

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u> <u>Restated</u>
Cash flows from operating activities:		
Change in net assets	\$ 19,223,689	9,704,915
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,612,853	15,335,108
Provision for bad debt	1,036,359	881,734
Proceeds from entrance fees and deposits	17,264,670	15,937,843
Amortization of entrance fees	(9,517,530)	(9,593,970)
Loss (gain) on early extinguishment of debt	74,932	(67,275)
Change in fair value of interest rate swaps	(481,320)	73,392
Unrealized (gains) losses on investments and change in fair value of funds held in trust by others	(4,726,639)	1,947,234
Realized gains on investments	(1,246,415)	(523,204)
Loss (gain) on sale of property and equipment and other assets	39,923	(1,151,173)
Contributions restricted for long-term purposes	(225,773)	(87,607)
Amortization of deferred costs	263,759	247,172
Amortization of bond premium	29,405	29,277
Loss on abandoned project	620,908	151,407
Changes in assets and liabilities:		
Increase in accounts receivable	(4,059,955)	(1,468,773)
Decrease in pledges receivable	112,746	516,077
Increase in other assets	(1,360,574)	(1,747,868)
Increase (decrease) in accounts payable	1,622,150	(3,469,875)
(Decrease) increase in deferred rent	(30,222)	161,703
Increase in accrued expenses	15,880	2,881,498
Net cash provided by operating activities	<u>35,268,846</u>	<u>29,757,615</u>
Cash flows from investing activities:		
Acquisition of property and equipment, net of disposals	(53,984,109)	(45,703,760)
Net proceeds from sale of property and equipment	-	2,499,720
Purchases of investments	(60,022,338)	(87,841,722)
Proceeds from sale of investments	<u>69,185,882</u>	<u>71,232,756</u>
Net cash used in investing activities	<u>(44,820,565)</u>	<u>(59,813,006)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(7,104,171)	(7,392,105)
Change in entrance fee payable	(821,870)	(3,075,824)
Principal payments on and redemptions of long-term debt	(11,928,556)	(6,280,611)
Proceeds from issuance of long-term debt	34,105,420	37,643,299
Financing costs incurred	(326,283)	(177,126)
Net (repayments) borrowings of notes payable	(3,639,383)	5,172,425
Borrowings through capital leases	363,077	112,342
Repayments on capital leases	(183,061)	(100,029)
Contributions restricted for long-term purposes	225,773	87,607
Increase in annuities payable	57,187	27,893
Net cash provided by financing activities	<u>10,748,133</u>	<u>26,017,871</u>
Net increase (decrease) in cash and cash equivalents	1,196,414	(4,037,520)
Cash and cash equivalents, beginning of year	4,256,030	8,293,550
Cash and cash equivalents, end of year	<u>\$ 5,452,444</u>	<u>4,256,030</u>
Supplemental schedule of non-cash investing activities		
Increase in assets held for sale through decrease in property and equipment	\$ (97,809)	2,742,604
Non-cash contribution of Silver Springs	<u>(1,888,122)</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) General Information

PHI (d.b.a. Presbyterian Senior Living) (the Corporation), a not-for-profit corporation, is the parent corporation of Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon, Presbyterian Homes in the Presbytery of Huntingdon Foundation, Presbyterian Senior Living Services, Inc. d.b.a. Glen Meadows Retirement Community, Quincy United Methodist Home, doing business as Quincy Retirement Community, The Long Community, Inc., PHI Investment Management Services, Inc., Presbyterian Apartments, Inc., Schartner House Associates, PHI Services, Inc., Westminster Place at Parkesburg, Westminster Place at Windy Hill, Westminster Place at Carroll Village, Stewartstown Courtyard L.P., Westminster Place at Bloomsburg, Westminster Place at the Long Community L.P., Westminster Place at Quincy Village, Silver Spring Courtyards, Silver Spring Gardens LP, Geneva House, Inc., PHI LIFE, PHI Stadium Place Senior Care, Inc, and Presbyterian Senior Living Housing Management Corporation, which are controlled affiliates of Presbyterian Senior Living. The Corporation also owns 46 percent of Prelude Systems, Inc., an information technology services organization.

The Corporation serves as a management company for the above affiliates and is governed by a Board of Trustees. Some of the management employees and members of the Board of Trustees are also members of the Board of Directors of certain affiliated corporations. The Corporation's affiliates do business primarily in Pennsylvania, but also in Maryland, Ohio and Delaware.

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

	<u>Total</u>	<u>Nursing beds</u>	<u>Personal Care/ Assisted Living</u>	<u>Independent living</u>	<u>HUD/ Tax credit</u>
Presbyterian Homes					
Obligated Group	2,769	1,221	462	1,086	—
Glen Meadows					
Retirement Community	274	31	36	207	—
Presbyterian Apartments	165	—	—	—	165
Geneva House	64	—	—	—	64
Tax Credit Entities	494	—	—	—	494
Springwood Properties					
Pledged	272	—	—	—	272
Total	<u>4,038</u>	<u>1,252</u>	<u>498</u>	<u>1,293</u>	<u>995</u>

As of December 31, 2012, there were 32 independent living units under construction at Ware Presbyterian Village, which is part of the Presbyterian Homes Obligated Group, and 36 tax credit independent living units under construction at Quincy Retirement Community, which are not included in the above unit counts.

In October 2012, Springwood Property Management and Penn Mar Development Corporation donated to the Corporation their controlling and minority interest in two tax credit entities, Silver Spring Gardens and Silver Spring Courtyards, consisting of 114 living units. The donation required a number of approvals which were prior to the transfer.

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(1) General Information (Continued)

In December 2012, the Corporation acquired a majority of the assets, management contracts, and staff of Springwood Property Management. Management contracts for seven tax credit properties were acquired, three of which were controlled by the Corporation.

In addition to the assets, staff and contracts acquired, Springwood Property Management executed a pledge agreement to donate to the Corporation its controlling interest of four tax credit entities consisting of 272 living units. In addition to Springwood, Penn Mar Development Corporation pledged to donate their minority interests in the entities. The gift of Springwood Property Management and Penn Mar Development Corporation interests requires approval of the Pennsylvania Finance Housing Agency, as well as the tax credit investor, Boston Financial, as well as other organizations that have funded the entities. These approvals are expected in the first quarter of 2013.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. All material intercompany transactions have been eliminated.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(b) *Income Taxes*

The Corporation and most of its affiliates are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation's federal Exempt Organization Business Income Tax Returns and federal and Pennsylvania Partnership Returns for the years ended December 31, 2009, 2010 and 2011 remain subject to examination by the Internal Revenue Service.

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(c) *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Cash and Cash Equivalents*

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the consolidated statements of financial position and cash flows, except for those included in investments and assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per bank. At times during 2012 and 2011, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(e) *Investments*

Investments securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange in the consolidated statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Annual independent audits of each private investment partnership are provided and included in management's review.

A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2012 and 2011, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

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Notes to Consolidated Financial Statements

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(e) Investments (continued)

Investment income consisted of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 3,395,518	2,202,492
Realized gain on investments	1,246,415	523,204
Unrealized gain (loss) on investments and funds held in trust by others	<u>4,726,639</u>	<u>(1,947,234)</u>
	<u>\$ 9,368,572</u>	<u>778,462</u>

Investment expense of \$357,157 and \$279,198 for the years ended December 31, 2012 and 2011 has been included in general and administrative expenses.

(f) Accounts Receivable

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

	<u>2012</u>	<u>2011</u>
Total accounts receivable	\$ 21,429,753	17,816,206
Less: allowance for doubtful accounts	<u>(2,223,400)</u>	<u>(1,633,449)</u>
Accounts receivable, net	<u>\$ 19,206,353</u>	<u>16,182,757</u>

Receivables are considered past due when payments have not been received by the Corporation within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectibility of a receivable is likely.

(g) Restricted deposits and funded reserves

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve, other escrow accounts required under the low income housing guidelines, and the Obligated Group's statutory liquid reserves. The Continuing Care Provider Registration and Disclosure Act in Pennsylvania requires a working capital reserve equivalent to the greater of the total debt service payments due during the next 12 months on account of any loan or long-term financing, or 10% of the projected annual operating expenses of the Corporation 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.

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Notes to Consolidated Financial Statements

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(h) Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures and permanently restricted investments.

(i) Pledges Receivable

The Corporation records pledges due in more than one year at the net present value less a discounted uncollectible amount.

	<u>2012</u>	<u>2011</u>
Pledges receivable	\$ 258,051	404,960
Less: unamortized discount	(169)	(7,686)
Subtotal	<u>257,882</u>	<u>397,274</u>
Less: allowance for uncollectibles	(10,348)	(36,994)
Net pledges receivable	<u>\$ 247,534</u>	<u>360,280</u>

All of the pledges receivable are due in less than one year as of December 31, 2012.

(j) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. The Corporation'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. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets.

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

(k) Costs of Borrowing

The average cost of capital during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of \$596,201 and \$686,486 was capitalized in 2012 and 2011, respectively.

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

The Corporation has 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 Corporation is notified of the trust's existence. The Corporation receives the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trust are reported as investment income, increasing unrestricted net assets.

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

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.

A summary of these funds at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Beneficial interest in perpetual trusts	\$ 12,800,949	12,106,509
Beneficial interest in assets of foundation	34,696	43,816
Gift annuities	20,669	26,423
Contributions receivable from remainder trusts	<u>570,427</u>	<u>508,451</u>
	<u>\$ 13,426,741</u>	<u>12,685,199</u>

(m) ***Derivatives and Hedging Activities***

The Corporation utilizes interest rate swap agreements to hedge variable interest rates but elected not to elect hedge accounting for these agreements.

The Corporation's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the consolidated statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2012, an adjustment to the liability was recorded causing a gain of \$481,320. This adjustment represents the decrease in the liability of the interest rate swaps. For 2011, an adjustment to the liability was recorded causing a loss of \$73,392. This adjustment represents the increase in the liability of the interest rate swaps.

The terms of the various interest rate swaps are described in Note 8.

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(n) *Deferred Costs*

The Corporation 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. Amortization expense is expected to be \$230,763 for each of the next five years.

(o) *Workers' Compensation*

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

(p) *Resident Deposits*

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the consolidated statements of financial position. These deposits are transferred to deferred revenue-entrance fees upon occupancy of the related units.

(q) *Deferred Revenue – Entrance Fees*

Entrance fees collected from residents at move-in pursuant to a Residents and Care Agreement are initially recorded as deferred revenue-entrance fees, with the exception of Presbyterian Senior Living Services, Inc. dba Glen Meadows Retirement Community. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon a resident's death or termination of the contract.

At Presbyterian Senior Living Services, Inc. dba Glen Meadows Retirement Community the guaranteed refundable portion is reflected as a liability on the consolidated statements of financial position.

The amount of entrance fees guaranteed refundable to residents at December 31, 2012 and 2011 under contractual refund provisions was approximately \$40,283,000 and \$42,018,000, respectively.

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(r) Goodwill

Goodwill represents the excess of purchase price over fair value of the assets, management contracts, and staff of Springwood Property Management. The Corporation has adopted the standard for accounting for goodwill and intangible assets with indefinite useful lives that prescribes the accounting for these assets from an amortization method to an impairment only approach. This statement eliminates the regularly scheduled amortization of intangible assets with indefinite useful lives and replaces this method with a two-step process for testing for impairment. No impairment was recognized in the year ended December 31, 2012.

(s) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity, the interest and dividend income from which is used for the charitable purpose.

(t) Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation 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 upon 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.

(u) Resident Services Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Pennsylvania and Maryland Medicaid and other third-party payors for services rendered. The Corporation derives a portion of its revenues from federal and state reimbursement programs with a significant majority of state reimbursement from Pennsylvania's Department of Public Welfare (DPW).

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

The Corporation's nursing care facilities primarily derive their revenue from private-pay, Medicare and Medicaid. Private-pay rates are established on the basis of the cost of delivering services and competitive considerations and, as such, are essentially market driven. In contrast, Medicare and Medicaid payment rates are regulated by the federal and state governments. As a result, the industry is sensitive to related legislative changes and is affected by reductions in governmental spending for these programs.

PACE programs are funded by Medicare and Medicaid. Payments are received prospectively on a PMPM (per member per month) basis. Medicare payments are adjusted for each member's HCC (Hierarchical Condition Categories) score. Medicaid payments are a flat monthly rate with no adjustment for HCC scores.

Revenues from Medicare and Medicaid represent approximately 42% and 41% of revenues for 2012 and 2011, respectively. Medicare and Medicaid receivables represent approximately 45% and 42% of accounts receivable at December 31, 2012 and 2011, respectively.

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

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's current concentration of skilled nursing facilities in Pennsylvania and Maryland exposes it to the risk of changes in Medicaid reimbursement in the respective state. Rates, in Pennsylvania, are calculated by DPW on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2012, the rates for July 1, 2012 through December 31, 2012, have not been finalized. Revenues have been accrued based on proposed rates for this period.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DPW based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been approved for the period July 1, 2012 through December 31, 2012. Included in revenue are estimates for these amounts. For the years ended December 31, 2012 and 2011, the Corporation will receive \$2,600,000 and \$1,970,000, in additional revenue for the net effect of this assessment and supplement.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

The HUD (Department of Housing and Urban Development)/tax credit entities' operations are concentrated in the multifamily real estate market. In addition these entities operate in a heavily regulated environment. The operations of these entities are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Internal Revenue Service, PHFA and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by a regulatory agency. Such changes may occur with little notice or inadequate funding to pay for the related cost to comply with a change, including the additional administrative burden.

(v) Low income Housing Tax Credits

Presbyterian Senior Living is the majority managing general partner in ten limited partnerships which have been qualified and allocated low-income housing tax credits to construct living facilities for seniors pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the facilities as to the occupant income eligibility and the unit gross rent, among other requirements. The facilities must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits. In addition, the partnerships have each executed restrictive covenants which require utilization of the facilities pursuant to Section 42 for a minimum of 30 years.

Each of these partnerships has an investor limited partner which provides the majority of the funds required to construct the facilities in exchange for use of the tax credits. After fifteen years Presbyterian Senior Living has the right of first refusal to acquire all partnership interests at price equal to the outstanding indebtedness of the partnership plus taxes related to the transfer.

The amount of equity provided by the investor limited partners is included on the consolidated statements of financial position in unrestricted net assets as a non-controlling interest (labeled as tax credit equity), and the amount received in the current year on the consolidated statements of operations and changes in net assets as Equity received from tax credit limited partner. As of December 31, 2012 and 2011 investor limited partners had committed an additional \$41,905,971 and \$31,481,808, respectively, of equity to these partnerships to be funded upon the achievement of specific requirements contained in the partnership agreements.

There are several low interest (below market) loans which have also been used to construct the facilities. The loans are not recourse to Presbyterian Senior Living, and also require Section 42 requirements to be met. Many of the loans require no interest or principle for an extended period as long as Section 42 requirements are met. Some are forgiven after the period of compliance has been completed. The details of these obligations are contained in the Long Term Debt footnote.

As part of the allocation of low-income housing tax credits funding agencies developer fees are awarded and earned based on specific requirements in the partnership agreements. These are included in the Consolidated Statement of Operations and Change in Net Assets in Net rental income and developers' fees.

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(w) Health care service cost recognition

The Corporation contracts with various health care providers for the provision of certain medical care services to its members. The Corporation compensates these providers on a fee for service basis. Operating expenses include all amounts incurred by the Corporation under the aforementioned contracts.

The cost of other health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to the Corporation.

(x) Charity Care

In 2011, the Corporation adopted the new accounting standards update from the Financial Accounting Standards Board (FASB) regarding charity care. This standard was issued to improve disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the combined financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation'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, financials resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows:

	<u>2012</u>	<u>2011</u>
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	\$ 3,251,291	3,876,121
Additional benevolent care provided at amounts less than pre-established charges for private pay services	22,918,758	19,893,220
Giving and income designated for resident financial support	1,774,915	1,432,279

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(y) *Contributed Services*

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material. The Corporation pays for most services requiring specific expertise.

(z) *Advertising*

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2012 and 2011 was \$546,751 and \$431,618, respectively.

(aa) *Classification of Expenses*

	<u>2012</u>	<u>2011</u>
Program activities	\$ 163,528,710	157,707,254
General and administrative	30,069,307	28,414,431
Fundraising	<u>790,252</u>	<u>789,728</u>
	<u>\$ 194,388,269</u>	<u>186,911,413</u>

(ab) *Fundraising Expenses*

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statements of operations and change in net assets.

(ac) *Operating Income*

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled as “operating income.” Changes in the performance indicator which are excluded from this measure include change in the fair value of interest rate swaps, equity received from tax credit limited partner, (loss) gain on early extinguishment of debt, and loss on abandoned project.

(ad) *Performance Indicator*

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets, which includes a performance indicator of operations labeled as “excess of operating revenues, gains, and other support over expenses.” Changes in unrestricted net assets which are excluded from this measure are purchase of non-controlling interest, pension-related changes other than net periodic pension costs, and unrealized gain (loss) on investments.

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(ae) Consolidated Statements of Cash Flows

Interest paid during the years ended December 31, 2012 and 2011 was \$6,980,445 and \$5,552,749, respectively.

(af) Subsequent Events

The Corporation has adopted the accounting standard relating to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued. The adoption of this standard did not have a material effect on the Corporation's consolidated financial statements.

The Corporation has evaluated subsequent events through March 29, 2013, which is the date the consolidated financial statements were released.

On January 30, 2013, the Corporation's executive committee and Board of Directors approved the purchase of property located in Blair County for the sum of two million dollars conditional on the approval by the Hollidaysburg Area School District.

Springwood Property Management executed a pledge agreement to donate to the Corporation its controlling interest of four tax credit entities consisting of 272 living units. In addition to Springwood, Penn Mar Development Corporation pledged to donate their minority interests in the entities. The gift of Springwood Property Management and Penn Mar Development Corporation interests requires approval of the Pennsylvania Housing Agency, as well as the tax credit investor, Boston Financial, as well as other organizations that have funded the entities. These approvals are expected in the first quarter of 2013.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(3) Investments

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

		2012		2011	
		Market	Cost	Market	Cost
Money market funds	\$	22,658,021	22,658,021	57,215,662	57,215,662
Equity securities		46,162,607	43,609,971	14,847,080	15,088,438
Fixed income securities		21,270,659	20,857,474	23,822,388	23,706,023
Alternate investments		15,665,634	10,815,306	13,803,823	9,512,660
Totals	\$	105,756,921	97,940,772	109,688,953	105,522,783
Less:					
Restricted deposits and funded reserves (note 4)		(10,767,642)		(18,356,439)	
Assets whose use is limited (note 5)		(25,804,977)		(22,873,108)	
Total investments	\$	69,184,302		68,459,406	

The Corporation invests in a variety of equity and fixed income mutual funds, other equity and fixed income securities, alternative investments, and money market funds.

As of December 31, 2012, nine mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than three percent below cost. As of December 31, 2011, twenty mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than five percent below cost.

Three mutual funds and one alternate investment had a market value that had been below cost for more than a year as of December 31, 2012. In total, their market value was less than three percent below cost. Only one alternate investment had a market value that had been below cost for more than a year as of December 31, 2011. In total, its market value was eleven percent below cost.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2012 follows:

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual funds	\$ 4,295,793	(92,136)	1,837,243	(53,511)	6,133,036	(145,647)
Alternate investments	—	—	1,075,482	(19,537)	1,075,482	(19,537)
Total temporarily impaired investments	<u>\$ 4,295,793</u>	<u>(92,136)</u>	<u>2,912,725</u>	<u>(73,048)</u>	<u>7,208,518</u>	<u>(165,184)</u>

A summary of investments with fair values below cost as of December 31, 2011 follows:

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual funds	\$ 10,857,615	(546,051)	—	—	10,857,615	(546,051)
Alternate investments	—	—	1,009,926	(124,369)	1,009,926	(124,369)
Total temporarily impaired investments	<u>\$ 10,857,615</u>	<u>(546,051)</u>	<u>1,009,926</u>	<u>(124,369)</u>	<u>11,867,541</u>	<u>(670,420)</u>

(4) Restricted Deposits and Funded Reserves

At December 31, 2012 and 2011, restricted deposits and funded reserves which are carried at market value consisted of the following:

	<u>2012</u>	<u>2011</u>
Deposits restricted for low income housing projects	\$ 3,622,099	3,210,713
Statutory liquid reserves	5,578,231	13,600,000
Operating reserve fund	1,567,312	1,545,726
	<u>\$ 10,767,642</u>	<u>18,356,439</u>

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(5) Assets Whose Use is Limited

At December 31 assets whose use is limited which are carried at market value consisted of the following:

	2012	2011
Permanently restricted investments	\$ 4,415,811	4,384,406
Debt service reserve funds	6,047,050	6,073,979
Held by trustee - for future projects	12,652,208	9,903,931
Bond funds	1,690,620	1,661,587
Assets designated for renovation and charity care	729,861	655,335
Other reserves required by financing arrangements	269,427	193,870
	\$ 25,804,977	22,873,108

(6) Related Party Transactions

Prelude Systems, Inc. (Prelude), is a joint venture between the Corporation 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 Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. Presbyterian Senior Living's investment in Prelude is 46% and is accounted for under the equity method of accounting. It is included in investments in marketable equity securities and totaled \$774,050 and \$878,825 as of December 31, 2012 and 2011, respectively. During 2012 and 2011, Presbyterian Senior Living paid Prelude approximately \$2,531,000 and \$2,813,000, respectively, for information technology services provided by Prelude, of which \$204,032 and \$348,663 was included in accounts payable as of December 31, 2012 and 2011, respectively.

Following is summarized financial information of Prelude as of December 31:

	2012	2011
Assets	\$ 4,209,371	3,878,261
Liabilities	2,444,034	1,938,657
Equity	1,765,337	1,939,604
Sales	8,884,319	8,927,587
Net gain (loss)	(174,267)	148,799

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(7) Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land	\$ 44,587,864	38,475,312
Land improvements	24,337,709	23,575,120
Buildings and improvements	416,794,086	369,095,123
Departmental equipment, furniture and fixtures	49,660,763	46,167,596
Furniture	4,261,717	5,880,774
Vehicles	3,223,345	3,138,317
Construction-in-progress	<u>35,045,737</u>	<u>36,771,354</u>
	577,911,221	523,103,596
Accumulated depreciation	<u>(237,175,885)</u>	<u>(218,711,208)</u>
	<u>\$ 340,735,336</u>	<u>304,392,388</u>

As the Corporation undertakes expansion projects 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.

Construction-in-progress consists of construction costs incurred for various renovation and expansion projects at the Corporation's existing facilities.

As of December 31, 2012 and 2011, commitments for future construction totaled approximately, \$17,569,000 and \$27,767,000, respectively.

In 2012, Quincy Retirement Community demolished a building to begin a new project. Costs associated with the demolition were approximately \$129,000.

In early 2012, management, with board approval, decided not to sell The Long Home and plans to redevelop The Long Home property. Therefore, in 2011 the value of The Long Home was moved back into property, plant and equipment. During 2012, management decided to sell the rental properties that are located within Glen Meadows Retirement Community. Therefore, the current value of these units of of \$97,809 has been moved to assets held for sale.

In 2011, the Corporation was awarded tax credits for Westminster Place at The Long Home. These tax credits were used for the construction of a sixty one unit senior apartment building which was rented with income restrictions for lower income seniors for a period of 30 years. Construction on this project was completed in August 2012.

In 2012, the Corporation was awarded tax credits for Westminster Place at Quincy Village. These tax credits are being used for the construction of a thirty six unit senior apartment building which will be rented with income restrictions for lower income seniors for a period of 30 years. Construction on this project was completed in 2012.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(7) Property and Equipment (continued)

In October 2012, Springwood Property Management and Penn Mar Development Corporation donated to the Corporation their controlling and minority interest in two tax credit entities, Silver Spring Gardens and Silver Spring Courtyards, consisting of 114 living units. The donation required a number of approvals which were received prior to the transfer.

In December 2012, the Corporation acquired a majority of the assets, management contracts, and staff of Springwood Property Management. Management contracts for seven tax credit properties were acquired, three of which were controlled by the Corporation.

During 2012, an error from 2000 was discovered on the Obligated Group. A building with an acquisition value of \$1,687,774 was given a useful life of seven years. Straight line depreciation was being used and the asset was fully depreciated by December 2007. Based on the Corporation's capitalization policy, the building should have had a useful life of forty years. Once the error was detected, depreciation on the building was recalculated and the accumulated depreciation was adjusted accordingly. The effect of this error resulted in an increase in depreciation expense of \$42,194 and an equal decrease in change in net assets as of December 31, 2011. The beginning balance of net assets as of December 31, 2011 was increased by \$1,202,539 to account for prior years' depreciation expense, and net assets was adjusted the same.

During 2012, an error from December 31, 2011 was discovered in the consolidating entries for the Corporation. For two of the tax credit projects, the developers' fees were not eliminated. This caused the equity from tax credits, net assets and Construction in progress to be overstated in 2011 by \$1,790,474.

During 2012, there was an adjustment made to the useful life of the developers' fees recorded on the tax credit properties. This caused a change in the amount of depreciation expense eliminated during consolidation in 2011 by \$16,472.

The net effect of these errors and changes in useful lives resulted in the following adjustment of the 2011 consolidated statements of operations and changes in net assets:

	Depreciation Expense	Equity received from tax credit limited partner	Change in Net Assets
December 31, 2011 balance, as previously reported	\$ 15,309,386	8,554,035	11,521,111
Change in estimated useful life	(16,472)	—	16,472
Cumulative effect of error	42,194	(1,790,474)	(1,832,668)
Balance as restated	\$ 15,335,108	6,763,561	9,704,915

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(7) Property and Equipment (continued)

The effect of these errors and changes in useful lives resulted in the following adjustment of the 2011 consolidated statements of financial position:

	<u>Accumulated Depreciation</u>	<u>Property and Equipment (net of accumulated depreciation)</u>	<u>Ending Net Assets (Liabilities)</u>
December 31, 2011 balance, as previously reported	\$ 219,930,219	304,963,851	96,116,407
Change in estimated useful life	(16,472)	16,472	16,472
Cumulative effect of errors	<u>(1,202,539)</u>	<u>(587,935)</u>	<u>(587,935)</u>
Balance as restated	<u>\$ 218,711,208</u>	<u>304,392,388</u>	<u>95,544,944</u>

(8) Long-term Debt

Long-term debt – senior living as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.15% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Obligated Group	\$ 6,000,000	6,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2019 to 2026, interest rates ranging from 4.75% to 5%, insured by municipal bond insurance and property and equipment and gross revenues of the Obligated Group	8,530,000	9,900,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2013 to 2032, interest adjusted weekly, 0.15% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by letter of credit	7,665,000	7,880,000

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

	<u>2012</u>	<u>2011</u>
Kent County Delaware Economic Development Revenue Bond Series 2003, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 0.977% and 1.011% at December 31, 2012 and 2011, respectively, collateralized by property and equipment and gross revenues of the Obligated Group	4,570,453	5,256,721
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group	16,760,000	15,680,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly 0.12% and 0.13% at December 31, 2012 and 2011, respectively, collateralized by letter of credit	3,225,000	3,340,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly 0.18 % and 0.21% at December 31, 2012 and 2011, respectively, collateralized by letter of credit	12,995,000	13,380,000
1995 Series A revenue note to First National Bank of PA, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 2.054% at both December 31, 2012 and 2011, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,262,186	2,422,458
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 0.18% and 0.17% at December 31, 2012 and 2011, respectively. These bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	4,180,000	4,900,000

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

	2012	2011
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, 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, which adjusts every five years and was 0.9903% and 2.71% at December 31, 2012 and 2011. The note is collateralized by property and equipment and gross revenues of the Obligated Group	582,105	648,446
Series 2005 College Township Revenue Bonds, payable in equal installments of \$23,305 per month to include principal and interest through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was 3.83% at both December 31, 2012 and 2011, respectively. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group	2,976,172	3,136,466
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2021, interest rates ranging from 5% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group	13,895,000	14,935,000
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.14% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	45,000,000	45,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.15% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	15,685,000	15,685,000
York County Industrial Development Authority Bonds Series 2010, tax exempt bank qualified debt, principal due in varying annual amounts from 2013 to 2033, interest adjusted weekly, 2.25% at both December 31, 2012 and 2011, collateralized by property and equipment and gross revenues of the Obligated Group	20,000,000	20,000,000
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bore an interest rate of 4.51% at December 31, 2011. The note is collateralized by property and equipment and gross revenues of the Obligated Group	-	6,860,569

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

	2012	2011
Bank of America taxable five year term loan, principal due in varying amounts, interest is fixed at 3.15% and is collateralized by property and equipment and gross revenues of the Obligated Group	12,657,880	13,000,000
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, principal maturities based on a twenty year repayment schedule; interest will be fixed for the first 120 months, subsequent interest rates will be reset in a ten year increment. Interest was 3.48% at both December 31, 2012 and 2011. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,634,447	10,000,000
Quincy Sewer Authority Revenue Bond Series 2012, payable in equal monthly installments of principal and interest. The note bears an interest rate of 3.35%. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,870,974	-
Uwchlan Township Industrial Development Authority Revenue Note Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2032. Interest is fixed at 3.5% until 6/1/2022. Interest rates will be reset in 10 year increments. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,828,086	-
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 2032. A call option is available at the lender's discretion on August 2022. The note bears a fixed interest rate of 2.75% until 2019 at which time the rate will become variable, equal to 68% of the Wall Street Journal Prime Rate. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,896,278	—
	216,213,510	198,024,660
Unamortized discount	(276,286)	(338,726)
Plus: Unamortized premium	238,868	271,903
	\$ 216,176,092	197,957,837

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

Long-term debt – low-income housing as of December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Fannie Mae mortgage payable executed on March 29, 1973, amortization of principal from May 1, 1973 through September 2013, interest rate of 7% effective rate of 0% beginning in 2003 due to FHA subsidy	\$ 44,465	171,827
HUD Flexible Subsidy Loans payable, principal balance due upon sale of the project building or upon full payment of the HUD mortgage, simple interest of 1% payable at time of principal payments	1,671,580	1,671,580
Mortgage payable for building loan provided by HUD, monthly installments of principal and interest, interest rate of 3%	550,739	636,555
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing with principal payments being payable out of available cash flow as defined in the TCAP Agreement. The loan matures 30 years from the date of cost certification	1,831,168	1,831,168
Mortgage note payable, Chester County Department of Community Development, non interest bearing with principal payments being deferred until September 21, 2039	641,500	641,500
Mortgage note payable, Chester County Department of Community Development, interest accrues at 1.0% per annum, compounding annually, interest of \$33,905 and \$24,991 has been added to the principal balance as of December 31, 2012 and 2011, respectively. Principal and accrued interest are to be paid from excess revenue generated by the Westminster Place at Parkesburg project, commencing with the first full calendar year following construction completion. Principal and interest will be due the earlier of September 21, 2039, termination of the partnership, refinancing of the project, sale of the project or upon default	897,905	888,991
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing with principal payments being required annually after the project is cost certified by the agency and is placed in service under Section 42 of the Internal Revenue Code	1,351,110	1,351,110
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing with principal payments being required annually after three years of project operations, 50% of the excess revenues shall be used to pay the mortgage loan, matures December 28, 2040	5,594,162	5,594,162

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

	2012	2011
Mortgage note payable, Redevelopment Authority of the County of Lancaster, interest accrues at 1.0% per annum, beginning January 1, 2013. Payment of principal and interest are deferred until the maturity date of August 27, 2042. As of December 31, 2012, \$980,000 has been advanced on the loan	980,000	—
Mortgage note payable, Pennsylvania Housing Finance Agency, monthly payments of principal and interest to equal \$29,035 annually, interest at a rate of 6.25%, loan matures December 2034	343,581	—
PennHOMES loan, Pennsylvania Housing Finance Agency, non-interest bearing, principal payments to be made when operating cash flow is available for payment, as determined solely by PHFA, with 50% to repay principal on the loan and 50% to be return on owner equity	1,224,360	—
Mortgage note payable, Redevelopment Authority of the County of Cumberland, non-interest bearing, 40 year term loan, payment deferred for 30 years. Principal will be payable out of excess revenues beginning after July 2030, with the remaining principal due July 2040	50,000	—
Mortgage note payable, Redevelopment Authority of the County of Cumberland, non-interest bearing, 40 year term loan, payment deferred for 30 years. Principal will be payable out of excess revenues beginning after July 2030, with the remaining principal due July 2040	50,000	—
PennHOMES loan, Pennsylvania Housing Finance Agency, non-interest bearing, principal payments to be made when operating cash flow is available for payment, as determined solely by PHFA, with 50% to repay principal on the loan and 50% to be return on owner equity	1,448,565	—
Mortgages payable, County of York - Housing and Community Development Division, non-interest bearing, with no principal payment required until 2040, as long as affordability is maintained	5,125,000	5,125,000
Mortgage payable, County of York - Housing and Community Development Division, interest accrues at 1.0% with no principal payment required until 2039, as long as affordability is maintained	1,000,000	1,000,000
Note payable, to secure a subsidy from the Department of Housing and Urban Development, non-compounding interest of 1% per annum has been accruing since the note's inception	117,250	117,250

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

	<u>2012</u>	<u>2011</u>
Promissory note through the Preservation Through Smart Rehab Program, non-interest bearing with principal payments being required to be made from any surplus of revenues over expenses generated by the project after payment of all project costs during the calendar year as determined by PHFA, note matures on the earliest of the date of sale of the project, date of termination of the project or 2042.	91,085	-
	<u>\$ 23,012,470</u>	<u>19,029,143</u>

All of the obligations above are collateralized by either property, plant and equipment, and gross revenues of the Corporation's consolidated affiliates, or by a letter of credit.

During 2011, \$1,110,000 of the Cumberland County 2005A bonds and \$75,000 of the Cumberland County 2003A bonds were repurchased. During 2012, \$1,080,000 of the Cumberland County 2005A bonds were sold. The bonds remaining are currently being held with the option to remarket at a future date.

Under the terms of the bond indentures, the Corporations are required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indentures also place limits on additional borrowings and require the Corporations to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants have been met at December 31, 2012 and 2011. In March 2011, the Corporation replaced the existing letter of credit for Glen Meadows Retirement Community with a new letter of credit issued through a financial institution. This letter of credit was for a three year period and expires in March 2014.

Several of the bonds are backed by letters of credit and subject to remarketing agreements. In the event that any or all of the bonds are tendered by the bondholder and are unable to be remarketed, the letter of credit would be drawn upon to repay the tendered bonds. Any drawings under the letters of credit are repayable on or before the first to occur of the following: the date on which the bonds purchased with the proceeds from a draw on the letter of credit are successfully remarketed by the remarketing agent, the date on which the bonds purchased with the proceeds from a draw on the letters of credit are redeemed or otherwise paid in full, the occurrence of an event of default, or the date the letters of credit expires. The letters of credit for the bonds will expire at various dates through November 2016.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2012 and thereafter for the senior living debt are as follows:

Years ended December 31,	Aggregate maturities
2013	\$ 7,426,622
2014	8,522,156
2015	8,848,241
2016	9,177,950
2017	9,523,943
Thereafter	<u>172,714,598</u>
	<u>\$ 216,213,510</u>

Scheduled maturities for the five years subsequent to December 31, 2012 and thereafter for low income housing are as follows:

Years ended December 31,	Aggregate maturities
2013	\$ 134,044
2014	92,567
2015	95,664
2016	98,085
2017	102,199
Thereafter	<u>22,489,911</u>
	<u>\$ 23,012,470</u>

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(8) Long-term Debt (continued)

The Corporation has entered into interest rate swap agreements with financial intermediaries, which fix the interest rates to be paid by the Corporation on the 2008B bonds, and the Kent County 2003B bonds as follows:

<u>Amount Swapped</u>	<u>Basis</u>	<u>Counterparty</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Interest Rate</u>	<u>Underlying Issue</u>
\$10,000,000	SIFMA MSI	M&T	7/1/11	7/1/14	0.95%	Cumberland County 2008 B
\$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
\$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
\$4,628,436	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

The fair value of the interest rate swap liabilities at December 31, 2012 and 2011 are as follows:

<u>Counterparty</u>	<u>Fair Value</u> <u>12/31/2012</u>	<u>Fair Value</u> <u>12/31/2011</u>
M&T	\$ 110,000	\$ 111,500
Wells Fargo	124,527	381,171
Wells Fargo	725,184	880,304
Bank of America	-	7,740
Bank of America	<u>351,327</u>	<u>411,643</u>
Total	<u>\$ 1,311,038</u>	<u>\$ 1,792,358</u>

Pursuant to all these agreements the intermediary assumes the risk of varying interest rates, with the difference between the weekly variable rates and the fixed rates above being either paid by, or reimbursed to, the Corporation. As discussed in Note 2, interest rate swap agreements are reported at fair value.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(9) Notes Payable

The Corporation 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. As of December 31, 2012 and 2011, under the line of credit agreements, the Corporation had available a maximum of \$21,750,000 and \$22,850,000, respectively, from the financial institutions. As of December 31, 2012 and 2011, the Corporation had \$17,840,741 and \$21,480,124, respectively, outstanding under these agreements at interest rates ranging from 2.20% to 3.25%.

(10) Leases

The Corporation is obligated under various capital leases for equipment that expire at various dates through 2015. The gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Medical and office equipment	\$ 870,860	534,776
Accumulated amortization	<u>(480,547)</u>	<u>(316,320)</u>
	<u>\$ 390,313</u>	<u>218,456</u>

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2012 follows:

2013	\$ 216,898
2014	159,667
2015	<u>30,596</u>
	407,161
Amounts representing interest	<u>(11,372)</u>
	<u>\$ 395,789</u>

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(10) Leases (continued)

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2028. The future minimum lease payments under these operating leases are as follows:

2013	\$	700,339
2014		551,275
2015		458,182
2016		396,622
2017		393,922
Thereafter		<u>4,365,968</u>
	\$	<u><u>6,866,308</u></u>

Rental expense under operating leases was \$1,787,848 and \$1,684,083 for the years ended December 31, 2012 and 2011, respectively.

Deferred rent as shown on the consolidated statements of financial position represents the difference between the rents actually paid and the amount recognized as expense in accordance with accounting principles generally accepted in the United States of America.

(11) Stop-loss Insurance

The Corporation's LIFE program operates as both the insurer and provider of services. The Corporation is liable for all healthcare costs incurred for its members. The Corporation entered into a stop-loss contract with an insurance company to limit its losses on individual claims. Under the terms of this agreement, the insurance company will reimburse the Corporation approximately 90% of the excess costs for certain services in excess of \$50,000, with a maximum benefit of \$1,000,000. In the event the Corporation ceases operations, the Corporation is required to assist the participants to obtain reinstatement of conventional Medicare and Medicaid benefits and transition participants' care to other providers. There are approximately 16 members covered by the plan.

Stop-loss insurance premiums of approximately \$92,635 and \$62,138 are included in general and administrative expense in 2012 and 2011, respectively.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(12) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary. Total annuities payable were \$1,606,502 and \$1,549,315 at December 31, 2012 and 2011, respectively. The Corporation uses published mortality rate tables adopted by the Internal Revenue Service and an assumed discount rate of approximately 4% to 6% to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of \$1,914,754 and \$1,837,928 as of December 31, 2012 and 2011, respectively, to satisfy annuities.

(13) Workers' Compensation Insurance

The Corporation has 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 Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. The Corporation maintains a letter of credit for \$2.6 million in connection with this self-insurance program. At December 31, 2012 and 2011, the Corporation has recorded an accrued expense of approximately \$5.01 million and \$4.96 million, respectively, for workers' compensation claims. This accrual includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(14) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

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Notes to Consolidated Financial Statements

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(15) Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Trust assets held for the benefit of The Easton Home	\$ 693,334	486,787
Charity care and/or equipment, including pledges receivable		
Endowment	270,352	316,158
Other	1,339,015	1,930,841
Contributions receivable from remainder trusts	<u>331,017</u>	<u>276,560</u>
	<u>\$ 2,633,718</u>	<u>3,010,346</u>

Net assets of \$1,806,724 and \$3,700,286 were released from restriction during 2012 and 2011, respectively, in satisfaction of the above restrictions.

(16) Permanently Restricted Net Assets

Permanently restricted net assets are allocated to the following purposes at December 31:

	<u>2012</u>	<u>2011</u>
Investments to be held in perpetuity, the income from which is expendable to support :		
Operations	\$ 1,996,910	1,973,630
Charity care and/or equipment	2,900,139	2,774,358
Trust assets held for the benefit of The Easton Home	830,086	830,086
Contributions receivable from remainder trusts	239,410	231,891
Beneficial interest in assets of foundation	34,696	43,816
Gift annuities	20,669	26,423
Beneficial interest in perpetual trusts	<u>12,800,949</u>	<u>12,106,509</u>
	<u>\$ 18,822,859</u>	<u>17,986,713</u>

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(17) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. 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 Corporation 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 Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation 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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December 31, 2012 and 2011

(17) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 316,158	4,747,988	5,064,146
Investment return:			
Investment income	83,667	-	83,667
Contributions	-	220,772	220,772
Appropriation of endowment assets for expenditures	<u>(111,278)</u>	<u>-</u>	<u>(111,278)</u>
Other changes			
Adjustments to prior year	<u>(18,196)</u>	<u>(71,711)</u>	<u>(89,907)</u>
Endowment net assets, end of year	<u>\$ 270,351</u>	<u>4,897,049</u>	<u>5,167,400</u>

The following schedule represents the changes in endowment net assets for the year ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 356,540	4,660,383	5,016,923
Investment return:			
Investment income	113,413	-	113,413
Contributions	-	87,605	87,605
Appropriation of endowment assets for expenditures	<u>(153,795)</u>	<u>-</u>	<u>(153,795)</u>
Endowment net assets, end of year	<u>\$ 316,158</u>	<u>4,747,988</u>	<u>5,064,146</u>

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 Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2012 and 2011.

PRESBYTERIAN SENIOR LIVING

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(17) Endowment (continued)

Return Objectives and Risk Parameters

The Corporation 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 Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. 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 Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation 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 Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% and 4.0% for 2012 and 2011, respectively. Actual distributions are for specific projects approved by the Board of Directors. 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 Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2012 and 2011 an allocation of three percent and four percent, respectively, of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation'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.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(18) Retirement Plan

The Corporation 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 Presbyterian Senior Living and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2012 and 2011, retirement plan expense totaled approximately \$1,686,000 and \$2,481,000, respectively.

Effective June 2011, QRC terminated the existing defined benefit pension plan that covered many of the employees at QRC. This plan had been curtailed and the benefits were frozen effective December 31, 2004. All vested benefits earned through June 30, 2011 were covered through the purchase of individual annuities at a cost aggregating \$787,651. The remaining plan assets, which totaled \$508,000, reverted to the Corporation. For financial reporting purposes, the defined benefit pension plan is considered fully terminated.

(19) Commitments and Contingencies

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

The low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

From time to time, the Corporation receives grant revenues for its low-income housing projects. These grant awards may require the projects to be maintained for a specified period of time. If the projects are not maintained for the required time period, a portion of the grant may be required to be repaid. Management recognizes these revenues as revenue when received as it is expected that all of the grant award terms will be met.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(20) Financial Instruments

(a) *Fair Values of Financial Instruments*

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, certificates of deposit, equity and fixed income securities: Fair value of equity and fixed income securities was based on quoted market prices for the identical security.

Alternative investments: Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Annual independent audits of each private investment partnership are provided and included in management's review.

Beneficial interest in perpetual trusts and net assets of foundation: Fair value of the beneficial interest in perpetual trusts and net assets of foundation was based on the Corporation's percent ownership of the trust assets, which approximate the value of estimated future cash flows to be received from the trust.

Contributions receivable from remainder trusts and gift annuities: Fair value of the contributions receivable from remainder trusts and gift annuities was based on the present value of future cash inflows.

Long-term debt and notes payable: Long-term debt and notes payable are carried at cost in the consolidated statements of financial position for notes payable, bonds payable and mortgages payable at December 31, 2012 and 2011. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was \$257,029,303 and \$238,467,104 at December 31, 2012 and 2011, respectively, and its fair value at December 31, 2012 and 2011 approximates \$240,588,047 and \$208,203,536, respectively.

Interest rate swaps: Fair value of the interest rate swaps are based on the net present value of expected future cash flows of the difference between the fixed interest rate of the interest rate swap and the counterparty's forward yield curve. The forward yield curve is readily available in public markets or can be derived from information available in publicly quoted markets.

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(20) Financial Instruments (continued)

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

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value at December 31, 2012 or 2011.

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(20) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2012 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit and money market funds	\$ 22,658,021	22,658,021	–	–
Equity securities	46,162,607	46,162,607	–	–
Fixed income securities	21,270,659	21,270,659	–	–
Alternate investments	15,665,634	–	–	15,665,634
Total investments	105,756,921	90,091,287	–	15,665,634
Beneficial interest in perpetual trusts	12,800,949	–	–	12,800,949
Beneficial interest in assets of foundation	34,696	34,696	–	–
Gift annuities	20,669	–	–	20,669
Contributions receivable from remainder trusts	570,427	–	–	570,427
Total assets	\$ <u>119,183,662</u>	<u>90,125,983</u>	<u>–</u>	<u>29,057,679</u>
Interest rate swaps	\$ <u>(1,311,038)</u>	<u>–</u>	<u>(1,311,038)</u>	<u>–</u>

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(20) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit and money market funds	\$ 57,215,662	57,215,662	–	–
Equity securities	14,847,080	14,847,080	–	–
Fixed income securities	23,822,388	23,822,388	–	–
Alternate investments	13,803,823	–	–	13,803,823
Total investments	109,688,953	95,885,130	–	13,803,823
Beneficial interest in perpetual trusts	12,106,509	–	–	12,106,509
Beneficial interest in assets of foundation	43,816	43,816	–	–
Gift annuities	26,423	–	–	26,423
Contributions receivable from remainder trusts	508,451	–	–	508,451
Total assets	\$ <u>122,374,152</u>	<u>95,928,946</u>	<u>–</u>	<u>26,445,206</u>
Interest rate swaps	\$ <u>(1,792,358)</u>	<u>–</u>	<u>(1,792,358)</u>	<u>–</u>

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Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(20) Financial Instruments (continued)

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

Description	<u>Alternative Investments</u>	<u>Contributions Receivable from Remainder Trusts</u>	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Gift Annuities</u>
Balance at				
December 31, 2010	\$ 10,488,196	1,975,453	12,747,824	26,482
Unrealized gains (losses)	852,167	(2,101)	(641,315)	(59)
Distributions	(633,275)	(1,464,901)	-	-
Contributions	3,042,915	-	-	-
Realized gains	53,820	-	-	-
Balance at				
December 31, 2011	\$ 13,803,823	508,451	12,106,509	26,423
Unrealized gains (losses)	1,260,634	61,976	694,440	(5,754)
Distributions	(1,108,722)	-	-	-
Contributions	1,677,407	-	-	-
Realized gains	32,492	-	-	-
Balance at				
December 31, 2012	\$ <u>15,665,634</u>	<u>570,427</u>	<u>12,800,949</u>	<u>20,669</u>

Unrealized and realized gains (losses) on alternative investments are reported as unrestricted and remainder trusts, gift annuities and perpetual trusts are permanently restricted in the consolidated statements of operations and change in net assets.

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

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.