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

Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, 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 110 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 Chief Executive Officer Presbyterian Senior Living	Jeffrey J. Davis Chief Financial Officer Presbyterian Senior Living

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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, 2016 and 2015, 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., and Ross Presbyterian Senior Housing LP, affiliates of Presbyterian Senior Living, which statements reflect total assets constituting 20.13% and 21.39%, respectively, of consolidated total assets as of December 31, 2016 and 2015, and total operating revenues, gains, and other support constituting 4.13% and 4.12%, 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, 2016 and 2015, 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 7, 2017

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2016 and 2015

Assets		**2016**	**2015**
Cash and cash equivalents	$	4,439,267	5,494,932
Investments		70,115,096	84,443,062
Restricted deposits and funded reserves		22,771,744	21,286,053
Accounts receivable, net		25,714,396	23,393,034
Prepaid expenses and other current assets		3,523,343	3,996,007
Assets whose use is limited		9,997,271	9,652,215
Assets whose use is limited, construction funds		15,314,759	15,191,987
Pledges receivable, net		466,947	1,149,236
Property and equipment (net of accumulated depreciation of $305,229,720 and $289,331,650, respectively)		496,864,147	464,657,748
Assets under capital leases (net of accumulated amortization of $1,352,251 and $1,072,258, respectively)		434,901	484,189
Goodwill		3,551,908	3,551,908
Funds held in trust by others		17,240,286	16,994,815
Other assets		675,198	648,225
Total assets	$	671,109,263	650,943,411

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2016 and 2015

Liabilities and Net Assets		**2016**	**2015**
Accounts payable	$	16,983,252	18,547,236
Accrued expenses		17,364,923	18,265,304
Lines of credit		19,095,665	19,842,069
Accrued interest		1,588,783	1,534,711
Resident deposits		1,870,143	4,368,772
Entrance fees payable		31,107,698	33,899,017
Deferred revenue - entrance fees		99,877,965	87,521,447
Deferred energy costs		1,202,833	–
Fair value of interest rate swap		33,034	80,945
Annuities payable		1,382,246	1,472,341
Obligations under capital leases		460,129	520,452
Long-term debt - senior living		263,184,043	255,269,165
Long-term debt - low income housing		32,055,116	31,507,543
Total liabilities		486,205,830	472,829,002
Net assets:			
Unrestricted (including tax credit equity of $60,359,424 and $62,346,724, respectively)		159,549,775	151,887,025
Temporarily restricted		2,230,033	3,400,653
Permanently restricted		23,123,625	22,826,731
Total net assets		184,903,433	178,114,409
Total liabilities and net assets	$	671,109,263	650,943,411

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	2016	2015
Operating revenues, gains, and other support:		
Resident services, including amortization of		
entrance fees of $14,479,177 and $13,884,894, respectively	$ 224,604,743	207,357,991
Sales of other services and materials	37,637	97,483
Net rental income and developers' fees	783,518	766,234
Interest and dividend income	2,276,305	2,926,395
Realized loss on investments	(489,737)	(23,156)
Loss on sale of property and equipment and other assets	(416,617)	(8,162)
Contributions, gifts, grants and bequests	534,987	1,015,423
Net assets released from restrictions	2,332,510	2,540,277
Total operating revenues, gains, and other support	229,663,346	214,672,485
Expenses:		
Nursing services	55,536,047	50,309,312
Rehabilitation	14,248,170	13,735,163
Recreation and special services	6,218,375	5,735,542
Pharmacy	3,915,396	3,402,075
Social services	1,779,436	1,571,227
Physician services	687,973	573,599
Food services	24,843,265	21,956,450
Building operations and maintenance	31,195,413	28,577,626
Housekeeping	4,851,211	4,395,452
Laundry and linen	1,280,078	1,249,307
General and administrative	32,677,224	32,391,647
Employee benefits	16,033,278	14,268,622
Interest	7,645,474	7,571,896
Depreciation	24,083,832	21,191,626
Amortization	464,198	509,497
Fundraising and investment fees	1,231,907	1,195,580
Total expenses	226,691,277	208,634,621
Income from continuing operations	2,972,069	6,037,864
Discontinued operations:		
Discontinued operations, net of gain of $8,278,206 in 2015	–	8,418,006
Gain on discontinued operations	–	8,418,006
Operating income	2,972,069	14,455,870

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	2016	2015
Equity received from tax credit limited partners	2,526,708	9,309,053
Change in fair value of interest rate swap	47,911	196,719
Loss on early extinguishment of debt	(123,652)	(861,100)
Loss on abandoned project	(411,418)	–
Excess of operating revenues, gains and other support over expenses	5,011,618	23,100,542
Other changes:		
Unrealized gain (loss) on investments	2,651,132	(3,129,569)
Total other changes	2,651,132	(3,129,569)
Net assets, as adjusted for affiliation	–	9,291,850
Change in unrestricted net assets	7,662,750	29,262,823
Temporarily restricted net assets:		
Contributions, gifts, grants and bequests	899,518	1,500,871
Interest and dividend income	105,743	92,253
Unrealized gain (loss) on investments	156,629	(68,300)
Net assets, as adjusted for affiliation	–	637,138
Net assets released from restrictions	(2,332,510)	(2,540,277)
Change in temporarily restricted net assets	(1,170,620)	(378,315)
Permanently restricted net assets:		
Contributions, gifts, grants and bequests	119,484	400,912
Net assets, as adjusted for affiliation	–	2,424,292
Change in fair value of funds held in trust by others	177,410	(919,968)
Change in permanently restricted net assets	296,894	1,905,236
Change in net assets	6,789,024	30,789,744
Net assets, beginning of year	178,114,409	147,324,665
Net assets, end of year	$ 184,903,433	178,114,409

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	6,789,024	30,789,744
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Changes in net assets resulting from affiliation		–	(12,353,280)
Depreciation		24,083,832	21,191,626
Provision for bad debt		1,005,542	2,660,763
Proceeds from non-refundable entrance fees and deposits		32,115,776	30,236,124
Amortization of entrance fees		(14,479,177)	(13,884,894)
Loss on early extinguishment of debt		123,652	861,100
Change in fair value of interest rate swap		(47,911)	(196,719)
Unrealized (gain) loss on investments and change in fair value of funds held in trust by others		(2,985,171)	4,117,837
Realized loss on investments		489,737	23,156
Loss on sale of property and equipment and other assets		416,617	8,162
Contributions restricted for long-term purposes		(119,484)	(400,912)
Amortization of deferred costs		468,312	512,733
Amortization of bond premium		(4,114)	(3,236)
Gain on discontinued operations		–	(8,418,006)
Loss on abandoned project		411,418	–
Increase in deferred energy costs		(44,167)	–
Changes in assets and liabilities:			
Increase in accounts receivable		(3,301,677)	(1,538,019)
Increase in entrance fee receivable		(25,227)	(747,432)
Decrease (increase) in pledges receivable		682,289	(20,782)
Decrease in other assets		203,162	787,582
(Decrease) increase in accounts payable		(1,563,984)	5,658,390
Decrease in accrued expenses		(846,309)	(1,123,214)
Net cash provided by operating activities		43,372,140	58,160,723
Cash flows from investing activities:			
Acquisition of property and equipment, net of disposals		(55,821,978)	(58,038,817)
Net proceeds from sale of property and equipment		–	10,991,064
Cash acquired in affiliation		–	84,765
Purchases of investments		(75,340,717)	(70,444,866)
Proceeds from sale of investments		89,965,127	66,022,110
Net cash used in investing activities		(41,197,568)	(51,385,744)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(7,778,710)	(7,788,424)
Change in entrance fees payable		(2,791,319)	(3,606,665)
Principal payments on and redemptions of long-term debt		(12,764,545)	(15,434,523)
Proceeds from issuance of long-term debt		25,405,751	80,112,142
Refunding, refinancing or payoff of long-term debt		(4,435,209)	(46,238,166)
Purchase of treasury bonds		–	(7,569,497)
Financing costs incurred		(88,867)	(539,622)
Net repayments on note payable		–	(4,980,267)
Net repayments on lines of credit		(746,404)	(524,396)
Borrowings through capital leases		230,705	88,313
Repayments on capital leases		(291,028)	(231,831)
Contributions restricted for long-term purposes		119,484	400,912
(Decrease) increase in annuities payable		(90,095)	7,365
Net cash used in financing activities		(3,230,237)	(6,304,659)
Net (decrease) increase in cash and cash equivalents		(1,055,665)	470,320
Cash and cash equivalents, beginning of year		5,494,932	5,024,612
Cash and cash equivalents, end of year	$	4,439,267	5,494,932
Supplemental schedule of non-cash investing activities:			
Decrease in assets held for sale through change in property and equipment	$	–	39,724
Increase in goodwill by decrease in property and equipment upon affiliation	$	–	1,836,908
Increase in property and equipment through increase in deferred energy costs	$	1,247,000	–

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 (Note 8), 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.

On June 1, 2015, the Corporation sold Woodland Retirement Community, a continuing care retirement community within Presbyterian Homes in the Presbytery of Huntingdon.

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.

(1) General Information (continued)

The following table details the number of beds/units that the Corporation operates as of December 31, 2016:

	Total	Nursing Beds	Personal Care/ Assisted Living	Independent Living	HUD/ Tax Credit
Presbyterian Homes Obligated Group	3,089	1,103	511	1,475	—
Glen Meadows Retirement Community	268	31	36	201	—
Presbyterian Apartments	165	—	—	—	165
Geneva House	64	—	—	—	64
Tax Credit Entities	1,010	—	—	—	1,010
	4,596	1,134	547	1,676	1,239

(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 unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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 (x) herein.

(b) Income Taxes (continued)

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, 2013, 2014, and 2015, 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.

(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 2016 and 2015, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(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 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.

(e) Investments (continued)

A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2016 and 2015, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income (loss) consisted of the following for the years ended December 31:

		2016	2015
Interest and dividends	$	2,382,048	3,018,648
Realized loss on investments		(489,737)	(23,156)
Unrealized gain (loss) on investments and funds held in trust by others		2,985,171	(4,117,837)
	$	4,877,482	(1,122,345)

Investment expenses totaled $505,586 and $444,591 for the years ended December 31, 2016 and 2015, respectively, and have been included in fundraising and investment fees on the consolidated statements of operations and changes in net assets.

(f) Accounts Receivable

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

		2016	2015
Total accounts receivable	$	28,204,629	27,725,229
Less: allowance for doubtful accounts		(2,490,233)	(4,332,195)
Accounts receivable, net	$	25,714,396	23,393,034

(f) Accounts Receivable (continued)

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 2016, 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. Prior to the change, aged receivables older than six months were fully reserved. Under the new estimate, 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%

The impact of the change in estimate is a decrease to the allowance for doubtful accounts of $1,077,392.

(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 permanently restricted investments.

(i) Pledges Receivable

The Corporation records pledges due in more than one year at the net present value less a discounted uncollectable amount.

		2016	2015
Pledges receivable	$	522,598	1,214,170
Less: unamortized discount		(22,707)	(22,707)
Subtotal		499,891	1,191,463
Less: allowance for uncollectables		(32,944)	(42,227)
Net pledges receivable	$	466,947	1,149,236

Pledges receivable as of December 31, 2016, are due as follows:

Amounts due in:		
Less than one year	$	222,972
One to five years		299,626
	$	522,598

(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. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets.

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 $965,735 and $1,107,195 was capitalized in 2016 and 2015, 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 unrestricted net assets.

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 permanently restricted unrealized gains or losses on investments.

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:

		2016	2015
Beneficial interest in perpetual trusts	$	16,506,469	16,327,200
Gift annuities		15,516	15,523
Contributions receivable from remainder trusts		718,301	652,092
	$	17,240,286	16,994,815

(m) Derivatives and Hedging Activities

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

The Corporation's interest rate swap is 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 the excess of operating revenues, gains and other support over expenses. For 2016 and 2015, adjustments to the liability were recorded causing a gain of $47,911 and $196,719, respectively. These adjustments represent the decrease in the liability of the interest rate swap.

The terms of the remaining interest rate swap are described in Note 9.

(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 $88,867 and $539,622, for the years ended 2016 and 2015, respectively. Amortization expense is expected to be $208,339, $201,591, $178,544, $169,570, and $140,509 for the next five years, respectively. Guidance was issued that requires deferred financing costs related to a recognized debt liability to be presented on the consolidated statements of financial position as a direct deduction from the carrying amount of the related debt liability. The Corporation adopted this guidance during the year ended December 31, 2016 (Note 9).

(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, 2016 and 2015, under contractual refund provisions was $31,107,698 and $33,899,017, 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, 2016 or 2015.

(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, 2016 or 2015, 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 complete 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) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity, the interest and dividend income from which is used for the charitable purpose.

(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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted contributions in the accompanying consolidated financial statements.

(v) Donor Restrictions (continued)

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, 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 service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Pennsylvania and Maryland Medicaid, and other third-party payors for services rendered. The Corporation derives a portion of its revenues from federal and state reimbursement programs with a significant majority of state reimbursement from Pennsylvania's Department of Human Services (DHS).

The Corporation's nursing care facilities primarily derive their revenue from private-pay, Medicare and Medicaid. Private-pay rates are established on the basis of the cost of delivering services and competitive considerations and, as such, are essentially market driven. In contrast, Medicare and Medicaid payment rates are regulated by the federal and state governments. As a result, the industry is sensitive to related legislative changes and is affected by reductions in governmental spending for these programs.

Revenues from Medicare and Medicaid represent approximately 34% and 36% of revenues for 2016 and 2015, respectively. Medicare and Medicaid receivables represent approximately 43% and 51% of accounts receivable as of December 31, 2016 and 2015, respectively.

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

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. 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 and Maryland exposes it to the risk of changes in Medicaid reimbursement in the respective state. Rates, in Pennsylvania, are calculated by DHS on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2016, the rates for July 1, 2016, through December 31, 2016, have not been finalized. Revenues have been accrued based on proposed rates for these periods.

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

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, 2016 and 2015, the Corporation received or will receive approximately $2,000,000 and $2,100,000, respectively, in additional revenue for the net effect of this assessment and supplement.

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.

(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.

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. Three partnerships are fully owned by Presbyterian Senior Living as of December 31, 2016.

(x) Low Income Housing Tax Credits (continued)

The amount of equity provided by the investor limited partners is included on the consolidated statements of financial position in unrestricted net assets 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, 2016 and 2015, investor limited partners had committed an additional $60,359,424 and $62,346,724, 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 on the consolidated statements of operations and change in net assets in net rental income and developers' fees.

(y) Charity Care

The Corporation follows the FASB accounting standards update that provides improved disclosure about charity care. The amount of charity care disclosed in the consolidated financial statements 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, and these techniques are disclosed. Any funds received to offset or subsidize charity care services are also disclosed.

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, financials 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 permanently 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:

		2016	2015
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	5,560,364	4,679,538
Additional benevolent care provided at amounts less than pre-established charges for private pay services		28,584,172	25,088,598
Giving and income designated for resident financial support		1,055,737	1,083,300

(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, 2016 and 2015, was $563,388 and $557,758, respectively.

(ab) Classification of Expenses

Operating expenses incurred during the years ended December 31 are as follows:

		2016	2015
Program activities	$	192,782,146	175,047,394
General and administrative		33,182,810	32,836,238
Fundraising		726,321	750,989
	$	226,691,277	208,634,621

(Continued)

(ac) Fundraising Expenses

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

(ad) Operating Income

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include equity received from tax credit limited partners, change in the fair value of interest rate swap, loss on early extinguishment of debt, and loss on abandoned project.

(ae) 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 operating revenues, gains, and other support over expenses." Changes in unrestricted net assets which are excluded from this measure are unrealized gain (loss) on investments and net assets, as adjusted for affiliation.

(af) Consolidated Statements of Cash Flows

Interest paid during the years ended December 31, 2016 and 2015, was $8,557,137 and $8,536,627, respectively.

(ag) Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the presentation of 2016.

(ah) Subsequent Events

The Corporation has adopted the standard related to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through April 7, 2017, which is the date the consolidated financial statements were issued.

(3) Investments

The cost and fair value of investments as of December 31 are as follows:

	2016		2015	
	Market	**Cost**	**Market**	**Cost**
Money market funds	$ 36,486,943	36,486,943	42,849,272	42,849,272
Marketable equity securities	2,165,520	1,708,969	2,046,681	1,630,085
Equity securities	32,111,890	30,017,788	45,855,374	44,611,926
Fixed income securities	19,189,252	19,107,717	15,268,018	15,779,460
Alternate investments	28,245,265	19,161,408	24,553,972	16,499,068
	118,198,870	$ 106,482,825	130,573,317	$ 121,369,811
Less:				
Restricted deposits and funded reserves (Note 4)	(22,771,744)		(21,286,053)	
Assets whose use is limited (Note 5)	(25,312,030)		(24,844,202)	
Total investments	$ 70,115,096		84,443,062	

The Corporation invests in a variety of equity and fixed income mutual funds, other equity and fixed income securities, alternative investments, and money market funds.

As of December 31, 2016, seven mutual funds and fourteen other investments had a market value that had been below cost for less than a year. In total, their market value was less than three percent below cost. As of December 31, 2015, twenty-four mutual funds and twenty-four other investments had a market value that had been below cost for less than a year. In total, their market value was approximately eight percent below cost.

Twelve mutual funds and nine other investments had a market value that had been below cost for more than a year as of December 31, 2016. In total, their market value was less than five percent below cost.

Eleven mutual funds had a market value that had been below cost for more than a year as of December 31, 2015. In total, their market value was less than four percent below cost.

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2016, follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 12,631,911	(309,645)	13,543,181	(654,128)	26,175,092	(963,773)
Equity Securities	214,668	(16,997)	77,158	(3,779)	291,826	(20,776)
Total temporarily impaired investments	$ 12,846,579	(326,642)	13,620,339	(657,907)	26,466,918	(984,549)

A summary of investments with fair values below cost as of December 31, 2015, follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 30,884,914	(2,668,306)	7,193,254	(240,053)	38,078,168	(2,908,359)
Equity Securities	517,115	(44,048)	—	—	517,115	(44,048)
Total temporarily impaired investments	$ 31,402,029	(2,712,354)	7,193,254	(240,053)	38,595,283	(2,952,407)

(4) Restricted Deposits and Funded Reserves

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

	2016	2015
Deposits restricted for low income housing projects	$ 10,707,973	8,864,182
Statutory liquid reserves	10,187,204	10,616,069
Operating reserve fund	1,876,567	1,805,802
	$ 22,771,744	21,286,053

(5) Assets Whose Use is Limited

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

		2016	2015
Permanently restricted investments	$	5,176,393	4,783,247
Debt service reserve funds		2,423,697	2,758,943
Held by trustee - for future projects		15,314,759	15,191,987
Bond funds		1,361,480	1,092,120
Assets designated for renovation and charity care		694,303	696,134
Other reserves required by financing arrangements		341,398	321,771
	$	25,312,030	24,844,202

(6) 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 $506,459 and $570,530 as of December 31, 2016 and 2015, respectively. During 2016, $350,000 of the initial investment in Prelude was converted from equity to debt on Prelude Systems, Inc. Presbyterian Senior Living reclassified this amount out of the marketable equity securities and recorded a note receivable for this amount. The debt is payable over a ten year period. During 2016 and 2015, Presbyterian Senior Living incurred expenses related to Prelude of approximately $2,130,000 and $2,231,000, respectively, for information technology services provided by Prelude, of which $221,105 and $232,337 was included in accounts payable as of December 31, 2016 and 2015, respectively.

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

		2016	2015
Assets	$	4,879,763	3,920,698
Liabilities		3,797,995	2,715,989
Equity		1,081,768	1,204,709
Sales		13,307,849	11,924,052
Net income		577,056	246,107

(7) Property and Equipment

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

		2016	2015
Land	$	66,218,964	61,149,816
Land improvements		28,183,607	27,672,648
Buildings and improvements		594,100,836	540,694,937
Departmental equipment, furniture and fixtures		62,567,807	60,806,619
Vehicles		2,778,072	2,896,394
Construction-in-progress		48,244,581	60,768,984
		802,093,867	753,989,398
Accumulated depreciation		(305,229,720)	(289,331,650)
	$	496,864,147	464,657,748

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, 2016 and 2015, commitments for future construction totaled approximately $12,300,000 and $24,700,000, respectively.

In 2015, management sold the last of six rental properties that were all located within the Glen Meadows Retirement Community. The final unit was sold for approximately $180,000 and a gain of $20,404 was recognized.

On June 1, 2015, the Corporation sold Woodland Retirement Community for approximately $10,811,000 and recognized a gain of $8,278,206.

For the year ended December 31, 2015, Woodland Retirement Community's gain consisted of:

		2015
Depreciation	$	(134,760)
Interest		(15,880)
Amortization		(2,940)
Other expenditures, net of gain of $8,278,206		8,571,586
Total gain on discontinued operations	$	8,418,006

(8) Affiliation

On June 1, 2015, with the consent of the Board of Directors of Cathedral Village, Cathedral Village affiliated with the Corporation and the Presbyterian Homes Obligated Group. The Corporation elected to account for the affiliation using the pushdown method of accounting, whereby Cathedral Village's property and equipment were adjusted to fair value based on an appraisal.

The following is a summary of the identifiable and intangible assets on the affiliation date**:**

Land and land improvements	$	10,504,338
Buildings and improvements		18,177,654
Furniture and equipment		1,081,100
Goodwill		1,836,908
Fair value of identifiable and intangible assets	$	31,600,000

Goodwill represents the intangible assets associated with Cathedral Village and includes the right to use the name Cathedral Village, value of occupied beds at the community, medical records, staff of Cathedral Village, reputation in the community, 133 skilled nursing bed licenses, and any other intangibles of the business.

The following are the amounts recognized by the Corporation on the affiliation date, for each major class of assets and liabilities as a result of required not-for-profit accounting principles related to affiliations:

Assets		
Cash and operating investments	$	740,588
Accounts and pledges receivable, net		1,172,303
Prepaid expenses and other current assets		554,871
Investments and assets whose use is limited		13,263,133
Property and equipment		31,600,000
Deferred financing costs, net		475,847
Beneficial interest in perpetual trusts		2,419,343
Total assets		50,226,085
Liabilities		
Accounts payable		216,906
Accrued expenses		3,248,610
Refundable deposits from prospective residents		1,106,249
Long-term debt		14,053,937
Deferred revenue from advanced fees		19,247,103
Total liabilities		37,872,805
Gain recognized	$	12,353,280

(9) Long-term Debt

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

		2016	2015
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 2.05% as of December 31, 2016 and 2015, interest will be reset in three year increments	$	1,585,305	1,759,820
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, 2016 and 2015		366,827	419,285
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 converted to a fixed rate of 3.8% on January 2, 2015		6,590,000	6,885,000
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 1.35% and 0.99% as of December 31, 2016 and 2015, respectively		1,614,039	2,345,544
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2003A, principal maturities due in varying amounts from 2003 to 2034, the bonds consist of term bonds which will mature on April 1, 2023, at a fixed interest rate of 6.25% and on April 1, 2034, at a fixed rate of 6.875%		—	405,000
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2003B, principal maturities due in varying amounts from 2003 to 2034, the bonds bear a floating interest rate, interest will be reset in five year increments and was 5.50% as of December 31, 2015		—	230,000

(9) Long-term Debt (continued)

	2016	2015
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% and 3.83% as of December 31, 2016 and 2015, respectively	2,267,450	2,455,176
Cumberland County Municipal Authority Revenue Bonds Series 2008A, principal due in varying annual amounts from 2015 to 2021, interest rates ranging from 4.00% to 5.45%	4,190,000	5,455,000
Cumberland County Municipal Authority Revenue Bonds Series 2013A, held by Key Bank, principal due in varying annual amounts from 2015 to 2026, interest is fixed at 3.11%, interest will be reset in ten year increments	6,475,790	6,500,790
Cumberland County Municipal Authority Revenue Bonds Series 2008C, variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2015 to 2026, interest rates ranging from 3.82% to 4.00%	14,485,000	14,730,000
York County Industrial Development Authority Bonds Series 2010, held by First National Bank, principal due in varying annual amounts from 2013 to 2033, the bonds bear a floating interest rate, which resets in five year increments, and was 2.75% as of December 31, 2016 and 2015	17,324,552	18,066,102
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% and 3.13% as of December 31, 2016 and 2015, respectively	11,192,409	11,550,340
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 3.48% as of December 31, 2016 and 2015	8,112,544	8,512,486

(9) Long-term Debt (continued)

	2016	2015
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 principal balance to August 15, 2032, interest is fixed at 3.35% until 2022, subsequent interest rates will be reset in ten year increments	8,366,919	8,761,419
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 3.5% until June 2022, interest rates will be reset in ten year increments	8,325,485	8,720,498
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 in seven year increments	8,306,378	8,720,091
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, 2016 and 2015	4,250,886	4,475,886
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 is fixed at 3.6% until June 2023, interest rates will be reset in ten year increments	8,769,264	9,142,942
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	8,878,888	9,254,375

(9) Long-term Debt (continued)

	2016	2015
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%	2,635,000	2,635,000
First National Bank taxable fifteen year term loan, principal and interest is payable in equal quarterly installments of $99,063 through maturity in April 2029, interest is fixed at 4.80%	—	3,903,686
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 3.24% until June 2024, interest will be reset in ten year increments	9,832,500	9,899,500
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 3.24% until June 2024, interest will be reset in ten year increments	9,832,500	9,899,500
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	9,407,118	9,782,480
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	9,443,923	9,822,770
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 2.63% and 2.25% as of December 31, 2016 and 2015, respectively	5,273,304	5,819,138

(9) Long-term Debt (continued)

	2016	2015
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 2.87% and 2.34% as of December 31, 2016 and 2015, respectively	5,288,549	5,822,120
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, 2016 and 2015, interest rates will be reset in five year increments	9,540,239	9,936,269
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%	8,214,250	9,747,789
Cumberland County Municipal Authority Revenue Bonds Series 2015B, held by Bank of America, principal due in varying annual amounts from 2015 to 2038, interest is fixed at 2.99% until 2025, interest rates will be reset in ten year increments	9,682,814	10,000,000
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 1.72% and 1.47 % as of December 31, 2016 and 2015, respectively	14,721,333	14,955,333
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	20,000,000	—

(9) Long-term Debt (continued)

	2016	2015
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 2.32% as of December 31, 2016	4,433,949	—
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.70% and 0.01% as of December 31, 2016 and 2015, respectively, collateralized by letter of credit	2,690,000	2,835,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.70% and 0.35% as of December 31, 2016 and 2015, respectively, collateralized by letter of credit	11,165,000	11,670,000
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%	347,698	391,580
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%	648,904	724,729

(9) Long-term Debt (continued)

		2016	2015
Metro Bank construction loan, during the first twelve months only interest was payable, after the twelve month period principal and interest payments sufficient to amortize the loan to October 2034, interest is fixed at 4.1%, will reset every five years		9,237,817	9,584,655
People's Bank bridge loan, principal payable in full in August 2017, interest is due monthly and fixed at 3.50%		1,680,000	1,680,000
		265,176,634	257,499,303
Plus: Unamortized premium		74,013	78,127
Less: Deferred financing costs		(2,066,604)	(2,308,265)
	$	263,184,043	255,269,165

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

		2016	2015
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% 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%		208,297	297,791
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 1.0% 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

(9) Long-term Debt (continued)

	2016	2015
Mortgage note payable, Chester County Department of Community Development, interest accrues at 1.0% per annum, compounding annually, interest of $70,363 and $61,112 has been added to the principal balance as of December 31, 2016 and 2015, 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	934,363	925,112
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
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	1,320,810	1,338,110
Mortgage note payable, Redevelopment Authority of the County of Lancaster, interest accrues at 1.0% 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	309,319	318,701
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	1,306,015	1,341,715
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	1,045,760	1,070,260

(9) Long-term Debt (continued)

	2016	2015
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
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.	5,529,112	5,541,162
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 $1.6 million 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 3.1375% as of December 31, 2016	50,000	—
Mortgage note payable, M&T Bank, up to $2.4 million 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 3.0687% as of December 31, 2016	50,000	—
Mortgage note payable, Susquehanna Bank, monthly payments of principal and interest to equal $4,813, interest at a rate of 8.4%. The note is due October 2017	488,983	504,289

(9) Long-term Debt (continued)

	2016	2015
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% 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	524,581	570,081
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	257,708	265,524
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% 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% 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	2,543,475	2,585,081
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

(Continued)

(9) Long-term Debt (continued)

	2016	2015
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	111,830	115,216
Mortgage note payable to County of Monroe, interest at a rate of 0%, 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, interest at a rate of 0%, 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
Mortgage payable to County of Monroe, the note bears no interest, payments of principal deferred until maturity 2031	240,000	240,000
Mortgage payable to ESSA Bank and Trust, interest at a rate of 7% per annum, requires monthly payments of principal and interest with a final maturity of April 2038	181,015	184,560
Open-end mortgage, County of Allegeheny 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, interest at a rate of 0%, 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	725,000	—
	32,306,601	31,777,935
Less: Deferred financing costs	(251,485)	(270,392)
	$ 32,055,116	31,507,543

(9) Long-term Debt (continued)

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.

During 2014, $10,000 of the Cumberland County 2005A Bonds that were previously repurchased were sold. In 2015, the remaining $30,000 of the Cumberland County 2005A Bonds were sold. In 2015, $6,540,000 of the Philadelphia Authority for Industrial Development Gross Revenue Bonds Series 2013 Bonds were purchased and are being held with the option to remarket at a future date.

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 as of December 31, 2016 and 2015. The Corporation has two outstanding letters of credit as of December 31, 2016 and 2015, for Glen Meadows Retirement Community. These letters of credit expire in March 2018.

In 2016, the Obligated Group refunded and replaced the Philadelphia Authority for Industrial Development Series 2003A and 2003B Bonds, together with the First National Bank 15 year term loan. A loss on the extinguishment of debt in the amount of $123,652 was recorded in 2016, representing the write-off of the unamortized debt issuance costs on this debt.

In 2015, the Corporation refunded and replaced the Cumberland County 1993A, 2005A and 2008B and the Montgomery County 1997 and 2008A Bonds and acquired a portion of the Philadelphia 2013 Bonds. A loss on the extinguishment of debt in the amount of $1,867,934 was recorded in 2015, representing the write-off of the unamortized debt issuance costs, discount and premium on the original purchase.

During 2015, the County of York forgave Shrewsbury Courtyards Associates, LP's HOME loan in the amount of $850,000. The county also forgave all of the accrued interest on the loan, which totaled $156,834. The total amount forgiven, $1,006,834, was recorded as a gain on extinguishment of debt.

(9) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2016, and thereafter for the senior living debt are as follows:

Years ending December 31,		Aggregate maturities
2017	$	15,093,705
2018		14,004,372
2019		13,862,949
2020		13,922,511
2021		15,859,322
Thereafter		192,433,775
	$	265,176,634

Scheduled maturities for the five years subsequent to December 31, 2016, and thereafter for low income housing debt are as follows:

Years ending December 31,		Aggregate maturities
2017	$	286,743
2018		182,311
2019		113,225
2020		97,361
2021		102,884
Thereafter		31,524,077
	$	32,306,601

(9) Long-term Debt (continued)

The Corporation has entered into an interest rate swap agreement with Bank of America, which fixes the interest rate to be paid by the Corporation on the Kent County 2003B Bonds as follows:

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$1,614,039	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

The fair values of the interest rate swap liability as of December 31 are as follows:

Counterparty	Fair Value 12/31/2016	Fair Value 12/31/2015
Bank of America	$ 33,034	$ 80,945

Pursuant to this agreement, the intermediary assumes the risk of varying interest rates, with the difference between the weekly variable rates and the fixed rate above being either paid by, or reimbursed to, the Corporation. As discussed in Note 2, the interest rate swap agreement is reported at fair value.

(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, 2016 and 2015, under the line of credit agreements, the Corporation had available a maximum of $21,750,000 from the financial institutions. As of December 31, 2016 and 2015, the Corporation had $19,095,665 and $19,842,069, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 3.38%.

(11) Leases

The Corporation is obligated under various capital leases for equipment and vehicles that expire at various dates through 2020, 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:

	2016	2015
Medical and office equipment	$ 1,787,152	1,556,447
Accumulated amortization	(1,352,251)	(1,072,258)
	$ 434,901	484,189

Amortization expense of $279,993 and $290,858 for the years ended December 31, 2016 and 2015, 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, 2016, follows:

2017	$ 253,271
2018	139,432
2019	73,397
2020	7,600
	473,700
Amounts representing interest	(13,571)
	$ 460,129

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2019. The future minimum lease payments under these operating leases are as follows as of December 31, 2016:

2017	$ 202,322
2018	112,534
2019	23,588
	$ 338,444

Rental expense under operating leases was $1,563,102 and $1,451,173 for the years ended December 31, 2016 and 2015, 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 $1,382,246 and $1,472,341 as of December 31, 2016 and 2015, 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 $2,021,007 and $2,066,301 as of December 31, 2016 and 2015, 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 2016 and 2015, the Corporation maintained a surety bond for $3.0 million in connection with this self-insurance program. As of December 31, 2016 and 2015, the Corporation has recorded an accrued expense of approximately $4.18 million and $4.04 million, 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.

(Continued)

(15) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

		2016	2015
Charity care and/or equipment, including pledges receivable:			
Endowment	$	527,073	1,501,185
Other		1,203,517	1,468,083
Gift annuities		359	368
Contributions receivable from remainder trusts		499,084	431,017
	$	2,230,033	3,400,653

Net assets of $2,332,510 and $2,540,277 were released from restriction during 2016 and 2015, respectively, in satisfaction of the above restrictions.

(16) Permanently Restricted Net Assets

Permanently restricted net assets are allocated for the following purposes as of December 31:

		2016	2015
Investments to be held in perpetuity, the income from which is expendable to support:			
Operations	$	2,136,348	2,091,355
Scholarships		80,939	71,307
Charity care and/or equipment		3,335,411	3,270,553
Trust assets held for the benefit of The Easton Home		830,086	830,086
Contributions receivable from remainder trusts		219,217	221,075
Gift annuities		15,157	15,155
Beneficial interest in perpetual trusts		16,506,467	16,327,200
	$	23,123,625	22,826,731

(17) 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. 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

(17) Endowments (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,501,185	5,433,214	6,934,399
Investment return:			
Investment income	96,289	–	96,289
Contributions	39,455	119,484	158,939
Appropriation of endowment assets for expenditures	(1,109,856)	–	(1,109,856)
Endowment net assets, end of year	$ 527,073	5,552,698	6,079,771

The following schedule represents the changes in endowment net assets for the year ended December 31, 2015:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 276,191	5,242,793	5,518,984
Investment return:			
Investment income	100,763	–	100,763
Contributions	603,229	190,421	793,650
Appropriation of endowment assets for expenditures	(116,136)	–	(116,136)
Other changes			
Adjustments for affiliation	637,138	–	637,138
Endowment net assets, end of year	$ 1,501,185	5,433,214	6,934,399

(17) Endowments (continued)

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 unrestricted net assets. There were no such deficiencies reported as of December 31, 2016 or 2015.

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.

(17) 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 3.0% for both 2016 and 2015. 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 unrestricted or temporarily restricted fund balance. 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 one percent annually. For both 2016 and 2015 an allocation of three percent 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.

(18) Retirement Plan

Prior to affiliation, Cathedral Village had a 401(k) plan with employee-directed investment options and loan features. Employees who completed three months of service and had reached the age of 21 were eligible to make voluntary contributions to the plan. Cathedral Village matched contributions for employees who had met the eligibility requirements. Non-elective employer contributions covered employees who were eligible based on the age requirement or after completing 1,000 hours of service, whichever came later. On June 5, 2015, the Board of Directors of Cathedral Village approved merging this plan into the Corporation's plan effective December 31, 2015.

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, 2016 and 2015, retirement plan expense totaled approximately $1,865,000 and $1,781,000, respectively.

(19) 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.

(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. 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.

(Continued)

(20) Financial Instruments (continued)

Long-term debt: Long-term debt 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, 2016 and 2015. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $317,113,042 and $309,717,886 as of December 31, 2016 and 2015, 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, 2016 and 2015, does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying consolidated statements of financial position.

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, 2016 or 2015.

(Continued)

(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, 2016, are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	36,486,943	36,486,943	–	–
Marketable equity securities		2,165,520	2,165,520	–	–
Equity securities		32,111,890	32,111,890	–	–
Fixed income securities		19,189,252	19,189,252	–	–
Alternative investments		28,245,265		–	28,245,265
Total investments		118,198,870	89,953,605	–	28,245,265
Beneficial interest in perpetual trusts		16,506,469	–	–	16,506,469
Gift annuities		15,516	–	–	15,516
Contributions receivable from remainder trusts		– 718,301	–	–	718,301
Total assets	$	135,439,156	89,953,605	–	45,485,551
Interest rate swap	$	(33,034)	–	(33,034)	–

(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, 2015, are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	42,849,272	42,849,272	–	–
Marketable equity securities		2,046,681	2,046,681	–	–
Equity securities		45,855,374	45,855,374	–	–
Fixed income securities		15,268,018	15,268,018	–	–
Alternative investments		24,553,972	–	–	24,553,972
Total investments		130,573,317	106,019,345	–	24,553,972
Beneficial interest in perpetual trusts		16,327,200	–	–	16,327,200
Gift annuities		15,523	–	–	15,523
Contributions receivable from remainder trusts		652,092	–	–	652,092
Total assets	$	147,568,132	106,019,345	–	41,548,787
Interest rate swap	$	(80,945)	–	(80,945)	–

(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		Alternative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance as of December 31, 2014	$	21,824,952	650,543	14,607,755	15,503
Unrealized gains (losses)		624,242	1,549	(915,337)	20
Adjustment for affiliation		–	–	2,424,292	–
Distributions		(2,045,234)	–	–	–
Contributions		3,866,140	–	210,490	–
Realized gains		283,872	–	–	–
Balance as of December 31, 2015		24,553,972	652,092	16,327,200	15,523
Unrealized gains (losses)		1,040,333	66,209	179,269	(7)
Distributions		(1,552,203)	–	–	–
Contributions		4,203,163	–	–	–
Balance as of December 31, 2016	$	28,245,265	718,301	16,506,469	15,516

Unrealized and realized gains (losses) on alternative investments are reported as unrestricted and remainder trusts, gift annuities and perpetual trusts are permanently restricted on the consolidated statements of operations and change in net assets.