

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2016 and 2015

Assets	2016	2015
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 1,387,605	2,349,680
Investments	68,169,601	82,266,131
Statutory liquid reserves	10,187,204	10,616,069
Accounts receivable, net	23,669,105	22,776,404
Prepaid expenses and other current assets	2,765,954	3,098,618
Assets whose use is limited	8,677,793	8,634,309
Assets whose use is limited, construction funds	15,314,759	15,191,987
Pledges receivable, net	446,947	1,144,236
Property and equipment (net of accumulated depreciation of \$230,413,839 and \$220,782,978 respectively)	348,500,965	315,905,027
Assets under capital leases (net of accumulated amortization of \$947,830 and \$713,726, respectively)	356,838	414,381
Due from affiliates, net	71,221,290	64,614,509
Funds held in trust by others	17,240,286	16,994,815
Goodwill	1,836,908	1,836,908
Other assets	<u>23,752</u>	<u>23,934</u>
Total assets	<u>\$ 569,799,007</u>	<u>545,867,008</u>

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2016 and 2015

Liabilities and Net Assets	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 14,593,760	14,406,612
Accrued expenses	14,568,913	14,111,758
Lines of credit	14,095,665	14,845,170
Accrued interest	837,278	842,414
Resident deposits	1,214,113	3,818,037
Entrance fee payable	15,937,659	17,887,620
Deferred revenue - entrance fees	95,894,193	83,663,364
Deferred energy costs	1,202,833	-
Fair value of interest rate swaps	33,034	80,945
Annuities payable	861,479	936,636
Long-term debt:		
Obligations under capital leases	379,981	449,002
Long-term debt	237,739,659	228,733,024
Total liabilities	<u>397,358,567</u>	<u>379,774,582</u>
Net assets:		
Unrestricted	148,051,580	140,779,034
Temporarily restricted	1,890,320	3,136,629
Permanently restricted	22,498,540	22,176,763
Total net assets	<u>172,440,440</u>	<u>166,092,426</u>
 Total liabilities and net assets	 <u>\$ 569,799,007</u>	 <u>545,867,008</u>

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues, gains and other support:		
Resident services, including amortization of entrance fees of \$13,657,812 and \$13,043,760 respectively	\$ 202,058,753	185,130,290
Interest and dividend income	2,155,566	2,762,657
Realized (loss) gain on investments	(524,632)	49,107
Gain (loss) on sale of property and equipment and other assets	553,778	(19,798)
Contributions, gifts and bequests	332,132	535,941
Net assets released from restrictions	<u>2,314,669</u>	<u>2,520,767</u>
Total operating revenues, gains and other support	<u>206,890,266</u>	<u>190,978,964</u>
Expenses:		
Nursing services	53,260,841	47,889,445
Rehabilitation	13,711,336	13,027,500
Recreation and special services	5,586,828	5,066,328
Pharmacy	3,810,468	3,317,339
Social services	895,843	802,450
Physician services	662,973	548,599
Food services	22,881,311	19,987,630
Building operations and maintenance	22,438,710	19,823,716
Housekeeping	4,436,616	3,929,454
Laundry and linen	1,230,590	1,198,398
General and administrative	30,750,240	29,610,936
Employee benefits	13,398,009	11,535,824
Interest	6,454,416	6,519,370
Depreciation	17,733,907	15,359,528
Amortization	182,088	204,636
Fundraising and investment fees	<u>1,036,362</u>	<u>1,015,637</u>
Total expenses	<u>198,470,538</u>	<u>179,836,790</u>
Income from continuing operations	<u>8,419,728</u>	<u>11,142,174</u>
Discontinued operations:		
Discontinued operations, net of gain of \$8,278,206 in 2015	<u>—</u>	<u>7,962,761</u>
Gain on discontinued operations	<u>—</u>	<u>7,962,761</u>
Operating income	8,419,728	19,104,935
Change in fair value of interest rate swaps	47,911	196,719
Loss on early extinguishment of debt	(123,652)	(1,867,934)
Loss on abandoned project	<u>(411,418)</u>	<u>—</u>
Excess of operating revenues, gains and other support over expenses	<u>7,932,569</u>	<u>17,433,720</u>
Other changes:		
Reserve for related party receivable	(3,000,000)	—
Unrealized gain (loss) on investments	<u>2,339,977</u>	<u>(3,084,375)</u>
Total other changes	<u>(660,023)</u>	<u>(3,084,375)</u>
Net assets, as adjusted for affiliation	<u>—</u>	<u>9,291,850</u>
Change in unrestricted net assets	<u>7,272,546</u>	<u>23,641,195</u>

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Contributions, gifts and bequests	868,058	1,482,948
Interest and dividend income	78,669	75,125
Unrealized gain (loss) on investments	121,633	(68,300)
Asset adjustment for affiliation	-	637,138
Net assets released from restrictions	<u>(2,314,669)</u>	<u>(2,520,767)</u>
Change in temporarily restricted net assets	<u>(1,246,309)</u>	<u>(393,856)</u>
Permanently restricted net assets:		
Contributions, gifts and bequests	109,371	359,340
Asset adjustment for affiliation	-	2,424,292
Change in fair value of funds held in trust by others	<u>212,406</u>	<u>(919,968)</u>
Change in permanently restricted net assets	<u>321,777</u>	<u>1,863,664</u>
Change in net assets	6,348,014	25,111,003
Net assets, beginning of year	<u>166,092,426</u>	<u>140,981,423</u>
Net assets, end of year	<u>\$ 172,440,440</u>	<u>166,092,426</u>

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,348,014	25,111,003
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	17,733,907	15,359,528
Provision for bad debt	1,013,140	2,618,536
Reserve for related party receivable	3,000,000	-
Proceeds from non-refundable entrance fees and deposits	28,362,352	26,049,530
Amortization of entrance fees	(13,657,812)	(13,043,760)
Loss on early extinguishment of debt	123,652	1,867,934
Change in assets held in trust by others	-	-
Change in fair value of interest rate swaps	(47,911)	(196,719)
Unrealized (gain) loss on investments and change in fair value of funds held in trust by others	(2,674,016)	4,072,643
Realized loss (gain) on investments	524,632	(49,107)
(Gain) loss on sale of property and equipment and other assets	(553,778)	19,798
Contributions restricted for long-term purposes	(109,371)	(359,340)
Gain on discontinued operations	-	(7,962,761)
Amortization of deferred costs	182,088	207,872
Amortization of bond discount	-	(3,236)
Deferred energy cost adjustment	(44,166)	-
Loss on abandoned project	411,418	-
Changes in assets and liabilities:		
Increase in accounts receivable	(2,031,318)	(1,972,076)
Decrease (increase) entrance fee receivable	130,333	(682,023)
Decrease (increase) in pledges receivable	697,289	(19,588)
Decrease in other assets	333,112	574,768
Increase in accounts payable	182,291	5,111,151
Increase (decrease) in accrued expenses	452,019	(2,003,208)
Net cash provided by operating activities	<u>40,375,875</u>	<u>42,347,665</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(48,882,943)	(43,000,950)
Net proceeds from sale of property and equipment	-	10,811,282
Cash acquired in affiliation	-	84,765
Purchases of investments	(69,863,296)	(68,218,744)
Proceeds from sale of investments	86,126,348	64,143,697
Due from affiliates	(9,606,781)	(7,158,770)
Net cash used in investing activities	<u>(42,226,672)</u>	<u>(43,338,720)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(5,077,635)	(4,628,272)
Change in entrance fee payable	(1,949,961)	(2,329,411)
Principal payments on and redemptions of long-term debt	(11,316,497)	(8,835,641)
Proceeds from issuance of long-term debt	24,540,000	77,000,000
Refunding, refinancing or payoff of long-term debt	(4,435,209)	(46,395,000)
Purchase of treasury bonds	-	(7,569,497)
Financing costs incurred	(87,664)	(539,622)
Repayments on notes payable and lines of credit	(749,505)	(5,696,132)
Borrowings through capital leases	176,560	88,313
Repayments on capital leases	(245,581)	(158,053)
Contributions restricted for long-term purposes	109,371	359,340
Decrease in annuities payable	(75,157)	(22,720)
Net cash provided by financing activities	<u>888,722</u>	<u>1,273,305</u>
Net (decrease) increase in cash and cash equivalents	(962,075)	282,250
Cash and cash equivalents, beginning of year	2,349,680	2,067,430
Cash and cash equivalents, end of year	\$ <u>1,387,605</u>	<u>2,349,680</u>
Supplemental schedule of non-cash investing activities		
Increase in property and equipment through increase in deferred energy costs	\$ 1,247,000	-
Increase in goodwill by decrease in property and equipment upon affiliation	\$ -	1,836,908

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