

Presbyterian Homes Obligated Group

Combined Financial Statements
and Supplementary Information

December 31, 2022 and 2021

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 Presbyterian Homes Obligated Group as of December 31, 2022 and 2021, 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 position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these 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 nonfinancial aspects of our mission, extending a proud tradition of ministry that has served older persons guided by the life and teachings of Jesus for the past 116 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.

Dan Davis
Chief Executive Officer
Presbyterian Senior Living

Dyan McAlister
Chief Financial Officer
Presbyterian Senior Living

Independent Auditors' Report

To the Board of Directors of
Presbyterian Homes Obligated Group

Opinion

We have audited the combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group), which comprise the combined statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Obligated Group as of December 31, 2022 and 2021, and the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Obligated Group and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Obligated Group's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Obligated Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Obligated Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combined information on pages 33 through 34 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual organizations, and it is not a required part of the combined financial statements. Also, the other supplementary information appearing on page 35 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 information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 18, 2023

Presbyterian Homes Obligated Group

Combined Statements of Financial Position

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Assets		
Cash and cash equivalents	\$ 10,041,000	\$ 11,239,818
Investments	95,098,031	113,869,829
Statutory liquid reserves	10,905,687	10,471,255
Accounts receivable, net	11,220,074	10,858,834
Assets whose use is limited	43,561,376	53,388,482
Property and equipment, net	377,257,984	375,066,095
Due from affiliates, net	86,233,952	88,045,022
Funds held in trust by others	17,559,351	21,414,680
Other assets	6,005,753	5,564,488
	<u>657,883,208</u>	<u>689,918,503</u>
Total assets	<u>\$ 657,883,208</u>	<u>\$ 689,918,503</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 8,084,613	\$ 10,373,384
Accrued expenses	15,061,226	14,135,713
Lines of credit	16,602,167	15,593,443
Resident deposits	2,227,668	2,507,309
Entrance fees payable	7,114,327	8,147,685
Other liabilities	5,177,226	5,362,815
CARES Act funding liabilities	20,520	4,472,340
Long-term debt	259,343,072	272,663,720
Deferred revenues from entrance fees	123,277,629	114,979,674
	<u>436,908,448</u>	<u>448,236,083</u>
Total liabilities	<u>436,908,448</u>	<u>448,236,083</u>
Net Assets		
Without donor restrictions	195,704,329	212,527,325
With donor restrictions	25,270,431	29,155,095
	<u>220,974,760</u>	<u>241,682,420</u>
Total net assets	<u>220,974,760</u>	<u>241,682,420</u>
Total liabilities and net assets	<u>\$ 657,883,208</u>	<u>\$ 689,918,503</u>

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets Without Donor Restrictions		
Revenues, gains and other support:		
Resident services:		
Resident services	\$ 168,470,465	\$ 174,338,100
Amortization of entrance fees	16,756,172	18,993,628
Total resident services	185,226,637	193,331,728
Contributions, gifts and bequests	495,274	1,330,159
Government grants	2,000,000	7,515,900
Government stimulus	1,465,363	4,799,292
FEMA funding	2,236,500	5,742,262
Net assets released from restrictions	709,099	992,913
Total operating revenues and other support	192,132,873	213,712,254
Expenses:		
Nursing services	53,970,314	55,328,956
Rehabilitation	8,934,431	13,025,251
Recreation and special services	3,505,545	3,805,588
Pharmacy	2,812,911	2,651,932
Social services	837,211	940,602
Physician services	705,113	742,482
Food services	20,993,437	22,037,415
Building operations and maintenance	26,255,439	26,859,867
Housekeeping	3,304,580	3,786,145
Laundry and linen	1,009,706	1,169,109
Management and general	29,992,932	31,446,154
Employee benefits	9,467,050	7,843,468
Interest	7,583,565	7,084,265
Depreciation	24,799,177	23,836,080
Amortization	282,601	282,601
Fundraising	620,799	700,094
Total expenses before nonrecurring expenses	195,074,811	201,540,009
Nonrecurring expenses, COVID-19	1,037,819	2,101,279
Operating (loss) income before gains and losses	(3,979,757)	10,070,966
(Loss) gain on sale of community and disposals of property and equipment	(30,440)	14,615,126
Loss on impairment of asset	-	(2,350,230)
Operating (loss) income	(4,010,197)	22,335,862
Other income (loss):		
Investment income	2,647,568	2,800,155
Realized gain on investments	2,026,906	3,716,532
Unrealized (loss) gain on investments	(17,399,455)	11,470,916
Loss on early extinguishment of debt	-	(1,518,104)
Total other (loss) income	(12,724,981)	16,469,499
Revenues (less than) in excess of expenses	(16,735,178)	38,805,361
Grant revenue, capital	637,182	-
Transfer to affiliated entity	(725,000)	(3,330,234)
Change in net assets without donor restrictions	(16,822,996)	35,475,127

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Assets With Donor Restrictions		
Contributions, gifts and bequests	\$ 1,216,357	\$ 666,920
Investment income, net of investment expense	82,871	61,061
Unrealized (loss) gain on investments	(4,474,793)	1,664,178
Net assets released from restrictions	<u>(709,099)</u>	<u>(992,913)</u>
Change in net assets with donor restrictions	<u>(3,884,664)</u>	<u>1,399,246</u>
Change in net assets	(20,707,660)	36,874,373
Net Assets, Beginning	<u>241,682,420</u>	<u>204,808,047</u>
Net Assets, Ending	<u><u>\$ 220,974,760</u></u>	<u><u>\$ 241,682,420</u></u>

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ (20,707,660)	\$ 36,874,373
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	24,799,177	23,836,080
Provision for doubtful collections	1,069,214	1,454,968
Proceeds from nonrefundable entrance fees and deposits	26,384,570	20,470,367
Amortization of entrance fees	(16,756,172)	(18,993,628)
Loss on early extinguishment of debt	-	1,518,104
Unrealized loss (gain) on investments and change in fair value of funds held in trust by others	21,874,248	(13,135,094)
Realized gain on investments	(2,026,906)	(3,716,532)
Loss (gain) on sale of community and disposals of property and equipment	30,440	(14,615,126)
Contributions restricted for long-term purposes	(222,477)	(74,871)
Amortization of deferred financing costs	128,373	131,225
Amortization of bond premium	(407,025)	(218,313)
Loss on impairment of asset	-	2,350,230
Changes in assets and liabilities:		
Accounts receivable	(377,236)	(883,002)
Entrance fee receivable	(1,053,218)	1,055,401
Other assets	(441,265)	667,344
Accounts payable	(1,837,983)	3,266,756
Accrued expenses	(579,284)	(1,084,997)
Other liabilities	(185,589)	578,378
CARES Act funding liabilities	(4,451,820)	(9,172,366)
Net cash provided by operating activities	<u>25,239,387</u>	<u>30,309,297</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(25,565,183)	(24,675,844)
Proceeds from sale of community and property and equipment	200,211	19,500,000
Purchases of investments	(48,572,876)	(49,398,706)
Proceeds from sale of investments	49,407,224	36,465,949
Due from affiliates, net	1,811,070	(1,321,284)
Net cash used in investing activities	<u>(22,719,554)</u>	<u>(19,429,885)</u>
Cash Flows From Financing Activities		
Payment of accounts payable, construction	(602,526)	(7,159,181)
Refunds of entrance fees and deposits	(3,681,435)	(3,654,981)
Proceeds from refundable entrance fees and deposits, resales	239,325	97,500
Proceeds from refundable entrance fees and deposits, new units	798,668	8,779,487
Principal payments on redemptions of long-term debt	(13,041,996)	(14,003,114)
Proceeds from issuance of long-term debt	-	31,050,680
Proceeds from bond premium	-	7,151,245
Redemption of bonds held in treasury	-	(225,000)
Financing costs paid	-	(1,072,391)
Borrowings on lines of credit	1,008,724	1,381,031
Contributions restricted for long-term purposes	222,477	74,871
Net cash (used in) provided by financing activities	<u>(15,056,763)</u>	<u>22,420,147</u>
Net change in cash, cash equivalents and restricted cash and cash equivalents	(12,536,930)	33,299,559
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	<u>64,504,738</u>	<u>31,205,179</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u>\$ 51,967,808</u>	<u>\$ 64,504,738</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	<u>\$ 7,709,669</u>	<u>\$ 5,415,988</u>
Noncash Investing and Financing Activities		
Obligations incurred for the acquisition of property and equipment	<u>\$ 1,656,534</u>	<u>\$ 602,526</u>
Long-term debt refinanced	<u>\$ -</u>	<u>\$ 38,099,320</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents		
Cash and cash equivalents	\$ 10,041,000	\$ 11,239,818
Cash and cash equivalents in investments	6,148,185	4,941,868
Restricted cash and cash equivalents in:		
Statutory reserves	-	229,113
Assets whose use is limited	35,778,623	48,093,939
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 51,967,808</u>	<u>\$ 64,504,738</u>

See notes to combined financial statements

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

1. General Information

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 12 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 (PSL) 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 Obligated Group:

	<u>Total</u>	<u>Pres Homes</u>	<u>PHPH</u>	<u>QRC</u>	<u>TLC</u>	<u>CA</u>
Nursing beds	768	371	221	94	-	82
Personal care and assisted living units	470	241	91	80	32	26
Independent living units	1,499	746	155	230	108	260
Total	<u>2,737</u>	<u>1,358</u>	<u>467</u>	<u>404</u>	<u>140</u>	<u>368</u>

2. Summary of Significant Accounting Policies

Basis of Combination and Accounting

The combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting, and only include those entities who comprise of Obligated Group, and are parties to the master trust indenture with BNY Mellon, as master trustee, dated May 1, 2008, as amended through the thirty-second supplemental indenture dated November 1, 2019. All material intercompany balances and transactions have been eliminated.

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 (IRC) and have been recognized as tax-exempt under Section 501(a) of the IRC.

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.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

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 2022 and 2021, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

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 and cash equivalents held by a trustee under the terms of various bond indentures and permanently restricted investments.

Investments and Investment Risk

The Obligated Group's investments are comprised of a variety of financial instruments. The fair values reported in the combined statements of financial position are subject to various risks, including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is possible that the amounts reported in the combined statements of financial position could change materially in the near term.

Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues (less than) in excess of expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

Accounts Receivable, Net

The Obligated Group assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Obligated Group has exhausted all collection efforts and accounts are deemed impaired.

Included in accounts receivable, net are entrance fee receivables. Entrance fee receivables are evaluated for collectability prior to residents being admitted to the community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures, Board designated investments and donor-restricted investments.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

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 and benefits more than one year.

Depreciable lives are determined as follows:

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

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 \$1,271,027 and \$1,176,725 was capitalized in 2022 and 2021, respectively.

Sale of Westminster Village Allentown

The Obligated Group entered into an asset purchase agreement (APA) in June 2021 with a third party to sell certain assets and liabilities of the Westminster Village Allentown community. The sale included approximately \$7,000,000 of real property, fixtures and improvements, furniture and equipment, \$2,600,000 of deferred revenue from entrance fee contracts and various other business assets and liabilities as defined in the APA all included in the sales price of \$19,500,000. The sale closed on October 6, 2021 and operations were transferred as part of the sale at that time. This resulted in a gain on the sale of \$14,772,170 during 2021 and is included in operating (loss) income in the accompanying combined statement of operations and changes in net assets for the year ended December 31, 2021.

Funds Held in Trust by Others

Certain 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 trusts are reported as investment income, increasing net assets without donor restrictions.

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

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

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Beneficial interest in perpetual trusts	\$ 17,145,617	\$ 21,058,000
Contributions receivable from remainder trusts	413,167	343,364
Gift annuities	<u>567</u>	<u>13,316</u>
Total funds held in trust by others	<u>\$ 17,559,351</u>	<u>\$ 21,414,680</u>

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 \$1,072,391 during the year ended December 31, 2021. Amortization expense is expected to be \$126,690, \$126,690, \$125,415, \$116,691 and \$116,691 over 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.

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.

Deferred Revenue From Entrance Fees, Entrance Fees Payable and Amortization of Entrance Fees

Residents entering a community execute a residence and care agreement, which requires payment of an entrance fee, based on the unit to be occupied. The Obligated Group offers both nonrefundable and refundable resident agreements. Under the majority of nonrefundable resident agreements, residents who terminate their contracts will generally be entitled to a refund less 2% of the entrance fee per each month of residency up to 50 months. Under refundable resident agreements, the entrance fee is reduced to no less than the guaranteed refund, as specified in the resident agreement and refunds to residents are generally paid by the Obligated Group after the resident leaves the community and a new resident occupies the residential living unit vacated by the former resident.

The nonrefundable portion of entrance fee is amortized to revenue over the estimated life expectancy of the residents using the straight-line method, which approximates the period of time that services under the resident agreements are expected to be provided to residents and the Obligated Group's performance obligation to the residents is satisfied, and is classified as deferred revenue from entrance fees on the combined statements of financial position.

The guaranteed refundable portion of entrance fees is classified as entrance fees payable on the combined statements of financial position and is not amortized to revenue. The gross contractual refund obligations under existing resident agreements was approximately \$59,867,000 at December 31, 2022.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

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 from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds deferred revenue from entrance fees, a liability is recorded with the corresponding change to income. As a result of the last calculation (as of December 31, 2022), 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 from entrance fees; accordingly, no obligation was recorded for the years ended December 31, 2022 or 2021.

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. The Obligated Group met the reserve requirements as of December 31, 2022 and 2021.

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.

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 noncash gifts as support without donor restrictions 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 restrictions. 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.

Presbyterian Homes Obligated Group

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Resident Services Revenue

Resident services revenue is reported at the amount that reflects the consideration the Obligated Group expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident services revenue is recognized as performance obligations are satisfied.

Resident services revenue is primarily comprised of independent living, personal care/assisted living and health center revenue streams, which are primarily derived from providing housing, skilled nursing, personal care and independent living services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Obligated Group has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Obligated Group considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, personal care and independent living revenues are recognized on a daily or month-to-month basis as services are rendered. Resident services revenue includes revenues from therapy services, other services such as housekeeping, laundry, transportation and other revenues from residents are considered one performance obligation which is satisfied over time as services are rendered. 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.

Payment terms and conditions for the Obligated Group's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Resident services revenue for recurring and routine monthly services are generally billed monthly in advance. Resident services revenue for ancillary services are generally billed monthly in arrears.

The Obligated Group receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. The Obligated Group's agreements with third-party payors provide for payments at amounts different from established rates. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. The Obligated Group estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows:

Medical Assistance - Nursing services provided to Medicaid program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments.

The Department of Human Services (DHS) in the Commonwealth of Pennsylvania has a mandatory Medical Assistance managed care program, Community HealthChoices (CHC) for skilled nursing facilities across the Commonwealth of Pennsylvania. CHC eliminated the fee-for-service (FFS) payment methodology. The services for which Medical Assistance program beneficiaries are eligible did not change under CHC.

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Under CHC, each Medical Assistance program beneficiary is able to choose a managed care organization (MCO). DHS has provided information to nursing facilities indicating the initial rate paid by the MCOs will be subject to a "floor" equal to the average of each facility's prior four quarters Medical Assistance rates. In addition, MCOs and nursing facilities may agree to higher or lower negotiated rates under an alternative payment methodology agreement. Effective January 1, 2023, nursing services provided to Medical Assistance program beneficiaries will be paid by the MCOs at prospectively determined rates per day. These rates will be adjusted quarterly based on a resident classification system that is based on clinical, diagnostic and other factors.

Medicare - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments. The determination of these rates is partially based on the Obligated Group's clinical assessment of its residents. The Obligated Group is required to clinically assess its residents at predetermined time periods throughout the year which are subject to review and adjustment by the Medicare program.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates based upon contractual obligations (i.e. the terms/rates agree upon in the respective contracts).

Revenues From Provider Relief Funds

Government stimulus is primarily comprised of amounts received from federal, state and other funding sources related to the COVID-19 pandemic. The Obligated Group accounts for this funding in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions, and accordingly, revenues are recognized when barriers are substantially met, which occurs when the Obligated Group complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund (PRF) to provide financial support for healthcare providers. In accordance with the terms and conditions of PRF, the Obligated Group could apply the funding against lost revenues and eligible expenses not reimbursed from other sources.

In accordance with the terms and conditions, the Obligated Group could apply the funding against eligible expenses and lost revenues. During 2022 and 2021, the Obligated Group recognized \$27,620 and \$1,912,520, respectively, in accordance with the terms and conditions of the PRF and are included in revenues in government stimulus in the accompanying consolidated statements of operations and changes in net assets.

The Obligated Group also received funding from various state and local funding sources of \$1,437,743 and \$2,886,772 in 2022 and 2021, respectively, to offset lost revenues and eligible expenses in accordance with the terms and conditions of the respective funding sources. The Obligated Group incurred lost revenues and eligible expenses of \$1,437,743 and \$2,886,772 in 2022 and 2021, respectively, and therefore, revenues were recognized and included in government stimulus in the accompanying combined statements of operations and changes in net assets.

The majority of the funding received is subject to future reporting and audit requirements. Noncompliance with the terms and conditions of the funding sources could result in repayment of some or all of the support, which can be subject to government review and interpretation. An estimate of the possible effects of these matters cannot be made as of the date these combined financial statements were available to be issued.

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In 2021, the Obligated Group applied to the Federal Emergency Management Agency (FEMA) for eligible expenses. The application was approved and funding of \$2,236,500 and \$5,742,262 was obligated and recorded as FEMA funding in the accompanying combined statement of operations and changes in net assets to offset eligible expenses in accordance with the terms and conditions of the funding source as of December 31, 2022 and 2021, respectively. As of December 31, 2022, \$7,180,886 of this funding was received to date and the remaining \$797,876 was recorded as a receivable and is included in accounts receivable, net in the accompanying combined financial statements.

Paycheck Protection Program

During April and May 2020, the Obligated Group received various proceeds in the amount of \$7,515,900 under the Paycheck Protection Program (PPP) (PPP Advance Round 1) which was established as part of the CARES Act (as amended by the Economic Aid Act (EAA) on December 27, 2020) and is administered through the Small Business Administration (SBA). During January 2021, the Obligated Group also received a second draw PPP loan in the amount of \$2,000,000 (PPP Advance Round 2).

The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying nonprofit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a "covered period" (of eight to 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period.

Through December 31, 2021, the Obligated Group expended \$7,515,900 of the PPP Advance Round 1 funds received on qualified expenses and believes that it met all of the conditions attached to the PPP, and therefore, applied for forgiveness. Legal release was received in June of 2021, therefore, the Obligated Group recorded government grants revenue of \$7,515,900 within its combined statement of operations and changes in net assets for the year ended December 31, 2021.

Through December 31, 2022, the Obligated Group expended \$2,000,000 of the PPP Advance Round 2 funds received on qualified expenses and believes that it met all of the conditions attached to the PPP, and therefore, applied for forgiveness. Legal release was received in January of 2022, therefore, the Obligated Group recorded government grants revenue of \$2,000,000 within its combined statement of operations and changes in net assets for the year ended December 31, 2022.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act (as amended by the EAA), the Obligated Group is required to maintain its PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. The Obligated Group does not believe the results of any audits or reviews by the SBA would have a material impact on the combined financial statements.

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Medicare Advance Payments

The CARES Act also included provisions to expand the U.S. Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program in order to improve cash flows for providers impacted by the COVID-19 pandemic. The Obligated Group received \$6,128,806 in payments under this program during 2020. Repayment of the advances began in April 2021 and will end 17 months later (29 months from initial payment), at which time the advances are required to be repaid in full. Repayment occurs automatically through a partial offset in Medicare payments due to the Obligated Group for services rendered to Medicare program beneficiaries. The outstanding balance at December 31, 2021 was \$2,472,340 which is recorded as CARES Act funding liabilities in the accompanying combined statement of financial position. No amounts were outstanding as of December 31, 2022.

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:

	<u>2022</u>	<u>2021</u>
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	\$ 4,677,891	\$ 4,807,738
Additional benevolent care provided at amounts less than pre-established charges for private pay services	27,130,706	27,775,630
Giving and income designated for resident financial support	438,401	394,337

Advertising and Promotion

Advertising and promotion costs are expensed in the year incurred. Total advertising and promotion expense for the years ended December 31, 2022 and 2021, was \$564,324 and \$588,717, respectively.

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 "revenues (less than) in excess of expenses". Changes in net assets without donor restrictions which are excluded from this measure are grant revenue, capital and transfers to affiliated entity.

Subsequent Events

The Obligated Group has evaluated subsequent events through April 18, 2023, which is the date the combined financial statements were issued. On March 30, 2023, PSL entered into a nonbinding Letter of Intent to acquire title and interest in, and to all of the properties, businesses and assets of a Pennsylvania life plan community. The transaction is in the due diligence phase and is also pending regulatory and legal approval. If consummated, the new entity will be a member of the Obligated Group.

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New Accounting Pronouncement, Reference Rate Reform

During March 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference London Interbank Offer Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2024. The Obligated Group elected the optional practical expedient for debt contract modifications related to the discontinuation of reference rates included on ASU No. 2020-04 during 2022. The adoption of the optional practical expedient has not and is not expected to have a material effect on the combined financial statements.

3. Resident Services Revenue

The Obligated Group disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors which include the following:

- 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)
- Corporation's line of business that provided the service (skilled nursing, personal care/assisted living, independent living and outpatient)

The composition of resident services revenue by payor and level of care for the years ended December 31:

	2022					
	Independent Living	Personal Care/ Assisted Living	Health Center	Outpatient	Other	Total
Private Pay	\$ 50,976,904	\$ 28,741,648	\$ 26,974,367	\$ 356,151	\$ 37,034	\$ 107,086,104
Medicare	990,026	1,671,769	24,643,805	79,301	-	27,384,901
Medicaid	-	-	28,491,831	-	-	28,491,831
Other	1,349,124	-	3,113,106	178,369	867,030	5,507,629
Subtotal	53,316,054	30,413,417	83,223,109	613,821	904,064	168,470,465
Amortization of nonrefundable entrance fees						16,756,172
Total	<u>\$ 53,316,054</u>	<u>\$ 30,413,417</u>	<u>\$ 83,223,109</u>	<u>\$ 613,821</u>	<u>\$ 904,064</u>	<u>\$ 185,226,637</u>

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Notes to Combined Financial Statements

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	2021					Total
	Independent Living	Personal Care/ Assisted Living	Health Center	Outpatient	Other	
Private Pay	\$ 50,741,352	\$ 25,190,674	\$ 27,702,629	\$ 378,601	\$ 25,418	\$ 104,038,674
Medicare	1,034,500	2,842,782	27,281,322	75,612	-	31,234,216
Medicaid	-	-	31,967,905	29,317	-	31,997,222
Other	2,102,787	-	4,122,209	112,588	730,404	7,067,988
Subtotal	<u>53,878,639</u>	<u>28,033,456</u>	<u>91,074,065</u>	<u>596,118</u>	<u>755,822</u>	174,338,100
Amortization of nonrefundable entrance fees						<u>18,993,628</u>
Total	<u>\$ 53,878,639</u>	<u>\$ 28,033,456</u>	<u>\$ 91,074,065</u>	<u>\$ 596,118</u>	<u>\$ 755,822</u>	<u>\$ 193,331,728</u>

4. Investments, Restricted Deposits and Funded Reserves, Assets Whose Use is Limited and Fair Value Measurements

The composition of investments, restricted deposits and funds reserves and assets whose use is limited as of December 31 is as follows:

	2022	2021
Money market funds	\$ 41,926,808	\$ 53,264,920
Marketable equity securities	-	3,207,550
Mutual funds:		
Equity	51,302,390	46,095,646
Fixed income	24,239,846	38,998,661
Cost method investment	9,548,283	9,289,286
Alternative investments	<u>22,547,767</u>	<u>26,873,503</u>
Total investments, restricted deposits and funded reserves and assets whose use is limited	149,565,094	177,729,566
Less:		
Assets whose use is limited:		
Investments held in perpetuity	(5,592,435)	(5,294,543)
Debt service escrow fund	(7,865,046)	(8,515,352)
Other escrow fund	(2,250,578)	(2,775,000)
Project fund	(27,853,317)	(36,803,587)
Statutory liquid reserves	<u>(10,905,687)</u>	<u>(10,471,255)</u>
Total investments	<u>\$ 95,098,031</u>	<u>\$ 113,869,829</u>

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Fair Value of Financial Instruments

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Obligated Group for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Money market funds are valued based on the carrying amount which approximates fair value due to the short-term nature of these instruments.

Marketable equity securities and mutual funds are valued at fair value based on quoted market prices in active markets.

Investments in the accompanying combined statements of financial position include alternative investment funds (the Funds). The Funds are measured using the net asset value per share as a practical expedient. The Funds are held in private investment partnerships, which include publicly traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation and other funding requirements. The Obligated Group's ownership structure does not provide for control over the related investees, and the Obligated Group's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment which were \$1,444,595 and \$1,243,032 at December 31, 2022 and 2021, respectively. Redemptions are not permitted and liquidity is available to the extent of distributable realized events. The Obligated Group has no plans to sell the funds or a portion of the amounts currently owned. Financial information used by the Obligated Group to evaluate the Funds are provided by the investment manager or general partner and includes fair value valuations of underlying securities and other financial instruments held by the investee and estimates that require varying degrees of judgment. The financial statements of the Funds are audited annually by independent auditors, although the timing of reporting the results of the audits does not coincide with the Obligated Group's annual financial reporting. There is uncertainty in the accounting for the Funds arising from factors such as lack of active markets, lack of transparency in underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least reasonable possibility that estimates of fair value will change in the near term.

Investments measured using an alternative measurement do not have a readily determinable fair value, and therefore, is measured using an alternative measurement equal to its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The funds held in trust by others are valued at fair value based on the Obligated Group's interest in the fair values of the underlying assets, which approximate the present value of estimated future cash flows to be received from the trusts.

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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, 2022 and 2021, are as follows:

	Fair Value as of December 31, 2022			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 41,926,808	\$ 41,926,808	\$ -	\$ -
Mutual funds:				
Equity	51,302,390	51,302,390	-	-
Fixed income	24,239,846	24,239,846	-	-
Total investments	117,469,044	117,469,044	-	-
Funds held in trust by others	17,559,351	-	-	17,559,351
Total assets	<u>\$ 135,028,395</u>	<u>\$ 117,469,044</u>	<u>\$ -</u>	<u>\$ 17,559,351</u>

	Fair Value as of December 31, 2021			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 53,264,920	\$ 53,264,920	\$ -	\$ -
Marketable equity securities	3,207,550	3,207,550	-	-
Mutual funds:				
Equity	46,095,646	46,095,646	-	-
Fixed income	38,998,661	38,998,661	-	-
Total investments	141,566,777	141,566,777	-	-
Funds held in trust by others	21,414,680	-	-	21,414,680
Total assets	<u>\$ 162,981,457</u>	<u>\$ 141,566,777</u>	<u>\$ -</u>	<u>\$ 21,414,680</u>

The reconciliation of total investments, restricted deposits and funded reserves and assets whose use is limited in the accompanying combined statements of financial position as of December 31 is as follows:

	2022	2021
Measured at net asset value	\$ 22,547,767	\$ 26,873,503
Measured using alternative measurement	9,548,283	9,289,286
Measured at fair value	117,469,044	141,566,777
Total investments, restricted deposits and funded reserves and assets whose use is limited	<u>\$ 149,565,094</u>	<u>\$ 177,729,566</u>

5. Liquidity

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

	2022	2021
Cash and cash equivalents	\$ 10,041,000	\$ 11,239,818
Investments	95,098,031	113,869,829
Accounts receivable, net	11,220,074	10,858,834
Total	<u>\$ 116,359,105</u>	<u>\$ 135,968,481</u>

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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 (Note 9) that totaled \$16,750,000 as of December 31, 2022 and 2021, respectively, which it draws upon as needed. As of December 31, 2022 and 2021, the lines of credit had approximately \$147,000 and \$1,156,000, respectively, available to draw.

6. Related-Party Transactions

PSL provides the Obligated Group with various management and administrative services to each member of the Obligated Group's operating facilities, for which it charges the members of the Obligated Group a management fee. The Obligated Group members also incur certain operating expenses 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, 2022 and 2021, the Obligated Group incurred management fees and other expenses totaling \$16,638,664 and \$16,953,939, respectively, which is included in management and general expenses on the combined statements of operations and changes in net assets.

The Obligated Group was a 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. The loan was paid off in full in 2021.

Prelude Systems, Inc. (Prelude) is a joint venture between PSL and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of both PSL and Diakon as well as other health care and community service organizations. During 2022 and 2021, the Obligated Group incurred expenses related to Prelude amounting to \$1,824,653 and \$1,629,801, respectively, for information services provided by Prelude, of which \$0 and \$34,372 is included in accounts payable as of December 31, 2022 and 2021, respectively.

Amounts due from affiliate entities as of December 31, 2022 and 2021, are \$86,233,952 and \$88,045,022, respectively. The balances represent amounts transferred to PSL to fund development of affiliated affordable housing entities and other amounts arising from the normal course of business, including affiliate liquidity support. The amounts are unsecured, noninterest bearing and have no fixed repayment terms. The Obligated Group assess the amounts due from affiliates annually to determine if events or circumstances effect the collectability of the amounts. No impairment losses were recognized during 2022 and 2021. As of December 31, 2022 and 2021, the Obligated Group transferred assets of \$725,000 and \$3,330,234, respectively, to PSL for development of a new affordable housing entity.

During 2021, the Obligated Group purchased preferred stock of Benchmark Therapies, an affiliate, and is accounted for under the cost method of accounting. It is included in investments in the accompanying combined statement of financial position and totaled \$8,000,000 as of December 31, 2021. In 2022, the Obligated Group began purchasing rehabilitation services from Benchmark Therapies, Inc. The Obligated Group incurred fees of \$7,054,544 during 2022 of which \$808,151 is included in accounts payable as of December 31, 2022.

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7. Property and Equipment

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

	2022		2021	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 37,179,787	\$ -	\$ 37,179,787	\$ -
Land improvements	28,367,560	18,200,392	28,265,315	17,635,294
Buildings and improvements	570,614,538	270,443,755	558,132,786	248,918,589
Departmental equipment, furniture and fixtures	55,594,086	46,729,176	53,181,581	44,564,871
Vehicles	1,875,558	1,836,399	1,875,558	1,784,226
Construction-in-progress	20,836,177	-	9,334,048	-
	<u>\$ 714,467,706</u>	<u>\$ 337,209,722</u>	<u>\$ 687,969,075</u>	<u>\$ 312,902,980</u>
Net book value		<u>\$ 377,257,984</u>		<u>\$ 375,066,095</u>

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, 2022 and 2021, respectively, the Corporation had approximately \$1,657,000 and \$603,000 outstanding of construction payable included in accounts payable and accrued expenses in the accompanying combined statements of financial position. As of December 31, 2022, the Obligated Group has entered into construction contracts totaling \$12,778,831 for various projects. Costs incurred through December 31, 2022 were \$9,498,871.

During 2019, management decided to sell three parcels of land that have not yet been developed. The land was recorded as assets held for sale and the additional costs incurred to date have been expensed to loss on impairment of asset. During 2021, the remaining parcels were deemed to be impaired and were written off resulting in a loss on impairment of asset of \$2,350,230 included in the accompanying combined statement of operations and changes in net assets.

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8. Long-Term Debt

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

	<u>2022</u>	<u>2021</u>
1995 Series A Revenue Note to First National Bank, payable in equal monthly installments of principal and interest, interest sufficient to amortize the principal balance to July 2026, the note bears a floating interest rate which was 2.05% for December 31, 2022 and 2021, interest will be reset in three year increments.	\$ 463,517	\$ 662,726
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 0.52% and 0.55% as of December 31, 2022 and 2021, respectively.	29,215	88,322
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 4.68% and 1.52% as of December 31, 2022 and 2021, respectively.	11,697,801	12,611,757
Bank of America taxable 10 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, 2022 and 2021.	8,694,882	9,152,900
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, held by M&T Bank, principal maturities based on a 20 year repayment schedule, interest is fixed at 4.13%.	5,374,995	5,872,882
Quincy Sewer Authority Revenue Bonds Series 2012, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 15, 2032, interest is fixed at 4.14%.	5,693,385	6,177,884
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2013, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2033, interest is fixed at 4.17%.	6,192,139	6,662,864
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%. The proceeds of the 2021 taxable note (described below) were used to advance-refund this series. The proceeds were placed into the debt service reserve fund included in assets whose use is limited in the accompanying combined statements of financial position as of December 31, 2022 and 2021 and were used to repay this series in April 2023.	7,680,000	7,955,000

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

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	<u>2022</u>	<u>2021</u>
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 is fixed at 3.64% until November 2028, interest will be reset in 10 year increments.	\$ 9,330,500	\$ 9,497,500
Blair County Hospital Authority Revenue Bonds Series 2014, tax-exempt bonds, bank qualified debt, held by Bank of America, principal due in varying amounts annually, interest is fixed at 3.64% until November 2028, interest will be reset in 10 year increments.	9,330,500	9,497,500
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 10 year increments.	6,904,305	7,352,279
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 10 year increments.	6,928,503	7,377,362
People's Bank taxable 10 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 6.13% and 2.13% as of December 31, 2022 and 2021, respectively.	1,738,466	2,383,492
First National Bank taxable 10 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 6.24% and 2.21% as of December 31, 2022 and 2021, respectively.	1,761,804	2,394,098
Cumberland County Municipal Authority Revenue Bonds Series 2015B, held by Bank of America, principal due in varying annual amounts from 2016 to 2038, interest is fixed at 3.23%, interest resets in 10 year increments.	7,568,781	7,947,755
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 4.38% and 1.38% as of December 31, 2022 and 2021, respectively.	13,002,725	13,551,333
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 2026, interest rates will be reset in five year increments.	16,580,153	17,236,479
Bank of America taxable 10 year term loan, principal due in varying amounts through 2034, due in May 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which was 4.09% and 1.79% as of December 31, 2022 and 2021, respectively.	2,797,651	3,103,413

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	<u>2022</u>	<u>2021</u>
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, 2022 and 2021, interest resets in 10 year increments.	\$ 27,750,000	\$ 28,530,000
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%.	5,559,503	6,052,086
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%.	6,302,696	6,772,169
Bank of America taxable 10 year term loan Bond Series 2020, principal payments began on January 3, 2022, principal payments will be based on 8.5 year mortgage style amortization schedule, due in June 2030. The bonds bear a fixed interest rate equal to 2.49%.	12,464,278	13,955,000
Northampton County Industrial Development Authority Revenue Bonds Series 2020, held by Bank of America, \$15 million drawn in \$2 million increments through December 31, 2020 with \$1 million drawn in January 2021. Interest only tax-exempt rate of 2.31% per annum through January 3, 2022 at which time principal and interest will be payable.	14,554,006	15,000,000
Pennsylvania Economic Development Financing Authority Revenue Bonds, Series 2021, for which The Bank of New York Mellon Trust Company is Trustee, with principal due varying amounts from 2021 to 2046. The bonds bear a fixed rate of 4.0%.	58,295,000	59,530,000
Bank of America taxable 10 year term loan Bond Series 2021, principal due in varying amounts through 2031. The bonds bear a fixed interest rate which is 2.59%.	<u>8,061,000</u>	<u>8,433,000</u>
Total long-term debt	254,755,805	267,797,801
Plus unamortized premium	6,597,978	7,005,003
Less deferred financing costs	<u>(2,010,711)</u>	<u>(2,139,084)</u>
Total	<u>\$ 259,343,072</u>	<u>\$ 272,663,720</u>

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 master trust indenture, the Obligated Group is subject to various covenants, which include the achievement of certain pre-established financial indicators. In addition, the Obligated Group is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

During July 2021, the Obligated Group completed a financing transaction to provide for overall debt service savings, while also establishing a project fund for certain capital projects. A portion of the proceeds from the bonds were used to refund the Series 2008C Revenue Bonds, the Series 2013A and 2013B Revenue Bonds, the Series 2012 Revenue Note and the Series 2015 Revenue Bonds and to advance-refund the Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2013 described above. In conjunction with this transaction, the Obligated Group recorded a loss on early extinguishment of debt of \$1,518,104 that is included in the combined statement of operations and changes in net assets. The loss consists of (\$219,956) of unamortized bond premium, \$268,076 in unamortized deferred financing costs and \$1,469,984 of amounts in held in escrow for the advance-refunding, penalties and fees.

Scheduled maturities for the five years subsequent to December 31, 2022, and thereafter are as follows:

Years ending December 31:	
2023	\$ 19,919,862
2024	12,547,747
2025	13,277,968
2026	13,456,547
2027	14,052,307
Thereafter	<u>181,501,374</u>
Total	<u>\$ 254,755,805</u>

9. Lines of Credit

The Obligated Group has available various lines of credit with financial institutions. Interest rates on these lines of credit are variable based on the prime rate of the various financial institutions or the LIBOR rate. The lines of credit are collateralized by property and equipment of the Obligated Group. As of December 31, 2022 and 2021, under the line of credit agreements, the Obligated Group had available a total maximum of \$16,750,000, from the financial institutions. As of December 31, 2022 and 2021, the Obligated Group had \$16,602,167 and \$15,593,443, respectively, outstanding under these agreements at interest rates ranging from 6.19% to 6.37% and with maturity dates ranging from July 2023 to November 2023.

10. 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. In both 2022 and 2021, the Obligated Group maintained a surety bond for \$3,000,000 in connection with this self-insurance program. As of December 31, 2022 and 2021, the Obligated Group has recorded an accrued expense of approximately \$3,900,000 and \$3,375,000, respectively, for workers' compensation claims. This accrual includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

11. 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.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

12. Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Caring community	\$ 297,689	\$ 272,732
Community enhancement	900,514	867,059
	<u>1,198,203</u>	<u>1,139,791</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	255,113	179,631
Gift annuities	567	13,317
Contributions receivable from remainder trusts	413,167	343,365
	<u>668,847</u>	<u>536,313</u>
Endowments:		
Subject to appropriation and expenditures when a specified event occurs:		
Restricted by donors for:		
Educational scholarship	56,524	51,076
Benevolent care	7,613	6,905
Community enhancement	236,375	210,113
	<u>300,512</u>	<u>268,094</u>
Subject to endowment spending policy and appropriation:		
Educational scholarship	416,925	217,020
Benevolent care	1,114,618	1,098,325
Community enhancement	4,060,892	4,007,468
	<u>5,592,435</u>	<u>5,322,813</u>
Total endowments	<u>5,892,947</u>	<u>5,590,907</u>
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts	17,145,617	21,057,998
Trust assets held for the benefit of the Williamsport	364,817	830,086
	<u>17,510,434</u>	<u>21,888,084</u>
Total	<u>\$ 25,270,431</u>	<u>\$ 29,155,095</u>

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

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:

	<u>2022</u>	<u>2021</u>
Expiration of time restrictions	\$ 77,600	\$ 55,550
Satisfaction of purpose restriction:		
Caring community	23,054	35,757
Community enhancement	558,802	865,123
Restricted-purpose spending rate distributions and appropriations:		
Educational scholarship	4,746	1,000
Benevolent care	21,339	16,536
Community enhancement	23,558	18,947
Total	<u>\$ 709,099</u>	<u>\$ 992,913</u>

13. 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 Directors 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

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the years ended December 31, 2022 and 2021:

	With Donor Restrictions	
	2022	2021
Endowment net assets, beginning of year	\$ 5,590,907	\$ 5,463,188
Investment income	82,871	61,061
Contributions	268,812	103,141
Appropriation of endowment assets for expenditures	(49,643)	(36,483)
Endowment net assets, end of year	<u>\$ 5,892,947</u>	<u>\$ 5,590,907</u>

The value of the original gifts plus subsequent gifts to be held in perpetuity totaled \$5,592,435 and \$5,322,813 for the years ended December 31, 2022 and 2021, 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, 2022 or 2021.

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 or for donor-specified purposes. Under this policy, as approved by the Board of Directors, 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's goal is that its endowment funds, over time, will provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus 1% 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.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements
December 31, 2022 and 2021

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 fund's average fair value over the prior three calendar year ends. This percentage per the policy was up to 2.5% for 2022 and 2021. 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 intends that the current spending policy will allow its endowments to grow at an average of inflation plus 1% annually. 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.

14. 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, 2022 and 2021, contributions to the plan totaled \$511,586 and \$684,336, respectively.

15. Functional 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. Employee benefits and payroll taxes are allocated on the basis of total salaries and 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.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

The costs of providing services and supporting activities are as follows for the years ended December 31, 2022 and 2021:

	2022			Total
	Resident Services	General and Administrative	Fundraising and Development	
Salaries and wages	\$ 63,800,367	\$ 1,256,930	\$ -	\$ 65,057,297
Employee benefits and other employee costs	9,431,484	249,965	-	9,681,449
Payroll taxes	4,506,765	88,787	-	4,595,552
Professional services	13,689,181	187,191	-	13,876,372
Management services	4,755,693	11,708,218	620,799	17,084,710
Legal fees	-	66,493	-	66,493
Advertising and promotion	564,324	-	-	564,324
Office expenses	3,564,955	2,114,455	-	5,679,410
Information technology	347,229	2,575,716	-	2,922,945
Occupancy	13,021,046	165,184	-	13,186,230
Travel	63,498	57,126	-	120,624
Conferences and meetings	5,706	12,191	-	17,897
Interest	6,739,515	844,050	-	7,583,565
Insurance	2,984,704	17,412	-	3,002,116
Training and development	561	43,904	-	44,465
Depreciation	24,655,342	143,835	-	24,799,177
Amortization	280,962	1,639	-	282,601
Provision for doubtful collections	-	1,069,214	-	1,069,214
Pharmacy	2,812,912	-	-	2,812,912
Medical supplies	3,542,093	-	-	3,542,093
Therapy services	8,496,735	-	-	8,496,735
Dietary services	2,332,610	-	-	2,332,610
Food, beverages and supplies	7,724,480	31,690	-	7,756,170
Maintenance and repairs	1,475,108	62,561	-	1,537,669
Total cost of services provided	\$ 174,795,270	\$ 20,696,561	\$ 620,799	\$ 196,112,630

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2022 and 2021

	2021			
	Resident Services	General and Administrative	Fundraising and Development	Total
Salaries and wages	\$ 70,585,816	\$ 1,378,657	\$ -	\$ 71,964,473
Employee benefits and other employee costs	8,361,762	215,441	-	8,577,203
Payroll taxes	4,910,571	95,912	-	5,006,483
Professional services	9,971,409	663,245	-	10,634,654
Management services	6,270,712	10,683,226	700,094	17,654,032
Accounting fees	-	2,560	-	2,560
Legal fees	-	57,406	-	57,406
Advertising and promotion	588,717	-	-	588,717
Office expenses	3,783,257	2,539,237	-	6,322,494
Information technology	1,448,404	181,397	-	1,629,801
Occupancy	12,688,091	94,161	-	12,782,252
Travel	58,789	26,334	-	85,123
Conferences and meetings	9,692	4,871	-	14,563
Interest	6,295,786	788,479	-	7,084,265
Insurance	2,862,218	16,698	-	2,878,916
Training and development	30	34,977	-	35,007
Depreciation	23,697,831	138,249	-	23,836,080
Amortization	280,962	1,639	-	282,601
Provision for doubtful collections	-	1,454,968	-	1,454,968
Pharmacy	2,651,932	-	-	2,651,932
Medical supplies	4,222,437	-	-	4,222,437
Therapy services	12,486,768	-	-	12,486,768
Dietary services	4,318,339	-	-	4,318,339
Food, beverages and supplies	7,545,223	37,607	-	7,582,830
Maintenance and repairs	1,457,609	29,775	-	1,487,384
 Total cost of services provided	 \$ 184,496,355	 \$ 18,444,839	 \$ 700,094	 \$ 203,641,288

16. Commitments and Contingencies

Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance.

Litigation

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.

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 Combining Schedule of Financial Position
 December 31, 2022

	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
Assets									
Assets									
Cash and cash equivalents	\$ 9,606,184	\$ 72,062	\$ 1,687	\$ 306,567	\$ 53,500	\$ 1,000	\$ 10,041,000	\$ -	\$ 10,041,000
Investments	9,410,791	11,031,338	49,379,136	4,170,572	6,108,205	14,997,989	95,098,031	-	95,098,031
Statutory liquid reserves	6,841,384	1,072,545	-	-	1,068,481	1,923,277	10,905,687	-	10,905,687
Accounts receivable, net	6,214,578	2,369,434	-	71,728	1,352,907	1,211,427	11,220,074	-	11,220,074
Assets whose use is limited	27,853,318	2,306,319	5,063,333	-	258,511	8,079,895	43,561,376	-	43,561,376
Property and equipment, net	219,720,978	34,539,569	-	30,955,611	33,072,970	58,968,856	377,257,984	-	377,257,984
Due from affiliates, net	48,577,846	24,665,501	15,974,800	(17,920,939)	13,131,301	1,805,443	86,233,952	-	86,233,952
Funds held in trust by others	8,030,700	654,581	-	769,870	5,878,302	2,225,898	17,559,351	-	17,559,351
Other assets	3,605,159	526,421	-	265,465	637,624	971,084	6,005,753	-	6,005,753
Beneficial interest in assets	2,241,292	-	-	-	-	-	2,241,292	(2,241,292)	-
Total assets	<u>\$ 342,102,230</u>	<u>\$ 77,237,770</u>	<u>\$ 70,418,956</u>	<u>\$ 18,618,874</u>	<u>\$ 61,561,801</u>	<u>\$ 90,184,869</u>	<u>\$ 660,124,500</u>	<u>\$ (2,241,292)</u>	<u>\$ 657,883,208</u>
Liabilities and Net Assets									
Liabilities									
Accounts payable	\$ 3,832,242	\$ 859,373	\$ 2,224,999	\$ 103,080	\$ 503,814	\$ 561,105	\$ 8,084,613	\$ -	\$ 8,084,613
Accrued expenses	7,115,075	2,635,274	52,000	495,801	832,373	3,930,703	15,061,226	-	15,061,226
Lines of credit	16,602,167	-	-	-	-	-	16,602,167	-	16,602,167
Resident deposits	840,199	177,635	-	9,600	230,928	969,306	2,227,668	-	2,227,668
Entrance fees payable	5,647,409	263,323	-	-	588,845	614,750	7,114,327	-	7,114,327
Other liabilities	2,322,668	375,914	-	337,733	535,712	1,605,199	5,177,226	-	5,177,226
CARES Act funding liabilities	-	-	-	20,520	-	-	20,520	-	20,520
Long-term debt	173,238,673	15,203,025	-	20,660,517	21,190,760	29,050,097	259,343,072	-	259,343,072
Deferred revenues from entrance fees	68,302,198	10,225,649	-	-	15,430,072	29,319,710	123,277,629	-	123,277,629
Total liabilities	<u>277,900,631</u>	<u>29,740,193</u>	<u>2,276,999</u>	<u>21,627,251</u>	<u>39,312,504</u>	<u>66,050,870</u>	<u>436,908,448</u>	<u>-</u>	<u>436,908,448</u>
Net Assets									
Without donor restrictions	51,850,819	44,328,198	65,900,665	(3,898,683)	15,971,770	21,551,560	195,704,329	-	195,704,329
With donor restrictions	12,350,780	3,169,379	2,241,292	890,306	6,277,527	2,582,439	27,511,723	(2,241,292)	25,270,431
Total net assets	<u>64,201,599</u>	<u>47,497,577</u>	<u>68,141,957</u>	<u>(3,008,377)</u>	<u>22,249,297</u>	<u>24,133,999</u>	<u>223,216,052</u>	<u>(2,241,292)</u>	<u>220,974,760</u>
Total liabilities and net assets	<u>\$ 342,102,230</u>	<u>\$ 77,237,770</u>	<u>\$ 70,418,956</u>	<u>\$ 18,618,874</u>	<u>\$ 61,561,801</u>	<u>\$ 90,184,869</u>	<u>\$ 660,124,500</u>	<u>\$ (2,241,292)</u>	<u>\$ 657,883,208</u>

Presbyterian Homes Obligated Group

Combining Schedule of Operations and Changes in Net Assets
December 31, 2022

	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
Net Assets Without Donor Restrictions									
Revenues, gains and other support:									
Resident services:									
Resident services	\$ 91,075,359	\$ 29,287,992	\$ -	\$ 5,658,658	\$ 18,954,861	\$ 23,493,595	\$ 168,470,465	\$ -	\$ 168,470,465
Amortization of entrance fees	9,622,434	1,471,839	-	-	1,822,532	3,839,367	16,756,172	-	16,756,172
Total resident services	100,697,793	30,759,831	-	5,658,658	20,777,393	27,332,962	185,226,637	-	185,226,637
Contributions, gifts and bequests	-	96,508	-	28,472	370,010	284	495,274	-	495,274
Government grants	-	-	-	-	-	2,000,000	2,000,000	-	2,000,000
Government stimulus	780,233	345,669	-	44,958	199,951	94,552	1,465,363	-	1,465,363
FEMA funding	1,108,100	724,650	-	43,600	250,950	109,200	2,236,500	-	2,236,500
Net assets released from restrictions	490,090	96,353	-	5,143	49,378	68,135	709,099	-	709,099
Total operating revenues and other support	103,076,216	32,023,011	-	5,780,831	21,647,682	29,605,133	192,132,873	-	192,132,873
Expenses:									
Nursing services	29,431,580	11,338,393	-	811,413	6,798,433	5,590,495	53,970,314	-	53,970,314
Rehabilitation	4,460,021	2,051,429	-	-	1,665,681	757,300	8,934,431	-	8,934,431
Recreation and special services	1,955,727	560,359	-	79,525	427,026	482,908	3,505,545	-	3,505,545
Pharmacy	1,530,354	782,530	-	14,440	348,119	137,468	2,812,911	-	2,812,911
Social services	429,670	185,316	-	-	87,695	134,530	837,211	-	837,211
Physician services	149,522	149,909	-	9,000	51,480	345,202	705,113	-	705,113
Food Services	11,120,774	3,817,984	-	572,933	1,837,638	3,644,108	20,993,437	-	20,993,437
Building operations and maintenance	14,341,850	3,365,345	-	1,252,488	2,845,875	4,449,881	26,255,439	-	26,255,439
Housekeeping	1,892,079	513,686	-	22,913	219,786	656,116	3,304,580	-	3,304,580
Laundry and linen	455,173	217,222	-	-	179,107	158,204	1,009,706	-	1,009,706
Management and general	16,221,567	5,657,312	25,191	970,645	3,435,329	3,682,888	29,992,932	-	29,992,932
Employee benefits	5,675,356	1,733,612	-	149,651	1,005,976	902,455	9,467,050	-	9,467,050
Interest	4,655,212	526,993	-	789,484	811,173	800,707	7,583,569	(4)	7,583,565
Depreciation	13,872,987	2,444,694	-	1,177,253	2,360,229	4,944,014	24,799,177	-	24,799,177
Amortization	-	-	-	-	-	282,601	282,601	-	282,601
Fundraising	335,353	119,274	-	14,445	75,070	76,657	620,799	-	620,799
Total expenses before nonrecurring expenses	106,527,225	33,464,058	25,191	5,864,190	22,148,617	27,045,534	195,074,815	(4)	195,074,811
Nonrecurring expenses, COVID-19	491,537	378,181	-	22,162	109,060	36,879	1,037,819	-	1,037,819
Operating (loss) income before gains and losses	(3,942,546)	(1,819,228)	(25,191)	(105,521)	(609,995)	2,522,720	(3,979,781)	4	(3,979,757)
(Loss) gain on sale of community and disposals of property and equipment	(263,426)	232,986	-	-	-	-	(30,440)	-	(30,440)
Operating (loss) income	(4,205,972)	(1,586,242)	(25,191)	(105,521)	(609,995)	2,522,720	(4,010,201)	4	(4,010,197)
Other income (loss):									
Investment income	944,625	246,731	463,468	122,403	433,202	484,544	2,694,973	(47,405)	2,647,568
Realized (loss) gain on investments	(276,728)	618,791	982,128	41,496	51,330	628,395	2,045,412	(18,506)	2,026,906
Unrealized loss on investments	(114,039)	(3,470,789)	(6,835,783)	(993,494)	(1,537,799)	(4,513,457)	(17,465,361)	65,906	(17,399,455)
Total other income (loss)	553,858	(2,605,267)	(5,390,187)	(829,595)	(1,053,267)	(3,400,518)	(12,724,976)	(5)	(12,724,981)
Revenues less than expenses	(3,652,114)	(4,191,509)	(5,415,378)	(935,116)	(1,663,262)	(877,798)	(16,735,177)	(1)	(16,735,178)
Grant revenue, capital	393,982	165,643	-	24,013	30,984	22,560	637,182	-	637,182
Transfer to affiliated entity	(725,000)	-	-	-	-	-	(725,000)	-	(725,000)
Change in net assets without donor restrictions	(3,983,132)	(4,025,866)	(5,415,378)	(911,103)	(1,632,278)	(855,238)	(16,822,995)	(1)	(16,822,996)
Net Assets With Donor Restrictions									
Contributions, gifts and bequests	552,995	186,342	-	1,099	220,359	255,562	1,216,357	-	1,216,357
Investment income, net of investment expense	76,781	330	-	-	1,027	4,733	82,871	-	82,871
Unrealized loss on investments	(2,092,815)	(143,431)	(465,268)	(188,454)	(1,413,572)	(636,522)	(4,940,062)	465,269	(4,474,793)
Net assets released from restrictions	(490,090)	(96,353)	-	(5,143)	(49,378)	(68,135)	(709,099)	-	(709,099)
Change in net assets with donor restrictions	(1,953,129)	(53,112)	(465,268)	(192,498)	(1,241,564)	(444,362)	(4,349,933)	465,269	(3,884,664)
Change in net assets (deficit)	(5,936,261)	(4,078,978)	(5,880,646)	(1,103,601)	(2,873,842)	(1,299,600)	(21,172,928)	465,268	(20,707,660)
Net Assets, Beginning	70,137,860	51,576,555	74,022,603	(1,904,776)	25,123,139	25,433,599	244,388,980	(2,706,560)	241,682,420
Net Assets, Ending	\$ 64,201,599	\$ 47,497,577	\$ 68,141,957	\$ (3,008,377)	\$ 22,249,297	\$ 24,133,999	\$ 223,216,052	\$ (2,241,292)	\$ 220,974,760

Presbyterian Homes Obligated Group

Statutory Minimum Liquid Reserves Schedule

December 31, 2022

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal
2023 Budgeted operating expenses	\$ 99,104,166	\$ 34,794,655	\$ 23,191,425	\$ 28,705,956	\$ 185,796,202
Less depreciation expense	13,701,165	2,293,266	2,240,811	4,664,989	22,900,231
Expenses subject to minimum liquid assets requirement	85,403,001	32,501,389	20,950,614	24,040,967	162,895,971
Percentage of residents subject to continuing-care agreements as of December 31, 2022	49%	33%	51%	80%	
	41,847,470	10,725,458	10,684,813	19,232,774	82,490,515
Statutory requirement	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement, operating expenses (a)	\$ 4,184,747	\$ 1,072,545	\$ 1,068,481	\$ 1,923,277	\$ 8,249,050
Next 12 months debt service payments: Total debt service for next 12 months	\$ 13,962,009	\$ 1,138,217	\$ 1,649,315	\$ 1,688,300	\$ 18,437,841
Percentage of residents subject to residence and care agreements as of December 31, 2022	49%	33%	51%	80%	
Statutory minimum liquid reserve requirement, debt service (b)	\$ 6,841,384	\$ 375,612	\$ 841,151	\$ 1,350,640	\$ 9,408,787
Statutory minimum liquid reserve, greater of (a) or (b)	\$ 6,841,384	\$ 1,072,545	\$ 1,068,481	\$ 1,923,277	\$ 10,905,687