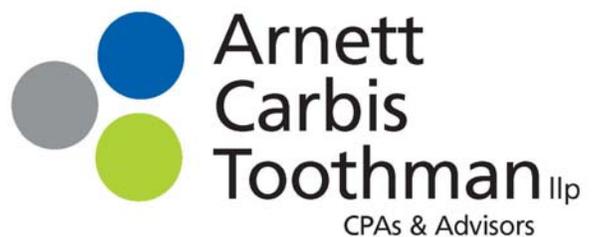


**PHI (D.B.A. PRESBYTERIAN SENIOR LIVING)**

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditor's Report Thereon)



# PRESBYTERIAN SENIOR LIVING

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## **Certification of Chief Executive and Chief Financial Officers**

We are responsible for the consolidated financial statements of Presbyterian Senior Living, as of December 31, 2014 and 2013, 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.

Consolidated 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 consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of a combined ministry that has served older persons in the name of Christ for the more than 108 years.

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

Stephen Proctor  
Chief Executive Officer  
Presbyterian Senior Living

Jeffrey J. Davis  
Chief Financial Officer  
Presbyterian Senior Living

## **Independent Auditor's Report**

The Board of Trustees  
Presbyterian Senior Living:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates (collectively the Corporation) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Geneva House, Inc., Presbyterian Apartments, Inc., Westminster Place at Parkesburg, LP, Westminster Place at Windy Hill, LP,I, Westminster Place at Carroll Village, LP,I, Schartner House Associates, LP, Westminster Place at the Long Community, LP, Westminster Place at Quincy Village, LP, Stewartstown Courtyard LP, Westminster Place at Bloomsburg LP, Silver Spring Courtyards LP, SS Gardens LP, Shrewsbury Courtyards Associates LP, Shrewsbury Courtyards II Associates, S Overlook LP, and Stony Brook Gardens LP, affiliates of Presbyterian Senior Living, which statements reflect total assets constituting 23.04% and 21.17%, respectively of consolidated total assets as of December 31, 2014 and 2013, and total operating revenues, gains, and other support constituting 8.36% and 8.62%, respectively of consolidated total operating revenues, gains, and other support for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP  
New Castle, Pennsylvania  
April 8, 2015

*Arnett Carbis Toothman LLP*

**PRESBYTERIAN SENIOR LIVING**

Consolidated Statements of Financial Position

December 31, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 5,024,612	5,336,906
Investments	80,389,889	72,639,773
Restricted deposits and funded reserves	18,921,115	13,157,411
Accounts receivable, net	22,662,735	21,582,680
Prepaid expenses and other current assets	4,360,953	3,340,598
Assets whose use is limited	12,586,550	11,350,649
Assets whose use is limited, construction funds	3,870,943	13,392,479
Pledges receivable, net	1,076,492	180,359
Assets held for sale	39,724	3,203,909
Property and equipment (net of accumulated depreciation of \$274,627,755 and \$254,189,424, respectively)	400,322,823	375,008,676
Assets under capital leases (net of accumulated amortization of \$801,385 and \$475,340, respectively)	633,375	604,981
Goodwill	1,715,000	1,715,000
Funds held in trust by others	15,273,801	15,113,651
Deferred financing costs (net of accumulated amortization of \$2,507,015 and \$2,263,617, respectively)	2,922,116	3,053,765
Other assets	634,704	1,410,180
Total assets	<u>\$ 570,434,832</u>	<u>541,091,017</u>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING**

Consolidated Statements of Financial Position

December 31, 2014 and 2013

<b>Liabilities and Net Assets</b>	<b>2014</b>	<b>2013</b>
Accounts payable	\$ 12,585,570	10,963,951
Accrued expenses	16,282,372	20,059,305
Note payable	4,980,267	-
Lines of credit	20,366,465	16,054,524
Accrued interest	1,392,247	1,786,055
Resident deposits	1,719,663	3,257,828
Entrance fee payable	37,505,682	39,509,039
Deferred revenue - entrance fees	61,261,877	53,279,417
Fair value of interest rate swaps	277,664	714,302
Annuities payable	1,464,976	1,491,571
Obligations under capital leases	645,229	619,197
Long-term debt - senior living	227,886,118	228,884,726
Long-term debt - low income housing	36,742,037	32,827,609
Total liabilities	<u>423,110,167</u>	<u>409,447,524</u>
Net assets:		
Unrestricted (including tax credit equity of \$64,063,798 and \$56,028,234, respectively)	122,624,202	108,044,618
Temporarily restricted	3,778,968	2,988,724
Permanently restricted	20,921,495	20,610,151
Total net assets	<u>147,324,665</u>	<u>131,643,493</u>
Total liabilities and net assets	<u>\$ 570,434,832</u>	<u>541,091,017</u>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING**

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Operating revenues, gains, and other support:		
Resident services, including amortization of entrance fees of \$9,703,479 and \$9,262,296, respectively	\$ 189,685,570	180,697,711
Sales of other services and materials	83,555	59,209
Net rental income and developers' fees	380,201	2,053,586
Interest and dividend income	3,483,441	3,329,725
Realized gain on investments	1,638,479	3,160,078
Gain on sale of property and equipment and other assets	73,046	512,149
Contribution of affordable properties	1,746,372	3,845,713
Contributions, gifts, grants and bequests	1,175,272	1,350,543
Net assets released from restrictions	1,595,506	950,886
	<b>199,861,442</b>	<b>195,959,600</b>
Total operating revenues, gains, and other support		
Expenses:		
Nursing services	49,440,672	47,522,279
Rehabilitation	8,946,704	8,571,497
Recreation and special services	5,618,761	5,524,270
Pharmacy	2,969,874	2,792,684
Social services	1,447,510	1,326,266
Physician services	438,004	416,041
Food services	20,150,424	19,508,298
Building operations and maintenance	25,388,036	23,490,695
Housekeeping	4,123,442	3,959,794
Laundry and linen	1,327,626	1,386,047
General and administrative	31,398,579	29,939,799
Employee benefits	15,823,739	15,180,279
Interest	6,537,453	6,373,271
Depreciation	18,709,631	17,766,760
Amortization	505,048	295,236
	<b>192,825,503</b>	<b>184,053,216</b>
Total expenses		
Income from continuing operations	<b>7,035,939</b>	<b>11,906,384</b>
Discontinued operations:		
Discontinued operations, net of gain of \$6,460,917 and \$2,660,260 in 2014 and 2013, respectively	6,800,243	2,286,661
Gain on discontinued operations	<b>6,800,243</b>	<b>2,286,661</b>
Operating income	<b>13,836,182</b>	<b>14,193,045</b>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING**

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Equity received from tax credit limited partners	3,095,367	5,871,366
Change in fair value of interest rate swaps	436,638	596,736
Loss on early extinguishment of debt	(108,203)	(938,303)
Loss on abandoned project	<u>(1,352,302)</u>	<u>—</u>
Excess of operating revenues, gains and other support over expenses	15,907,682	19,722,844
Other changes:		
Unrealized (loss) gain on investments	<u>(1,328,098)</u>	<u>2,942,716</u>
Total other changes	<u>(1,328,098)</u>	<u>2,942,716</u>
Change in unrestricted net assets	14,579,584	22,665,560
Temporarily restricted net assets:		
Contributions, gifts, grants and bequests	2,225,960	1,010,133
Interest and dividend income	87,669	224,537
Unrealized gain on investments	72,120	71,222
Net assets released from restrictions	<u>(1,595,505)</u>	<u>(950,886)</u>
Change in temporarily restricted net assets	790,244	355,006
Permanently restricted net assets:		
Contributions, gifts, grants and bequests	243,016	147,758
Change in fair value of funds held in trust by others	<u>68,328</u>	<u>1,639,534</u>
Change in permanently restricted net assets	<u>311,344</u>	<u>1,787,292</u>
Change in net assets	15,681,172	24,807,858
Net assets, beginning of year	<u>131,643,493</u>	<u>106,835,635</u>
Net assets, end of year	<u>\$ 147,324,665</u>	<u>131,643,493</u>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING**

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 15,681,172	24,807,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,709,631	17,766,760
Provision for bad debt	1,409,061	955,610
Proceeds from entrance fees and deposits	21,343,426	18,941,929
Amortization of entrance fees	(9,703,479)	(9,262,296)
Loss on early extinguishment of debt	108,203	938,303
Change in fair value of interest rate swaps	(436,638)	(596,736)
Unrealized loss (gains) on investments and change in fair value of funds held in trust by others	1,187,650	(4,653,472)
Realized gains on investments	(1,638,479)	(3,160,078)
(Gain) on sale of property and equipment and other assets	(73,046)	(512,149)
Contributions restricted for long-term purposes	(243,016)	(147,758)
Amortization of deferred costs	512,164	296,371
Amortization of bond premium	(7,116)	(1,135)
(Gain) on discontinued operations	(6,800,243)	(2,286,661)
Loss on abandoned project	1,352,302	-
Changes in assets and liabilities:		
Increase in accounts receivable	(2,489,116)	(3,331,937)
(Increase) decrease in pledges receivable	(896,133)	67,175
Increase in other assets	(539,458)	(196,483)
Increase (decrease) in accounts payable	1,621,619	(4,880,194)
Decrease in deferred rent	-	(30,221)
(Decrease) increase in accrued expenses	(4,170,741)	4,013,198
Net cash provided by operating activities	<u>34,927,763</u>	<u>38,728,084</u>
Cash flows from investing activities:		
Acquisition of property and equipment, net of disposals	(44,844,741)	(56,721,688)
Net proceeds from sale of property and equipment	9,477,741	1,105,000
Net proceeds from sale of PHI LIFE	-	2,600,000
Purchases of investments	(46,071,713)	(39,251,035)
Proceeds from sale of investments	41,134,207	40,594,284
Net cash used in investing activities	<u>(40,304,506)</u>	<u>(51,673,439)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(5,195,652)	(5,709,420)
Change in entrance fee payable	(2,003,357)	(773,528)
Principal payments on and redemptions of long-term debt	(10,603,795)	(24,164,154)
Proceeds from issuance of long-term debt	13,703,528	45,750,759
Financing costs incurred	(370,936)	(743,858)
Net proceeds on notes payable	4,980,267	-
Net proceeds (repayments) on lines of credit	4,311,941	(1,786,217)
Borrowings through capital leases	354,439	501,695
Repayments on capital leases	(328,407)	(278,287)
Contributions restricted for long-term purposes	243,016	147,758
(Decrease) in annuities payable	(26,595)	(114,931)
Net cash provided by financing activities	<u>5,064,449</u>	<u>12,829,817</u>
Net (decrease) in cash and cash equivalents	(312,294)	(115,538)
Cash and cash equivalents, beginning of year	5,336,906	5,452,444
Cash and cash equivalents, end of year	\$ <u>5,024,612</u>	<u>5,336,906</u>
Supplemental schedule of non-cash investing activities		
Decrease (increase) in assets held for sale through change in property and equipment	\$ 3,164,275	(3,106,100)
Non-cash contribution of affordable properties	<u>(1,746,372)</u>	<u>(3,845,713)</u>

See accompanying notes to consolidated financial statements.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (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 Retirement Community, Long Community, Inc., PHI Investment Management Services, Inc., PHI Services, Inc., Presbyterian Apartments, Inc., Geneva House, Inc., Schartner House Associates LP, Westminster Place at Parkesburg, LP, Westminster Place at Windy Hill LP,I, Westminster Place at Carroll Village LP,I, Stewartstown Courtyard LP, Westminster Place at Bloomsburg LP, Westminster Place at the Long Community LP, Westminster Place at Quincy Village LP, Silver Spring Courtyards LP, SS Gardens LP, Shrewsbury Courtyards Associates LP, Shrewsbury Courtyards II Associates, S Overlook LP, Stony Brook Gardens LP, PHI Stadium Place Senior Care, Inc., Northampton Place at Easton, LP, Westminster Place at Huntingdon LP, Westminster Place at Queen Street LP, Westminster Place at Ware Presbyterian Village LP, Long Crest Senior Housing LP, Ross Presbyterian Senior Housing LP, The Shepherds in Monroe County, Inc., Wisteria Commons Senior Housing LP, Oaks Senior Community LP, 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.

On June 6, 2013, the PHI Board of Trustees approved the sale of PHI LIFE. On December 31, 2013, the Corporation sold PHI LIFE to SeniorLIFE Lehigh Valley, Inc. During 2014, the PHI Board of Trustees approved the sale of Sycamore Manor Health Center, a stand-alone skilled nursing facility within Presbyterian Homes. On September 1, 2014, the Corporation sold Sycamore Manor Health Center to TL Management.

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	2,671	1,088	462	1,121	—
Glen Meadows Retirement					
Community	274	31	36	207	—
Presbyterian Apartments	165	—	—	—	165
Geneva House	64	—	—	—	64
Tax Credit Entities	802	—	—	—	802
	<u>3,976</u>	<u>1,119</u>	<u>498</u>	<u>1,328</u>	<u>1,031</u>

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(1) General Information (continued)**

In December 2013, the Corporation entered into a non-compete agreement with Monarch Development Corporation, LLC, effective 2014. The agreement is a result of the pending sale of Wisteria Commons Senior Housing LP, owned by Monarch Development Corporation, LLC, to the Corporation. Effective January 1, 2014, the Corporation acquired The Shepherds in Monroe County. This 501(c)(3) organization consists of four affordable housing developments: The Oaks, Hawks Nest I and II, and Wisteria Commons. In total, there are 84 units. All of the units are income and rent restricted under the Federal Low Income Housing Tax Credit Program (LIHTC) and/or Federal HOME program. The sale was complete in January 2014.

**(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 not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and have been recognized as tax exempt under Section 501(a) of the Code.

The 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, 2011, 2012 and 2013 remain subject to examination by the Internal Revenue Service.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(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 2014 and 2013, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(e) *Investments*

Investments in securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange 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, 2014 and 2013, 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.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(e) **Investments (continued)**

Investment income consisted of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 3,571,110	3,554,262
Realized gain on investments	1,638,479	3,160,078
Unrealized (loss) gain on investments and funds held in trust by others	<u>(1,187,650)</u>	<u>4,653,472</u>
	<u>\$ 4,021,939</u>	<u>11,367,812</u>

Investment expenses of \$339,202 and \$376,004 for the years ended December 31, 2014 and 2013 have been included in general and administrative expenses on the consolidated statements of operations and changes in net assets.

(f) **Accounts Receivable**

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

	<u>2014</u>	<u>2013</u>
Total accounts receivable	\$ 25,750,860	24,114,367
Less: allowance for doubtful accounts	<u>(3,088,125)</u>	<u>(2,531,687)</u>
Accounts receivable, net	<u>\$ 22,662,735</u>	<u>21,582,680</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 collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely.

During 2014, the Corporation migrated to a new accounting software system. Under the old system, receivables were calculated as past due based on calendar days. The new system calculates the amounts due based on calendar months. This change in methodology from calendar days to calendar months has caused a decrease in the amount reported in the allowance for doubtful accounts of \$629,422.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(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.

**(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 future projects along with 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>2014</u>	<u>2013</u>
Pledges receivable	\$ 1,272,734	230,124
Less: unamortized discount	(28,270)	—
Subtotal	<u>1,244,464</u>	<u>230,124</u>
Less: allowance for uncollectibles	(167,972)	(49,765)
Net pledges receivable	<u><u>\$ 1,076,492</u></u>	<u><u>180,359</u></u>

Pledges receivable as of December 31, 2014 is as follows:

Amounts due in:	
Less than one year	\$ 872,827
One to five years	<u>399,907</u>
	<u><u>\$ 1,272,734</u></u>

**(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.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(j) Property and Equipment (continued)**

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 \$1,411,639 and \$776,235 was capitalized in 2014 and 2013, respectively.

**(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 trusts 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Beneficial interest in perpetual trusts	\$ 14,607,755	14,494,504
Gift annuities	15,503	26,035
Contributions receivable from remainder trusts	<u>650,543</u>	<u>593,112</u>
	<u>\$ 15,273,801</u>	<u>15,113,651</u>

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(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 2014 and 2013, adjustments to the liability were recorded causing a gain of \$436,638 and \$596,736, respectively. These adjustments represent the decrease in the liability of the interest rate swaps.

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

**(n) *Deferred Financing 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. The Corporation incurred financing costs of \$370,936 and \$743,858, for the years ended 2014 and 2013, respectively. Amortization expense is expected to be \$235,700, \$202,537, \$192,845, \$184,339, and \$184,077 for 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***

The Corporation follows the FASB regarding refundable entrance fees. This guidance clarified that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advanced fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability.

The Corporation is no longer amortizing the guaranteed refundable portion of the entrance fees. This portion of the entrance fee is reflected as a liability on the consolidated statements of financial position.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(q) *Deferred Revenue – Entrance Fees (continued)***

The amount of entrance fees guaranteed refundable to residents at December 31, 2014 and 2013 under contractual refund provisions was approximately \$37,506,000 and \$39,509,000, respectively.

**(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 years ended December 31, 2014 or 2013.

**(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.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(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 Human Services (DHS).

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.

Revenues from Medicare and Medicaid represent approximately 39% of revenues for both 2014 and 2013, respectively. Medicare and Medicaid receivables represent approximately 56% and 47% of accounts receivable at December 31, 2014 and 2013, 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 DHS on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. Rates have been finalized through December 31, 2014.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DHS based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have been approved by CMS. For the years ended December 31, 2014 and 2013, the Corporation received or will receive approximately \$2,700,000 for each year, in additional revenue for the net effect of this assessment and supplement.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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

The Department of Housing and Urban Development (HUD)/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, Pennsylvania Housing Finance Agency (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 fourteen 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 a 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 partners. As of December 31, 2014 and 2013 investor limited partners had committed an additional \$64,063,798 and \$56,028,234, 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 principal 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 Note 8.

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.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(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**

The Corporation follows the FASB accounting standards update that provides improved disclosure about charity care. The amount of charity care disclosed in the consolidated financial statements is measured based on the direct and indirect costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients, reasonable techniques are used to estimate these costs, and these techniques are disclosed. Any funds received to offset or subsidize charity care services are also 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>2014</u>	<u>2013</u>
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	\$ 4,054,637	3,616,701
Additional benevolent care provided at amounts less than pre-established charges for private pay services	26,698,777	24,971,831
Giving and income designated for resident financial support	1,214,897	878,092

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013 was \$520,388 and \$567,719, respectively.

(aa) ***Classification of Expenses***

	<u>2014</u>	<u>2013</u>
Program activities	\$ 161,426,924	154,113,417
General and administrative	30,459,256	29,063,305
Fundraising	939,323	876,494
	<u>\$ 192,825,503</u>	<u>184,053,216</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 partners, loss 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 unrealized (loss) gain on investments.

(ae) ***Consolidated Statements of Cash Flows***

Interest paid during the years ended December 31, 2014 and 2013 was \$8,342,379 and \$6,325,734, respectively.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(af) Reclassifications**

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the presentation of 2014.

**(ag) Subsequent Events**

The Corporation has adopted the standard related 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 Corporation has evaluated subsequent events through April 8, 2015, which is the date the consolidated financial statements were issued.

**(3) Investments**

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

	2014		2013	
	Market	Cost	Market	Cost
Money market funds	\$ 32,401,235	32,401,235	29,925,407	29,925,407
Equity securities	42,431,937	39,626,378	44,774,922	39,442,473
Fixed income securities	19,110,373	19,463,743	18,683,695	18,899,156
Alternate investments	21,824,952	14,666,756	17,156,288	11,049,068
	\$ 115,768,497	106,158,112	110,540,312	99,316,104
Less:				
Restricted deposits and funded reserves (note 4)		(18,921,115)	(13,157,411)	
Assets whose use is limited (note 5)		(16,457,493)	(24,743,128)	
Total investments	\$	80,389,889	72,639,773	

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.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(3) Investments (continued)**

As of December 31, 2014, twelve 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, 2013, sixteen 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.

Fourteen mutual funds had a market value that had been below cost for more than a year as of December 31, 2014. In total, their market value was less than six percent below cost. Seven mutual funds had a market value that had been below cost for more than a year as of December 31, 2013. In total, their market value was less than five percent below cost.

A summary of investments with fair values below cost as of December 31, 2014 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	\$ 18,101,646	(410,682)	9,001,371	(560,975)	27,103,017	(971,657)
Total temporarily impaired investments	<u>\$ 18,101,646</u>	<u>(410,682)</u>	<u>9,001,371</u>	<u>(560,975)</u>	<u>27,103,017</u>	<u>(971,657)</u>

A summary of investments with fair values below cost as of December 31, 2013 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	\$ 16,558,844	(379,106)	3,654,709	(176,378)	20,213,553	(555,484)
Total temporarily impaired investments	<u>\$ 16,558,844</u>	<u>(379,106)</u>	<u>3,654,709</u>	<u>(176,378)</u>	<u>20,213,553</u>	<u>(555,484)</u>

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(4) Restricted Deposits and Funded Reserves**

At December 31, 2014 and 2013, restricted deposits and funded reserves which are carried at market value consisted of the following:

	<b>2014</b>	<b>2013</b>
Deposits restricted for low income housing projects	\$ 8,673,768	5,993,700
Statutory liquid reserves	8,593,338	5,567,996
Operating reserve fund	1,654,009	1,595,715
	\$ 18,921,115	13,157,411

**(5) Assets Whose Use is Limited**

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

	<b>2014</b>	<b>2013</b>
Permanently restricted investments	\$ 4,634,397	4,515,573
Debt service reserve funds	3,965,511	3,997,061
Held by trustee - for future projects	3,870,943	13,392,479
Bond funds	2,911,781	1,762,729
Assets designated for renovation and charity care	766,892	787,771
Other reserves required by financing arrangements	307,969	287,515
	\$ 16,457,493	24,743,128

**(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 health care 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 \$305,632 and \$672,525 as of December 31, 2014 and 2013, respectively. During 2014 and 2013, Presbyterian Senior Living incurred expenses related to Prelude of approximately \$2,567,000 and \$2,681,000, respectively, for information technology services provided by Prelude, of which \$217,783 and \$197,899 was included in accounts payable as of December 31, 2014 and 2013, respectively.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (6) Related Party Transactions (continued)

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

	<u>2014</u>	<u>2013</u>
Assets	\$ 4,218,076	3,877,419
Liabilities	3,553,658	2,362,968
Equity	664,418	1,514,451
Sales	10,980,550	9,681,669
Net loss	(850,033)	(250,886)

#### (7) Property and Equipment

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

	<u>2014</u>	<u>2013</u>
Land	\$ 47,966,071	47,432,129
Land improvements	26,397,560	25,633,669
Buildings and improvements	494,238,373	453,982,949
Departmental equipment, furniture and fixtures	53,971,547	50,324,290
Furniture	5,913,292	6,170,662
Vehicles	2,928,912	2,936,380
Construction-in-progress	43,534,823	42,718,021
	<u>674,950,578</u>	<u>629,198,100</u>
Accumulated depreciation	<u>(274,627,755)</u>	<u>(254,189,424)</u>
	<u>\$ 400,322,823</u>	<u>375,008,676</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, 2014 and 2013, commitments for future construction totaled approximately, \$20,056,000 and \$15,255,000, respectively.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(7) Property and Equipment (continued)**

In 2013, management decided to sell the six rental properties that are located within Glen Meadows Retirement Community. During 2013, four of the six units were sold for approximately \$1,105,000 and a gain on the sale of \$495,819 was recognized. In 2014, another unit was sold for approximately \$168,000 and a gain on the sale of \$57,627 was recognized. The current value of the one remaining unit of \$39,724 is classified as assets held for sale on the consolidated statements of financial position.

On December 31, 2013 the Corporation sold PHI LIFE to SeniorLIFE Lehigh Valley, Inc. and recognized a gain of \$2,660,260.

For the years ended December 31, 2014 and 2013, PHI LIFE's (loss) gain consisted of:

	<u>2014</u>	<u>2013</u>
Depreciation	\$ —	(135,706)
Interest	—	(487)
Amortization	—	—
Other expenditures, net of gain of \$2,660,260 in 2013	<u>(19,837)</u>	<u>2,023,034</u>
Total (loss) gain on discontinued operations	<u>\$ (19,837)</u>	<u>1,886,841</u>

On September 1, 2014, the Obligated Group sold Sycamore Manor Health Center, a 133 bed nursing living facility for approximately \$9,310,000, and recognized a gain of \$6,460,917.

For the year ended December 31, 2013 Sycamore Manor Health Center's fixed assets were reclassified to assets held for sale on the consolidated statement of financial position in accordance with accounting standards related to discontinued operations. Management fees charged to Sycamore Manor from the Corporation were eliminated on the consolidated statements of operations and changes in net assets, decreasing the amount of expenditures associated with the gain on discontinued operations.

For the years ended December 31, 2014 and 2013, Sycamore Manor Health Center's gain consisted of:

	<u>2014</u>	<u>2013</u>
Depreciation	\$ (200,231)	(299,890)
Interest	(65,219)	(103,549)
Amortization	(2,299)	(4,175)
Other expenditures, net of gain of \$6,460,917 in 2014	<u>7,087,829</u>	<u>807,434</u>
Total gain on discontinued operations	<u>\$ 6,820,080</u>	<u>399,820</u>

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(7) Property and Equipment (continued)**

In December 2013, the Corporation entered into a non-compete agreement with Monarch Development Corporation, LLC, effective 2014. The agreement is a result of the pending sale of Wisteria Commons Senior Housing LP, owned by Monarch Development Corporation, LLC, to the Corporation. Effective January 1, 2014, the Corporation acquired The Shepherds in Monroe County. This 501(c)(3) organization consists of four affordable housing developments: The Oaks, Hawks Nest I and II, and Wisteria Commons. In total, there are 84 units. All of the units are income and rent restricted under the Federal Low Income Housing Tax Credit Program (LIHTC) and/or Federal HOME program.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt**

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

	<u>2014</u>	<u>2013</u>
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.05% and 0.07% at December 31, 2014 and 2013, 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 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2013 to 2032, interest converted to a fixed rate of 3.8% as of January 2, 2014, interest rate was 0.07% at December 31, 2013, collateralized by letter of credit	7,170,000	7,430,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 0.941% and 0.948% at December 31, 2014 and 2013, respectively, collateralized by property and equipment and gross revenues of the Obligated Group	3,115,363	3,856,634
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2021, 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	13,570,000	15,160,000
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	6,660,000	7,810,000
Northampton County Industrial Development Authority Revenue Bonds Series 2014, tax exempt bonds, principal due on an annual basis of \$67,000 per year, interest payable monthly and is fixed at 3.24% until June 2024, collateralized by property and equipment and gross revenues of the Obligated Group	9,966,500	—

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
Blair County Hospital Authority Revenue Bonds Series 2014, tax exempt bonds, principal due on an annual basis of \$67,000 per year, interest payable monthly and is fixed at 3.24% until June 2024, collateralized by property and equipment and gross revenues of the Obligated Group	9,966,500	—
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.03% and 0.07% at December 31, 2014 and 2013, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	25,000,000	45,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.05% and 0.07% at December 31, 2014 and 2013, respectively, collateralized by property and equipment and gross revenues of the Obligated Group	14,985,000	15,265,000
York County Industrial Development Authority Bonds Series 2010, tax exempt bank qualified debt, principal due in varying annual amounts from 2013 to 2033, interest was locked in November 2013 at 2.75% at December 31, 2014 and 2013, respectively, and is adjusted every 5 years, collateralized by property and equipment and gross revenues of the Obligated Group	18,856,144	19,624,547
Bank of America taxable 5 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, due in December 2016 with the option to extend all or a portion of the remaining balance for a 25-year amortization period	11,930,576	12,299,933
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, principal maturities based on a twenty year repayment schedule, interest is fixed for the first 120 months, subsequent interest rates will be reset on a 10 year increment, interest was 3.48% at both December 31, 2014 and 2013, collateralized by property and equipment and gross revenues of the Obligated Group	8,899,370	9,272,913

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
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, 2014 and 2013, and is collateralized by property and equipment and gross revenues of the Obligated Group	1,930,727	2,097,988
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 0.08% and 0.11% at December 31, 2014 and 2013, respectively, and are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	2,630,000	3,425,000
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% at both December 31, 2014 and 2013, and is collateralized by property and equipment and gross revenues of the Obligated Group	473,731	528,189
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, 2014 and 2013, and are collateralized by property and equipment and gross revenues of the Obligated Group	2,635,598	2,809,204
Quincy Sewer Authority Revenue Bonds Series 2012, payable in equal monthly installments of principal and interest, due August 15, 2032, the note bears an interest rate of 3.35%, and is collateralized by property and equipment and gross revenues of the Obligated Group	9,143,517	9,513,907

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
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 fixed at 3.5% until June 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	9,102,806	9,471,787
General Municipal Authority of the Township of Manheim Revenue Bond 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, interest fixed at 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	9,123,131	9,515,088
Cumberland County Municipal Authority Revenue Bonds Series 2013A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2026, interest fixed at 3.11%, interest will be reset in 10 year increments, collateralized by property and equipment and gross revenues of the Obligated Group	6,525,790	6,548,707
Cumberland County Municipal Authority Revenue Bonds Series 2013B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2022, interest fixed at 3.11%, collateralized by property and equipment and gross revenues of the Obligated Group	4,700,886	4,911,159
Indiana County Industrial Development Authority Revenue Bonds Series 2013, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to November 15, 2033, interest fixed at 3.48% until 2020 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 gross revenues of the Obligated Group	9,618,418	9,970,858

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
Uwchlan Township Industrial Development Authority Revenue Bond Series 2013, tax exempt bonds, payable in equal monthly installements of principal and interest sufficient to amortized the principal balance to June 2026, interest fixed at 3.6% until June 2023, interest rates will reset in 10 year increments, collateralized by property and equipment and gross revenues of the Obligated Group	9,503,184	9,851,640
Enterprise Community Loan Fund unsecured loan, maximum loan amount of \$700,000, principal and interest in varying amounts sufficient to amortized the outstanding balance to November 2023, interest is fixed at 3.0%.	434,180	481,569
Enterprise Community Loan Fund unsecured loan, maximum loan amount of \$800,000, principal and interest in varying amounts sufficient to amortized the outstanding balance to May 2024, interest is fixed at 3.0%.	791,000	-
Metro Bank construction loan, maximum loan amount of \$10,000,000, interest only is payable monthly on the outstanding balance for the first twelve months. Following the interest only period, no further advances will be made. Monthly payments of principal and interest needed to amortized the loan to July 2033 will then begin. Interest is fixed at 4.1% for the first five years, followed by a fluctuating rate at the Wall Street Journal Prime Rate of interest plus 0.75%, with an interest rate floor of 4%.	9,918,419	2,228,044
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, taxable exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.13% and 0.04% at December 31, 2014 and 2013 respectively, collateralized by letter of credit	2,970,000	3,100,000

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
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, 0.12% and 0.13% at December 31, 2014 and 2013 respectively, collateralized by letter of credit	12,145,000	12,585,000
	227,765,840	228,757,167
Unamortized discount	(96,242)	(107,180)
Plus: Unamortized premium	216,520	234,739
	\$ 227,886,118	228,884,726

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

	<b>2014</b>	<b>2013</b>
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 the 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%	384,646	468,937
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 is due April 11, 2042	1,831,168	1,831,168
Mortgage payable, County of York - Housing and Community Development Division, interest accrues at 1.0% annum, principal will not be paid during the loan period unless the Corporation is found to be in default of any of the terms or conditions outlined in the loan agreement. The loan matures in 2041	1,000,000	1,000,000

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
Mortgage note payable, Chester County Department of Community Development, interest accrues at 1.0% per annum, compounding annually, interest of \$51,953 and \$42,884 has been added to the principal balance as of December 31, 2014 and 2013, 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	915,953	906,884
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, Pennsylvania Housing Finance Agency, non-interest bearing, principal is payable out of available cash flow as defined in the Tax Credit Assistance Program agreement, loan is due May 5, 2041	1,351,110	1,351,110
Mortgage note payable, Redevelopment Authority of the County of Lancaster, interest accrues at 1.0% per annum on the unpaid principal balance, beginning January 1, 2013. Payment of principal and interest are deferred until the maturity date of August 27, 2042	1,000,000	1,000,000
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	327,516	335,799
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	1,364,865	1,398,915
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	1,113,660	1,168,610

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
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	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	50,000
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing, principal is payable out of available cash flow as defined in the Tax Credit Assistance Program agreement. The loan is due May 25, 2041	5,594,162	5,594,162
Mortgages payable, County of York - Housing and Community Development Division, non-interest bearing, principal will not be paid during the loan period unless the Corporation is found to be in default of any of the terms or conditions outlined in the loan agreement. The loan matures in 2040	5,125,000	5,125,000
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% interest per annum, with no principal payment required during the loan period unless the Corporation is found to be in default of any terms or conditions outlined in the loan agreement. Loan matured on June 30, 2014 and an extension was granted until December 31, 2015	850,000	850,000
Mortgage note payable, Fulton Bank, monthly payments of principal and interest, interest at a rate of 6.75%, the note matured August 31, 2014	—	520,405
Mortgage note payable, Susquehanna Bank, monthly payments of principal and interest to equal \$4,813, interest at a rate of 8.4%. The note is due October 2017	518,437	531,423

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% interest per annum, with no principal payment required during the loan period unless the Corporation is found to be in default of any terms or conditions outlined in the loan agreement. The loan matures in January 2031	625,000	625,000
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 returned on equity to owners, 30 year term	619,282	687,432
Mortgage note payable, Pennsylvania Housing Finance Agency, monthly payments of principal and interest to equal \$2,016, interest rate of 6.25%, with the loan maturing in December 2034	272,869	279,769
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% interest annually, with no principal paid during the loan term provided the Corporation does not commit default. The loan matures April 19, 2034	1,035,000	1,035,000
Mortgages payable, County of York - Housing and Community Development Division, accrues 1% interest annually, with no principal payment required until 2037, as long as affordability is maintained	2,950,000	2,950,000
Mortgage payable provided through a HUD-insured Section 223(f) mortgage, note bears an interest rate of 3.69% annually and monthly payments in the amount of \$11,358 are required, matures on August 1, 2048	2,625,181	2,663,830
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, the note matures on the earliest of the date of sale of the project, date of termination of the project or 2042	91,085	91,085

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

	<b>2014</b>	<b>2013</b>
Peoples Security Bank and Trust mortgage loan, required monthly payments of \$629, including interest of 3.25% with a balloon payment due on April 18, 2017, collateralized by land and buildings of the Shepherds of Monroe County	119,173	—
Mortgage note payable to County of Monroe, interest at a rate of 0%, all payments deferred until April 27, 2031, the note is collateralized by the land and building of the Shepherds of Monroe County	30,000	—
Mortgage note payable to County of Monroe, interest at a rate of 0%, all payments deferred until October 16, 2034, the note is collateralized by the land and building of the Shepherds of Monroe County	30,000	—
Mortgage payable to County of Monroe, the note bears no interest, payments of principal deferred until maturity 2031	240,000	—
Mortgage payable to ESSA Bank and Trust, interest at a rate of 7%, per annum, requires monthly payments of principal and interest with a final maturity of April 2038	187,834	—
Open-end mortgage, County of Allegheny Department of Economic Development, 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, the note matures on the earliest of the date of sale of the project, date of termination of the project or 2044	310,000	—
Open-end mortgage, First Niagara Bank, principal and interest payable monthly, interest at a rate of 6.25%, the note is due July 2021	3,817,016	—
	<b>\$ 36,742,037</b>	<b>32,827,609</b>

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 2013, \$225,000 of the Cumberland County 2008C bonds was repurchased. During 2014, \$10,000 of the Cumberland County 2005A bonds that were previously repurchased was sold. The bonds remaining are currently being held with the option to remarket at a future date.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (8) Long-term Debt (continued)

Under the terms of the bond indentures, the Corporation is 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 Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants have been met at December 31, 2014 and 2013. The Corporation has two outstanding letters of credit at December 31, 2014 for Glen Meadows Retirement Community. These letters of credit expire in March 2018.

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.

In connection with the partial replacement of the Cumberland County 2008B bonds, in June 2014, the Corporation recorded a loss on the extinguishment of debt in the amount of \$108,203, representing the write-off of the unamortized debt issuance costs. In June 2013, the Corporation refunded and replaced the Cumberland County 2003A and 2008A bonds. A loss on the extinguishment of debt in the amount of \$938,303 was recorded in 2013, representing the write-off of the unamortized debt issuance costs and discount on the original purchase.

Scheduled maturities for the five years subsequent to December 31, 2014 and thereafter for the senior living debt are as follows:

<b>Years ended December 31,</b>	<b>Aggregate maturities</b>
2015	\$ 11,893,383
2016	12,303,353
2017	12,730,096
2018	12,066,289
2019	10,359,201
Thereafter	168,413,518
	<u>\$ 227,765,840</u>

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(8) Long-term Debt (continued)**

Scheduled maturities for the five years subsequent to December 31, 2014 and thereafter for low income housing are as follows:

<b>Years ended December 31,</b>	<b>Aggregate maturities</b>
2015	\$ 1,421,347
2016	604,316
2017	747,116
2018	672,426
2019	634,866
Thereafter	<u>32,661,966</u>
	<u>\$ 36,742,037</u>

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	Wells Fargo	06/05/08	06/01/15	3.28%	Cumberland County 2008B
\$3,115,360	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, 2014 and 2013 are as follows:

<u>Counterparty</u>	<u>Fair Value 12/31/2014</u>	<u>Fair Value 12/31/2013</u>
M&T	\$ -	\$ 55,431
Wells Fargo	134,015	439,013
Bank of America	143,649	219,858
Total	<u>\$ 277,664</u>	<u>\$ 714,302</u>

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (8) Long-term Debt (continued)

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.

#### (9) Notes Payable

In December 2014, the Corporation entered into a bank loan with Metro Bank for \$5,000,000. Interest on the loan is at a rate of 2.16%. Principal and interest are due in monthly payments and the remaining balance is due and payable on December 10, 2015. As of December 31, 2014, the Corporation had \$4,980,267 outstanding under this loan. The loan is collateralized by property and equipment and gross revenues of the Corporation.

#### (10) Lines of Credit

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, 2014 and 2013, under the line of credit agreements, the Corporation had available a maximum of \$21,800,000 and 21,750,000, respectively from the financial institutions. As of December 31, 2014 and 2013, the Corporation had \$20,366,465 and \$16,054,524, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 4.50%.

#### (11) Leases

The Corporation is obligated under various capital leases for equipment and vehicles that expire at various dates through 2017. The gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Medical and office equipment	\$ 1,434,760	1,080,321
Accumulated amortization	<u>(801,385)</u>	<u>(475,340)</u>
	<u>\$ 633,375</u>	<u>604,981</u>

Amortization expense of \$332,706 and \$264,721 for the years ended December 31, 2014 and 2013, respectively, for the assets held under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(11) Leases (continued)**

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, 2014 follows:

2015	\$	289,227
2016		221,261
2017		130,015
2018		<u>25,050</u>
		665,553
Amounts representing interest		<u>(20,324)</u>
	\$	<u><u>645,229</u></u>

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows:

2015	\$	285,313
2016		163,066
2017		<u>51,376</u>
	\$	<u><u>499,755</u></u>

Rental expense under operating leases was \$1,443,212 and \$1,941,447 for the years ended December 31, 2014 and 2013, respectively.

**(12) Stop-loss Insurance**

The Corporation's LIFE program operated as both the insurer and provider of services during 2013. The Corporation was liable for all health care 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 would 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 ceased operations, the Corporation would have been required to assist the participants to obtain reinstatement of conventional Medicare and Medicaid benefits and transition participants' care to other providers. There were approximately 127 members covered by the plan in 2013.

Stop-loss insurance premiums of approximately \$167,800 are included in gain on discontinued operations in 2013.

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(13) 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 \$1,464,976 and \$1,491,571 at December 31, 2014 and 2013, 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 \$1,999,200 and \$1,843,504 as of December 31, 2014 and 2013, respectively, to satisfy annuities.

#### **(14) 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. In both 2014 and 2013, the Corporation maintained a letter of credit for \$3.0 million in connection with this self-insurance program. At December 31, 2014 and 2013, the Corporation has recorded an accrued expense of approximately \$4.84 million and \$5.09 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.

#### **(15) 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.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(16) Temporarily Restricted Net Assets**

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

	<b>2014</b>	<b>2013</b>
Trust assets held for the benefit of The Easton Home	\$ 931,201	898,159
Charity care and/or equipment, including pledges receivable		
Endowment	276,191	236,076
Other	2,146,391	1,486,094
Gift annuities	348	880
Contributions receivable from remainder trusts	424,837	367,515
	\$ 3,778,968	2,988,724

Net assets of \$1,595,506 and \$950,886 were released from restriction during 2014 and 2013, respectively, in satisfaction of the above restrictions.

**(17) Permanently Restricted Net Assets**

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

	<b>2014</b>	<b>2013</b>
Investments to be held in perpetuity, the income from which is expendable to support :		
Operations	\$ 2,049,812	2,020,042
Scholarships	69,307	67,307
Charity care and/or equipment	3,123,674	2,947,460
Trust assets held for the benefit of The Easton Home	830,086	830,086
Contributions receivable from remainder trusts	225,706	225,597
Gift annuities	15,155	25,155
Beneficial interest in perpetual trusts	14,607,755	14,494,504
	\$ 20,921,495	20,610,151

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(18) 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

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(18) Endowment (continued)**

The following schedule represents the changes in endowment net assets for the year ended December 31, 2014:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 236,076	5,034,809	5,270,885
Investment return:			
Investment income	86,539	-	86,539
Contributions	-	207,984	207,984
Appropriation of endowment assets for expenditures	<u>(46,424)</u>	<u>-</u>	<u>(46,424)</u>
Endowment net assets, end of year	<u>\$ 276,191</u>	<u>5,242,793</u>	<u>5,518,984</u>

The following schedule represents the changes in endowment net assets for the year ended December 31, 2013:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 270,352	4,931,745	5,202,097
Investment return:			
Investment income	85,055	-	85,055
Contributions	-	137,760	137,760
Appropriation of endowment assets for expenditures	<u>(119,331)</u>	<u>-</u>	<u>(119,331)</u>
Other changes			
Adjustments to prior year	<u>-</u>	<u>(34,696)</u>	<u>(34,696)</u>
Endowment net assets, end of year	<u>\$ 236,076</u>	<u>5,034,809</u>	<u>5,270,885</u>

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(18) Endowment (continued)**

##### **Funds with Deficiencies**

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the 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, 2014 or 2013.

##### **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.

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(18) Endowment (continued)**

##### **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% for both 2014 and 2013. 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 both 2014 and 2013 an allocation of three percent, 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.

#### **(19) 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, 2014 and 2013, retirement plan expense totaled approximately \$1,752,000 and \$1,712,000, respectively.

#### **(20) 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.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (20) Commitments and Contingencies (continued)

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 grants as revenue when received as it is expected that all of the grant award terms will be met.

#### (21) 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, 2014 and 2013. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was \$290,620,116 and \$278,386,056 at December 31, 2014 and 2013, respectively, and its fair value at December 31, 2014 and 2013 approximates \$296,891,596 and \$285,175,386, respectively.

## PRESBYTERIAN SENIOR LIVING

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### (21) Financial Instruments (continued)

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, 2014 and 2013 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

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

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

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

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

An asset 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, 2014 or 2013.

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(21) 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, 2014 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 32,401,235	32,401,235	–	–
Equity securities	42,431,937	42,431,937	–	–
Fixed income securities	19,110,373	19,110,373	–	–
Alternate investments	21,824,952	–	–	21,824,952
Total investments	<u>115,768,497</u>	<u>93,943,545</u>	<u>–</u>	<u>21,824,952</u>
Beneficial interest in perpetual trusts	14,607,755	–	–	14,607,755
Gift annuities	15,503	–	–	15,503
Contributions receivable from remainder trusts	650,543	–	–	650,543
Total assets	<u>\$ 131,042,298</u>	<u>93,943,545</u>	<u>–</u>	<u>37,098,753</u>
Interest rate swaps	<u>\$ (277,664)</u>	<u>–</u>	<u>(277,664)</u>	<u>–</u>

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(21) 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, 2013 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 29,925,407	29,925,407	–	–
Equity securities	44,774,922	44,774,922	–	–
Fixed income securities	18,683,695	18,683,695	–	–
Alternate investments	17,156,288	–	–	17,156,288
Total investments	<u>110,540,312</u>	<u>93,384,024</u>	<u>–</u>	<u>17,156,288</u>
Beneficial interest in perpetual trusts	14,494,504	–	–	14,494,504
Gift annuities	26,035	–	–	26,035
Contributions receivable from remainder trusts	593,112	–	–	593,112
Total assets	<u>\$ 125,653,963</u>	<u>93,384,024</u>	<u>–</u>	<u>32,269,939</u>
Interest rate swaps	<u>\$ (714,302)</u>	<u>–</u>	<u>(714,302)</u>	<u>–</u>

**PRESBYTERIAN SENIOR LIVING**

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**(21) 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:

<b>Description</b>	<b>Alternative Investments</b>	<b>Contributions Receivable from Remainder Trusts</b>	<b>Beneficial Interest in Perpetual Trusts</b>	<b>Gift Annuities</b>
Balance at				
December 31, 2012	\$ 15,665,634	597,391	12,800,949	28,401
Unrealized gains (losses)	1,443,141	(4,279)	1,693,555	(12,366)
Distributions	(3,486,606)	–	–	–
Contributions	3,399,000	–	–	10,000
Realized gains	135,119	–	–	–
Balance at				
December 31, 2013	\$ 17,156,288	593,112	14,494,504	26,035
Unrealized gains (losses)	1,885,529	57,431	113,251	(10,532)
Distributions	(3,821,525)	–	–	–
Contributions	6,553,005	–	–	–
Realized gains	51,655	–	–	–
Balance at				
December 31, 2014	\$ <u>21,824,952</u>	<u>650,543</u>	<u>14,607,755</u>	<u>15,503</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.

## **PRESBYTERIAN SENIOR LIVING**

### Notes to Consolidated Financial Statements

December 31, 2014 and 2013

#### **(22) Subsequent Events**

On February 12, 2015, the Corporation's Board of Trustees agreed to enter into an affiliation agreement with Cathedral Village, a Pennsylvania non-profit corporation in Philadelphia. Under the agreement Cathedral Village will become a controlled affiliate and supported organization of the Corporation.

In March 2015, the Corporation entered into an asset purchase agreement with an unrelated third party to sell the assets of the Woodland Retirement Community for \$11,000,000. The terms of the agreement call for the closing to occur within 90 days after the execution of the asset purchase agreement, which occurred on March 9, 2015.