

**CONTINUING DISCLOSURE ANNUAL REPORT
FISCAL YEAR END DECEMBER 31, 2021
(Filing Fiscal Year)**

**Philadelphia Authority for Industrial Development Revenue Bonds
(Presbyterian Senior Living. Project), Series 2021**

**Obligated Persons: Presbyterian Senior Living Obligated Group, by
Presbyterian Homes, Inc., as the Obligated Group Representative (the “Obligated Group”)**

**CUSIP Numbers: 70869P NF0
70869P NG8
70869P NH6
70869P NJ2
70869P NK9
70869P NL7
70869P NM5
70869P NN3**

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ANNUAL NO DEFAULT CERTIFICATE

Reference is made in the Master Trust Indenture dated as of June 1, 2008, and as subsequently amended and supplemented, between Presbyterian Homes, Inc., Presbyterian Homes in The Presbytery of Huntingdon, Quincy Retirement Community, PHI Investment Management Services, Inc., The Long Home, The Long Community, Inc. and Cathedral Village (“the Obligated Group”) and The Bank of New York Mellon (the “Master Trustee”);

Pursuant to Section 7.14(e), the undersigned Obligated Group Representative hereby certifies to the Master Trustee that:

(i) to the best of the knowledge of such Obligated Group Representative, the Obligated Group has complied with its covenants, agreements and obligations **for the year-ended December 31,2021.**

IN WITNESS WHEREOF, the undersigned has executed this Certificate this **12th** day of **April**, 2022.

Presbyterian Homes, Inc.
Presbyterian Homes of the Presbytery of Huntingdon
Quincy Retirement Community
PHI Investment Management Services, Inc.
The Long Home, and
The Long Community, Inc.
Cathedral Village

By: 

Dyan L. McAlister, Chief Financial Officer

APPENDIX A

Obligated Group Audited Financial Statements for Filing Fiscal Year

Presbyterian Homes Obligated Group

Combined Financial Statements
and Supplementary Information

December 31, 2021 and 2020

Presbyterian Homes Obligated Group

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December 31, 2021 and 2020

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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, 2021 and 2020, 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 115 years.

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

Jim Bernardo
Chief Executive Officer
Presbyterian Senior Living

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 Presbyterian Homes Obligated Group (the Obligated Group), which comprise the combined statements of financial position as of December 31, 2021 and 2020, 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, 2021 and 2020, 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 34 through 35 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, 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 36 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 8, 2022

Presbyterian Homes Obligated Group

Combined Statements of Financial Position

December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Assets | | |
| Cash and cash equivalents | \$ 11,239,818 | \$ 12,110,330 |
| Investments | 113,869,829 | 83,331,986 |
| Statutory liquid reserves | 10,471,255 | 13,670,554 |
| Accounts receivable, net | 10,858,834 | 12,432,750 |
| Assets whose use is limited | 53,388,482 | 17,929,702 |
| Assets held for sale | - | 2,350,618 |
| Property and equipment, net | 375,066,095 | 381,271,663 |
| Due from affiliates, net | 88,045,022 | 86,723,738 |
| Funds held in trust by others | 21,414,680 | 20,257,550 |
| Other assets | 5,564,488 | 6,516,847 |
| | <u>689,918,503</u> | <u>636,595,738</u> |
| Total assets | <u>\$ 689,918,503</u> | <u>\$ 636,595,738</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 10,373,384 | \$ 12,508,432 |
| Accrued expenses | 14,135,713 | 16,499,374 |
| Lines of credit | 15,593,443 | 14,212,412 |
| Resident deposits | 2,507,309 | 6,313,719 |
| Entrance fee payable | 8,147,685 | 9,648,523 |
| Other liabilities | 5,362,815 | 5,066,233 |
| CARES Act funding liabilities | 4,472,340 | 13,644,706 |
| Long-term debt | 272,663,720 | 248,331,284 |
| Deferred revenues from entrance fees | 114,979,674 | 105,563,008 |
| | <u>448,236,083</u> | <u>431,787,691</u> |
| Total liabilities | <u>448,236,083</u> | <u>431,787,691</u> |
| Net Assets | | |
| Without donor restrictions | 212,527,325 | 177,052,198 |
| With donor restrictions | 29,155,095 | 27,755,849 |
| | <u>241,682,420</u> | <u>204,808,047</u> |
| Total net assets | <u>241,682,420</u> | <u>204,808,047</u> |
| Total liabilities and net assets | <u>\$ 689,918,503</u> | <u>\$ 636,595,738</u> |

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Net Assets Without Donor Restrictions | | |
| Revenues, gains and other support: | | |
| Resident services: | | |
| Resident services | \$ 174,338,100 | \$ 184,334,407 |
| Amortization of entrance fees | 18,993,628 | 17,531,498 |
| Total resident services | 193,331,728 | 201,865,905 |
| Contributions, gifts and bequests | 1,330,159 | 664,811 |
| Government grants | 7,515,900 | - |
| Government stimulus | 4,799,292 | 12,504,479 |
| FEMA funding | 5,742,262 | - |
| Net assets released from restrictions | 992,913 | 900,638 |
| Total operating revenues and other support | <u>213,712,254</u> | <u>215,935,833</u> |
| Expenses: | | |
| Nursing services | 55,328,956 | 59,895,338 |
| Rehabilitation | 13,025,251 | 14,157,544 |
| Recreation and special services | 3,805,588 | 4,013,901 |
| Pharmacy | 2,651,932 | 3,001,700 |
| Social services | 940,602 | 993,605 |
| Physician services | 742,482 | 727,903 |
| Food services | 22,037,415 | 23,331,177 |
| Building operations and maintenance | 26,859,867 | 25,960,232 |
| Housekeeping | 3,786,145 | 3,885,356 |
| Laundry and linen | 1,169,109 | 1,251,814 |
| Management and general | 31,446,154 | 30,477,684 |
| Employee benefits | 7,843,468 | 11,059,466 |
| Interest | 7,084,265 | 6,942,336 |
| Depreciation | 23,836,080 | 22,327,535 |
| Amortization | 282,601 | 282,601 |
| Fundraising | 700,094 | 501,396 |
| Total expenses before nonrecurring expenses | <u>201,540,009</u> | <u>208,809,588</u> |
| Nonrecurring expenses, COVID-19 | 2,101,279 | 12,692,325 |
| Operating income (loss) before gains and losses | 10,070,966 | (5,566,080) |
| Gain (loss) on sale of community and disposals of property and equipment | 14,615,126 | (214,042) |
| Loss on impairment of asset | (2,350,230) | - |
| Operating income (loss) | <u>22,335,862</u> | <u>(5,780,122)</u> |
| Other income (loss): | | |
| Investment income | 2,800,155 | 2,188,723 |
| Realized gain on investments | 3,716,532 | 5,290,142 |
| Unrealized gain on investments | 11,470,916 | 2,828,905 |
| Loss on early extinguishment of debt | (1,518,104) | (75,093) |
| Total other income | <u>16,469,499</u> | <u>10,232,677</u> |
| Revenues in excess of expenses | <u>38,805,361</u> | <u>4,452,555</u> |
| Transfer to affiliated entity | <u>(3,330,234)</u> | <u>(3,325,994)</u> |
| Increase in net assets without donor restrictions | <u>35,475,127</u> | <u>1,126,561</u> |

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Operations and Changes in Net Assets
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|------------------------------|------------------------------|
| Net Assets With Donor Restrictions | | |
| Contributions, gifts and bequests | \$ 666,920 | \$ 728,843 |
| Investment income, net of investment expense | 61,061 | 119,000 |
| Unrealized gain on investments | 1,664,178 | 1,316,949 |
| Net assets released from restrictions | <u>(992,913)</u> | <u>(900,638)</u> |
| Increase in net assets with donor restrictions | <u>1,399,246</u> | <u>1,264,154</u> |
| Increase in net assets | 36,874,373 | 2,390,715 |
| Net Assets, Beginning | <u>204,808,047</u> | <u>202,417,332</u> |
| Net Assets, Ending | <u><u>\$ 241,682,420</u></u> | <u><u>\$ 204,808,047</u></u> |

See notes to combined financial statements

Presbyterian Homes Obligated Group

Combined Statements of Cash Flows

Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Cash Flows From Operating Activities | | |
| Increase in net assets | \$ 36,874,373 | \$ 2,390,715 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 23,836,080 | 22,327,535 |
| Provision for doubtful collections | 1,454,968 | 1,679,115 |
| Proceeds from nonrefundable entrance fees and deposits | 20,470,367 | 15,332,945 |
| Amortization of entrance fees | (18,993,628) | (17,531,498) |
| Loss on early extinguishment of debt | 1,518,104 | 75,093 |
| Unrealized gain on investments and change in fair value of funds held in trust by others | (13,135,094) | (4,145,854) |
| Realized gain on investments | (3,716,532) | (5,290,142) |
| (Gain) loss on sale of community and disposals of property and equipment | (14,615,126) | 214,042 |
| Contributions restricted for long-term purposes | (74,871) | (28,411) |
| Amortization of deferred financing costs | 131,225 | 155,616 |
| Amortization of bond premium | (218,313) | (26,762) |
| Loss on impairment of asset | 2,350,230 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | (883,002) | 2,776,752 |
| Entrance fee receivable | 1,055,401 | (481,703) |
| Other assets | 667,344 | 100,383 |
| Accounts payable | 3,266,756 | 1,105,168 |
| Accrued expenses | (1,084,997) | 253,261 |
| Other liabilities | 578,378 | 1,868,922 |
| CARES Act funding liabilities | (9,172,366) | 13,644,706 |
| Net cash provided by operating activities | <u>30,309,297</u> | <u>34,419,883</u> |
| Cash Flows From Investing Activities | | |
| Acquisition of property and equipment | (24,675,844) | (40,200,360) |
| Proceeds from sale of community and property and equipment | 19,500,000 | 1,303,466 |
| Purchases of investments | (49,398,706) | (31,450,013) |
| Proceeds from sale of investments | 36,465,949 | 33,076,075 |
| Due from affiliates, net | (1,321,284) | (5,734,633) |
| Net cash used in investing activities | <u>(19,429,885)</u> | <u>(43,005,465)</u> |
| Cash Flows From Financing Activities | | |
| Payment of accounts payable, construction | (7,159,181) | (4,815,375) |
| Refunds of entrance fees and deposits | (3,654,981) | (4,437,514) |
| Proceeds from refundable entrance fees and deposits, resales | 97,500 | 550,854 |
| Proceeds from refundable entrance fees and deposits, new units | 8,779,487 | 7,349,318 |
| Principal payments on redemptions of long-term debt | (14,003,114) | (13,133,752) |
| Proceeds from issuance of long-term debt | 31,050,680 | 27,955,000 |
| Proceeds from bond premium | 7,151,245 | - |
| Early payoff of long-term debt | - | (3,430,000) |
| Redemption of bonds held in treasury | (225,000) | - |
| Financing costs paid | (1,072,391) | (210,056) |
| Borrowings (repayments) on lines of credit | 1,381,031 | (986,378) |
| Contributions restricted for long-term purposes | 74,871 | 28,411 |
| Net cash provided by financing activities | <u>22,420,147</u> | <u>8,870,508</u> |
| Net change in cash, cash equivalents and restricted cash and cash equivalents | 33,299,559 | 284,926 |
| Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning | 31,205,179 | 30,920,253 |
| Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending | <u>\$ 64,504,738</u> | <u>\$ 31,205,179</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest paid, net of amounts capitalized | <u>\$ 5,415,988</u> | <u>\$ 6,879,300</u> |
| Noncash Investing and Financing Activities | | |
| Obligations incurred for the acquisition of property and equipment | <u>\$ 602,526</u> | <u>\$ 7,159,181</u> |
| Long-term debt refinanced | <u>\$ 38,099,320</u> | <u>\$ -</u> |
| Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 11,239,818 | \$ 12,110,330 |
| Cash and cash equivalents in investments | 4,941,868 | 4,490,955 |
| Restricted cash and cash equivalents in: | | |
| Statutory reserves | 229,113 | 1,640,758 |
| Assets whose use is limited | 48,093,939 | 12,963,136 |
| Total cash, cash equivalents and restricted cash and cash equivalents | <u>\$ 64,504,738</u> | <u>\$ 31,205,179</u> |

See notes to combined financial statements

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2021 and 2020

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 twelve continuing care retirement communities, three stand-alone independent living facilities and two stand-alone personal care homes.

The Obligated Group is governed by the Board of Trustees of PHI, doing business as Presbyterian Senior Living. Presbyterian Senior Living (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 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 | 520 | 291 | 91 | 80 | 32 | 26 |
| Independent living units | 1,507 | 749 | 155 | 230 | 108 | 265 |
| Total | <u>2,795</u> | <u>1,411</u> | <u>467</u> | <u>404</u> | <u>140</u> | <u>373</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 set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008 that make up the Obligated Group, 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, 2021 and 2020

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 2021 and 2020, 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 percent 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 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, 2021 and 2020

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 \$1,176,725 and \$1,109,945 was capitalized in 2021 and 2020, respectively.

Assets Held for Sale

Assets held for sale are recorded at the lower of carrying value or net realizable value and are not depreciated.

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 income (loss) in the accompanying combined statement of operations and changes in net assets.

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, 2021 and 2020

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

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Beneficial interest in perpetual trusts | \$ 21,058,000 | \$ 19,675,603 |
| Contributions receivable from remainder trusts | 343,364 | 566,336 |
| Gift annuities | <u>13,316</u> | <u>15,611</u> |
| Total funds held in trust by others | <u>\$ 21,414,680</u> | <u>\$ 20,257,550</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 and \$210,056 during the years ended December 31, 2021 and 2020, respectively. The Obligated Group wrote off \$263,076 in financing costs, which is included in loss on early extinguishment of debt for the year ended December 31, 2021. Amortization expense is expected to be \$128,372, \$126,690, \$126,690, \$125,415 and \$116,691 for the next five years, respectively, and is classified as interest expense on the combined statements of operations and changes in net assets. Unamortized deferred financing costs are a direct deduction from the associated long-term debt included on the combined statements of financial position.

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 percent of the remaining 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 fee 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 \$58,451,000 at December 31, 2021.

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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, 2021) using a discount rate of 5.5 percent, 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, 2021 or 2020.

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 percent 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, 2021 and 2020.

In addition to the statutory liquid reserves, deposits and entrance fee payments received by the Obligated Group prior to the date the resident occupies the living unit as of December 31, 2020 were approximately \$2,400,000 and none as of December 31, 2021. The amounts are also included in the required statutory liquid reserves and cash and cash equivalents on the accompanying combined statements of financial position.

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 restriction in the accompanying combined financial statements.

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The Obligated Group reports noncash gifts as support without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor 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.

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.

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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 fully implemented its 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.

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. The rate "floors" are expected to be in effect for 36 months.

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.

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The Obligated Group has incurred lost revenues and eligible expenses in accordance with the terms and conditions of the PRF, which were received and recognized as follows:

| PRF Reporting Period | Payment Received Period | Total Payments Received | Revenues Recognized for the Years Ended December 31, | |
|----------------------|-----------------------------------|-------------------------|--|--------------|
| | | | 2021 | 2020 |
| Period 1 | April 10, 2020 to June 30, 2020 | \$ 7,207,551 | \$ - | \$ 7,207,551 |
| Period 2 | July 1, 2020 to December 31, 2020 | 2,214,080 | - | 2,214,080 |
| Period 3 | January 1, 2021 to June 30, 2021 | 169,201 | 169,201 | - |
| Period 4 | July 1, 2021 to December 31, 2021 | 1,743,319 | 1,743,319 | - |
| | Total | \$ 11,334,151 | \$ 1,912,520 | \$ 9,421,631 |

The Obligated Group's methodology for calculating lost revenues in 2021 and 2020 was the difference between 2019 actual resident services revenue (base year) compared to actual resident services revenue in 2020 and 2021. The Obligated Group recorded revenues in government stimulus in the accompanying combined statements of operations and changes in net assets.

The Obligated Group also received funding from various state and local funding sources in 2021 and 2020 of \$2,886,772 and \$3,082,848, 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 in 2021 and 2020 of \$2,886,772 and \$3,082,848, 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.

In 2021, the Obligated Group applied to the Federal Emergency Management Agency (FEMA) for eligible 2020 expenses. The application was approved and funding of \$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, 2021, \$4,902,373 of this funding was received and the remaining \$839,889 was recorded as a receivable and is included in the accompanying combined financial statements.

Paycheck Protection Program and Subsequent Event

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).

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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 percent during the covered period.

The Obligated Group initially recorded the funds as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right of return of the PPP loan, or when such conditions are explicitly waived. Any unforgiven portion is payable over five years at an interest rate of 1 percent with payments deferred until the SBA remits the organization's loan forgiveness amount to the lender, or, if the organization does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

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 statements of operations and changes in net assets for the year ended December 31, 2021.

The remaining \$2,000,000 of PPP Advance Round 2 funds received are recorded as deferred revenue in CARES Act funding liabilities in the Obligated Group's December 31, 2021 combined statement of financial position as the funds remain subject to certain conditions. On January 20, 2022, the Obligated Group received notice from the SBA that it has forgiven the remaining \$2,000,000 of the PPP Round 2 proceeds. Therefore, the Obligated Group overcame the remaining barriers and the refundable advance will be reported as government grants revenue 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.

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. The outstanding balance at December 31, 2021 and 2020 was \$2,472,340 and \$6,128,806, respectively, which are recorded as CARES act funding liabilities in the accompanying combined statements of financial position. Repayment occurs automatically through a partial offset in Medicare payments due to the Obligated Group for services rendered to Medicare program beneficiaries. 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. The Obligated Group expects services rendered during 2022 to be sufficient to offset the payments received.

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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>2021</u> | <u>2020</u> |
|--|--------------|--------------|
| Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors | \$ 4,807,738 | \$ 5,821,600 |
| Additional benevolent care provided at amounts less than pre-established charges for private pay services | 27,775,630 | 34,310,168 |
| Giving and income designated for resident financial support | 394,337 | 282,384 |

Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2021 and 2020, was \$588,717 and \$542,164, 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 in excess of expenses." Changes in net assets without donor restrictions which are excluded from this measure are transfers to affiliated entity.

Subsequent Events

The Obligated Group has evaluated subsequent events through April 8, 2022, which is the date the combined financial statements were issued.

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 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, 2022. The Obligated Group is currently assessing the effect that electing the optional expedients and exceptions included in ASU No. 2020-04 would have on its combined financial statements.

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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, 2021 and 2020, is as follows:

| | 2021 | | | | | Total |
|---|----------------------|-----------------------------------|----------------------|-------------------|-------------------|-----------------------|
| | Independent Living | Personal Care/ Assisted Living | Health Center | Outpatient | Other | |
| Private Pay | \$ 52,419,079 | \$ 25,612,346 | \$ 27,556,636 | \$ 372,105 | \$ - | \$ 105,960,166 |
| Medicare | 1,034,500 | 2,842,782 | 27,500,406 | 76,700 | - | 31,454,388 |
| Medicaid | - | - | 35,440,747 | 26,542 | - | 35,467,289 |
| Other | 11,654 | 251 | 556,552 | 149,667 | 738,133 | 1,456,257 |
| Amortization of nonrefundable entrance fees | 18,993,628 | - | - | - | - | 18,993,628 |
| Total | <u>\$ 72,458,861</u> | <u>\$ 28,455,379</u> | <u>\$ 91,054,341</u> | <u>\$ 625,014</u> | <u>\$ 738,133</u> | <u>\$ 193,331,728</u> |

| | 2020 | | | | | Total |
|---|----------------------|-----------------------------------|-----------------------|-------------------|-------------------|-----------------------|
| | Independent Living | Personal Care/ Assisted Living | Health Center | Outpatient | Other | |
| Private Pay | \$ 50,359,135 | \$ 27,282,356 | \$ 29,496,980 | \$ 382,936 | \$ - | \$ 107,521,407 |
| Medicare | 964,083 | 2,838,015 | 29,236,109 | 52,626 | - | 33,090,833 |
| Medicaid | - | - | 42,289,325 | 81,838 | - | 42,371,163 |
| Other | 1,014 | 220 | 471,010 | 134,550 | 744,210 | 1,351,004 |
| Amortization of nonrefundable entrance fees | 17,531,498 | - | - | - | - | 17,531,498 |
| Total | <u>\$ 68,855,730</u> | <u>\$ 30,120,591</u> | <u>\$ 101,493,424</u> | <u>\$ 651,950</u> | <u>\$ 744,210</u> | <u>\$ 201,865,905</u> |

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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:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|----------------------|
| Money market funds | \$ 53,264,920 | \$ 19,094,849 |
| Marketable equity securities | 3,207,550 | 2,771,356 |
| Mutual funds: | | |
| Equity | 46,095,646 | 36,127,689 |
| Fixed income | 38,998,661 | 33,472,314 |
| Cost method investment | 9,289,286 | 1,289,286 |
| Alternative investments | <u>26,873,503</u> | <u>22,176,748</u> |
| Total investments, restricted deposits and funded reserves and assets whose use is limited | 177,729,566 | 114,932,242 |
| Less: | | |
| Assets whose use is limited: | | |
| Investments held in perpetuity | (5,294,543) | (5,219,671) |
| Bond fund | - | (329,022) |
| Debt service reserve fund | - | (767,796) |
| Debt service escrow fund | (8,515,352) | (11,160,046) |
| Other escrow fund | (2,775,000) | - |
| Project fund | (36,803,587) | (453,167) |
| Statutory liquid reserves | <u>(10,471,255)</u> | <u>(13,670,554)</u> |
| Total investments | <u>\$ 113,869,829</u> | <u>\$ 83,331,986</u> |

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.

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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 \$1,243,032 and \$1,391,482 at December 31, 2021 and 2020, 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.

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.

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, 2021 and 2020, are as follows:

| | 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> |
| | | | | |
| | Fair Value as of December 31, 2020 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 19,094,849 | \$ 19,094,849 | \$ - | \$ - |
| Marketable equity securities | 2,771,356 | 2,771,356 | - | - |
| Mutual funds: | | | | |
| Equity | 36,127,689 | 36,127,689 | - | - |
| Fixed income | 33,472,314 | 33,472,314 | - | - |
| Total investments | 91,466,208 | 91,466,208 | - | - |
| Funds held in trust by others | 20,257,550 | - | - | 20,257,550 |
| Total assets | <u>\$ 111,723,758</u> | <u>\$ 91,466,208</u> | <u>\$ -</u> | <u>\$ 20,257,550</u> |

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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:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Measured at net asset value | \$ 26,873,503 | \$ 22,176,748 |
| Measured using the cost method | 9,289,286 | 1,289,286 |
| Measured at fair value | <u>141,566,777</u> | <u>91,466,208</u> |
| Total investments, restricted deposits and funded reserves and assets whose use is limited | <u>\$ 177,729,566</u> | <u>\$ 114,932,242</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:

| | <u>2021</u> | <u>2020</u> |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 11,239,818 | \$ 12,110,330 |
| Investments | 113,869,829 | 83,331,986 |
| Accounts receivable, net | <u>10,858,834</u> | <u>12,432,750</u> |
| Total | <u>\$ 135,968,481</u> | <u>\$ 107,875,066</u> |

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, 2021 and 2020, respectively, which it draws upon as needed. As of December 31, 2021 and 2020, the lines of credit had approximately \$1,156,000 and \$2,540,000, 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, 2021 and 2020, the Obligated Group incurred management fees and other expenses totaling \$16,953,939 and \$15,668,667, 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.

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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 2021 and 2020, the Obligated Group incurred expenses related to Prelude amounting to \$1,629,801 and \$1,670,669, respectively, for information services provided by Prelude, of which \$34,372 and \$37,972 is included in accounts payable as of December 31, 2021 and 2020, respectively.

Amounts due from affiliate entities as of December 31, 2021 and 2020, are \$88,045,022 and \$86,723,738, 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 2021 and 2020. As of December 31, 2021 and 2020, the Obligated Group transferred assets of \$3,330,234 and \$3,325,994, 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.

7. Property and Equipment

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

| | 2021 | | 2020 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land | \$ 37,179,787 | \$ - | \$ 37,488,500 | \$ - |
| Land improvements | 28,265,315 | 17,635,294 | 28,802,789 | 17,530,937 |
| Buildings and improvements | 558,132,786 | 248,918,589 | 532,004,458 | 247,311,065 |
| Departmental equipment, furniture and fixtures | 53,181,581 | 44,564,871 | 55,146,701 | 45,661,468 |
| Vehicles | 1,875,558 | 1,784,226 | 1,848,109 | 1,719,074 |
| Construction-in-progress | 9,334,048 | - | 38,203,650 | - |
| | <u>\$ 687,969,075</u> | <u>\$ 312,902,980</u> | <u>\$ 693,494,207</u> | <u>\$ 312,222,544</u> |
| Net book value | | <u>\$ 375,066,095</u> | | <u>\$ 381,271,663</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, 2021 and 2020, respectively, the Corporation had approximately \$603,000 and \$7,159,000 outstanding of construction payable included in accounts payable and accrued expenses in the accompanying combined statements of financial position.

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 2020, one of the parcels was sold. 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>2021</u> | <u>2020</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, 2021 and 2020, interest will be reset in three year increments. | \$ 662,726 | \$ 857,887 |
| 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 0.55% and 1.76% as of December 31, 2021 and 2020, respectively. | 88,322 | 147,194 |
| 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 1.52% and 1.54% as of December 31, 2021 and 2020, respectively. | 12,611,757 | 13,715,690 |
| Bank of America taxable ten year term loan, principal due in varying amounts, extended in 2016 to be due in December 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which resets in five year increments, and was 3.85% as of December 31, 2021 and 2020. | 9,152,900 | 9,593,406 |
| 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%. | 5,872,882 | 6,353,765 |
| 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%. | 6,177,884 | 6,646,226 |
| 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%. | 6,662,864 | 7,116,970 |
| 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 statement of financial position as of December 31, 2021 and are expected to be used to repay this series in 2023. | 7,955,000 | 8,220,000 |

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| | <u>2021</u> | <u>2020</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 ten year increments. | \$ 9,497,500 | \$ 9,564,500 |
| 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 ten year increments. | 9,497,500 | 9,564,500 |
| Uwchlan Township Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.92% until May 2025, interest rates will be reset in ten year increments. | 7,352,279 | 7,788,289 |
| Northampton County Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.80% until May 2025, interest rates will be reset in ten year increments. | 7,377,362 | 7,814,721 |
| People's Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 2.13% and 2.19% as of December 31, 2021 and 2020, respectively. | 2,383,492 | 3,016,705 |
| First National Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 2.21% and 2.25% as of December 31, 2021 and 2020, respectively. | 2,394,098 | 3,029,163 |
| 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 ten year increments. | 7,947,755 | 8,315,653 |
| 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 1.38% and 1.41% as of December 31, 2021 and 2020, respectively. | 13,551,333 | 13,785,333 |
| 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. | 17,236,479 | 17,877,020 |
| Bank of America taxable ten year term loan, principal due in varying amounts through 2034, due in May 2026 with the option to extend all or a portion of the remaining balance over the remaining 25-year amortization period. The bonds bear a floating interest rate which was 1.79% and 1.85% as of December 31, 2021 and 2020, respectively. | 3,103,413 | 3,395,918 |

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| | <u>2021</u> | <u>2020</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, 2021 and 2020, interest resets in ten year increments. | \$ 28,530,000 | \$ 29,277,000 |
| 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%. | 6,052,086 | 6,529,909 |
| 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%. | 6,772,169 | 7,225,609 |
| Bank of America taxable ten year term loan Bond Series 2020, principal payments to begin 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%. | 13,955,000 | 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. | 15,000,000 | 14,000,000 |
| Pennsylvania Economic Development Financing Authority Revenue Bonds, Series 2021, held by The Bank of New York Mellon Trust Company, principal due varying amounts from 2021 to 2046. The bonds bear a fixed rate of 4.0%. | 59,530,000 | - |
| Bank of America taxable ten year term loan Bond Series 2021, principal due in varying amounts through 2031. The bonds bear a fixed interest rate which is 2.59%. | 8,433,000 | - |
| Debt refinanced in 2021 | - | 41,714,793 |
| Total long-term debt | 267,797,801 | 249,505,251 |
| Plus unamortized premium | 7,005,003 | 292,027 |
| Less deferred financing costs | (2,139,084) | (1,465,994) |
| Total | <u>\$ 272,663,720</u> | <u>\$ 248,331,284</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 bond 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.

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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, 2021, and thereafter are as follows:

| | |
|---------------------------|-----------------------|
| Years ending December 31: | |
| 2022 | \$ 12,775,905 |
| 2023 | 20,431,652 |
| 2024 | 12,998,089 |
| 2025 | 13,388,650 |
| 2026 | 13,792,087 |
| Thereafter | <u>194,411,418</u> |
| Total | <u>\$ 267,797,801</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, 2021 and 2020, 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, 2021 and 2020, the Obligated Group had \$15,593,443 and \$14,212,412, respectively, outstanding under these agreements at interest rates ranging from 1.63 percent to 2.08 percent and with maturity dates ranging from July 2022 to November 2022.

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 2021 and 2020, the Obligated Group maintained a surety bond for \$3,000,000, in connection with this self-insurance program. As of December 31, 2021 and 2020, the Obligated Group has recorded an accrued expense of approximately \$3,375,000 and \$4,400,000, 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.

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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.

12. Net Assets With Donor Restrictions

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

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Subject to expenditure for specified purpose: | | |
| Caring community | \$ 272,732 | \$ 279,536 |
| Community enhancement | 867,059 | 700,995 |
| | <u>1,139,791</u> | <u>980,531</u> |
| Subject to the passage of time: | | |
| Promises to give that are not restricted by donors, but which are unavailable for expenditure until due | 179,632 | 224,494 |
| Gift annuities | 13,316 | 15,611 |
| Contributions receivable from remainder trusts | 343,365 | 566,337 |
| | <u>536,313</u> | <u>806,442</u> |
| Endowments: | | |
| Subject to appropriation and expenditures when a specified event occurs: | | |
| Restricted by donors for: | | |
| Educational scholarship | 51,076 | 47,370 |
| Benevolent care | 6,905 | 6,352 |
| Community enhancement | 210,113 | 189,794 |
| | <u>268,094</u> | <u>243,516</u> |
| Subject to endowment spending policy and appropriation: | | |
| Educational scholarship | 217,020 | 177,076 |
| Benevolent care | 1,098,325 | 1,051,718 |
| Community enhancement | 4,007,468 | 3,990,878 |
| | <u>5,322,813</u> | <u>5,219,672</u> |
| Total endowments | <u>5,590,907</u> | <u>5,463,188</u> |
| Not subject to spending policy or appropriation: | | |
| Beneficial interest in perpetual trusts | 21,057,998 | 19,675,602 |
| Trust assets held for the benefit of the Easton Home | 830,086 | 830,086 |
| | <u>21,888,084</u> | <u>20,505,688</u> |
| Total | <u>\$ 29,155,095</u> | <u>\$ 27,755,849</u> |

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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>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Expiration of time restrictions | \$ 55,550 | \$ 204,568 |
| Satisfaction of purpose restriction: | | |
| Caring community | 35,757 | 17,170 |
| Community enhancement | 865,123 | 608,999 |
| Restricted-purpose spending rate distributions and appropriations: | | |
| Educational scholarship | 1,000 | - |
| Benevolent care | 16,536 | 31,968 |
| Community enhancement | 18,947 | 37,933 |
| Total | <u>\$ 992,913</u> | <u>\$ 900,638</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 Trustees of the Obligated Group has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Obligated Group classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence described in state laws. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Obligated Group considers the following factors:

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

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The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the years ended December 31, 2021 and 2020:

| | With Donor Restrictions | |
|--|-------------------------|---------------------|
| | 2021 | 2020 |
| Endowment net assets, beginning of year | \$ 5,463,188 | \$ 5,374,720 |
| Investment income | 61,061 | 119,000 |
| Contributions | 103,141 | 39,370 |
| Appropriation of endowment assets for expenditures | (36,483) | (69,902) |
| Endowment net assets, end of year | <u>\$ 5,590,907</u> | <u>\$ 5,463,188</u> |

The value of the original gifts plus subsequent gifts to be held in perpetuity totaled \$5,294,543 and \$5,219,671 for the years ended December 31, 2021 and 2020, 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, 2021 or 2020.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment funds' average fair value over the prior three calendar year ends. This percentage per the policy was up to 4.0 percent for 2021 and 2020. 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 percent 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, 2021 and 2020, retirement plan expense totaled \$742,388 and \$582,051, respectively.

15. Functionalized Expenses

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

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The costs of providing services and supporting activities are as follows for the years ended December 31, 2021 and 2020:

| | 2021 | | | Total |
|---|-----------------------|-------------------------------|--------------------------------|-----------------------|
| | Resident Services | General and Administrative | Fundraising and Development | |
| 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 |
| Bad debt | - | 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 |

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| | 2020 | | | |
|---|-----------------------|-------------------------------|--------------------------------|-----------------------|
| | Resident Services | General and Administrative | Fundraising and Development | Total |
| Salaries and wages | \$ 81,970,866 | \$ 1,280,181 | \$ - | \$ 83,251,047 |
| Employee benefits and other employee costs | 11,492,030 | 193,281 | - | 11,685,311 |
| Payroll taxes | 5,768,088 | 90,083 | - | 5,858,171 |
| Professional services | 6,388,108 | 910,366 | - | 7,298,474 |
| Management services | 4,977,824 | 10,189,447 | 501,396 | 15,668,667 |
| Accounting fees | - | 2,047 | - | 2,047 |
| Legal fees | - | 620,811 | - | 620,811 |
| Advertising and promotion | 542,164 | - | - | 542,164 |
| Office expenses | 9,021,978 | 2,774,430 | - | 11,796,408 |
| Information technology | 1,484,750 | 185,949 | - | 1,670,699 |
| Occupancy | 11,977,000 | 71,985 | - | 12,048,985 |
| Travel | 92,168 | 31,151 | - | 123,319 |
| Conferences and meetings | 7,025 | 5,191 | - | 12,216 |
| Interest | 6,169,654 | 772,682 | - | 6,942,336 |
| Insurance | 2,809,658 | 16,391 | - | 2,826,049 |
| Training and development | 2,391 | 56,658 | - | 59,049 |
| Depreciation | 22,198,035 | 129,500 | - | 22,327,535 |
| Amortization | 280,962 | 1,639 | - | 282,601 |
| Bad debt | - | 1,679,115 | - | 1,679,115 |
| Pharmacy | 3,001,699 | - | - | 3,001,699 |
| Medical supplies | 5,773,844 | - | - | 5,773,844 |
| Therapy services | 13,559,501 | - | - | 13,559,501 |
| Dietary services | 5,321,010 | - | - | 5,321,010 |
| Food, beverages and supplies | 7,537,787 | 52,034 | - | 7,589,821 |
| Maintenance and repairs | 1,532,641 | 28,393 | - | 1,561,034 |
| | | | | |
| Total cost of services provided | <u>\$ 201,909,183</u> | <u>\$ 19,091,334</u> | <u>\$ 501,396</u> | <u>\$ 221,501,913</u> |

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.

Presbyterian Homes Obligated Group

Notes to Combined Financial Statements

December 31, 2021 and 2020

COVID-19

The spread of COVID-19 around the world has caused significant volatility in U.S. and international markets, supply chains, businesses and communities. The Obligated Group's evaluation of the effects of these events is ongoing as of the date the accompanying combined financial statements were issued. COVID-19 may impact various parts of the Obligated Group's 2022 operations and financial performance, including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption, sales of independent living units or declines in revenue related to decreases in occupancy or volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

Presbyterian Homes Obligated Group

 Combining Schedule of Financial Position
 December 31, 2021

| | 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 | \$ 10,881,492 | \$ 44,054 | \$ 1,446 | \$ 300,870 | \$ 10,956 | \$ 1,000 | \$ 11,239,818 | \$ - | \$ 11,239,818 |
| Investments | 9,962,697 | 13,986,298 | 58,611,548 | 5,064,088 | 7,244,303 | 19,000,895 | 113,869,829 | - | 113,869,829 |
| Statutory liquid reserves | 6,497,414 | 1,075,039 | - | - | 1,142,575 | 1,756,227 | 10,471,255 | - | 10,471,255 |
| Accounts receivable, net | 6,090,430 | 2,160,644 | - | 36,357 | 1,411,374 | 1,160,029 | 10,858,834 | - | 10,858,834 |
| Assets whose use is limited | 36,803,587 | 2,250,375 | 5,560,657 | - | 258,511 | 8,515,352 | 53,388,482 | - | 53,388,482 |
| Property and equipment, net | 222,726,269 | 35,897,749 | - | 31,924,525 | 34,134,579 | 50,382,973 | 375,066,095 | - | 375,066,095 |
| Due from affiliates, net | 49,800,436 | 25,932,423 | 12,685,283 | (17,300,346) | 12,512,576 | 4,414,650 | 88,045,022 | - | 88,045,022 |
| Funds held in trust by others | 9,658,245 | 791,859 | - | 958,324 | 7,143,833 | 2,862,419 | 21,414,680 | - | 21,414,680 |
| Other assets | 2,603,303 | 577,824 | - | 290,864 | 579,942 | 1,512,555 | 5,564,488 | - | 5,564,488 |
| Beneficial interest in assets | 2,706,560 | - | - | - | - | - | 2,706,560 | (2,706,560) | - |
| Total assets | \$ 357,730,433 | \$ 82,716,265 | \$ 76,858,934 | \$ 21,274,682 | \$ 64,438,649 | \$ 89,606,100 | \$ 692,625,063 | \$ (2,706,560) | \$ 689,918,503 |
| Liabilities and Net Assets | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Accounts payable | \$ 4,962,352 | \$ 951,844 | \$ 2,775,000 | \$ 88,858 | \$ 783,864 | \$ 811,466 | \$ 10,373,384 | \$ - | \$ 10,373,384 |
| Accrued expenses | 7,155,383 | 2,474,942 | 61,331 | 513,369 | 972,468 | 2,958,220 | 14,135,713 | - | 14,135,713 |
| Lines of credit | 15,593,443 | - | - | - | - | - | 15,593,443 | - | 15,593,443 |
| Resident deposits | 1,300,269 | 106,490 | - | 10,200 | 176,200 | 914,150 | 2,507,309 | - | 2,507,309 |
| Entrance fee payable | 7,000,354 | 263,699 | - | - | 646,345 | 237,287 | 8,147,685 | - | 8,147,685 |
| Other liabilities | 2,538,014 | 316,337 | - | 160,105 | 484,484 | 1,863,875 | 5,362,815 | - | 5,362,815 |
| CARES Act funding liabilities | 1,205,870 | 579,300 | - | - | 402,351 | 2,284,819 | 4,472,340 | - | 4,472,340 |
| Long-term debt | 181,984,403 | 15,919,965 | - | 22,406,926 | 22,097,435 | 30,254,991 | 272,663,720 | - | 272,663,720 |
| Deferred revenues from entrance fees | 65,852,485 | 10,527,133 | - | - | 13,752,363 | 24,847,693 | 114,979,674 | - | 114,979,674 |
| Total liabilities | 287,592,573 | 31,139,710 | 2,836,331 | 23,179,458 | 39,315,510 | 64,172,501 | 448,236,083 | - | 448,236,083 |
| Net Assets | | | | | | | | | |
| Without donor restrictions | 55,833,952 | 48,354,064 | 71,316,043 | (2,987,580) | 17,604,048 | 22,406,798 | 212,527,325 | - | 212,527,325 |
| With donor restrictions | 14,303,908 | 3,222,491 | 2,706,560 | 1,082,804 | 7,519,091 | 3,026,801 | 31,861,655 | (2,706,560) | 29,155,095 |
| Total net assets | 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 |
| Total liabilities and net assets | \$ 357,730,433 | \$ 82,716,265 | \$ 76,858,934 | \$ 21,274,682 | \$ 64,438,649 | \$ 89,606,100 | \$ 692,625,063 | \$ (2,706,560) | \$ 689,918,503 |

Presbyterian Homes Obligated Group

Combining Schedule of Operations and Changes in Net Assets
December 31, 2021

| | 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 | \$ 98,517,264 | \$ 28,652,470 | \$ - | \$ 5,314,493 | \$ 19,497,298 | \$ 22,356,575 | \$ 174,338,100 | \$ - | \$ 174,338,100 |
| Amortization of entrance fees | 11,289,599 | 1,650,966 | - | - | 1,787,909 | 4,265,154 | 18,993,628 | - | 18,993,628 |
| Total resident services | 109,806,863 | 30,303,436 | - | 5,314,493 | 21,285,207 | 26,621,729 | 193,331,728 | - | 193,331,728 |
| Contributions, gifts and bequests | 1,005,322 | 178,300 | - | 29,391 | 110,741 | 6,405 | 1,330,159 | - | 1,330,159 |
| Government grants | - | 3,160,300 | - | 311,800 | 2,098,000 | 1,945,800 | 7,515,900 | - | 7,515,900 |
| Government stimulus | 2,282,388 | 1,377,190 | - | - | 832,024 | 307,690 | 4,799,292 | - | 4,799,292 |
| FEMA funding | 5,552,412 | 74,940 | - | 15,896 | 48,495 | 50,519 | 5,742,262 | - | 5,742,262 |
| Net assets released from restrictions | 574,546 | 265,051 | - | 3,938 | 129,284 | 20,094 | 992,913 | - | 992,913 |
| Total operating revenues and other support | 119,221,531 | 35,359,217 | - | 5,675,518 | 24,503,751 | 28,952,237 | 213,712,254 | - | 213,712,254 |
| Expenses: | | | | | | | | | |
| Nursing services | 32,046,478 | 10,306,969 | - | 786,055 | 6,732,788 | 5,456,666 | 55,328,956 | - | 55,328,956 |
| Rehabilitation | 6,721,162 | 3,358,314 | - | - | 2,172,910 | 772,865 | 13,025,251 | - | 13,025,251 |
| Recreation and special services | 2,195,365 | 637,567 | - | 70,257 | 448,891 | 453,508 | 3,805,588 | - | 3,805,588 |
| Pharmacy | 1,541,534 | 686,623 | - | 15,985 | 276,238 | 131,552 | 2,651,932 | - | 2,651,932 |
| Social services | 509,210 | 203,416 | - | - | 95,230 | 132,746 | 940,602 | - | 940,602 |
| Physician services | 188,439 | 149,157 | - | 9,000 | 51,480 | 344,406 | 742,482 | - | 742,482 |
| Food Services | 11,911,037 | 3,668,334 | - | 538,548 | 1,830,428 | 4,089,068 | 22,037,415 | - | 22,037,415 |
| Building operations and maintenance | 14,972,313 | 3,306,693 | - | 1,175,958 | 2,860,039 | 4,544,864 | 26,859,867 | - | 26,859,867 |
| Housekeeping | 2,412,667 | 508,923 | - | 21,552 | 232,521 | 610,482 | 3,786,145 | - | 3,786,145 |
| Laundry and linen | 552,627 | 252,405 | - | - | 195,090 | 168,987 | 1,169,109 | - | 1,169,109 |
| Management and general | 17,602,587 | 5,778,276 | 26,217 | 927,267 | 3,447,665 | 3,664,142 | 31,446,154 | - | 31,446,154 |
| Employee benefits | 4,975,248 | 693,279 | - | 139,779 | 950,331 | 1,084,831 | 7,843,468 | - | 7,843,468 |
| Interest | 4,574,721 | 523,876 | - | 701,817 | 466,510 | 826,410 | 7,093,334 | (9,069) | 7,084,265 |
| Depreciation | 13,578,643 | 2,501,633 | - | 1,167,075 | 1,926,158 | 4,662,571 | 23,836,080 | - | 23,836,080 |
| Amortization | - | - | - | - | - | 282,601 | 282,601 | - | 282,601 |
| Fundraising | 395,516 | 123,179 | - | 17,716 | 79,146 | 84,537 | 700,094 | - | 700,094 |
| Total expenses before nonrecurring expenses | 114,177,547 | 32,698,644 | 26,217 | 5,571,009 | 21,765,425 | 27,310,236 | 201,549,078 | (9,069) | 201,540,009 |
| Nonrecurring expenses, COVID-19 | 1,205,373 | 510,267 | - | 33,439 | 203,519 | 148,681 | 2,101,279 | - | 2,101,279 |
| Operating income (loss) before gains and losses | 3,838,611 | 2,150,306 | (26,217) | 71,070 | 2,534,807 | 1,493,320 | 10,061,897 | 9,069 | 10,070,966 |
| Gain (loss) on sale of community and disposals of property and equipment | 14,615,126 | - | - | - | - | - | 14,615,126 | - | 14,615,126 |
| Loss on impairment of asset | - | (2,350,230) | - | - | - | - | (2,350,230) | - | (2,350,230) |
| Operating income (loss) | 18,453,737 | (199,924) | (26,217) | 71,070 | 2,534,807 | 1,493,320 | 22,326,793 | 9,069 | 22,335,862 |
| Other income (loss): | | | | | | | | | |
| Investment income | 492,147 | 380,147 | 732,265 | 182,060 | 499,544 | 597,331 | 2,883,494 | (83,339) | 2,800,155 |
| Realized gain on investments | 44,589 | 211,818 | 2,426,603 | 668,483 | 59,143 | 327,552 | 3,738,188 | (21,656) | 3,716,532 |
| Unrealized (loss) gain on investments | (226,401) | 1,663,835 | 7,923,476 | (66,095) | 477,072 | 1,603,103 | 11,374,990 | 95,926 | 11,470,916 |
| Loss on early extinguishment of debt | (994,584) | (2,119) | - | - | - | (521,401) | (1,518,104) | - | (1,518,104) |
| Total other income (loss) | (684,249) | 2,253,681 | 11,082,344 | 784,448 | 1,035,759 | 2,006,585 | 16,478,568 | (9,069) | 16,469,499 |
| Revenues in excess of expenses | 17,769,488 | 2,053,757 | 11,056,127 | 855,518 | 3,570,566 | 3,499,905 | 38,805,361 | - | 38,805,361 |
| Transfer to affiliated entity | - | - | - | (3,330,234) | - | - | (3,330,234) | - | (3,330,234) |
| Increase (decrease) in net assets without donor restrictions | 17,769,488 | 2,053,757 | 11,056,127 | (2,474,716) | 3,570,566 | 3,499,905 | 35,475,127 | - | 35,475,127 |
| Net Assets With Donor Restrictions | | | | | | | | | |
| Contributions, gifts and bequests | 386,504 | 66,240 | - | 16,455 | 120,593 | 77,128 | 666,920 | - | 666,920 |
| Investment income, net of investment expense | 59,926 | 259 | - | - | 828 | 48 | 61,061 | - | 61,061 |
| Unrealized gain on investments | 996,548 | 63,952 | 284,473 | 72,823 | 396,092 | 134,762 | 1,948,650 | (284,472) | 1,664,178 |
| Net assets released from restrictions | (574,546) | (265,051) | - | (3,938) | (129,284) | (20,094) | (992,913) | - | (992,913) |
| Increase (decrease) in net assets with donor restrictions | 868,432 | (134,600) | 284,473 | 85,340 | 388,229 | 191,844 | 1,683,718 | (284,472) | 1,399,246 |
| Increase (decrease) in net assets | 18,637,920 | 1,919,157 | 11,340,600 | (2,389,376) | 3,958,795 | 3,691,749 | 37,158,845 | (284,472) | 36,874,373 |
| Net Assets, Beginning | 51,499,939 | 49,657,398 | 62,682,003 | 484,600 | 21,741,345 | 21,741,850 | 207,230,135 | (2,422,088) | 204,808,047 |
| Net Assets, Ending | \$ 70,137,859 | \$ 51,576,555 | \$ 74,022,603 | \$ (1,904,776) | \$ 25,123,140 | \$ 25,433,599 | \$ 244,388,980 | \$ (2,706,560) | \$ 241,682,420 |

Presbyterian Homes Obligated Group

Statutory Minimum Liquid Reserves Schedule

December 31, 2021

| | Presbyterian Homes, Inc. | Presbyterian Homes in the Presbytery of Huntingdon | Quincy Retirement Community | Cathedral Village | Obligated Group Subtotal |
|---|-----------------------------|---|-----------------------------------|----------------------|--------------------------------|
| 2022 Budgeted operating expenses | \$ 107,864,751 | \$ 34,093,739 | \$ 23,762,900 | \$ 27,737,549 | \$ 193,458,939 |
| Less depreciation expense | 13,701,165 | 2,474,958 | 2,204,878 | 4,929,404 | 23,310,405 |
| Expenses subject to minimum liquid assets requirement | 94,163,586 | 31,618,781 | 21,558,022 | 22,808,145 | 170,148,534 |
| Percentage of residents subject to continuing-care agreements as of December 31, 2021 | 50% | 34% | 53% | 77% | |
| | 47,081,793 | 10,750,386 | 11,425,752 | 17,562,272 | 86,820,203 |
| Statutory requirement | 10% | 10% | 10% | 10% | |
| Statutory minimum liquid reserve requirement, operating expenses (a) | \$ 4,708,179 | \$ 1,075,039 | \$ 1,142,575 | \$ 1,756,227 | \$ 8,682,020 |
| Next 12 months debt service payments: Total debt service for next 12 months | \$ 12,994,828 | \$ 1,163,399 | \$ 1,648,135 | \$ 1,638,425 | \$ 17,444,787 |
| Percentage of residents subject to residence and care agreements as of December 31, 2021 | 50% | 34% | 53% | 77% | |
| Statutory minimum liquid reserve requirement, debt service (b) | \$ 6,497,414 | \$ 395,556 | \$ 873,512 | \$ 1,261,587 | \$ 9,028,069 |
| Statutory minimum liquid reserve, greater of (a) or (b) | \$ 6,497,414 | \$ 1,075,039 | \$ 1,142,575 | \$ 1,756,227 | \$ 10,471,255 |

APPENDIX B

Calculation of Obligated Group Debt Service Coverage Ratio and Reserve Ratio

**Presbyterian Homes Obligated Group
The Bank of New York/Mellon**

Debt Service Coverage Ratio

1/1/21-12/31/21

| | |
|---|---------------------|
| Excess of revenues and other support over expenses and losses | 38,805,360 |
| +/- (Gain)/Loss on sale of property and equipment | (14,615,126) |
| +/- (Gain)/Loss on early extinguishment of debt | 1,518,104 |
| +/- (Gain)/Loss on impairment of asset | 2,350,230 |
| +/- Unrealized Loss(Gain) on investments | (11,470,916) |
| + Unusual/Extraordinary item (Covid 19 related expenses) | - |
| Net Income | <u>16,587,652</u> |
| + Interest Expense (total per AFS format does not include capitalized interest expense) | 7,084,265 |
| - Interest Expense on Line of Credit (included in Interest Expense above) Subacct. 7725 | (215,123) |
| + Depreciation & Amortization | 24,118,681 |
| + Entrance fees received in cash during the period (net of refunds) | 25,692,373 |
| +/- (Increase)Decrease in A/R-RIF (Subacct. 1331) | 1,055,401 |
| - Amortization of entrance fees for the period | <u>(18,993,629)</u> |
| Funds Available for Debt Service | 55,329,620 |

Maximum Annual Debt Service Requirement (Incl. 100% debt svc on guaranteed debt)

19,909,180

Cash Flow coverage as calculated

278%

Required cash flow coverage

125%

The Obligated Group meets its debt service coverage requirement for the 12 month period ending December 31, 2021.

Reserve Ratio covenant shall be tested semiannually as of each June 30th and December 31st (per Section 7.4 of Master Trust Agreement)

| | | |
|--|---------------|-------------|
| Cash and Cash Equivalents | | 11,239,818 |
| + Statutory Minimum Liquid Reserve | | 10,471,255 |
| + Investments | | 113,869,829 |
| + Cash and Investments Pledged to secure debt (incl Debt Serv. Reserve Fund) | | 8,515,352 |
| | | <hr/> |
| | | 144,096,254 |
| Current + Non-current Portion of Long-term Debt | Ob Group | 272,663,720 |
| Current + Non-current Portion Obligation on Capital Leases | | 1,244,405 |
| Current + Non-current Portion Annuities Payable | | 429,433 |
| Current + Non-current Portion of Long-term Debt | Stadium Place | |
| | | <hr/> |
| Long Term Indebtedness | | 274,337,558 |
| Reserve Ratio as calculated | | 53% |
| Required reserve ratio (1) | | 25% |

The Obligated Group meets its covenant for the period ending December 31, 2021.

(1) Required reserve ratio to transfer cash & investments outside the obligated group is 30%

APPENDIX C

Obligated Group Mortgaged Facilities Occupancy Statistics for Filing Fiscal Quarter/Year

Presbyterian Homes Obligated Group

Section 7.14 of the Master Trust Agreement -

(b) within 45 days after close of each fiscal quarter, quarterly consolidated statements of the Obligated Group's operations

(d) within 30 days of the end of each quarter, marketing and occupancy reports indicating the actual occupancy of the Facilities as a percentage of capacity

(see (a), (c), and (e) for other annual or misc requirements)

Summary of Occupancy (as a % of Available Beds or Units)

| | 4th Quarter % | 12/31/2021 YTD % |
|---|---------------------|------------------------|
| Occupancy - HEALTH CENTER | | |
| Green Ridge Village | 70.0% | 76.4% |
| Kirkland Village | 70.6% | 67.9% |
| St. Andrew's Village | 81.4% | 78.1% |
| Ware Presbyterian Village | 73.2% | 70.8% |
| Westminster Village / Allentown | | 82.4% |
| Westminster Village / Dover | 76.9% | 73.1% |
| The Presbyterian Village at Hollidaysburg | 94.6% | 88.8% |
| Westminster Woods at Huntingdon | 72.9% | 74.2% |
| Windy Hill Village | 64.3% | 63.0% |
| Quincy Village | 70.3% | 64.6% |
| Cathedral Village | 91.9% | 86.3% |
| Grand Total - HEALTH CENTER | 84.2% | 74.1% |

| | 4th Quarter % | 12/31/2021 YTD % |
|---|---------------------|------------------------|
| Occupancy - PERSONAL CARE (Based on Units) | | |
| The Easton Home | 68.1% | 66.1% |
| Green Ridge Village | 80.8% | 70.2% |
| Kirkland Village | 93.6% | 83.3% |
| St. Andrew's Village | 72.1% | 74.7% |
| Ware Presbyterian Village | 83.9% | 80.5% |
| Westminster Village / Dover | 85.9% | 83.2% |
| Presbyterian Home at Williamsport | 67.7% | 65.3% |
| The Presbyterian Village at Hollidaysburg | 79.4% | 75.0% |
| Westminster Woods at Huntingdon | 85.9% | 72.5% |
| Windy Hill Village | 86.1% | 86.4% |
| Quincy Village | 74.5% | 80.7% |
| The Long Community, Inc. | 87.4% | 88.0% |
| Cathedral Village | 66.0% | 64.1% |
| Grand Total - PERSONAL CARE | 79.1% | 76.7% |

| | 4th Quarter % | 12/31/2021 YTD % |
|--|---------------------|------------------------|
| Occupancy - INDEPENDENT LIVING (Based on Units) | | |
| Green Ridge Village | 96.5% | 96.5% |
| Kirkland Village | 90.3% | 90.3% |
| Mark Kennedy Park | 93.4% | 91.6% |
| Moyer House | 85.9% | 94.1% |
| St. Andrew's Village | 92.4% | 90.7% |
| Ware Presbyterian Village | 95.0% | 95.3% |
| Westminster Village / Allentown | | 79.8% |
| Westminster Village / Dover | 91.6% | 92.7% |
| The Presbyterian Village at Hollidaysburg | 87.9% | 92.1% |
| Westminster Woods at Huntingdon | 97.4% | 95.8% |
| Windy Hill Village | 100.0% | 100.0% |
| Quincy Village | 85.1% | 84.0% |
| The Long Community, Inc. | 97.8% | 94.6% |
| Cathedral Village | 79.6% | 82.9% |
| Grand Total - INDEPENDENT LIVING | 89.6% | 89.7% |

APPENDIX D

Obligated Group Revenue Mix

Presbyterian Homes Obligated Group
Payor Mix by Revenue Source

| Facility Type | 2021 \$ Amount in Millions | 2021 % of Totals | 2020 \$ Amount in Millions | 2020 % of Totals |
|--|----------------------------------|---------------------|----------------------------------|---------------------|
| Nursing | \$ 90.993 | 47.07% | \$ 101.372 | 50.22% |
| Independent Living | \$ 72.643 | 37.57% | \$ 68.855 | 34.11% |
| Assisted Living | \$ 28.320 | 14.65% | \$ 29.916 | 14.82% |
| Health Insurance Premuims - Type A contracts | \$ 0.198 | 0.10% | \$ 0.326 | 0.16% |
| Other | \$ 1.178 | 0.61% | \$ 1.396 | 0.69% |
| Total | \$ 193.332 | 100.00% | \$ 201.866 | 100.00% |

Portion of total that is Medicare and Medicaid

| | | | | |
|----------|--------|--------|--------|--------|
| Medicare | 31.454 | 16.27% | 33.091 | 16.39% |
| Medicaid | 35.467 | 18.35% | 42.371 | 20.99% |

APPENDIX E

Obligated Group Mortgaged Facilities Payor Mix

Pavor Mix for Presbyterian Homes Obligated Group's Nursing Facilities
For the year ending 12/31/2021

| <u>FACILITY</u> | <u>Private Pay</u> | <u>Medicare</u> | <u>Medicaid</u> | <u>Other</u> |
|--|---------------------------|------------------------|------------------------|---------------------|
| Green Ridge Village - Swaim Health Center <i>Newville, PA</i> | 30% | 5% | 60% | 5% |
| Kirkland Village <i>Bethlehem, PA</i> | 56% | 24% | 0% | 20% |
| St. Andrew's Village - Julia Wilson Pound Health Center <i>Indiana, PA</i> | 18% | 4% | 69% | 9% |
| Ware Presbyterian Village - Oxford Manor Health Center <i>Oxford, PA</i> | 26% | 11% | 60% | 3% |
| Westminster Village <i>Dover, DE</i> | 34% | 14% | 49% | 3% |
| Quincy Retirement Community <i>Waynesboro, PA</i> | 18% | 9% | 69% | 4% |
| Westminster Woods at Huntingdon <i>Huntingdon, PA</i> | 32% | 7% | 54% | 7% |
| Presbyterian Village at Hollidaysburg <i>Hollidaysburg, PA</i> | 24% | 12% | 50% | 14% |
| Windy Hill Village <i>Philipsburg, PA</i> | 4% | 5% | 84% | 7% |
| Cathedral Village <i>Philalephia, PA</i> | 18% | 6% | 40% | 36% |
| Average 2021 | 23% | 9% | 59% | 9% |
| Average 2020 | 25% | 8% | 57% | 10% |
| Average 2019 | 21% | 9% | 59% | 11% |
| Average 2018 | 22% | 13% | 54% | 11% |
| Average 2017 | 20% | 11% | 57% | 12% |