

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



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PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2011 and 2010, 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 ministry that has served older persons in the name of Christ for the past 85 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 E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

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Independent Auditors' Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

We have audited the accompanying consolidated statements of financial position of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (Corporation) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2011 and 2010, and the changes in its net assets (liabilities), and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 19, Presbyterian Senior Living Services, Inc.'s continued operations are dependent upon the continued support of Presbyterian Senior Living. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.



Carbis Walker LLP
New Castle, Pennsylvania
March 28, 2012

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PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 530,028	130,026
Investments	890,000	950,000
Restricted deposits and funded reserves	1,545,726	1,555,032
Accounts receivable, net	861,682	839,081
Prepaid expenses and other current assets	217,589	184,223
Assets whose use is limited	849,205	986,408
Property and equipment (net of accumulated depreciation of \$24,016,028 and \$22,347,199, respectively)	31,506,193	32,341,619
Assets under capital leases (net of accumulated depreciation of \$12,977 and \$32,263, respectively)	—	10,608
Deferred financing costs (net of accumulated amortization of \$199,716 and \$183,488, respectively)	264,954	281,182
Total assets	<u>\$ 36,665,377</u>	<u>37,278,179</u>

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2011 and 2010

Liabilities and Net Liabilities	2011	2010
Accounts payable	\$ 538,428	1,100,695
Accrued expenses	382,482	463,837
Resident deposits	135,439	112,374
Entrance fee payable	20,349,049	23,424,873
Deferred revenue – entrance fees	2,594,534	2,600,260
Annuities payable	32,635	32,154
Obligations under capital leases	—	10,850
Bonds payable	16,720,000	17,185,000
Due to affiliated entity	19,552,737	16,410,044
Total liabilities	<u>60,305,304</u>	<u>61,340,087</u>
Net (liabilities) assets:		
Unrestricted	(24,172,006)	(24,571,110)
Temporarily restricted	163,975	145,098
Permanently restricted	368,104	364,104
Total net liabilities	<u>(23,639,927)</u>	<u>(24,061,908)</u>
Total liabilities and net liabilities	<u>\$ 36,665,377</u>	<u>37,278,179</u>

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues, gains, and other support:		
Resident services, including amortization of entrance fees of \$544,005 and \$1,318,591, respectively	\$ 12,136,748	12,296,135
Interest and dividend income	80,554	105,328
Realized gains (losses) on investments	75,118	(75,419)
Loss on disposal of property and equipment	(830)	-
Gifts and bequests	4,457	13,277
Net assets released from restrictions	87,082	74,526
	<u>12,383,129</u>	<u>12,413,847</u>
Total operating revenues, gains, and other support		
Expenses:		
Nursing services	2,463,526	2,290,549
Rehabilitation	561,262	348,740
Recreation and special services	427,343	364,305
Pharmacy	79,722	87,824
Social services	54,227	57,506
Physician services	28,284	26,978
Food services	1,763,125	1,743,359
Building operations and maintenance	2,112,947	2,232,711
Housekeeping	360,436	304,158
Laundry and linen	61,928	58,609
General and administrative	1,112,391	1,416,257
Employee benefits	651,448	572,013
Interest	353,763	650,506
Depreciation	1,680,408	1,674,679
Amortization	16,228	16,229
	<u>11,727,038</u>	<u>11,844,423</u>
Total expenses		
Operating income	656,091	569,424
Increase in fair value of interest rate swap	-	242,610
	<u>656,091</u>	<u>812,034</u>
Excess of operating revenues, gains and other support over expenses		
Other changes:		
Unrealized (loss) gain on investments	(256,987)	314,132
	<u>399,104</u>	<u>1,126,166</u>
Increase in unrestricted net liabilities		

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Temporarily restricted net assets:		
Contributions, gifts and bequests	85,445	49,644
Interest and dividend income	20,514	19,635
Net assets released from restrictions	<u>(87,082)</u>	<u>(74,526)</u>
Change in temporarily restricted net assets	<u>18,877</u>	<u>(5,247)</u>
Permanently restricted net assets:		
Contributions	<u>4,000</u>	<u>26,254</u>
Change in permanently restricted net assets	<u>4,000</u>	<u>26,254</u>
Change in net (liabilities) assets	421,981	1,147,173
Net (liabilities) assets, beginning of year (Note 2)	<u>(24,061,908)</u>	<u>(25,209,081)</u>
Net (liabilities) assets, end of year	<u>\$ (23,639,927)</u>	<u>(24,061,908)</u>

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net liabilities	\$ 421,981	1,147,173
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:		
Depreciation	1,680,408	1,674,679
Provision for bad debt	(27,156)	251,785
Proceeds from entrance fees and deposits	4,134,320	5,647,227
Amortization of entrance fees	(544,005)	(1,318,591)
Change in fair value of interest rate swap	—	(242,610)
Unrealized loss (gain) on investments	256,987	(314,132)
Realized (gains) losses on investments	(75,118)	75,419
Realized loss on disposal of property and equipment	830	—
Contributions restricted for long-term purposes	(4,000)	(26,254)
Amortization	16,228	16,229
Change in assets and liabilities:		
Accounts receivable	4,555	(290,949)
Prepaid expenses and other current assets	(33,366)	(18,039)
Accounts payable	(562,267)	420,888
Accrued expenses	(81,355)	98,911
Net cash provided by operating activities	<u>5,188,042</u>	<u>7,121,736</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(835,204)	(1,768,761)
Purchases of investments	(2,877,407)	(1,164,532)
Proceeds from sale of investments	2,902,047	997,766
Net cash used in investing activities	<u>(810,564)</u>	<u>(1,935,527)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(3,572,976)	(4,322,053)
Change in entrance fee payable	(3,075,824)	(3,336,061)
Principal payments and redemptions of bonds	(465,000)	(435,000)
Repayments on note payable	—	(1,108,666)
Repayments on capital lease obligations	(10,850)	(14,425)
Contributions restricted for long-term purposes	4,000	26,254
Change in annuities payable	481	4,803
Change in due to affiliated entity	3,142,693	4,080,775
Net cash used in financing activities	<u>(3,977,476)</u>	<u>(5,104,373)</u>
Net increase in cash and cash equivalents	400,002	81,836
Cash and cash equivalents, beginning of year	<u>130,026</u>	<u>48,190</u>
Cash and cash equivalents, end of year	\$ <u>530,028</u>	<u>130,026</u>

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 116 independent living cottages, 85 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The facility covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999 whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) 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.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(b) Basis of Accounting (continued)

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.

(c) Income Taxes

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

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

The Corporation's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2008 and 2009 and 2010 remain subject to examination by the Internal Revenue Service.

(d) 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.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(e) ***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 the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or 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 2011 and 2010, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) ***Investments***

Investments in marketable equity 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. 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, 2011 and 2010, 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.

Investment income consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 101,068	124,963
Realized gains (losses) on investments	75,118	(75,419)
Unrealized (loss) gain on investments	<u>(256,987)</u>	<u>314,132</u>
	<u>\$ (80,801)</u>	<u>363,676</u>

Investment expense of \$10,805 and \$10,007, for the years ended December 31, 2011 and 2010, respectively, have been included in general and administrative expenses.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(g) *Accounts Receivable*

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

	<u>2011</u>	<u>2010</u>
Total accounts receivable	\$ 1,011,778	1,125,835
Less: allowance for doubtful accounts	<u>(150,096)</u>	<u>(286,754)</u>
Net accounts receivable	<u>\$ 861,682</u>	<u>839,081</u>

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

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

(h) *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.

(i) *Assets Whose Use is Limited*

Assets whose use is limited are measured at fair value in the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(j) Property and Equipment

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

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(k) Derivatives and Hedging Activities

The Corporation utilized an interest rate swap agreement to hedge variable interest rates but elected not to elect hedge accounting for this agreement.

The Corporation's interest rate swap is carried as a liability at fair value as determined by a third party. Changes in fair value were reported in the consolidated statements of operations and changes in net assets (liabilities) as a component of the changes in net assets (liabilities).

The interest rate swap agreement expired on July 1, 2010, resulting in a gain of \$242,610.

(l) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be \$16,229 for each of the next five years.

(m) 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 upon occupancy of the related independent living units.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(n) *Deferred Revenue – Entrance Fees*

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

Effective January 1, 2010, the Corporation changed its method of amortizing refundable entrance fees and the refundable portion of resident entrance fees. Previously, the guaranteed entrance fee refundable was amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. To better reflect economic reality, the Corporation has discontinued the amortization of the guaranteed refundable portion of entrance fees and the fully guaranteed refundable portion is reflected as a liability on the consolidated statements of financial position.

As of December 31, 2011 and 2010, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was \$20,349,049 and \$23,424,873, respectively.

(o) *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. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(p) 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 (liabilities) 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.

(q) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

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

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 existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 18% and 14% of consolidated revenues for 2011 and 2010, respectively. Medicare and Medicaid receivables represent approximately 23% and 54% of consolidated accounts receivable at December 31, 2011 and 2010, respectively.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(r) Charity Care

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>2011</u>	<u>2010</u>
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	\$ —	—
Additional benevolent care provided at amounts less than pre-established charges for private pay services	457,692	347,449
Giving and income designated for resident financial support	78,445	40,953

(s) Classification of Expenses

	<u>2011</u>	<u>2010</u>
Program activities	\$ 10,614,647	10,428,166
General and administrative	1,106,452	1,412,460
Fundraising	5,939	3,797
	<u>\$ 11,727,038</u>	<u>11,844,423</u>

(t) Fundraising Expense

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

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(u) Advertising

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2011 and 2010, were \$21,043 and \$80,915, respectively.

(v) 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.

(w) Operating Income

The consolidated statements of operations and changes in net assets (liabilities) include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include increase in the fair value of interest rate swap.

(x) Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) assets which are excluded from this measure are unrealized (loss) gain on investments.

(y) Consolidated Statements of Cash Flows

Interest paid during the years ended December 31, 2011 and 2010 were \$358,703 and \$693,689, respectively.

(z) Subsequent Events

The Corporation has adopted the standard relating to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through March 28, 2012, which is the date the consolidated financial statements were released.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(3) Investments

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

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 219,632	219,632	282,574	262,565
Equity securities	2,294,021	2,304,232	2,496,646	2,277,980
Fixed income securities	771,278	772,108	712,220	691,162
Totals	\$ 3,284,931	3,295,972	3,491,440	3,231,707
Less:				
Restricted deposits and funded reserves (note 5)	(1,545,726)		(1,555,032)	
Assets whose use is limited (note 6)	(849,205)		(986,408)	
Total investments	\$ 890,000		950,000	

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had twenty-four mutual funds as of December 31, 2011. As of December 31, 2011, thirteen mutual funds had a market value below cost. The Corporation had twenty-one mutual funds as of December 31, 2010. As of December 31, 2010, two mutual funds had a market value below cost.

Thirteen mutual funds had a market value that had been below cost for less than a year as of December 31, 2011. In total, its market value of the loss was less than six percent below cost for 2011. One mutual fund had a market value that had been below cost for less than a year as of December 31, 2010. In total, its market value of the loss was less than three percent below cost for 2010.

No mutual funds had a market value that had been below cost for more than one year as of December 31, 2011. One mutual fund had a market value that had been below cost for more than one year as of December 31, 2010. In total, its market value was sixteen percent below cost for 2010.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(3) Investments (continued)

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

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mututal funds	\$ 1,093,437	(62,418)	—	—	1,093,437	(62,418)
Total temporarily impaired investments	\$ <u>1,093,437</u>	<u>(62,418)</u>	<u>—</u>	<u>—</u>	<u>1,093,437</u>	<u>(62,418)</u>

A summary of investments with fair values below cost as of December 31, 2010 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>
Mututal funds	\$ 86,046	(1,969)	71,083	(14,094)	157,129	(16,063)
Total temporarily impaired investments	\$ <u>86,046</u>	<u>(1,969)</u>	<u>71,083</u>	<u>(14,094)</u>	<u>157,129</u>	<u>(16,063)</u>

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the facility's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. For 2011 and 2010, the Corporation was only required to pay the fee for the bookkeeper and human resources staff. This amounted to \$97,788 and \$95,340, as of December 31, 2011 and 2010, respectively, and is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(4) Related Party Transactions (continued)

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

At December 31, 2011 and 2010 the amounts payable to Presbyterian Senior Living, were \$19,552,737 and \$16,410,044, respectively. Under the Management Agreement, this is included in due to affiliated entity.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2011 and 2010, the Corporation paid Prelude approximately \$91,320 and \$116,796, respectively, for information services provided by Prelude, of which \$2,697 and \$8,253 is included in accounts payable as of December 31, 2011 and 2010, respectively.

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. For the year ended December 31, 2011 the fund balance was \$1,545,726, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2012 based on the following computation:

Total 2010 operating expenses:	\$	11,844,423
Less: Depreciation		(1,674,679)
Amortization		<u>(16,229)</u>
Total expenses subject to operating reserve computation	(A)	10,153,515
Operating reserve requirement – 15% of (A)		1,523,027
Operating reserve fund, December 31, 2011		<u>(1,545,726)</u>
Contributions required for year ended December 31, 2012	\$	<u><u>(22,699)</u></u>

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(6) Assets Whose Use is Limited

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

	<u>2011</u>	<u>2010</u>
Designated for renovation and charity care	\$ 655,335	734,200
Other reserves required by financing arrangement	<u>193,870</u>	<u>252,208</u>
Assets whose use is limited	<u>\$ 849,205</u>	<u>986,408</u>

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the 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.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(8) Property and Equipment

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

	2011		2010	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 14,800,000	—	14,800,000	—
Land improvements	2,959,652	1,562,367	2,745,744	1,431,954
Buildings and improvements	34,516,176	20,251,005	34,022,544	18,794,998
Departmental equipment, furniture and fixtures	2,277,993	1,962,269	2,200,788	1,886,325
Vehicles	263,493	240,387	265,293	233,922
Construction-in-progress	704,907	—	654,449	—
	\$ 55,522,221	24,016,028	54,688,818	22,347,199
Net book value		\$ 31,506,193		\$ 32,341,619

Land consists of 483 acres, of which 60 acres are utilized for the facility. The remaining land is leased to independent parties and may be available for future expansion. Commitments for future construction are approximately \$0 and \$69,600 as of December 31, 2011 and 2010, respectively.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(9) Bonds payable

Bonds payable as of December 31 consisted of the following:

	<u>2011</u>	<u>2010</u>
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.13% and 0.43% at December 31, 2011 and 2010, respectively, collateralized by letter of credit	\$ 3,340,000	3,340,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.21% and 0.29% at December 31, 2011 and 2010 respectively, collateralized by letter of credit	<u>13,380,000</u>	<u>13,845,000</u>
Total bonds payable	<u>\$ 16,720,000</u>	<u>17,185,000</u>

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2011. These covenants were not met as of December 31, 2010. However, in March 2011, the Corporation replaced the existing letter of credit with a new letter of credit issued through a financial institution. This letter of credit is for a three year period and expires in March 2014. The Corporation did not obtain a waiver for the 2010 covenant violations as the new letter of credit was obtained prior to the issuance of the Corporation's consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(9) Bonds payable (continued)

Maturities for the five years subsequent to December 31, 2011 and thereafter are as follows:

<u>Years ended December 31,</u>	
2012	\$ 500,000
2013	535,000
2014	570,000
2015	610,000
2016	650,000
Thereafter	<u>13,855,000</u>
	<u>\$ 16,720,000</u>

The Corporation has an outstanding letter of credit at December 31, 2011 as required by the bonds. This letter of credit requires the Corporation to pay an annual fee approximating 1.55% of the principal balance of bonds outstanding. This letter of credit expires March 31, 2014 and is collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Note Payable

The Corporation had available a line of credit with a financial institution. The line of credit expired on June 30, 2010, and was not renewed.

(11) Leases

The Corporation was obligated under capital leases for computer equipment that expired in 2011. At December 31, 2011 and 2010, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	<u>2011</u>	<u>2010</u>
Computer equipment	\$ 12,977	42,871
Accumulated amortization	<u>(12,977)</u>	<u>(32,263)</u>
	<u>\$ —</u>	<u>10,608</u>

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(11) Leases (continued)

Amortization expense for the assets held under capital leases was included in depreciation expense in the consolidated statements of operations and changes in net assets (liabilities).

The Corporation leases certain equipment under operating leases, which expire at various dates through 2015. The future minimum lease payments under these operating leases are as follows:

2012	\$	11,780
2013		8,332
2014		7,462
2015		<u>1,561</u>
	\$	<u><u>29,135</u></u>

Rental expense under operating leases was \$36,651 and \$17,061 for the years ended December 31, 2011 and 2010, respectively.

(12) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was \$32,635 and \$32,154 at December 31, 2011 and 2010, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of \$139,000 and \$137,000 as of December 31, 2011 and 2010, respectively, to satisfy annuities.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(13) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers 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, 2011 and 2010, retirement plan expense totaled approximately \$112,100 and \$54,100, respectively.

(14) Medical Malpractice Claims Coverage

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

(15) Temporarily Restricted Net Assets

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

Endowment:	<u>2011</u>	<u>2010</u>
Benevolent Care	\$ 144,455	126,029
Scholarships	5,471	4,881
	<u>149,926</u>	<u>130,910</u>
Scholarships	5,222	6,448
Other	8,827	7,740
	<u>\$ 163,975</u>	<u>145,098</u>

Net assets of \$87,082 and \$74,526 were released from restriction during 2011 and 2010, respectively, in satisfaction of the above restrictions.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(16) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31 are restricted for:

	<u>2011</u>	<u>2010</u>
Benevolent Care	\$ 326,253	326,253
Scholarship	<u>41,851</u>	<u>37,851</u>
	<u>\$ 368,104</u>	<u>364,104</u>

(17) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Organization 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 SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(17) Endowment (continued)

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 130,910	364,104	495,014
Investment return:			
Investment income	19,016	–	19,016
Contributions	–	4,000	4,000
Appropriation of endowment assets for expenditures	<u>–</u>	<u>–</u>	<u>–</u>
Endowment net assets, end of year	\$ <u>149,926</u>	<u>368,104</u>	<u>518,030</u>

The following schedule represents the changes in endowment net asset for the year ended December 31, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 112,637	337,850	450,487
Investment return:			
Investment income	18,273	–	18,273
Contributions	–	26,254	26,254
Appropriation of endowment assets for expenditures	<u>–</u>	<u>–</u>	<u>–</u>
Endowment net assets, end of year	\$ <u>130,910</u>	<u>364,104</u>	<u>495,014</u>

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(17) 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, 2011 and 2010.

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 SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(17) 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 4.0% for 2011 and 2010. 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 2011 and 2010 an allocation of four 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.

(18) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

Long-term debt: Long-term debt is carried at cost in the consolidated statements of financial position for bonds payable and mortgages payable at December 31, 2011 and 2010. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was \$16,720,000 and \$17,185,000 at December 31, 2011 and 2010, respectively, and its fair values at December 31, 2011 and 2010 approximates \$15,789,970 and \$15,660,670, respectively.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(18) Financial Instruments (continued)

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, 2011 and 2010 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 under these standards 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.

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

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 219,632	219,632	–
Equity securities	2,294,021	2,294,021	–
Fixed income securities	771,278	771,278	–
Total investments	<u>\$ 3,284,931</u>	<u>3,284,931</u>	<u>–</u>

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(18) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 282,574	282,574	–
Equity securities	2,496,646	2,496,646	–
Fixed income securities	712,220	712,220	–
Total investments	<u>\$ 3,491,440</u>	<u>3,491,440</u>	<u>–</u>

(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.

(19) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2011 and 2010, the Corporation carried unrestricted net liabilities balances of \$24,172,006 and \$24,571,110, respectively. The unrestricted net liabilities are reflective of the amount due to affiliated entity of \$19,552,737 and \$16,410,044.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.