PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Financial Statements

December 31, 2015 and 2014

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN HOMES OBLIGATED GROUP

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the combined financial statements of the Presbyterian Homes Obligated Group as of December 31, 2015 and 2014, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Combined financial statements report our financial positions and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these combined financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Combined financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and 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 109 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

Independent Auditor's Report

The Board of Trustees
Presbyterian Homes Obligated Group

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group) which comprise the combined statements of financial position as of December 31, 2015 and 2014, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the combined 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 entities' 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 combined 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, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Presbyterian Homes Obligated Group as of December 31, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 20 to the combined financial statements, the 2015 combined financial statements have been reissued to correct misstatements. Our opinion is not modified with respect to this matter.

Basis of Combination

We draw attention to Note 2(a) of the combined financial statements, which describes the basis of combination. The combined financial statements are prepared by the Presbyterian Homes Obligated Group to include only those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-eighth supplemental indenture dated October 1, 2015. The consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates, have been issued to its Board of Trustees as the consolidated financial statements of the primary reporting entity.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
March 31, 2016, except for Note 20 as to
which the date is August 8, 2016

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	2,349,680	2,067,430
Investments		82,266,131	78,163,011
Statutory liquid reserves		10,616,069	8,593,338
Accounts receivable, net		22,776,404	21,635,230
Prepaid expenses and other current assets		3,098,618	3,118,266
Assets whose use is limited		8,634,309	11,511,690
Assets whose use is limited, construction funds		15,191,987	3,870,943
Pledges receivable, net		1,144,236	1,072,685
Property and equipment (net of accumulated depreciation of $220,782,978 and $211,785,744, respectively)		315,905,027	261,146,789
Assets under capital leases (net of accumulated amortization of $713,726 and $515,699, respectively)		414,381	490,722
Due from affiliates, net		64,614,509	57,455,739
Funds held in trust by others		16,994,815	15,273,801
Deferred financing costs (net of accumulated amortization of $1,409,937 and $2,138,990, respectively)		1,958,442	2,218,651
Goodwill		1,836,908	–
Other assets		23,934	24,182
Total assets	$	547,825,450	466,642,477

See accompanying notes to combined financial statements.

(continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2015 and 2014

Liabilities and Net Assets		**2015**	**2014**
Accounts payable	$	14,406,612	9,078,556
Accrued expenses		14,111,758	13,095,288
Note payable		–	4,980,267
Lines of credit		14,845,170	15,561,035
Accrued interest		842,414	613,787
Resident deposits		3,818,037	1,183,678
Entrance fee payable		17,887,620	20,217,031
Deferred revenue - entrance fees		83,663,364	57,566,872
Fair value of interest rate swaps		80,945	277,664
Annuities payable		936,636	959,356
Long-term debt:			
Obligations under capital leases		449,002	500,001
Long-term debt		230,691,466	201,627,519
Total liabilities		381,733,024	325,661,054
Net assets:			
Unrestricted		140,779,034	117,137,839
Temporarily restricted		3,136,629	3,530,485
Permanently restricted		22,176,763	20,313,099
Total net assets		166,092,426	140,981,423
Total liabilities and net assets	$	547,825,450	466,642,477

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

	2015	2014
Operating revenues, gains and other support:		
Resident services, including amortization of entrance fees of $13,043,760 and $8,873,551, respectively	$ 185,130,290	159,781,564
Interest and dividend income	2,762,657	3,286,166
Realized gains on investments	49,107	1,590,581
(Loss) gain on sale of property and equipment and other assets	(19,798)	19,057
Contributions, gifts and bequests	535,941	720,213
Net assets released from restrictions	2,520,767	1,341,281
Total operating revenues, gains and other support	190,978,964	166,738,862
Expenses:		
Nursing services	47,889,445	43,227,647
Rehabilitation	13,027,500	8,051,819
Recreation and special services	5,066,328	4,760,304
Pharmacy	3,317,339	2,721,561
Social services	802,450	663,363
Physician services	548,599	388,363
Food services	19,987,630	17,157,104
Building operations and maintenance	19,823,716	17,040,496
Housekeeping	3,929,454	3,439,401
Laundry and linen	1,198,398	1,160,426
General and administrative	29,610,936	23,759,136
Employee benefits	11,535,824	12,233,134
Interest	6,519,370	5,693,784
Depreciation	15,359,528	12,804,034
Amortization	204,636	163,547
Fundraising and investment fees	1,015,637	951,391
Total expenses	179,836,790	154,215,510
Income from continuing operations	11,142,174	12,523,352
Discontinued operations:		
Discontinued operations, net of gain of $8,278,206 in 2015 and gain of $6,460,917 in 2014	7,962,761	5,483,987
Gain on discontinued operations	7,962,761	5,483,987
Operating income	19,104,935	18,007,339
Change in fair value of interest rate swaps	196,719	436,638
Loss on early extinguishment of debt	(1,867,934)	(108,203)
Excess of operating revenues, gains and other support over expenses	17,433,720	18,335,774
Other changes:		
Transfer from parent	–	(247,286)
Reserve for related party receivable	–	(10,000,000)
Unrealized losses on investments	(3,084,375)	(839,303)
Total other changes	(3,084,375)	(11,086,589)
Net assets, as adjusted for affiliation	9,291,850	–
Change in unrestricted net assets	23,641,195	7,249,185

See accompanying notes to combined financial statements.

(continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

	2015	2014
Temporarily restricted net assets:		
Contributions, gifts and bequests	1,482,948	1,956,949
Interest and dividend income	75,125	71,044
Unrealized (loss) gain on investments	(68,300)	72,120
Asset adjustment for affiliation	637,138	–
Net assets released from restrictions	(2,520,767)	(1,341,281)
Change in temporarily restricted net assets	(393,856)	758,832
Permanently restricted net assets:		
Contributions, gifts and bequests	359,340	153,856
Asset adjustment for affiliation	2,424,292	–
Change in fair value of funds held in trust by others	(919,968)	68,328
Change in permanently restricted net assets	1,863,664	222,184
Change in net assets	25,111,003	8,230,201
Net assets, beginning of year	140,981,423	132,751,222
Net assets, end of year	$ 166,092,426	140,981,423

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	25,111,003	8,230,201
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Changes in net assets resulting from affiliation		(12,353,280)	–
Depreciation		15,359,528	12,804,034
Provision for bad debt		2,618,536	1,323,939
Reserve for related party receivable		–	10,000,000
Proceeds from non-refundable entrance fees and deposits		26,049,530	17,832,494
Amortization of entrance fees		(13,043,760)	(8,873,551)
Loss on early extinguishment of debt		1,867,934	108,203
Change in fair value of interest rate swaps		(196,719)	(436,638)
Unrealized losses on investments and change in fair value of funds held in trust by others		4,072,643	698,855
Realized gains on investments		(49,107)	(1,590,581)
Loss (gain) on sale of property and equipment and other assets		19,798	(19,057)
Contributions restricted for long-term purposes		(359,340)	(153,856)
Gain on discontinued operations		(7,962,761)	(5,483,987)
Amortization of deferred costs		207,872	170,663
Amortization of bond discount		(3,236)	(7,116)
Changes in assets and liabilities:			
Increase in accounts receivable		(2,654,099)	(4,969,576)
Increase in pledges receivable		(19,588)	(893,326)
Decrease (increase) in other assets		574,768	(276,689)
Increase (decrease) in accounts payable		5,111,151	(44,809)
Decrease in accrued expenses		(2,003,208)	(2,139,785)
Net cash provided by operating activities		42,347,665	26,279,418
Cash flows from investing activities:			
Acquisition of property and equipment		(43,000,950)	(27,856,405)
Net proceeds from sale of property and equipment		10,811,282	9,310,000
Cash acquired in affiliation		84,765	–
Purchases of investments		(68,218,744)	(41,123,729)
Proceeds from sale of investments		64,143,697	39,319,412
Due from affiliates		(7,158,770)	(2,887,561)
Net cash used in investing activities		(43,338,720)	(23,238,283)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(4,628,272)	(2,792,690)
Change in entrance fee payable		(2,329,411)	(411,454)
Principal payments on and redemptions of long-term debt		(8,835,641)	(8,906,681)
Proceeds from issuance of long-term debt		77,000,000	19,933,000
Refunding, refinancing or payoff of long-term debt		(46,395,000)	(20,000,000)
(Purchase) sale of treasury bonds		(7,569,497)	10,000
Financing costs incurred		(539,622)	(85,017)
Net borrowings (repayments) of notes payable and lines of credit		(5,696,132)	9,120,859
Borrowings through capital leases		88,313	281,577
Repayments on capital leases		(158,053)	(227,423)
Contributions restricted for long-term purposes		359,340	153,856
(Decrease) increase in annuities payable		(22,720)	34,977
Net cash provided by (used in) financing activities		1,273,305	(2,888,996)
Net increase in cash and cash equivalents		282,250	152,139
Cash and cash equivalents, beginning of year		2,067,430	1,915,291
Cash and cash equivalents, end of year	$	2,349,680	2,067,430
Supplemental schedule of non-cash investing activities			
Increase in goodwill by decrease in property and equipment upon affiliation	$	1,836,908	–

See accompanying notes to combined financial statements.

(1) General Information

The Presbyterian Homes Obligated Group (the Obligated Group) consists of the following not-for-profit corporations: Presbyterian Homes, Inc. (Pres Homes), Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Quincy Retirement Community (QRC), The Long Community, Inc. (TLC), and PHI Investment Management Services, Inc. (PIMSI). In June 2015, Cathedral Village (CA) was added to the Obligated Group (Note 7). Between all the members of the Obligated Group, they own, operate and manage twelve continuing care retirement communities, three stand-alone independent living facilities, and two stand-alone personal care homes.

The Obligated Group is governed by the Board of Trustees of PHI, doing business as Presbyterian Senior Living. Presbyterian Senior Living is the parent organization for the members of the Obligated Group.

During 2014, the PHI Board of Trustees approved the sale of Sycamore Manor Health Center, a stand-alone skilled nursing facility within Presbyterian Homes, Inc. On September 1, 2014, the Obligated Group sold Sycamore Manor Health Center to TL Management. During 2015, the PHI Board of Trustees approved the sale of Woodland Retirement, a continuing care retirement community within PHPH. On June 1, 2015, the Obligated Group sold Woodland Retirement Community to 18889 Croghan Pike LLC.

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

	Total	Pres Homes	PHPH	QRC	TLC	CA
Nursing beds	1,096	578	251	134	—	133
Personal care units	463	308	91	32	32	—
Independent living units	1,431	743	113	184	108	283
Total	2,990	1,629	455	350	140	416

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and only include those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-eighth supplemental indenture dated October 1, 2015. Requirements of the master trust indenture preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These combined financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Obligated Group as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

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 Obligated Group and all its members 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 Obligated Group 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 combined 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 combined financial statements.

The Obligated Group is part of a consolidated federal Exempt Organization Business Income Tax Return, for which the years ended December 31, 2012, 2013, and 2014, remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America as set forth in the master trust indenture requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

(e) Cash and Cash Equivalents

The Obligated Group considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the combined statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Obligated Group's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. At times during 2015 and 2014, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

(f) 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 combined 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, 2015 and 2014, 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 (loss) consisted of the following:

		2015	2014
Interest and dividends	$	2,837,782	3,357,210
Realized gains on investments		49,107	1,590,581
Unrealized losses on investments and funds held in trust by others		(4,072,643)	(698,855)
	$	(1,185,754)	4,248,936

Investment expenses of $427,210 and $321,857 for the years ended December 31, 2015 and 2014, respectively, have been included in fundraising and investment fees on the combined statements of operations and changes in net assets.

(g) Accounts Receivable

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

		2015	2014
Total accounts receivable	$	27,012,877	24,518,652
Less: allowance for doubtful accounts		(4,236,473)	(2,883,422)
Net accounts receivable	$	22,776,404	21,635,230

Receivables are considered past due when payments have not been received by the Obligated Group 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.

(h) Assets Whose Use is Limited

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

(i) Pledges Receivable

The Obligated Group records material pledges due in more than one year at the net present value less a discounted uncollectable amount.

		2015	2014
Pledges receivable	$	1,209,170	1,267,975
Less: unamortized discount		(22,707)	(28,270)
Subtotal		1,186,463	1,239,705
Less: allowance for uncollectables		(42,227)	(167,020)
Net pledges receivable	$	1,144,236	1,072,685

(continued)

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2015 are due as follows:

Amounts due in:		
Less than one year	$	832,307
One to five years		376,863
	$	1,209,170

(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 Obligated Group's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

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 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 $898,730 and $1,096,780 was capitalized in 2015 and 2014, respectively.

(l) Funds Held in Trust by Others

The members of the Obligated Group have been named as a beneficiary of several trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the Obligated Group is notified of the trust's existence. The Obligated Group receives the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trust are reported as investment income, increasing unrestricted net assets.

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

(continued)

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

Also included in funds held in trust by others are gift annuities 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 is as follows:

		2015	2014
Beneficial interest in perpetual trusts	$	16,327,200	14,607,755
Contributions receivable from remainder trusts		652,092	650,543
Gift annuities		15,523	15,503
	$	16,994,815	15,273,801

(m) Derivatives and Hedging Activities

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

The Obligated Group's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the combined statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2015 and 2014, an adjustment to the liability was recorded causing a gain each year of $196,719 and $436,638, respectively. These adjustments represent the decrease in the liability of the interest rate swaps.

(n) Deferred Financing Costs

The Obligated Group has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. The Obligated Group incurred financing costs of $539,622 and $85,017 for the years ended 2015 and 2014, respectively. During 2015, the Obligated Group refunded $774,634 in financing costs, which is included in loss on early extinguishment of debt for the year ended December 31, 2015. Amortization expense is expected to be $172,751, $172,751, $166,785, $144,001 and $135,830 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.

(continued)

(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 combined statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related units.

(q) Deferred Revenue – Entrance Fees

The Obligated Group follows the FASB accounting standards update regarding refundable entrance fees. This standard was issued to clarify the reporting for refundable advanced fees received by continuing care retirement communities. This guidance clarifies 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 Obligated Group does not amortize the guaranteed refundable portion of the entrance fees. This portion of the entrance fee is reflected as a liability on the combined statements of financial position. The amount of entrance fees guaranteed refundable to residents at December 31, 2015 and 2014 under contractual refund provisions was approximately $17,888,000 and $20,217,000, respectively.

(r) Obligation to Provide Future Service

The Obligated Group periodically calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that with the balance of deferred revenue - entrance fees. If the present value of the net cost of future services and the use of facilities exceeds deferred revenue - entrance fees, a liability is recorded with the corresponding change to income. As a result of the calculating using a discount rate of 5.5%, the present value of the net cost of future services and use of facilities did not exceed deferred revenue - entrance fees; accordingly, no obligation was recorded at December 31, 2015 or 2014.

(s) Goodwill

Goodwill represents the excess of appraised value over the book value of the assets of Cathedral Village at the time of the affiliation. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of the goodwill may not be recoverable. The Obligated Group qualitatively assesses goodwill for impairment prior to completing a quantitative analysis of potential goodwill impairment. Under the qualitative approach, the Obligated Group assesses the likelihood that the fair value is greater than the carrying value. If the Obligated Group determines that it is more likely than not that the fair value is greater than the carrying value, then the quantitative analysis is not required. No impairment was recognized in the year ended December 31, 2015 as the Obligated Group concluded it was more likely than not that the fair value exceeded the carrying value.

(continued)

(t) Statutory Liquid Reserves

The Continuing Care Provider Registration and Disclosure Act in Pennsylvania requires a working capital reserve equivalent to the greater of the total debt service payments due during the next 12 months on account of any loan or long-term financing, or 10% of the projected annual operating expenses of the Obligated Group exclusive of depreciation. The reserve is computed on only the proportional share of financing or operating expenses that are applicable to Residence and Care Agreements.

In addition to the statutory liquid reserves, deposit and entrance fee payments of approximately $3,800,000, received by the Obligated Group prior to the date the resident is permitted to occupy the living unit are also included in the required statutory liquid reserves on the accompanying combined statements of financial position.

(u) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Obligated Group 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 Obligated Group in perpetuity. The interest and dividend income from these restricted assets is used for the charitable purpose.

(v) Donor Restrictions

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

The Obligated Group 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 Obligated Group reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions, including unconditional promises to give, are recognized as revenues when the promise to give is first made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

(continued)

(w) Resident Service Revenue and Business Concentration

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

The Obligated Group'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 consideration 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% and 40% of revenues for 2015 and 2014, respectively. Medicare and Medicaid receivables represent approximately 43% and 50% of accounts receivable at December 31, 2015 and 2014, respectively.

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

Nursing services provided to Pennsylvania 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 Obligated Group's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by DHS on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2015 the rates for July 1, 2015 through December 31, 2015 have not been finalized. Revenues have been accrued based on proposed rates for these periods.

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, 2015 and 2014, the Obligated Group received or will receive approximately $2,100,000 and $2,700,000, respectively, in additional revenue for the net effect of this assessment and supplement.

(x) Charity Care

The Obligated Group follows the FASB accounting standards update that provides improved disclosure about charity care. The amount of charity care disclosed in the combined financial statements is measured based on the direct and indirect costs of providing charity care services. If the costs cannot be specifically attributed to services provided to charity care patients, reasonable techniques are used to estimate these costs, and these techniques are disclosed. Any funds received to offset or subsidize charity care services are also disclosed.

The Obligated Group's policy is to provide services without charge, or at amounts less than its established rates to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financials resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Obligated Group also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

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

		2015	2014
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$	4,271,977	3,772,881
Additional benevolent care provided at amounts less than pre-established charges for private pay services		24,760,075	25,938,448
Giving and income designated for resident financial support		957,136	1,016,622

(y) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2015 and 2014 was $484,426 and $437,623, respectively.

(z) Classification of Expenses

		2015	2014
Program activities	$	150,225,854	130,456,374
General and administrative		29,022,509	23,129,602
Fundraising		588,427	629,534
	$	179,836,790	154,215,510

(continued)

(aa) Fundraising Expenses

Fundraising expenses incurred by the Obligated Group are included in fundraising and investment fees on the combined statements of operations and changes in net assets.

(ab) Operating Income

The combined 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 fair value of interest rate swaps and loss on early extinguishment of debt.

(ac) Performance Indicator

The Obligated Group measures the performance of its operations using the combined statements of operations and changes in net assets, which includes a performance indicator of operations labeled as "excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net assets which are excluded from this measure are: transfer from parent, reserve for related party receivable unrealized losses on investments, and net assets, as adjusted for affiliation.

(ad) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2015 and 2014 was $7,205,353 and $6,756,878, respectively.

(ae) Reclassifications

Certain reclassifications have been made to the 2014 combined financial statements to conform to the presentation of 2015.

(af) Subsequent Events

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

The Obligated Group has evaluated subsequent events through March 31, 2016, which is the date the combined financial statements were issued, except for Note 20, which the date is August 8, 2016.

(continued)

(3) Investments

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

	2015		2014	
	Fair value	**Cost**	**Fair value**	**Cost**
Money market funds	$ 33,622,259	33,622,259	23,388,778	23,388,778
Marketable equity securities	2,046,681	1,630,085	–	–
Equity securities	41,854,295	40,593,789	38,794,503	36,228,673
Fixed income securities	14,631,289	15,112,094	18,130,749	18,462,793
Alternate investments	24,553,972	16,499,068	21,824,952	14,666,756
Totals	116,708,496	107,457,295	102,138,982	92,747,000
Less:				
Assets whose use is limited (Note 5)	(23,826,296)		(15,382,633)	
Statutory liquid reserves	(10,616,069)		(8,593,338)	
Total investments	$ 82,266,131		78,163,011	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group had eighty-six mutual funds, eight alternative investments, sixty-three stocks and several other fixed income securities as of December 31, 2015. The Obligated Group had twenty-one mutual funds, nine alternative investments and several other fixed income securities as of December 31, 2014.

As of December 31, 2015, fifty-one mutual funds and nineteen stocks had a market value that had been below cost for less than a year. In total, its market value was eight percent below cost. 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 two percent below cost.

Eleven mutual funds had a market value that had been below cost for more than a year as of December 31, 2015. In total, its market value was 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, its market value was less than six percent below cost.

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2015 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 29,495,573	(2,591,267)	6,763,155	(224,560)	36,258,728	(2,815,827)
Equity securities	517,115	(44,048)	–	–	517,115	(44,048)
Total temporarily impaired investments	$ 30,012,688	(2,635,315)	6,763,155	(224,560)	36,775,843	(2,859,875)

A summary of investments with fair values below cost as of December 31, 2014 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 16,802,231	(344,922)	8,464,687	(505,171)	25,266,918	(850,093)
Total temporarily impaired investments	$ 16,802,231	(344,922)	8,464,687	(505,171)	25,266,918	(850,093)

(4) Related Party Transactions

The Obligated Group members incur a management fee payable to their parent organization under a management agreement whereby Presbyterian Senior Living provides the Obligated Group with various management and administrative services to each of the Obligated Group's operating facilities. The Obligated Group members also incur certain operating expenses under the management agreement that are comprised primarily of the salaries and benefits of certain key management personnel provided to the Obligated Group by the parent organization. During the years ended December 31, 2015 and 2014, the Obligated Group incurred management fees and other expenses under the management agreement totaling $14,942,317 and $14,101,397, respectively, which is included in general and administrative expenses and discontinued operations on the combined statements of operations and changes in net assets.

(4) Related Party Transactions (continued)

The Obligated Group is an irrevocable guarantor of all the debts of Presbyterian Senior Living Services, Inc. (Glen Meadows), an affiliate organization. As of December 31, 2015 and 2014, Glen Meadows had $14,505,000 and $15,115,000, respectively, in outstanding debt. In the event of a deficiency judgment from the sale of real property pledged as security for the purchase of a facility in Glen Arm, Maryland, the Obligated Group has guaranteed to repay all of the outstanding debt which matures through 2029.

The Obligated Group is an irrevocable guarantor of the Metro Bank Loan for PHI Stadium Place Senior Care Inc., an affiliate organization, for a maximum principal amount of $10,000,000. As of December 31, 2015 and 2014, PHI Stadium Place Senior Care Inc. had $9,584,655 and $9,918,419, respectively, in outstanding debt. In the event of a deficiency judgment, the Obligated Group has guaranteed to repay all of this outstanding debt which matures through 2034.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is a technical information services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2015 and 2014, the Obligated Group incurred expenses related to Prelude amounting to $1,795,380 and $1,811,896, respectively, for information services provided by Prelude, of which $42,134 and $41,104 is included in accounts payable as of December 31, 2015 and 2014, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2015 and 2014 are $64,614,509 and $57,455,739, respectively.

The amounts receivable from the Obligated Group's affiliated organizations are unsecured, non-interest bearing and have no fixed repayment terms, except loans to the low income housing corporations. In 2014, the Obligated Group established a reserve of $10,000,000 based on management's assessment of the collectability of specific receivables from an affiliate organization.

(5) Assets Whose Use is Limited

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

	2015	2014
Permanently restricted investments	$ 4,783,247	4,634,397
Bond fund	1,092,120	2,911,782
Debt service reserve fund	2,758,942	3,965,511
Held by trustee for future projects	15,191,986	3,870,943
	$ 23,826,295	15,382,633

(continued)

(6) Property and Equipment

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

	2015		2014	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 38,428,468	–	27,314,909	–
Land improvements	18,355,312	14,878,627	18,041,907	14,520,534
Buildings and improvements	382,910,341	166,809,826	357,570,442	157,153,666
Departmental equipment, furniture and fixtures	45,536,492	37,341,521	45,916,983	38,234,272
Vehicles	1,912,399	1,753,004	2,028,356	1,877,272
Construction-in-progress	49,544,993	–	22,059,936	–
	$ 536,688,005	220,782,978	472,932,533	211,785,744
Net book value		$ 315,905,027		$ 261,146,789

As the Obligated Group undertakes expansion and improvement projects, costs are included in construction-in-progress. As projects are completed, the costs are transferred to buildings and building improvements. Ongoing improvement and expansion is anticipated in the normal course of operations.

As of December 31, 2015 and 2014, approximately $24,700,000 and $13,500,000, respectively, was committed for future renovations.

On June 1, 2015, the Obligated Group sold Woodland Retirement Community for approximately $10,811,000, and recognized a gain of $7,962,761.

The combined statement of operations and changes in net assets for the year ended December 31, 2014, was restated to reclassify Woodland Retirement Community's net loss to gain on discontinued operations in accordance with accounting standards related to discontinued operations.

For the years ended December 31, 2015 and 2014, Woodland Retirement Community's gain (loss) consisted of:

	2015	2014
Depreciation	$ (134,760)	(298,194)
Interest	(15,880)	(29,413)
Amortization	(2,940)	(7,054)
Other income (expenditures), net of gain of $8,278,206 in 2015	8,116,341	(304,677)
Total gain (loss) on discontinued operations	$ 7,962,761	(639,338)

(6) Property and Equipment (continued)

On September 1, 2014, the Corporation 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, 2014, Sycamore Manor Health Center's gain consisted of:

		2014
Depreciation	$	(200,231)
Interest		(65,219)
Amortization		(2,299)
Other income (expenditures), net of gain of $6,460,917 in 2014		6,391,074
Total gain on discontinued operations	$	6,123,325

(7) Affiliation

On June 1, 2015, with the consent of the Board of Directors of Cathedral Village, Cathedral Village affiliated with PHI d/b/a Presbyterian Senior Living (PSL) and the Presbyterian Homes Obligated Group. The Obligated Group elected to account for the affiliation using the pushdown method of accounting, whereby Cathedral Village's property and equipment were adjusted to fair value based on an appraisal.

The following is a summary of the identifiable and intangible assets on the affiliation date**:**

Land and land improvements	$	10,504,338
Buildings and improvements		18,177,654
Furniture and equipment		1,081,100
Goodwill		1,836,908
Fair value of identifiable and intangible assets	$	31,600,000

Goodwill represents the intangible assets associated with Cathedral Village and includes the right to use the name Cathedral Village, value of occupied beds at the Community, medical records, staff of Cathedral Village, reputation in the community, 133 skilled nursing bed licenses, and any other intangibles of the business.

(continued)

(7) Affiliation (continued)

The following are the amounts recognized by the Obligated Group on the affiliation date, for each major class of assets and liabilities as a result of required not-for-profit accounting principles related to affiliations**:**

Assets		
Cash and operating investments	$	740,588
Accounts and pledges receivable, net		1,172,303
Prepaid expenses and other current assets		554,871
Investments and assets whose use is limited		13,263,133
Property and equipment		31,600,000
Deferred financing costs, net		475,847
Beneficial interest in perpetual trusts		2,419,343
Total assets		50,226,085
Liabilities		
Accounts payable		216,906
Accrued expenses		3,248,610
Refundable deposits from prospective residents		1,106,249
Long-term debt		14,053,937
Deferred revenue from advanced fees		19,247,103
Total liabilities		37,872,805
Gain recognized	$	12,353,280

(8) Long-term Debt

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

		2015	2014
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate which was 0.05% at December 31, 2014	$	—	6,000,000
1995 Series A Revenue Note to First National Bank, payable in equal monthly installments of principal and interest, interest sufficient to amortized the principal balance to July 10, 2026, the note bears a floating interest rate which was 2.054% at both December 31, 2015 and 2014, interest will be reset in three year increments		1,759,823	1,930,727
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, held by First National Bank, payable in monthly installments of principal and interest sufficient to amortize the principal balance to April 2017, the bonds bear a floating interest rate, which was 0.08% at December 31, 2014		—	2,630,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable to First National Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023, the note bears a floating interest rate, interest will be reset in five year increments and was 1.7601% and 0.9903% at December 31, 2015 and 2014, respectively		419,285	473,731
Cumberland County Municipal Authority Revenue Bonds Series 2003B, variable rate bonds, held by First National Bank, principal maturities in varying amounts from 2013 to 2032, interest converted to a fixed rate of 3.8% on January 2, 2014		6,885,000	7,170,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, held by Bank of America, principal and interest payable monthly on a 15-year amortization period, the final principal payment due October 31, 2018, variable interest of 0.993% and 0.941% at December 31, 2015 and 2014, respectively		2,345,544	3,115,363

(continued)

(8) Long-term Debt (continued)

	2015	2014
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2003A, principal maturities due in varying amounts from 2003 to 2034, the bonds consist of term bonds which will mature on April 1, 2023, at a fixed interest rate of 6.25% and on April 1, 2034, at a fixed rate of 6.875%	405,000	—
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2003B, principal maturities due in varying amounts from 2003 to 2034, the bonds bear a floating interest rate, interest will be reset in five year increments and was 5.50% at December 31, 2015	230,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2005A, principal due in varying annual amounts from 2013 to 2021, interest rates ranging from 4% to 5%	—	13,570,000
Series 2005 College Township Revenue Bonds, held by First National Bank, payable in equal installments to include principal and interest through September 2026, the bonds bear a floating interest rate, which will reset in five year increments and was 3.83% at December 31, 2015 and 2014	2,455,176	2,635,598
Cumberland County Municipal Authority Revenue Bonds Series 2008A, principal due in varying annual amounts from 2015 to 2021, interest rates ranging from 4% to 5.45%	5,455,000	6,660,000
Cumberland County Municipal Authority Revenue Bonds Series 2008B, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.04% at December 31, 2014	—	25,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2008C, variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2013 to 2026, interest rates ranging from 0.14% to 4%	14,730,000	14,985,000

(continued)

(8) Long-term Debt (continued)

	2015	2014
York County Industrial Development Authority Bonds Series 2010, held by First National Bank, principal due in varying annual amounts from 2013 to 2033, the bonds bear a floating interest rate, which resets in five year increments, and was 2.75% at December 31, 2015 and 2014	18,066,102	18,856,144
Bank of America taxable five year term loan , principal due in varying amounts, interest is fixed at 3.15%, due in December 2016 with the option to extend all or a portion of the remaining balance over the 25-year amortization period	11,550,340	11,930,576
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, held by M&T Bank, principal maturities based on a twenty year repayment schedule, interest is fixed for the first 120 months, subsequent interest rates will be reset in ten year increments, interest was 3.48% at December 31, 2015 and 2014	8,512,486	8,899,370
Quincy Sewer Authority Revenue Bonds Series 2012, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 15, 2032, interest is fixed at 3.35% until 2022, subsequent interest rates will be reset in ten year increments	8,761,419	9,143,517
Uwchlan Township Industrial Development Authority Revenue Note Series 2012, held by Metro Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2032, interest is fixed at 3.5% until June 2022, interest rates will be reset in ten year increments	8,720,498	9,102,806
General Municipal Authority of the Township of Manheim Bond Series 2012, held by BB&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to September 2032, a call option is available at the lender's discretion in August 2022, interest is fixed at 2.75% until 2019	8,720,091	9,123,131

(continued)

(8) Long-term Debt (continued)

	2015	2014
Cumberland County Municipal Authority Revenue Bonds Series 2013A, held by First Niagara Bank, principal due in varying annual amounts from 2013 to 2026, interest is fixed at 3.11%, interest will be reset in five year increments	6,500,790	6,525,790
Cumberland County Municipal Authority Revenue Bonds Series 2013B, held by First Niagara Bank, principal due in varying annual amounts from 2013 to 2026, interest is fixed at 3.11% at December 31, 2015 and 2014	4,475,886	4,700,886
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2013, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2033, interest is fixed at 3.6% until June 2023, interest rates will be reset in ten year increments	9,142,942	9,503,184
Indiana County Industrial Development Authority Revenue Bonds Series 2013, held by BB&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to November 15, 2033, interest is fixed at 3.48% until 2020, interest rates will be reset in seven year increments	9,254,372	9,618,418
Philadelphia Authority for Industrial Development Gross Revenue Bonds, Series 2013, no principal payment due until April 2017, the bonds consist of term bonds which mature at various dates from April 2023 to April 2039, interest rates ranging from 4.0% to 5.0%	2,635,000	—
Metro Bank taxable fifteen year term loan, principal and interest is payable in equal quarterly installments of $99,063 through maturity in April 2029, interest is fixed at 4.80% until 2018	3,903,686	—
Northampton County Industrial Development Authority Revenue Bonds Series 2014, held by Bank of America, principal due annually in January 2016 of $67,000, interest is fixed at 3.24% until June 2024, interest will be reset in ten year increments	9,899,500	9,966,500

(8) Long-term Debt (continued)

	2015	2014
Blair County Hospital Authority Revenue Bonds Series 2014, held by Bank of America, principal due on an annual basis of $67,000, interest is fixed at 3.24% until June 2024, interest rates will be reset in ten year increments	9,899,500	9,966,500
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.92% until May 2025, interest rates will be reset in ten year increments	9,782,480	—
Northampton County Industrial Development Authority Revenue Bonds Series 2015, held by M&T Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to May 2035, interest is fixed at 2.80% until May 2025, interest rates will be reset in ten year increments	9,822,770	—
People's Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 2.25% at December 31, 2015	5,819,138	—
Metro Bank taxable ten year term loan, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 31, 2025, interest is variable and was 2.34% at December 31, 2015	5,822,120	—
Abington Township Industrial and Commercial Development Authority Revenue Bonds, Series 2015, held by Metro Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to September 2035, interest is variable and was 2.35% at December 31, 2015, interest rates will be reset in five year increments	9,936,269	—
Cumberland County Municipal Authority Revenue Bonds Series 2015A, held by Bank of America, principal due in varying monthly amounts through maturity in December 2021, interest is fixed at 2.28%	9,747,789	—

(continued)

(8) Long-term Debt (continued)

	2015	2014
Cumberland County Municipal Authority Revenue Bonds Series 2015B, held by Bank of America, principal due in varying annual amounts from 2015 to 2038, interest is fixed at 2.99% until 2025, interest rates will be reset in ten year increments	10,000,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2015C, held by Bank of America, principal due in varying annual amounts from 2015 to 2038, note bears a variable rate and was 1.47% at December 31, 2015	14,955,333	—
	230,613,339	201,507,241
Less: Unamortized discount	—	(96,242)
Plus: Unamortized premium	78,127	216,520
	$ 230,691,466	201,627,519

All of the Obligated Group long-term debt is collateralized by property and equipment and gross revenues of the Obligated Group and is tax exempt, unless otherwise stated.

During 2014, $10,000 of the Cumberland County 2005A Bonds that were previously repurchased were sold. In 2015, the remaining $30,000 of the Cumberland County 2005A Bonds were sold. In 2015, $6,540,000 of the Philadelphia Authority for Industrial Development Gross Revenue Bonds Series 2013 Bonds were purchased and are being held with the option to remarket at a future date.

Under the terms of the Obligated Group's debt, the Obligated Group is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2015 and 2014.

In 2015, the Obligated Group refunded and replaced the Cumberland County 1993A, 2005A and 2008B and the Montgomery County 1997 and 2008A Bonds and acquired a portion of the Philadelphia 2013 Bonds. A loss on the extinguishment of debt in the amount of $1,867,934 was recorded in 2015, representing the write-off of the unamortized debt issuance costs, discount and premium on the original purchase. In connection with the partial replacement of the Cumberland County 2008B Bonds, in June 2014, the Obligated Group recorded a loss on the extinguishment of debt in the amount of $108,203, representing the write-off of the unamortized debt issuance costs.

(8) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2015 and thereafter are as follows:

Years ended December 31,	Aggregate maturities
2016	$ 11,539,437
2017	11,894,117
2018	12,104,387
2019	11,945,868
2020	11,918,011
Thereafter	171,211,519
	$ 230,613,339

The Obligated Group entered into a swap agreement with Bank of America, which fixes the interest rate to be paid by the Obligated Group on the Kent County 2003B Bonds as follows:

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$2,345,544	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 are as follows:

Counterparty	Value 12/31/2015	Value 12/31/2014
Wells Fargo	$ -	$ 134,015
Bank of America	80,945	143,649
Total	$ 80,945	$ 277,664

Pursuant to all these agreements the counterparty 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 Obligated Group.

(9) Note Payable

In December 2014, the Obligated Group 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 were due in monthly payments and the remaining balance was due and paid on December 10, 2015. At December 31, 2014, the Obligated Group had $4,980,267 outstanding under this loan. The loan was collateralized by property and equipment and gross revenues of the Obligated Group.

(10) Lines of Credit

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2015 and 2014, under the line of credit agreements, the Obligated Group had available a total maximum of $16,750,000 from the financial institutions. As of December 31, 2015 and 2014, the Obligated Group had $14,845,170 and $15,561,035, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 3.00%.

(11) Leases

The Obligated Group is obligated under capital leases for equipment and vehicles that expire in 2019, with interest rates ranging from 2.5% to 5.0%. At December 31, 2015 and 2014, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

	2015	2014
Office equipment and vehicles	$ 1,128,107	1,006,421
Accumulated amortization	(713,726)	(515,699)
	$ 414,381	490,722

Amortization expense of $218,014 and $219,011 for the years ended December 31, 2015 and 2014, respectively, for the assets held under capital leases is included in depreciation expense in the combined statements of operations and changes in net assets.

(11) Leases (continued)

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2015 follows:

2016	$ 230,373
2017	160,814
2018	60,633
2019	10,640
	462,460
Amounts representing interest	(13,458)
	$ 449,002

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2018. The future minimum lease payments under these operating leases are as follows:

2016	$ 171,984
2017	113,225
2018	47,567
	$ 332,776

Rental expense under operating leases was $542,534 and $716,387 for the years ended December 31, 2015 and 2014, respectively.

(12) Annuities

The Obligated Group 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 Obligated Group. Total annuities payable were $936,636 and $959,356 at December 31, 2015 and 2014, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4 to 6 percent to determine the present value of the actuarially determined liability. The Obligated Group has assets included in investments of $1,418,411 and $1,418,854 as of December 31, 2015 and 2014, respectively, to satisfy annuities.

(13) Workers' Compensation Insurance

The Obligated Group has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Obligated Group has contracted with major insurance carriers for excess insurance coverage, loss control services, and administration. For both 2015 and 2014, the Obligated Group maintained a letter of credit for $3,000,000, in connection with this self-insurance program. At December 31, 2015 and 2014, the Obligated Group has recorded an accrued expense of approximately $4.0 million and $4.7 million, respectively, for workers' compensation claims which includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

(14) Medical Malpractice Claims Coverage

The Obligated Group 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 Obligated Group's insurance coverages or will have a material adverse effect on the combined financial statements.

(15) Temporarily Restricted Net Assets

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

		2015	2014
Trust assets held for the benefit of The Easton Home	$	–	931,201
Charity care and/or equipment, including pledges receivable			
Endowment		702,609	87,260
Other		2,002,635	2,086,839
Gift annuities		368	348
Contributions receivable from remainder trusts		431,017	424,837
	$	3,136,629	3,530,485

Net assets of $2,520,767 and $1,341,281 were released from restriction during 2015 and 2014, respectively, in satisfaction of the above restrictions.

(16) Permanently Restricted Net Assets

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

		2015	2014
Trust assets held for the benefit of The Easton Home	$	830,086	830,086
Investments to be held in perpetuity, the income from which is expendable to support the following endowments:			
Operations		2,091,355	2,049,812
Scholarships		23,456	23,456
Charity care and/or equipment		2,668,436	2,561,129
Contributions receivable from remainder trusts		221,075	225,706
Gift annuities		15,155	15,155
Beneficial interest in perpetual trusts		16,327,200	14,607,755
	$	22,176,763	20,313,099

(17) Endowments

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

(continued)

(17) Endowments (continued)

Interpretation of Relevant Law

The Board of Trustees of the Obligated Group has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Obligated Group classifies as 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 Obligated Group 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 Obligated Group considers the following factors:

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

(17) Endowments (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2015:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	87,260	4,634,397	4,721,657
Investment return:				
Investment income		74,796	–	74,796
Contributions		–	148,850	148,850
Appropriation of endowment assets for expenditures		(96,585)	–	(96,585)
Other changes				
Adjustment for affiliation		637,138	–	637,138
Endowment net assets, end of year	$	702,609	4,783,247	5,485,856

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	62,340	4,515,573	4,577,913
Investment return:				
Investment income		71,044	–	71,044
Contributions		–	118,824	118,824
Appropriation of endowment assets for expenditures		(46,124)	–	(46,124)
Endowment net assets, end of year	$	87,260	4,634,397	4,721,657

(17) Endowments (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 Obligated Group to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2015 or 2014.

Return Objectives and Risk Parameters

The Obligated Group has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Obligated Group must hold in perpetuity for donor-specified purposes. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Obligated Group 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 Obligated Group relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Obligated Group targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(continued)

(17) Endowments (continued)

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment funds' average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2015 and 2014. Actual distributions are to satisfy donor restrictions. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Obligated Group considered the long-term expected return on its endowments. Accordingly, over the long term, the Obligated Group expects the current spending policy to allow its endowments to grow at an average of inflation plus one percent annually. For 2015 and 2014 an allocation of three percent, of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Obligated Group's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(18) Retirement Plan

Prior to affiliation, Cathedral Village had a 401(k) plan with employee-directed investment options and loan features. Employees who completed three months of service and had reached the age of 21 were eligible to make voluntary contributions to the plan. Cathedral Village matched contributions for employees who had met the eligibility requirements. Non-elective employer contributions covered employees who were eligible based on the age requirement or after completing 1,000 hours of service, whichever came later. On June 5, 2015, the Board of Directors of Cathedral Village approved merging this plan into the Obligated Group plan effective December 31, 2015.

The Obligated Group has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2015 and 2014, retirement plan expense totaled $1,415,067 and $1,267,464, respectively.

(19) Commitments and Contingencies

The Obligated Group is involved in several legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the final outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Obligated Group's assets, liabilities, net assets, operations or cash flows.

(20) Reissue of Combined Financial Statements

Subsequent to the issuance of the December 31, 2015 and 2014, Presbyterian Homes Obligated Group's combined financial statements, management became aware that the 2015 combined financial statements incorrectly reported pledges receivable, funds held in trust by others, deferred revenue - entrance fees, and net assets. The inclusion of these corrections in the reissued 2015 combined financial statements increased total assets by $804,217 and net assets by $609,917.

(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, equity and fixed income securities: Fair value of money market funds, certificates of deposit and equity and fixed income securities is 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: Fair value of the beneficial interest in perpetual trusts is based on the Obligated Group's percent ownership of the underlying trust assets, which approximate the value of estimated future cash flows to be received from the trust.

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

Interest rate swaps: Fair values 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 swaps 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.

Long-term debt and note payable: Long-term debt and note payable are carried at cost in the combined statements of financial position for note payable, bonds payable and mortgages payable at December 31, 2015 and 2014. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $230,691,466 and $206,607,786 at December 31, 2015 and 2014, respectively. The carrying value of the long-term debt and note payable in the combined statements of financial position approximate the fair value.

(continued)

(21) Financial Instruments (continued)

The Obligated Group has a number of other financial instruments, none of which are held for investment purposes. The Obligated Group estimates that the fair value of all financial instruments at December 31, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying combined 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's 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 to the fair value methodologies used to measure fair value at December 31, 2015 or 2014.

(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, 2015 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 33,622,259	33,622,259	–	–
Marketable equity securities	2,046,681	2,046,681	–	–
Equity securities	41,854,295	41,854,295	–	–
Fixed income securities	14,631,289	14,631,289	–	–
Alternate investments	24,553,972	–	–	24,553,972
Total investments	116,708,496	92,154,524	–	24,553,972
Beneficial interest in perpetual trusts	16,327,200	–	–	16,327,200
Contributions receivable from remainder trusts	652,092	–	–	652,092
Gift annuities	15,523	–	–	15,523
Total assets	$ 133,703,311	92,154,524	–	41,548,787
Interest rate swap	$ (80,945)	–	(80,945)	–

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:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 23,388,778	23,388,778	–	–
Equity securities	38,794,503	38,794,503	–	–
Fixed income securities	18,130,749	18,130,749	–	–
Alternate investments	21,824,952	–	–	21,824,952
Total investments	102,138,982	80,314,030	–	21,824,952
Beneficial interest in perpetual trusts	14,607,755	–	–	14,607,755
Contributions receivable from remainder trusts	650,543	–	–	650,543
Gift annuities	15,503	–	–	15,503
Total assets	$ 117,412,783	80,314,030	–	37,098,753
Interest rate swaps	$ (277,664)	–	(277,664)	–

(21) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2015 is as follows:

Description		Alternative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
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	$	21,824,952	650,543	14,607,755	15,503
Unrealized gains (losses)		624,242	1,549	(915,337)	20
Adjustment for affiliation		–	–	2,424,292	–
Distributions		(2,045,234)	–	–	–
Contributions		3,866,140	–	210,490	–
Realized gains		283,872	–	–	–
Balance at December 31, 2015	$	24,553,972	652,092	16,327,200	15,523

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

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

Financial instruments with off-balance-sheet risk to the Obligated Group consist of certain financial guarantees of its affiliates. The Obligated Group'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.

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Presbyterian Homes Obligated Group

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The following supplementary information accompanying the combined financial statements is presented for the purpose of additional analysis and is not a required part of the basic combined financials statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
March 31, 2016, except for Note 20 as to
which the date is August 8, 2016

Prebyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2015

See Independent Auditor's Report on Supplementary Information

Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Cash and cash equivalents	$	2,016,344	45,687	–	253,935	32,020	1,694	2,349,680	–	2,349,680
Investments		3,161,722	14,238,574	43,834,414	8,377,407	4,008,399	8,645,615	82,266,131	–	82,266,131
Statutory liquid reserves		5,415,119	770,407	–	–	830,543	3,600,000	10,616,069	–	10,616,069
Accounts receivable, net		13,891,742	3,728,886	–	60,986	2,333,178	2,761,612	22,776,404	–	22,776,404
Prepaid expenses and other current assets		1,596,104	170,916	–	130,831	446,283	754,484	3,098,618	–	3,098,618
Assets whose use is limited		2,935,721	2,091,355	2,442,220	–	249,672	915,341	8,634,309	–	8,634,309
Assets whose use is limited, construction funds		15,191,987	–	–	–	–	–	15,191,987	–	15,191,987
Pledges receivable, net		510,260	35,249	–	–	5,000	593,727	1,144,236	–	1,144,236
Property and equipment, net		196,971,141	34,245,168	–	40,626,163	13,227,684	30,834,871	315,905,027	–	315,905,027
Assets under capital leases, net		165,324	145,041	–	23,373	34,203	46,440	414,381	–	414,381
Due from (to) affiliates		51,326,135	7,101,698	15,677,199	(12,202,438)	4,360,882	(1,648,967)	64,614,509	–	64,614,509
Funds held in trust by others		7,553,590	650,889	–	813,201	5,551,807	2,425,328	16,994,815	–	16,994,815
Beneficial interest in assets of affiliate		1,681,222	–	–	–	–	–	1,681,222	(1,681,222)	–
Deferred financing costs, net		1,376,099	8,157	–	285,107	41,757	247,322	1,958,442	–	1,958,442
Goodwill		–	–	–	–	–	1,836,908	1,836,908	–	1,836,908
Other assets		23,934	–	–	–	–	–	23,934	–	23,934
Total Assets	$	303,816,444	63,232,027	61,953,833	38,368,565	31,121,428	51,014,375	549,506,672	(1,681,222)	547,825,450

(continued)

Prebyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2015

See Independent Auditor's Report on Supplementary Information

Liabilities and Net Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Accounts payable	$	9,366,861	1,945,077	–	157,768	852,866	2,084,040	14,406,612	–	14,406,612
Accrued expenses		8,405,680	2,773,935	18,650	419,275	929,710	1,564,508	14,111,758	–	14,111,758
Lines of credit		14,845,170	–	–	–	–	–	14,845,170	–	14,845,170
Accrued interest		663,063	11,153	–	-	–	168,198	842,414	–	842,414
Resident deposits		3,420,415	77,250	–	16,000	126,623	177,749	3,818,037	–	3,818,037
Entrance fee payable		15,546,379	1,284,426	–	–	1,056,815	–	17,887,620	–	17,887,620
Deferred revenue – entrance fees		47,161,592	7,604,362	–	–	9,369,792	19,527,618	83,663,364	–	83,663,364
Fair value of interest rate swap		80,945	–	–	–	–	–	80,945	–	80,945
Annuities payable		806,905	17,657	–	76,818	35,256	–	936,636	–	936,636
Long-term debt										
Obligations on capital leases		172,930	147,639	–	23,741	36,454	68,238	449,002	–	449,002
Long-term debt		170,536,926	7,860,006	–	32,588,763	5,913,958	13,791,813	230,691,466	–	230,691,466
Total liabilities		271,006,866	21,721,505	18,650	33,282,365	18,321,474	37,382,164	381,733,024	–	381,733,024
Net assets:										
Unrestricted		20,659,100	38,642,120	60,253,961	4,269,685	6,952,253	10,001,915	140,779,034	–	140,779,034
Temporarily restricted		1,631,900	250,225	-	3,314	46,222	1,204,968	3,136,629	–	3,136,629
Permanently restricted		10,518,578	2,618,177	1,681,222	813,201	5,801,479	2,425,328	23,857,985	(1,681,222)	22,176,763
Total net assets		32,809,578	41,510,522	61,935,183	5,086,200	12,799,954	13,632,211	167,773,648	(1,681,222)	166,092,426
Total liabilities and net assets	$	303,816,444	63,232,027	61,953,833	38,368,565	31,121,428	51,014,375	549,506,672	(1,681,222)	547,825,450

Prebyterian Homes Obligated Group

Combining Schedule of Operations and Changes in Net Assets

Year Ended December 31, 2015

See Independent Auditor's Report on Supplementary Information

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Operating revenues, gains, and other support:									
Resident services	$ 112,271,006	32,019,100	–	4,822,854	19,882,058	16,135,272	185,130,290	–	185,130,290
Interest and dividend income	710,156	331,099	1,026,123	396,801	396,275	232,460	3,092,914	(330,257)	2,762,657
Realized gains on investments	(71,094)	23,909	220,927	(170,324)	(94,363)	106,645	15,700	33,407	49,107
(Loss) on sale of property and equipment	(19,798)	–	–	–	–	–	(19,798)	–	(19,798)
Contributions, gifts and bequests	95,200	87,451	–	90,377	183,039	79,874	535,941	–	535,941
Net assets released from restrictions	2,260,065	122,312	–	8,381	104,112	25,897	2,520,767	–	2,520,767
Total operating revenues, gains, and other support	115,245,535	32,583,871	1,247,050	5,148,089	20,471,121	16,580,148	191,275,814	(296,850)	190,978,964
Expenses:									
Nursing services	28,633,126	9,187,177	–	630,247	5,791,798	3,647,097	47,889,445	–	47,889,445
Rehabilitation	8,106,605	2,653,302	–	–	1,538,103	729,490	13,027,500	–	13,027,500
Recreation and special services	3,244,149	799,746	–	63,808	600,121	358,504	5,066,328	–	5,066,328
Pharmacy	1,670,529	843,324	–	9,300	415,887	378,299	3,317,339	–	3,317,339
Social services	471,300	144,426	–	7	82,176	104,541	802,450	–	802,450
Physician services	203,683	110,340	–	9,000	47,416	178,160	548,599	–	548,599
Food services	11,508,136	3,590,221	–	563,291	1,677,042	2,648,940	19,987,630	–	19,987,630
Building operations and maintenance	12,058,980	2,724,241	–	1,100,242	2,150,392	1,789,861	19,823,716	–	19,823,716
Housekeeping	2,477,314	657,758	–	54,254	277,491	462,637	3,929,454	–	3,929,454
Laundry and linen	650,742	297,738	–	1,194	182,981	65,743	1,198,398	–	1,198,398
General and administrative	18,877,320	5,598,692	343,475	885,223	2,976,411	1,951,691	30,632,812	(6,239)	30,626,573
Employee benefits	6,569,586	2,463,123	–	194,540	1,430,679	877,896	11,535,824	–	11,535,824
Interest	4,636,391	363,625	–	1,125,725	252,650	404,138	6,782,529	(263,159)	6,519,370
Depreciation	9,434,788	2,060,058	–	1,102,159	1,354,904	1,407,619	15,359,528	–	15,359,528
Amortization	136,566	7,557	–	22,257	2,714	35,542	204,636	–	204,636
Total expenses	108,679,215	31,501,328	343,475	5,761,247	18,780,765	15,040,158	180,106,188	(269,398)	179,836,790
Income from continuing operations	6,566,320	1,082,543	903,575	(613,158)	1,690,356	1,539,990	11,169,626	(27,452)	11,142,174
Discontiued operations									
Discontinued operations	–	7,962,761	–	–	–	–	7,962,761	–	7,962,761
Gain on discontiued operations	–	7,962,761	–	–	–	–	7,962,761	–	7,962,761
Operating income (loss)	6,566,320	9,045,304	903,575	(613,158)	1,690,356	1,539,990	19,132,387	(27,452)	19,104,935
Change in fair value of interest rate swaps	188,295	8,424	–	–	–	–	196,719	–	196,719
Loss on early extinguishment of debt	(1,687,437)	(97,176)	–	–	–	(83,321)	(1,867,934)	–	(1,867,934)
Excess (deficit) of operating revenues, gains and other support over expenses	5,067,178	8,956,552	903,575	(613,158)	1,690,356	1,456,669	17,461,172	(27,452)	17,433,720
Other changes:									
Transfer to affiliated entity	433,588	–	(433,588)	–	–	–	–	–	–
Unrealized gains (losses) on investments	48,810	(343,583)	(1,283,399)	(537,035)	(250,016)	(746,604)	(3,111,827)	27,452	(3,084,375)
Total other changes	482,398	(343,583)	(1,716,987)	(537,035)	(250,016)	(746,604)	(3,111,827)	27,452	(3,084,375)
Unrestricted net assets, as adjusted for affiliation	–	–	–	–	–	9,291,850	9,291,850	–	9,291,850
Increase (decrease) in unrestricted net assets	5,549,576	8,612,969	(813,412)	(1,150,193)	1,440,340	10,001,915	23,641,195	–	23,641,195
Temporarily restricted net assets:									
Contributions, gifts and bequests	706,717	100,537	–	9,352	72,615	593,727	1,482,948	–	1,482,948
Interest and dividend income	74,796	329	–	–	–	–	75,125	–	75,125
Unrealized gain (loss) on investments	(69,207)	907	–	–	–	–	(68,300)	–	(68,300)
Assets adjustment for affiliation	–	–	–	–	–	637,138	637,138	–	637,138
Net assets released from restrictions	(2,260,065)	(122,312)	–	(8,381)	(104,112)	(25,897)	(2,520,767)	–	(2,520,767)
Change in temporarily restricted net assets	(1,547,759)	(20,539)	–	971	(31,497)	1,204,968	(393,856)	–	(393,856)
Permanently restricted net assets:									
Contributions, gifts and bequests	107,307	41,543	–	–	–	210,490	359,340		359,340
Assets adjustment for affiliation	–	–	–	–	–	2,424,292	2,424,292	–	2,424,292
Change in fair value of funds held in trust by others	(309,103)	15,686	(80,064)	(104,126)	(312,971)	(209,454)	(1,000,032)	80,064	(919,968)
Change in permanently restricted net assets	(201,796)	57,229	(80,064)	(104,126)	(312,971)	2,425,328	1,783,600	80,064	1,863,664
Change in net assets	3,800,021	8,649,659	(893,476)	(1,253,348)	1,095,872	13,632,211	25,030,939	80,064	25,111,003
Net assets, beginning of year	29,009,557	32,860,863	62,828,659	6,339,548	11,704,082	–	142,742,709	(1,761,286)	140,981,423
Net assets, end of year	$ 32,809,578	41,510,522	61,935,183	5,086,200	12,799,954	13,632,211	167,773,648	(1,681,222)	166,092,426

PRESBYTERIAN HOMES OBLIGATED GROUP

Statutory Minimum Liquid Reserves
(See Independent Auditor's Report on Supplementary Information)

December 31, 2015

		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community, Inc.	Quincy Retirement Community	Cathedral Village	Obligated Group	
2016 Budgeted Operating Expenses	$	114,548,026	32,180,352	280,000	5,857,302	19,300,975	26,810,369	198,977,024	
Less: depreciation expense		(10,283,784)	(2,088,981)	-	(1,097,330)	(1,368,500)	(2,691,787)	(17,530,382)	
Expenses subject to minimum liquid assets requirement		104,264,242	30,091,371	280,000	4,759,972	17,932,475	24,118,582	181,446,642	
Percentage of residents subject to residence and care arrangements at December 31, 2015		40%	26%	0%	0%	47%	76%		
		41,705,697	7,823,756	-	-	8,428,263	18,330,122	76,287,838	
Statutory requirement		10%	10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$	4,170,570	782,376	0	0	842,826	1,833,012	7,628,784	(a)
Next 12 months debt service payments:									
Total debt service for next 12 months	$	13,221,978	807,513	0	2,618,956	503,997	899,229	18,051,673	
Percentage of residents subject to residence and care arrangements at December 31, 2015		40%	26%	0%	0%	47%	76%		
Statutory minimum liquid reserve requirement	$	5,288,791	209,953	-	-	236,879	683,414	6,419,037	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$	5,288,791	782,376	-	-	842,826	1,833,012	8,747,005	
Total per Bank Statements at December 31, 2015		5,415,120	770,407	-	-	830,542	3,600,000	10,616,069	
Assets in excess (deficit) of statutory minimum liquid reserve requirement	$	126,329	(11,969)	-	-	(12,284)	1,766,988	1,869,064	