PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Financial Statements

December 31, 2017 and 2016

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN HOMES OBLIGATED GROUP

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the combined financial statements of the Presbyterian Homes Obligated Group as of December 31, 2017 and 2016, 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.

Combined financial statements report our financial positions 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 combined financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Combined 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 ministry that has served older persons in the name of Christ for the past 111 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 Homes Obligated Group

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group) which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Presbyterian Homes Obligated Group as of December 31, 2017 and 2016, 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.

Basis of Combination

We draw attention to Note 2(a) of the combined financial statements, which describes the basis of combination. The combined financial statements are prepared by the Presbyterian Homes Obligated Group to include only those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-ninth supplemental indenture dated May 1, 2016. The consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates, have been issued to its Board of Trustees as the consolidated financial statements of the primary reporting entity.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 12, 2018

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2017 and 2016

Assets		**2017**	**2016**
Cash and cash equivalents	$	950,523	1,387,605
Investments		73,924,560	68,169,601
Statutory liquid reserves		10,790,048	10,187,204
Accounts receivable, net		23,123,294	23,669,105
Prepaid expenses and other current assets		2,860,426	2,765,954
Assets whose use is limited		9,262,604	8,677,793
Assets whose use is limited, construction funds		–	15,314,759
Pledges receivable, net		364,903	446,947
Assets held for sale		229,927	–
Property and equipment (net of accumulated depreciation of $249,345,994 and $230,413,839, respectively)		351,683,760	348,321,907
Assets under capital leases (net of accumulated amortization of $1,129,078 and $947,830, respectively)		279,974	356,838
Due from affiliates, net		75,986,437	71,221,290
Funds held in trust by others		18,910,644	17,240,286
Goodwill		1,836,908	1,836,908
Other assets		24,812	23,752
Total assets	$	570,228,820	569,619,949

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2017 and 2016

Liabilities and Net Assets		**2017**	**2016**
Accounts payable	$	6,697,545	14,593,760
Accrued expenses		14,256,549	14,389,855
Lines of credit		15,883,024	14,095,665
Accrued interest		677,202	837,278
Resident deposits		2,008,554	1,214,113
Entrance fee payable		14,526,588	16,142,659
Deferred revenue - entrance fees		101,183,882	95,689,193
Deferred enery costs		1,140,481	1,202,833
Fair value of interest rate swap		5,950	33,034
Annuities payable		700,820	861,479
Long-term debt:			
Obligations under capital leases		288,606	379,981
Long-term debt		225,780,690	237,739,659
Total liabilities		383,149,891	397,179,509
Net assets:			
Unrestricted		160,888,931	148,051,580
Temporarily restricted		1,991,574	1,925,316
Permanently restricted		24,198,424	22,463,544
Total net assets		187,078,929	172,440,440
Total liabilities and net assets	$	570,228,820	569,619,949

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

		2017	2016
Operating revenues, gains and other support:			
Resident services, including amortization of entrance fees of $15,074,966 and $13,657,812, respectively	$	207,427,477	202,058,753
Interest and dividend income		2,688,656	2,155,566
Realized gain (loss) on investments		3,713,574	(524,632)
Gain on sale of property and equipment and other assets		21,064	553,778
Contributions, gifts and bequests		1,916,343	332,132
Net assets released from restrictions		431,603	2,314,669
Total operating revenues, gains and other support		216,198,717	206,890,266
Expenses:			
Nursing services		56,292,409	53,260,841
Rehabilitation		14,262,438	13,711,336
Recreation and special services		5,673,398	5,586,828
Pharmacy		3,997,420	3,810,468
Social services		1,004,666	895,843
Physician services		704,071	662,973
Food services		22,820,663	22,881,311
Building operations and maintenance		23,152,327	22,438,710
Housekeeping		4,359,469	4,436,616
Laundry and linen		1,244,704	1,230,590
General and administrative		33,292,481	30,746,126
Employee benefits		13,500,541	13,398,009
Interest		7,226,199	6,640,618
Depreciation		19,176,745	17,733,907
Fundraising and investment fees		962,433	1,036,362
Total expenses		207,669,964	198,470,538
Income from continuing operations		8,528,753	8,419,728
Change in fair value of interest rate swap		27,084	47,911
Loss on early extinguishment of debt		–	(123,652)
Loss on abandoned project		(115,567)	(411,418)
Excess of operating revenues, gains and other support over expenses		8,440,270	7,932,569
Other changes:			
Reserve for related party receivable		–	(3,000,000)
Unrealized gain on investments		4,397,081	2,339,977
Total other changes		4,397,081	(660,023)
Change in unrestricted net assets		12,837,351	7,272,546

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

		2017	2016
Temporarily restricted net assets:			
Contributions, gifts and bequests		625,119	868,058
Interest and dividend income		81,014	78,669
Unrealized (loss) gain on investments		(208,272)	156,629
Net assets released from restrictions		(431,603)	(2,314,669)
Change in temporarily restricted net assets		66,258	(1,211,313)
Permanently restricted net assets:			
Contributions, gifts and bequests		70,925	109,371
Change in fair value of funds held in trust by others		1,663,955	177,410
Change in permanently restricted net assets		1,734,880	286,781
Change in net assets		14,638,489	6,348,014
Net assets, beginning of year		172,440,440	166,092,426
Net assets, end of year	$	187,078,929	172,440,440

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	14,638,489	6,348,014
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		19,176,745	17,733,907
Provision for bad debt		2,850,957	1,013,140
Reserve for related party receivable		–	3,000,000
Proceeds from non-refundable entrance fees and deposits		25,850,067	28,157,352
Amortization of entrance fees		(15,074,966)	(13,657,812)
Loss on early extinguishment of debt		–	123,652
Change in fair value of interest rate swap		(27,084)	(47,911)
Unrealized gain on investments and change in fair value of funds held in trust by others		(5,852,764)	(2,674,016)
Realized (gain) loss on investments		(3,713,574)	524,632
Gain on sale of property and equipment and other assets		(21,064)	(553,778)
Contributions restricted for long-term purposes		(70,925)	(109,371)
Amortization of deferred financing costs		174,662	182,088
Amortization of bond premium		(3,240)	(4,114)
Deferred energy cost adjustment		(62,352)	(44,167)
Loss on abandoned project		115,567	411,418
Changes in assets and liabilities:			
Increase in accounts receivable		(2,806,474)	(2,036,174)
Decrease in entrance fee receivable		501,328	130,333
Decrease in pledges receivable		82,044	697,289
(Increase) decrease in other assets		(95,532)	332,846
(Decrease) increase in accounts payable		(7,896,215)	187,148
(Decrease) increase in accrued expenses		(293,382)	272,961
Net cash provided by operating activities		27,472,287	39,987,437
Cash flows from investing activities:			
Acquisition of property and equipment and assets held for sale		(22,786,164)	(48,703,884)
Purchases of investments		(55,021,632)	(69,863,296)
Proceeds from sale of investments		71,289,757	86,126,348
Due from affiliates		(4,765,147)	(9,606,781)
Net cash used in investing activities		(11,283,186)	(42,047,613)

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(4,485,971)	(5,077,635)
Change in entrance fee payable	(1,616,071)	(1,744,961)
Principal payments on and redemptions of long-term debt	(12,293,993)	(11,310,915)
Proceeds from issuance of long-term debt	–	24,540,000
Refunding, refinancing or payoff of long-term debt	–	(4,435,209)
Redemption of treasury bonds	170,125	–
Financing costs incurred	(6,523)	(88,867)
Borrowings (repayments) on lines of credit	1,787,359	(749,505)
Borrowings through capital leases	138,476	176,561
Repayments on capital leases	(229,851)	(245,582)
Contributions restricted for long-term purposes	70,925	109,371
Decrease in annuities payable	(160,659)	(75,157)
Net cash (used in) provided by financing activities	(16,626,183)	1,098,101
Net decrease in cash and cash equivalents	(437,082)	(962,075)
Cash and cash equivalents, beginning of year	1,387,605	2,349,680
Cash and cash equivalents, end of year	$ 950,523	1,387,605
Supplemental schedule of non-cash investing activities		
Increase in property and equipment through increase in deferred energy costs	$ –	1,247,000

See accompanying notes to combined financial statements.

(1) General Information

The Presbyterian Homes Obligated Group (the Obligated Group) consists of the following not-for-profit corporations: Presbyterian Homes, Inc. (Pres Homes), Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Quincy Retirement Community (QRC), The Long Community, Inc. (TLC), PHI Investment Management Services, Inc. (PIMSI), and Cathedral Village (CA). Between all the members of the Obligated Group, they own, operate and manage twelve continuing care retirement communities, three stand-alone independent living facilities, and two stand-alone personal care homes.

The Obligated Group is governed by the Board of Trustees of PHI, doing business as Presbyterian Senior Living. Presbyterian Senior Living is the parent organization for the members of the Obligated Group.

The following table details the number of beds/units that operate under each member of the Group:

	Total	Pres Homes	PHPH	QRC	TLC	CA
Nursing beds	1,103	585	251	134	–	133
Personal care units	511	308	91	80	32	–
Independent living units	1,509	781	154	184	108	282
Total	3,123	1,674	496	398	140	415

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and only include those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-ninth supplemental indenture dated May 1, 2016. Requirements of the master trust indenture preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These combined financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Obligated Group as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

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.

(c) Income Taxes

The Obligated Group and all its members 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.

The Obligated Group 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 combined 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 combined financial statements.

The Obligated Group is part of a consolidated federal Exempt Organization Business Income Tax Return, for which the years ended December 31, 2014, 2015, and 2016, remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America as set forth in the master trust indenture 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Obligated Group considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the combined statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Obligated Group's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. At times during 2017 and 2016, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

(f) 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 combined 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.

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, 2017 and 2016, 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 consisted of the follows as of December 31:

		2017	**2016**
Interest and dividends	$	2,769,670	2,234,235
Realized gain (loss) on investments		3,713,574	(524,632)
Unrealized gain on investments and funds held in trust by others		5,852,764	2,674,016
	$	12,336,008	4,383,619

Investment expenses of $415,633 and $488,148 for the years ended December 31, 2017 and 2016, respectively, have been included in fundraising and investment fees on the combined statements of operations and changes in net assets.

(g) Accounts Receivable

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

		2017	2016
Total accounts receivable	$	25,278,170	26,109,612
Less: allowance for doubtful accounts		(2,154,876)	(2,440,507)
Net accounts receivable	$	23,123,294	23,669,105

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. 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%

(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 permanently restricted investments.

(i) Pledges Receivable

The Obligated Group records material pledges due in more than one year at the net present value less a discounted uncollectable amount as follows as of December 31:

		2017	2016
Pledges receivable	$	409,594	497,598
Less: unamortized discount		(26,947)	(22,707)
Subtotal		382,647	474,891
Less: allowance for uncollectables		(17,744)	(27,944)
Net pledges receivable	$	364,903	446,947

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2017, are due as follows:

Amounts due in:		
Less than one year	$	167,081
One to five years		242,513
	$	409,594

(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 of assets under capital leases. The Obligated Group's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	3-35 years
Buildings and improvements	5-75 years
Departmental equipment, furniture, and fixtures	1-40 years
Furniture	5-25 years
Vehicles	4 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 $711,911 and $905,955 was capitalized in 2017 and 2016, respectively.

(l) Funds Held in Trust by Others

The members of the Obligated Group have 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 Obligated Group is notified of the trust's existence. The Obligated Group receives the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trust 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.

(l) Funds Held in Trust by Others (continued)

Also included in funds held in trust by others are gift annuities 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:

		2017	2016
Beneficial interest in perpetual trusts	$	18,169,437	16,506,469
Contributions receivable from remainder trusts		725,679	718,301
Gift annuities		15,528	15,516
	$	18,910,644	17,240,286

(m) Derivatives and Hedging Activities

The Obligated Group utilizes interest rate swap agreements to hedge variable interest rates but elected not to elect hedge accounting for these agreements. The Obligated Group's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported on the combined statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2017 and 2016, an adjustment to the liability was recorded causing a gain for each year of $27,084 and $47,911, respectively. These adjustments represent the decrease in the liability of the interest rate swaps.

(n) Deferred Financing Costs

The Obligated Group 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 Obligated Group incurred financing costs of $6,523 and $88,867 during the years ended December 31, 2017 and 2016, respectively. The Obligated Group refunded $123,652 in financing costs, which is included in loss on early extinguishment of debt for the year ended December 31, 2016. Amortization expense is expected to be $178,794, $149,487, $141,016, $111,955, and $108,589 for the next five years, respectively, and is classified as interest expense on the combined statements of operations and changes in net assets. Unamortized deferred financing costs are a direct deductions from the associated long-term debt included on the combined statements of financial position and associated amortization expense is included as a component of interest expense on the combined statements of operations and changes in net assets in accordance with authoritative guidance.

(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 combined statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related units. Entrance fee deposits received prior to occupancy for newly constructed independent units are held in a separate interest bearing escrow account and amounted to $105,935 and $68,500 for the years ended December 31, 2017 and 2016, respectively. The escrow account is included in cash and cash equivalents on the combined statements of financial position.

(q) Deferred Revenue – Entrance Fees

The Obligated Group follows the FASB accounting standards update regarding refundable entrance fees. This standard was issued to clarify the reporting for refundable advanced fees received by continuing care retirement communities. This guidance clarifies 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 Obligated Group does not amortize the guaranteed refundable portion of the entrance fees. This portion of the entrance fee is reflected as a liability on the combined statements of financial position. The amount of entrance fees guaranteed refundable to residents as of December 31, 2017 and 2016, under contractual refund provisions was $14,526,588 and $16,142,659, respectively.

(r) Obligation to Provide Future Service

The Obligated Group periodically calculates the present value of the net cost 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 cost 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 discount 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 as of December 31, 2017 or 2016.

(s) Goodwill

Goodwill represents the excess of appraised value over the book value of the assets of Cathedral Village at the time of the 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 Obligated Group qualitatively assesses goodwill for impairment prior to completing a quantitative analysis of potential goodwill impairment. Under the qualitative

(s) Goodwill (continued)

approach, the Obligated Group assesses the likelihood that the fair value is greater than the carrying value. If the Obligated Group 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 the years ended December 31, 2017 and 2016, as the Obligated Group concluded it was more likely than not that the fair value exceeded the carrying value.

(t) 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 Obligated Group 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.

In addition to the statutory liquid reserves, deposit and entrance fee payments of approximately $2,000,000 received by the Obligated Group prior to the date the resident occupies the living unit are also included in the required statutory liquid reserves and cash and cash equivalents on the accompanying combined statements of financial position.

(u) Deferred Energy Costs

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.

(v) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Obligated Group 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 Obligated Group in perpetuity. The dividend and interest income from these restricted assets are used for charitable purposes.

(w) Donor Restrictions

The Obligated Group 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 combined 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 combined financial statements.

The Obligated Group 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 Obligated Group 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 on 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.

(x) Resident Service Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Medicaid, and other third-party payors for services rendered. The Obligated Group derives a portion of its revenues from federal and state reimbursement programs with a significant portion of state reimbursement from Pennsylvania’s Department of Human Services (DHS).

The Obligated Group’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 consideration 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 40% of revenues for each of the years 2017 and 2016. Medicare and Medicaid receivables represent approximately 45% and 42% of accounts receivable as of December 31, 2017 and 2016, respectively.

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

(x) Resident Service Revenue and Business Concentration (continued)

Nursing services provided to Pennsylvania 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 Obligated Group's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by DHS on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2017, the rates for July 1, 2017, through March 31, 2018, have been finalized.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (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, 2017 and 2016, the Obligated Group received or will receive approximately $2,000,000 for each year in additional revenue for the net effect of this Assessment and supplement.

(y) Charity Care

The Obligated Group follows the FASB accounting standards update that provides improved disclosure about charity care. The amount of charity care disclosed in the combined financial statements is measured based on the direct and indirect costs of providing charity care services. If the 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 Obligated Group's policy is to provide services without charge, or at amounts less than its established rates, to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, state and federal government requirements, and other sources of payment for services which may be provided. The Obligated Group 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 Obligated Group provided and received for resident financial support are as follows for the years ended December 31:

		2017	2016
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	5,648,127	5,144,447
Additional benevolent care provided at amounts less than pre-established charges for private pay services		31,704,055	28,032,155
Giving and income designated for resident financial support		337,413	1,032,146

(z) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2017 and 2016, was $503,363 and $502,446, respectively.

(aa) Classification of Expenses

Expenses incurred are as follows for the years ended December 31:

		2017	2016
Program activities	$	173,415,050	166,688,050
General and administrative		33,708,114	31,234,274
Fundraising		546,800	548,214
	$	207,669,964	198,470,538

(ab) Fundraising Expenses

Fundraising expenses incurred by the Obligated Group are included in fundraising and investment fees on the combined statements of operations and changes in net assets.

(ac) Operating Income

The combined statements of operations and changes in net assets include an intermediate measure of operations labeled as “income from continuing operations.” Changes in the performance indicator which are excluded from this measure include change in fair value of interest rate swap, loss on early extinguishment of debt, and loss on abandoned project.

(ad) Performance Indicator

The Obligated Group measures the performance of its operations using the combined 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: reserve for related party receivable and unrealized gain on investments.

(ae) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2017 and 2016, was \$7,923,524 and \$7,369,621, respectively.

(af) Reclassifications

Certain reclassifications have been made to the 2016 combined financial statements to conform to the presentation of 2017.

(ag) Subsequent Events

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

The Obligated Group has evaluated subsequent events through April 12, 2018, which is the date the combined financial statements were issued.

(3) Investments

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

	2017		2016	
	Fair value	Cost	Fair value	Cost
Money market funds	$ 10,207,068	10,207,068	25,400,722	25,400,722
Marketable equity securities	2,513,076	1,714,350	2,165,520	1,708,969
Equity securities	38,222,776	34,440,309	28,133,540	26,086,916
Fixed income securities	18,995,794	19,198,286	18,404,310	18,296,655
Alternative investments	24,038,498	13,794,801	28,245,265	19,103,291
Totals	93,977,212	$ 79,354,814	102,349,357	$ 90,596,553
Less:				
Assets whose use is limited (Note 5)	(9,262,604)		(23,992,552)	
Statutory liquid reserves	(10,790,048)		(10,187,204)	
Total investments	$ 73,924,560		68,169,601	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group had forty-three mutual funds, seven alternative investments, sixty-seven stocks, and several other fixed income securities as of December 31, 2017. The Obligated Group had forty-five mutual funds, eight alternative investments, sixty-nine stocks, and several other fixed income securities as of December 31, 2016.

As of December 31, 2017, four mutual funds and one stock had a market value that had been below cost for less than a year. In total, the market value of the preceding investments was less than six percent below cost. As of December 31, 2016, twelve mutual funds and nine stocks had a market value that had been below cost for less than a year. In total, the market value of the preceding investments was less than three percent below cost.

Seven mutual funds had a market value that had been below cost for more than a year as of December 31, 2017. In total, its market value was less than three percent below cost. Nineteen mutual funds and two stocks had a market value that had been below cost for more than a year as of December 31, 2016. In total, its market value was less than five percent below cost.

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2017, follows:

		Less than 12 Months		More than 12 Months		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$	3,297,088	(183,263)	7,753,930	(211,625)	11,051,018	(394,888)
Equity securities		54,384	(6,863)	–	–	54,384	(6,863)
Total temporarily impaired investments	$	3,351,472	(190,126)	7,753,930	(211,625)	11,105,402	(401,751)

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	$	11,395,443	(279,981)	12,393,106	(583,294)	23,788,549	(863,275)
Equity securities		214,668	(16,997)	77,158	(3,779)	291,826	(20,776)
Total temporarily impaired investments	$	11,610,111	(296,978)	12,470,264	(587,073)	24,080,375	(884,051)

(4) Related Party Transactions

The Obligated Group members incur a management fee payable to their parent organization under a management agreement whereby Presbyterian Senior Living provides the Obligated Group with various management and administrative services to each of the Obligated Group's operating facilities. The Obligated Group members also incur certain operating expenses under the management agreement that are comprised primarily of the salaries and benefits of certain key management personnel provided to the Obligated Group by the parent organization. During the years ended December 31, 2017 and 2016, the Obligated Group incurred management fees and other expenses under the management agreement totaling $17,406,720 and $15,815,544, respectively, which is included in general and administrative expenses and discontinued operations on the combined statements of operations and changes in net assets.

In 2016, the Obligated Group was an irrevocable guarantor of all the debts of Presbyterian Senior Living Services, Inc. (Glen Meadows), an affiliate organization. During 2017, Presbyterian Senior Living Services, Inc. refinanced their debt, removing the Obligated Group as guarantor.

(4) Related Party Transactions (continued)

The Obligated Group is an irrevocable guarantor of the Metro Bank Loan for PHI Stadium Place Senior Care, Inc., an affiliate organization, for a maximum principal amount of $10,000,000. As of December 31, 2017 and 2016, PHI Stadium Place Senior Care, Inc. had $8,875,189 and $9,237,592, respectively, in outstanding debt. In the event of a deficiency judgment, the Obligated Group has guaranteed to repay all of this outstanding debt which matures through 2034.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is a technical information services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2017 and 2016, the Obligated Group incurred expenses related to Prelude amounting to $1,784,580 and $1,909,057, respectively, for information services provided by Prelude, of which $35,125 and $24,192 is included in accounts payable as of December 31, 2017 and 2016, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2017 and 2016, are $75,986,437 and $71,221,290, respectively.

During 2016, Ware Presbyterian Village transferred 3.1 acres of land to Westminster Place at Ware Presbyterian Village. The land was transferred at fair market value, causing the Obligated Group to recognize a realized gain on sale of assets of $970,000, which is included in gain on sale of property and equipment and other assets on the combined statements of operations and changes in net assets.

The amounts receivable from the Obligated Group’s affiliated organizations are unsecured, non-interest bearing, and have no fixed repayment terms, except loans to the low income housing corporations. In 2016, the Obligated Group increased the established reserve of $10,000,000 to $13,000,000 based on management’s assessment of the collectability of specific receivables from an affiliate organization. The provision of $3,000,000 for the year ended December 31, 2016, is included in other changes in unrestricted net assets on the combined statements of operations and changes in net assets. No increase in this reserve was deemed necessary during 2017.

(5) Assets Whose Use is Limited

As of December 31 assets whose use is limited consisted of the following:

	2017	2016
Permanently restricted investments	$ 4,963,540	4,892,618
Bond fund	1,851,729	1,361,478
Debt service reserve fund	2,447,335	2,423,697
Held by trustee for future projects	–	15,314,759
	$ 9,262,604	23,992,552

(6) Property and Equipment

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

	2017		2016	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 44,500,489	–	42,434,262	–
Land improvements	18,905,835	15,724,149	18,838,759	15,271,453
Buildings and improvements	454,604,424	192,568,106	426,056,336	176,407,929
Departmental equipment, furniture and fixtures	48,939,033	39,491,242	46,641,709	37,194,904
Vehicles	1,660,351	1,562,497	1,664,520	1,539,553
Construction-in-progress	32,419,622	–	43,100,160	–
	$ 601,029,754	249,345,994	578,735,746	230,413,839
Net book value		$ 351,683,760		$ 348,321,907

As the Obligated Group undertakes expansion 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.

As of December 31, 2017 and 2016, approximately $4,000,000 and $3,700,000, respectively, was committed for future renovations.

(7) Long-term Debt

Long-term debt of the group and of the amounts payable by the Obligated Group as of December 31 consist of the following:

		2017	2016
1995 Series A Revenue Note to First National Bank, payable in equal monthly installments of principal and interest, interest sufficient to amortize the principal balance to July 2026, the note bears a floating interest rate which was 2.69% and 2.05% as of December 31, 2017 and 2016, respectively, interest will be reset in three year increments	$	1,408,960	1,585,305
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, 2017 and 2016		313,410	366,827
Cumberland County Municipal Authority Revenue Bonds Series 2003B, held by First National Bank, principal maturities in varying amounts from 2016 to 2032, interest fixed at 3.8% until 2024		6,285,000	6,590,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, held by Bank of America, principal and interest payable monthly on a 15-year amortization period, the final principal payment due October 31, 2018, variable interest of 1.89% and 1.35% as of December 31, 2017 and 2016, respectively		786,533	1,614,039

(7) Long-term Debt (continued)

	2017	2016
Series 2005 College Township Revenue Bonds, held by First National Bank, payable in equal installments to include principal and interest through September 2026, the bonds bear a floating interest rate, which will reset in five year increments and was 3.67% as of December 31, 2017 and 2016	2,070,856	2,267,450
Cumberland County Municipal Authority Revenue Bonds Series 2008A, principal due in varying annual amounts from 2016 to 2021, interest rates ranging from 5.00% to 5.45%	2,860,000	4,190,000
Cumberland County Municipal Authority Revenue Bonds Series 2013A, held by Key Bank, principal due in varying annual amounts from 2016 to 2026, interest is fixed at 3.11%, interest will be reset in ten year increments	6,450,790	6,475,790
Cumberland County Municipal Authority Revenue Bonds Series 2008C, variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2016 to 2026, interest rates ranging from 3.82% to 4.00%	14,210,000	14,485,000
York County Industrial Development Authority Bonds Series 2010, held by First National Bank, principal due in varying annual amounts from 2016 to 2033, the bonds bear a floating interest rate, which resets in five year increments, and was 2.75% as of December 31, 2017 and 2016	16,491,574	17,324,552
Bank of America taxable ten year term loan, principal due in varying amounts, extended in 2016 to be due in December 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which resets in five year increments, and was 3.85% as of December 31, 2017 and 2016	10,815,456	11,192,409
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, 2017 and 2016	7,698,905	8,112,544

(7) Long-term Debt (continued)

	2017	2016
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	7,957,979	8,366,919
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	7,915,139	8,325,485
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	7,880,256	8,306,378
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, 2017 and 2016	4,025,886	4,250,886
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	8,382,453	8,769,264
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	8,488,172	8,878,888

(7) Long-term Debt (continued)

	2017	2016
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%	2,630,000	2,635,000
Northampton and Blair County Industrial Development Authority Revenue Bonds Series 2014, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.24% until June 2024, interest will be reset in ten year increments	9,765,500	9,832,500
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	9,765,500	9,832,500
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	9,019,690	9,407,118
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	9,053,410	9,443,923
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 3.38% and 2.63% as of December 31, 2017 and 2016, respectively	4,727,681	5,273,304

(7) Long-term Debt (continued)

	2017	2016
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 3.47% and 2.87% as of December 31, 2017 and 2016, respectively	4,751,266	5,288,549
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, 2017 and 2016, interest rates will be reset in five year increments	9,133,976	9,540,239
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%	6,645,376	8,214,250
Cumberland County Municipal Authority Revenue Bonds Series 2015B, held by Bank of America, principal due in varying annual amounts from 2016 to 2038, interest is fixed at 2.99% until 2025, interest rates will be reset in ten year increments	9,356,078	9,682,814
Cumberland County Municipal Authority Revenue Bonds Series 2015 C and Series 2008 C, held by Bank of America, principal due in varying amounts from 2015 to 2038, interest is variable and was 2.14% and 1.72 % as of December 31, 2017 and 2016, respectively	14,487,333	14,721,333
Quincy Sewer Authority Series 2016 bonds held by TD Bank, principal due in varying annual amounts from 2017 to 2042, interest is fixed at 2.40% until 2021, interest rates will be reset in five year increments	19,707,679	20,000,000

(7) Long-term Debt (continued)

		2017	2016
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 3.06% and 2.32% as of December 31, 2017 and 2016, respectively		4,198,489	4,433,949
		227,283,347	239,407,215
Plus: Unamortized premium		70,773	74,013
Less: Deferred financing costs		(1,573,430)	(1,741,569)
	$	225,780,690	237,739,659

All of the Obligated Group's long-term debt is collateralized by property and equipment and gross revenues of the Obligated Group and is tax exempt, unless otherwise stated.

Under the terms of the Obligated Group's debt, the Obligated Group is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2017 and 2016.

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.

Scheduled maturities for the five years subsequent to December 31, 2017, and thereafter are as follows:

Years ending December 31,		Aggregate maturities
2018	$	12,700,587
2019		12,425,734
2020		12,425,934
2021		14,293,681
2022		14,364,321
Thereafter		161,073,090
	$	227,283,347

(7) Long-term Debt (continued)

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

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$786,533	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

The fair value of the interest rate swap liability as of December 31 is as follows:

Counterparty	Fair Value 12/31/2017	Fair Value 12/31/2016
Bank of America	$ 5,950	$ 33,034

Pursuant to this agreement the counterparty assumes the risk of varying interest rate, with the difference between the weekly variable rate and the fixed rate above being either paid by, or reimbursed to, the Obligated Group.

(8) Lines of Credit

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable. The lines of credit are collateralized by property, plant, and equipment of the Obligated Group. As of December 31, 2017 and 2016, under the line of credit agreements, the Obligated Group had available a total maximum of $19,500,000 from the financial institutions. As of December 31, 2017 and 2016, the Obligated Group had $15,883,024 and $14,095,665, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 4.13%.

(9) Leases

The Obligated Group is obligated under capital leases for equipment and vehicles that expire in 2021, with interest rates ranging from 2.5% to 5.0%. As of December 31 the gross amounts of the equipment and related accumulated amortization recorded under capital leases are as follows:

	2017	2016
Office equipment and vehicles	$ 1,409,052	1,304,668
Accumulated amortization	(1,129,078)	(947,830)
	$ 279,974	356,838

(9) Leases (continued)

Amortization expense of $213,740 and $234,104 for the years ended December 31, 2017 and 2016, respectively, for the assets held under capital leases is included in depreciation expense on the combined statements of operations and changes in net assets.

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2017, follows:

2018	$ 155,710
2019	100,550
2020	40,500
2021	1,700
	298,460
Amount representing interest	(9,854)
	$ 288,606

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2020. The future minimum lease payments under these operating leases are as follows as of December 31, 2017:

2018	$ 153,881
2019	74,742
2020	29,662
	$ 258,285

Rental expense under operating leases was $628,522 and $634,414 for the years ended December 31, 2017 and 2016, respectively.

(10) Annuities

The Obligated Group 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, which creates a liability of the Obligated Group. Total annuities payable were $700,820 and $861,479 as of December 31, 2017 and 2016, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4 to 6 percent to determine the present value of the actuarially determined liability. The Obligated Group has assets included in investments of $1,193,014 and $1,408,411 as of December 31, 2017 and 2016, respectively, to satisfy annuities.

(11) Workers' Compensation Insurance

The Obligated Group has instituted 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 Obligated Group has contracted with major insurance carriers for excess insurance coverage, loss control services, and administration. For both 2017 and 2016, the Obligated Group maintained a surety bond for $3,000,000, in connection with this self-insurance program. As of December 31, 2017 and 2016, the Obligated Group has recorded an accrued expense of approximately $4.6 million and $4.1 million, respectively, for workers' compensation claims which includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

(12) Medical Malpractice Claims Coverage

The Obligated Group 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 Obligated Group's insurance coverages or will have a material adverse effect on the combined financial statements.

(13) Temporarily Restricted Net Assets

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

		2017	2016
Charity care and/or equipment, including pledges receivable			
Endowment	$	138,310	118,090
Other		1,347,418	1,307,783
Gift annuities		371	359
Contributions receivable from remainder trusts		505,475	499,084
	$	1,991,574	1,925,316

Net assets of $431,603 and $2,314,669 were released from restriction during 2017 and 2016, respectively, in satisfaction of the above restrictions.

(14) Permanently Restricted Net Assets

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

	2017	2016
Trust assets held for the benefit of The Easton Home	$ 830,086	830,086
Investments to be held in perpetuity, the income from which is expendable to support the following endowments:		
Operations	2,163,974	2,136,346
Scholarships	32,295	32,088
Charity care and/or equipment	2,767,271	2,724,181
Contributions receivable from remainder trusts	220,204	219,217
Gift annuities	15,157	15,157
Beneficial interest in perpetual trusts	18,169,437	16,506,469
	$ 24,198,424	22,463,544

(15) Endowments

The endowments consist of donor restricted funds established for a variety of purposes supporting the Obligated Group. 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.

(15) Endowments (continued)

Interpretation of Relevant Law

The Board of Trustees of the Obligated Group 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 Obligated Group 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 Obligated Group 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 Obligated Group 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

(15) Endowments (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2017:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	118,090	4,892,615	5,010,705
Investment return:				
Investment income		81,014	–	81,014
Contributions		–	70,925	70,925
Appropriation of endowment assets for expenditures		(60,794)	–	(60,794)
Endowment net assets, end of year	$	138,310	4,963,540	5,101,850

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	$	96,634	4,783,244	4,879,878
Investment return:				
Investment income		78,330	–	78,330
Contributions		–	109,371	109,371
Appropriation of endowment assets for expenditures		(56,874)	–	(56,874)
Endowment net assets, end of year	$	118,090	4,892,615	5,010,705

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 Obligated Group 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, 2017 or 2016.

(15) Endowments (continued)

Return Objectives and Risk Parameters

The Obligated Group 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 Obligated Group must hold in perpetuity for donor-specified purposes. 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 Obligated Group 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 Obligated Group 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 Obligated Group 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.

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment funds' average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2017 and 2016. Actual distributions are to satisfy donor restrictions. 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 Obligated Group considered the long-term expected return on its endowments. Accordingly, over the long term, the Obligated Group expects the current spending policy to allow its endowments to grow at an average of inflation plus one percent annually. For 2017 and 2016 an allocation of three percent, of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Obligated Group'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.

(16) Retirement Plan

The Obligated Group 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 PHI and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2017 and 2016, retirement plan expense totaled $1,501,983 and $1,459,993, respectively.

(17) Commitments and Contingencies

The Obligated Group 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 Obligated Group's assets, liabilities, net assets, operations, or cash flows.

The Obligated Group finalized a $10 million construction loan from Univest Bank on April 11, 2018, to renovate the Ware Presbyterian Health Center. The loan will be in a draw phase with interest only payments on outstanding principal for the first eighteen months. Interest during the draw phase is assessed at a variable rate of 81% of 30 day LIBOR plus 2.75%. After the draw phase ends, the debt converts to a loan with interest and principal payments due over 20 years. Interest during the repayment phase is set in five-year increments at 81% of the current FHLB rate plus 239 basis points.

(18) Financial Instruments

(a) 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, certificates of deposit, and equity and fixed income securities is 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 Obligated Group's percent ownership of the underlying trust assets, which approximate the value of estimated future cash flows to be received from the trust.

Contributions receivable from remainder trusts: Fair value of the contributions receivable from remainder trusts is based on the present value of future cash inflows.

Interest rate swap: Fair value 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.

(18) Financial Instruments (continued)

Long-term debt and lines of credit: Long-term debt and lines of credit are carried at cost on the combined statements of financial position for lines of credit, bonds payable, and mortgages payable as of December 31, 2017 and 2016. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding, excluding unamortized deferred financing costs, were $243,525,750 and $253,956,874 as of December 31, 2017 and 2016, respectively. The carrying value of the long-term debt and lines of credit on the combined statements of financial position approximate the fair value.

The Obligated Group has a number of other financial instruments, none of which are held for investment purposes. The Obligated Group estimates that the fair values of all financial instruments as of December 31, 2017 and 2016, do not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying combined 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's 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 to the fair value methodologies used to measure fair value as of December 31, 2017 or 2016.

(18) Financial Instruments (continued)

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

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	10,207,068	10,207,068	–	–
Marketable equity securities		2,513,076	2,513,076	–	–
Equity securities		38,222,776	38,222,776	–	–
Fixed income securities		18,995,794	18,995,794	–	–
Alternative investments, at net asset value		24,038,498	–	–	–
Total investments		93,977,212	69,938,714	–	–
Beneficial interest in perpetual trusts		18,169,437	–	–	18,169,437
Contributions receivable from remainder trusts		725,679	–	–	725,679
Gift annuities		15,528	–	–	15,528
Total assets	$	112,887,856	69,938,714	–	18,910,644
Interest rate swap	$	(5,950)	–	(5,950)	–

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	$	25,400,722	25,400,722	–	–
Market equity securities		2,165,520	2,165,520	–	–
Equity securities		28,133,540	28,133,540	–	–
Fixed income securities		18,404,310	18,404,310	–	–
Alternative investments, at net asset value		28,245,265	–	–	–
Total investments		102,349,357	74,104,092	–	–
Beneficial interest in perpetual trusts		16,506,469	–	–	16,506,469
Contributions receivable from remainder trusts		718,301	–	–	718,301
Gift annuities		15,516	–	–	15,516
Total assets	$	119,589,643	74,104,092	–	17,240,286
Interest rate swap	$	(33,034)	–	(33,034)	–

(18) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31, 2017 and 2016, is as follows:

Description		Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance as of December 31, 2015	$	652,092	16,327,200	15,523
Unrealized gains (losses)		66,209	179,269	(7)
Balance as of December 31, 2016		718,301	16,506,469	15,516
Unrealized gains		7,378	1,662,968	12
Balance as of December 31, 2017	$	725,679	18,169,437	15,528

Unrealized and realized gains (losses) on remainder trusts, gift annuities, and beneficial interest in perpetual trusts are permanently restricted on the combined statements of operations and changes in net assets.

(b) Financial Instruments with Off-Balance-Sheet Risk

Financial instruments with off-balance-sheet risk to the Obligated Group consist of certain financial guarantees of its affiliates. The Obligated Group’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

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Independent Auditor's Report on Supplementary Information

The Board of Trustees
Presbyterian Homes Obligated Group

We have audited the combined financial statements of Presbyterian Homes Obligated Group (the Obligated Group), as of December 31, 2017 and 2016, and for the years then ended, and have issued our report thereon, which contains an unmodified opinion on those combined financial statements (see pages 2 and 3 of this document). Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole.

The combining supplementary information as of and for the year ended December 31, 2017, appearing on pages 44 through 47 is presented for purposes of additional analyses rather than to present the financial position and results of operations of the individual corporations and is not a required part of the combined financial statements. Additionally, the other supplementary information appearing on page 48 is presented for purposes of additional analyses and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining and other supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 12, 2018

PRESBYTERIAN HOMES OBLIGATED GROUP

Combining Schedule of Financial Position

December 31, 2017

Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Investment Management Services, Inc.	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Cash and cash equivalents	$	632,747	36,811	–	252,298	27,667	1,000	950,523	–	950,523
Investments		763,150	10,404,340	35,947,916	10,058,437	5,030,410	11,720,307	73,924,560	–	73,924,560
Statutory liquid reserves		6,020,012	800,439	–	–	890,554	3,079,043	10,790,048	–	10,790,048
Accounts receivable, net		13,467,628	4,593,314	92,395	46,903	2,768,336	2,154,718	23,123,294	–	23,123,294
Prepaid expenses and other current assets		1,525,082	185,108	–	141,222	477,052	608,722	2,937,186	(76,760)	2,860,426
Assets whose use is limited		3,275,189	2,163,976	2,541,054	–	258,511	1,023,874	9,262,604	–	9,262,604
Pledges receivable, net		301,033	-	–	20,101	13,200	30,569	364,903	–	364,903
Assets held for sale		229,927	-	-	-	-	-	229,927	–	229,927
Property and equipment, net		208,891,205	44,350,740	–	38,699,361	22,910,416	36,832,038	351,683,760	–	351,683,760
Assets under capital leases, net		126,262	84,992	–	3,207	50,033	15,480	279,974	–	279,974
Due from (to) affiliates		53,761,583	14,081,592	17,721,397	(14,724,656)	5,144,378	2,143	75,986,437	–	75,986,437
Funds held in trust by others		8,543,209	730,242	–	826,111	6,196,107	2,614,975	18,910,644	–	18,910,644
Beneficial interest in assets of affiliate		2,018,819	–	–	–	–	–	2,018,819	(2,018,819)	–
Goodwill		–	–	–	–	–	1,836,908	1,836,908	–	1,836,908
Other assets		23,752	–	–	–	1,060	–	24,812	–	24,812
Total Assets	$	299,579,598	77,431,554	56,302,762	35,322,984	43,767,724	59,919,777	572,324,399	(2,095,579)	570,228,820

See Independent Auditor's Report on Supplementary Information

PRESBYTERIAN HOMES OBLIGATED GROUP

Combining Schedule of Financial Position

December 31, 2017

Liabilities and Net Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Investment Management Services, Inc.	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Accounts payable	$	4,311,644	1,043,540	–	107,504	575,599	659,258	6,697,545	–	6,697,545
Accrued expenses		6,812,446	3,312,798	57,560	431,887	1,019,819	2,622,039	14,256,549	–	14,256,549
Lines of credit		15,883,024	–	–	–	–	–	15,883,024	–	15,883,024
Accrued interest		635,718	9,520	–	-	–	108,724	753,962	(76,760)	677,202
Resident deposits		1,274,304	101,500	–	14,200	81,125	537,425	2,008,554	–	2,008,554
Entrance fee payable		12,624,712	783,596	–	–	878,280	240,000	14,526,588	–	14,526,588
Deferred revenue – entrance fees		58,942,342	9,797,914	–	–	10,376,437	22,067,189	101,183,882	–	101,183,882
Deferred energy costs		–	–	–	–	–	1,140,481	1,140,481	–	1,140,481
Fair value of interest rate swap		5,950	–	–	–	–	–	5,950	–	5,950
Annuities payable		585,038	15,702	–	69,568	30,512	–	700,820	–	700,820
Long-term debt										
Obligations on capital leases		128,237	88,022	–	3,342	48,948	20,057	288,606	–	288,606
Long-term debt		151,332,432	16,745,736	–	29,280,383	15,334,685	13,087,454	225,780,690	–	225,780,690
Total liabilities		252,535,847	31,898,328	57,560	29,906,884	28,345,405	40,482,627	383,226,651	(76,760)	383,149,891
Net assets:										
Unrestricted		34,119,852	42,538,107	54,226,383	4,555,299	8,781,009	16,668,281	160,888,931	–	160,888,931
Temporarily restricted		1,370,411	245,887	–	34,690	186,692	153,894	1,991,574	–	1,991,574
Permanently restricted		11,553,488	2,749,232	2,018,819	826,111	6,454,618	2,614,975	26,217,243	(2,018,819)	24,198,424
Total net assets		47,043,751	45,533,226	56,245,202	5,416,100	15,422,319	19,437,150	189,097,748	(2,018,819)	187,078,929
Total liabilities and net assets	$	299,579,598	77,431,554	56,302,762	35,322,984	43,767,724	59,919,777	572,324,399	(2,095,579)	570,228,820

See Independent Auditor's Report on Supplementary Information

PRESBYTERIAN HOMES OBLIGATED GROUP

Combining Schedule of Operations and Changes in Net Assets

Year ended December 31, 2017

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Investment Management Services, Inc.	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Operating revenues, gains and other support:									
Resident services	$ 119,483,994	34,386,883	118	5,074,607	20,224,706	28,257,169	207,427,477	–	207,427,477
Interest and dividend income	734,319	348,598	748,090	351,423	427,530	459,207	3,069,167	(380,511)	2,688,656
Realized gain on investments	145,799	746,485	1,295,263	1,025,034	466,520	216,481	3,895,582	(182,008)	3,713,574
Gain on sale of property and equipment	1,084	19,930	–	–	50	–	21,064	–	21,064
Contributions, gifts and bequests	1,457,186	292,545	–	101,058	19,254	46,300	1,916,343	–	1,916,343
Net assets released from restrictions	191,745	46,642	–	20,559	72,466	100,191	431,603	–	431,603
Total operating revenues, gains and other support	122,014,127	35,841,083	2,043,471	6,572,681	21,210,526	29,079,348	216,761,236	(562,519)	216,198,717
Expenses:									
Nursing services	32,316,190	10,004,827	–	713,170	6,736,417	6,521,805	56,292,409	–	56,292,409
Rehabilitation	8,730,162	2,794,806	–	–	1,754,199	983,271	14,262,438	–	14,262,438
Recreation and special services	3,303,194	844,290	–	107,523	602,622	815,769	5,673,398	–	5,673,398
Pharmacy	2,237,780	833,906	–	9,364	402,805	513,565	3,997,420	–	3,997,420
Social services	553,409	180,693	–	79	96,411	174,074	1,004,666	–	1,004,666
Physician services	201,158	147,556	–	9,000	48,660	297,697	704,071	–	704,071
Food services	12,354,766	3,848,745	–	592,294	1,777,238	4,247,620	22,820,663	–	22,820,663
Building operations and maintenance	13,271,694	2,857,247	–	1,103,144	2,162,410	3,757,832	23,152,327	–	23,152,327
Housekeeping	2,525,889	649,388	–	53,459	379,332	751,401	4,359,469	–	4,359,469
Laundry and linen	666,407	299,307	–	-	191,505	87,485	1,244,704	–	1,244,704
General and administrative	18,804,407	5,761,386	405	862,365	3,283,393	4,580,525	33,292,481	–	33,292,481
Employee benefits	7,990,036	2,653,000	–	214,074	1,432,935	1,210,496	13,500,541	–	13,500,541
Interest	5,325,852	339,375	–	1,073,783	236,953	563,703	7,539,666	(313,467)	7,226,199
Depreciation	11,460,593	2,205,864	–	1,098,596	1,366,823	3,044,869	19,176,745	–	19,176,745
Fundraising and investment fees	347,939	140,393	238,550	49,462	67,705	122,612	966,661	(4,228)	962,433
Total expenses	120,089,476	33,560,783	238,955	5,886,313	20,539,408	27,672,724	207,987,659	(317,695)	207,669,964
Income from continuing operations	1,924,651	2,280,300	1,804,516	686,368	671,118	1,406,624	8,773,577	(244,824)	8,528,753
Change in fair value of interest rate swap	27,084	–	–	–	–	–	27,084	–	27,084
Loss on abandoned project	(115,567)	–	–	–	–	–	(115,567)	–	(115,567)
Excess of operating revenues, gains and other support over expenses	1,836,168	2,280,300	1,804,516	686,368	671,118	1,406,624	8,685,094	(244,824)	8,440,270
Other changes:									
Transfer to affiliated entity	748,375	–	(748,375)	–	–	–	–	–	–
Unrealized gain (loss) on investments	281,059	322,505	1,976,915	(80,525)	(7,985)	1,660,289	4,152,258	244,823	4,397,081
Total other changes	1,029,434	322,505	1,228,540	(80,525)	(7,985)	1,660,289	4,152,258	244,823	4,397,081
Change in unrestricted net assets	2,865,602	2,602,805	3,033,056	605,843	663,133	3,066,913	12,837,352	(1)	12,837,351

See Independent Auditor's Report on Supplementary Information

PRESBYTERIAN HOMES OBLIGATED GROUP

Combining Schedule of Operations and Changes in Net Assets

Year ended December 31, 2017

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Investment Management Services, Inc.	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Temporarily restricted net assets:									
Contributions, gifts and bequests	352,164	52,350	–	48,026	112,477	60,102	625,119	–	625,119
Interest and dividend income	79,586	349	–	–	1,079	–	81,014	–	81,014
Unrealized (loss) gain on investments	(214,675)	5,403	–	–	1,000	–	(208,272)	–	(208,272)
Net assets released from restrictions	(191,745)	(46,642)	–	(20,559)	(72,466)	(100,191)	(431,603)	–	(431,603)
Change in temporarily restricted net assets	25,330	11,460	–	27,467	42,090	(40,089)	66,258	–	66,258
Permanently restricted net assets:									
Contributions, gifts and bequests	43,090	27,627	–	–	208	–	70,925	–	70,925
Change in fair value of funds held in trust by others	771,654	57,387	246,565	38,337	600,737	195,840	1,910,520	(246,565)	1,663,955
Change in permanently restricted net assets	814,744	85,014	246,565	38,337	600,945	195,840	1,981,445	(246,565)	1,734,880
Change in net assets	3,705,676	2,699,279	3,279,621	671,647	1,306,168	3,222,664	14,885,055	(246,566)	14,638,489
Net assets, beginning of year	43,338,075	42,833,947	52,965,581	4,744,453	14,116,151	16,214,486	174,212,693	(1,772,253)	172,440,440
Net assets, end of year	$ 47,043,751	45,533,226	56,245,202	5,416,100	15,422,319	19,437,150	189,097,748	(2,018,819)	187,078,929

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PRESBYTERIAN HOMES OBLIGATED GROUP

Statutory Minimum Liquid Reserves

As of December 31, 2017

		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	Quincy Retirement Community	Cathedral Village	Obligated Group	
2018 Budgeted Operating Expenses	$	118,682,461	33,642,696	21,798,079	28,491,493	202,614,729	
Less: depreciation expense		(11,422,444)	(2,322,757)	(1,639,789)	(3,147,381)	(18,532,371)	
Expenses subject to minimum liquid assets requirement		107,260,017	31,319,939	20,158,290	25,344,112	184,082,358	
Percentage of residents subject to continuing-care agreements as of 12/31/2017		41%	23%	44%	74%		
		43,976,607	7,203,586	8,869,648	18,754,643	78,804,484	
Statutory requirement		10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement - Op Expenses	$	4,397,661	720,359	886,965	1,875,464	7,880,449	(a)
Next 12 months debt service payments:							
Total debt service for next 12 months	$	14,286,314	1,293,852	996,440	513,433	17,090,039	
Percentage of residents subject to residence and care agreements as of 12/31/2017		41%	23%	44%	74%		
Statutory minimum liquid reserve requirement - Debt Svc	$	5,857,389	297,586	438,434	379,940	6,973,349	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$	5,857,389	720,359	886,965	1,875,464	9,340,177	
Total per Bank Statements as of 12/31/2017		6,020,012	800,439	890,554	3,079,043	10,790,048	
Assets in excess of statutory minimum liquid reserve requirement	**$**	**162,623**	**80,080**	**3,589**	**1,203,579**	**1,449,871**	

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