PHI (D.B.A. PRESBYTERIAN SENIOR LIVING)

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN SENIOR LIVING

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living, as of December 31, 2018 and 2017, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, processes, and most importantly, our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes, and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role: our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of a combined ministry that has served older persons in the name of Christ for more than 112 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor	Jeffrey J. Davis
Chief Executive Officer	Chief Financial Officer
Presbyterian Senior Living	Presbyterian Senior Living

Arnett Carbis Toothman llp
CPAs & Advisors

actcpas.com

2599 Wilmington Road
New Castle, PA 16105
724.658.1565 | 724.658.2402 fax
800.452.3003

Independent Auditor's Report

The Board of Trustees
Presbyterian Senior Living

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates (collectively, the Corporation) which comprise the consolidated statements of financial position as of December 31, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Geneva House, Inc., Presbyterian Apartments, Inc., Westminster Place at Parkesburg, LP, Westminster Place at Windy Hill, LP,I, Westminster Place at Carroll Village, LP,I, Schartner House Associates, LP, Westminster Place at The Long Community, LP, Westminster Place at Quincy Village, LP, Stewartstown Courtyard LP, Westminster Place at Bloomsburg LP, Westminster Place at Queen Street LP, Silver Spring Courtyards LP, SS Gardens LP, Shrewsbury Courtyards Associates LP, Shrewsbury Courtyards II Associates, S Overlook LP, Stony Brook Gardens LP, Wisteria Commons Senior Housing, LP, The Oaks Senior Community, LP, The Shepherds in Monroe County, Inc., Westminster Place at Ware Presbyterian Village LP, Westminster Place at Ware Senior Housing and Ross Presbyterian Senior Housing LP, affiliates of Presbyterian Senior Living, which statements reflect total assets constituting 20.66% and 19.86%, respectively, of consolidated total assets as of December 31, 2018 and 2017, and total operating revenues and other support constituting 4.62% and 4.56%, respectively, of consolidated total operating revenues, gains, and other support for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors. 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 entities' 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 entities' 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 Presbyterian Senior Living as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
April 1, 2019

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents	$	3,759,797	4,263,716
Investments		73,861,688	75,967,893
Restricted deposits and funded reserves		28,518,903	23,783,278
Accounts receivable, net		20,305,572	25,072,652
Prepaid expenses and other current assets		3,949,379	3,840,142
Assets whose use is limited		8,936,613	10,314,400
Assets whose use is limited, construction funds		25,737,965	–
Promises to give, net		380,613	364,903
Assets held for sale		10,000	229,927
Property and equipment (net of accumulated depreciation of $357,692,916 and $330,671,975, respectively)		516,896,332	510,359,708
Assets under capital leases (net of accumulated amortization of $1,835,502 and $1,514,784 respectively)		896,630	322,607
Goodwill		3,551,908	3,551,908
Funds held in trust by others		17,388,344	18,910,644
Other assets		672,031	641,444
Total assets	$	704,865,775	677,623,222

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2018 and 2017

Liabilities and Net Assets		**2018**	**2017**
Accounts payable	$	11,410,754	9,083,546
Accrued expenses		16,748,161	17,514,674
Lines of credit		19,518,798	20,883,024
Accrued interest		1,697,906	1,507,355
Resident deposits		2,399,472	2,726,696
Entrance fees payable		26,288,395	28,717,389
Deferred revenue - entrance fees		110,984,576	106,359,326
Deferred energy costs		1,078,129	1,140,481
Fair value of interest rate swaps		–	5,950
Annuities payable		1,070,867	1,181,507
Obligations under capital leases		973,965	333,317
Long-term debt - senior living		276,971,925	253,927,557
Long-term debt - low income housing		32,592,519	35,616,007
Total liabilities		501,735,467	478,996,829
Net assets:			
Without donor restrictions (including tax credit equity of $64,943,572 and $63,657,325 respectively)		177,578,399	171,465,762
With donor restrictions		25,551,909	27,160,631
Total net assets		203,130,308	198,626,393
Total liabilities and net assets	$	704,865,775	677,623,222

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

		2018	2017
Revenues and other support:			
Resident services, including amortization of entrance fees of $17,963,456 and $16,079,638, respectively	$	238,955,207	231,324,956
Sales of other services and materials		354,867	373,909
Net rental income and developers' fees		493,157	1,330,697
Contributions, gifts, grants and bequests		904,182	2,295,946
Net assets released from restrictions		1,002,817	468,855
Total operating revenues and other support		241,710,230	235,794,363
Cost of services provided:			
Nursing services		60,361,669	58,672,314
Rehabilitation		17,680,682	14,822,524
Recreation and special services		6,293,347	6,270,985
Pharmacy		3,475,633	4,123,278
Social services		1,626,183	1,551,280
Physician services		753,900	729,071
Food services		25,185,820	24,669,981
Building operations and maintenance		33,621,437	32,358,819
Housekeeping		4,179,006	4,734,926
Laundry and linen		1,189,883	1,296,048
General and administrative		37,772,224	36,536,667
Employee benefits		11,682,369	15,944,724
Interest		9,600,983	8,791,173
Depreciation		27,382,443	25,769,465
Amortization		95,069	80,330
Fundraising		556,180	708,622
Total cost of services provided		241,456,828	237,060,207
Excess (deficiency) of revenues and other support over expenses		253,402	(1,265,844)
Other income (expense):			
Investment income, net of investment expense		2,581,386	2,455,280
Realized (loss) gain on investments		(2,861,915)	4,019,641
Unrealized gain on investments		1,290,869	4,833,387
(Loss) gain on sale of property and equipment and other assets		(21,665)	2,901
Total other income		988,675	11,311,209
Excess of revenues and other support over expenses and losses		1,242,077	10,045,365

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

		2018	2017
Net assets without donor restrictions			
Excess of revenues and other support over expenses and losses	$	1,242,077	10,045,365
Change in fair value of interest rate swap		5,950	27,084
Loss on early extinguishment of debt		(122,288)	(179,752)
Loss on impairment of asset		(384,945)	–
Loss on abandoned project		–	(124,057)
Equity received from tax credit limited partners		5,371,843	2,147,347
Change in net assets without donor restrictions		6,112,637	11,915,987
Net assets with donor restrictions			
Contributions, gifts, grants and bequests		931,511	712,748
Investment income		154,709	107,397
Unrealized (loss) gain on investments		(1,692,125)	1,455,683
Net assets released from restrictions		(1,002,817)	(468,855)
Change in net assets with donor restrictions		(1,608,722)	1,806,973
Change in net assets		4,503,915	13,722,960
Net assets, beginning of year		198,626,393	184,903,433
Net assets, end of year	$	203,130,308	198,626,393

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 4,503,915	13,722,960
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,382,443	25,769,465
Provision for bad debt	3,269,081	2,953,570
Proceeds from non-refundable entrance fees and deposits	29,952,254	31,469,313
Amortization of entrance fees	(17,963,456)	(16,079,638)
Loss on early extinguishment of debt	122,288	179,752
Change in fair value of interest rate swaps	(5,950)	(27,084)
Unrealized loss (gain) on investments and change in fair value of funds held in trust by others	401,256	(6,289,070)
Realized loss (gain) on investments	2,861,915	(4,019,641)
Loss (gain) on sale of property and equipment and other assets	21,665	(2,901)
Contributions restricted for long-term purposes	(156,494)	(78,946)
Amortization of deferred costs	95,069	271,159
Amortization of deferred financing costs	231,173	290,920
Amortization of bond premium	(17,030)	(3,240)
Loss on impairment of asset	384,945	–
Loss on abandoned project	–	124,057
Decrease in deferred energy costs	(62,352)	(62,352)
Changes in assets and liabilities:		
Increase in accounts receivable	(825,195)	(2,801,353)
Decrease in entrance fee receivable	2,323,194	489,527
(Increase) decrease in promises to give	(15,710)	102,044
Increase in other assets	(234,893)	(363,376)
Increase (decrease) in accounts payable	2,327,208	(7,888,156)
(Decrease) increase in accrued expenses	(575,962)	68,323
Net cash provided by operating activities	54,019,364	37,825,333
Cash flows from investing activities:		
Acquisition of property and equipment, net of disposals	(34,679,773)	(39,503,815)
Purchases of investments	(92,985,009)	(80,256,851)
Proceeds from sale of investments	111,072,485	82,176,418
Net cash used in investing activities	(16,592,297)	(37,584,248)
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(7,690,772)	(8,051,761)
Change in entrance fees payable	(2,428,994)	(2,401,859)
Principal payments on and redemptions of long-term debt	(14,592,453)	(14,344,080)
Proceeds from issuance of long-term debt	41,765,620	21,959,343
Refunding, refinancing or payoff of long-term debt	(13,284,591)	(13,824,402)
Proceeds from sale of treasury bonds	6,197,712	170,125
Financing costs incurred	(401,839)	(314,841)
Net (repayments) borrowings on lines of credit	(1,364,226)	1,787,359
Borrowings through capital leases	898,069	192,621
Repayments on capital leases	(257,421)	(319,433)
Contributions restricted for long-term purposes	156,494	78,946
Decrease in annuities payable	(110,640)	(200,739)
Net cash provided by (used in) financing activities	8,886,959	(15,268,721)
Net increase (decrease) in cash and cash equivalents	46,314,026	(15,027,636)
Cash, cash equivalents, and restricted cash, beginning of year		
Unrestricted	6,982,469	4,439,267
Restricted	19,079,360	36,650,198
	26,061,829	41,089,465
Cash, cash equivalents, and restricted cash, end of year		
Unrestricted	7,285,644	6,982,469
Restricted	65,090,211	19,079,360
	$ 72,375,855	26,061,829

See accompanying notes to consolidated financial statements.

(1) General Information

PHI (d.b.a. Presbyterian Senior Living) (the Corporation), a not-for-profit corporation, is the parent corporation of Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon, Presbyterian Homes in the Presbytery of Huntingdon Foundation, Presbyterian Senior Living Services, Inc. d.b.a. Glen Meadows Retirement Community, Quincy Retirement Community, The Long Community, Inc., PHI Investment Management Services, Inc., PHI Services, Inc., Cathedral Village, Presbyterian Apartments, Inc., Geneva House, Inc., Schartner House Associates LP, Westminster Place at Parkesburg, LP, Westminster Place at Windy Hill LP,I, Westminster Place at Carroll Village LP,I, Stewartstown Courtyard LP, Westminster Place at Bloomsburg, LP, Westminster Place at Ware Presbyterian Village, LP, Westminster Place at The Long Community LP, Westminster Place at Quincy Village LP, Silver Spring Courtyards, LP, SS Gardens LP, Shrewsbury Courtyards Associates LP, Shrewsbury Courtyards II Associates, S Overlook LP, Stony Brook Gardens LP, PHI Stadium Place Senior Care, Inc., Northampton Place at Easton, LP, Westminster Place at Queen Street LP, Long Crest Senior Housing LP, Ross Presbyterian Senior Housing LP, The Shepherds in Monroe County, Inc., Wisteria Commons Senior Housing LP, Oaks Senior Community LP, Barrett School Senior Living LP, Westminster Place at Ware Senior Housing, Westminster Place at Windy Hill LP,II, and Presbyterian Senior Living Housing Management Corporation, which are controlled affiliates of Presbyterian Senior Living. The Corporation also owns 46 percent of Prelude Systems, Inc., an information technology services organization.

The Corporation serves as a management company for the above affiliates and is governed by a Board of Trustees. Some of the management employees and members of the Board of Trustees are also members of the Board of Directors of certain affiliated entities. The Corporation's affiliates do business primarily in Pennsylvania, but also in Maryland, Ohio and Delaware.

The following table details the number of beds/units that the Corporation operates as of December 31, 2018:

	Total	Nursing Beds	Personal Care/ Assisted Living	Independent Living	HUD/ Tax Credit
Presbyterian Homes Obligated Group	3,126	1,109	511	1,506	—
Glen Meadows Retirement Community	268	31	36	201	—
Presbyterian Apartments	165	—	—	136	29
Geneva House	64	—	—	—	64
Rental Communities	1,125	—	—	70	1,055
	4,748	1,140	547	1,913	1,148

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. All material intercompany transactions have been eliminated.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

(b) Income Taxes

PHI, Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon, Presbyterian Homes in the Presbytery of Huntingdon Foundation, Presbyterian Senior Living Services, Inc. d.b.a. Glen Meadows Retirement Community, Quincy Retirement Community, The Long Community, Inc., PHI Investment Management Services, Inc., PHI Services, Inc., Cathedral Village, Presbyterian Apartments, Inc., Geneva House, Inc., and Presbyterian Senior Living Housing Management Corporation are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and have been recognized as tax exempt under Section 501(a) of the Code. Low Income Housing Tax Credit entities are described in Note (2)(x) herein.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met.

The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation's federal Exempt Organization Business Income Tax Returns and federal and Pennsylvania Partnership Returns for the years ended December 31, 2015, 2016, and 2017 remain subject to examination by the Internal Revenue Service and state authorities.

(c) Use of Estimates

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

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(d) Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the consolidated statements of financial position and cash flows, except for those included in investments and assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2018 and 2017, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the statement of cash flows for the years ended December 31:

	2018	2017
Cash and cash equivalents	$ 3,759,797	4,263,716
Cash and cash equivalents in investments	3,525,847	2,718,753
Restricted cash in investments	17,980,396	3,994,324
Restricted cash in restricted deposits and funded reserves	13,270,660	10,781,636
Restricted cash in assets whose use is limited	33,839,155	4,303,400
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 72,375,855	26,061,829

Restricted cash included in investments on the consolidated statements of financial position includes amounts held for benevolent care, resident deposits and other donor restricted contributions. Restricted cash included restricted deposits and funded reserves include the Maryland Department of Aging Operating Reserve, other escrow accounts required under the low income housing guidelines, and the Obligated Group's statutory liquid reserves. Restricted cash in assets whose use is limited represents cash held by a trustee under the terms of various bond indentures and permanently restricted investments.

(e) Investments

Investments in securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange, on the consolidated statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value using net asset value per share as a practical expedient as determined by the investment managers. Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Annual independent audits of each private investment partnership are provided and included in management's review.

(f) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts as follows as of December 31:

		2018	2017
Total accounts receivable	$	21,349,201	27,285,930
Less: allowance for doubtful accounts		(1,043,629)	(2,213,278)
Accounts receivable, net	$	20,305,572	25,072,652

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely. During 2017, management reviewed the estimate related to the manner in which the allowance for doubtful accounts is calculated to provide a better estimate of the amounts reasonably expected to be collected. Receivables aged older than six months are reserved at the following amounts:

Private pay	75%
Managed care and other	100%
Medicaid and Medicaid pending	20%
Coinsurance	75%
Medicare Part A and B	20%

(g) Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are measured at fair value on the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve, other escrow accounts required under the low income housing guidelines, and the Obligated Group's statutory liquid reserves. The Continuing Care Provider Registration and Disclosure Act in Pennsylvania requires a working capital reserve equivalent to the greater of the total debt service payments due during the next 12 months on account of any loan or long-term financing, or 10% of the projected annual operating expenses of the Corporation exclusive of depreciation. The reserve is computed on only the proportional share of financing or operating expenses that are applicable to Residence and Care Agreements.

(h) Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures and future projects along with donor restricted investments.

(i) Promises to Give

The Corporation records material unconditional promises to give due in more than one year at the net present value less a discounted uncollectable amount.

		2018	2017
Promises to give	$	441,191	409,594
Less: unamortized discount		(24,415)	(26,947)
Subtotal		416,776	382,647
Less: allowance for uncollectables		(36,163)	(17,744)
Net promises to give	$	380,613	364,903

Promises to give as of December 31, 2018, are due as follows:

Amounts due in:		
Less than one year	$	258,314
One to five years		182,877
	$	441,191

(j) Property and Equipment and Assets Under Capital Leases

Property and equipment and assets under capital leases are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets for property and equipment. Depreciation is being provided on the straight-line method over the shorter of estimated useful lives of assets, or the lease term for assets under capital leases. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	3-35 years
Buildings and improvements	5-75 years
Departmental equipment, furniture and fixtures	1-40 years
Furniture	5-25 years
Vehicles	4-5 years

(k) Costs of Borrowing

The average cost of capital during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of $306,725 and $788,836 was capitalized in 2018 and 2017, respectively.

(l) Funds Held in Trust by Others

The Corporation has been named as a beneficiary of several trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the Corporation is notified of the trust's existence. The Corporation receives the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trusts are reported as investment income, increasing net assets without donor restrictions.

Assets held in trust by others are valued based on the estimated fair value of the underlying investments. The change in the fair value of assets held in trust by others is reported as unrealized gains or losses on investments in change in net assets with donor restrictions.

Also included in funds held in trust by others are gift annuities and contributions receivable from charitable remainder trusts that are held by an independent trustee. Periodic payments are made until the death of the annuitant. These annuities are recorded at the present value of the annuity amount discounted at the contract rate over the estimated remaining life of the annuitant.

A summary of these funds as of December 31 is as follows:

		2018	2017
Beneficial interest in perpetual trusts	$	16,592,648	18,169,437
Gift annuities		15,565	15,528
Contributions receivable from remainder trusts		780,131	725,679
	$	17,388,344	18,910,644

(m) Derivatives and Hedging Activities

The Corporation utilized an interest rate swap agreement to hedge variable interest rates but elected not to elect hedge accounting for these agreements.

The Corporation's interest rate swap was carried as a liability as determined by a third party. Changes in fair value are reported on the consolidated statements of operations and changes in net assets as a component of change in net assets without donor restrictions. For 2018 and 2017, adjustments to the liability were recorded causing a gain of $5,950 and $27,084, respectively. These adjustments represent the decrease in the liability of the interest rate swap due to expiration or the change in value.

The interest rate swap expired on October 31, 2018.

(n) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. The Corporation incurred financing costs of $401,839 and $314,841, for the years ended 2018 and 2017, respectively. Amortization expense is expected to be $218,451, $154,223, $142,693, $140,976, and $140,220 for the next five years, respectively. Unamortized deferred financing costs are a direct deduction from the associated long-term debt included on consolidated statements of financial position.

(o) Workers' Compensation

Accrued expenses include a provision for estimated self-insured workers' compensation claims for both reported claims not yet paid and claims incurred but not reported.

(p) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits on the consolidated statements of financial position. These deposits are transferred to deferred revenue - entrance fees upon occupancy of the related units.

(q) Deferred Revenue – Entrance Fees

The Corporation follows the Financial Accounting Standards Board guidance regarding refundable entrance fees. This guidance clarified that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advanced fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability.

The Corporation does not amortize the guaranteed refundable portion of the entrance fees. This portion of the entrance fee is reflected as a liability on the consolidated statements of financial position. The amount of entrance fees guaranteed refundable to residents as of December 31, 2018 and 2017, under contractual refund provisions was $26,288,395 and $28,717,389, respectively.

(r) Obligation to Provide Future Service

The Corporation periodically calculates the present value of the net costs of future services and the use of facilities to be provided to current residents and compares that with the balance of deferred revenue - entrance fees. If the present value of the net costs of future services and the use of facilities exceeds deferred revenue - entrance fees, a liability is recorded with the corresponding change to income. As a result of the calculation, using a rate of 5.5%, the present value of the net cost of future services and use of facilities did not exceed deferred revenue - entrance fees; accordingly, no obligation was recorded for the years ended December 31, 2018 or 2017.

(s) Goodwill

Goodwill represents the excess of purchase price over fair value of the assets, management contracts, and staff of Springwood Property Management and the appraised value over the book value of the assets of Cathedral Village at the time of affiliation. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of the goodwill may not be recoverable. The Corporation qualitatively assesses goodwill for impairment prior to completing a quantitative analysis of potential goodwill impairment. Under the qualitative approach, the Corporation assesses the likelihood that the fair value is greater than the carrying value. If the Corporation determines that it is more likely than not that the fair value is greater than the carrying value, then the quantitative analysis is not required. No impairment was recognized in either of the years ended December 31, 2018 or 2017, as the Corporation concluded it was more likely than not that the fair value exceeded the carrying value.

(t) Deferred Energy Costs

In October 2014, Cathedral Village entered into an agreement to improve the efficiency and reduce the cost of its electric utility service by installing gas-fired turbines and associated equipment to provide electricity and hot water to a portion of Cathedral Village's facilities. The project was completed on April 15, 2016. Upon completion of the project, the equipment was transferred to Cathedral Village and Cathedral Village was then responsible to pay minimum quarterly payments of $94,322, increasing 1.3% on each contract anniversary date for twenty years, expiring in 2035. The amount of equipment transferred to Cathedral Village totaled $1,247,000 and is included in property and equipment. A corresponding long-term deferred energy cost was also recorded. The deferred energy cost is being amortized over the life of the agreement and is included in building operations and maintenance expense.

(u) Net Assets

Net assets, revenues and other losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets available for use subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

(v) Donor Restrictions

The Corporation reports gifts of cash and other assets as 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 the purpose to which the donation is restricted is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on 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 reflected as contributions without donor restrictions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as support without donor restriction 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 support with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions, including unconditional promises to give, are recognized as revenues when the promise to give is first made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

(w) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the residents and third-party payors monthly or several days after the services are performed or the resident is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

(w) Resident Services Revenue and Business Concentration (continued)

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the Corporation's facilities receiving skilled nursing care, assisted living services, personal care, independent living services or services performed in accordance with a resident agreement. The Corporation measures the performance obligation from admission to a level of care provided at the Corporation's facilities to the point when the Corporation is no longer required to provide services to that resident, which is generally at the time of discharge or satisfactory completion of nursing, personal care or assisted living services. Revenue for performance obligations satisfied at a point in time is generally recognized when services are provided to the resident in a retail setting (for example, pharmaceuticals and medical equipment), and the Corporation does not believe it is required to provide additional goods or services related to that sale.

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to residents in accordance with the Corporation's policy, or implicit price concessions provided to residents who qualify for charity care. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience with this class of residents.

Agreements with third-party payors provide for payments at amounts more or less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

(w) Resident Services Revenue and Business Concentration (continued)

- **Medicaid:** Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day or rates negotiated with Medicaid Managed Care organizations for facilities located in southwest Pennsylvania. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by Pennsylvania's Department of Human Services (DHS) on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2018, the rates for July 1, 2018, through March 31, 2019, have been finalized. In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DHS based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have been approved by CMS. For the years ended December 31, 2018 and 2017, the Corporation received or will receive approximately $3,900,000 for each year in additional revenue for the net effect of this assessment and supplement.

- **Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such challenges would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims. The Department of Housing and Urban Development (HUD) and tax credit entities' operations are concentrated in the multifamily senior rental real estate market. In addition, these entities operate in a heavily regulated environment. The operations of these entities are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Internal Revenue Service, Pennsylvania Housing Finance Agency (PHFA) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by a regulatory agency. Such changes may occur with little notice or inadequate funding to pay for the related cost to comply with a change, including the additional administrative burden.

(w) Resident Services Revenue and Business Concentration (continued)

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations.

As noted in Note (2)(y) Charity Care, services may be provided without charge or at amounts less then established rates, to residents who meet certain need-based criteria. Therefore, the Corporation has determined it has provided implicit price concessions to qualified residents for uninsured private pay balances. The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to residents and the amounts the Corporation expects to collect based on its collection history with those residents. Such amounts determined to qualify as charity are not reported as revenue.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured residents and offers those uninsured residents a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (Medicare, Medicaid, managed or other insurance) have different reimbursement and payment methodologies
- Length of the resident's stay or service
- Method of reimbursement (fee-for-service or capitation)
- The Corporation's line of business that provided the service - Skilled nursing, assisted living, personal care, independent living, outpatient, and affordable housing.

(w) Resident Services Revenue and Business Concentration (continued)

The composition of resident service revenue by payor and level of care for the year ended December 31, 2018, is as follows:

	Independent Living	Personal Care/Assisted Living	Health Center	Outpatient	Rental/ Affordable	Other	Total
Private Pay	$ 72,481,881	29,563,811	30,376,679	553,480	11,188,828	27,900	144,192,579
Medicare	1,859,568	3,252,770	39,948,820	17,485	—	—	45,078,643
Medicaid	—	—	46,545,477	355,991	—	—	46,901,468
Other	35,071	154	1,408,146	203,059	—	1,136,087	2,782,517
	$ 74,376,520	32,816,735	118,279,122	1,130,015	11,188,828	1,163,987	238,955,207

The composition of resident service revenue by payor and level of care for the year ended December 31, 2017, is as follows:

	Independent Living	Personal Care/Assisted Living	Health Center	Outpatient	Rental/ Affordable	Other	Total
Private Pay	$ 68,089,428	27,398,639	31,917,933	485,137	10,338,475	27,338	138,256,950
Medicare	1,614,764	2,132,232	40,482,337	16,312	—	—	44,245,645
Medicaid	—	—	45,687,511	422,807	—	—	46,110,318
Other	43,832	—	1,646,406	221,459	—	800,346	2,712,043
	$ 69,748,024	29,530,871	119,734,187	1,145,715	10,338,475	827,684	231,324,956

Revenues from Medicare and Medicaid represent approximately 38% and 39% of revenues for the years 2018 and 2017, respectively. Medicare and Medicaid receivables represent approximately 53% and 46% of accounts receivable as of December 31, 2018 and 2017, respectively.

(x) Low Income Housing Tax Credits

Presbyterian Senior Living is the majority managing general partner in nineteen limited partnerships which have been qualified and allocated low-income housing tax credits to construct living facilities for seniors pursuant to Internal Revenue Code Section 42 (“Section 42”), which regulates the use of the facilities as to the occupant income eligibility and the unit gross rent, among other requirements. The facilities must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits. In addition, the partnerships have each executed restrictive covenants which require utilization of the facilities pursuant to Section 42 for a minimum of 30 years.

(x) Low Income Housing Tax Credits (continued)

Sixteen of these partnerships have an investor limited partner which provides the majority of the funds required to construct the facilities in exchange for use of the tax credits. After fifteen years Presbyterian Senior Living has the right of first refusal to acquire all partnership interests at a price equal to the outstanding indebtedness of the partnership plus taxes related to the transfer. Four partnerships are fully owned by Presbyterian Senior Living as of December 31, 2018.

The amount of equity provided by the investor limited partners is included on the consolidated statements of financial position in net assets without donor restrictions as a non-controlling interest (labeled as tax credit equity), and the amount received in the current year on the consolidated statements of operations and changes in net assets as equity received from tax credit limited partners. As of December 31, 2018 and 2017, investor limited partners had committed an additional $64,943,572 and $63,657,325, respectively, of equity to these partnerships to be funded upon the achievement of specific requirements contained in the partnership agreements.

There are several low interest (below market) loans which have also been used to construct the facilities. The loans are not recourse to Presbyterian Senior Living, and also require Section 42 requirements to be met. Many of the loans require no interest or principal for an extended period as long as Section 42 requirements are met. Some are forgiven after the period of compliance has been completed. The details of these obligations are contained in Note 9.

As part of the allocation of low-income housing tax credits, funding agencies developer fees are awarded and earned based on specific requirements in the partnership agreements. These are included in the consolidated statements of operations and changes in net assets in net rental income and developers' fees.

(y) Charity Care

Charity care is measured based on the direct and indirect costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients, reasonable techniques are used to estimate these costs.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates, to residents who meet the certain need-based criteria. These criteria consider resident income and expenses, financial resources, state and federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from perpetually restricted trusts and investments designated to the needs of its residents under this policy.

(y) Charity Care (continued)

Amounts the Corporation provided and received for resident financial support are as follows for the years ended Decmeber 31:

		2018	2017
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	6,451,396	5,989,719
Additional benevolent care provided at amounts less than pre-established charges for private pay services		34,539,463	32,117,865
Giving and income designated for resident financial support		1,091,431	929,438

(z) Contributed Services

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material. The Corporation pays for most services requiring specific expertise.

(aa) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2018 and 2017, was $837,314 and $590,835, respectively.

(ab) Functional Allocation of Expenses

The cost of program and supporting services activities have been summarized on a functional basis in Note 19. This note presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(ac) Fundraising Expenses

Fundraising expenses incurred by the Corporation are included in fundraising on the consolidated statements of operations and changes in net assets.

(ad) Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets, which includes a performance indicator of operations labeled as "excess of revenues and other support over expenses and losses." Changes in net assets without donor restrictions which are excluded from this measure are equity received from tax credit limited partners, change in fair value of interest rate swap, loss on early extinguishment of debt, loss on impairment of asset, and loss on abandoned project.

(ae) Consolidated Statements of Cash Flows

Interest paid during the years ended December 31, 2018 and 2017, was $9,196,289 and $9,390,097, respectively.

(af) Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the presentation of 2018.

(ag) Subsequent Events

The Corporation has evaluated subsequent events through April 1, 2019, which is the date the consolidated financial statements were issued.

(3) Investments

The fair value of investments as of December 31 is as follows:

		2018	2017
Money market funds	$	68,616,058	21,798,113
Marketable equity securities		3,530,147	2,513,076
Equity securities		19,344,592	41,658,748
Fixed income securities		19,395,462	20,057,136
Alternative investments		26,168,910	24,038,498
		137,055,169	110,065,571
Less:			
Restricted deposits and funded reserves (Note 5)		(28,518,903)	(23,783,278)
Assets whose use is limited (Note 6)		(34,674,578)	(10,314,400)
Total investments	$	73,861,688	75,967,893

(4) Liquidity

The Corporation's financial assets available within one year of the consolidated statements of financial position date for general expenditures are as follows:

Cash and cash equivalents	$	3,759,797
Investments		73,861,688
Accounts receivable		20,305,572
Promises to give		380,613
	$	98,307,670

The Corporation's endowment fund consists of donor-restricted funds. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures.

As a part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Corporation invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs the Corporation has a committed lines of credit that total $24,500,000 (Note 10) that it draws upon as needed. As of December 31, 2018, the line of credit had approximately $5,000,000 left to draw upon.

(5) Restricted Deposits and Funded Reserves

As of December 31, restricted deposits and funded reserves which are carried at market value consisted of the following:

		2018	2017
Deposits restricted for low income housing projects	$	12,370,857	11,213,547
Statutory liquid reserves		14,414,768	10,790,048
Operating reserve fund		1,733,278	1,779,683
	$	28,518,903	23,783,278

(6) Assets Whose Use is Limited

As of December 31, assets whose use is limited which are carried at market value consisted of the following:

		2018	2017
Investments perpetually restricted by donor	$	5,381,082	5,255,338
Debt service reserve funds		748,331	2,447,335
Held by trustee - for future projects		25,737,965	—
Bond funds		2,143,503	1,851,729
Assets designated for renovation and charity care		663,697	759,998
	$	34,674,578	10,314,400

(7) Related Party Transactions

Prelude Systems, Inc. (Prelude) is a joint venture between the Corporation and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other health care and community service organizations. Presbyterian Senior Living's investment in Prelude is 46% and is accounted for under the equity method of accounting. It is included in investments in marketable equity securities and totaled $1,134,554 and $868,587 as of December 31, 2018 and 2017, respectively. During 2016, $350,000 of the initial investment in Prelude was converted from equity to debt on Prelude Systems, Inc. Presbyterian Senior Living reclassifiPHI ed this amount out of the marketable equity securities and recorded a note receivable for this amount. The debt was fully paid in 2017. During 2018 and 2017, Presbyterian Senior Living incurred expenses related to Prelude of approximately $2,070,000 and $2,100,000, respectively, for information technology services provided by Prelude, of which $235,579 and $224,772 was included in accounts payable as of December 31, 2018 and 2017, respectively. Presbyterian Senior Living's share of net income approximated $266,000 and $362,000 as of December 31, 2018 and 2017, respectively.

(7) Related Party Transactions (continued)

Following is summarized financial information of Prelude as of December 31:

		2018	2017
Assets	$	5,171,487	4,976,406
Liabilities		2,705,065	3,034,930
Equity		2,466,422	1,941,475
Sales		14,768,518	14,892,314
Net income		724,946	859,710

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation as of December 31, is as follows:

		2018	2017
Land	$	68,937,339	69,786,751
Land improvements		40,948,550	31,005,494
Buildings and improvements		678,400,716	635,299,127
Departmental equipment, furniture and fixtures		70,069,499	66,233,993
Vehicles		2,838,435	2,789,923
Construction-in-progress		13,394,709	35,916,395
		874,589,248	841,031,683
Accumulated depreciation		(357,692,916)	(330,671,975)
	$	516,896,332	510,359,708

As the Corporation undertakes expansion projects and improvement projects, costs are included in construction-in-progress. As projects are completed, the costs are transferred to buildings and building improvements. Ongoing improvement and expansion is anticipated in the normal course of operations.

Construction-in-progress consists of construction costs incurred for various renovation and expansion projects at the Corporation's existing facilities. As of December 31, 2018 and 2017, commitments for future construction totaled approximately $4,600,000 and $13,900,000, respectively.

(9) Long-term Debt

Long-term debt – senior living as of December 31 consisted of the following:

		2018	2017
1995 Series A Revenue Note to First National Bank, payable in equal monthly installments of principal and interest, interest sufficient to amortize the principal balance to July 2026, the note bears a floating interest rate which was 2.69% for December 31, 2018 and 2017, respectively, interest will be reset in three year increments	$	1,230,401	1,408,960
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable to First National Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023, the note bears a floating interest rate, interest will be reset in five year increments and was 1.76% as of December 31, 2018 and 2017		259,045	313,410
Cumberland County Municipal Authority Revenue Bonds Series 2003B, variable rate bonds, held by First National Bank, principal maturities in varying amounts from 2016 to 2032, interest fixed at 3.80% until 2024		5,970,000	6,285,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, held by Bank of America, principal and interest payable monthly on a 15-year amortization period, the final principal payment due October 31, 2018, variable interest of 1.89% as of December 31, 2017		—	786,533

(9) Long-term Debt (continued)

	2018	2017
Series 2005 College Township Revenue Bonds, held by First National Bank, payable in equal installments to include principal and interest through September 2026, the bonds bear a floating interest rate, which will reset in five year increments and was 3.67% as of December 31, 2018 and 2017	1,866,817	2,070,856
Cumberland County Municipal Authority Revenue Bonds Series 2008A, principal due in varying annual amounts from 2016 to 2021, interest rates ranging from 5.00% to 5.45%	1,465,000	2,860,000
Cumberland County Municipal Authority Revenue Bonds Series 2013A, held by Key Bank, principal due in varying annual amounts from 2016 to 2026, interest is fixed at 3.11%, interest will be reset in ten year increments	6,409,124	6,450,790
Cumberland County Municipal Authority Revenue Bonds Series 2008C, variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2016 to 2026, interest rates ranging from 3.80% to 4.00%	13,990,000	14,210,000
York County Industrial Development Authority Bonds Series 2010, held by First National Bank, principal due in varying annual amounts from 2016 to 2033, the bonds bear a floating interest rate, which resets in five year increments, and was 3.28% and 2.75% as of December 31, 2018 and 2017, respectively	15,546,584	16,491,574
Bank of America taxable ten year term loan, principal due in varying amounts, extended in 2016 to be due in December 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which resets in five year increments, and was 3.85% as of December 31, 2018 and 2017	10,425,752	10,815,456
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, held by M&T Bank, principal maturities based on a twenty year repayment schedule, interest is fixed for the first 120 months, subsequent interest rates will be reset in ten year increments, interest was 4.13% and 3.48% as of December 31, 2018 and 2017, respectively	7,266,737	7,698,905

(9) Long-term Debt (continued)

	2018	2017
Quincy Sewer Authority Revenue Bonds Series 2012, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the prinicpal balance to August 15, 2032, interest was fixed at 4.17% and 3.35% as of December 31, 2018 and 2017, respectively	7,535,950	7,957,979
Uwchlan Township Industrial Development Authority Revenue Note Series 2012, held by First National Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2032, interest is fixed at 3.50% until June 2022, interest rates will be reset in ten year increments	7,489,990	7,915,139
General Municipal Authority of the Township of Manheim Bond Series 2012, held by BB&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to September 2032, a call option is available at the lender's discretion in August 2022, interest is fixed at 2.75%, interest will be reset in seven year increments	7,442,100	7,880,256
Cumberland County Municipal Authority Revenue Bonds Series 2013B, held by Key Bank, principal due in varying annual amounts from 2013 to 2022, interest is fixed at 3.11% as of December 31, 2018 and 2017	3,800,886	4,025,886
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2013, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2033, interest was to be fixed at 3.60% until June 2023, however, interest was renegotiated in October 2018 to be fixed at 4.17% until 2033	7,977,035	8,382,453
Indiana County Industrial Development Authority Revenue Bonds Series 2013, held by BB&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to November 15, 2033, interest is fixed at 3.48% until 2020, interest rates will be reset in seven year increments	8,083,445	8,488,172

(9) Long-term Debt (continued)

	2018	2017
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2013, no principal payment due until April 2017, the bonds consist of term bonds which mature at various dates from April 2023 to April 2039, interest is fixed at 4.81%	8,720,000	2,630,000
Northampton and Blair County Industrial Development Authority Revenue Bonds Series 2014, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.63% until June 2024, interest will be reset in ten year increments	9,698,500	9,765,500
Blair County Hospital Authority Revenue Bonds Series 2014, tax exempt bonds, bank qualified debt, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.63% until June 2024, interest will be reset in ten year increments	9,698,500	9,765,500
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.92% until May 2025, interest rates will be reset in ten year increments	8,622,033	9,019,690
Northampton County Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.80% until May 2025, interest rates will be reset in ten year increments	8,652,579	9,053,410
People's Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 4.38% and 3.38% as of December 31, 2018 and 2017, respectively	4,185,389	4,727,681

(9) Long-term Debt (continued)

	2018	2017
First National Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 4.45% and 3.47% as of December 31, 2018 and 2017, respectively	4,214,999	4,751,266
Abington Township Industrial and Commercial Development Authority Revenue Bonds, Series 2015, held by First National Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to September 2035, interest is variable and was 2.35% as of December 31, 2018 and 2017, interest rates will be reset in five year increments	8,717,925	9,133,976
Cumberland County Municipal Authority Revenue Bonds Series 2015A, held by Bank of America, principal due in varying monthly amounts through maturity in December 2021, interest is fixed at 2.28%	5,040,358	6,645,376
Cumberland County Municipal Authority Revenue Bonds Series 2015B, held by Bank of America, principal due in varying annual amounts from 2016 to 2038, interest is fixed at 3.23% until 2025, interest rates will be reset in ten year increments	9,019,505	9,356,078
Cumberland County Municipal Authority Revenue Bonds Series 2015C and Series 2008C, held by Bank of America, principal due in varying amounts from 2015 to 2038, interest is variable and was 2.88% and 2.14 % as of December 31, 2018 and 2017, respectively	14,253,333	14,487,333
Quincy Sewer Authority Series 2016 bonds held by TD Bank, principal due in varying annual amounts from 2017 to 2042, interest is fixed at 2.40% until 2021, interest rates will be reset in five year increments	19,112,254	19,707,679

(9) Long-term Debt (continued)

	2018	2017
Bank of America taxable ten year term loan, principal due in varying amounts through 2034, due in May 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period, the bonds bear a floating interest rate which was 4.05% and 3.06% as of December 31, 2018 and 2017, respectively	3,943,262	4,198,489
Orrstown Bank, taxable five year term loan, principal and interest are payable in equal monthly installments of $100,483, interest is fixed at 4.15% until April 2022. Thereafter interest will be reset in five year increments.	12,286,492	12,959,863
Pennsylvania Economic Development Financing Authority Revenue Bonds, Series 2018, held by TD Bank, principal due in varying amounts from 2020 to 2044. The bonds bear a fixed rate of interest equal to 3.910% per annum multiplied by a margin rate factor, as of December 31, 2018, the rate was 3.91%	30,000,000	—
Enterprise Community Loan Fund unsecured loan, maximum loan amount of $700,000, principal and interest in varying amounts sufficient to amortize the outstanding balance to November 2023, interest is fixed at 3.0%	255,767	302,431
Enterprise Community Loan Fund unsecured loan, maximum loan amount of $800,000, principal and interest in varying amounts sufficient to amortize the outstanding balance to May 2024, interest is fixed at 3.0%	490,041	570,679

(9) Long-term Debt (continued)

	2018	2017
First National Bank loan, during the 12 months only interest was payable, after the 12 month period principal and interest payments sufficient to amortize the loan to October 2034, interest is fixed at 4.15%, will reset every five years	8,455,265	8,875,189
People's Bank bridge loan, principal was payable in full in August 2017, interest was due monthly and was fixed at 3.50% as of December 31, 2016. This loan was extended through November 28, 2019, with monthly payments of $10,457 beginning November 2017 payments are based on a 20 year amortization table, interest is fixed at 4.25% for two years.	1,616,270	1,670,723
Mortgage note payable, M&T Bank, up to $2,400,000 loan requires interest payments for the first 16 months followed by a 30 year term with option for a ten year call provision, interest rate of 4.37% and 3.74% as of December 31, 2018 and 2017, respectively	2,369,560	50,000
Mortgage note payable, M&T Bank, loan requires monthly principal payments in the amount of $14,334, plus interest, interest rate of 4.92% as of December 31, 2018	2,448,439	—
TD Bank construction loan, not to exceed $4,500,000, interest is payable monthly and bears a floating interest rate which was 3.96% at December 31, 2017. Loan was paid in full on May 30, 2018	—	4,000,000
	278,559,337	255,712,232
Plus: Unamortized premium	345,549	70,773
Less: Deferred financing costs	(1,932,961)	(1,855,448)
	$ 276,971,925	253,927,557

(9) Long-term Debt (continued)

Long-term debt – low income housing as of December 31 consisted of the following:

		2018	2017
HUD Flexible Subsidy Loans payable, principal balance due upon sale of the project building or upon full payment of the HUD mortgage, simple interest of 1.00% payable at the time of principal payments	$	1,671,580	1,671,580
Mortgage payable for building loan provided by HUD, monthly installments of principal and interest, interest rate of 3.00%		21,055	116,079
Construction loan, maximum of $200,000, provided by First National Bank of Pennsylvania, interest accrues at 2.09% per annum. Principal and interest are due on June 22, 2019		500	—
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing with principal payments being payable out of available cash flow as defined in the Tax Credit Assistance Program (TCAP) agreement. The loan is due April 11, 2042		1,831,168	1,831,168
Mortgage payable, County of York - Housing and Community Development Division, interest accrues at 1.00% per annum, principal will not be paid during the loan period unless the Corporation is found to be in default of any of the terms or conditions outlined in the loan agreement. The loan matures in 2041		1,000,000	1,000,000
Mortgage note payable, Chester County Department of Community Development, interest accrues at 1.00% per annum, compounding annually, interest of $89,143 and $79,707 has been added to the principal balance as of December 31, 2018 and 2017, respectively, principal and accrued interest are to be paid from excess revenue generated by the Westminster Place at Parkesburg project, commencing with the first full calendar year following construction completion, principal and interest will be due the earlier of September 21, 2039, termination of the partnership, refinancing of the project, sale of the project or upon default		953,144	943,707
Mortgage note payable, Chester County Department of Community Development, non-interest bearing with principal payments being deferred until September 21, 2039		641,500	641,500

(9) Long-term Debt (continued)

	2018	2017
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing, principal is payable out of available cash flow as defined in the TCAP agreement, loan is due May 5, 2041	1,301,310	1,307,460
Mortgage note payable, Redevelopment Authority of the County of Lancaster, interest accrues at 1.00% per annum on the unpaid principal balance, beginning January 1, 2013. Payment of principal and interest are deferred until the maturity date of August 27, 2042	1,000,000	1,000,000
Mortgage note payable, Pennsylvania Housing Finance Agency, monthly payments of principal and interest to equal $29,035 annually, interest at a rate of 6.25%, loan matures December 2034	288,705	299,333
PennHOMES loan, Pennsylvania Housing Finance Agency, non-interest bearing, principal payments to be made when operating cash flow is available for payment, as determined solely by PHFA, with 50% to repay principal on the loan and 50% to be returned on owner equity	1,255,365	1,272,665
PennHOMES loan, Pennsylvania Housing Finance Agency, non-interest bearing, principal payments to be made when operating cash flow is available for payment, as determined solely by PHFA, with 50% to repay principal on the loan and 50% to be returned on owner equity	983,410	1,009,060
Mortgage note payable, Redevelopment Authority of the County of Cumberland, non-interest bearing, 40 year term loan, payment deferred for 30 years. Principal will be payable out of excess revenues beginning after July 2030, with the remaining principal due July 2040	50,000	50,000
Mortgage note payable, Redevelopment Authority of the County of Cumberland, non-interest bearing, 40 year term loan, payment deferred for 30 years. Principal will be payable out of excess revenues beginning after July 2030, with the remaining principal due July 2040	50,000	50,000

(9) Long-term Debt (continued)

	2018	2017
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing, principal is payable out of available cash flow as defined in the TCAP agreement. The loan is due May 25, 2041.	5,511,662	5,511,662
Mortgages payable, County of York - Housing and Community Development Division, non-interest bearing, principal will not be paid during the loan period unless the Corporation is found to be in default of any of the terms or conditions outlined in the loan agreement. The loan matures in 2040	5,125,000	5,125,000
Mortgage note payable, M&T Bank, up to $1,600,000 loan requires interest payments for the first 16 months followed by a 30 year term with option for a 15 year call provision, interest rate of 3.72% and 3.14% as of December 31, 2018 and 2017, respectively	—	50,000
Mortgage note payable, Community Development Block Grant, non-interest bearing, deferred payment loan from the County of York	175,000	—
Mortgages payable, County of York - Housing and Community Development Division, accrues 1.00% interest per annum, with no principal payment required during the loan period unless the Corporation is found to be in default of any terms or conditions outlined in the loan agreement. The loan matures in January 2031	625,000	625,000
PennHOMES loan, Pennsylvania Housing Finance Agency, non-interest bearing, principal payments to be made when operating cash flow is available for payment, as determined solely by PHFA, with 50% to repay principal on the loan and 50% to be returned on equity to owners, 30 year term	455,481	477,781
Mortgage note payable, Pennsylvania Housing Finance Agency, monthly payments of principal and interest to equal $2,016, interest rate of 6.25%, with the loan maturing in December 2034	240,533	249,388

(9) Long-term Debt (continued)

	2018	2017
Mortgages payable, County of York - Housing and Community Development Division, accrues 1.00% interest annually, with no principal paid during the loan term provided the Corporation does not commit default. The loan matures April 19, 2034	1,035,000	1,035,000
Mortgages payable, County of York - Housing and Community Development Division, accrues 1.00% interest annually, with no principal payment required until 2037, as long as affordablilty is maintained	2,950,000	2,950,000
Mortgage payable provided through a HUD-insured Section 223(f) mortgage, note bears an interest rate of 3.69% annually and monthly payments in the amount of $11,358 are required, matures on August 1, 2048	2,455,523	2,500,310
Promissory note through the Preservation Through Smart Rehab Program, non-interest bearing with principal payments being required to be made from any surplus of revenues over expenses generated by the project after payment of all project costs during the calendar year as determined by PHFA, the note matures on the earliest of the date of sale of the project, date of termination of the project, or 2042	91,085	91,085
Peoples Security Bank and Trust mortgage loan, required monthly payments of $629, including interest of 3.25% with a balloon payment due on April 18, 2017, collateralized by land and buildings of the Shepherds of Monroe County. During 2017, this loan was extended until November 18, 2027. The extension calls for monthly payments of principal and interest of $1,133 and a new fixed rate of 4.50% for the next five years	98,679	107,551
Mortgage note payable to County of Monroe, bears no interest and all payments deferred until April 27, 2031, the note is collateralized by the land and building of the Shepherds of Monroe County	30,000	30,000
Mortgage note payable to County of Monroe, bears no interest and all payments deferred until October 16, 2034, the note is collateralized by the land and building of the Shepherds of Monroe County	30,000	30,000

(9) Long-term Debt (continued)

	2018	2017
Mortgage payable to County of Monroe, the note bears no interest, payments of principal deferred until maturity in 2031	240,000	240,000
Mortgage payable to ESSA Bank and Trust, interest at a rate of 7.00% per annum, requires monthly payments of principal and interest with a final maturity of April 2038	173,175	177,249
Open-end mortgage, County of Allegheny Department of Economic Development, non-interest bearing with principal payments being required to be made from any surplus of revenues over expenses generated by the project after payment of all project costs during the calendar year as determined by PHFA, the note matures on the earliest of the date of sale of the project, date of termination of the project, or 2044	350,000	350,000
Mortgage payable to County of York, bears no interest and payment of $25,000 is required to be paid each December 31 beginning in 2016 and continuing for 15 years, the loan is due December 2031	675,000	700,000
Mortgage note payable, Redevelopment Authority of the County of Lancaster, interest varies and is assessed at 4.65% on the unpaid principal balance at December 31, 2018. Monthly payment of principal and interest begin January 2018 until maturity in January 2048.	1,581,080	—
Construction loan payable to TD Bank in an amount not to exceed $4,500,000. The loan bears a floating interest rate which was 3.46% at December 31, 2017. The loan is due and payable on May 30, 2018	—	4,500,000
	32,889,955	35,942,578
Less: Deferred financing costs	(297,436)	(326,571)
	$ 32,592,519	35,616,007

All of the obligations above are collateralized by either property and equipment, gross revenues of the Corporation's consolidated affiliates, or by a letter of credit, and is tax exempt unless otherwise noted.

(9) Long-term Debt (continued)

Under the terms of the bond indentures, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indentures also place limits on additional borrowings and require the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants have been met or required waivers have been obtained as of December 31, 2018 and 2017.

During 2018, $6,320,000 of the Philadelphia Authority for Industrial Development Gross Revenue Bonds Series 2013 held in treasury by Presbyterian Homes, were resold.

Scheduled maturities for the five years subsequent to December 31, 2018, and thereafter for the senior living debt are as follows:

Years ending December 31,	Aggregate maturities
2019	$ 14,130,315
2020	14,966,225
2021	16,951,311
2022	17,168,726
2023	17,267,412
Thereafter	198,075,348
	$ 278,559,337

Scheduled maturities for the five years subsequent to December 31, 2018, and thereafter for low income housing debt are as follows:

Years ending December 31,	Aggregate maturities
2019	$ 147,762
2020	130,768
2021	135,987
2022	141,251
2023	146,781
Thereafter	32,187,406
	$ 32,889,955

(9) Long-term Debt (continued)

The Corporation entered into an interest rate swap agreement with Bank of America, which fixed the interest rate to be paid by the Corporation on the Kent County 2003B Bonds. The fair value of the interest rate swap liability as of December 31, 2017, was $5,950. The interest rate swap expired in October 2018.

(10) Lines of Credit

The Corporation has available various lines of credit with financial institutions. Interest rates on these lines of credit are variable based on the prime rate of the various financial institutions or the LIBOR rate. As of December 31, 2018 and 2017, under the line of credit agreements, the Corporation had available a maximum of $24,500,000 from the financial institutions. As of December 31, 2018 and 2017, the Corporation had $19,518,798 and $20,883,024, respectively, outstanding under these agreements at interest rates ranging from 4.12% to 5.25%.

(11) Leases

The Corporation is obligated under various capital leases for equipment and vehicles that expire at various dates through 2023, with interest rates ranging from 2.5% to 5.0%. The gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows as of December 31:

	2018	2017
Medical and office equipment	$ 2,732,132	1,837,391
Accumulated amortization	(1,835,502)	(1,514,784)
	$ 896,630	322,607

Amortization expense of $322,204 and $249,170 for the years ended December 31, 2018 and 2017, respectively, for the assets held under capital leases is included in depreciation expense on the consolidated statements of operations and changes in net assets.

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2018, follows:

2019	$ 403,710
2020	340,494
2021	186,241
2022	61,102
2023	44,133
	1,035,680
Amounts representing interest	(61,715)
	$ 973,965

(11) Leases (continued)

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2021. The future minimum lease payments under these operating leases are as follows as of December 31, 2018:

2019	$	148,705
2020		89,307
2021		36,063
	$	274,075

Rental expense under operating leases was $1,494,757 and $1,475,399 for the years ended December 31, 2018 and 2017, respectively.

(12) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary. Total annuities payable were $1,070,867 and $1,181,507 as of December 31, 2018 and 2017, respectively. The Corporation uses published mortality rate tables adopted by the Internal Revenue Service and an assumed discount rate of approximately 4% to 6% to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $1,679,000 and $1,760,611 as of December 31, 2018 and 2017, respectively, to satisfy annuities.

(13) Workers' Compensation Insurance

The Corporation has a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. In both 2018 and 2017, the Corporation maintained a surety bond for $3,000,000 in connection with this self-insurance program. As of December 31, 2018 and 2017, the Corporation has recorded an accrued expense of approximately $3,700,000 and $4,700,000, respectively, for workers' compensation claims. This accrual includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(14) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

(15) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2018	2017
Subject to expenditure for specified purpose:		
Caring Community	$ 78,209	60,059
Community Enhancement	509,785	926,553
	587,994	986,612
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	416,776	382,647
Gift annuities	15,565	15,528
Contributions receivable from remainder trusts	780,131	725,679
	1,212,472	1,123,854
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Educational Scholarship	30,633	20,717
Benevolent Care	321,909	240,500
Community Enhancement	153,547	157,783
	506,089	419,000
Subject to endowment spending policy and appropriation:		
Educational Scholarship	201,368	199,848
Benevolent Care	1,632,580	1,575,432
Community Enhancement	3,988,672	3,856,362
	5,822,620	5,631,642
Total endowments	6,328,709	6,050,642
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts	16,592,648	18,169,437
Trust assets held for the benefit of the Easton Home	830,086	830,086
	17,422,734	18,999,523
	$ 25,551,909	27,160,631

(15) Net Assets With Donor Restrictions (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Expiration of time restrictions	$ 124,706	185,430
Satisfaction of purpose restriction		
Caring Community	9,380	16,621
Community Enhancement	797,854	200,427
Restricted-purpose spending-rate distributions and appropriations		
Educational Scholarship	2,451	16,790
Benevolent Care	29,081	24,602
Community Enhancement	39,345	24,985
	$ 1,002,817	468,855

(16) Endowments

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence described in state laws.

(16) Endowments (continued)

Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

The Corporaiton classifies as net assets without donor restricitons internally designiated funds designated to function as endowments.

The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the year ended December 31, 2018:

		Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	$	452,747	6,050,643
Investment income		26,905	154,911
Contributions		212,261	194,032
Appropriation of endowment assets for expenditures		–	(70,877)
Endowment net assets, end of year	$	691,913	6,328,709

The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the year ended December 31, 2017:

		Without Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning of year	$	434,746	5,935,095
Investment income		13,407	99,397
Contributions		4,594	78,946
Appropriation of endowment assets for expenditures		–	(62,795)
Endowment net assets, end of year	$	452,747	6,050,643

(Continued)

(16) Endowments (continued)

The value of the original gifts plus subsequent gifts to be held in perpetuity totaled $5,825,674 and $5,631,642 for the year ended December 31, 2018 and 2017, respectively.

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as net assets without donor restrictions. The Corporation's policy states that should a fund fall below the orginal principal balance the Corporation would curtail spending in the fund until it returned to its orginal principal balances. There were no such deficiencies reported as of December 31, 2018 or 2017.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(16) Endowments (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2018 and 3.0% for 2017. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the endowment funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of endowment funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the fund balance that is with or without donor restrictions. In establishing this policy, the Corporation considered the long-term expected return on its endowments. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowments to grow at an average of inflation plus 1.0% annually. For both 2018 and 2017, an allocation of 4.0% and 3.0% percent, respectively of the prior year balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Retirement Plan

The Corporation has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2018 and 2017, retirement plan expense totaled approximately $0 and $1,870,000, respectively.

(18) Commitments and Contingencies

The Corporation is involved in several legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the final outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations or cash flows.

The low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

From time to time, the Corporation receives grant revenues for its low-income housing projects. These grant awards may require the projects to be maintained for a specified period of time. If the projects are not maintained for the required time period, a portion of the grant may be required to be repaid. Management recognizes these grants as revenue when received as it is expected that all of the grant award terms will be met.

(19) Functionalized Expenses

The consolidated statements of operations and changes in net assets report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis. Employee benefits and payroll taxes are allocated on the basis of total salaries and wages. Information technology and insurance are allocated on direct cost.

The costs of providing services and supporting activities are as follows for the year ended December 31, 2018:

		Resident Services	Management & General	Fundraising & Development	Total
Salaries and wages	$	85,206,551	10,355,085	482,332	96,043,968
Employee benefits		11,132,554	1,029,458	45,367	12,207,379
Payroll taxes		6,037,614	638,270	31,745	6,707,629
Professional services		7,870,951	1,439,524	10,023	9,320,498
Accounting fees		187,745	217,724	–	405,469
Legal fees		48,592	1,519,146	–	1,567,738
Advertising and promotion		794,680	500	42,134	837,314
Office expenses		5,129,766	4,166,299	62,856	9,358,921
Information technology		1,617,776	574,097	105,817	2,297,690
Occupancy		16,645,009	953,529	31,236	17,629,774
Travel		442,922	330,110	49,568	822,600
Conferences and meetings		59,988	95,398	4,048	159,434
Interest		8,522,680	1,037,545	40,758	9,600,983
Insurance		2,577,883	104,916	4,942	2,687,741
Training and development		572	150,796	–	151,368
Depreciation and amortization		26,740,509	722,067	14,936	27,477,512
Bad debt		39,840	3,229,241	–	3,269,081
Pharmacy		3,475,633	–	–	3,475,633
Medical supplies		3,553,938	–	–	3,553,938
Therapy services		16,947,372	–	–	16,947,372
Dietary services		6,211,492	–	–	6,211,492
Food, beverages and supplies		8,145,200	39,297	–	8,184,497
Maintenance and repairs		2,377,152	154,465	7,180	2,538,797
Total cost of services provided	$	213,766,419	26,757,467	932,942	241,456,828

(20) Financial Instruments

Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds, equity and fixed income securities was based on quoted market prices for the identical security.

Alternative investments: Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments which is based on net asset value per share as a practical expedient. Annual independent audits of each private investment partnership are provided and included in management's review.

Beneficial interest in perpetual trusts: Fair value of the beneficial interest in perpetual trusts is based on the Corporation's percent ownership of the trust assets, which approximate the value of estimated future cash flows to be received from the trust.

Contributions receivable from remainder trusts and gift annuities: Fair value of the contributions receivable from remainder trusts and gift annuities was based on the present value of future cash inflows.

Long-term debt: Long-term debt, lines of credit, and notes payable are carried at cost on the consolidated statements of financial position for notes payable, bonds payable and mortgages payable as of December 31, 2018 and 2017. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $330,968,090, and $312,941,924 as of December 31, 2018 and 2017, respectively. The carrying value of the long-term debt and notes payable on the consolidated statements of financial position approximate the fair value.

Interest rate swap: Fair values of the interest rate swap is based on the net present value of expected future cash flows of the difference between the fixed interest rate of the interest rate swap and the counterparty's forward yield curve. The forward yield curve is readily available in public markets or can be derived from information available in publicly quoted markets.

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments as of December 31, 2018 and 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying consolidated statements of financial position.

(20) Financial Instruments (continued)

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value as of December 31, 2018 or 2017.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2018, are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	68,616,058	68,616,058	–	–
Marketable equity securities		3,530,147	3,530,147	–	–
Mutual Funds:					
Equity		19,344,592	19,344,592	–	–
Fixed income		19,395,462	19,395,462	–	–
Alternative investments, at net asset value		26,168,910	–	–	–
Total investments		137,055,169	110,886,259	–	–
Beneficial interest in perpetual trusts		16,592,648	–	–	16,592,648
Gift annuities		15,565	–	–	15,565
Contributions receivable from remainder trusts		780,131	–	–	780,131
Total assets	$	154,443,513	110,886,259	–	17,388,344

(20) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2017, are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 21,798,113	21,798,113	–	–
Marketable equity securities	2,513,076	2,513,076	–	–
Mutual funds:				
Equity	41,658,748	41,658,748	–	–
Fixed income	20,057,136	20,057,136	–	–
Alternative investments, at net asset value	24,038,498	–	–	–
Total investments	110,065,571	86,027,073	–	–
Beneficial interest in perpetual trusts	18,169,437	–	–	18,169,437
Gift annuities	15,528	–	–	15,528
Contributions receivable from remainder trusts	725,679	–	–	725,679
Total assets	$ 128,976,215	86,027,073	–	18,910,644
Interest rate swap	$ (5,950)	–	(5,950)	–

(20) Financial Instruments (continued)

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31 is as follows:

Description		Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance as of December 31, 2016	$	718,301	16,506,469	15,516
Unrealized gains		7,378	1,662,968	12
Balance as of December 31, 2017		725,679	18,169,437	15,528
Unrealized gains (losses)		54,452	(1,576,789)	37
Balance as of December 31, 2018	$	780,131	16,592,648	15,565

Unrealized and realized gains on remainder trusts, gift annuities and perpetual trusts are held in net assets with donor restrictions in perpetuity on the consolidated statements of operations and change in net assets.