PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Financial Statements

December 31, 2018 and 2017

(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, 2018 and 2017, 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 112 years.

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

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
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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, 2018 and 2017, 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 thirty-first supplemental indenture dated December 28, 2018. 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

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

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents	$	898,783	950,523
Investments		71,716,437	73,924,560
Statutory liquid reserves		14,414,768	10,790,048
Accounts receivable, net		18,775,127	23,123,294
Prepaid expenses and other current assets		2,883,884	2,860,426
Assets whose use is limited		7,976,654	9,262,604
Assets whose use is limited, construction funds		25,737,965	–
Promises to give, net		327,413	364,903
Assets held for sale		10,000	229,927
Property and equipment (net of accumulated depreciation of $269,392,896 and $249,345,994, respectively)		356,110,951	351,683,760
Assets under capital leases (net of accumulated amortization of $1,421,806 and $1,129,078, respectively)		826,062	279,974
Due from affiliates, net		79,009,259	75,986,437
Funds held in trust by others		17,388,344	18,910,644
Goodwill		1,836,908	1,836,908
Other assets		38,134	24,812
Total assets	$	597,950,689	570,228,820

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2018 and 2017

Liabilities and Net Assets		**2018**	**2017**
Accounts payable	$	8,809,297	6,697,545
Accrued expenses		13,689,413	14,256,549
Lines of credit		14,518,798	15,883,024
Accrued interest		678,584	677,202
Resident deposits		1,571,124	2,008,554
Entrance fee payable		12,163,288	14,526,588
Deferred revenue - entrance fees		104,536,574	101,183,882
Deferred energy costs		1,078,129	1,140,481
Fair value of interest rate swap		–	5,950
Annuities payable		616,464	700,820
Long-term debt:			
Obligations under capital leases		901,464	288,606
Long-term debt		249,345,309	225,780,690
Total liabilities		407,908,444	383,149,891
Net assets:			
Without donor restrictions		165,657,395	160,888,931
With donor restrictions		24,384,850	26,189,998
Total net assets		190,042,245	187,078,929
Total liabilities and net assets	$	597,950,689	570,228,820

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

		2018	2017
Revenues and other support:			
Resident services, including amortization of entrance fees of $16,854,680 and $15,074,966 respectively	$	213,142,744	207,427,477
Contributions, gifts and bequests		439,582	1,916,343
Net assets released from restrictions		993,352	431,603
Total operating revenues and other support		214,575,678	209,775,423
Cost of services provided:			
Nursing services		58,037,632	56,292,409
Rehabilitation		17,048,858	14,262,438
Recreation and special services		5,636,302	5,673,398
Pharmacy		3,379,777	3,997,420
Social services		983,872	1,004,666
Physician services		728,900	704,071
Food services		23,082,692	22,820,663
Building operations and maintenance		23,973,975	23,152,327
Housekeeping		3,832,542	4,359,469
Laundry and linen		1,130,188	1,244,704
General and administrative		33,744,224	33,292,481
Employee benefits		9,823,871	13,500,541
Interest		7,749,574	7,226,199
Depreciation		20,351,309	19,176,745
Fundraising		692,179	546,801
Total cost of services provided		210,195,895	207,254,332
Excess of revenues and other support over expenses		4,379,783	2,521,091
Other income (expense):			
Investment income, net of investment expense		2,432,892	2,273,024
Realized (loss) gain on investments		(2,859,511)	3,713,574
Unrealized gain on investments		1,337,728	4,397,081
(Loss) gain on sale of property and equipment		(21,145)	21,064
Total other income (expense)		889,964	10,404,743
Excess of revenues and other support over expenses and losses		5,269,747	12,925,834
Change in fair value of interest rate swap		5,950	27,084
Loss on early extinguishment of debt		(122,288)	–
Loss on impairment of asset		(384,945)	–
Loss on abandoned project		–	(115,567)
Change in net assets without donor restrictions		4,768,464	12,837,351

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

	2018	2017
Net assets with donor restrictions		
Contributions, gifts and bequests	767,918	696,044
Interest and dividend income	112,411	81,014
Unrealized (loss) gain on investments	(1,692,125)	1,455,683
Net assets released from restrictions	(993,352)	(431,603)
Change in net assets with donor restrictions	(1,805,148)	1,801,138
Change in net assets	2,963,316	14,638,489
Net assets, beginning of year	187,078,929	172,440,440
Net assets, end of year	$ 190,042,245	187,078,929

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	2,963,316	14,638,489
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		20,351,309	19,176,745
Provision for bad debt		3,223,583	2,850,957
Proceeds from non-refundable entrance fees and deposits		25,097,388	25,850,067
Amortization of entrance fees		(16,854,680)	(15,074,966)
Loss on early extinguishment of debt		122,288	–
Change in fair value of interest rate swaps		(5,950)	(27,084)
Unrealized loss (gain) on investments and change in fair value of funds held in trust by others		354,397	(5,852,764)
Realized loss (gain) on investments		2,859,511	(3,713,574)
Loss (gain) on sale of property and equipment and other assets		21,145	(21,064)
Contributions restricted for long-term purposes		(93,708)	(70,925)
Amortization of deferred financing costs		176,120	174,662
Amortization of bond premium		(17,030)	(3,240)
Deferred energy cost adjustment		(62,352)	(62,352)
Loss on impairment of asset		384,945	–
Loss on abandoned project		–	115,567
Changes in assets and liabilities:			
Increase in accounts receivable		(1,039,879)	(2,806,474)
Decrease in entrance fee receivable		2,164,463	501,328
Decrease in promises to give		37,490	82,044
Increase in other assets		(36,780)	(95,532)
Increase (decrease) in accounts payable		2,111,752	(7,896,215)
Decrease in accrued expenses		(565,754)	(293,382)
Net cash provided by operating activities		41,191,574	27,472,287
Cash flows from investing activities:			
Acquisition of property and equipment		(25,510,751)	(22,786,164)
Purchases of investments		(88,302,097)	(55,021,632)
Proceeds from sale of investments		107,029,442	56,095,737
Due from affiliates		(3,022,822)	(4,765,147)
Net cash used in investing activities		(9,806,228)	(26,477,206)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(5,327,446)	(4,485,971)
Change in entrance fee payable		(2,363,300)	(1,616,071)
Principal payments on and redemptions of long-term debt		(12,551,749)	(12,293,993)
Proceeds from issuance of long-term debt		33,380,681	–
Refunding, refinancing or payoff of long-term debt		(3,380,681)	–
Redemption of treasury bonds		6,197,712	170,125
Financing costs incurred		(362,722)	(6,523)
(Repayments) borrowings on notes payable and lines of credit		(1,364,226)	1,787,359
Borrowings through capital leases		840,657	138,476
Repayments on capital leases		(227,799)	(229,851)
Contributions restricted for long-term purposes		93,708	70,925
Decrease in annuities payable		(84,356)	(160,659)
Net cash provided by (used in) financing activities		14,850,479	(16,626,183)
Net increase (decrease) in cash and cash equivalents		46,235,825	(15,631,102)
Cash, cash equivalents, and restricted cash, beginning of year		11,157,225	26,788,327
Cash, cash equivalents and restricted cash, end of year			
Unrestricted		898,783	950,523
Restricted		56,494,267	10,206,702
	$	57,393,050	11,157,225

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). Among 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	1,109	591	251	134	–	133
Personal care units	511	308	91	80	32	–
Independent living units	1,506	781	155	184	108	278
Total	3,126	1,680	497	398	140	411

(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 thirty-first supplemental indenture dated December 28, 2018. 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 net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction 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, 2015, 2016, and 2017, 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 2018 and 2017, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the combined statements of financial position that sum to the total of the same such amounts shown on the combined statements of cash flows for the year ended December 31.

		2018	2017
Cash and cash equivalents	$	898,783	950,523
Restricted cash in investments		17,790,315	3,992,457
Restricted cash in statutory reserves		5,247,843	1,915,182
Restricted cash in assets whose use is limited		33,456,109	4,299,063
Total cash, cash equivalents and restricted cash shown on the combined statements of cash flows	$	57,393,050	11,157,225

Restricted cash included in investments on the combined statements of financial position includes amounts held for benevolent care, resident deposits and other donor restricted contributions. Restricted cash included in statutory reserves represents amounts required by the Continuing Care Provider Registration and Disclosure Act in Pennsylvania, which 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. Restricted cash in assets whose use is limited represents cash held by a trustee under the terms of various bond indentures and permanently restricted investments.

(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.

(f) Investments (continued)

Annual independent audits of each private investment partnership are provided and included in management's review.

(g) Accounts Receivable

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

		2018	2017
Total accounts receivable	$	19,804,758	25,278,170
Less: allowance for doubtful accounts		(1,029,631)	(2,154,876)
Net accounts receivable	$	18,775,127	23,123,294

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) Promises to Give

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

		2018	2017
Promises to give	$	375,191	409,594
Less: unamortized discount		(24,415)	(26,947)
Subtotal		350,776	382,647
Less: allowance for uncollectables		(23,363)	(17,744)
Net promises to give	$	327,413	364,903

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

Amounts due in:		
Less than one year	$	192,314
One to five years		182,877
	$	375,191

(j) Property and Equipment and Assets Under Capital Leases

Property and equipment and assets under capital leases are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets for property and equipment. Depreciation is being provided on the straight-line method over the shorter of estimated useful lives of assets, or the lease term 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 $306,725 and $711,911 was capitalized in 2018 and 2017, 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 net assets without donor restrictions.

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

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:

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

(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 change in net assets without donor restrictions. For 2018 and 2017, an adjustment to the liability was recorded causing a gain for each year of $5,950 and $27,084, respectively. These adjustments represent the decrease in the liability of the interest rate swaps due to expiration or the change in value.

(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 $362,722 and $6,523 during the years ended December 31, 2018 and 2017, respectively. Amortization expense is expected to be $140,914, $111,852, $108,487, $106,804 and $106,307 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 deduction from the associated long-term debt included on the combined statements of financial position.

(o) Workers' Compensation

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

(p) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits on the 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. There were no funds held for this purpose during 2018. As of December 31, 2017, there was $105,935 held for this purpose. The escrow account is included in cash and cash equivalents on the combined statement 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, 2018 and 2017, under contractual refund provisions was $12,163,288 and $14,526,588, 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, 2018 or 2017.

(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 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, 2018 and 2017, 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 $1,500,000 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) Net Assets

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

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

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

(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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restriction in the accompanying combined financial statements.

The Obligated Group reports non-cash gifts as support without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Obligated Group reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(w) Donor Restrictions (continued)

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

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

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

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

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

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

- **Medicaid:** Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day or rates negotiated with Medicaid Managed Care organizations for facilities located in southwest Pennsylvania. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The 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 Pennsylvania's Department of Human Services (DHS) on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2018, the rates for July 1, 2018, through March 31, 2019, have been finalized.

  In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DHS based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have been approved by the CMS. For the years ended December 31, 2018 and 2017, the Obligated Group received or will receive approximately $3,900,000 for both years in additional revenue for the net effect of this assessment and supplement.

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. There can be no assurance that regulatory authorities will not challenge the Obligated Group's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such challenges would have upon the Obligated Group. In addition, the contracts the Obligated Group has with commercial payors also provide for retroactive audit and review of claims.

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

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

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

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

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

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

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

	Independent Living	Personal Care/Assisted Living	Health Center	Outpatient	Other	Total
Private Pay	$ 65,068,873	26,368,100	29,059,008	543,959	24,660	121,064,600
Medicare	1,571,512	3,127,631	38,547,131	17,485	-	43,263,759
Medicaid	-	-	45,685,773	355,991	-	46,041,764
Other	32,182	128	1,388,429	179,018	1,172,864	2,772,621
	$ 66,672,567	29,495,859	114,680,341	1,096,453	1,197,524	213,142,744

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

	Independent Living	Personal Care/Assisted Living	Health Center	Outpatient	Other	Total
Private Pay	$ 60,837,928	24,405,218	30,669,892	476,253	25,342	116,414,633
Medicare	1,342,871	2,007,919	39,529,221	16,312	-	42,896,323
Medicaid	-	-	45,082,956	422,807	-	45,505,763
Other	37,398	-	1,511,808	204,832	856,720	2,610,758
	$ 62,218,197	26,413,137	116,793,877	1,120,204	882,062	207,427,477

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

Revenues from Medicare and Medicaid represent 42% and 43% of revenues for the years 2018 and 2017, respectively. Medicare and Medicaid receivables represent approximately 55% and 45% of accounts receivable as of December 31, 2018 and 2017, respectively.

(y) Charity Care

Charity care is measured based on the Obligated Group's 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.

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.

Amounts the Obligated Group provided and received for resident financial support are as follows for the years ended December 31:

		2018	2017
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	6,206,906	5,648,127
Additional benevolent care provided at amounts less than pre-established charges for private pay services		33,927,519	31,704,055
Giving and income designated for resident financial support		238,941	337,413

(z) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2018 and 2017, amounted to $605,649 and $550,966, respectively.

(aa) Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 17. This note presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(ab) Fundraising Expenses

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

(ac) Performance Indicator

The Obligated Group measures the performance of its operations using the combined statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "Excess of revenues and other support over expenses and losses." Changes in net assets without donor restriction which are excluded from this measure are change in fair value of interest rate swap, loss on early extinguishment of debt, loss on impairment of asset, and loss on abandoned project.

(ad) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2018 and 2017, was $7,878,531 and $7,923,524, respectively.

(ae) Reclassifications

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

(af) Subsequent Events

The Obligated Group has evaluated subsequent events through April 1, 2019, which is the date the combined financial statements were issued.

(Continued)

(3) Investments

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

		2018 Fair value	2017 Fair value
Money market funds	$	56,494,267	10,206,702
Marketable equity securities		1,932,063	2,513,076
Mutual funds:			
Equity		17,183,039	38,222,776
Fixed income		18,067,545	18,996,160
Alternative investments		26,168,910	24,038,498
Totals		119,845,824	93,977,212
Less:			
Assets whose use is limited (Note 6)		(33,714,619)	(9,262,604)
Statutory liquid reserves		(14,414,768)	(10,790,048)
Total investments	$	71,716,437	73,924,560

(4) Liquidity

The Obligated Group's financial assets available within one year of the combined statement of financial position date for general expenditures are as follows as of December 31, 2018:

Cash and cash equivalents	$	898,783
Investments		71,716,437
Accounts receivable, net		18,775,127
Promises to give, net		327,413
	$	91,717,760

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

(4) Liquidity (continued)

As a part of the Obligated Group's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Obligated Group invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Obligated Group has committed lines of credit that total $19,500,000 that it draws upon as needed. As of December 31, 2018 and 2017, the lines of credit had approximately $5,000,000 and $4,000,000, respectively, available to draw.

(5) 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, 2018 and 2017, the Obligated Group incurred management fees and other expenses under the management agreement totaling $16,965,190 and $17,406,720, respectively, which is included in general and administrative expenses on the combined statements of operations and changes in net assets.

The Obligated Group is an irrevocable guarantor of the First National 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, 2018 and 2017, PHI Stadium Place Senior Care, Inc. had $8,455,265 and $8,875,189, 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 2018 and 2017, the Obligated Group incurred expenses related to Prelude amounting to $1,704,348 and $1,784,580, respectively, for information services provided by Prelude, of which $46,742 and $35,125 is included in accounts payable as of December 31, 2018 and 2017, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2018 and 2017, are $79,009,259 and $75,986,437, respectively.

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. The Obligated Group maintains an established reserve of $13,000,000 based on management's assessment of the collectability of specific receivables from an affiliate organization. No increase in this reserve was deemed necessary during 2018 or 2017.

(6) Assets Whose Use is Limited

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

		2018	2017
Permanently restricted investments	$	5,084,819	4,963,540
Bond fund		2,143,503	1,851,729
Debt service reserve fund		748,332	2,447,335
Held by trustee for future construction projects		25,737,965	–
	$	33,714,619	9,262,604

(7) Property and Equipment

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

		2018			2017		
		Cost		Accumulated depreciation	Cost		Accumulated depreciation
Land	$	44,500,489		–	44,500,489		–
Land improvements		28,196,390		16,272,096	18,905,835		15,724,149
Buildings and improvements		489,667,299		209,836,140	454,604,424		192,568,106
Departmental equipment, furniture and fixtures		51,314,821		41,670,141	48,939,033		39,491,242
Vehicles		1,721,041		1,614,519	1,660,351		1,562,497
Construction-in-progress		10,103,807		–	32,419,622		–
	$	625,503,847		269,392,896	601,029,754		249,345,994
Net book value			$	356,110,951		$	351,683,760

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, 2018 and 2017, approximately $4,600,000 and $4,000,000, respectively, was committed for future renovations.

(8) Long-term Debt

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

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

(8) Long-term Debt (continued)

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

(8) Long-term Debt (continued)

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

(8) Long-term Debt (continued)

	2018	2017
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2013, no principal payment due until April 2017, the bonds consist of term bonds which mature at various dates from April 2023 to April 2039, interest is fixed at 4.81%	8,720,000	2,630,000
Northampton and Blair County Industrial Development Authority Revenue Bonds Series 2014, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.63% until June 2024, interest will be reset in ten year increments	9,698,500	9,765,500
Blair County Hospital Authority Revenue Bonds Series 2014, tax exempt bonds, bank qualified debt, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.63% until June 2024, interest will be reset in ten year increments	9,698,500	9,765,500
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.92% until May 2025, interest rates will be reset in ten year increments	8,622,033	9,019,690
Northampton County Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.80% until May 2025, interest rates will be reset in ten year increments	8,652,579	9,053,410
People's Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 4.38% and 3.38% as of December 31, 2018 and 2017, respectively	4,185,390	4,727,681

(Continued)

(8) Long-term Debt (continued)

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

(Continued)

(8) Long-term Debt (continued)

	2018	2017
Bank of America taxable ten year term loan, principal due in varying amounts through 2034, due in May 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period, the bonds bear a floating interest rate which was 4.05% and 3.06% as of December 31, 2018 and 2017, respectively	3,943,262	4,198,489
Pennsylvania Economic Development Financing Authority Revenue Bonds, Series 2018, held by TD Bank, principal due in varying amounts from 2020 to 2044. The bonds bear a fixed rate of interest equal to 3.91% per annum multiplied by a margin rate factor, as of December 31, 2018, the rate was 3.91%	30,000,000	–
	250,637,504	227,283,347
Plus: Unamortized premium	345,549	70,773
Less: Deferred financing costs	(1,637,744)	(1,573,430)
	$ 249,345,309	225,780,690

All of the Obligated Group 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, 2018 and 2017.

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

(8) Long-term Debt (continued)

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

Years ending December 31,	Aggregate maturities
2019	$ 12,543,016
2020	13,322,125
2021	15,244,318
2022	15,398,084
2023	15,430,792
Thereafter	178,699,169
	$ 250,637,504

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

(9) 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, 2018 and 2017, 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, 2018 and 2017, the Obligated Group had $14,518,798 and $15,883,024, respectively, outstanding under these agreements at interest rates ranging from 4.13% to 5.25%.

(10) Leases

The Obligated Group is obligated under capital leases that expire in 2023 for equipment and vehicles, 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 were as follows:

	2018	2017
Office equipment and vehicles	$ 2,247,868	1,409,052
Accumulated amortization	(1,421,806)	(1,129,078)
	$ 826,062	279,974

(10) Leases (continued)

Amortization expense of $292,728 and $213,740 for the years ended December 31, 2018 and 2017, 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, 2018, follows:

2019	$ 367,080
2020	313,314
2021	174,188
2022	61,101
2023	44,133
	959,816
Amounts representing interest	(58,352)
	$ 901,464

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

2019	$ 87,770
2020	45,397
2021	11,213
	$ 144,380

Rental expense under operating leases was $574,862 and $628,522 for the years ended December 31, 2018 and 2017, respectively.

(11) 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 $616,464 and $700,820 as of December 31, 2018 and 2017, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four to six percent to determine the present value of the actuarially determined liability. The Obligated Group has assets included in investments of $1,102,303 and $1,193,014 as of December 31, 2018 and 2017, respectively, to satisfy annuities.

(12) 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 2018 and 2017, the Obligated Group maintained a surety bond for $3,000,000, in connection with this self-insurance program. As of December 31, 2018 and 2017, the Obligated Group has recorded an accrued expense of approximately $3.5 million and $4.6 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.

(13) 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.

(Continued)

(14) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31.

		2018	2017
Subject to expenditure for specified purpose:			
Caring Community	$	71,399	54,371
Community Enhancement		473,322	910,400
		544,721	964,771
Subject to the passage of time:			
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due		350,776	382,647
Gift annuities		15,565	15,528
Contributions receivable from remainder trusts		780,131	725,679
		1,146,472	1,123,854
Endowments:			
Subject to appropriation and expenditure when a specified event occurs:			
Restricted by donors for:			
Educational Scholarship		30,633	19,523
Benevolent Care		4,256	3,294
Community Enhancement		151,215	115,493
		186,104	138,310
Subject to endowment spending policy and appropriation:			
Educational Scholarship		150,997	150,997
Benevolent Care		1,003,474	956,181
Community Enhancement		3,930,348	3,856,362
		5,084,819	4,963,540
Total endowments		5,270,923	5,101,850
Not subject to spending policy or appropriation:			
Beneficial interest in perpetual trusts		16,592,648	18,169,437
Trust assets held for the benefit of the Easton Home		830,086	830,086
		17,422,734	18,999,523
	$	24,384,850	26,189,998

(14) Net Assets With Donor Restrictions (continued)

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

		2018	2017
Expiration of time restrictions	$	124,475	153,762
Satisfaction of purpose restriction:			
Caring Community		6,880	16,621
Community Enhancement		793,381	200,427
Restricted-purpose spending-rate distributions and appropriations:			
Educational Scholarship		–	14,790
Benevolent Care		29,271	21,018
Community Enhancement		39,345	24,985
	$	993,352	431,603

(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.

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 net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence described in state laws. 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:

(15) Endowments (continued)

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

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

	With Donor Restriction
Endowment net assets, beginning of year	$ 5,101,850
Investment income	112,411
Contributions	125,278
Appropriation of endowment assets for expenditures	(68,616)
Endowment net assets, end of year	$ 5,270,923

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

	With Donor Restriction
Endowment net assets, beginning of year	$ 5,010,705
Investment income	81,014
Contributions	70,925
Appropriation of endowment assets for expenditures	(60,794)
Endowment net assets, end of year	$ 5,101,850

The value of the original gifts plus subsequent gifts to be held in perpetuity totaled $5,088,818 and $4,963,540 for the years ended December 31, 2018 and 2017, respectively.

(15) Endowments (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the 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 net assets without donor restrictions. The Obligated Group's policy states that should a fund fall below the original principal balance the Obligated Group would curtail spending in the fund until it returned to its original principal balance. There were no such deficiencies reported as of December 31, 2018 or 2017.

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.

(15) Endowments (continued)

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 4.0% for 2018 and 3.0% for 2017. 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 2018 and 2017 an allocation of four and three percent, respectively, 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, 2018 and 2017, retirement plan expense totaled $0 and $1,501,983, respectively.

(17) Functionalized Expenses

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

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

	Resident Services	Management & General	Fundraising & Development	Total
Salaries and wages	$ 74,814,570	1,621,657	–	76,436,227
Employee benefits	9,959,501	275,944	–	10,235,445
Payroll taxes	5,293,996	114,751	–	5,408,747
Professional services	5,978,795	877,039	–	6,855,834
Management services	5,315,194	10,957,817	692,179	16,965,190
Accounting fees	–	12,071	–	12,071
Legal fees	–	806,649	–	806,649
Advertising and promotion	605,649	–	–	605,649
Office expenses	3,998,092	2,701,087	–	6,699,179
Information technology	1,516,188	182,195	5,965	1,704,348
Occupancy	12,012,403	223,214	–	12,235,617
Travel	227,009	77,748	–	304,757
Conferences and meetings	33,254	30,772	–	64,026
Interest	6,878,634	843,877	27,063	7,749,574
Insurance	1,970,769	33,675	–	2,004,444
Training and development	564	88,185	–	88,749
Depreciation	20,009,407	341,902	–	20,351,309
Bad debt	–	3,223,583	–	3,223,583
Pharmacy	3,379,777	–	–	3,379,777
Medical supplies	3,442,032	–	–	3,442,032
Therapy services	16,326,270	–	–	16,326,270
Dietary services	6,133,924	–	–	6,133,924
Food, beverages and supplies	7,188,104	39,249	–	7,227,353
Maintenance and repairs	1,867,828	67,313	–	1,935,141
Total cost of services provided	$ 186,951,960	22,518,728	725,207	210,195,895

(18) 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.

(19) 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 which is based on net asset value per share. 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 was 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.

(19) 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, 2018 and 2017. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding, excluding unamortized deferred financing costs, were $266,403,315 and $243,525,750 as of December 31, 2018 and 2017, 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 value of all financial instruments as of December 31, 2018 and 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying 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, 2018 or 2017.

(19) Financial Instruments (continued)

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

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	56,494,267	56,494,267	–	–
Marketable equity securities		1,932,063	1,932,063	–	–
Mutual funds:					
Equity		17,183,039	17,183,039	–	–
Fixed income		18,067,545	18,067,545	–	–
Alternative investments, at net asset value		26,168,910	–	–	–
Total investments		119,845,824	93,676,914	–	–
Beneficial interest in perpetual trusts		16,592,648	–	–	16,592,648
Contributions receivable from remainder trusts		780,131	–	–	780,131
Gift annuities		15,565	–	–	15,565
Total assets	$	137,234,168	93,676,914	–	17,388,344

For assets and a liability 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	$	10,206,702	10,206,702	–	–
Market equity securities		2,513,076	2,513,076	–	–
Mutal funds:					
Equity		38,222,776	38,222,776	–	–
Fixed income		18,996,160	18,996,160	–	–
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)	–

(19) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31, 2018 and 2017, is as follows:

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

Unrealized and realized gains (losses) on remainder trusts, gift annuities and beneficial interest in perpetual trusts are included in assets with donor restrictions 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, 2018 and 2017, 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 appearing on pages 47 through 49 is presented for purposes of additional analysis 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 50 is presented for purposes of additional analysis 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 audit of the December 31, 2018, 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

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

Presbyterian Homes Obligated Group
Combining Schedule of Financial Position
December 31, 2018
See Independent Auditor's Report on Supplementary Information

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	$	556,668	46,992	1,346	272,151	20,626	1,000	898,783		898,783
Investments		221,662	7,701,512	40,554,679	9,057,010	3,595,387	10,586,187	71,716,437		71,716,437
Statutory liquid reserves		7,544,744	2,021,016	—	—	1,951,808	2,897,200	14,414,768		14,414,768
Accounts receivable, net		9,683,209	4,142,573	—	55,202	2,799,491	2,094,652	18,775,127		18,775,127
Prepaid expenses and other current assets		1,469,454	167,171	—	157,057	474,996	615,995	2,884,673	(789)	2,883,884
Assets whose use is limited		1,848,185	2,191,546	2,634,763	—	258,511	1,043,649	7,976,654		7,976,654
Assets whose use is limited, construction funds		25,737,965	—	—	—	—	—	25,737,965		25,737,965
Promises to give, net		271,808	6,100	—	32,736	8,200	8,569	327,413		327,413
Assets held for sale		10,000	—	—	—	—	—	10,000		10,000
Property and equipment, net		210,696,128	43,396,843	—	37,645,440	22,415,293	41,957,247	356,110,951		356,110,951
Assets under capital leases, net		571,122	172,509	—	12,588	69,843	—	826,062		826,062
Due from (to) affiliates		36,225,910	21,563,614	15,693,550	(15,994,904)	15,548,210	5,972,879	79,009,259		79,009,259
Funds held in trust by others		8,076,190	675,979	—	727,060	5,594,226	2,314,889	17,388,344		17,388,344
Beneficial interest in assets of affiliate		1,844,354	—	—	—	—	—	1,844,354	(1,844,354)	—
Goodwill		—	—	—	—	—	1,836,908	1,836,908		1,836,908
Other assets		31,439	—	—	—	8,581	(1,886)	38,134		38,134
Total Assets	$	304,788,838	82,085,855	58,884,338	31,964,340	52,745,172	69,327,289	599,795,832	(1,845,143)	597,950,689

Presbyterian Homes Obligated Group
Combining Schedule of Financial Position
December 31, 2018
See Independent Auditor's Report on Supplementary Information

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	$	5,595,671	1,274,983	—	117,161	669,638	1,151,844	8,809,297	—	8,809,297
Accrued expenses		7,367,406	3,147,583	52,900	449,878	903,282	1,768,364	13,689,413	—	13,689,413
Lines of credit		14,518,798	—	—	—	—	—	14,518,798	—	14,518,798
Accrued interest		565,329	7,620	—	—	—	106,424	679,373	(789)	678,584
Resident deposits		768,349	155,050	—	11,200	114,975	521,550	1,571,124	—	1,571,124
Entrance fee payable		10,359,814	664,199	—	—	700,525	438,750	12,163,288	—	12,163,288
Deferred revenue - entrance fees		61,085,280	10,742,801	—	—	10,413,052	22,295,441	104,536,574	—	104,536,574
Deferred energy costs		—	—	—	—	—	1,078,129	1,078,129	—	1,078,129
Annuities payable		509,549	14,138	—	64,282	28,495	—	616,464	—	616,464
Long-term debt:										
Obligations under capital leases		641,261	177,654	—	12,787	68,415	1,347	901,464	—	901,464
Long-term debt		153,144,872	19,115,354	—	27,627,361	24,428,255	25,029,467	249,345,309	—	249,345,309
Total liabilities		254,556,329	35,299,382	52,900	28,282,669	37,326,637	52,391,316	407,909,233	(789)	407,908,444
Net assets:										
Without donor restrictions		37,862,769	43,830,803	56,987,084	2,881,317	9,509,957	14,585,465	165,657,395	—	165,657,395
With donor restrictions		12,369,740	2,955,670	1,844,354	800,354	5,908,578	2,350,508	26,229,204	(1,844,354)	24,384,850
Total net assets		50,232,509	46,786,473	58,831,438	3,681,671	15,418,535	16,935,973	191,886,599	(1,844,354)	190,042,245
Total liabilities and net assets	$	304,788,838	82,085,855	58,884,338	31,964,340	52,745,172	69,327,289	599,795,832	(1,845,143)	597,950,689

Presbyterian Homes Obligated Group
Combining Schedule of Operations and Changes in Net Assets
Year ended December 31, 2018
See Independent Auditor's Report on Supplementary Information

	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
Revenues and other support:									
Resident services	$ 121,917,117	36,107,013	—	5,063,690	23,403,256	26,651,668	213,142,744	—	213,142,744
Contributions, gifts and bequests	169,111	67,696	—	80,931	108,097	13,747	439,582	—	439,582
Net assets released from restrictions	614,858	71,581	—	10,647	169,256	127,010	993,352	—	993,352
Total operating revenues and other support	122,701,086	36,246,290	—	5,155,268	23,680,609	26,792,425	214,575,678	—	214,575,678
Cost of services provided:									
Nursing services	32,172,746	10,387,161	—	683,125	7,410,885	7,383,715	58,037,632	—	58,037,632
Rehabilitation	9,674,967	3,637,368	—	—	2,873,817	862,706	17,048,858	—	17,048,858
Recreation and special services	3,293,658	801,569	—	116,531	584,910	839,634	5,636,302	—	5,636,302
Pharmacy	1,861,794	769,134	—	12,278	491,207	245,364	3,379,777	—	3,379,777
Social services	592,851	185,108	—	140	78,923	126,850	983,872	—	983,872
Physician services	190,219	148,352	—	9,000	48,826	332,503	728,900	—	728,900
Food services	12,631,078	3,850,098	—	610,284	1,828,244	4,162,988	23,082,692	—	23,082,692
Building operations and maintenance	13,784,255	2,937,767	—	1,218,803	2,314,367	3,718,783	23,973,975	—	23,973,975
Housekeeping	2,247,494	580,621	—	21,082	318,679	664,666	3,832,542	—	3,832,542
Laundry and linen	612,129	236,252	—	—	166,193	115,614	1,130,188	—	1,130,188
General and administrative	18,920,519	6,020,159	21,725	866,356	3,331,861	4,583,604	33,744,224	—	33,744,224
Employee benefits	5,866,193	1,778,267	—	151,358	1,188,874	839,179	9,823,871	—	9,823,871
Interest	5,210,094	524,279	—	1,039,756	401,882	659,817	7,835,828	(86,254)	7,749,574
Depreciation	11,722,002	2,434,160	—	1,112,238	1,639,560	3,443,349	20,351,309	—	20,351,309
Fundraising	395,561	126,195	—	16,915	64,718	88,790	692,179	—	692,179
Total cost of services provided	119,175,560	34,416,490	21,725	5,857,866	22,742,946	28,067,562	210,282,149	(86,254)	210,195,895
Excess (deficiency) of revenues and other support over expenses	3,525,526	1,829,800	(21,725)	(702,598)	937,663	(1,275,137)	4,293,529	86,254	4,379,783
Other income (expense):									
Investment income, net of investment expense	469,352	330,425	644,642	273,791	432,267	426,951	2,577,428	(144,536)	2,432,892
Realized gain (loss) on investments	(394,624)	(880,869)	(607,692)	(1,090,320)	(471,860)	409,409	(3,035,956)	176,445	(2,859,511)
Unrealized gain (loss) on investments	(62,782)	13,340	3,484,703	(154,855)	(169,123)	(1,655,392)	1,455,891	(118,163)	1,337,728
Gain (loss) on sale of property and equipment	(32,362)	—	—	—	—	11,217	(21,145)	—	(21,145)
Total other income (expense)	(20,416)	(537,104)	3,521,653	(971,384)	(208,716)	(807,815)	976,218	(86,254)	889,964
Excess (deficiency) of revenues and other support over expenses and losses	3,505,110	1,292,696	3,499,928	(1,673,982)	728,947	(2,082,952)	5,269,747	—	5,269,747
Change in fair value of interest rate swaps	5,950	—	—	—	—	—	5,950	—	5,950
Loss on early extinguishment of debt	(122,288)	—	—	—	—	—	(122,288)	—	(122,288)
Loss on impairment of asset	(384,945)	—	—	—	—	—	(384,945)	—	(384,945)
Tranfer to (from) affiliated entity	739,092	—	(739,228)	—	—	136	—	—	—
Change in net assets without donor restrictions	3,742,919	1,292,696	2,760,700	(1,673,982)	728,947	(2,082,816)	4,768,464	—	4,768,464
Net assets with donor restrictions									
Contributions, gifts and bequests	586,070	80,548	—	50,253	42,311	8,736	767,918	—	767,918
Interest and dividend income	110,832	90	—	—	1,489	—	112,411	—	112,411
Unrealized loss on investments	(636,205)	(48,505)	(174,464)	(100,053)	(607,275)	(300,087)	(1,866,589)	174,464	(1,692,125)
Net assets released from restrictions	(614,858)	(71,581)	—	(10,647)	(169,256)	(127,010)	(993,352)	—	(993,352)
Change in net assets with donor restrictions	(554,161)	(39,448)	(174,464)	(60,447)	(732,731)	(418,361)	(1,979,612)	174,464	(1,805,148)
Change in net assets	3,188,758	1,253,248	2,586,236	(1,734,429)	(3,784)	(2,501,177)	2,788,852	174,464	2,963,316
Net assets, beginning of year	47,043,751	45,533,225	56,245,202	5,416,100	15,422,319	19,437,150	189,097,747	(2,018,818)	187,078,929
Net assets, end of year	$ 50,232,509	46,786,473	58,831,438	3,681,671	15,418,535	16,935,973	191,886,599	(1,844,354)	190,042,245

PRESBYTERIAN HOMES OBLIGATED GROUP

Statutory Minimum Liquid Reserves
(See Independent Auditor's Report on Supplementary Information)

As of December 31, 2018

		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	Quincy United Methodist Home	Cathedral Village	Obligated Group	
2019 Budgeted Operating Expenses	$	121,192,708	35,244,818	23,738,606	28,641,478	208,817,610	
Less: depreciation expense		(11,926,663)	(2,572,783)	(1,679,612)	(3,675,869)	(19,854,927)	
Expenses subject to minimum liquid assets requirement		109,266,045	32,672,035	22,058,994	24,965,609	188,962,683	
Percentage of residents subject to continuing-care agreements at 12/31/2018		43%	29%	42%	78%		
		46,984,399	9,474,890	9,264,777	19,473,175	85,197,241	
Statutory requirement		10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement - Op Expenses	$	4,698,440	947,489	926,478	1,947,318	8,519,724	(a)
Next 12 months debt service payments:							
Total debt service for next 12 months	$	13,929,931	1,545,923	1,406,930	1,633,654	18,516,438	
Percentage of residents subject to residence and care agreements as of 12/31/2018		43%	29%	42%	78%		
Statutory minimum liquid reserve requirement - Debt Svc	$	5,989,870	448,318	590,911	1,274,250	8,303,349	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$	5,989,870	947,489	926,478	1,947,318	9,811,155	
Total per Bank Statements as of 12/31/2018	$	7,544,744	2,021,016	1,951,808	2,897,200	14,414,768	
Assets in excess of statutory minimum liquid reserve requirement	**$**	**1,554,874**	**1,073,527**	**1,025,330**	**949,882**	**4,603,613**	