their residency at The McAuley, the normal termination and refund provisions will apply.

F. Termination by Casualty or Condemnation

If this Agreement is terminated due to casualty or condemnation as provided in Article V, Paragraph C, this Agreement shall terminate as of the date of casualty or the condemnation becomes effective.

G. Release of Residence

The termination of Your Residency Agreement shall entitle Us to release for other occupancy the living accommodations provided to You.

H. Vacating Apartment and Removal of Personal Property

1. Upon termination of this Residency Agreement for whatever reason, You agree that You, Your designated representative or estate shall vacate and remove all Your personal property from the Apartment on or before the termination date. If Your personal property is not removed on or before the termination date, We shall continue to assess, and You or Your designated representative will be required to pay, the Rental Fee on a prorated basis until the personal property is removed from the Apartment, except as provided in subsection 2 below. Subject to and in compliance with State law, if Your personal property is not removed within fourteen (14) days of termination of this Residency Agreement, We will remove the personal property from Your Apartment and place it in storage. You agree that You or Your estate will be responsible for all moving and storage costs.

2. Notwithstanding anything to the contrary in subsection 1 above, in the event this Residency Agreement is terminated by reason of Your death, Your estate or family will only be responsible for payment to Us for a period of time not to exceed fifteen (15) days following the date of death as long as Your unit has been vacated.

I. Apartment Hold

In the event You are temporarily absent from The McAuley for any reason, including for medical reasons such as transfer to another facility or hospitalization, We will continue to hold Your Apartment for Your return until

You or Your designated representative terminates this Residency Agreement in accordance with Article VI, Paragraph B.2, or We determine that Your placement at another facility has become permanent and We terminate this Residency Agreement in accordance with Article VI, Paragraph C.5. Your payment obligations in the event of an apartment hold are described in Article II, paragraph F above.

J. Our Rights upon Termination

Upon termination of this Agreement, except to the extent specifically set forth herein, each party's rights and obligations pursuant to this Agreement shall cease; provided, however, that nothing in this Section shall limit Our rights as to any sums due from You or Your Estate or because of Your failure to perform Your obligations prior to the date of termination.

**ARTICLE VII
MISCELLANEOUS**

A. Policy of Nondiscrimination We consider all applications for residency without regard to race, creed, color, religion, sex, national origin, ancestry, disability, marital and familial status and lawful source of income and We afford equal treatment and access to services to all residents.

B. Accuracy of Application

The Application that You submitted to Us, which includes health and financial assessments, is incorporated by reference into and made an express part of this Residency Agreement. You warrant that all information contained in these documents is true and correct, and You understand that We have relied upon this information in accepting You for residency.

C. Notices

1. Notices to Us shall be sent by certified mail, return receipt requested to the following address:

The McAuley Center, Inc.
275 Steele Road
West Hartford, Connecticut 06117
Attn.: Executive Director

2. Notices to You will be hand-delivered or sent by certified mail, return receipt requested, to You at Your Apartment or, if You have temporarily or permanently ceased to occupy the Apartment, to Your last known address, and any legal representative signing this Residency Agreement on Your behalf at the following address:

Designated Representative: _____

D. Assignment by Us

This Residency Agreement shall inure to the benefit of and be binding on Us and Our successors and assigns. Nothing contained herein shall in any manner restrict Our right to assign or encumber this Residency Agreement in Our sole discretion.

E. Heirs, Executors and Administrators

This Residency Agreement shall be binding on Your Estate and Your heirs, executors and administrators.

F. Entire Agreement; Modification

This Residency Agreement, plus all exhibits and application materials, and, if applicable, Your Agreement For Provision of Assisted Living Services contain the entire understanding of the parties. This Residency Agreement may not be modified except in a writing signed by all parties.

G. Attorney's Fees and Costs

If We take legal action to enforce the terms of this Residency Agreement, We are entitled to recover reasonable attorney's fees and costs of any such action to the extent permitted by applicable law.

H. Governing Law

This Residency Agreement shall be construed in accordance with the laws of the State of Connecticut. In addition, We will comply with all municipal, state and federal laws and regulations regarding consumer protection and protection from financial exploitation. We will afford You all rights and privileges under landlord tenant law, title 47a of the Connecticut General Statutes.

I. Severability If any provisions of this Residency Agreement should be found to be unenforceable, all other provisions of this Residency Agreement shall remain in full force and effect and shall not be affected by any such finding. Our failure to insist on strict compliance with one or more of the terms of this Residency Agreement in any particular instance shall not constitute and shall not be construed as a waiver of Our rights regarding any of the terms of this Residency Agreement in any other instance or generally.

J. Duplicate Originals This Residency Agreement may be executed in counterparts each of which shall be deemed to be an original document, and all of which shall constitute a single document.

K. Grievance Procedure Resident may present a formal complaint about any alleged violation of the Residency Agreement. The complaint must be submitted in writing and delivered to the Executive Director at the following address:

The McAuley Center, Inc.,
275 Steele Road
West Hartford, CT, 06117
Attn.: Executive Director.

Upon receipt of a formal written complaint, The Executive Director or designee will respond in writing after conducting an investigation within seven (7) business days. If Resident is not satisfied with the response, Resident may appeal the decision to the President of Trinity Health of New England Senior Communities. This appeal must be made in writing and delivered to the President at the following address:

The McAuley Center, Inc.
275 Steele Road
West Hartford, CT 06117
Attn.: President, Trinity Health of New England Senior Communities

Under no circumstances will The McAuley, its Executive Director or the President or any other agent allow or permit retaliation against a Resident who has filed a complaint.

L. Smoking Policy The McAuley is a smoke-free campus; therefore, smoking is prohibited. This applies to all areas in The McAuley, including but not limited to: The McAuley vehicles, resident apartments, apartment balconies, the front entrances to each building, all dining areas, meeting rooms, activity areas and all corridors. This prohibition applies to everyone, including all residents, family members, overnight guests, visitors, and private duty assistants.

YOU ACKNOWLEDGE THAT YOU HAVE READ AND UNDERSTOOD THIS RESIDENCY AGREEMENT AND HAVE RECEIVED A DUPLICATE ORIGINAL OF THIS RESIDENCY AGREEMENT.

WITNESS

The McAuley Center, Inc.

By: _____
Its Authorized Representative

Date: _____

WITNESS

RESIDENT

(Name Printed)

Date: _____

WITNESS

DESIGNATED REPRESENTATIVE

(Name Printed)

Date: _____

WITNESS

RESIDENT

(Name Printed)
Date: _____

WITNESS

DESIGNATED REPRESENTATIVE

(Name Printed)
Date: _____

The undersigned, who is related to the Resident in the following capacity
_____ and will benefit from our entering
into the above Residency Agreement, guarantees the prompt payment and
performance of the Resident's obligations under the Residency Agreement.

Witness

Guarantor

Date

**EXHIBIT 1
YOUR APARTMENT AND YOUR FEES**

Names(s) of Resident(s)

Apartment# _____ Occupancy Date: _____

Rental Fee:* \$ _____

(Prorated daily rate: \$ _____)

Second Rental Fee: \$ _____

(Prorated daily rate: \$ _____)

TOTAL RENTAL FEE:

(As of Occupancy Date) _____

* Fees are subject to change. You will be given at least thirty (30) days written notice of any change in fees.

**EXHIBIT 2
AGREEMENT FOR THE PROVISION
OF ASSISTED LIVING SERVICES**

THIS ASSISTED LIVING SERVICES AGREEMENT (the “Agreement”) is made and entered into by and between:

1. This Assisted Living Agreement (the “Agreement”) is entered into this ____ day of _____ between McAuley Center, Incorporated, a Connecticut nonstock corporation (or “The McAuley” or “Us”), and

2. _____ (“You”) or

_____ (“Designated Representative”).

PREAMBLE

The McAuley, a non-profit, tax-exempt corporation, is a Life Plan Community sponsored by Trinity Health Senior Communities, managed by Mercy Community Health, and is part of Trinity Health. It is located at 275 Steele Road, West Hartford, Connecticut. The McAuley is registered as a Managed Retirement Community (“MRC”) in Connecticut.

This Residency Agreement applies to your rental of an apartment in The McAuley and sets forth Your Obligations as a resident of The McAuley.

1. Criteria for Admission to the ALSA

In order to be admitted to the ALSA, You must meet the following criteria:

- A. You must need assistance with activities of daily living and/or nursing care and services.

- B. A licensed physician or other health care practitioner with applicable statutory authority must certify upon admission and annually thereafter that Your physical and mental health, and/or cognitive condition is chronic and stable.

2. Your Care Plan

Within seven (7) days of Your admission to The McAuley, or earlier, Our nurse will perform an initial assessment of Your needs. This assessment will allow Our staff to develop a written care plan appropriate for Your level of need (the “Service Plan”).

This initial care plan will remain in effect for at least one hundred twenty (120) days. Our nurses will review and modify the Service Plan as necessary every one hundred twenty (120) days. We may also revise Your Service Plan if Our staff determines that You have experienced a significant change in physical or psychosocial status.

We shall consult with You or Your designated representative concerning the initial assessment) regular reassessments and determinations of a change of condition; however, all revisions of Your Service Plan shall be at Our final discretion.

3. Nursing and Personal Care Services

We agree to provide assisted living services in accordance with Your Service Plan developed by Our nurse after a nursing assessment of Your needs and Your agreement in writing. These services include health and wellness programs, a Registered Nurse on site forty (40) hours per week and on call at all other times, 24-hour Certified Aide staffing, health monitoring, periodic nursing assessments and, if necessary, revisions of Your Service Plan, coordination with Your personal physician, referrals to other health care professionals, agencies or other ancillary services, provision of professional nursing services as required by Your Service Plan and provision of Certified Aide assistance with activities of daily living and supervision of self-administration of medication as required by Your Service Plan.

4. Cost of Services

The following assisted living services are included in Your Rental Fee as set forth in Your Residency Agreement dated and signed by You, at no additional cost to You:

- A. Preliminary health/functional assessment upon move in and the collection of emergency profile information.
- B. Assessment, monitoring, coordination of care and referrals to other providers and ancillary services in accordance with Your care plan.
- C. Staff response to the emergency call system.
- D. Up to one hour per day of assistance with bathing, dressing, grooming and medication supervision. (See ARTICLE I, Section H)

- E. Health education and wellness programs.
- F. Coordination of medical transportation.
- G. Initial nursing assessment upon Your return to Your Apartment from a hospital or nursing home.
- H. If additional services are required by Your Service Plan, We will charge You for these services in accordance with the Schedule of Charges for Additional Services made a part of this Agreement by referenced in the Resident Handbook. Bills for these additional services will be sent to You monthly. The bills for assisted living services shall be due and payable within ten (10) days of the first (1st) day of receipt of the bill. If the fees are not paid in full as required under the terms of this Agreement, We may assess a late payment charge on the outstanding balance. A late charge of one percent of the outstanding balance will be imposed if Your balance is paid 10 days after the due date. We may reasonably increase the late fee upon thirty (30) days written notice to You.

5. Right to Refuse Services.

You have the right to refuse services recommended by Us after a nursing assessment or to obtain such services from another provider as set forth in Paragraph 5 of this Agreement; however, We retain the right to terminate Your Residency Agreement in accordance with Article VI, Paragraph C of that Residency Agreement if Your refusal of or failure to obtain recommended services results in Your inability to live appropriately and/or safely in a residential setting.

6. Right to Receive Services From Other Agencies

You have the right to receive nursing, nurse aide, and companion service recommended in Your Service Plan from any other appropriate agencies or individuals. We reserve the right to require evidence of licensure from other agencies and health care professionals, to review the qualifications and experience of any non-licensed aides, assistants or companions You may employ and to require them to conform to Our rules and policies, and to periodically monitor the provision of such services. We are not responsible for payment of any charges to You by health care professionals or institutions, aides companions, housekeepers, homemakers or any other agency or individual You may employ.

7. Home Health Agency Services If at any time Your personal physician certifies that Your condition is no longer chronic and stable and You require skilled nursing or therapy services, under Connecticut law, We must refer You to a licensed Home Health Agency of Your choice for the provision of services. Payment arrangements for Home Health Agency services (which may be covered by Medicare) must be made directly between You and the Home Health Agency. We will continue to provide any services hereunder that are not offered by the Home Health Agency and to coordinate provision of services with the Home Health Agency, and will charge You in accordance with Paragraph 4 of this Agreement.

8. Excluded Items and Services We shall not provide or pay for any health care services or items unless such services or items are expressly included in this Agreement. Excluded services and items include but are not limited to physician services; surgery; home health care; hospital care; skilled nursing for conditions that are not chronic and stable; physical, occupational

and speech therapy; mental health and substance abuse; hospice; x-ray services; podiatry; treatment or examinations of the eyes or teeth; laboratory; and other similar services as well as prescription drugs; non prescription medications and vitamins; medical supplies; medical devices; eyeglasses ; hearing aids; toiletries and personal supplies.

9. Authorization to Obtain Personal Medical Records

You hereby consent to Our obtaining and reviewing as necessary any of Your medical records maintained by Your personal physician, Home Health Agency, and any other licensed health care professionals or institutions and to Our discussion of Your health condition with any of these as appropriate.

10. Designated Family Member

You hereby consent to Our notification of one or more designated family members of any significant changes in Your condition or in an emergency.

11. Emergency Medical Care

In an emergency, Our staff will contact appropriate providers of emergency services, including but not limited to Emergency Medical Services, ambulance service and hospitals. You will be billed by those providers for any services required. We are not responsible for payment of such charges.

12. Transfer for Health Reasons Except in an emergency, We will not transfer You from Your Apartment for health related reasons until We have consulted with You, Your personal physician, family member or designated representative. You agree that We have the full authority to transfer You from Your Apartment for hospitalization or other health-related services in an emergency, or if not an emergency, upon the Supervisor of Assisted Living

Services' determination, with concurrence by the Executive Director and The Resident Services Coordinator, that We do not have adequate facilities or staff to provide the nursing services or medical care You need or that Your continued residency constitutes a danger and health hazard to You or to other residents.

13. Residency Agreement

Paragraphs A through L of Article VII of the Residency Agreement dated _____ and signed by You are incorporated herein by reference.

14. Client's Bill of Rights

You hereby acknowledge that You have received and reviewed a copy of Our Assisted Living Client's Bill of Rights. (Pristine copies of Assisted Living Bill of Rights).

15. Confidentiality of Records

We agree to keep all of Your health care records confidential. Copies of Your health care records will be released only with Your express written authorization or that of Your legal representative, except where expressly required or allowed by law. You shall be responsible for the cost of copying records requested by Your or Your legal representative. All health records are Our property.

16. Authorization to Release Information

You authorize and direct Us to release information and health records concerning You to other medical and health care providers, insurance companies, federal and/or state agencies and regulatory bodies to the extent necessary to obtain payment, coordinate and/or facilitate Your care, and

otherwise comply with applicable laws and regulations. You further authorize the release of information and/or records necessary for Us to conduct reviews or audits of care rendered in the assisted living section.

17. Effective Date and Termination

This Agreement is effective upon execution by all parties (the “Effective Date”) and will automatically terminate upon the termination of Your Residency Agreement.

YOU ACKNOWLEDGE THAT YOU HAVE READ AND UNDERSTOOD THIS AGREEMENT AND HAVE RECEIVED A DUPLICATE ORIGINAL OF THIS AGREEMENT.

WITNESS

The McAuley Center, Inc.

By: _____
Its Authorized Representative

Date: _____

WITNESS

RESIDENT

(Name Printed)

Date: _____

WITNESS

DESIGNATED REPRESENTATIVE

(Name Printed)

Date: _____

WITNESS

RESIDENT

(Name Printed)
Date: _____

WITNESS

DESIGNATED REPRESENTATIVE

(Name Printed)
Date: _____

The undersigned, who is related to the Resident in the following capacity
_____ and will benefit from our entering into
the above Agreement, guarantees the prompt payment and performance of
the Resident's obligations under the Agreement.

Witness

Guarantor

Date



March 9, 1987

Mr. Gordon Andrew
Administrator
Saint Mary Home
291 Steele Road
West Hartford, CT 06117

Dear Gordon:

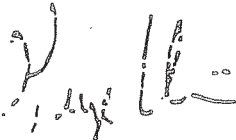
This will confirm the arrangements that have been agreed upon between Saint Mary Home ("Home") and McAuley Center Incorporated ("McAuley") for the admission of McAuley residents to the Home.

1. The Home agrees to admit McAuley residents for nursing services on a priority basis.
2. Each time that McAuley accepts an application from a prospective resident, McAuley will promptly notify the Home and provide the Home with such information about the resident as the Home may reasonably request.
3. The Home shall place the resident's name on the Home's waiting list and the resident will be deemed to have applied for admission to the Home concurrently with the resident's application to McAuley.
4. The resident's name shall remain on the waiting list during the time that he or she is a resident of McAuley and shall move toward the top of the waiting list in the normal course of events.
5. Despite the fact that the resident's name may be at the top of the waiting list, the resident shall not be admitted to the Home unless such admission is requested by McAuley.
6. Upon McAuley's request, a resident will be admitted to the Home in accordance with usual admission procedures and in the order of his or her priority on the waiting list.
7. McAuley agrees to arrange for transportation of its residents to and from the Home.

Mr. Gordon Andrew
March 9, 1987
Page Two

8. McAuley will be billed directly on a monthly basis by the Home for the following services provided to McAuley residents:
- (a) Nursing services, at the current private pay per diem rate.
 - (b) Physical therapy services, at the current private pay rate.
 - (c) Occupational therapy services, at the rate charged by the Home's outside consultant.
9. McAuley will pay the Home directly for all billed services within 15 days of receipt of the monthly statement.

Sincerely,



George Hession
McAuley Center Incorporated

Accepted by:


Gordon C. Andrew

March 19, 1987
(date)

ENTRANCE FEE DEPOSIT
ESCROW AGREEMENT

THIS AGREEMENT, made and entered into this 12th day of May, 1996 by and between MCAULEY CENTER, INC. ("The McAuley"), and People's Bank (the "Escrow Agent"), a banking association with an office at 962 Farmington Avenue, West Hartford, CT.

WITNESSETH:

WHEREAS, McAuley Center, Inc. operates a continuing care retirement community know as The McAuley, A Classic Residence by Hyatt, in West Hartford, CT; and

WHEREAS, prospective residents of The McAuley are required to pay an Entrance Fee prior to occupying a living unit at the facility, and are required to pay as a deposit (the "Deposits") a portion of the Entrance Fee as a part of the application process; and

WHEREAS, The McAuley has agreed to place all of the Deposits in an escrow account with the Escrow Agent;

NOW, THEREFORE, in consideration of the terms and conditions contained herein, the parties agree as follows:

1. Escrow Agent. The McAuley appoints People's Bank as the Escrow Agent for the purposes set forth in this Agreement and the Escrow Agent accepts such appointment
2. Deposit of Escrow Funds.
 - a. The McAuley shall deposit all Deposits with the Escrow Agent within seventy-two (72) hours of their receipt by The McAuley from a prospective resident (the "Resident").
 - b. The Escrow Agent shall hold the Escrow Funds in interest bearing accounts as determined by The McAuley. All interest will inure to the benefit of The McAuley.
 - c. The Escrow Agent shall account for each Deposit made on behalf of the Resident.
3. Disbursement of Funds. The Escrow Agent shall disburse funds held in escrow as requested by The McAuley upon delivery by The McAuley to the Escrow Agent of a certificate signed by a duly authorized officer of The McAuley certifying to any one of the following conditions:

ATTACHMENT B-1

- a. The living unit to which the Escrow Funds that are requested (the "Requested Funds") apply is, or will be shortly, occupied by the Resident.
- b. The Resident who has paid the Requested Funds has rescinded his/her agreement with The McAuley.
- c. The Resident who has paid the Requested Funds has died.
- d. The McAuley has declined to accept the application of the Resident who has paid the Requested Funds.

4. Provisions as to Escrow Agent.

- a. The Escrow Agent shall have no liability to any party on account of any investment of funds in accordance with this Agreement.
- b. The Escrow Agent shall be protected in acting upon any written notice, statement, certificate, waiver, consent or other instrument or document which the Escrow Agent believes to be genuine.
- c. It is understood and agreed that the duties of the Escrow Agent under this Agreement are ministerial in nature and that the Escrow Agent shall not be liable for any error of judgement, or for any act done or step taken or omitted in good faith, or for anything which the Escrow Agent may do or refrain from doing in connection with the Agreement, except that the Escrow Agent shall be liable for its own gross negligence or willful misconduct.
- d. The Escrow Agent may consult with and obtain advice from legal counsel in the event of any dispute or question as to the construction of any of the provisions of this Agreement and the Escrow Agent shall incur no liability.
- e. If at any time the Escrow Agent shall be in doubt as to the party or parties entitled to receive any or all of the Requested Funds, the Escrow Agent may apply to a court for a determination of the party or parties entitled to receive the same, and the Escrow Agent shall incur no liability therefore.
- f. The McAuley shall indemnify and hold harmless the Escrow Agent from and against all claims, losses, damages, costs, or attorneys' fees arising out of or in connection with the Escrow Agent's acceptance of, or performance of, its duties and obligations under this Agreement other than as a result of willful misconduct or gross negligence on the part of the Escrow Agent.
- g. The Escrow Agent may resign at any time by giving written notice thereof to The McAuley. Such resignation shall become effective upon the appointment by The McAuley of a successor corporate Escrow Agent and the delivery of the Deposits

to such successor Escrow Agent. Any successor Escrow Agent shall have all the rights and obligations of the Escrow Agent named herein.

5. Notices. All notices given pursuant to this Agreement shall be in writing and shall be mailed by certified mail, postage prepaid and shall be deemed given on the date mailed. The addresses to which such notice shall be sent are as set forth below, unless a different address is specified in writing by either party after the date hereof:

To The McAuley: McAuley Center, Inc.
 275 Steele Road
 West Hartford, CT 06117
 Attn: Director of Accounting

To Escrow Agent: People's Bank
 962 Farmington Avenue
 West Hartford, CT 061107-2199
 Attn: Renee Vanek

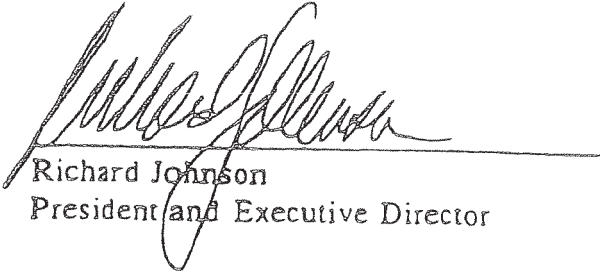
The Escrow Agent's telephone number is: (860) 232-0071.

6. Disputes. Any dispute whatsoever relating to the interpretation, validity or performance of this Agreement, or any dispute arising out of this Agreement which cannot be resolved after fifteen (15) days' written notice by the parties to such dispute, shall be settled by arbitration in the City of Hartford, CT, in accordance with the rules then prevailing of the American Arbitration Association, and judgement upon the award rendered by the arbitrators may be entered in any court of competent jurisdiction. The cost of any arbitration proceeding under this Paragraph shall be shared equally by the parties thereto.
7. Escrow Agent Fees. The Escrow Agent hereby agrees to act as such in accordance with the terms hereof. ~~The Escrow Agent's fees and expenses shall be paid by The McAuley utilizing interest earned by the escrowed funds.~~
8. Governing Law. This Agreement shall be governed, construed and administered in accordance with the laws of the State of Connecticut.
9. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.
10. Amendments. This Agreement may only be modified by a written amendment signed by both McAuley Center, Inc. and Escrow Agent, provided that no amendments shall be made without the prior notification by The McAuley to the Commissioner of the Department on Aging, and prior to approval by the Commissioner of the proposed changes.

ATTACHMENT B-1

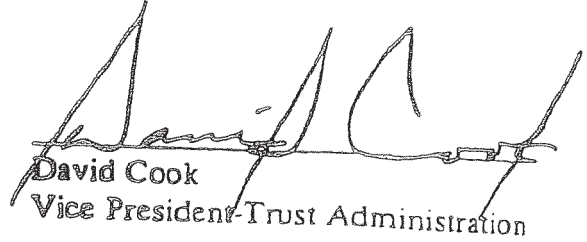
IN WITNESS WHEREOF, the parties have executed this Agreement, on the day and year first above written.

McAuley Center, Inc.



Richard Johnson
President and Executive Director

People's Bank



David Cook
Vice President-Trust Administration

Investment Management Agreement

Between: The McAuley Center Inc., and
People's Bank

people's bank

5/7/98

DATE

Gentlemen:

I hereby request that you open and maintain an Investment Management Account in my name. You will follow my instructions as indicated below and in the Account Information and Special Instructions. I also appoint you my Agent to receive, hold, and manage the funds, securities and other property which I have delivered, or may from time to time deliver, to you to be included in my Account. Your duties and authority as my Agent are subject to the terms of this Agreement.

I HAVE INITIALED THE PARAGRAPH BELOW WHICH APPLIES TO MY ACCOUNT.

(a) You will act as my Agent with respect to my Account with the power and authority, in your sole discretion, to hold, invest, reinvest and otherwise change the securities and other property in my Account.

(b) You will act as my Agent with respect to my Account with the power and authority upon my instructions or consent to hold, invest, reinvest and otherwise change the securities or other property in my Account. Without my prior authorization or consent you will not make any sale, purchase or change of a security for my Account other than the investment of cash. You may, however, take such action without my consent if (i) you have informed me of your recommendation for such transaction, but you have not received any appropriate response from me within three (3) business days, and (ii) in your judgement the transaction is necessary to prevent or reduce a substantial loss to my Account. With respect to subscription rights, warrants and fractional shares, you are authorized to take such action as you may deem to be in my best interests, with or without consulting me as you may determine.

YOUR ADDITIONAL POWERS AS AGENT. As my agent you:

- may exercise all applicable voting rights in person or by proxy with respect to any securities in my Account;
- may exercise or sell any rights or options relating to any securities in my Account;
- may register securities in your name as my Agent, without disclosing your capacity as my Agent, or in the name of a nominee, but at all times the securities and other property will be shown on your books as my property;
- will collect interest, dividends, distributions and other income earned on the securities and other property in my Account;
- will collect upon maturity, redemption, exchange or other disposition, the principal amounts or securities which may be receivable, and you may act as my Agent to redeem or collect United States Treasury or Savings Bonds;
- may sell and purchase securities for my Account through one or more securities brokers or dealers that you may select.

INVESTMENT OBJECTIVES. I will discuss my investment objectives with you. In return, you will appraise and review, at reasonable intervals, the nature, appropriateness, character, and value of the securities and other property in my Account. From time to time you may suggest purchases and sales of securities for my Account in accordance with my investment objectives.

REPORTS AND INFORMATION. You will send me periodic statements describing all transactions in my Account and a current valuation of the securities and cash in my Account. You will attempt to use information only from sources you consider reliable. You make no guarantee, however, as to the accuracy of that information, and you will not be held liable for any error of fact or judgement so long as you act in good faith.

WITHDRAWAL OF ASSETS. Any or all of the securities and other property in my Account may be withdrawn by me upon the delivery to you of my written instructions to that effect. Such securities and other property will be made available as soon as practicable after you receive instructions. If you determine that the securities and other property remaining in my Account no longer require your services, you may treat the withdrawal as a termination of my Account.

MODIFICATION AND TERMINATION OF AGREEMENT

- **Amendment.** This Agreement may be amended or expanded at any time by a written instrument signed by both you and me.
- **Termination.** This Agreement will terminate automatically upon my death (or upon my survivors death if this is a joint account). If my Account is in the name of a corporation, partnership or other entity, this Agreement will terminate automatically upon dissolution, liquidation or termination of such entity. Otherwise, this Agreement will continue in effect until terminated by either one of us by written notice of termination. As soon as practicable after termination, you will make the property remaining in my Account available after payments of your fees and costs.

LIMITS OF YOUR LIABILITY. I agree that you will not be liable for any losses or reduction in value of the securities and other property in my Account or for any loss resulting from any act or failure to act, except in circumstances in which it is proven that you acted in bad faith or intentionally violated an express provision of this Agreement. Also, you will not be liable for the act or failure to act by a broker, custodian, agent, or nominee employed by you, so long as you exercised good faith and reasonable care in their selection.

TAX INFORMATION. You will provide me with the annual statement of the income earned in my Account classified for tax purposes, and a schedule of securities sold, matured or otherwise disposed of listing the proceeds or appropriate values. You will not be responsible for preparing and filing tax returns or paying taxes on income and transactions in my Account unless I have given you written instructions to do so. I understand that there is an additional fee for preparing my tax returns if I elect to have you do so.

YOUR FEES. You will receive fees for your services in accordance with your schedule of fees in effect from time to time. You will be reimbursed for all costs and expenses including brokerage fees that you incur in connection with the management of my Account. I authorize you to charge your fees and expenses against the income and/or principal of my Account.

JOINT ACCOUNT. If my Account is in the name of two or more persons, you will consider it a joint account and:

- you may rely on the instructions of any one of the persons named on the Account;
- Any one of such persons may withdraw securities and other property from the Account; and
- It will be considered a survivorship form of account. This means that if one of the people named in the Account dies, the other person(s) named on the Account will become the sole owner(s) of the securities and other property in the Account.

Accepted for People's Bank

By: 
Its _____

Date: 5/7/98

Very truly yours,



05/07/98

ACCOUNT INFORMATION AND SPECIAL INSTRUCTIONS

Client: The McAuley Inc

Federal Tax Identification Number

Address: 275 Steele Rd.

Date of Birth

West Hartford, CT 06117

Place of Birth

Citizen of

Telephone Numbers: Home _____ Work 236-6300 check preference

All communications for the Account will be sent to the client at the above address.

Income collected in the Account will be disposed of as follows:

Monthly Quarterly Other Reinvest

By deposit to People's Bank. Account # _____

By check sent to Client at the above address.

Beginning date: _____
Month Day

Reinvested

Statements of activity in the Account will be sent to Client on the following schedule:

Monthly

People's, upon lawful request, and without further consent from Client:

_____ is not authorized to disclose the identity of Client to the issuer of any securities held in the Account.

_____ is authorized to disclose the identity of Client to the issuer of any securities held in the Account.

Other Special Instructions: _____

Signature: _____

Date: _____

THE MCAULEY



1 December 1999

Mr. James Thayer
Vice President and Trust Officer
People's Bank
One Financial Plaza
Hartford, CT 06103-2613

Dear Mr. Thayer:

I am writing to you on behalf of McAuley Center, Inc. for whom your banking association serves as the Escrow Agent and Investment Agent for our Entrance Fee Deposit Escrow Fund and our Reserve Fund Investment Fund respectively.

The purpose of this correspondence is to provide formal notification to People's Bank that, effective 30 November 1999, McAuley Center, Inc. and Classic Residence by Hyatt have terminated their management agreement with respect to the continuing care retirement community formerly known as The McAuley, A Classic Residence by Hyatt. Effective this date, 1 December 1999, the continuing care retirement community will be known as The McAuley. Mercy Community Health will now provide management services to The McAuley.

I would further request that your records be changed to direct all notices as follows:

McAuley Center, Inc.
275 Steele Road
West Hartford, CT 06117
Attn: Executive Director

If you have any questions, please do not hesitate to contact me. I look forward to continuing the business relationship that The McAuley and People's Bank have enjoyed over the years.

If I can be of any further assistance, please do not hesitate to contact me. I can be reached at 920-6346.

Sincerely,


Stephen T. Surprenant
Executive Director

a member of Mercy Community Health, a continuum of care ministry of Catholic Health East and the Sisters of Mercy of the Americas

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Trinity Health

**Consolidated Financial Statements as of and for the
years ended June 30, 2018 and 2017,
and Independent Auditors' Reports**

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health Corporation
Livonia, Michigan

We have audited the accompanying consolidated financial statements of Trinity Health Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of BayCare Health System, the Corporation's investment which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Corporation include its investment in the net assets of BayCare Health System of \$2.8 billion and \$2.4 billion as of June 30, 2018, and 2017, respectively, and its equity method income from BayCare Health System of \$296.4 million and \$360.1 million for the years ended June 30, 2018 and 2017, respectively. The combined financial statements of BayCare Health System for the years ended December 31, 2017 and 2016, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for BayCare Health System, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Corporation's equity investment and equity method income in the accompanying consolidated financial statements taking into consideration the differences in fiscal years. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 26, 2018

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2018 AND 2017

(In thousands)

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	\$ 971,726	\$ 1,008,197
Investments	3,846,190	3,526,204
Security lending collateral	275,228	332,972
Assets limited or restricted as to use - current portion	352,231	328,712
Patient accounts receivable, net of allowance for doubtful accounts of \$480.8 million and \$428.9 million at June 30, 2018 and 2017, respectively	2,070,567	1,877,860
Estimated receivables from third-party payors	213,563	260,856
Other receivables	360,477	360,051
Inventories	292,945	274,830
Assets held for sale	67,793	-
Prepaid expenses and other current assets	172,819	172,051
Total current assets	<u>8,623,539</u>	<u>8,141,733</u>
ASSETS LIMITED OR RESTRICTED AS TO USE - noncurrent portion:		
Held by trustees under bond indenture agreements	6,865	7,139
Self-insurance, benefit plans and other	865,949	823,948
By Board	3,881,021	3,709,246
By donors	498,871	460,491
Total assets limited or restricted as to use - noncurrent portion	<u>5,252,706</u>	<u>5,000,824</u>
PROPERTY AND EQUIPMENT - Net	8,025,580	7,853,456
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	3,493,495	3,105,173
GOODWILL	438,460	301,043
OTHER ASSETS	361,920	336,854
TOTAL ASSETS	<u>\$ 26,195,700</u>	<u>\$ 24,739,083</u>

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES:		
Commercial paper	\$ 99,904	\$ 99,861
Short-term borrowings	711,020	1,039,840
Current portion of long-term debt	276,295	192,680
Accounts payable and accrued expenses	1,548,741	1,404,413
Salaries, wages and related liabilities	863,143	820,014
Payable under security lending agreements	275,228	332,972
Liabilities held for sale	32,440	-
Estimated payables to third-party payors	395,970	331,585
Current portion of self-insurance reserves	272,842	269,874
Total current liabilities	4,475,583	4,491,239
LONG-TERM DEBT - Net of current portion	5,982,141	5,269,862
SELF-INSURANCE RESERVES - Net of current portion	1,002,274	980,624
ACCRUED PENSION AND RETIREE HEALTH COSTS	688,259	1,315,991
OTHER LONG-TERM LIABILITIES	703,427	695,940
Total liabilities	12,851,684	12,753,656
NET ASSETS:		
Unrestricted net assets	12,581,754	11,282,433
Noncontrolling ownership interest in subsidiaries	176,156	173,703
Total unrestricted net assets	12,757,910	11,456,136
Temporarily restricted net assets	388,624	345,974
Permanently restricted net assets	197,482	183,317
Total net assets	13,344,016	11,985,427
TOTAL LIABILITIES AND NET ASSETS	\$ 26,195,700	\$ 24,739,083

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2018 AND 2017

(In thousands)

	2018	2017
UNRESTRICTED REVENUE:		
Patient service revenue, net of contractual and other allowances	\$ 16,406,252	\$ 15,747,094
Provision for bad debts	(574,954)	(548,965)
Net patient service revenue less provision for bad debts	15,831,298	15,198,129
Premium and capitation revenue	1,067,582	1,039,749
Net assets released from restrictions	50,510	39,826
Other revenue	1,396,015	1,350,141
Total unrestricted revenue	18,345,405	17,627,845
EXPENSES:		
Salaries and wages	7,949,446	7,594,863
Employee benefits	1,525,511	1,510,144
Contract labor	296,611	242,018
Total labor expenses	9,771,568	9,347,025
Supplies	2,983,635	2,880,802
Purchased services	2,083,761	2,059,267
Depreciation and amortization	857,154	870,289
Occupancy	748,346	744,444
Medical claims	406,330	417,054
Interest	224,882	207,152
Other	868,437	835,673
Total expenses	17,944,113	17,361,706
OPERATING INCOME BEFORE OTHER ITEMS	401,292	266,139
Asset impairment charges	(264,366)	(248,070)
Restructuring costs	-	(36,184)
OPERATING INCOME (LOSS)	136,926	(18,115)
NONOPERATING ITEMS:		
Investment earnings	488,715	859,934
Equity in earnings of unconsolidated affiliates	328,353	376,642
Change in market value and cash payments of interest rate swaps	25,671	52,955
(Loss) gain from early extinguishment of debt	(39,857)	792
Inherent contributions related to acquisitions	1,903	65,103
Other, including income taxes	7,419	(488)
Total nonoperating items	812,204	1,354,938
EXCESS OF REVENUE OVER EXPENSES	949,130	1,336,823
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO		
NONCONTROLLING INTEREST	(47,619)	(45,599)
EXCESS OF REVENUE OVER EXPENSES, net of noncontrolling interest	\$ 901,511	\$ 1,291,224

	2018	2017
UNRESTRICTED NET ASSETS:		
Unrestricted net asset attributable to Trinity Health:		
Excess of revenue over expenses	\$ 901,511	\$ 1,291,224
Net assets released from restrictions for capital acquisitions	31,900	37,695
Net change in retirement plan related items - consolidated organizations	394,751	372,579
Net change in retirement plan related items - unconsolidated organizations	(14,501)	4,123
Other	(14,340)	8,165
Increase in unrestricted net assets before discontinued operations	1,299,321	1,713,786
Discontinued operations:		
Gain from operations	-	4,919
Loss on disposals and settlement of debt	-	(12,651)
Increase in unrestricted net assets attributable to Trinity Health	1,299,321	1,706,054
Unrestricted net asset attributable to noncontrolling interests:		
Excess of revenue over expenses attributable to noncontrolling interests	47,619	45,599
Noncontrolling interests related to acquisitions	9,454	2,500
Dividends	(44,142)	(52,190)
Other	(10,478)	(8,801)
Increase (decrease) in unrestricted net assets attributable to noncontrolling interests	2,453	(12,892)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	112,140	83,378
Net investment gain	12,367	17,140
Net assets released from restrictions	(82,410)	(77,521)
Acquisitions	-	2,874
Other	553	(6,548)
Increase in temporarily restricted net assets	42,650	19,323
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	7,350	1,805
Net investment gain	7,266	7,892
Acquisitions	-	16,960
Other	(451)	(928)
Increase in permanently restricted net assets	14,165	25,729
INCREASE IN NET ASSETS	1,358,589	1,738,214
NET ASSETS - BEGINNING OF YEAR	11,985,427	10,247,213
NET ASSETS - END OF YEAR	\$ 13,344,016	\$ 11,985,427

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

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,358,589	\$ 1,738,214
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	857,154	870,289
Provision for bad debts	574,954	548,965
Asset impairment charges	264,366	248,070
Restructuring costs, net of payments	-	23,484
Inherent contributions related to acquisitions	(1,903)	(65,103)
Loss (gain) on extinguishment of debt	39,857	(792)
Change in net unrealized and realized gains on investments	(412,822)	(822,835)
Change in market values of interest rate swaps	(42,682)	(71,236)
Undistributed equity in earnings of unconsolidated affiliates	(384,534)	(407,057)
Deferred retirement items - consolidated organizations	(394,751)	(372,579)
Deferred retirement items - unconsolidated organizations	14,501	(4,123)
Noncash items, including net losses on disposal - discontinued operations	-	10,280
Increase in noncontrolling interests related to acquisitions	(9,454)	(2,500)
Restricted contributions and investment income received	(57,852)	(9,516)
Restricted net assets acquired	-	(19,834)
Other adjustments	43,934	34,412
Changes in:		
Patient accounts receivable	(711,324)	(536,942)
Other assets	(65,283)	(5,346)
Accounts payable and accrued expenses	137,817	(84,096)
Estimated receivables from third-party payors	47,294	(12,678)
Estimated payables to third-party payors	26,181	(48,914)
Self-insurance reserves and other liabilities	5,095	55,325
Accrued pension and retiree health costs	(261,678)	(256,668)
Total adjustments	(331,130)	(929,394)
Net cash provided by operating activities	\$ 1,027,459	\$ 808,820

	<u>2018</u>	<u>2017</u>
INVESTING ACTIVITIES:		
Purchases of investments	\$ (4,029,440)	\$ (3,446,670)
Proceeds from sales of investments	3,877,168	3,574,923
Purchases of property and equipment	(1,124,533)	(1,113,262)
Proceeds from disposal of property and equipment	7,431	8,094
Acquisitions, net of cash acquired	(261,023)	5,610
Proceeds from the sale of divestitures	5,009	8,989
Change in investments in unconsolidated affiliates	(10,460)	(16,410)
Net repayments from affiliates	6,665	6,108
Decrease in assets limited as to use and other	7,237	9,306
Net cash used in investing activities	<u>(1,521,946)</u>	<u>(963,312)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	1,331,051	426,973
Repayments of debt	(865,374)	(235,460)
Net change in commercial paper	(1,769)	(47,075)
Dividends paid	(44,142)	(52,190)
Proceeds from grant received	-	20,000
Proceeds from restricted contributions and restricted investment income	47,670	9,516
Increase in financing costs and other	(9,420)	(3,758)
Net cash provided by financing activities	<u>458,016</u>	<u>118,006</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,471)	(36,486)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,008,197	1,044,683
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 971,726</u>	<u>\$ 1,008,197</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	\$ 230,784	\$ 211,260
New capital lease obligations for buildings and equipment	2,452	1,360
Accruals for purchases of property and equipment and other long-term assets	184,024	124,056
Unsettled investment trades and purchases	75,394	28,622
Unsettled investment trades and sales	22,220	18,043
(Decrease) increase in security lending collateral	(57,744)	70,937
Decrease (increase) in payable under security lending agreements	57,744	(70,937)

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

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. ORGANIZATION AND MISSION

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries (“Trinity Health” or the “Corporation”), controls one of the largest health care systems in the United States. The Corporation is sponsored by Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services, including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in 22 states. The operations are organized into Regional Health Ministries, National Health Ministries and Mission Health Ministries (“Health Ministries”). The mission statement for the Corporation is as follows:

We, Trinity Health, serve together in the spirit of the Gospel as a compassionate and transforming healing presence within our communities.

Community Benefit Ministry – Consistent with our mission, Trinity Health provides medical care to all patients regardless of their ability to pay. In addition, Trinity Health provides services intended to benefit those who are poor and vulnerable, including those persons who cannot afford health insurance or other payments, such as co-pays and deductibles because of inadequate resources and/or are uninsured or underinsured; and works to improve the health status of the communities in which it operates. In addition to the 6 million people Trinity Health touches directly with clinical care, our mission extends to reach another 30 million people who live in our communities. Much of our mission is carried out through clinical services serving those who are poor and vulnerable, such as our street outreach programs to meet the needs of our homeless populations. Trinity Health is building on the legacy of our founders by making a transformational shift from being primarily focused on traditional episodic care to emphasizing total population health, which includes contributing to the overall health and well-being of our communities.

The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (“CHA”), *A Guide for Planning and Reporting Community Benefit, 2015 Edition*.

The quantifiable costs of the Corporation’s community benefit ministry for the years ended June 30 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Ministry for those who are poor and underserved:		
Financial assistance	\$ 189,662	\$ 185,880
Unpaid cost of Medicaid and other public programs	594,136	608,318
Programs for those who are poor and the underserved:		
Community health services	28,951	27,321
Subsidized health services	54,484	53,329
Financial contributions	19,751	18,932
Community building activities	2,693	1,488
Community benefit operations	6,103	4,333
Total programs for those who are poor and underserved	<u>111,982</u>	<u>105,403</u>
Ministry for those who are poor and underserved	<u>895,780</u>	<u>899,601</u>
 Ministry for the broader community:		
Community health services	15,297	14,307
Health professions education	148,241	138,519
Subsidized health services	46,381	44,532
Research	3,702	5,302
Financial contributions	28,462	29,222
Community building activities	1,846	1,958
Community benefit operations	2,964	4,818
Ministry for the broader community	<u>246,893</u>	<u>238,658</u>
Community benefit ministry	<u>\$ 1,142,673</u>	<u>\$ 1,138,259</u>

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2018 and 2017, the Corporation reported bad debt at cost (determined using a cost-to-charge ratio applied to the provision for bad debts) of \$173.8 million and \$161.7 million, respectively.

Ministry for those who are poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially those who are poor, the uninsured and the indigent. This is done with the conviction that health care is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Financial assistance represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a financial assistance patient in accordance with the Corporation’s established policies as further described in Note 4. The cost of financial assistance is calculated using a cost-to-charge ratio methodology.

Unpaid cost of Medicaid and other public programs represent the cost (determined using a cost-to-charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services carried out to improve community health and well-being, for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free

immunization services, free or low-cost prescription medications and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals, such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery, which is generalizable and shared with the public.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies and restricted to support community benefit activities. These amounts include special system-wide funds used to improve community health and well-being as well as resources contributed directly to programs, organizations and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include programs that address the root causes of health problems and focus on policy, systems and environmental changes. Examples include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, advocacy for community health improvement, develop leadership skills training and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Corporation, and all wholly-owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments that are not controlled by the Corporation are accounted for using the equity method of accounting. The equity share of income or losses from investments in unconsolidated affiliates is recorded in other revenue if the unconsolidated affiliate is operational and projected to make routine and regular cash distributions; otherwise, the equity share of income or losses from investments in unconsolidated affiliates is recorded in nonoperating items in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any.

The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provision for bad debts and financial assistance; premium revenue; recorded values of investments, derivatives and goodwill; evaluation of long-lived assets for impairment; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree health liabilities. Management relies on historical

experience and other assumptions believed to be reasonable in making its judgments and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds, hedge funds and other investments structured as limited liability corporations or partnerships. Commingled funds and hedge funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values or based on net asset value, which is calculated using the most recent fund financial statements. Limited liability corporations and partnerships are accounted for under the equity method.

Investment Earnings – Investment earnings include interest, dividends, realized gains and losses and unrealized gains and losses. Also included are equity earnings from investment funds accounted for using the equity method. Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Corporation's board of directors ("Board") for debt redemption, assets held for borrowings under the intercompany loan program, assets held by grant-making foundations, assets deposited in trust funds by a captive insurance company for self-insurance purposes and interest and dividends earned on life plan communities advance entrance fees, in accordance with industry practices, are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other investments and Board-designated funds are included in nonoperating investment income unless the income or loss is restricted by donor or law.

Derivative Financial Instruments – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis. The Corporation recognizes all derivative instruments in the consolidated balance sheets at fair value.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day, the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. As of June 30, 2018 and 2017, the Corporation had securities loaned of \$486.3 million and \$452.0 million, respectively, and received collateral (cash and noncash) totaling \$472.0 million and \$463.1 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in nonoperating investment income in the consolidated statements of operations and changes in net assets. In addition, certain pension plans participate in securities lending programs with the Northern Trust Company, the plans' agent.

Assets Limited as to Use – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or

permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

Inventories – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted-average cost method.

Assets and Liabilities Held for Sale – The Corporation has classified certain assets as assets held for sale in the consolidated balance sheets when the assets have met applicable criteria for this classification. The Corporation has also classified as held for sale those liabilities related to assets held for sale.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 2 to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Goodwill – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

Asset Impairments –

Property and Equipment – The Corporation evaluates long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows. If the estimated future undiscounted cash flows are less than the carrying value of the assets, the impairment recognized is calculated as the carrying value of the long-lived assets in excess of the fair value of the assets. The fair value of the assets is estimated based on appraisals, established market values of comparable assets or internal estimates of future net cash flows expected to result from the use and ultimate disposition of the assets.

Goodwill – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on appraisals, established market prices for comparable assets or internal estimates of future net cash flows.

Other Assets – Other assets include long-term notes receivable, reinsurance recovery receivables, definite- and indefinite-lived intangible assets other than goodwill and prepaid retiree health costs. The net balances of definite-lived intangible assets include noncompete agreements, physician guarantees and other definite-lived intangible assets with finite lives amortized using the straight-line method over their estimated useful lives, which generally range from 2 to 10 years. Indefinite-lived intangible assets primarily include trade names, which are tested annually for impairment.

Short-Term Borrowings – Short-term borrowings include puttable variable rate demand bonds supported by self-liquidity or liquidity facilities considered short-term in nature.

Other Long-Term Liabilities – Other long-term liabilities include deferred compensation, asset retirement obligations, interest rate swaps and deferred revenue from entrance fees. Deferred revenue from entrance fees are fees paid by residents of facilities for the elderly upon entering into continuing care contracts, which are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, net of the portion that is refundable to the resident.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue – The Corporation has agreements with third-party payors that provide for payments to the Corporation's Health Ministries at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors and other changes in estimates are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Self-Insured Employee Health Benefits – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's Health Ministries or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits, which represents revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Allowance for Doubtful Accounts – The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though the Corporation does not assess the patient's ability to pay at that time. As a result, the provision for bad debts is presented as a deduction from patient service revenue (net of contractual provisions and discounts). For uninsured and underinsured patients that do not qualify for financial assistance, the Corporation establishes an allowance to reduce the carrying value of such receivables to their estimated net realizable value. This allowance is established based on the aging of accounts receivable and the historical collection experience by the Health Ministries for each type of payor. A significant portion of the Corporation's provision for doubtful accounts relates to self-pay patients, as well as co-payments and deductibles owed to the Corporation by patients with insurance.

Premium and Capitation Revenue – The Corporation has certain Health Ministries that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheets.

Certain of the Corporation's Health Ministries have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's Health Ministries are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the Health Ministry is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheets.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations.

Income Taxes – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries which are included in the consolidated financial statements. The Corporation includes penalties and interest, if any, with its provision for income taxes in other nonoperating items in the consolidated statements of operations and changes in net assets.

Excess of Revenue Over Expenses – The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in retirement plan related items, discontinued operations and cumulative effects of changes in accounting principles.

Forthcoming Accounting Pronouncements –

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*.” In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU No. 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation has completed its evaluation of the requirements of the new standard to ensure that it has processes, systems and internal controls in place to collect the necessary information to implement the standard, which will be effective for the Corporation beginning July 1, 2018. The modified retrospective method will be used to adopt ASU No. 2014-09 on July 1, 2018. For health care operations, the Corporation will apply a portfolio approach to apply the new model to classes of payors with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU No. 2014-09 will result in changes to the presentation for and disclosure of revenue related to uninsured or self-pay patients as under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to unrestricted revenue and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. The Corporation has completed the assessment of the impact of the new standard on various reimbursement programs that represent variable consideration and believes that accounting for these programs under the new standard is substantially consistent with historical accounting practices. These include supplemental state Medicaid programs, disproportionate share payments and settlements with third-party payors. While the adoption of ASU No. 2014-09 will have a material effect on the presentation of unrestricted revenue in the consolidated statements of operations and will impact certain disclosures, it will not materially impact the financial position, results of operations or cash flows of the Corporation.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases*.” This guidance introduces a lessee model that brings substantially all leases onto the consolidated balance sheet. The main difference between the guidance in ASU No. 2016-02 and current GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current GAAP. Recognition of these leases’ assets and liabilities

will have a material impact on the Corporation's consolidated balance sheet upon adoption. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*," which amends the requirements related to the presentation of the components of net periodic benefit cost in the statement of operations for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "*Premium Amortization on Purchased Callable Debt Securities*," which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. Under current GAAP, the premium is generally amortized to the maturity date. This guidance is effective for the Corporation beginning July 1, 2020. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, "*Presentation of Financial Statements of Not-For-Profit Entities*." This guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance and cash flows. Specifically, this guidance reduces the three classifications of net assets on the balance sheet to two classifications. This guidance is effective for the Corporation for the annual reporting period ending June 30, 2019 and for interim reporting periods beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements. While the adoption of ASU No. 2016-14 will have a material effect on the amounts presented as categories in net assets in the consolidated statements of operations and changes in net assets and will impact certain disclosures, it will not materially impact the Corporation's financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU No. 2016-18 "*Restricted Cash*," which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. This guidance does not provide a definition of restricted cash. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on the consolidated statements of cash flows.

In August 2016, the FASB issued ASU No. 2016-15, "*Classification of Certain Cash Receipts and Cash Payments*." This guidance adds and clarifies guidance on the classification of certain cash receipts and payments in the consolidated statement of cash flows. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation is still evaluating the impact this guidance may have on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "*Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities*." This guidance changes the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities; this guidance also simplifies the application of the hedge accounting guidance. This guidance is effective for the Corporation beginning July 1, 2019. The Corporation does not expect this guidance to have a material impact on its consolidated financial statements.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS, DIVESTITURES AND DISCONTINUED OPERATIONS

Investments in Unconsolidated Affiliates – The Corporation and certain of its Health Ministries have investments in entities that are recorded under the cost and equity methods of accounting. As of June 30, 2018 and 2017, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 1.0% to 50.4% and 2.7% to 51.0%, respectively. The Corporation’s share of equity earnings from entities accounted for under the equity method was \$410.5 million and \$433.8 million for the years ended June 30, 2018 and 2017, respectively, of which \$82.1 million and \$57.1 million, respectively, is included in other revenue and \$328.4 million and \$376.6 million, respectively, is included in nonoperating items in the consolidated statements of operations and changes in net assets. The most significant of these investments include the following:

BayCare Health System – The Corporation has a 50.4% interest in BayCare Health System Inc. and Affiliates (“BayCare”), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement (“JOA”) among the not-for-profit, tax-exempt members of the CHE BayCare Participants, Morton Plant Mease Health Care, Inc., and South Florida Baptist Hospital, Inc. (collectively, the “Members”). BayCare consists of three community health alliances located in the Tampa Bay area of Florida, including St. Joseph’s-Baptist Healthcare Hospital, St. Anthony’s Health Care, and Morton Plant Mease Health Care. The Corporation has the right to appoint nine of the 21 voting members of the Board of Directors of BayCare; therefore, the Corporation accounts for BayCare under the equity method of accounting. As of June 30, 2018 and 2017, the Corporation’s investment in BayCare totaled \$2,759 million and \$2,447 million, respectively.

Gateway Health Plan – The Corporation has a 50% interest in Gateway Health Plan, L.P. and subsidiaries (“GHP”), a Pennsylvania limited partnership. GHP has two general partners, Highmark Ventures Inc., formerly known as Alliance Ventures, Inc., and Mercy Health Plan (a wholly owned subsidiary of the Corporation), each owning 1%. In addition to the general partners, there are two limited partners, Highmark Inc. and Mercy Health Plan, each owning 49%. As of June 30, 2018 and 2017, the Corporation’s investment in GHP totaled \$207.9 million and \$170.3 million, respectively.

Catholic Health System, Inc. – The Corporation has a 50% interest in Catholic Health System, Inc. and subsidiaries (“CHS”) with the Diocese of Buffalo holding the remaining 50%. CHS, formed in 1998, is a not-for-profit integrated delivery health care system in western New York. The Corporation held a one-third interest in CHS until May 1, 2017, when Ascension Health System withdrew its sponsorship and corporate membership in CHS, which increased the Corporation’s interest from one-third to 50%. CHS operates several organizations, the largest of which are four acute care hospitals located in Buffalo, New York: Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. As of June 30, 2018 and 2017, the Corporation’s investment in CHS totaled \$86.6 million and \$85.2 million, respectively.

Emory Healthcare/St. Joseph’s Health System – The Corporation has a 49% interest in Emory Healthcare/St. Joseph’s Health System (“EH/SJHS”). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph’s Hospital of Atlanta and John’s Creek Hospital. As of June 30, 2018 and 2017, the Corporation’s investment in EH/SJHS totaled \$113.7 million and \$90.6 million, respectively.

Mercy Health Network – The Corporation has a 50% interest in Mercy Health Network (“MHN”), a nonstock-basis membership corporation with Catholic Health Initiatives (“CHI”) holding the remaining 50% interest. MHN is the sole member of Wheaton Franciscan Services, Inc. (“WFSI”). WFSI operates three hospitals in Iowa: Covenant Medical Center located in Waterloo, Sartori Memorial Hospital located in Cedar Falls and Mercy Hospital of Franciscan Sisters located in Oelwein. Effective March 1, 2016, the

Corporation and CHI amended and restated their existing MHN JOA that governs certain of their legacy operations in Iowa to strengthen MHN’s management responsibilities over the Iowa operations, to jointly acquire health care operations in Iowa and contiguous markets, and to provide for greater financial, governance and clinical integration.

The JOA provides for the Corporation and CHI to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporations’ Iowa hospitals in collaboration with CHI’s Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional health care network that provides for a collaborative effort in the areas of community health care development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI equally share adjusted operating cash flow from Iowa operations, which commenced in July 2016. For the years ended June 30, 2018, and 2017, other expense includes a charge of \$11.9 million and \$4.9 million, respectively, related to the cash flow sharing agreement. As of June 30, 2018 and 2017, the Corporation’s investment in MHN totaled \$89.5 million and \$94.2 million, respectively.

Condensed consolidated balance sheets of BayCare, GHP, CHS, EH/SJHS and MHN as of June 30 are as follows (in thousands):

	2018				
	BayCare	GHP	CHS	EH/SJHS	MHN
Total assets	\$ 7,636,800	\$ 1,110,648	\$ 1,167,006	\$ 514,789	\$ 277,175
Total liabilities	\$ 1,976,618	\$ 695,165	\$ 919,050	\$ 287,833	\$ 95,673

	2017				
	BayCare	GHP	CHS	EH/SJHS	MHN
Total assets	\$ 7,004,163	\$ 1,028,120	\$ 1,127,664	\$ 467,148	\$ 267,763
Total liabilities	\$ 1,962,261	\$ 687,510	\$ 882,229	\$ 281,171	\$ 71,001

Condensed consolidated statements of operations of BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 are as follows (in thousands):

	2018				
	BayCare	GHP	CHS	EH/SJHS	MHN
Revenue, net	\$ 3,714,049	\$ 2,538,078	\$ 1,151,008	\$ 509,373	\$ 365,764
Excess of revenue over expenses	\$ 587,888	\$ 82,270	\$ 25,086	\$ 37,465	\$ (16,115)

	2017				
	BayCare	GHP	CHS	EH/SJHS	MHN
Revenue, net	\$ 3,503,224	\$ 2,491,710	\$ 1,119,170	\$ 550,326	\$ 365,378
Excess of revenue over expenses	\$ 714,418	\$ 38,771	\$ 13,794	\$ 24,194	\$ 5,790

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare, GHP, CHS, EH/SJHS and MHN for the years ended June 30 (in thousands):

	2018				
	BayCare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 42,037	\$ -	\$ -	\$ (6,215)
Equity in earnings of unconsolidated organizations	296,354	-	12,543	22,495	-
Other changes in unrestricted net assets	8,125	(8,936)	(11,151)	-	-
Total	\$ 304,479	\$ 33,101	\$ 1,392	\$ 22,495	\$ (6,215)

	2017				
	BayCare	GHP	CHS	EH/SJHS	MHN
Other revenue	\$ -	\$ 20,283	\$ -	\$ -	\$ 3,160
Equity in earnings of unconsolidated organizations	360,067	-	6,363	11,287	-
Other changes in unrestricted net assets	7,780	(2,192)	5,460	(1,365)	-
Total	\$ 367,847	\$ 18,091	\$ 11,823	\$ 9,922	\$ 3,160

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method excluding BayCare, GHP, CHS, EH/SJHS and MHN as of and for the years ended June 30 are as follows (in thousands):

	2018					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 70,038	\$ 218,821	\$ 52,003	\$ 75,560	\$ 684,176	\$ 1,100,598
Total liabilities	\$ 51,116	\$ 97,123	\$ 20,815	\$ 30,830	\$ 347,034	\$ 546,918
Revenue, net	\$ 16,391	\$ 277,352	\$ 85,617	\$ 52,892	\$ 1,522,794	\$ 1,955,046
Excess (deficiency) of revenue over expenses	\$ 2,604	\$ 30,738	\$ 24,470	\$ (2,762)	\$ 43,516	\$ 98,566

	2017					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 71,410	\$ 202,953	\$ 53,811	\$ 101,596	\$ 671,569	\$ 1,101,339
Total liabilities	\$ 53,920	\$ 95,207	\$ 21,595	\$ 58,266	\$ 328,073	\$ 557,061
Revenue, net	\$ 22,423	\$ 222,524	\$ 88,956	\$ 47,054	\$ 1,542,945	\$ 1,923,902
Excess (deficiency) of revenue over expenses	\$ 8,410	\$ 24,530	\$ 23,056	\$ (11,697)	\$ 48,840	\$ 93,139

Acquisitions:

Saint Mary's Health System ("SMHS") – On August 1, 2016, the Corporation became, through its Trinity Health Of New England, Inc. subsidiary, the sole corporate member of SMHS, a regional health care system located in Waterbury, Connecticut, as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of \$56.0 million for the year ended June 30, 2017, in the consolidated statement of operations and changes in net assets. Summarized consolidated balance sheet information for SMHS at August 1, 2016, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 18,252	Accounts payable and accrued expenses	\$ 39,735
Patient accounts receivable, net	31,029	Accrued pension and retiree health costs	89,167
Other current assets	10,662	Other long-term liabilities	26,203
Assets limited or restricted as to use, current portion	3,465	Total liabilities acquired	<u>\$ 155,105</u>
Property and equipment	100,686	Unrestricted net assets	\$ 55,994
Assets limited or restricted as to use, noncurrent portion	62,150	Unrestricted noncontrolling interest	<u>2,500</u>
Other assets	<u>5,859</u>	Total unrestricted net assets	58,494
Total assets acquired	<u>\$ 232,103</u>	Temporarily restricted net assets	1,978
		Permanently restricted net assets	<u>16,526</u>
		Total net assets	<u>\$ 76,998</u>

For the year ended June 30, 2018 and the 11-month period ended June 30, 2017, SMHS reported revenue of \$351.9 million and \$291.3 million, respectively. SMHS reported a deficiency of revenue over expenses of \$4.2 million for the year ended June 30, 2018 and an excess of revenue over expenses of \$4.2 million for the 11-month period ended June 30, 2017 in the consolidated statements of operations.

MacNeal Hospital and MacNeal Health Providers ("MacNeal") – On March 1, 2018, the Corporation's Loyola University Health System ("Loyola"), through a wholly controlled subsidiary, purchased the assets of MacNeal Hospital, located in Berwyn, Illinois, and certain other healthcare operations affiliated with the hospital from an affiliate of Tenet Healthcare Corporation. MacNeal is a health care system that includes a 368-bed community hospital, clinical laboratory, physician medical group, real estate management company, accountable care organization and clinically integrated network. The acquisition of MacNeal will expand Loyola's delivery network for people-centered care, which includes population health and community health. As a result of this transaction, the Corporation recognized goodwill of \$142.4 million as cash consideration paid exceeded net assets acquired. The amounts recorded are subject to a post-closing reconciliation adjustment to the purchase price as stipulated in the Asset Purchase Agreement. The transaction costs accrued and paid totaled \$2.0 million, primarily for legal and consulting services, and are included in purchased services in the consolidated statement of operations and changes in net assets. The Corporation is still in the process of assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment through the period ended March 1, 2019, and may adjust the amounts recorded as of March 31, 2018, to reflect revised evaluations.

Summarized consolidated balance sheet information for MacNeal at March 1, 2018, is shown below (in thousands):

Cash, cash equivalents, and investments	\$ 226	Current portion of long-term debt	\$ 926
Patient accounts receivable, net	51,238	Accounts payable and accrued expenses	21,463
Other receivables	4,670	Salaries, wages and related liabilities	14,679
Inventory	5,073	Estimated payables to third-party payors	38,204
Prepaid expenses and other current assets	889	Long-term debt	654
Property and equipment	121,790	Other long-term liabilities	1,238
Investment in unconsolidated affiliates	500	Total liabilities acquired	<u>\$ 77,164</u>
Excess cost over net asset acquisition	142,357		
Other intangible assets	3,500	Total unrestricted net assets	<u>\$ 256,364</u>
Other assets	3,285		
Total assets acquired	<u>\$ 333,528</u>		

For the four-month period ended June 30, 2018, MacNeal reported revenue of \$116.3 million and deficiency of revenue over expenses of \$1.0 million in the consolidated statement of operations.

Divestitures and Pending Transactions:

Saint Michael's Medical Center ("St. Michael's") – On August 10, 2015, St. Michael's and certain of its affiliates voluntarily filed for reorganization under Chapter 11 of the Bankruptcy Code. The consolidated financial statements for all periods present the operations of St. Michael's as discontinued operations as the transaction was in process prior to the adoption of ASU No. 2014-8 "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*." Pursuant to court approved procedures, effective May 1, 2016, the Corporation sold substantially all of the health care operations and assets of St. Michael's to Prime Healthcare Services.

On January 12, 2017, the bankruptcy court issued an order confirming joint Chapter 11 Plan of Orderly Liquidation of St. Michael's and Affiliated Debtors; effective as of April 17, 2017. Pursuant to the Plan the remaining assets and liabilities and control of St. Michael's and its affiliated debtors were transferred to a Liquidating Trustee to implement the Plan. As a result, St. Michael's was deconsolidated from the Corporation's financial statements resulting in a further loss on disposal of \$12.0 million recorded in the consolidated statement of changes in net assets for the year ended June 30, 2017. As of August 1, 2017, the St. Michael's Board of Directors was dissolved, and the Directors and Officers relieved of their positions. Effective August 11, 2017 the Articles of Incorporation of St. Michael's were amended to remove Maxis Health System ("Maxis"), a subsidiary of the Corporation, as the sole corporate member of St. Michael's, thereby formally severing the remaining indirect control relationship between the Corporation and St. Michael's.

Membership Transfer Agreement Lourdes Health System (“Lourdes”) – On June 4, 2018, Maxis, a wholly-controlled subsidiary of Trinity Health, executed a Membership Transfer agreement with Virtua Health, Inc. (“Virtua”) to transfer the membership interests of Our Lady of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua including substantially all of the health care operations and certain assets and working capital of Lourdes. Lourdes includes Our Lady of Lourdes Medical Center (Camden, NJ) and Lourdes Medical Center of Burlington County (Willingboro, NJ) and their affiliated operations. As a result, certain assets and liabilities met the criteria to be classified as held for sale in accordance with the guidance in the FASB’s Accounting Standards Codification 360, “*Property, Plant and Equipment*.” \$67.8 million of assets were reclassified as “assets held for sale” in current assets and related liabilities of \$32.4 million were reclassified as “liabilities held for sale” in current liabilities in the accompanying consolidated balance sheet as of June 30, 2018. These assets and liabilities were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. As further described in Note 5, an asset impairment charge of \$69.9 million was recorded in the statement of operations to write-down fixed assets held for sale to their estimated fair value, less estimated costs to sell, as a result of the planned divestiture of these assets. For the years ended June 30, 2018 and 2017, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$564.2 million and \$557.8 million, respectively, and deficiency of revenue over expenses of \$93.6 million and \$52.4 million respectively, related to the operations of Lourdes. After the impairment charge, the Corporation estimates any additional loss on sale will not be material to its results of operations or financial position. The closing of the transaction remains subject to regulatory and canonical approvals, as well as other customary closing conditions, the timing of which is uncertain.

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Financial Assistance – The Corporation provides services to all patients regardless of ability to pay. In accordance with the Corporation’s policy, a patient is classified as a financial assistance patient based on income eligibility criteria as established by the Federal Poverty Guidelines. Charges for services to patients who meet the Corporation’s guidelines for financial assistance are not reflected in the accompanying consolidated financial statements.

Patient service revenues, net of contractual and other allowances (but before the provision for bad debts), recognized during the years ended June 30 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Medicare	\$ 6,321,196	\$ 6,100,637
Blue Cross	3,427,570	3,265,415
Medicaid	2,603,890	2,406,736
Uninsured	453,003	420,400
Commercial and Other	<u>3,600,593</u>	<u>3,553,906</u>
Total	<u>\$ 16,406,252</u>	<u>\$ 15,747,094</u>

A summary of net patient service revenue before provision for bad debts for the years ended June 30 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Gross charges:		
Acute inpatient	\$ 22,207,469	\$ 21,426,622
Outpatient, nonacute inpatient and other	<u>26,922,391</u>	<u>25,196,819</u>
Gross patient service revenue	49,129,860	46,623,441
Less:		
Contractual and other allowances	(32,010,880)	(30,193,661)
Financial assistance charges	<u>(712,728)</u>	<u>(682,686)</u>
Net patient service revenue before provision for bad debts	<u>\$ 16,406,252</u>	<u>\$ 15,747,094</u>

5. LONG-LIVED ASSETS

Property and Equipment:

A summary of property and equipment as of June 30 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Land	\$ 354,787	\$ 360,356
Buildings and improvements	9,277,115	9,068,510
Equipment	6,194,869	6,160,546
Capital leased assets	<u>160,685</u>	<u>179,814</u>
Total	15,987,456	15,769,226
Accumulated depreciation and amortization	(9,068,253)	(8,839,049)
Construction in progress	<u>1,106,377</u>	<u>923,279</u>
Property and equipment, net	<u>\$ 8,025,580</u>	<u>\$ 7,853,456</u>

As of June 30, 2018, commitments for capital projects of approximately \$490.4 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following Health Ministries: Mount Carmel Health System in Columbus, Ohio – \$179.9 million; Mercy Health Campus in Muskegon, Michigan – \$121.7 million; and St. Peter’s Health Partner in Albany, New York – \$44.1 million. The remaining amount is due to several smaller projects across the Corporation.

The following table details the Corporation’s committed capital spending in conjunction with acquisitions of affiliates:

RHM	Capital Commitment	Commitment Period Ending	Capital Spending through June 30, 2018
St. Joseph's Hospital Health Center, Syracuse, NY	\$60 million over 4 years, \$110 million if performance metrics are achieved	June 30, 2019	\$95 million
St. Francis Hospital and Medical Center, Hartford, CT	\$275 million over 5 years if performance metrics are achieved	June 30, 2020	\$139 million

Goodwill:

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation as of June 30 (in thousands):

	2018	2017
As of July 1:		
Goodwill	\$ 331,024	\$ 315,070
Accumulated impairment loss	(29,981)	(10,225)
Total	301,043	304,845
Goodwill acquired during the year	156,593	15,954
Reclassification to assets held for sale	(19,176)	-
Impairment loss	-	(19,756)
Total	\$ 438,460	\$ 301,043
As of June 30:		
Goodwill	\$ 468,441	\$ 331,024
Accumulated impairment loss	(29,981)	(29,981)
Total	\$ 438,460	\$ 301,043

Impairments:

During the year ended June 30, 2018, the Corporation recorded impairment charges of \$264.4 million in the consolidated statement of operations and changes in net assets. \$107.8 million of impairments were due to the Corporation's decision to move to a single, enterprise-wide electronic health record and revenue cycle management system platform. The integrated system will enable the health system to improve experiences for patients and clinicians. The project is expected to begin in fiscal year 2019. As discussed in Note 3, \$69.9 million of the impairments are due to the planned divestiture of the Corporation's Lourdes subsidiary. \$86.7 million of the impairments were primarily at three Health Ministries across the Corporation where material adverse trends in the most recent estimates of future undiscounted cash flows indicated that the carrying value of the long-lived assets were not recoverable from estimated future cash flows. The Corporation believes the most significant factors contributing to the continuing adverse financial trends in these locations include reduction in volumes and shifts in payor mix. The total impairments were comprised of \$15.7 million of land, \$244.4 million of property and equipment, and \$4.3 million of intangible and other assets.

During the year ended June 30, 2017, the Corporation recorded impairment charges of \$248.1 million in the consolidated statement of operations and changes in net assets. Material adverse trends in the most recent estimates of future discounted and undiscounted cash flows of certain locations indicated that the carrying value of the long-lived assets, at these locations, were not recoverable from estimated future cash flows. The Corporation believes the most significant factors contributing to the continuing adverse financial trends in these locations include reductions in patient volumes and shifts in payor mix. Impairments were recorded primarily at three Health Ministries across the Corporation. The total impairments were comprised of \$216.4 million property and equipment and \$31.7 million of goodwill, intangible and other assets.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings and long-term debt as of June 30 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Short-term borrowings:		
Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.74% to 1.82% during 2018 and 0.37% to 0.95% during 2017	\$ 711,020	\$ 1,039,840
Long-term debt:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed-rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.00% to 8.38% during 2017 and 2018	\$ 4,288,594	\$ 3,756,426
Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 1.15% to 2.95% during 2018 and 0.80% to 1.80% during 2017	834,812	837,222
Taxable revenue bonds:		
Fixed-rate term, payable in 2045. Interest rate of 4.13% during 2018 and 2017	481,515	350,000
Variable-rate term bonds, payable at various dates through 2051. Interest rate ranges from 1.68% to 2.43% during 2018 and 1.23% to 1.50% during 2017	54,680	54,680
Notes payable to banks. Interest payable at rates ranging from 1.44% to 8.00% during 2018 and 0.90% to 5.00% during 2017, fixed and variable, payable in varying monthly installments through 2032	30,693	30,570
Capital lease obligations (excluding imputed interest of \$28.9 million at June 30, 2018 and \$40.7 million at June 30, 2017)	81,618	104,385
Mortgage obligations. Interest payable at rates ranging from 3.05% to 5.75% during 2018 and 3.35% to 6.25% during 2017	78,396	86,120
Other	55,270	51,245
Total long-term debt	<u>5,905,578</u>	<u>5,270,648</u>
Less current portion, net of current discounts	(276,295)	(192,680)
Unamortized debt issuance costs	(37,838)	(35,836)
Unamortized premiums, net	390,696	227,730
Long-term debt, net of current portion	<u>\$ 5,982,141</u>	<u>\$ 5,269,862</u>

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows (in thousands):

	Short-Term Borrowings	Long-Term Debt
Years ending June 30:		
2019	\$ 24,350	\$ 276,295
2020	19,395	117,374
2021	16,810	443,733
2022	17,735	117,413
2023	16,395	274,134
Thereafter	616,335	4,676,629
Total	\$ 711,020	\$ 5,905,578

A summary of interest costs on borrowed funds primarily under the revenue bond indentures during the years ended June 30 is as follows (in thousands):

	2018	2017
Interest costs incurred	\$ 240,748	\$ 217,719
Less capitalized interest	(15,866)	(10,567)
Interest expense included in operations	\$ 224,882	\$ 207,152

Obligated Group and Other Requirements – The Corporation has debt outstanding under a master trust indenture dated October 3, 2013, as amended and supplemented, the amended and restated master indenture (ARMI”). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are joint and several obligations of the obligated group established thereunder (the “Obligated Group,” which currently consists of the Corporation). Proceeds from tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Proceeds from taxable bonds are to be used to finance corporate purposes. Certain Health Ministries of the Corporation constitute designated affiliates and the Corporation covenants to cause each designated affiliate to pay, loan or otherwise transfer to the Obligated Group such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Obligated Group and the designated affiliates are referred to as the Trinity Health Credit Group.

The Trinity Health Credit Group does not include certain affiliates that borrow on their own or are (or may become) members of a separate New York obligated group, but which are included in the Corporation’s consolidated financial statements. St. Peter’s Hospital of the City of Albany currently is the obligated group agent of an obligated group created under that certain master trust indenture dated as of January 1, 2008, among St. Peter’s Hospital of the City of Albany; St Peter’s Health Partners; Memorial Hospital, Albany, New York; Samaritan Hospital of Troy, New York; Seton Health System, Inc.; Sunnyview Hospital and Rehabilitation Center; the Capital Region Geriatric Center, Inc.; Hawthorne Ridge, Inc.; and Manufacturers and Traders Trust Company, as master trustee. In addition, St. Joseph’s Hospital Health Center, Syracuse, New York, acquired on July 1, 2015, is not a designated affiliate and is not part of the Trinity Health Credit Group.

Pursuant to the ARMI, the Obligated Group agent (which is the Corporation) has caused the designated affiliates representing, when combined with the Obligated Group members, at least 85% of the consolidated net revenues of the Trinity Health Credit Group to grant to the master trustee security interests in their pledged property which security interests secure all obligations issued under the ARMI. There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum historical debt-service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the combined total revenues of the Corporation for the most recent fiscal year). Long-term debt outstanding as of June 30, 2018 and 2017, that has not been secured under the ARMI is generally collateralized by certain property and equipment.

Further, Mercy Health System of Chicago (“MHSC”) has a \$56.5 million mortgage loan outstanding at June 30, 2018, that is insured by the US Department of Housing and Urban Development (“HUD”). MHSC’s payment obligations under the two mortgage notes evidencing this loan are guaranteed by the Corporation. The mortgage loan agreements with HUD contain various covenants, including those relating to limitations on incurring additional debt, transactions with affiliates, transferring or disposing of designated property, use of funds and other assets of the mortgaged property, financial performance, required reserves, insurance coverage, timely submission of specified financial reports and restrictions on prepayment of the mortgage loan. MHSC and the Corporation provided covenants to HUD not to interfere in the performance of MHSC’s obligations under the HUD-insured loan documents. MHSC is not a designated affiliate and is not part of the Trinity Health Credit Group.

Commercial Paper – The Corporation’s commercial paper program is authorized for borrowings up to \$600 million. As of June 30, 2018 and 2017, the total amount of commercial paper outstanding was \$99.9 million. Proceeds from this program are to be used for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the years ended June 30, 2018 and 2017, ranged from 1.03% to 2.03% and 0.40% to 1.28%, respectively.

Liquidity Facilities – In September 2016, the Corporation renewed its series 2013B credit agreement, and in September 2017, renewed its series 2013C credit agreement. The series 2013B and the series 2013C credit agreements are in addition to the series 2013D credit agreement (collectively, the “Credit Agreements”), each between the Corporation and U.S. Bank National Association, which acts as an administrative agent for a group of lenders under each of the Credit Agreements. The Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agree to lend to the Corporation amounts that may fluctuate from time to time and totaled \$931 million as of June 30, 2018. Amounts drawn under the Credit Agreements can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. As of June 30, 2018, of the \$931 million available balance, \$285 million expires in July 2019, \$325 million expires in July 2020 and \$321 million expires in July 2021. The Credit Agreements are secured by obligations under the ARMI. As of June 30, 2018 and 2017, there were no amounts outstanding on these Credit Agreements. See Note 14 for further discussion of liquidity facilities.

In addition, in September 2017, the Corporation renewed a three-year general purpose credit facility of \$200 million. As of June 30, 2018 and 2017, there were no amounts outstanding under this credit facility.

Standby Letters of Credit – The Corporation has entered into various standby letters of credit totaling \$56.9 million and \$56.7 million as of June 30, 2018 and 2017, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs and for unemployment liabilities. There were no draws on the letters of credit during the years ended June 30, 2018 and 2017.

Transactions – In October 2016, the Corporation remarketed \$50 million in tax-exempt, variable-rate hospital revenue bonds under the ARMI, pursuant to a continuing covenant agreement with a private purchaser which provides for a 10-year mandatory tender period (subject to mandatory tender on October 1, 2026).

During January 2017, the Trinity Health Credit Group issued \$344.2 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$26.1 million under the ARMI. Proceeds were used partially to refund \$66.5 million of certain tax-exempt bonds and pay down \$54.8 million of then outstanding taxable commercial paper obligations. The remaining proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities and to pay related costs of issuance.

In October 2017, the Corporation remarketed \$50 million in tax-exempt, variable-rate hospital revenue bonds (the “Series 2011A bonds”) under the ARMI, pursuant to a continuing covenant agreement with a private purchaser which provides for a three-year mandatory tender period (subject to mandatory tender on October 2, 2020).

During December 2017, the Trinity Health Credit Group issued \$986.1 million par value in tax-exempt fixed-rate hospital revenue bonds at a premium of \$137.0 million under the ARMI. Proceeds were used to refund \$504.4 million of certain tax-exempt bonds and pay down \$217.5 million of then outstanding taxable commercial paper obligations in December 2017. The remaining proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of health facilities. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

Also during December 2017, tax-exempt bonds of \$204 million were converted from variable-rate to fixed-rate bonds. Concurrently during December 2017, the Trinity Health Credit Group issued \$131.5 million of additional bonds under the existing taxable fixed-rate bonds that were originally issued in 2015, at a premium of \$7.2 million. Proceeds were used to refund \$56.0 million of the tax-exempt bonds. Remaining proceeds were used to finance corporate purposes of the Corporation and its affiliates and to pay certain costs of issuance. The Corporation advance refunded the tax-exempt bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities. In January 2018, tax-exempt bonds of \$49.2 million were converted from variable-rate to fixed-rate bonds.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation operates a wholly owned insurance company, Trinity Assurance, Ltd. (“TAL”). TAL qualifies as a captive insurance company and provides certain insurance coverage to the Corporation’s Health Ministries under a centralized program. The Corporation is self-insured for certain levels of general and professional liability, workers’ compensation and certain other claims. The Corporation has limited its liability by purchasing other coverages from unrelated third-party commercial insurers. TAL has also limited its liability through commercial reinsurance arrangements.

Effective August 1, 2016, TAL policies include the facilities and individuals that were previously insured with Saint Mary’s Indemnity Company, LLC (“SMICL”), a captive insurance company domiciled in the state of Vermont, whose sole member is SMHS. SMICL did not, nor does it intend to, write or renew any insurance business after July 31, 2016. SMICL was merged into TAL on March 1, 2017 at which time all losses previous to August 1, 2016, for SMICL were assumed by TAL.

The Corporation's current self-insurance program includes \$15 million per occurrence for the primary layers of professional liability as well as \$10 million per occurrence for general and hospital government liability, \$5 million per occurrence for miscellaneous errors and omissions liability, and \$1 million per occurrence for management liability (directors' and officers' and employment practices), network security and privacy liability and certain other coverages. In addition, through TAL and its various commercial reinsurers, the Corporation maintains integrated excess liability coverage with separate annual limits for professional/general liability and management liability, network security and privacy liability. The Corporation self-insures \$750,000 per occurrence for workers' compensation in most states, with commercial insurance providing coverage up to the statutory limits, and self-insures up to \$500,000 per occurrence for first-party property damage with commercial insurance providing additional coverage.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses, which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The Corporation discounts the reserves to their present value using a discount rate of 3%. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. The changes to the estimated self-insurance reserves were determined based upon the annual independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2018, that may result in the assertion of additional claims and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of legal counsel, believes that the excess liability, if any, should not materially affect the consolidated financial statements of the Corporation.

8. PENSION AND OTHER BENEFIT PLANS

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain Health Ministries that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. As of June 30, 2018 and 2017, the assets under these plans totaled \$230.4 million and \$198.7 million, respectively, and liabilities totaled \$240.3 million and \$212.0 million, respectively, which are included in self-insurance, benefit plans and other assets and other long-term liabilities in the consolidated balance sheets.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. These programs are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to these plans include nonelective contributions of 3% of eligible compensation, and varying levels of matching contributions based on employee service. The employees direct their voluntary contributions and employer contributions among a variety of investment options. Contribution expense under the plans totaled \$336.2 million and \$315.8 million for the years ended June 30, 2018 and 2017, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans") – The Corporation maintains qualified, Pension Plans under which benefit accruals are frozen for all employees. Certain nonqualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants.

Certain plans are subject to the provisions of the Employee Retirement Security Act of 1974 (“ERISA”). The majority of the plans sponsored by the Corporation are intended to be “Church Plans,” as defined in the Code Section 414(e) and Section 3(33) of the ERISA, as amended, which have not made an election under Section 410(d) of the Code to be subject to ERISA. The Corporation’s adopted funding policy for all of its qualified church plans, which is reviewed annually, is to fund the current normal cost or service cost based on the accumulated benefit obligations and amortization of any under or over funding.

Postretirement Health Care and Life Insurance Benefits (“Postretirement Plans”) – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The Postretirement Plans cover certain hourly and salaried employees who retire from certain Health Ministries. Medical benefits for these retirees are subject to deductibles and copayment provisions. The funded plans provide benefits to certain retirees at fixed dollar amounts in health reimbursement account arrangements for Medicare eligible participants.

Plan Acquisitions – As discussed in Note 3, the Corporation acquired SMHS on August 1, 2016, including all related benefit plans. SMHS maintains one qualified, noncontributory defined benefit pension plan that is intended to be a “Church Plan.” The plan was frozen to new entrants in 1997 and curtailed to eliminate future benefit accruals in 2004.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations and changes in plan assets and funded status of the plans for both the Pension Plans and Postretirement Plans for the years ended June 30 (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Change in Benefit Obligations:				
Benefit obligation, beginning of year	\$ 7,713,581	\$ 7,715,344	\$ 135,753	\$ 142,255
Service cost	-	909	168	283
Interest cost	313,868	312,814	5,342	5,479
Actuarial gains	(388,277)	(68,664)	(11,326)	(5,713)
Benefits paid	(448,425)	(396,143)	(6,243)	(6,635)
Medicare Part D reimbursement	-	-	68	84
Curtailments	-	(5,688)	-	-
Plan acquisitions	-	155,009	-	-
Benefit obligation, end of year	<u>7,190,747</u>	<u>7,713,581</u>	<u>123,762</u>	<u>135,753</u>
Change in Plan Assets:				
Fair value of plan assets, beginning of year	6,433,395	5,906,184	106,168	97,440
Actual return on plan assets	363,810	620,494	10,999	11,993
Employer contributions	184,380	236,060	2,582	3,370
Benefits paid	(448,425)	(396,143)	(6,243)	(6,635)
Plan acquisitions	-	66,800	-	-
Fair value of plan assets, end of year	<u>6,533,160</u>	<u>6,433,395</u>	<u>113,506</u>	<u>106,168</u>
Unfunded amount recognized June 30	<u>\$ (657,587)</u>	<u>\$ (1,280,186)</u>	<u>\$ (10,256)</u>	<u>\$ (29,585)</u>
Recognized in other long-term assets	\$ 435	\$ -	\$ 19,981	\$ 6,220
Recognized in accrued pension and retiree health costs	\$ (658,022)	\$ (1,280,186)	\$ (30,237)	\$ (35,805)

Actuarial gains during 2018 are due primarily to increases in discount rates used to measure plan liabilities and changes in mortality assumptions. Actuarial gains during 2017 are due primarily to increases in the discount rates used to measure plan liabilities.

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
	<u>Pension Plans</u>	
Accumulated benefit obligation	\$ 7,190,428	\$ 7,713,045
Fair value of plan assets	6,533,160	6,433,395
Funded status	<u>\$ (657,268)</u>	<u>\$ (1,279,650)</u>

Components of net periodic benefit income for the years ended June 30 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Service cost	\$ -	\$ 909	\$ 168	\$ 283
Interest cost	313,868	312,814	5,342	5,479
Expected return on assets	(440,103)	(410,158)	(7,735)	(7,078)
Amortization of prior service credit	(9,057)	(9,057)	(501)	(562)
Recognized net actuarial loss (gain)	77,869	86,701	(183)	(11)
Net periodic benefit income	<u>\$ (57,423)</u>	<u>\$ (18,791)</u>	<u>\$ (2,909)</u>	<u>\$ (1,889)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows (in thousands):

	Pension Plans			
	Net Loss (Gain)	Prior Service Credit	Total	
Balance at July 1, 2016	\$ 2,967,101	\$ (134,727)	\$ 2,832,374	
Curtailments	(5,688)	-	(5,688)	
Reclassified into net periodic benefit cost	(86,701)	9,057	(77,644)	
Arising during the year	(279,157)	-	(279,157)	
Balance at June 30, 2017	\$ 2,595,555	\$ (125,670)	\$ 2,469,885	
Reclassified into net periodic benefit cost	(77,869)	9,057	(68,812)	
Arising during the year	(311,976)	-	(311,976)	
Balance at June 30, 2018	\$ 2,205,710	\$ (116,613)	\$ 2,089,097	

	Postretirement Plans			All Plans
	Net Loss (Gain)	Prior Service Credit	Total	Grand Total
Balance at July 1, 2016	\$ 6,299	\$ (3,268)	\$ 3,031	\$ 2,835,405
Curtailments	-	-	-	(5,688)
Reclassified into net periodic benefit cost	11	562	573	(77,071)
Arising during the year	(10,663)	-	(10,663)	(289,820)
Balance at June 30, 2017	\$ (4,353)	\$ (2,706)	\$ (7,059)	\$ 2,462,826
Reclassified into net periodic benefit cost	183	501	684	(68,128)
Arising during the year	(14,647)	-	(14,647)	(326,623)
Balance at June 30, 2018	\$ (18,817)	\$ (2,205)	\$ (21,022)	\$ 2,068,075

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during year ended June 30, 2019 (in thousands):

	Pension Plans	Postretirement Plans
Amortization of prior service credit	\$ (5,428)	\$ (421)
Recognized net actuarial loss (gain)	67,716	(1,187)
Total	\$ 62,288	\$ (1,608)

Assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended June 30 were as follows:

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
Benefit Obligations:				
Discount rate	4.15% - 4.60%	3.95% - 4.35%	3.75% - 4.55%	3.60% - 4.20%
Rate of compensation increase	N/A	2.50%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	3.95% - 4.35%	3.75% - 5.20%	3.60% - 4.20%	3.40% - 4.40%
Expected long-term return on plan assets	7.00%	7.00%	7.50%	7.50%
Rate of compensation increase	N/A	2.50%	N/A	N/A

Approximately 72% of the Corporation's pension plan liabilities were measured using a 4.50% and 4.20% discount rate as of June 30, 2018 and 2017, respectively.

The Corporation utilizes a pension liability driven investment strategy in determining its asset allocation and long-term rate of return for plan assets. This risk management strategy uses a glide path methodology based on funded status to initiate asset allocation changes across the efficient frontier. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as of June 30 as follows:

	<u>2018</u>	<u>2017</u>
Medical and drugs, pre-age 65	7.2%	7.5%
Medical and drugs, post-age 65	7.2%	7.5%
Ultimate trend rate	5.0%	5.0%
Year rate reaches the ultimate rate	2026	2026

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2018 (in thousands):

	<u>One-Percentage- Point Increase</u>	<u>One-Percentage- Point Decrease</u>
Effect on postretirement benefit obligation	\$ 3,314	\$ (2,835)
Effect on total of service cost and interest cost components	\$ 164	\$ (138)

The Corporation's investment allocations as of June 30 by investment category are as follows:

Investment Category:	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	Pension Plans		Postretirement Plans	
Cash and cash equivalents	3%	3%	1%	1%
Marketable securities:				
U.S. and non-U.S. equity securities	12%	7%	-	-
Equity mutual funds	5%	6%	-	-
Debt securities	34%	34%	22%	25%
Other investments:				
Commingled funds	24%	27%	77%	74%
Hedge funds	18%	18%	-	-
Private equity funds	4%	5%	-	-
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other investments, such as hedge funds, interest rate swaps and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation as of June 30, 2018, was global and traditional equity securities 39%; long/short equity 8%; fixed-income obligations 35%; hedge funds 11%; alternative debt 5%; and cash 2%.

The following tables summarize the Pension Plans' and Postretirement Plans' assets measured at fair value as of June 30 (in thousands). See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 161,162	\$ 9,176	\$ -	\$ 170,338
Equity securities	755,918	100	-	756,018
Debt securities				
Government and government agency obligations	-	814,823	-	814,823
Corporate bonds	-	1,344,248	-	1,344,248
Asset backed securities	-	68,698	-	68,698
Exchange traded/mutual funds				
Equity funds	311,707	-	-	311,707
Fixed-income funds	58,149	-	-	58,149
Private equity	-	-	2,421	2,421
Other	(17,895)	-	-	(17,895)
Subtotal	<u>\$ 1,269,041</u>	<u>\$ 2,237,045</u>	<u>\$ 2,421</u>	<u>\$ 3,508,507</u>
Investments measured at net asset value:				
Commingled funds				
Equity funds				1,535,149
Fixed-income funds				12,479
Hedge funds				1,204,394
Private equity				272,631
Total assets				<u>\$ 6,533,160</u>
Postretirement Plans:				
Exchange traded/mutual funds				
Short-term investment funds	\$ 1,254	\$ -	\$ -	\$ 1,254
Fixed-income funds	24,310	-	-	24,310
Other	4,174	-	-	4,174
Subtotal	<u>\$ 29,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,738</u>
Investment measured at net asset value:				
Equity commingled fund				83,768
Total assets				<u>\$ 113,506</u>

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 172,134	\$ 2,755	\$ -	\$ 174,889
Equity securities	447,227	100	-	447,327
Debt securities				
Government and government agency obligations	-	665,241	-	665,241
Corporate bonds	-	1,425,466	-	1,425,466
Asset backed securities	-	62,106	-	62,106
Exchange traded/mutual funds				
Equity funds	384,215	-	-	384,215
Fixed-income funds	58,526	-	-	58,526
Private equity	-	-	4,275	4,275
Other	(6,617)	-	-	(6,617)
Subtotal	<u>\$ 1,055,485</u>	<u>\$ 2,155,668</u>	<u>\$ 4,275</u>	<u>\$ 3,215,428</u>
Investments measured at net asset value:				
Commingled funds				
Equity funds				1,736,705
Fixed-income funds				6,295
Hedge funds				1,179,981
Private equity				294,986
Total assets				<u>\$ 6,433,395</u>
Postretirement Plans:				
Exchange traded/mutual funds				
Short-term investment funds	\$ 983	\$ -	\$ -	\$ 983
Fixed-income funds	26,095	-	-	26,095
Other	210	-	-	210
Subtotal	<u>\$ 27,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,288</u>
Investment measured at net asset value:				
Equity commingled fund				78,880
Total assets				<u>\$ 106,168</u>

Unfunded capital commitments related to private equity investments totaled \$47.3 million and \$43.7 million as of June 30, 2018 and 2017, respectively.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of equity and debt securities, mutual funds, commingled funds and hedge funds.

Private Equity – These assets include two private equity funds that invest primarily in Europe, both directly and on the secondary market. These funds are valued based on competitive bid evaluation.

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income and derivatives. Due to the short maturity of these assets and liabilities, the fair value approximates the

carrying amounts. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2018 and 2017.

The following table summarizes the changes in Level 3 Pension Plan assets for the years ended June 30 (in thousands):

	<u>Private Equity</u>
Balance at July 1, 2016	\$ 5,405
Realized gain	869
Unrealized loss	(344)
Settlements	<u>(1,655)</u>
Balance at June 30, 2017	\$ 4,275
Realized gain	775
Unrealized loss	(645)
Settlements	<u>(1,984)</u>
Balance at June 30, 2018	<u>\$ 2,421</u>

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions – The Corporation expects to contribute approximately \$130 million to its Pension Plans and \$3 million to its Postretirement Plans during the year ended June 30, 2019, under the Corporation's stated funding policies.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits for the year ending June 30, which reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy (in thousands):

	<u>Pension</u>	<u>Postretirement</u>	<u>Postretirement</u>
	<u>Plans</u>	<u>Plans</u>	<u>Medicare</u>
			<u>Part D Subsidy</u>
Years ending June 30:			
2019	\$ 502,131	\$ 9,517	\$ 62
2020	470,962	9,610	58
2021	473,330	9,598	53
2022	475,703	9,536	49
2023	479,170	9,388	44
Years 2024 - 2028	2,315,403	43,832	156

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$224.1 million and \$249.1 million for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year (in thousands):

Years ending June 30:	
2019	\$ 174,934
2020	148,095
2021	127,098
2022	111,417
2023	87,248
Thereafter	192,467
Total	<u>\$ 841,259</u>

Litigation and Settlements – The Corporation is involved in litigation and regulatory investigations arising in the ordinary course of doing business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

Health Care Regulatory Environment - The health care industry is subject to numerous and complex laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse requirements, and requirements for tax-exempt organizations. Compliance with such laws and regulations is complex and can be subject to future government interpretation as well as regulatory enforcement actions, including fines, penalties and exclusion from government health care programs, such as Medicare and Medicaid. The Corporation and its Health Ministries periodically receive notices from governmental agencies requesting information regarding billing, payment or other reimbursement matters initiating investigations, or indicating the existence of whistleblower litigation. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on the Corporation’s future consolidated financial position or results of operations.

10. FAIR VALUE MEASUREMENTS

The Corporation’s consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation’s consolidated balance sheets include cash, cash equivalents, security lending collateral, equity securities, debt securities, mutual funds, commingled funds, hedge funds and derivatives. Defined benefit retirement plan assets are measured at fair value on an annual basis; see Note 8 for further details. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability overtime, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

Valuation Methodologies – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The inputs to these models depend on the type of security being priced, but are typically benchmark yields, credit spreads, prepayment spreads, reported trades and broker-dealer quotes, all with reasonable levels of transparency. Generally, significant changes in any of those inputs in isolation would result in a significantly different fair value measurement. The Corporation classifies these securities as Level 2 within the fair value hierarchy. The Corporation also has certain investments that are classified as Level 3. These investments are primarily valued using competitive bid evaluations or cost, if it approximates fair value.

The Corporation maintains policies and procedures to value instruments using the best and most relevant data available. The Corporation has not adjusted the prices obtained. Third-party administrators do not provide access to their proprietary valuation models, inputs and assumptions. Accordingly, the Corporation reviews the independent reports of internal controls for these service providers. In addition, on a quarterly basis, the Corporation performs reviews of investment consultant industry peer group benchmarking and supporting relevant market data. Finally, all of the fund managers have an annual independent audit performed by an accredited accounting firm. The Corporation reviews these audited financials for ongoing validation of pricing used. Based on the information available, the Corporation believes that the fair values provided by the third-party administrators and investment fund managers are representative of prices that would be received to sell the assets.

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheet. Included in this category is commercial paper. The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs, including security cost, maturity and credit rating.

Security Lending Collateral – The security lending collateral is invested in a Northern Trust sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are determined using the calculated net asset value per share (or its equivalent) for the fund with the underlying investments valued using techniques similar to those used for instruments noted below.

Equity Securities – Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded or are estimated using quoted market prices for similar securities.

Debt Securities – Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

Exchange-Traded/Mutual Funds – Exchange-traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded or estimated using quoted market prices for similar securities. Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding and multiplied by the number of shares owned.

Commingled Funds – Commingled funds are developed for investment by institutional investors only and, therefore, do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on net asset value, which is calculated using the most recent fund financial statements.

Hedge Funds – Hedge funds utilize either a direct or a “fund-of-funds” approach resulting in diversified multistrategy, multimanager investments. Underlying investments in these funds may include equity securities, debt securities, commodities, currencies and derivatives. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

The Corporation classifies its equity and debt securities, mutual funds, commingled funds and hedge funds as trading securities. The amount of holding gains included in the excess of revenue over expenses related to securities still held as of June 30, 2018 and 2017, were \$928.7 million and \$757.7 million, respectively.

Equity Method Investments – Certain other investments are accounted for using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of “fund-of-funds” and direct fund investment strategies resulting in a diversified multistrategy, multimanager investment approach. Some of these funds are developed by investment managers specifically for the Corporation’s use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equity securities, debt securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds’ year-end. Management’s estimates of the fair values of these investments are based on information provided by the third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management’s internal procedures include such

things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. Unfunded capital commitments related to equity method investments totaled \$599.0 million and \$439.5 million as of June 30, 2018 and 2017, respectively.

Interest Rate Swaps – The fair value of the Corporation’s derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation’s nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following tables present information about the fair value of the Corporation’s financial instruments measured at fair value on a recurring basis and recorded as of June 30, 2018 (in thousands):

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,625,102	\$ 57,831	\$ -	\$ 1,682,933
Security lending collateral	-	275,228	-	275,228
Equity securities	2,404,812	1,143	6,540	2,412,495
Debt securities:				
Government and government agency obligations	-	695,980	4,180	700,160
Corporate bonds	-	993,772	622	994,394
Asset backed securities	-	294,055	-	294,055
Bank loans	-	35,218	-	35,218
Other	-	11,484	-	11,484
Exchange traded/mutual funds:				
Equity funds	688,434	-	-	688,434
Fixed income funds	95,713	-	-	95,713
Real estate investment funds	37,603	-	-	37,603
Other	92,856	-	-	92,856
Interest rate swaps	-	6,139	-	6,139
Subtotal	\$ 4,944,520	\$ 2,370,850	\$ 11,342	\$ 7,326,712
Equity method investments				1,317,827
Investments measured at net asset value:				
Commingled funds				1,296,703
Hedge funds				681,978
Total assets				\$ 10,623,220
Liabilities:				
Interest rate swaps	\$ -	\$ 127,531	\$ -	\$ 127,531

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded as of June 30, 2017 (in thousands):

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,568,148	\$ 54,754	\$ -	\$ 1,622,902
Security lending collateral	-	332,972	-	332,972
Equity securities	1,829,262	2,306	5,468	1,837,036
Debt securities:				
Government and government agency obligations	-	730,319	5,310	735,629
Corporate bonds	-	972,127	1,019	973,146
Asset backed securities	-	222,466	-	222,466
Bank loans	-	31,361	-	31,361
Other	-	21,025	-	21,025
Exchange traded/mutual funds:				
Equity funds	632,779	-	-	632,779
Fixed-income funds	99,146	-	-	99,146
Real estate investment funds	43,140	-	-	43,140
Other	79,970	-	-	79,970
Interest rate swaps	-	5,124	-	5,124
Subtotal	<u>\$ 4,252,445</u>	<u>\$ 2,372,454</u>	<u>\$ 11,797</u>	<u>\$ 6,636,696</u>
Equity method investments				1,164,378
Investments measured at net asset value:				
Commingled funds				1,511,026
Hedge funds				810,826
Total assets				<u>\$ 10,122,926</u>
Liabilities:				
Interest rate swaps	\$ -	\$ 169,198	\$ -	\$ 169,198

The following table reconciles the information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis presented in the table above to amounts presented in the consolidated balance sheets as of June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 971,726	\$ 1,008,197
Investments	3,846,190	3,526,204
Security lending collateral	275,228	332,972
Assets limited or restricted as to use - current portion	352,231	328,712
Assets limited or restricted as to use - noncurrent portion:		
Held by trustees under bond indenture agreements	6,865	7,139
Self-insurance, benefit plans and other	865,949	823,948
By Board	3,881,021	3,709,246
By donor	498,871	460,491
Interest rate swaps in other long-term assets	6,139	5,124
Less items not recorded at fair value:		
Total unconditional promises to give, net	(54,427)	(55,857)
Reinsurance recovery receivable	(20,731)	(23,250)
Other, primarily beneficial interests in trusts	(5,842)	-
Total assets	<u>\$ 10,623,220</u>	<u>\$ 10,122,926</u>

The Corporation's policy is to recognize transfers between all levels as of the beginning of the reporting period. There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2018 and 2017.

The following table summarizes the changes in Level 3 assets for the years ended June 30 (in thousands):

	<u>Equity</u>	<u>Government and</u>	<u>Corporate</u>	<u>Total</u>
	<u>Securities</u>	<u>Government Agency</u>	<u>Bonds</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance at July 1, 2016	5,468	1,433	617	7,518
Realized loss	-	(54)	(58)	(112)
Unrealized (loss) gain	-	(23)	141	118
Purchases	-	4,450	936	5,386
Settlements	-	(496)	(641)	(1,137)
Transfers from Level 2	-	-	24	24
Balance at June 30, 2017	\$ 5,468	\$ 5,310	\$ 1,019	\$ 11,797
Realized (loss) gain	-	(95)	63	(32)
Unrealized gain	1,072	270	26	1,368
Purchases	-	490	567	1,057
Settlements	-	(1,795)	(1,053)	(2,848)
Balance at June 30, 2018	<u>\$ 6,540</u>	<u>\$ 4,180</u>	<u>\$ 622</u>	<u>\$ 11,342</u>

Investments in Entities that Calculate Net Asset Value per Share – The Corporation holds shares or interests in investment companies at year-end, included in commingled funds and hedge funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2018 and 2017. The fair value and redemption rules of these investments are as follows as of June 30 (in thousands):

	2018		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds	\$ 1,296,703	Daily and semi-monthly	2 - 3 days
Hedge funds	681,978	Monthly, quarterly, semi-annually, bi-annually	30 - 95 days
Total	<u>\$ 1,978,681</u>		

	2017		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled funds	\$ 1,511,026	Daily and semi-monthly	2 - 3 days
Hedge funds	810,826	Monthly, quarterly, semi-annually, bi-annually	10 - 95 days
Total	<u>\$ 2,321,852</u>		

The hedge fund category includes equity long/short hedge funds, multistrategy hedge funds and relative value hedge funds. Equity long/short hedge funds invest both long and short, primarily in US common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. Multistrategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Relative value hedge fund's strategy is to exploit structural and technical inefficiencies in the market by investing in financial instruments that are perceived to be inefficiently priced as a result of business, financial or legal uncertainties. Investments representing approximately 0.5% and 3.5% of the value of the investments in this category as of June 30, 2018 and 2017, respectively, can only be redeemed bi-annually subsequent to the initial investment date. Investments representing 59.2% and 36.4% of the investments in this category as of June 30, 2018 and 2017, respectively, can only be redeemed at the rate of 25% per quarter.

The commingled fund category primarily includes investments in funds that invest in financial instruments of US and non-US entities, primarily bonds, notes, bills, debentures, currencies and interest rate and derivative products.

The composition of investment returns included in the consolidated statements of operations and changes in net assets for the years ended June 30 is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Dividend, interest income and other	\$ 163,389	\$ 135,510
Realized gain, net	266,841	102,794
Realized equity earnings, other investments	48,414	23,437
Change in net unrealized gain on investments	<u>95,867</u>	<u>696,604</u>
Total investment return	<u>\$ 574,511</u>	<u>\$ 958,345</u>
Included in:		
Operating income	\$ 66,163	\$ 73,379
Nonoperating items	488,715	859,934
Changes in restricted net assets	<u>19,633</u>	<u>25,032</u>
Total investment return	<u>\$ 574,511</u>	<u>\$ 958,345</u>

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets, net of allowances for uncollectible promises to give. Unconditional promises to give consist of the following as of June 30 (in thousands):

	<u>2018</u>	<u>2017</u>
Amounts expected to be collected in:		
Less than one year	\$ 25,343	\$ 24,572
One to five years	31,978	33,635
More than five years	<u>4,491</u>	<u>7,183</u>
	61,812	65,390
Discount to present value of future cash flows	(3,789)	(4,471)
Allowance for uncollectible amounts	<u>(3,596)</u>	<u>(5,062)</u>
Total unconditional promises to give, net	<u>\$ 54,427</u>	<u>\$ 55,857</u>

Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt – The carrying amounts of the Corporation's variable-rate debt approximate their fair values. The fair value of the Corporation's fixed-rate debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. Under the fair value hierarchy, these financial instruments are valued primarily using Level 2 inputs. The fair value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,674 million and \$4,148 million as of June 30, 2018 and 2017, respectively. The related carrying value of the tax-exempt fixed-rate long-term revenue and refunding bonds was \$4,289 million and \$3,756 million as of June 30, 2018 and 2017, respectively. The fair value of the taxable fixed-rate long-term revenue bonds was \$471 million and \$361 million as of June 30, 2018 and 2017, respectively. The related carrying value of the taxable fixed-rate long-term revenue bonds was \$482 million and \$350 million as of June 30, 2018 and 2017, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks and mortgage loans are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks, the Corporation enters into various derivative contracts, primarily interest rate swaps. Interest rate swaps are used to manage the effect of interest rate fluctuations.

Management reviews the Corporation's hedging program, derivative position and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt. Cash payments on interest rate swaps totaled \$16.3 million and \$19.6 million for the years ended June 30, 2018 and 2017, respectively, and are included in nonoperating income.

Certain of the Corporation's interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Effect of Derivative Instruments on Excess of Revenue over Expenses – The Corporation has interest rate swaps not designated as hedging instruments which are included in the excess of revenue over expenses in the statement of operations. Net gains included in the change in market value and cash payments of interest rate swaps totaled \$25.7 million and \$53.0 million for the years ended June 30, 2018 and 2017, respectively.

Balance Sheet Effect of Derivative Instruments – The following table summarizes the estimated fair value of the Corporation's derivative financial instruments as of June 30 (in thousands):

Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	Fair Value	
		2018	2017
Asset Derivatives:			
Interest rate swaps	Other long-term assets	\$ 6,139	\$ 5,124
Liability Derivatives:			
Interest rate swaps	Other long-term liabilities	\$ 127,531	\$ 169,198

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. As of June 30, 2018 and 2017, an adjustment for nonperformance risk reduced derivative assets by \$0.2 million and \$0.6 million and derivative liabilities by \$6.4 million and \$8.3 million, respectively.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and permanently restricted net assets as of June 30 are available for the following purposes (in thousands):

	<u>2018</u>	<u>2017</u>
Temporarily Restricted Net Assets:		
Education and research	\$ 28,338	\$ 27,072
Building and equipment	129,971	108,475
Patient care	60,786	62,829
Cancer center/research	28,234	26,614
Services for elderly care	36,911	34,718
Other	104,384	86,266
Total	<u>\$ 388,624</u>	<u>\$ 345,974</u>
Permanently Restricted Net Assets:		
Hospital operations	\$ 108,078	\$ 102,516
Medical programs	9,947	10,344
Scholarship funds	7,032	6,075
Research funds	12,579	11,800
Community service funds	17,160	17,150
Other	42,686	35,432
Total	<u>\$ 197,482</u>	<u>\$ 183,317</u>

The Corporation's endowments consist of funds established for a variety of purposes. Endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed-income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

The following table summarizes endowment net asset composition by type of fund as of June 30 (in thousands):

2018				
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Donor-restricted endowment funds	\$ -	\$ 55,679	\$ 197,482	\$ 253,161
Board-designated endowment funds	87,590	-	-	87,590
Total endowment funds	\$ 87,590	\$ 55,679	\$ 197,482	\$ 340,751

2017				
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Donor-restricted endowment funds	\$ -	\$ 64,067	\$ 183,317	\$ 247,384
Board-designated endowment funds	74,100	-	-	74,100
Total endowment funds	\$ 74,100	\$ 64,067	\$ 183,317	\$ 321,484

Changes in endowment net assets for the years ended June 30 include (in thousands):

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment net assets, July 1, 2016	\$ 76,384	\$ 44,728	\$ 157,588	\$ 278,700
Investment return:				
Investment income	6,558	1,737	1,675	9,970
Change in net realized and unrealized losses	1,096	6,487	6,217	13,800
Total investment return	7,654	8,224	7,892	23,770
Contributions	-	9,797	1,805	11,602
Appropriation of endowment assets for expenditures	(12,504)	(1,561)	(928)	(14,993)
Acquisitions	-	2,857	16,960	19,817
Other	2,566	22	-	2,588
Endowment net assets, June 30, 2017	74,100	64,067	183,317	321,484
Investment return:				
Investment income	2,056	3,040	2,309	7,405
Change in net realized and unrealized losses	3,512	2,202	4,957	10,671
Total investment return	5,568	5,242	7,266	18,076
Contributions	249	149	7,350	7,748
Appropriation of endowment assets for expenditures	(4,508)	(1,504)	-	(6,012)
Other	12,181	(12,275)	(451)	(545)
Endowment net assets, June 30, 2018	\$ 87,590	\$ 55,679	\$ 197,482	\$ 340,751

The table below describes the restrictions for endowment amounts classified as temporarily restricted net assets and permanently restricted net assets as of June 30 (in thousands):

	2018	2017
Temporarily Restricted Net Assets:		
Term endowment funds	\$ 5,245	\$ 4,183
The portion of perpetual endowment funds without a purpose restriction	410	410
The portion of perpetual endowment funds subject to a purpose restriction	50,024	59,474
Total endowment funds classified as temporarily restricted net assets	<u>\$ 55,679</u>	<u>\$ 64,067</u>
Permanently Restricted Net Assets:		
Investments for which income is unrestricted	\$ 149,360	\$ 145,187
Investments for which income is temporarily restricted	42,103	31,773
Endowments requiring income to be added to the original gift	6,019	6,357
Total	<u>\$ 197,482</u>	<u>\$ 183,317</u>

Funds with Deficiencies – Periodically, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. RESTRUCTURING CHARGES

During the year ended June 30, 2017, management authorized and committed the Corporation to undertake a comprehensive performance improvement plan to realign its cost structure. The Corporation had a workforce reduction as part of the plan. As a result of these actions, restructuring charges of \$36.2 million were recorded in the consolidated statements of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. As of June 30, 2018 the majority of these benefits have been paid.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2018, the date the consolidated financial statements were issued. The following subsequent events were noted:

St. Joseph Mercy Chelsea Hospital (“Chelsea”) – Effective July 1, 2018, the Corporation, through its subsidiary Trinity Health - Michigan, sold a 49% noncontrolling membership interest to the Regents of the University of Michigan as part of a broader initiative to develop and implement new collaborations on a statewide basis throughout Michigan to improve the health of the communities that they serve and enhance the efficiencies and value of the systems’ delivery of health care. The Corporation maintains control of Chelsea. For the years ended June 30, 2018 and 2017, the Corporation’s consolidated statements of operations and changes in net assets included revenue of \$159.8 million and \$151.6 million, respectively, and excess of revenue over expenses of \$5.0 million and \$8.6 million respectively, related to the operations of Chelsea.

Liquidity Facilities – On August 30, 2018, the Corporation reduced the commitment amount from \$931 million to \$900 million under a single Credit Agreement. The amount is divided equally among three tranches (\$300 million each), with maturity dates of August 2020, August 2021 and August 2022.

* * * * *



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
Trinity Health Corporation
Livonia, Michigan

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This additional information is the responsibility of Trinity Health Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our 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 such additional information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

September 26, 2018

Mercy Community Health, Inc., West Hartford

TRINITY HEALTH
 Supplemental Condensed Consolidating Balance Sheets -
 Information
 June 30, 2018
 (In thousands)

	MCH - Corporate Office	The McAuley Center, Inc.	Saint Mary Home, Inc.	Mount St. Joseph	Mercy Community Health, Inc., West Hartford
ASSETS					
CURRENT ASSETS:					
Cash, cash equivalents and investments	\$ (28,384)	\$ 12,814	\$ 13,432	\$ 465	\$ (1,673)
Assets limited as to use - current portion	145	477	-	-	622
Patient and other receivables, net	82	74	4,909	1,800	6,865
Other current assets	18	26	152	61	257
Total current assets	(28,139)	13,391	18,493	2,326	6,071
ASSETS LIMITED OR RESTRICTED AS TO USE -					
Noncurrent portion:					
Held in trust	-	1,532	-	-	1,532
Held in trust, statutory reserve	-	-	-	-	-
By Board	-	-	-	-	-
By donors	(79)	-	265	-	186
Total assets limited or restricted as to use - noncurrent portion	(79)	1,532	265	-	1,718
PROPERTY AND EQUIPMENT, Net	430	16,314	11,574	8,315	36,633
OTHER ASSETS	275	41	40	-	356
TOTAL ASSETS	<u>\$ (27,513)</u>	<u>\$ 31,278</u>	<u>\$ 30,372</u>	<u>\$ 10,641</u>	<u>\$ 44,778</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES	\$ (6,828)	\$ 7,064	\$ 8,633	\$ 2,760	\$ 11,629
LONG-TERM DEBT, Noncurrent portion	3,952	11,950	10,003	3,888	29,793
OTHER LIABILITIES	5	19,494	-	-	19,499
NET ASSETS:					
Unrestricted	(24,751)	(7,283)	11,319	3,993	(16,722)
Restricted	109	53	417	-	579
TOTAL LIABILITIES AND NET ASSETS	<u>\$ (27,513)</u>	<u>\$ 31,278</u>	<u>\$ 30,372</u>	<u>\$ 10,641</u>	<u>\$ 44,778</u>

Mercy Community Health, Inc., West Hartford

TRINITY HEALTH
 Supplemental Condensed Consolidating Statements of Operations
 and Changes in Net Assets - Information
 June 30, 2018
 (In thousands)

	MCH - Corporate Office	The McAuley Center, Inc.	Saint Mary Home, Inc.	Mount St. Joseph	Mercy Community Health, Inc., West Hartford
Unrestricted revenue:					
Net patient service revenue less provision for bad debts	\$ -	\$ 129	\$ 30,422	\$ 8,739	\$ 39,290
Other	3,545	11,927	348	(1,344)	14,476
Total unrestricted revenue	3,545	12,056	30,770	7,395	53,766
Expenses:					
Labor costs	1,917	3,319	19,526	7,224	31,986
Purchased services	1,100	2,464	6,238	(1,757)	8,045
Depreciation and amortization	196	1,821	1,091	708	3,816
Interest	187	436	391	(15)	999
Other	191	3,859	5,962	2,607	12,619
Total expenses	3,591	11,899	33,208	8,767	57,465
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	(46)	157	(2,438)	(1,372)	(3,699)
Other	-	-	-	-	-
OPERATING INCOME (LOSS)	(46)	157	(2,438)	(1,372)	(3,699)
NONOPERATING ITEMS:					
Investment income and interest rate swaps	44	(67)	(33)	(14)	(70)
Loss from early extinguishment of debt	-	-	-	-	-
Other	-	-	-	-	-
Total nonoperating items	44	(67)	(33)	(14)	(70)
EXCESS OF REVENUE OVER EXPENSES	(2)	90	(2,471)	(1,386)	(3,769)
LESS EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	-	-	-
EXCESS OF REVENUE OVER EXPENSES - Net of noncontrolling interest	\$ (2)	\$ 90	\$ (2,471)	\$ (1,386)	\$ (3,769)
CHANGES IN NET ASSETS					
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ (2)	\$ 90	\$ (2,471)	\$ (1,386)	\$ (3,769)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	(214)	47	51	-	(116)
INCREASE (DECREASE) IN NET ASSETS	(216)	137	(2,420)	(1,386)	(3,885)
NET ASSETS, Beginning of year	(24,426)	(7,367)	14,156	5,379	(12,258)
NET ASSETS, End of year	(24,642)	(7,230)	11,736	3,993	(16,143)

McAuley Center, Incorporated

THREE (3) YEAR PROJECTED BALANCE SHEET AND CHANGES IN NET ASSETS
FOR FISCAL YEARS ENDED JUNE 30, 2019 THROUGH JUNE 30, 2021

(in thousands of dollars)

<u>ASSETS</u>	2019	2020	2021	Comments
Current Assets:				
Cash and Cash Equivalents	\$13,206	\$13,837	\$14,715	2018 Actual plus Gain/Loss
Accounts Receivable, net	76	79	81	3% rate increase
Prepaid Expenses and Other Current Assets	579	579	579	Consistent with 2018 Actual
Total Current Assets	\$13,861	\$14,494	\$15,375	
Assets Whose Use Is Limited - non-current	1,532	1,532	1,532	Consistent with 2018 Actual
Property, Plant and Equipment, net	15,988	15,668	15,355	2% reduction for depreciation less acquisitions
Other Assets	41	41	41	Consistent with 2018 Actual
TOTAL ASSETS	\$31,422	\$31,735	\$32,303	
 <u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Current Maturities of Debt	\$301	\$301	\$301	Consistent with 2018 Actual
Accounts Payable and Accrued Expenses	5,989	5,997	6,000	Consistent with 2018 Actual
Other Accrued Liabilities	880	880	880	Consistent with 2018 Actual
Total Current Liabilities	\$7,170	\$7,178	\$7,181	
Long-term debt, less current portion	\$11,576	\$11,229	\$10,892	3% reduction for principal payments
Other Long-term liabilities	19,516	19,538	19,560	reduction in refundable fees
Total Liabilities	\$31,092	\$30,767	\$30,452	
Net Assets				
Fund Balance (Unrestricted)	(\$6,893)	(\$6,262)	(\$5,384)	
Temporarily Restricted Fund Balance	53	53	53	
Permanently Restricted Net Assets	0	0	0	
Total Fund	(6,840)	(6,209)	(5,331)	
TOTAL LIABILITIES & NET ASSETS	\$31,422	\$31,736	\$32,303	
	0	(0)	0	
CHANGES IN NET ASSETS				
Unrestricted Net Assets				
Beginning Unrestricted Net Assets	(\$7,284)	(\$6,893)	(\$6,262)	
Excess of Revenues over Expenses	391	631	878	
Total Unrestricted Net Assets	(6,893)	(6,262)	(5,384)	
Temporarily Restricted Net Assets				
Beginning Temporarily Restricted Net Assets	\$53	\$53	\$53	
Ending Temporarily Restricted Net Assets	\$53	\$53	\$53	
Permanently Restricted Net Assets				
Beginning Permanently Restricted Net Assets	\$0	\$0	\$0	
Ending Permanently Restricted Net Assets	\$0	\$0	\$0	
TOTAL NET ASSETS	(6,840)	(6,209)	(5,331)	

McAuley Center, Incorporated

THREE (3) YEAR PROJECTED STATEMENT OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30, 2019 THROUGH JUNE 30, 2021
(in thousands of dollars)

<u>REVENUE</u>	2019	2020	2021	Comments
Operating Revenue	\$12,418	\$12,790	\$13,174	3% rate increase - volume even
Total Operating Revenue	\$12,418	\$12,790	\$13,174	
<u>OPERATING EXPENSES</u>				
Salaries and Wages	\$2,677	\$2,703	\$2,730	1% wage increase
Employee Benefits	652	672	692	3% Cost Increase
Professional Fees	3	3	3	2% Cost Increase
Supplies	615	627	640	2% Cost Increase
Purchased Services	2,547	2,598	2,650	2% Cost Increase
Depreciation & Amortization	1,785	1,749	1,714	2% - decrease
Interest	427	419	410	2% - decrease
Other	0	1	2	
Other	3,321	3,388	3,455	2% Cost Increase
Total Operating Expenses	\$12,027	\$12,159	\$12,297	
OPERATING INCOME	\$391	\$631	\$877	
Non-Operating Revenue				
Investment Income	\$0	\$0	\$1	
Net Non-Operating Revenue	\$0	\$0	\$1	
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$391	\$631	\$878	

McAuley Center, Incorporated

THREE (3) YEAR PROJECTED STATEMENTS OF CASH FLOWS
FOR FISCAL YEARS ENDED JUNE 30, 2019 THROUGH JUNE 30, 2021
(in thousands of dollars)

<u>SOURCES OF CASH</u>	2019	2020	2021	Comments
Excess of Revenues over Expenses from Operations	\$391	\$631	\$878	
Items Not Affecting Working Capital				
Depreciation	\$1,785	\$1,749	\$1,714	
Other				
Total Sources of Cash	\$2,176	\$2,380	\$2,592	
<u>USES OF CASH</u>				
Change in Working Capital, excluding current portion of debt	\$38	\$36	(\$893)	
Additions to Plant, Property and Equipment, net	1,458	1,429	2,330	
Other Assets	(2)	(2)	(2)	
Accounts Payable & Accrued Expense	12	8	3	
Long-term Debt Principal Repayments	301	301	301	
Other Long Term Liabilities	(22)	(22)	(22)	
Total Uses of Cash	\$1,785	\$1,750	\$1,716	
Cash Provided (Used) Prior to Interest Income	\$391	\$630	\$876	
Cash Provided From Interest Income	\$0	\$1	\$2	
Cash Provided (Used)	\$391	\$631	\$878	
CASH BALANCE, BEGINNING OF PERIOD	\$12,815	\$13,206	\$13,837	
CASH BALANCE, END OF PERIOD	\$13,206	\$13,837	\$14,715	
	\$13,206	\$13,837	\$14,715	
	(\$0)	(\$0)	(\$0)	

McAuley Center, Incorporated

**THREE (3) YEAR PROJECTED STATISTICS
FOR FISCAL YEARS ENDED JUNE 30, 2019 THROUGH JUNE 30, 2021**
(in thousands of dollars)

	2019	2020	2021	Comments
<u>Resident Turnover</u>				
Independent Living Turnover	40	21	21	More admits and fewer discharges
Assisted Living Turnover	6	6	6	More admits and fewer discharges
Occupancy	197	197	197	
Resident Turnover Rate	23.4%	13.7%	13.7%	
<u>Average Age of Residents</u>				
Average Age of Residents	88.0	87.5	87.0	Slight reduction due to younger admits
<u>Admissions to Healthcare Facilities</u>				
Number of Permanent Transfers to SNF Care	6	6	6	Slight Increase from w 2018
Number of Temporary Transfers to SNF/Rehab Care	41	41	41	Consistent with 2018
Total transfers	47	47	47	
<u>Transferred Residents Days of Care</u>				
Residents with Permanent Transfer Status at a SNF	11	11	11	Consistent with 2018
Total Days of Care for Transferred Residents	6,546	6,546	6,546	Consistent with 2018
<u>Utilization of Healthcare Services</u>				
Healthcare Utilization Rate	25.4%	25.4%	25.4%	% of Total Transfers Divided by Capacity

STATE OF CONNECTICUT

Department of Public Health

LICENSE

License No. 0164

Assisted Living Services Agency

In accordance with the provisions of the General Statutes of Connecticut Section 19a-493:

McAuley Center, Inc. of West Hartford, CT, d/b/a McAuley Center, Inc. The is hereby licensed to maintain and operate an Assisted Living Services Agency.

McAuley Center, Inc. The is located at 275 Steele Road, West Hartford, CT 06107, and may provide services to clients residing at:

McAuley Center, Inc. The, (MRC) 275 Steele Road, West Hartford, CT

This license expires **June 30, 2019** and may be revoked for cause at any time.

Dated at Hartford, Connecticut, July 1, 2017. **RENEWAL**



A handwritten signature in blue ink, appearing to read "Raul Pino".

Raul Pino, MD, MPH
Commissioner

THE McAULEY

PART OF THE MERCY COMMUNITY

Schedule of Zero Refund Contract Fees - Full Life Care

APARTMENT TYPE	ENTRANCE FEE FULL LIFE CARE Non-Refundable after 50 months	MONTHLY SERVICE FEE
Studio		
592 Sq. Ft. Single	\$100,470	\$3,470
One Bedroom		
620 Sq. Ft. Single	\$112,450	\$3,780
Double	\$132,450	\$5,400
One Bedroom Deluxe		
818 Sq. Ft. Single	\$121,690	\$4,170
Double	\$141,680	\$5,750
Two Bedroom		
1,118 Sq. Ft. Single	\$156,370	\$5,290
Double	\$185,130	\$6,700
Studio + One Bedroom		
1,410 Sq. Ft. Single	\$210,320	\$5,950
Double		\$7,400
One Bedroom + One Bedroom		
1,636 Sq. Ft. Single	\$243,170	\$6,700
Double		\$8,100
Two Bedroom + One Bedroom		
1,936 Sq. Ft. Single	\$280,650	\$7,670
Double		\$9,000

These rates are effective on June 30, 2018

THE MCAULEY

PART OF THE MERCY COMMUNITY

Schedule of 2/3 Refund Contract Fees - Full Life Care

APARTMENT TYPE	ENTRANCE FEE FULL LIFE CARE Two-Thirds Refundable	MONTHLY SERVICE FEE
Studio		
592 Sq. Ft. Single	\$174,410	\$2,810
One Bedroom		
620 Sq. Ft. Single Double	\$182,170	\$3,000 \$4,700
One Bedroom Deluxe		
818 Sq. Ft. Single Double	\$259,390	\$3,890 \$5,530
Two Bedroom		
1,118 Sq. Ft. Single Double	\$380,830	\$4,600 \$6,180
Studio + One Bedroom		
1,410 Sq. Ft. Single Double	\$477,970	\$5,800 \$7,300
One Bedroom + One Bedroom		
1,636 Sq. Ft. Single Double	\$551,920	\$6,700 \$8,150
Two Bedroom + One Bedroom		
1,936 Sq. Ft. Single Double	\$651,290	\$7,920 \$9,100

These rates are effective on June 30, 2018

THE MCAULEY

PART OF THE MERCY COMMUNITY

Schedule of Alternative Contract Fees

APARTMENT TYPE	ENTRANCE FEE No Life Care 80% Refundable 150 Days Skilled Nursing	MONTHLY SERVICE FEE
Studio 592 sq. ft.	\$113,320	\$2,610
One Bedroom 620sq. ft. Single Double	\$118,580	\$2,730 \$3,990
One Bedroom Deluxe 818 sq. ft. Single Double	\$156,460	\$3,610 \$4,815
Two Bedroom 1,118 sq. ft. Single Double	\$177,170	\$4,300 \$5,430
Studio + One Bedroom 1,410 sq. ft. Single Double	\$223,380	\$5,420 \$6,475
One Bedroom + One Bedroom 1,636 sq. ft. Single Double	\$259,280	\$6,280 \$7,300
Two Bedroom + One Bedroom 1,936 sq. ft. Single Double	\$306,820	\$7,360 \$8,200

These rates are effective July 1, 2018

THE MCAULEY

PART OF THE MERCY COMMUNITY

Schedule of Alternative Contract Fees

APARTMENT TYPE	ENTRANCE FEE No Life Care Fully Refundable	MONTHLY SERVICE FEE
Stevens Studio 592 sq. ft.	\$54,114	\$2,294
Wadsworth One Bedroom 620sq. ft.	\$112,450	\$3,780
Single	\$132,450	\$5,400
Double		
Bushnell One Bedroom Deluxe 818 sq. ft.	\$121,690	\$4,170
Single	\$141,680	\$5,750
Double		
Stowe Two Bedroom 1,118 sq. ft.	\$156,370	\$5,290
Single	\$185,130	\$6,700
Double		
Webster Studio + One Bedroom 1,410 sq. ft.	\$210,320	\$5,950
Single		\$7,400
Double		
Twain One Bedroom + One Bedroom 1,636 sq. ft.	\$243,170	\$6,700
Single		\$8,100
Double		
Bristow Two Bedroom + One Bedroom 1,936 sq. ft.	\$280,650	\$7,670
Single		\$9,600
Double		

These rates are effective July 1, 2018

THE MCAULEY
PART OF THE MERCY COMMUNITY

Schedule of Fees

The Assisted Living Services Agency at The McAuley

<u>Apartment Style</u>	<u>Monthly Rental Fee</u>
Studio	\$5,510
One Bedroom	\$5,730
One Bedroom Deluxe	\$7,010
Two Bedroom	\$8,930
Two Bedroom Deluxe	\$8,980

For a second person, add \$1,100 per month.

No Entrance fee is required for Assisted Living residents.

Fees are subject to change without notice.

These rates are effective July 1, 2018

THE MCAULEY

PART OF THE MERCY COMMUNITY

Assisted Living Services Agency (AMIE Program) Disclosure of Charges

AMIE: The nursing department will determine your monthly cost based on your care plan. Your estimated monthly cost will be shared with you initially and will be re-evaluated as the care plan changes. If your care cost is \$0.00 there will be an admission fee and a 120day chart maintenance fee.

ALSA: We will bill for nursing services and personal care that exceeds the current contracted allowance.

Additional services in both cases will be billed according to the following schedule:

Nursing visit-true emergency	Complimentary
Nursing visit-wellness clinic	Complimentary
Nursing visit in apt-by request	\$15.00/15 min increments
Weekly med pour by nurse	\$35.00
Medication admin by nurse	\$7.00
Medication reminder-oral meds	\$3.00
Medication reminder-other	\$3.00
Assist with shower	\$15.00/15min increments
Miscellaneous personal Care- 15min(assist with dressing, oral care,shaving,stockings,AM or PM care)	\$15.00/15min increments
Safety check	\$4.00
Assist to bathroom with safety check	\$6.00
Incontinence care	\$8.00
Meal/activity reminder	\$2.00
Assist/deliver meal(breakfast)	\$5.00
Assist with wheelchair transport	\$4.00 (each way)
Escort to meal,activity,hair appt	\$4.00
1 load of laundry	\$14.00
Linen change	\$7.00
Minor homemaking tasks (water plants, fill humidifier,trash,tidy,make bed)15 min	\$8.00/15 min increments
Escort to appointment	\$30.00 per hour
Long term care Insurance Assistance	\$28.00/hr 15 min increments
Hourly CNA care(assist with bath,dress,laundry,tidy,other ADL's)	\$22.00/hr 2 hour minimum
Admission to AMIE chart	\$50.00
Chart maintenance AMIE every 120day(no services rendered)	\$35.00

APPENDIX G
MAINTENANCE FEE SCHEDULE

2015 Resident Handbook Edition

Service Provided	Cost of Service
Auditorium Reservation Fee	\$ 25.00
Balcony Carpet	\$ 300.00
Blinds/Vertical	\$ 75.00
Computer/Printer assistance	\$ 20.00 per half hour
Cord Mate	\$ 280.00
Dispose/Remove items	\$ 30.00
Door Bells/Wireless	\$ 45.00
Extra Housekeeping	\$ 30.00 per visit
Extra Shelving	\$ 30.00 per shelf
Extra Wall Cabinet	\$120.00 installed
Full Carpet Cleaning	\$125.00 per room
Grab Bar 18 inch	\$ 55.00 installed
Grab Bar 24 inch	\$ 65.00 installed
Guest Apartment Charge	\$ 75.00 per night
Handheld Shower unit: without massage	\$ 40.00
Handheld Shower unit: with massage:	\$ 65.00
Ice maker install	\$ 110.00 installed
Lamp Repair	\$ 20.00 per half hour
Mail Charge	\$ 5.00
Misc/Maintenance	\$ 30.00 per hour
Moving Furniture	\$ 30.00 per hour
Parking Cones	\$ 20.00
Private Laundry	\$ 15.00 per load
Replacement Key Card	No Charge
Rollaway Bed	\$ 15.00 per night
Spot Carpet Cleaning	\$ 15.00 per room
Surge Protector	\$ 15.00
Telephone/Setup	\$ 30.00
Tub Cut Out	\$ 400.00

APPENDIX F

TRANSPORTATION FEE SCHEDULE

Pricing schedule for transportation not covered in the Resident Agreement and outside the service area:

Zone I:	\$9.00 per round trip
Zone II:	\$14.00 per round trip
Zone III:	\$18.00 per round trip
Zone IV:	Price to be determined by mile

The McAuley-sponsored trips: \$9.00 per person, per round trip

Resident-sponsored trips: Price per person, according to zone

Subscription Series: \$9.00 per person

Bradley International Airport:
(per person) \$30.00 one-way; during business hours
\$45.00 one-way; after business hours

Bus/Train Station:
(per person) \$15.00 one-way; during business hours
\$23.00 one-way; after business hours

Medical appointments:
(Zone I; after hours) \$20.00 per person

Add-on medical appointment:
(Zone I) \$9.00 per round trip
(Zone II-IV) \$9.00 plus zone charge

ZONE 1: 9\$

**AVON, BLOOMFIELD, FARMINGTON, HARTFORD,
NEWINGTON, SIMSBURY, WEST HARTFORD**

ZONE 2: 14\$

**GLASTONBURY, MANCHESTER, NEW BRITAIN,
WINDSOR, ROCKY HILL, WETHERSFIELD, SOUTH
WINDSOR, VERNON, EAST HARTFORD**

ZONE 3: 18\$

**BRISTOL, BURLINGTON, CANON, ENFIELD, GRANBY,
MERIDEN, MIDDLETOWN, ROCKVILLE, SOUTHLINGTON,
WINDSOR LOCKS**

FACILITY CURRENT OCCUPANCY RATES

FOR PERIOD ENDING JUNE 30, 2018

LEVEL	OCCUPIED UNITS	TOTAL UNITS	OCCUPANCY RATE
Independent Living	163	203	80.3%
Assisted Living	17	25	68.0%
Total Facility	180	228	78.9%

ENTRANCE FEES/MONTHLY SERVICE FEES FOR FISCAL YEARS
ENDED December 31, 2014 and June 30, 2015, 2016, 2017 and 2018

ENTRANCE FEES - STANDARD RESIDENCY AGREEMENT
(Full Lifecare – Non-Refundable after 50 Months)

	12/31/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Studio	\$95,640	\$98,500	\$98,500	\$100,470	\$100,470
Studio + 1 Bedroom	\$200,200	\$206,200	\$206,200	\$210,320	\$210,320
1 Bedroom	\$107,050	\$110,250	\$110,250	\$112,450	\$112,450
1 Bedroom – Deluxe	\$115,860	\$119,300	\$119,300	\$121,690	\$121,690
1 Bedroom – Double	\$231,460	\$238,400	\$238,400	\$243,170	\$243,170
2 Bedroom	\$148,850	\$153,300	\$153,300	\$156,370	\$156,370
2 Bedroom – Double	\$266,180	\$275,150	\$275,150	\$280,650	\$280,650

MONTHLY SERVICE FEES - STANDARD RESIDENCY AGREEMENT

	12/31/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Studio	\$3,110	\$3,203	\$3,300	\$3,470	\$3,470
Studio + 1 Bedroom	\$5,340	\$5,500	\$5,600	\$5,950	\$5,950
1 Bedroom	\$3,430	\$3,533	\$3,600	\$3,780	\$3,780
1 Bedroom – Deluxe	\$3,740	\$3,852	\$3,950	\$4,170	\$3,169
1 Bedroom – Double	\$5,970	\$6,150	\$6,300	\$6,700	\$6,700
2 Bedroom	\$4,720	\$4,860	\$5,000	\$5,290	\$5,290
2 Bedroom – Double	\$6,860	\$7,065	\$7,200	\$7,670	\$7,670
2 nd Person	\$1,800	\$1,800	\$1,850	\$1,850	

MONTHLY RENTAL FEES – ASSISTED LIVING RESIDENCY AGREEMENT

	12/31/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Studio	\$5,150	\$5,150	\$5,305	\$5,305	\$5,510
1 Bedroom	\$6,540	\$6,540	\$6,740	\$6,740	\$5,730
1 Bedroom – Deluxe	\$8,320	\$8,320	\$8,570	\$8,570	\$7,010
2 Bedroom	\$8,320	\$8,320	\$8,570	\$8,570	\$8,930
2 Bedroom – Deluxe	\$8,320	\$8,320	\$8,570	\$8,570	\$8,980
2 nd Person	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100

FUTURE SERVICE OBLIGATION

Mercy Community Health utilized software provided by A.V. Powell & Associates, LLC to perform an actuarial study as of June 30, 2016. Based on an actuarially sound basis, using reasonable assumptions for mortality and morbidity, and projections based upon financial data readily available at this time, we have determined that consistent with past years, no future service obligation existed as of June 30, 2018.

Average Age at June 30, 2018:

Total for All Levels:

Female	Male	Total Facility
88.5	88.9	88.6



James F. Thayer
*Senior Vice President &
Senior Wealth Management Officer*
Wealth Management

T: 860.280.2881 F: 860.280.2884 E: james.thayer@peoples.com

August 23, 2018

State of Connecticut
Department of Social Services
55 Farmington Avenue
Hartford, CT 06105

Re: McAuley Entrance Fee Escrow Account

Ladies and Gentlemen:

Please let this statement serve as verification that the McAuley Entrance Fee Escrow Account as required by Sections 17b-524 and 17b-525 has been established and continues to be maintained by People's United Bank, N.A.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in blue ink that reads "James F. Thayer".

James F. Thayer
Senior Vice President

Sworn to and subscribed before me this
23rd day of August, 2018

A handwritten signature in blue ink that reads "Holly Wanegar".

Notary Public

HOLLY WANEGAR
NOTARY PUBLIC
MY COMMISSION EXPIRES APR. 30, 2022