

**LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

AND

INDEPENDENT AUDITORS' REPORT

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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To the Board of Directors of
Little Sisters of the Poor of Indianapolis, Inc.
(St. Augustine's Home for the Aged)

Independent Auditors' Report

We have audited the accompanying statement of financial position of Little Sisters of the Poor of Indianapolis, Inc. (St. Augustine's Home for the Aged, a nonprofit organization) as of December 31, 2011, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Sisters of the Poor of Indianapolis, Inc. (St. Augustine's Home for the Aged) as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bradley Associates

Indianapolis, Indiana
October 8, 2012

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

	<u>2011</u>
Current assets:	
Cash	\$1,361,432
Accounts receivable, net of allowance for doubtful accounts of \$20,743	334,441
Retroactive Medicaid receivable	74,034
Prepaid expenses	<u>23,866</u>
Total current assets	<u>1,793,773</u>
Property and equipment, net	<u>2,606,785</u>
Other assets:	
Residents' trust fund	39,074
Other assets	<u>626</u>
Total other assets	<u>39,700</u>
Total assets	<u><u>\$4,440,258</u></u>
Current liabilities:	
Accounts payable	\$ 165,424
Accrued payroll and related liabilities	301,884
Accrued provider assessment	<u>39,355</u>
Total current liabilities	<u>506,663</u>
Residents' trust fund	<u>39,074</u>
Unrestricted net assets	<u>3,894,521</u>
Total liabilities and net assets	<u><u>\$4,440,258</u></u>

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

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>
Revenue:	
Net patient service revenue	\$3,003,250
Donations and fundraising revenue	<u>2,647,180</u>
Total revenues	<u>5,650,430</u>
Expenses:	
Nursing	1,993,777
Depreciation	229,893
Dietary	665,822
Insurance and payroll taxes	561,418
Plant operations	451,749
Administration	811,950
Housekeeping	313,899
Fundraising	129,859
Laundry and linen	87,898
Ancillary services	<u>244,513</u>
Total expenses	<u>5,490,778</u>
Net operating income	<u>159,652</u>
Non-operating revenue:	
Interest income	2,574
Other income	<u>28,075</u>
Total non-operating revenue	<u>30,649</u>
Increase in net assets	190,301
Net assets at beginning of year	<u>3,704,220</u>
Net assets at end of year	<u><u>\$3,894,521</u></u>

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

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>
Cash flow from operating activities:	
Increase in net assets	\$ 190,301
Adjustments to reconcile increase in net assets to cash flows from operating activities:	
Depreciation	229,893
Bad debt	27,743
Changes in assets and liabilities:	
Accounts receivable	(82,400)
Retroactive Medicaid receivable	(74,034)
Prepaid expenses	12,567
Accounts payable	81,274
Accrued payroll and related liabilities	(66,027)
Accrued provider assessment	39,355
	<u>358,672</u>
Cash flow from investing activities:	
Purchase of property and equipment	<u>(196,855)</u>
	<u>(196,855)</u>
Increase in cash	161,817
Cash at beginning of year	<u>1,199,615</u>
Cash at end of year	<u><u>\$1,361,432</u></u>

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

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
(ST. AUGUSTINE'S HOME FOR THE AGED)

NOTES TO FINANCIAL STATEMENTS

1 - Significant Accounting Policies

Organization

Little Sisters of the Poor of Indianapolis, Inc. (St. Augustine's Home for the Aged) (Home) was incorporated as a not-for-profit organization to provide skilled nursing and residential services for the elderly poor. The Home operates a 67-bed nursing center and 25-bed assisted living facility located in Indianapolis, Indiana. The Home also operates a 26-apartment independent living facility for the elderly poor.

Financial Statement Presentation

The Home is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Center has no temporarily or permanently restricted net assets.

Cash

Cash includes cash in checking and savings accounts. The balances may, at times, exceed federally insured limits. The Home has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an adjustment to bad debt expense and a credit to a valuation allowance based on its current assessment of accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
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NOTES TO FINANCIAL STATEMENTS

1 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts, and any resulting gain or loss is credited or charged to income. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Provision for depreciation is computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Building and improvements	10-40
Furniture and fixtures	5-20
Computer equipment	5
Motor vehicles	5-10

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Residents' Trust Fund

The Home is entrusted with certain personal funds of its residents, handling of which is governed by the Medical program. These funds are available to residents on demand and are disbursed only at the direction of the resident or legal guardian.

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
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NOTES TO FINANCIAL STATEMENTS

1 - Significant Accounting Policies (Continued)

Net Patient Service Revenue

The Home derives its revenues from services to residents in its nursing, residential, and assisted living facility. Revenue is recorded when services are provided. Payment from governments or other private payers is expected for its services.

The Home is a provider of nursing facility services under the Indiana Medicaid program. This program is a case mix reimbursement system. Under this system, Medicaid program beneficiaries' services are paid at prospectively determined per diem rates based upon case-mix adjusted, inflated historical costs and limits. The Home submits annual cost reports to determine its Medicaid rates.

Revenue from the Medicaid program accounted for approximately 78% of the Home's net patient service revenue as of December 31, 2011.

Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. The Home believes that it is in compliance with all applicable laws and regulations and it is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program.

The state of Indiana changed its Medicaid reimbursement system effective July 1, 2011 to reduce reimbursement in some cost categories while increasing reimbursement in other categories. These changes to Medicaid may materially affect revenues. The Home cannot estimate the magnitude of the potential Medicaid rate changes but these potential changes may be material. Medicaid rate changes or a failure of such programs to increase rates to match increasing costs, if they occur, may have a negative impact on revenues, may decrease net operating income and may cause the Home to incur losses.

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
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NOTES TO FINANCIAL STATEMENTS

1 - Significant Accounting Policies (Continued)

Donations

Unconditional promises to give are reported at fair value at the date the promise is received.

Conditional promises to give are reported at fair value at the date the promise 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 donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities 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 accompanying financial statements. No conditional promises to give were reported during the year ended December 31, 2011.

Donated goods, primarily food related to resident care, are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated assets to a specific purpose.

Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Certain long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

Federal and State Income Taxes

The Home is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (Code) as a non-private foundation and is exempt from federal income taxes on its related income. Accordingly, no expense has been recognized for income taxes for the not-for-profit organization in the accompanying financial statements.

LITTLE SISTERS OF THE POOR OF INDIANAPOLIS, INC.
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NOTES TO FINANCIAL STATEMENTS

1 - Significant Accounting Policies (Continued)

Federal and State Income Taxes (Continued)

Authoritative accounting standards require the Home to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Home's policy is to recognize penalties and interest as incurred in its statement of operations, which totaled \$0 for the year ended December 31, 2011.

The Home's federal and state information returns for 2008 through 2011 are subject to examination by the applicable tax authorities, generally for three years after the later of the original or extended due date.

Estimates

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

2 - Credit Risks

The Home's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Home places its cash with primarily one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Home has never experienced any losses related to these balances. The amount of cash on deposit in excess of FDIC limits was \$815,746 at December 31, 2011.

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NOTES TO FINANCIAL STATEMENTS

3 - Property and Equipment

Property and equipment consist of the following at December 31:

	2011	
	Cost	Accumulated Depreciation
Land	\$ 81,000	\$ 0
Land improvements	350,620	268,318
Buildings and improvements	7,272,954	5,368,641
Furniture and fixtures	2,482,134	2,060,752
Computer equipment	129,379	116,956
Motor vehicles	198,364	92,999
	\$10,514,451	\$7,907,666

4 - Related Party Transactions

The Home is an associate of Little Sisters of the Poor, Baltimore Province, Inc. (Baltimore Province). The Baltimore Province is an association of several homes across the country. During 2011, the Home made a donation of \$100,000 to the Baltimore Province.

5 - Pension Plans

The Home participates in a multi-employer, defined benefit retirement plan, which is administered by the Christian Brothers Employee Retirement Plan. The retirement plan is for the benefit of eligible employees for which all costs are funded annually. Pension expense was \$79,779 for the year ended December 31, 2011. Information as to the Home's portion of the accumulated plan benefits, plan net assets, and unfunded vested benefits is not determinable. In the event the Home decides to withdraw from the plan, the Home may be subject to payment of a withdrawal penalty. Management does not intend to take action which would subject it to such a penalty.

The Home also participates in a multi-employer, 403(b) defined contribution plan, which is administered by Christian Brothers Retirement Savings Plan. The plan covers all employees who meet certain eligibility requirements. The Home does not contribute to the plan on behalf of any employee.

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NOTES TO FINANCIAL STATEMENTS

6 - Functional Expenses

The Home provides health care services and housing to residents within its geographic location. Expenses related to providing these services are as follows:

	2011
Resident services	\$4,548,969
Administration and support	811,950
Fundraising	129,859
	\$5,490,778

7 - Concentration of Credit Risk

Most of the Home's revenue is received under contractual agreements with third-party payors. Receivables from Medicaid, private payors and other third-party payors were as follows:

	2011
Medicaid	62%
Private payors	37
Other third-party payors	1
	100%

8 - Health Care Industry

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, quality of resident care and Medicare and Medicaid fraud and abuse.

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NOTES TO FINANCIAL STATEMENTS

8 - Health Care Industry (Continued)

Over the last several years, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations as well as laws and regulations governing quality of care issues in the skilled nursing profession in general. Violations of these laws and regulations could result in exclusion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for resident services previously billed.

Compliance with such laws and regulations is subject to ongoing government review and interpretation, as well as regulatory actions which may be unknown or unasserted at this time. The Home is involved in regulatory actions of this type from time to time.

The Home's nursing center must be licensed by the state in which it is located in order to accept residents, regardless of payor source. The Home's nursing center must comply with detailed statutory and regulatory requirements on an ongoing basis in order to qualify for licensure, as well as for certification as a provider eligible to receive payments from the Medicaid program. Generally, the requirements for licensure and Medicaid certification are similar and relate to quality and adequacy of personnel, quality of medical care, record keeping, dietary services, resident rights, and the physical condition of the facility and the adequacy of the equipment used therein. Each facility is subject to periodic inspections, known as "surveys" by health care regulators, to determine compliance with all applicable licensure and certification standards. Such requirements are both subjective and subject to change.

If the survey concludes that there are deficiencies in compliance, the facility is subject to various sanctions, including but not limited to monetary fines and penalties, suspension of new admissions, non-payment for new admissions and loss of licensure or certification. Generally, however, once a facility receives written notice of any compliance deficiencies, it may submit a written plan of correction and is given a reasonable opportunity to correct the deficiencies.

There can be no assurance that, in the future, the Home will be able to maintain such licenses and certifications for its facility or that the Home will not be required to expend significant sum in order to comply with regulatory requirements.

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NOTES TO FINANCIAL STATEMENTS

9 - Healthcare Reform

During March 2010, the federal government enacted various laws including the Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act. These laws and their related regulations will lead to significant changes in how health care companies are regulated and reimbursed for the services they provide. In addition, these laws may have a significant impact on the health insurance programs that the Home offers to its employees which will have an impact on the cost of these programs. The Home cannot currently estimate with certainty the ultimate impact of any of the above laws on the Home's financial condition, cash flows or results of operations.

10 - Subsequent Events

Subsequent events have been evaluated through October 8, 2012, which is the date the financial statements were available to be issued.