PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018, 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 113 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.

Jim Bernardo
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

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Independent Auditor's Report

The Board of Trustees
Presbyterian Homes Obligated Group

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group) which comprise the combined statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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-second supplemental indenture dated November 1, 2019. 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 13, 2020

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2019 and 2018

Assets		**2019**	**2018**
Cash and cash equivalents	$	11,139,633	898,783
Investments		72,958,043	71,716,437
Statutory liquid reserves		12,216,204	14,414,768
Accounts receivable, net		16,406,914	18,775,127
Prepaid expenses and other current assets		3,543,509	2,883,884
Assets whose use is limited		6,245,481	7,976,654
Assets whose use is limited, construction funds		17,324,107	25,737,965
Promises to give, net		255,968	327,413
Assets held for sale		3,619,230	10,000
Property and equipment, net		356,488,553	356,110,951
Financing leases, net		1,139,573	826,062
Assets under operating leases		96,643	156,617
Due from affiliates, net		80,989,105	79,009,259
Funds held in trust by others		19,321,794	17,388,344
Goodwill, net		1,554,307	1,836,908
Other assets		27,230	38,134
Total assets	$	603,326,294	598,107,306

See accompanying notes to combined financial statements.

(Continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2019 and 2018

Liabilities and Net Assets		**2019**	**2018**
Accounts payable	$	8,604,404	8,809,297
Accrued expenses		15,957,412	13,689,413
Lines of credit		15,198,790	14,518,798
Accrued interest		743,757	678,584
Resident deposits		2,338,788	1,571,124
Entrance fee payable		10,850,556	12,163,288
Deferred revenue - entrance fees		107,392,209	104,536,574
Deferred energy costs		1,015,777	1,078,129
Annuities payable		608,759	616,464
Obligations under operating leases		96,643	156,617
Long-term debt:			
Obligations under financing leases		1,155,723	901,464
Long-term debt		236,946,145	249,345,309
Total liabilities		400,908,963	408,065,061
Net assets:			
Without donor restrictions		175,925,636	165,657,395
With donor restrictions		26,491,695	24,384,850
Total net assets		202,417,331	190,042,245
Total liabilities and net assets	$	603,326,294	598,107,306

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

	2019	2018
Revenues and other support:		
Resident services:		
Resident services	$ 199,622,256	196,288,064
Amortization of entrance fees	16,955,577	16,854,680
Implicit price concession	(2,209,959)	(2,556,341)
Total resident services	214,367,874	210,586,403
Contributions, gifts and bequests	459,266	439,582
Net assets released from restrictions	1,216,581	993,352
Total operating revenues and other support	216,043,721	212,019,337
Cost of services provided:		
Nursing services	59,488,679	58,037,632
Rehabilitation	16,118,459	17,048,858
Recreation and special services	5,847,631	5,636,302
Pharmacy	3,354,446	3,379,777
Social services	1,015,769	983,872
Physician services	729,176	728,900
Food services	23,819,083	23,082,692
Building operations and maintenance	24,579,664	23,973,975
Housekeeping	3,871,340	3,832,542
Laundry and linen	1,272,211	1,130,188
General and administrative	30,531,494	31,154,855
Employee benefits	11,494,826	9,823,871
Interest	7,966,263	7,749,574
Depreciation	21,525,057	20,351,309
Amortization	282,601	–
Fundraising	742,586	725,207
Total cost of services provided	212,639,285	207,639,554
Excess of revenues and other support over expenses	3,404,436	4,379,783
Other income (expenses):		
Investment income, net of investment expense	2,085,992	2,432,892
Realized gain (loss) on investments	1,982,030	(2,859,511)
Unrealized gain on investments	4,137,173	1,337,728
Loss on sale of property and equipment	(670,883)	(21,145)
Total other income	7,534,312	889,964
Excess of revenues and other support over expenses and losses	10,938,748	5,269,747
Change in fair value of interest rate swap	–	5,950
Loss on early extinguishment of debt	(165,422)	(122,288)
Loss on impairment of asset	(505,085)	(384,945)
Change in net assets without donor restrictions	10,268,241	4,768,464

See accompanying notes to combined financial statements.

(Continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

	2019	2018
Net assets with donor restrictions:		
Contributions, gifts and bequests	973,389	767,918
Investment income, net of investment expense	116,614	112,411
Unrealized gain (loss) on investments	2,233,423	(1,692,125)
Net assets released from restrictions	(1,216,581)	(993,352)
Change in net assets with donor restrictions	2,106,845	(1,805,148)
Change in net assets	12,375,086	2,963,316
Net assets, beginning of year	190,042,245	187,078,929
Net assets, end of year	$ 202,417,331	190,042,245

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	12,375,086	2,963,316
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		21,525,057	20,351,309
Provision for implicit price concessions		1,914,132	3,223,583
Proceeds from non-refundable entrance fees and deposits		25,063,395	25,097,388
Amortization of entrance fees		(16,955,577)	(16,854,680)
Loss on early extinguishment of debt		165,422	122,288
Change in fair value of interest rate swaps		–	(5,950)
Unrealized (gain) loss on investments and change in fair value of funds held in trust by others		(6,370,596)	354,397
Realized (gain) loss on investments		(1,982,030)	2,859,511
Loss on sale of property and equipment		670,883	21,145
Contributions restricted for long-term purposes		(59,112)	(93,708)
Amortization of deferred financing costs		195,666	176,120
Amortization of bond premium		(26,761)	(17,030)
Amortization of goodwill		282,601	–
Deferred energy cost adjustment		(62,352)	(62,352)
Loss on impairment of asset		505,085	384,945
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		833,808	(1,039,879)
(Increase) decrease in entrance fee receivable		(379,727)	2,164,463
Decrease in promises to give		71,445	37,490
Increase in other assets		(648,721)	(36,780)
(Decrease) increase in accounts payable		(204,893)	2,111,752
Increase (decrease) in accrued expenses		2,333,172	(565,754)
Net cash provided by operating activities		39,245,983	41,191,574
Cash flows from investing activities:			
Acquisition of property and equipment		(28,981,368)	(25,510,751)
Net proceeds from sale of property and equipment		1,980,000	–
Purchases of investments		(30,968,348)	(88,302,097)
Proceeds from sale of investments		11,775,866	107,029,442
Due from affiliates		(1,979,846)	(3,022,822)
Net cash used in investing activities		(48,173,696)	(9,806,228)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(4,484,519)	(5,327,446)
Change in entrance fee payable		(1,312,732)	(2,363,300)
Principal payments on and redemptions of long-term debt		(12,573,234)	(12,551,749)
Proceeds from issuance of long-term debt		14,805,170	33,380,681
Refunding, refinancing or payoff of long-term debt		(14,882,520)	(3,380,681)
Redemption of treasury bonds		50,000	6,197,712
Financing costs incurred		(132,907)	(362,722)
Borrowings (repayments) on lines of credit		679,992	(1,364,226)
Borrowings through financing leases		670,619	840,657
Repayments on financing lease obligations		(416,360)	(227,799)
Contributions restricted for long-term purposes		59,112	93,708
Decrease in annuities payable		(7,705)	(84,356)
Net cash (used in) provided by financing activities		(17,545,084)	14,850,479
Net (decrease) increase in cash and cash equivalents		(26,472,797)	46,235,825
Cash, cash equivalents, and restricted cash, beginning of year		57,393,050	11,157,225
Cash, cash equivalents, and restricted cash, end of year			
Unrestricted		11,139,633	898,783
Restricted		19,780,620	56,494,267
	$	30,920,253	57,393,050

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	1,076	572	251	134	–	119
Personal care units	511	307	92	80	32	–
Independent living units	1,498	779	153	182	108	276
Total	3,085	1,658	496	396	140	395

(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-second supplemental indenture dated November 1, 2019. 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 restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

(Continued)

(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, 2016, 2017, and 2018, 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 2019 and 2018, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

(Continued)

(e) Cash and Cash Equivalents (continued)

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.

		2019	2018
Cash and cash equivalents	$	11,139,633	898,783
Restricted cash in investments		1,081,810	17,790,315
Restricted cash in statutory reserves		168,942	5,247,843
Restricted cash in assets whose use is limited		18,529,868	33,456,109
Total cash, cash equivalents, and restricted cash shown on the combined statements of cash flows	$	30,920,253	57,393,050

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 are measured at fair value, as determined by a national exchange on the combined statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates, and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

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

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for implicit price concessions as follows as of December 31:

		2019	2018
Total accounts receivable	$	17,035,938	19,804,758
Less: allowance for implicit price concessions		(629,024)	(1,029,631)
Net accounts receivable	$	16,406,914	18,775,127

The Obligated Group reports estimated uncollectable balances associated with resident responsibility as a reduction in revenues. The majority of these amounts that were historically classified as bad debt expense are now considered an implicit price concession in determining net revenue from resident services. This estimate is based on payor history and is analyzed on a quarterly basis to ensure reasonableness.

(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 donor 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:

		2019	2018
Promises to give	$	293,566	375,191
Less: unamortized discount		(21,522)	(24,415)
Subtotal		272,044	350,776
Less: allowance for uncollectables		(16,076)	(23,363)
Net promises to give	$	255,968	327,413

(i) Promises to Give (continued)

Promises to give as of December 31, 2019, are due as follows:

Amounts due in:		
Less than one year	$	160,690
One to five years		132,876
	$	293,566

(j) Property and Equipment

Property and equipment 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. 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) Finance and Operating Leases

The Obligated Group adopted the new lease accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, on a retrospective basis without the use of any practical expedients. As a result of the adoption of the new lease accounting guidance, the Obligated Group recognized on January 1, 2018 (the beginning of the earliest period presented), operating lease right-of-use assets and operating lease obligation of $222,184. The capital leases were reassessed by the Obligated Group and classified as financing leases under the new guidance, with no financial statement impact.

Financing leases are stated at cost. Depreciation is being provided on the straight-line method over the shorter of estimated useful lives of assets, or the lease term for financing leases. Operating leases are stated at the present value of future lease payments. The sum of the lease payments are amortized on a straight-line basis as payments are made, with each payment being charged to lease expense and the corresponding credit to lease liability.

(l) 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 $1,189,610 and $306,725 was capitalized in 2019 and 2018, respectively.

(m) 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 included in donor 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:

		2019	2018
Beneficial interest in perpetual trusts	$	18,696,589	16,592,648
Contributions receivable from remainder trusts		609,657	780,131
Gift annuities		15,548	15,565
	$	19,321,794	17,388,344

(n) Derivatives and Hedging Activities

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

The Obligated Group's interest rate swap was 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 change in net assets without donor restrictions. For 2018 the final adjustment to the liability was recorded causing a gain of $5,950. This adjustment represented the decrease in the liability of the interest rate swap due to expiration.

The interest rate swap expired on October 31, 2018.

(Continued)

(o) 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 $132,907 and $362,722 during the years ended December 31, 2019 and 2018, respectively. The Obligated Group refunded $88,072 in financing costs, which is included in loss on early extinguishment of debt for the year ended December 31, 2019. Amortization expense is expected to be $121,689, $118,324, $116,641, $116,144 and $98,874 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.

(p) 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.

(q) 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. The amount of deposits held for this purpose as of December 31, 2019, was $220,132. There were no funds held for this purpose during 2018. The escrow account is included in cash and cash equivalents on the combined statement of financial position.

(r) 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.

(r) Deferred Revenue – Entrance Fees (continued)

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, 2019 and 2018, under contractual refund provisions was $10,850,556 and $12,163,288, respectively.

(s) 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, 2019 or 2018.

(t) Goodwill

Goodwill represents the excess of appraised value over the book value of the assets of Cathedral Village at the time of the affiliation. The Obligated Group adopted the Accounting Standards Update No. 2019-06, *Intangibles-Goodwill and other (Topic 350)*, which states a not-for-profit entity should amortize goodwill over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. As a result of the adoption of the new standard, the Obligated Group amortized $282,601 related to goodwill for the year ended December 31, 2019.

Goodwill is evaluated at the entity level for impairment if an event occurs or circumstances change that indicate that the fair value of the entity may be below its carrying amount. 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, 2019 and 2018, as the Obligated Group concluded it was more likely than not that the fair value exceeded the carrying value.

(u) 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 received by the Obligated Group prior to the date the resident occupies the living unit as of December 31, 2019 and 2018, were approximately $2,400,000 and $1,500,000, respectively. The amounts are also included in the required statutory liquid reserves and cash and cash equivalents on the accompanying combined statements of financial position.

(v) 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.

(w) 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.

(x) 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 restrictions 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.

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.

(y) Resident Services 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

(Continued)

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

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.

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 and southeast 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, 2019, the rates for July 1, 2019, through December 31, 2019, have not been finalized. Revenues have been accrued based on proposed rates for this period.

  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 the DHS based upon all non-Medicare days. The 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, 2019 and 2018, the Obligated Group received or will receive approximately $2,400,000 and $2,100,000, respectively, in in additional revenue for the net effect of this assessment and supplement.

(Continued)

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. There can be no assurance that regulatory authorities will not challenge the 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)(z) 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.

(y) Resident Services 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 services revenue by payor and level of care for the year ended December 31, 2019, is as follows:

	Independent Living	Personal Care/Assisted Living	Health Center	Outpatient	Other	Total
Private Pay	$ 67,277,861	27,720,421	31,423,910	491,403	30,354	126,943,949
Medicare	1,184,907	2,386,077	35,309,113	16,506	–	38,896,603
Medicaid	–	–	45,441,276	256,747	–	45,698,023
Other	25,505	–	1,369,307	181,094	1,253,393	2,829,299
	$ 68,488,273	30,106,498	113,543,606	945,750	1,283,747	214,367,874

The composition of resident services 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	28,100,955	543,959	24,660	120,106,547
Medicare	1,571,512	3,127,631	37,684,605	17,485	–	42,401,233
Medicaid	–	–	44,995,473	355,991	–	45,351,464
Other	32,182	128	1,342,967	179,018	1,172,864	2,727,159
	$ 66,672,567	29,495,859	112,124,000	1,096,453	1,197,524	210,586,403

Revenues from Medicare and Medicaid represent 39% and 42% of revenues for the years 2019 and 2018, respectively. Medicare and Medicaid receivables represent approximately 49% and 55% of accounts receivable as of December 31, 2019 and 2018, respectively.

(z) 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 donor 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:

		2019	2018
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	5,935,469	6,206,906
Additional benevolent care provided at amounts less than pre-established charges for private pay services		35,970,343	33,927,519
Giving and income designated for resident financial support		348,574	238,941

(aa) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2019 and 2018, amounted to $739,165 and $605,649, respectively.

(ab) 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.

(ac) Fundraising Expenses

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

(ad) Performance Indicator

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

(ae) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2019 and 2018, was $8,905,282 and $7,878,531, respectively.

(af) Reclassifications

Certain reclassifications have been made to the 2018 combined financial statements to conform to the presentation of 2019.

(ag) Subsequent Events

The Obligated Group has evaluated subsequent events through April 13, 2020, which is the date the combined financial statements were issued.

(3) Investments

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

		2019 Fair value	2018 Fair value
Money market funds	$	19,780,620	56,494,267
Marketable equity securities		2,428,642	1,932,063
Mutual funds:			
Equity		14,189,023	17,183,039
Fixed income		49,091,238	18,067,545
Alternative investments		23,254,312	26,168,910
Totals		108,743,835	119,845,824
Less:			
Assets whose use is limited (Note 6)		(23,569,588)	(33,714,619)
Statutory liquid reserves		(12,216,204)	(14,414,768)
Total investments	$	72,958,043	71,716,437

(4) Liquidity

The Obligated Group's financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the combined statements of financial position dates are as follows:

		2019	2018
Cash and cash equivalents	$	11,139,633	898,783
Investments		71,876,233	53,926,122
Accounts receivable, net		16,406,914	18,775,127
Promises to give, net		160,690	192,314
	$	99,583,470	73,792,346

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.

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 totaled $17,500,000 and $19,500,000 as of December 31, 2019 and 2018, respectively, which it draws upon as needed. As of December 31, 2019 and 2018, the lines of credit had approximately $2,300,000 and $5,000,000, 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, 2019 and 2018, the Obligated Group incurred management fees and other expenses under the management agreement totaling $17,641,866 and $16,965,190, 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, 2019 and 2018, PHI Stadium Place Senior Care, Inc. had $8,021,569 and $8,455,265, 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.

(5) Related Party Transactions (continued)

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 2019 and 2018, the Obligated Group incurred expenses related to Prelude amounting to $1,702,633 and $1,704,348, respectively, for information services provided by Prelude, of which $37,431 and $46,742 is included in accounts payable as of December 31, 2019 and 2018, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2019 and 2018, are $80,989,105 and $79,009,259, 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 2019 or 2018.

(6) Assets Whose Use is Limited

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

		2019	2018
Permanently restricted investments	$	5,180,302	5,084,819
Bond fund		306,973	2,143,503
Debt service reserve fund		758,206	748,332
Held by trustee for future construction projects		17,324,107	25,737,965
	$	23,569,588	33,714,619

(7) Property and Equipment

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

	2019		2018	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 37,633,570	–	44,500,489	–
Land improvements	28,797,831	16,907,275	28,196,390	16,272,096
Buildings and improvements	500,686,140	228,105,559	489,667,299	209,836,140
Departmental equipment, furniture and fixtures	53,314,265	43,730,994	51,314,821	41,670,141
Vehicles	1,831,475	1,722,460	1,721,041	1,614,519
Construction-in-progress	24,691,560	–	10,103,807	–
	$ 646,954,841	290,466,288	625,503,847	269,392,896
Net book value		$ 356,488,553		$ 356,110,951

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, 2019 and 2018, approximately $35,700,000 and $4,600,000, respectively, was committed for future renovations.

During 2019, management decided to sell two parcels of land that have not yet been developed. The current value of the land has been moved to assets held for sale and the additional costs incurred to date have been expensed to loss on impairment of asset.

(8) Long-term Debt

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

		2019	2018
1995 Series A Revenue Note to First National Bank, payable in equal monthly installments of principal and interest, interest sufficient to amortize the principal balance to July 2026, the note bears a floating interest rate which was 2.69% for December 31, 2019 and 2018, interest will be reset in three year increments	$	1,047,157	1,230,401
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, 2019 and 2018		203,716	259,045
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%		5,660,000	5,970,000
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, 2019 and 2018		1,655,054	1,866,817
Cumberland County Municipal Authority Revenue Bonds Series 2008A, principal due in varying annual amounts from 2016 to 2019, interest rates ranging from 5.00% to 5.25%		–	1,465,000
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		6,261,208	6,409,124

(8) Long-term Debt (continued)

	2019	2018
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%	13,730,000	13,990,000
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 was 2.76% and 3.28% as of December 31, 2019 and 2018, respectively	14,737,782	15,546,584
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, 2019 and 2018	10,017,081	10,425,752
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 at 4.13% as of December 31, 2019 and 2018	6,818,224	7,266,737
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 was fixed at 4.17% as of December 31, 2019 and 2018	7,098,302	7,535,950
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 rate will be reset in ten year increments	7,049,510	7,489,990

(8) Long-term Debt (continued)

	2019	2018
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 was fixed at 2.75%, loan was refinanced during 2019 with M&T Bank	–	7,442,100
Cumberland County Municipal Authority Revenue Bonds Series 2013B, held by Key Bank, principal due in varying annual amounts from 2013 to 2022, interest is fixed at 3.11% as of December 31, 2019 and 2018	3,594,636	3,800,886
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 fixed at 4.17% and 3.60% as of December 31, 2019 and 2018, respectively	7,555,043	7,977,035
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 was fixed at 3.48%, loan was refinanced during 2019 with M&T Bank	–	8,083,445
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 rates vary between 4.81% to 5.00%	8,475,000	8,720,000
Northampton and Blair County Industrial Development Authority Revenue Bonds Series 2014, held by Bank of America, principal due in varying amounts annually, a call options is available at the lender's discretion in November 2028, interest rate was fixed at 3.63% until November 2028, interest will be reset in ten year increments	9,631,500	9,698,500

(8) Long-term Debt (continued)

	2019	**2018**
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 was fixed at 3.63% until November 2028, interest will be reset in ten year increments	9,631,500	9,698,500
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	8,210,958	8,622,033
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	8,239,239	8,652,579
People's Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 3.75% and 4.38% as of December 31, 2019 and 2018, respectively	3,624,356	4,185,390
First National Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 3.80% and 4.45% as of December 31, 2019 and 2018, respectively	3,656,289	4,214,999
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 October 2035, interest is variable and was 2.35% as of December 31, 2019 and 2018, interest rates will be reset in five year increments	8,291,854	8,717,925

(8) Long-term Debt (continued)

	2019	**2018**
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%	3,398,363	5,040,358
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 and was 3.23% as of December 31, 2019 and 2018, interest resets in ten year increments	8,672,798	9,019,505
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 2.45% and 2.88% as of December 31, 2019 and 2018, respectively	14,019,333	14,253,333
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	18,502,154	19,112,254
Bank of America taxable ten year term loan, principal due in varying amounts through 2034, due in May 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which was 3.41% and 4.05% as of December 31, 2019 and 2018, respectively	3,675,408	3,943,262
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, interest rate was 3.91% as of December 31, 2019 and 2018, interest resets in ten year increments	30,000,000	30,000,000

(8) Long-term Debt (continued)

		2019	2018
General Municipal Authority of the Township of Manheim Bond Series 2019, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 2032, interest is fixed at 2.70% as of December 31, 2019		6,994,082	–
Indiana County Industrial Development Authority Revenue Bonds Series 2019, held by M&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 2.70% as of December 31, 2019		7,663,455	–
		238,114,002	250,637,504
Plus: Unamortized premium		318,788	345,549
Less: Deferred financing costs		(1,486,645)	(1,637,744)
	$	236,946,145	249,345,309

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, 2019 and 2018.

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.

During 2019, $50,000 of the Cumberland County Municipal Authority Revenue Bonds Series 2008C, held in treasury by Presbyterian Homes, were resold.

(8) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2019, and thereafter are as follows:

Years ending December 31,	Aggregate maturities
2020	$ 13,405,241
2021	15,365,122
2022	15,512,144
2023	15,539,617
2024	16,273,742
Thereafter	162,018,136
	$ 238,114,002

(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, 2019 and 2018, under the line of credit agreements, the Obligated Group had available a total maximum of $17,500,000 and $19,500,000 from the financial institutions. As of December 31, 2019 and 2018, the Obligated Group had $15,198,790 and $14,518,798, respectively, outstanding under these agreements at interest rates ranging from 3.31% to 5.25%.

(10) Leases

The Obligated Group has entered into a number of non-cancelable lease arrangements under which the Obligated Group is the lessee.

The amounts recognized as right-of-use (ROU) assets related to operating leases are listed in the asset section of the accompanying combined statements of financial position. The amounts recognized as right-of-use assets related to the finance leases are included in the assets section of the accompanying combined statements of financial position net of accumulated depreciation. The related lease liabilities for operating leases and the financing leases are included in the liabilities section of the accompanying combined statements of financial position. The Obligated Group does not have variable lease payments, options required to be recognized as part of a lease ROU asset, or residual value guarantees. The Obligated Group's leases do not contain non-lease components.

(10) Leases (continued)

During the years ended December 31, 2019 and 2018, the Obligated Group had the following cash and non-cash activities associated with the leases:

		2019	2018
Operating leases			
Facility lease expense	$	82,294	75,294
Operating cash flows from operating leases	$	82,294	75,294
Financing leases			
Depreciation and amortization	$	425,552	292,727
Interest expense		41,931	25,718
Financing lease expense	$	467,483	318,445
Operating cash flows from financing leases	$	41,931	25,718
Financing cash flows from financing leases		(254,259)	(612,858)
Total cash flows from financing leases	$	(212,328)	(587,140)

A schedule of future minimum lease payments due under operating and financing leases as of December 31, 2019, follows:

Years ending December 31,		Operating Leases	Financing Leases
2020	$	62,913	485,475
2021		26,534	357,579
2022		8,197	180,030
2023		2,642	145,810
2024		646	70,635
Total lease payments		100,932	1,239,529
Imputed interest		(4,289)	(83,806)
Total lease obligations	$	96,643	1,155,723

As of December 31, 2019 and 2018, the weighted-average remaining lease term for all operating leases was 2 years and 2.5 years, respectively, while the weighted-average remaining lease term for all financing leases was 2 years and 2.5 years, respectively.

The Obligated Group utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with operating leases as of December 31, 2019 and 2018, was 4.36%, while the weighted-average discount rate associated with financing leases was 4.03% and 3.47%, 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 $608,759 and $616,464 as of December 31, 2019 and 2018, 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 $1,113,303 and $1,102,303 as of December 31, 2019 and 2018, 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 2019 and 2018, the Obligated Group maintained a surety bond for $3,000,000, in connection with this self-insurance program. As of December 31, 2019 and 2018, the Obligated Group has recorded an accrued expense of approximately $3.8 million and $3.5 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 members are named insured under a claims-made professional liability insurance policy maintained by the parent organization, Presbyterian Senior Living. 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 insurance coverages or will have a material adverse effect on the combined financial statements.

(14) Net Assets With Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose:		
Caring Community	$ 86,400	71,399
Community Enhancement	606,651	473,322
	693,051	544,721
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	272,044	350,776
Gift annuities	15,548	15,565
Contributions receivable from remainder trusts	609,657	780,131
	897,249	1,146,472
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Educational Scholarship	38,584	30,633
Benevolent Care	5,278	4,256
Community Enhancement	150,556	151,215
	194,418	186,104
Subject to endowment spending policy and appropriation:		
Educational Scholarship	177,076	150,997
Benevolent Care	1,024,107	1,003,474
Community Enhancement	3,979,119	3,930,348
	5,180,302	5,084,819
Total endowments	5,374,720	5,270,923
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts	18,696,589	16,592,648
Trust assets held for the benefit of the Easton Home	830,086	830,086
	19,526,675	17,422,734
	$ 26,491,695	24,384,850

(Continued)

(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:

		2019	2018
Expiration of time restrictions	$	359,104	124,475
Satisfaction of purpose restriction:			
Caring Community		24,828	6,880
Community Enhancement		724,350	793,381
Restricted-purpose spending-rate distributions and appropriations:			
Benevolent Care		30,742	29,271
Community Enhancement		77,557	39,345
	$	1,216,581	993,352

(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:

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

(15) Endowments (continued)

The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the year ended December 31, 2019:

	With Donor Restriction
Endowment net assets, beginning of year	$ 5,270,923
Investment income	116,614
Contributions	95,482
Appropriation of endowment assets for expenditures	(108,299)
Endowment net assets, end of year	$ 5,374,720

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 value of the original gifts plus subsequent gifts to be held in perpetuity totaled $5,183,880 and $5,088,818 for the years ended December 31, 2019 and 2018, respectively.

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the 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, 2019 or 2018.

(15) Endowments (continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment funds' average fair value over the prior three calendar year ends. This percentage was 4.0% for both years. 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 2019 and 2018 an allocation of 4.0% 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, 2019 and 2018, retirement plan expense totaled $1,182,850 and $0, 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, 2019:

	Resident Services	Management & General	Fundraising & Development	Total
Salaries and wages	$ 77,605,234	1,508,033	–	79,113,267
Employee benefits	11,567,682	249,645	–	11,817,327
Payroll taxes	5,455,075	106,004	–	5,561,079
Professional services	6,287,015	971,557	–	7,258,572
Management services	5,513,084	11,424,872	703,910	17,641,866
Accounting fees	–	922	–	922
Legal fees	–	359,965	–	359,965
Advertising and promotion	739,165	–	–	739,165
Office expenses	3,319,771	2,759,820	–	6,079,591
Information technology	1,537,477	158,345	6,811	1,702,633
Occupancy	12,050,709	92,338	–	12,143,047
Travel	183,139	89,573	–	272,712
Conferences and meetings	45,738	21,280	–	67,018
Interest	7,193,536	740,862	31,865	7,966,263
Insurance	2,596,782	15,149	–	2,611,931
Training and development	952	45,180	–	46,132
Depreciation	21,400,212	124,845	–	21,525,057
Amortization	280,962	1,639	–	282,601
Bad debt (recovery)	–	(295,411)	–	(295,411)
Pharmacy	3,354,446	–	–	3,354,446
Medical supplies	3,230,627	–	–	3,230,627
Therapy services	15,430,724	–	–	15,430,724
Dietary services	6,430,461	–	–	6,430,461
Food, beverages and supplies	7,393,957	51,936	–	7,445,893
Maintenance and repairs	1,799,269	54,128	–	1,853,397
Total cost of services provided	$ 193,416,017	18,480,682	742,586	212,639,285

17) Functionalized Expenses (continued)

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		–	667,242	–	667,242
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	19,962,387	725,207	207,639,554

(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.

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, 2019 and 2018. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding, excluding unamortized deferred financing costs, were $254,787,303 and $266,403,315 as of December 31, 2019 and 2018, 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, 2019 and 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying combined statements of financial position.

(19) Financial Instruments (continued)

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

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

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

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

An asset'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, 2019 or 2018.

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, 2019, are as follows:

Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 19,780,620	19,780,620	–	–
Marketable equity securities	2,428,642	2,428,642	–	–
Mutual funds:				
Equity	14,189,023	14,189,023	–	–
Fixed income	49,091,238	49,091,238	–	–
Alternative investments, at net asset value	23,254,312	–	–	–
Total investments	108,743,835	85,489,523	–	–
Beneficial interest in perpetual trusts	18,696,589	–	–	18,696,589
Contributions receivable from remainder trusts	609,657	–	–	609,657
Gift annuities	15,548	–	–	15,548
Total assets	$ 128,065,629	85,489,523	–	19,321,794

(19) Financial Instruments (continued)

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, 2018, are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 56,494,267	56,494,267	–	–
Market equity securities	1,932,063	1,932,063	–	–
Mutal 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 investments falling within Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31 is as follows:

Description	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance as of December 31, 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 gains (losses)	(170,474)	2,103,941	(17)
Balance as of December 31, 2019	$ 609,657	18,696,589	15,548

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.

(19) Financial Instruments (continued)

(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.

(20) Subsequent Event

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. During March 2020, federal, state, and local governments in which the Obligated Group operates took significant preventative or protective actions. The extent of the impact of COVID-19 on the Obligated Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Obligated Group's customers, financial markets, employees and vendors. The financial implications have been highly volatile and unpredictable. The effects of these events on operations and the Obligated Group's financial condition have not been determined and are not reflected in these combined financial statements.

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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, 2019 and 2018, 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 analyses rather than to present the financial position and results of operations of the individual corporations and is not a required part of the combined financial statements. Additionally, the other supplementary information appearing on page 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, 2019, 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 13, 2020

Bridgeport, WV • Buckhannon, WV • Charleston, WV • Columbus, OH • Meadville, PA • Morgantown, WV • New Castle, PA • Pittsburgh, PA

Presbyterian Homes Obligated Group
Combining Schedule of Financial Position
December 31, 2019
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	$	10,760,782	45,243	1,346	291,847	39,415	1,000	11,139,633	–	11,139,633
Investments		220,710	9,876,685	35,125,497	9,719,619	5,307,358	12,708,174	72,958,043	–	72,958,043
Statutory liquid reserves		6,269,725	1,258,405	–	-	1,153,491	3,534,583	12,216,204	–	12,216,204
Accounts receivable, net		8,462,811	3,509,358	–	85,442	2,207,470	2,141,833	16,406,914	–	16,406,914
Prepaid expenses and other current assets		1,992,151	259,402	–	159,288	527,665	605,003	3,543,509	–	3,543,509
Assets whose use is limited		10,333	2,239,416	2,682,375	–	258,511	1,054,846	6,245,481	–	6,245,481
Assets whose use is limited, construction funds		17,324,107	–	–	–	–	–	17,324,107	–	17,324,107
Promises to give, net		196,477	1,027	–	40,383	9,200	8,881	255,968	–	255,968
Assets held for sale		1,269,000	2,350,230	–	–	–	–	3,619,230	–	3,619,230
Property and equipment, net		211,764,009	39,808,637	–	33,964,739	23,619,574	47,331,594	356,488,553	–	356,488,553
Financing leases, net		565,758	373,616	–	6,993	36,539	156,667	1,139,573	–	1,139,573
Assets under operating leases		44,870	11,143	–	24,725	6,341	9,564	96,643	–	96,643
Due from affiliates, net		28,692,611	24,408,920	21,963,669	(15,323,754)	16,633,215	4,614,444	80,989,105	–	80,989,105
Funds held in trust by others		8,798,754	775,594	–	811,654	6,342,704	2,593,088	19,321,794	–	19,321,794
Goodwill, net		–	–	–	–	–	1,554,307	1,554,307	–	1,554,307
Other assets		20,035	–	–	–	7,195	–	27,230	–	27,230
Beneficial interest in assets		2,079,683	–	–	–	–	–	2,079,683	(2,079,683)	–
Total assets	$	298,471,816	84,917,676	59,772,887	29,780,936	56,148,678	76,313,984	605,405,977	(2,079,683)	603,326,294

Presbyterian Homes Obligated Group
Combining Schedule of Financial Position
December 31, 2019
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	$	4,079,969	968,324	-	93,104	975,815	2,487,192	8,604,404	–	8,604,404
Accrued expenses		7,858,460	3,555,937	50,722	463,690	1,327,504	2,701,099	15,957,412	–	15,957,412
Lines of credit		15,198,790	–	–	–	–	–	15,198,790	–	15,198,790
Accrued interest		633,188	6,594	–	–	–	103,975	743,757	–	743,757
Resident deposits		1,433,713	137,500	–	11,000	187,825	568,750	2,338,788	–	2,338,788
Entrance fee payable		9,258,061	569,680	–	–	672,655	350,160	10,850,556	–	10,850,556
Deferred revenue - entrance fees		60,489,462	11,975,234	–	–	10,278,808	24,648,705	107,392,209	–	107,392,209
Deferred energy credit		–	–	–	–	–	1,015,777	1,015,777	–	1,015,777
Annuities payable		507,025	13,995	–	62,691	25,048	–	608,759	–	608,759
Obligations under operating lease		44,870	11,143	–	24,725	6,341	9,564	96,643	–	96,643
Long-term debt:										
Obligations under financing lease		574,299	381,081	–	7,256	33,645	159,442	1,155,723	–	1,155,723
Long-term debt		144,594,570	18,074,104	–	26,059,537	23,824,804	24,393,130	236,946,145	–	236,946,145
Total liabilities		244,672,407	35,693,592	50,722	26,722,003	37,332,445	56,437,794	400,908,963	–	400,908,963
Net assets:										
Without donor restrictions		40,788,829	46,117,490	57,642,482	2,109,038	12,120,288	17,147,509	175,925,636	–	175,925,636
With donor restrictions		13,010,580	3,106,594	2,079,683	949,895	6,695,945	2,728,681	28,571,378	(2,079,683)	26,491,695
Total net assets		53,799,409	49,224,084	59,722,165	3,058,933	18,816,233	19,876,190	204,497,014	(2,079,683)	202,417,331
Total liabilities and net assets	$	298,471,816	84,917,676	59,772,887	29,780,936	56,148,678	76,313,984	605,405,977	(2,079,683)	603,326,294

Presbyterian Homes Obligated Group
Combining Schedule of Operations and Changes in Net Assets
Year ended December 31, 2019
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:									
Resident services	$ 110,913,670	35,415,542	–	5,143,021	23,071,790	25,078,233	199,622,256	–	199,622,256
Amortization of entrance fees	9,807,578	1,798,614	–	–	1,225,437	4,123,948	16,955,577	–	16,955,577
Implicit price concession	(1,036,885)	(566,667)	–	(1,000)	(425,372)	(180,035)	(2,209,959)	–	(2,209,959)
Total resident services	119,684,363	36,647,489	–	5,142,021	23,871,855	29,022,146	214,367,874	–	214,367,874
Contributions, gifts and bequests	84,217	87,053	–	70,023	214,602	3,371	459,266	–	459,266
Net assets released from restrictions	1,115,196	50,249	–	16,702	31,745	2,689	1,216,581	–	1,216,581
Total operating revenues and other support	120,883,776	36,784,791	–	5,228,746	24,118,202	29,028,206	216,043,721	–	216,043,721
Cost of services provided:									
Nursing services	33,345,094	10,795,369	–	678,355	7,541,094	7,128,767	59,488,679	–	59,488,679
Rehabilitation	8,671,802	4,040,532	–	–	2,324,518	1,081,607	16,118,459	–	16,118,459
Recreation and special services	3,456,205	858,316	–	140,561	617,605	774,944	5,847,631	–	5,847,631
Pharmacy	1,871,208	678,827	–	12,584	395,303	396,524	3,354,446	–	3,354,446
Social services	606,105	197,455	–	69	86,987	125,153	1,015,769	–	1,015,769
Physician services	178,590	143,930	–	9,000	52,479	345,177	729,176	–	729,176
Food services	12,896,935	3,912,490	–	598,775	1,899,075	4,511,808	23,819,083	–	23,819,083
Building operations and maintenance	13,687,561	3,163,313	–	1,172,068	2,473,393	4,083,329	24,579,664	–	24,579,664
Housekeeping	2,299,073	567,053	–	21,363	290,633	693,218	3,871,340	–	3,871,340
Laundry and linen	672,112	241,869	–	–	200,917	157,313	1,272,211	–	1,272,211
General and administrative	17,099,613	5,392,058	7,318	863,597	3,013,281	4,171,368	30,547,235	(15,741)	30,531,494
Employee benefits	6,776,884	2,248,188	–	176,331	1,147,924	1,145,499	11,494,826	–	11,494,826
Interest	5,085,770	633,166	–	1,077,822	499,483	675,821	7,972,062	(5,799)	7,966,263
Depreciation	12,223,875	2,576,822	–	1,125,370	1,744,788	3,854,202	21,525,057	–	21,525,057
Amortization	–	–	–	–	–	282,601	282,601	–	282,601
Fundraising	414,470	131,016	–	17,760	73,939	89,660	726,845	15,741	742,586
Total cost of services provided	119,285,297	35,580,404	7,318	5,893,655	22,361,419	29,516,991	212,645,084	(5,799)	212,639,285
Excess (deficiency) of revenues and other support over expenses	1,598,479	1,204,387	(7,318)	(664,909)	1,756,783	(488,785)	3,398,637	5,799	3,404,436
Other income (expenses):									
Investment income, net of investment expense	389,038	290,771	238,842	303,280	393,304	530,967	2,146,202	(60,210)	2,085,992
Realized gains (loss) on investments	28,652	141,130	597,431	131,343	72,989	1,063,955	2,035,500	(53,470)	1,982,030
Unrealized gains on investments	219,100	650,400	1,049,762	271,187	387,255	1,451,588	4,029,292	107,881	4,137,173
(Losses) gains on sale of property and equipment	89,525	–	–	(764,728)	–	4,320	(670,883)	–	(670,883)
Total other income (expense)	726,315	1,082,301	1,886,035	(58,918)	853,548	3,050,830	7,540,111	(5,799)	7,534,312
Excess of revenues and other support over expenses and losses	2,324,794	2,286,688	1,878,717	(723,827)	2,610,331	2,562,045	10,938,748	–	10,938,748
Loss on early extinguishment of debt	(116,971)	–	–	(48,451)	–	–	(165,422)	–	(165,422)
Loss on impairment of asset	(505,085)	–	–	–	–	–	(505,085)	–	(505,085)
Transfer to affiliated entity	1,223,319	–	(1,223,319)	–	–	–	–	–	–
Change in net assets without donor restrictions	2,926,057	2,286,688	655,398	(772,278)	2,610,331	2,562,045	10,268,241	–	10,268,241
Net assets with donor restrictions:									
Contributions, grants and bequests	579,954	109,752	–	93,657	78,613	111,413	973,389	–	973,389
Investment income, net of investment expense	114,702	362	–	–	1,550	–	116,614	–	116,614
Unrealized gains on investments	1,061,383	91,058	235,329	72,585	738,949	269,448	2,468,752	(235,329)	2,233,423
Net assets released from restriction	(1,115,196)	(50,249)	–	(16,702)	(31,745)	(2,689)	(1,216,581)	–	(1,216,581)
Change in net assets with restrictions	640,843	150,923	235,329	149,540	787,367	378,172	2,342,174	(235,329)	2,106,845
Change in net assets	3,566,900	2,437,611	890,727	(622,738)	3,397,698	2,940,217	12,610,415	(235,329)	12,375,086
Net assets, beginning 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
Net assets, end of year	$ 53,799,409	49,224,084	59,722,165	3,058,933	18,816,233	19,876,190	204,497,014	(2,079,683)	202,417,331

PRESBYTERIAN HOMES OBLIGATED GROUP

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

As of December 31, 2019

		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	Quincy United Methodist Home	Cathedral Village	Obligated Group	
2020 Budgeted Operating Expenses	$	121,475,522	35,857,190	23,651,901	30,539,942	211,524,555	
Less: depreciation expense		(12,163,572)	(2,546,541)	(1,672,129)	(4,141,819)	(20,524,061)	
Expenses subject to minimum liquid assets requirement		109,311,951	33,310,649	21,979,772	26,398,123	191,000,494	
Percentage of residents subject to continuing-care agreements as of 12/31/2019		43%	30%	42%	77%		
		47,004,139	9,993,195	9,231,504	20,326,555	86,555,392	
Statutory requirement		10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement - Op Expenses	$	4,700,414	999,319	923,150	2,032,656	8,655,539	(a)
Next 12 months debt service payments:							
Total debt service for next 12 months	$	13,891,988	1,511,708	1,651,090	1,853,961	18,908,747	
Percentage of residents subject to residence and care agreements as of 12/31/2019		43%	30%	42%	77%		
Statutory minimum liquid reserve requirement - Debt Svc	$	5,973,555	453,512	693,458	1,427,550	8,548,075	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$	5,973,555	999,319	923,150	2,032,656	9,928,680	
Total per Bank Statements as of 12/31/2019	$	6,269,725	1,258,405	1,153,491	3,534,583	12,216,204	
Assets in excess of statutory minimum liquid reserve requirement	**$**	**296,171**	**259,085**	**230,341**	**1,501,928**	**2,287,524**	