

**Phoebe-Devitt Homes and
Affiliated Organizations**

Consolidated Financial Statements
and Supplementary Information

June 30, 2018 and 2017



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Phoebe-Devitt Homes and Affiliated Organizations

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June 30, 2018 and 2017

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Independent Auditors' Report

Board of Directors
Phoebe-Devitt Homes and Affiliated Organizations

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Phoebe-Devitt Homes and Affiliated Organizations (a not-for-profit corporation), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phoebe-Devitt Homes and Affiliated Organizations as of June 30, 2018 and 2017, and the results of their operations, changes in net assets, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 45 - 48 and additional information on pages 49 - 53 are presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and are not a required part of the consolidated financial 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Wyomissing, Pennsylvania
October 22, 2018

Phoebe-Devitt Homes and Affiliated Organizations

Consolidated Statement of Financial Position

June 30, 2018 and 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 6,514	\$ 7,270	Accounts payable	\$ 7,801	\$ 7,792
Resident and patient funds	363	445	Accrued expenses	7,835	8,331
Accounts receivable	10,282	9,556	Resident and patient funds	330	410
Prepaid expenses and other	3,978	4,894	Current portion of long-term debt	4,519	4,332
	<u>21,137</u>	<u>22,165</u>	Total current liabilities	<u>20,485</u>	<u>20,865</u>
Investments	<u>53,731</u>	<u>56,710</u>	Other Liabilities		
Assets Whose Use is Limited	<u>25,417</u>	<u>25,525</u>	Long-term debt, net	62,426	66,540
Statutory Minimum Liquid Reserve	<u>3,475</u>	<u>3,346</u>	Refundable entrance fees	40,035	40,180
Property and Equipment, Net	<u>106,604</u>	<u>108,544</u>	Deferred revenue, entrance fees	13,334	11,634
Other Assets			Accrued pension liability	2,928	3,913
Equity method investments	4,508	3,855	Charitable gift annuities	384	422
Other assets	178	177	Workers' compensation reserve	945	1,020
	<u>4,686</u>	<u>4,032</u>	Interest rate swaps	2,911	5,016
Total other assets	<u>4,686</u>	<u>4,032</u>	Other	2,865	2,599
			Total other liabilities	<u>125,828</u>	<u>131,324</u>
			Total liabilities	<u>146,313</u>	<u>152,189</u>
			Net Assets		
			Unrestricted:		
			Controlling interest	57,142	56,557
			Noncontrolling interest	(2,060)	(1,755)
			Total unrestricted	55,082	54,802
			Temporarily restricted	4,302	4,172
			Permanently restricted	9,353	9,159
			Total net assets	<u>68,737</u>	<u>68,133</u>
Total assets	<u>\$ 215,050</u>	<u>\$ 220,322</u>	Total liabilities and net assets	<u>\$ 215,050</u>	<u>\$ 220,322</u>

See notes to consolidated financial statements

Phoebe-Devitt Homes and Affiliated Organizations

Consolidated Statement of Activities
 Years Ended June 30, 2018 and 2017
 (In Thousands)

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient and resident service revenue	\$ 108,399	\$ 110,089
Amortization of entrance fees	2,058	2,135
Contributions	786	1,761
Change in value, charitable gift annuities	(42)	(13)
Investment income	2,144	1,591
Net realized gains on investments	5,137	2,957
Gain on disposal of property and equipment	26	14
Net assets released from restrictions for operations	650	1,922
Net assets released from restrictions upon termination of trust	-	65
Other revenues	987	1,190
	<u>120,145</u>	<u>121,711</u>
Operating Expenses		
Salaries and wages	47,680	49,402
Employee benefits and other staff costs	13,150	14,582
Resident supplies	16,848	15,193
Contracted services	16,329	17,570
Other expenses	14,716	12,182
Interest	2,783	2,810
Depreciation	9,588	9,002
Amortization	172	193
	<u>121,266</u>	<u>120,934</u>
Total operating expenses	<u>121,266</u>	<u>120,934</u>
Operating (loss) income	(1,121)	777
Change in Fair Value of Interest Rate Swaps	2,105	3,319
Loss on Exit Activities	-	(696)
Net Periodic Pension Cost, Nonoperating	<u>(113)</u>	<u>(247)</u>
Excess of operating revenues over expenses	<u>871</u>	<u>3,153</u>
Other Changes		
Pension-related changes other than net periodic pension cost	719	1,553
Net unrealized (losses) gains on investments	(1,475)	2,741
Net assets released from restrictions, capital	165	75
	<u>(591)</u>	<u>4,369</u>
Total other changes	<u>(591)</u>	<u>4,369</u>
Change in unrestricted net assets	<u>280</u>	<u>7,522</u>

See notes to consolidated financial statements

Phoebe-Devitt Homes and Affiliated Organizations

Consolidated Statement of Activities

Years Ended June 30, 2018 and 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
Changes in Temporarily Restricted Net Assets		
Contributions	\$ 479	\$ 1,774
Investment income	140	113
Net unrealized (losses) gains on investments	(755)	240
Net realized gains on investments	1,081	136
Net assets released from restrictions	<u>(815)</u>	<u>(1,997)</u>
Change in temporarily restricted net assets	<u>130</u>	<u>266</u>
Changes in Permanently Restricted Net Assets		
Contributions	58	73
Change in value of funds held in trust by others	136	239
Net assets released from restrictions upon termination of trust	<u>-</u>	<u>(65)</u>
Change in permanently restricted net assets	<u>194</u>	<u>247</u>
Change in net assets	604	8,035
Net Assets, Beginning of Year	<u>68,133</u>	<u>60,098</u>
Net Assets, End of Year	<u><u>\$ 68,737</u></u>	<u><u>\$ 68,133</u></u>

See notes to consolidated financial statements

Phoebe-Devitt Homes and Affiliated Organizations

Consolidated Statement of Changes in Net Assets

Years Ended June 30, 2018 and 2017

(In Thousands)

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Controlling Interest	Noncontrolling Interest			
Net Assets, June 30, 2016	\$ 48,863	\$ (1,583)	\$ 3,906	\$ 8,912	\$ 60,098
Change in net assets	<u>7,694</u>	<u>(172)</u>	<u>266</u>	<u>247</u>	<u>8,035</u>
Net Assets, June 30, 2017	56,557	(1,755)	4,172	9,159	68,133
Change in net assets	<u>585</u>	<u>(305)</u>	<u>130</u>	<u>194</u>	<u>604</u>
Net Assets, June 30, 2018	<u>\$ 57,142</u>	<u>\$ (2,060)</u>	<u>\$ 4,302</u>	<u>\$ 9,353</u>	<u>\$ 68,737</u>

See notes to consolidated financial statements

Phoebe-Devitt Homes and Affiliated Organizations

Consolidated Statement of Cash Flows

Years Ended June 30, 2018 and 2017

(In Thousands)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 604	\$ 8,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,588	9,002
Amortization of deferred financing costs	172	193
Provision for bad debts	1,365	617
Amortization of entrance fees	(2,058)	(2,135)
Proceeds from entrance fees	4,694	2,945
Restricted contributions	(537)	(1,847)
Net realized and unrealized gains and change in value of funds held in trust by others	(4,124)	(6,313)
Gain on disposal of property and equipment	(26)	(14)
Change in fair value of interest rate swaps	(2,105)	(3,319)
Changes in assets and liabilities:		
Net change in receivables, prepaids, accruals, and other assets and liabilities	(2,539)	(2,446)
Net cash provided by operating activities	<u>5,034</u>	<u>4,718</u>
Cash Flows from Investing Activities		
Net proceeds of investments and assets whose use is limited	7,082	2,706
Purchases of property and equipment	(7,648)	(8,290)
Proceeds from the disposal of property and equipment	26	14
Investment in equity method investments	(653)	(734)
Net cash used in investing activities	<u>(1,193)</u>	<u>(6,304)</u>
Cash Flows from Financing Activities		
Refunds of entrance fees	(4,024)	(5,264)
Proceeds from refundable entrance fees	2,989	4,106
Proceeds from issuance of long-term debt	-	3,518
Payment of long-term debt	(4,099)	(3,828)
Restricted contributions	537	1,847
Deferred financing costs incurred	-	(20)
Net cash (used in) provided by financing activities	<u>(4,597)</u>	<u>359</u>
Net decrease in cash and cash equivalents	(756)	(1,227)
Cash and Cash Equivalents, Beginning of Year	<u>7,270</u>	<u>8,497</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,514</u>	<u>\$ 7,270</u>
Supplementary Disclosure of Cash Flows Information		
Cash paid during the year for interest	<u>\$ 2,767</u>	<u>\$ 2,828</u>

Supplementary Schedule of Noncash Financing Activity

At June 30, 2018 and 2017, the Organization had note receivable agreements with residents for entrance fees in the amount of \$256 and \$302, respectively.

See notes to consolidated financial statements

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

1. Organization

Phoebe-Devitt Homes (the "Organization") is the sole member of the following affiliates (all are not-for-profit organizations except for Phoebe Reciprocal Risk Retention Group):

Phoebe-Devitt Homes is located in Allentown, Pennsylvania, which exists to provide a continuum of residential, health, and community support programs designed to meet the needs of seniors throughout Berks, Bucks, Lehigh, Montgomery, and Northampton Counties in Pennsylvania. Phoebe-Devitt Homes does business as Phoebe Ministries.

Phoebe Home, Inc. is a continuing care retirement community located in Allentown, Pennsylvania, which provides services through independent living, personal care, and skilled nursing services. Phoebe Home, Inc. does business as Phoebe Allentown. During 2017 Phoebe Allentown underwent a repositioning of the skilled nursing facility. The direct costs associated with this repositioning are reported as loss on exit activities on the Consolidated Statement of Activities.

Phoebe Services, Inc. is located in Allentown and Lancaster, Pennsylvania, and provides services to related organizations which include management, finance, billing and collections, information technology and communications, human resources, marketing, pastoral care, and other centralized services. Phoebe Services, Inc. also provides pharmacy services to both related and unrelated organizations.

Phoebe Berks Health Care Center, Inc. is a continuing care retirement community located in Wernersville, Pennsylvania, which provides services through independent living, personal care, adult day services, and skilled nursing services. Phoebe Berks Health Care Center, Inc. does business as Phoebe Berks.

Phoebe Richland Health Care Center is a continuing care retirement community located in Richlandtown, Pennsylvania, which provides services through independent living, personal care, and skilled nursing services. Phoebe Richland Health Care Center does business as Phoebe Richland.

Wyncote Church Home is a continuing care retirement community located in Wyncote, Pennsylvania, which provides services through independent living, personal care, and skilled nursing services. Wyncote Church Home does business as Phoebe Wyncote.

Phoebe Corporate and Community Based Services, Inc. ("PCCBS") is a service corporation located in Allentown, Wernersville, and Richlandtown, Pennsylvania which provides community based geriatric, rehabilitation, educational, and consulting services. PCCBS does business as Phoebe Center for Excellence in Dementia Care, Phoebe Rehab Services, Phoebe Certified Nurse Practitioner Services, and Pathstones by Phoebe.

Phoebe Reciprocal Risk Retention Group ("PRRRG") is a for-profit corporation located in Charleston, South Carolina, which provides insurance coverage of Phoebe-Devitt Homes and related affiliates.

Phoebe Apartments, Inc. is located in Allentown, Pennsylvania, and provides low income housing to seniors.

Phoebe Housing, Inc. provides management support services to affiliated organizations.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Phoebe Housing, Inc. holds the following interests in several senior housing partnerships in which it serves as general partner and/or manager (Affordable Housing):

	<u>% of Ownership</u>
Franklin & Noble Manor Associates, LP	1 %
Furnace Creek Associates, LP	1
John F. Lutz Associates, LP	1
Senior Apartments at the Wyomissing Club Associates, LP	1
Weidner Manor Associates, LP	1
Wind Gap Manor Associates, LP	1
Devitt House, Inc. (a not-for-profit corporation)	0

2. Summary of Significant Accounting Policies

Consolidation of Limited Partnerships

The Organization follows the accounting guidance in determining whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The guidance presumes that a general partner controls a limited partnership and, therefore, should consolidate the partnership. This presumption can be overcome if the limited partners have kick-out or substantive participating rights. Management determined that the seven senior housing partnerships listed above (Affordable Housing) should be consolidated.

Principles of Consolidation

The consolidated financial statements have been prepared to focus on Phoebe-Devitt Homes and all controlled affiliated organizations as a whole. All material intercompany balances and transactions have been eliminated.

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents includes cash on hand, the Organization's and its affiliates' operating cash accounts, certificates of deposit, and investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts classified as assets whose use is limited and investments not classified as highly liquid.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Accounts Receivable

Accounts receivable consists of Medicaid, Medicare, Private Pay, and other contracted third-party payors. Accounts receivable are recorded net of contractual adjustments and are subject to audit and retroactive adjustment. Provision for these adjustments has been made as considered necessary. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for doubtful accounts of \$3,654 and \$3,184 as of June 30, 2018 and 2017, respectively, is based on management's assessment of the collectability of customer accounts and the aging of the accounts receivable.

Inventories

Pharmaceutical, medical, and other supplies are stated at replacement cost, which approximates net realizable value. Inventories are included with prepaid expenses and other on the consolidated statement of financial position.

Assets Whose Use is Limited, Investments and Investment Risk

Assets designated by the Board of Directors, assets whose use is restricted by donor stipulation, assets of residents and patients required to be deposited in escrow, assets deposited with a trustee under terms of the bond indenture, and other reserves are classified as assets whose use is limited. Investments are presented at market value which is determined using quoted market prices of a national exchange, except for alternative investments which are valued at net asset value per share. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in operating income unless the income or loss is restricted by donor or law. Unrealized gains and losses are excluded from operating income. Contributed investments are initially valued at the quoted fair value on the date received, which is then treated as cost.

The Organization's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated statement of financial position could change materially in the near term.

Funds Held in Trust by Others

The Organization has been named as a beneficiary of a number of trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the beneficiaries are notified of the trust's existence. The beneficiaries receive the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trusts are recorded as investment income.

Funds held in trust by others are valued at the fair value of the underlying investments. The change in the fair value of funds held in trust by others is reported as a change in permanently restricted net assets.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Equity Method Investments

The Organization owns a 1.1% limited partnership interest in Health Network Laboratories, LLP. The value is \$3,415 and \$3,235 as of June 30, 2018 and 2017, respectively. During the year ended June 30, 2017, the Organization acquired a 30% interest in Comforting Home Care, Inc. The value is \$1,093 and \$620 as of June 30, 2018 and 2017, respectively. The investments are valued using the equity method of accounting. Dividends are recorded through investment income as received.

Property and Equipment

Property and equipment are recorded at cost. The Organization's policy is to capitalize all property and equipment at cost in excess of \$500 (in hundreds) as required by Nursing Facility Services cost report guidelines. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs of property and equipment are charged to operations and major renewals are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities.

Deferred Financing Costs

Deferred financing costs are presented as a direct reduction of long-term debt and are being amortized using the straight-line method over the term of the bonds and mortgages, which approximates effective interest method.

Net Patient and Resident Service Revenue

Net patient and resident service revenue is reported at the estimated net realizable amount to be received from patients, residents, and others including Medicaid, Medicare, and other third-party payors for services rendered. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- Medicaid: Nursing services provided to Medicaid program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 23% and 28% of the Organization's net patient and resident service revenues in 2018 and 2017, respectively, were derived from the Medicaid program.
- Medicare: Nursing and ancillary services provided to Medicare beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 11% of the Organization's net patient and resident service revenues in both 2018 and 2017 were derived from the Medicare program.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

As described above, the Medicaid and Medicare rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Organization's clinical assessment of its residents. The Organization is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medicaid and Medicare programs.

Resident and Patient Funds

Security deposits paid in advance to cover possible costs when residents vacate their living units are accounted for as deferred revenue and taken into income only if earned upon termination of an agreement. This liability also includes nursing home patients' funds held in the safekeeping of the Organization for the patients' personal use.

Entrance Agreement Contracts

Entrance fees paid by residents of the Organization's independent living units, including certain cottages and apartments, are recorded as deferred revenue and refundable entrance fees. A resident, upon termination of occupancy, may be entitled to receive a refund of a portion of the entrance fee pursuant to the terms of the contract which is required to be paid only upon the subsequent receipt of an entrance fee and move-in by a new resident for that independent living unit.

The nonrefundable portion of entrance fees as stated in each contract is deferred and amortized to revenue over the estimated life expectancy of each resident and is classified as deferred revenue in the consolidated statement of financial position. The guaranteed refundable liability component is not amortized to revenue and is classified as refundable entrance fees in the consolidated statement of financial position.

The amount of entrance fees which is refundable to residents as of June 30, 2018 and 2017 under contractual refund provisions was approximately \$41,254 and \$40,834, respectively.

Estimated Obligation to Provide Future Services

The Organization annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. There was no estimated obligation as of June 30, 2018 and 2017.

Donor-Restricted Gifts

The Organization 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.

There are three classes of net assets - permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets have been restricted by donors to be maintained permanently by the Organization or designated trustee in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as increases in temporarily restricted net assets and reclassified to unrestricted net assets as net assets released from restrictions.

Unrestricted net assets are net assets not subject to donor-imposed stipulations.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets are to 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 Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Statutory Reserve Requirements

The Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of 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 facility exclusive of depreciation and amortization. The reserve is computed on only the proportional share of financing or operating expenses that are applicable to continuing care agreements. This statutory reserve requirement for June 30, 2018 in the amount of \$742, \$2,621, \$52, \$19, and \$41 for Phoebe Home, Inc., Phoebe Berks Health Care Center, Inc., Wyncote Church Home, Phoebe Richland Health Care Center, and Pathstones by Phoebe, respectively, is separately stated on the consolidated statement of financial position.

Performance Indicator

The consolidated statement of activities includes a performance indicator of operations labeled "excess of operating revenues over expenses." Changes in unrestricted net assets which are excluded from this measure include pension-related changes other than net periodic pension cost, net unrealized gains and losses on investments, and net assets released from restrictions, capital.

Operating (Loss) Income

The consolidated statement of activities includes an intermediate measure of operations labeled "operating (loss) income." The changes in the performance indicator which are excluded from this intermediate measure are the loss on exit activities, the change in fair value of interest rate swaps, and net periodic pension costs, nonoperating.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Derivatives

The Organization follows the guidance for accounting for derivative instruments and hedging activities by not-for-profit organizations, and clarification of the performance indicator. The Organization chose not to elect hedge accounting for its derivative instruments and does not utilize its interest rate swap agreements for trading or other speculative purposes. Therefore, variations in fair value are marked-to-market within the performance indicator.

Uncompensated Care

The Organization maintains records to identify and monitor the level of uncompensated care it provides. The estimated costs of providing uncompensated care are based upon the direct and indirect costs identified with the specific uncompensated care services provided.

The Organization and its affiliates provided charity care, subsidies, and other support of those in need to many of the programs and individuals it serves. Uncompensated care costs included in the consolidated statement of activities totaled \$12,567 and \$14,705 in 2018 and 2017, respectively, including services provided to Medicaid residents whose costs exceeded Medicaid reimbursement. The Organization received \$163 and \$197 in temporarily restricted contributions and \$3 and \$3 in permanently restricted contributions for uncompensated care during 2018 and 2017, respectively.

Income Taxes

The Organization and its affiliates, exclusive of PRRRG and the senior housing partnerships listed on page 9, have been recognized by the Internal Revenue Service as not-for-profit organizations as described in Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on related income pursuant to Section 509(a) of the IRC.

The Organization accounts for uncertainty in income taxes using 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. Management has determined that there were no material tax uncertainties that met the recognition threshold in 2018 and 2017.

New Accounting Standard - Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its fiscal year ending June 30, 2019. The Organization is assessing the impact of adoption of ASU No. 2014-09 will have on its consolidated financial statements.

Phoebe-Devitt Homes and Affiliated Organizations

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(In Thousands)

New Accounting Standard - Presentation of Financial Statements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The Organization will be required to retrospectively (with transition provision) adopt the guidance in ASU No. 2014-09 for its fiscal year ending June 30, 2019. The Organization is assessing the impact of adoption of ASU No. 2016-14 will have on its consolidated financial statements.

New Accounting Standard – Statement of Cash Flows (Topic 230), Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its fiscal year ending June 30, 2019. The Organization is assessing the impact of adoption of ASU No. 2016-18 will have on its consolidated financial statements.

New Accounting Standard – Contributions

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve account guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its fiscal year ending June 30, 2019. The Organization is assessing the impact of adoption of ASU No. 2018-08 will have on its consolidated financial statements.

New Accounting Standard – Simplifying the Measurement of Inventory

In 2018, the Organization adopted the FASB's ASU No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the Organization is required to measure inventory, other than inventory measured using the last-in, first-out or retail inventory methods, at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. The effect of the required prospective application of this change did not have a material effect on the Organization's consolidated financial statements.

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New Accounting Standard – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Due to the FASB issuance of ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, the Organization is required to present its service cost component of net periodic pension benefit cost within salaries and wages in the consolidated statement of activities, which also includes employee compensation expense. The other components of the Organization's net periodic pension benefit cost are presented separately from the service cost component and outside of operating income and included within net periodic pension cost, nonoperating in the consolidated statement of activities. The effects of the retrospective application of ASU No. 2017-07 on the consolidated statement of activities was the reclassification of the other components of net periodic pension benefit cost which decreased employee benefits and other staff costs and total operating expenses and increased net periodic pension cost, nonoperating by \$247. In addition, this change in presentation resulted in an increase in operating income in the consolidated statement of activities in 2017 of \$247.

Subsequent Events

The Organization has evaluated subsequent events through October 22, 2018, which is the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2017 balances previously reported to conform to the current year presentation. The reclassifications had no effect on the change in net assets.

3. Fair Value Measurements, Investments, and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Organization for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

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The following tables present financial instruments measured at fair value at June 30, 2018 and 2017, by caption on the consolidated statement of financial position:

Description	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets				
Investments:				
Equity securities:				
Common stock:				
Consumer discretionary	\$ 1,702	\$ 1,702	\$ -	\$ -
Consumer staples	1,828	1,828	-	-
Energy	1,155	1,155	-	-
Financials	2,380	2,380	-	-
Healthcare	1,973	1,973	-	-
Industrials	2,541	2,541	-	-
Information technology	4,016	4,016	-	-
Materials	1,103	1,103	-	-
Real estate	28	28	-	-
Telecommunication	282	282	-	-
Utilities	451	451	-	-
Mutual funds:				
Domestic	8,496	8,496	-	-
International	5,620	5,620	-	-
Other mutual funds	2,979	2,979	-	-
Other	271	271	-	-
Fixed income:				
Government obligations	2,726	-	2,726	-
Mortgage backed securities	25	-	25	-
Corporate obligations	3,062	-	3,062	-
Mutual funds	2,876	2,876	-	-
CDs/equivalents	96	96	-	-
Other investments	87	87	-	-
Total investments in the fair value hierarchy	43,697	37,884	5,813	-
Alternative investments reported at net asset value	10,034			
Total investments	\$ 53,731			

The equity method investments in Health Network Laboratories, LLP and Comforting Home Care, Inc. as described in Note 2 with values of \$4,508 and \$3,855 as of June 30, 2018 and 2017, respectively has been excluded from the fair value tables.

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Description	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited:				
Cash/money market accounts	\$ 4,649	\$ 4,649	\$ -	\$ -
Equity securities:				
Common stock:				
Consumer discretionary	575	575	-	-
Consumer staples	333	333	-	-
Energy	184	184	-	-
Financials	536	536	-	-
Healthcare	563	563	-	-
Industrials	623	623	-	-
Information technology	1,154	1,154	-	-
Materials	169	169	-	-
Telecommunication services	2	2	-	-
Mutual funds	4,922	4,922	-	-
Other	96	96	-	-
Fixed income:				
Government obligations	1,881	-	1,881	-
Corporate obligations	2,702	-	2,702	-
Mutual funds	839	839	-	-
CDs/equivalents	1,113	1,113	-	-
Other investments, at cost	87	87	-	-
Funds held in trust by others	4,989	-	-	4,989
Total assets whose use is limited	25,417	15,845	4,583	4,989
Statutory Minimum Liquid Reserve:				
Cash/money market accounts	1,928	1,928	-	-
Equity securities	1,547	1,547	-	-
Total statutory minimum liquid reserve	3,475	3,475	-	-
Total assets	\$ 82,623	\$ 57,204	\$ 10,396	\$ 4,989
Liabilities				
Interest rate swaps	\$ 2,911	\$ -	\$ 2,911	\$ -
Disclosed at Fair Value				
Cash and cash equivalents	\$ 6,514	\$ 6,514	\$ -	\$ -
Long-term debt (carrying value of \$68,185)	\$ 68,185	\$ -	\$ 68,185	\$ -

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Description	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets				
Investments:				
Equity securities:				
Common stock:				
Consumer discretionary	\$ 1,601	\$ 1,601	\$ -	\$ -
Consumer staples	2,103	2,103	-	-
Energy	718	718	-	-
Financials	1,818	1,818	-	-
Healthcare	1,732	1,732	-	-
Industrials	2,244	2,244	-	-
Information technology	3,357	3,357	-	-
Materials	1,148	1,148	-	-
Telecommunication	386	386	-	-
Utilities	438	438	-	-
Mutual funds:				
Domestic	15,165	15,165	-	-
International	7,391	7,391	-	-
Other mutual funds	1,391	1,391	-	-
Other	451	451	-	-
Fixed income:				
Government obligations	2,935	-	2,935	-
Mortgage backed securities	1,150	-	1,150	-
Corporate obligations	3,553	-	3,553	-
Mutual funds	3,284	3,284	-	-
CDs/equivalents	262	262	-	-
Other investments	87	87	-	-
Total investments in the fair value hierarchy	51,214	43,576	7,638	-
Alternative investments reported at net asset value	5,496			
Total investments	\$ 56,710			

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Description	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited:				
Cash/money market accounts	\$ 5,092	\$ 5,092	\$ -	\$ -
Equity securities:				
Common stock:				
Consumer discretionary	665	665	-	-
Consumer staples	544	544	-	-
Energy	84	84	-	-
Financials	629	629	-	-
Healthcare	721	721	-	-
Industrials	671	671	-	-
Information technology	1,030	1,030	-	-
Materials	180	180	-	-
Telecommunication services	65	65	-	-
Utilities	13	13	-	-
Mutual funds	4,171	4,171	-	-
Other	19	19	-	-
Fixed income:				
Government obligations	1,908	-	1,908	-
Mortgage backed securities	573	-	573	-
Corporate obligations	2,783	-	2,783	-
Mutual funds	242	242	-	-
CDs/equivalents	1,120	1,120	-	-
Other investments	52	52	-	-
Other investments, at cost	110	110	-	-
Funds held in trust by others	4,853	-	-	4,853
Total assets whose use is limited	25,525	15,408	5,264	4,853
Statutory Minimum Liquid Reserve:				
Cash/money market accounts	2,236	2,236	-	-
Equity securities	1,110	1,110	-	-
Total statutory minimum liquid reserve	3,346	3,346	-	-
Total assets	\$ 85,581	\$ 62,330	\$ 12,902	\$ 4,853
Liabilities				
Interest rate swaps	\$ 5,016	\$ -	\$ 5,016	\$ -
Disclosed at Fair Value				
Cash and cash equivalents	\$ 7,270	\$ 7,270	\$ -	\$ -
Long-term debt (carrying value of \$72,280)	\$ 72,280	\$ -	\$ 72,280	\$ -

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The composition of assets whose use is limited and investments as of June 30, 2018 and 2017 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
By Board for continuing operations	\$ 50,123	\$ 53,062
By Board for charitable gift annuity program	939	938
By Board for charitable care	4,513	4,348
By Board for endowment purposes	4,253	3,943
Assets held in trust for residents and patients	1,658	1,791
Self-insured reserves	4,327	4,375
By HUD/Affordable Housing	1,801	1,706
Assets held by trustees, under bond indenture	1,709	2,372
By donors for restricted purposes	13,300	13,046
	<u>\$ 82,623</u>	<u>\$ 85,581</u>

A summary of assets whose use is limited and investments as of June 30, 2018 and 2017 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
Cash/money market accounts	\$ 6,577	\$ 7,328
Equity securities	45,529	49,845
Fixed income	15,320	17,810
Alternative investments	10,034	5,496
Other assets	80	132
Contributions receivable	87	110
Funds held in trust by others	4,989	4,853
CSV, life insurance	7	7
	<u>\$ 82,623</u>	<u>\$ 85,581</u>

The following tables summarize the gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities in a continuous loss position at June 30, 2018 and 2017. As of June 30, 2018 and 2017, 508 and 302 (in hundreds) individual securities, respectively, had unrealized losses. Management believes that holding losses on the remaining investments are not permanent impairment as they reflect general market conditions instead of permanent decline in value.

	<u>2018</u>					
	<u>Held Less than Twelve Months</u>		<u>Held Twelve Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equity securities	\$ 7,108	\$ (491)	\$ 1,695	\$ (741)	\$ 8,803	\$ (1,232)
Alternative investments	-	-	493	(68)	493	(68)
Fixed income securities	5,968	(128)	1,740	(87)	7,708	(215)
Other assets	-	-	19	(1)	19	(1)
	<u>\$ 13,076</u>	<u>\$ (619)</u>	<u>\$ 3,947</u>	<u>\$ (897)</u>	<u>\$ 17,023</u>	<u>\$ (1,516)</u>

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	2017					
	Held Less than Twelve Months		Held Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	\$ 3,043	\$ (257)	\$ 1,174	\$ (171)	\$ 4,217	\$ (428)
Alternative investments	2,083	(136)	1,193	(61)	3,276	(197)
Fixed income securities	4,314	(61)	1,948	(57)	6,262	(118)
Other assets	52	(2)	18	(2)	70	(4)
	<u>\$ 9,492</u>	<u>\$ (456)</u>	<u>\$ 4,333</u>	<u>\$ (291)</u>	<u>\$ 13,825</u>	<u>\$ (747)</u>

The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Organization's funds held in trust by others.

	2018	2017
Beginning balance	\$ 4,853	\$ 4,679
Change in value	136	239
Released from restrictions upon termination of trust	-	(65)
Ending balance	<u>\$ 4,989</u>	<u>\$ 4,853</u>

The change in value of \$136 is included in the change in permanently restricted net assets at June 30, 2018 and the change in value of \$239 and released from restriction from termination of trust of (\$65) is included in the change in permanently restricted net assets at June 30, 2017.

Derivatives

The Obligated Group entered into four interest rate swap agreements (the "Agreements") to manage the variable rate interest payments due on its long-term debt (Note 5). The Agreements on the 2008 Bonds, 2012 Bonds (2 agreements), and 2014 Bonds expire in May 2028, May 2022, and April 2024, respectively. The 2008 agreement is a weekly measurement process comparing the swap rate of 3.29% (notional amount of \$29,220) with an index rate based on 70% of LIBOR (London Inter Bank Offered Rate). The 2012 agreements are a monthly measurement process comparing the swap rates of 1.06% (notional amount of \$6,390) and 1.09% (notional amount of \$1,980) with an index rate based on 73% of LIBOR. The 2014 agreement is a monthly measurement process comparing the swap rate of 2.24% (notional amount of \$12,621) with an index rate based on 70% of LIBOR. Payments to or from the counterparty are classified as a component of interest expense. Changes in the fair value of the Agreements are included in excess of operating revenues over expenses since the Agreements are not designated as hedging instruments. As of June 30, 2018 and 2017, the 2008 interest rate swap is recorded as a liability of \$2,820 and \$4,349, respectively, the 2012 interest rate swaps are recorded as an asset of \$130 and \$32, respectively, and the 2014 interest rate swap is recorded as a liability of \$221 and \$699, respectively. The change in the fair value of the Agreements is classified as change in fair value of interest rate swaps in the consolidated statement of activities and was \$2,105 in 2018 and \$3,319 in 2017.

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Valuation Methodologies

The carrying amount of operating cash and cash equivalents approximates fair value at June 30, 2018 and 2017 due to the short-term nature of these instruments.

Investments, assets whose use is limited, and statutory minimum liquid reserves are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, equity securities, mutual funds, CDs/equivalents, and preferred securities and are estimated using quoted prices for similar securities for other fixed income securities.

The fair value of the funds held in trust by others was determined based on the Organization's interest in the fair value of the underlying assets, which approximate the present value of the future distributions expected to be received.

The fair value of long-term debt is based on quoted market prices for the same or similar issues (excluding Phoebe Apartments, Inc. and Affordable Housing).

The fair value of the Phoebe Apartments, Inc. and Affordable Housing long-term debt approximates fair value based upon the borrowing rates available to Phoebe Apartments, Inc. and the Affordable Housing LPs.

The Organization measures its interest rate swap agreements at fair value based on proprietary models of third parties. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments, and considers the credit risk of the Organization. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instruments and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Organization would pay or receive to terminate the agreements.

Investments in the accompanying consolidated statement of financial position include approximately \$10,034 and \$5,496 of alternative investments funds (the "Funds") at June 30, 2018 and 2017, respectively. The Funds are measured using the net asset value ("NAV") per share practical expedient. The Organization's alternative investments funds are generally structured such that the Organization holds a limited partnership interest or an interest in an investment management company. The Organization's ownership structure does not provide for control over the related investees, and the Organization's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. The Organization may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options and other derivative products. Financial information used by the Organization to evaluate the Funds is provided by the investment manager or general partner, and includes fair value valuations of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the Funds are audited annually by independent auditors, although the timing of reporting the results of the audits does not coincide with the Organization's annual consolidated financial statement reporting. There is uncertainty in the accounting for the Funds arising from factors such as a lack of active markets, lack of transparency in underlying holdings, and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates of fair value will change in the near term.

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The following represents each of the alternative investment fund's objectives and redemption restrictions:

Atlas Enhanced Fund, Ltd. - Class L: The underlying manager's approach is to identify talented subsector, region, or asset class specialists in the equity and macro space. By monitoring the teams in a quantifiable way, the underlying manager can allocate capital to those portfolio managers ("PMs") showing the most consistency and highest quality of returns, while simultaneously reducing risk from those PMs who experience larger drawdowns and/or generate poor quality of returns. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$588 and \$1,158, respectively. The Organization can redeem their investment in this fund on a quarterly basis with 65 days written notice. There were no unfunded commitments related to this fund at June 30, 2018.

Blackstone Alternative Alpha Fund: This fund intends to invest across 30-40 hedge fund managers with approximately 75% allocated to long/short equity managers with fundamental and opportunistic trading styles. The remaining 25% of the portfolio seeks to invest in a tactical sleeve of diversified strategies with the intention of enhancing alpha and reducing volatility against traditional equity markets. These strategies include multi-strategy, credit, commodities, global macro, and commodity trading advisors. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$0 and \$113, respectively. There is no lock up and the Organization can generally redeem their investment in this fund quarterly, with a 2% redemption fee within 12 months of investment. There were no unfunded commitments related to this fund at June 30, 2018.

HP Millennium International Fund, Ltd.: This fund's strategy is global and highly diversified, with a focus on investment strategies that exploit market inefficiencies to produce absolute return with low correlation to global capital markets. The underlying manager seeks to deliver absolute returns with relatively low volatility by focusing on a high level of diversification, tight control of directional market exposures, and a risk management framework that can result in a high level of liquidity and systematic movement of capital based on real-time trading profit and losses. The underlying manager believes that alpha is best achieved by trading professionals that are narrowly focused to maximize expertise, and combined on a platform that provides trading and operational economies of scale. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$952 and \$870, respectively. The Organization can redeem their investment in this fund on a quarterly basis with 95 days written notice. There were no unfunded commitments related to this fund at June 30, 2018.

The SkyBridge Multi-Adviser Hedge Fund Portfolios, LLC - Series G: The SkyBridge Series G is a registered fund of hedge funds that seeks capital appreciation by investing in 30-35 hedge funds managed by third-party investment managers who employ a variety of strategies in pursuit of attractive risk-adjusted returns and capital preservation. Series G combines a top-down strategy allocation methodology with bottom-up manager evaluations in an attempt to identify those strategies that the adviser believes provide opportunities to achieve Series G's investment objectives during a three to five year investment horizon. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$1,982 and \$1,816, respectively. The Organization can redeem their investment in this fund on a quarterly basis with 65 days written notice. There were no unfunded commitments related to this fund at June 30, 2018.

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Golden Tree Offshore Fund, Ltd. - Class C: This fund's principal investment objective is to achieve superior risk-adjusted total returns by investing, directly or indirectly through its investment in the Master Fund, primarily in public and private non-investment grade and non-rated debt securities. Securities and other instruments acquired by the Fund may include, but are not limited to, all types of debt obligations including bank debt, public and private equity, options, swaps and real estate related instruments. The Fund may acquire the foregoing instruments through the Master Fund, directly, or indirectly through investments in securitizations, structured financings, special purpose vehicles or other collective investment vehicles, some of which may be managed by the investment manager or its affiliates. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$985 and \$953, respectively. The Organization can redeem their investment in this fund on a quarterly basis with 90 days written notice. There were no unfunded commitments related to this fund at June 30, 2018.

Hamilton Lane Private Markets Opportunity Feeder Fund (Fund-of-Fund Series) LP: This fund will utilize multiple investment strategies, vintage years and geographies across primary fund investments, secondaries, and co-investments. Customized Series offered under this structure by Hamilton Lane will generally focus on small and mid-sized private equity funds, while seeking J-curve mitigation through investments in secondaries, delayed primaries and credit investments, and allocations will vary based on individual Series. As of June 30, 2018 and 2017, the NAV of the Organization's investment in this fund is \$1,284 and \$467, respectively. The unfunded commitments related to this fund at June 30, 2018 were \$4,028.

AIP Private Equity Co-Investment Opportunities Fund I LP: This fund is targeting to invest in twenty to thirty direct co-investment opportunities alongside select private equity sponsors in buyout and growth companies across North America and Europe. PE CO-Inv OPP I is expected to be invested over the course of a two-year investment period and will target a funded ratio of 85% to enable deal sourcing via "stapled" primary positions made directly by the fund in connection with specific co-investments. In addition to deal flow secured through the fund's primary commitments, the fund is also well-positioned to benefit from "overflow" co-investment deal activity arising from AIP's extensive network of private equity primary relationships. As of June 30, 2018 and 2017 the NAV of the Organization's investment in this fund is \$152 and \$119, respectively. The unfunded commitments related to this fund at June 30, 2018 were \$874.

Tortoise MLP & Pipeline Fund: This fund seeks to invest in primarily North American midstream energy infrastructure through a portfolio of higher quality energy MLPs and C-corp. pipeline companies that exhibit prospects for growth. The fund is limited to a 25% maximum allocation to MLP securities, and is not subject to corporate-level taxes. As of June 30, 2018 the NAV of the Organization's investment in this fund is \$1,598. There were no unfunded commitments related to this fund at June 30, 2018.

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Pointer Offshore LTD: The fund's investment objective is to achieve capital appreciation through a balanced level of risk primarily by allocating assets to a select number of fundamental long/short equity and credit-focused managers. The funds seek to achieve balance between risk and return in two primary ways: (1) employment of a select group of managers so as to decrease the fund's exposure to any single manager; and (2) employment of managers who utilize diverse strategies/exposures and hedging in their own individual funds. Diversification and hedging on the part of each of the funds' individual managers are intended to help generate positive overall returns even under adverse market conditions, although there is no assurance that this will be the case, or that the fund's investment objectives will be achieved. As of June 30, 2018, the NAV of the Organization's investment in this fund is \$2,000. There were no unfunded commitments related to this fund at June 30, 2018.

Goldman Sachs MLP Infrastructure Fund: This fund seeks to provide investors with exposure to the U.S energy independence theme. Improving technology and a growing demand for new energy sources has resulted in a renaissance for the U.S. economy. As of June 30, 2018, the NAV of the Organization's investment in this fund is \$493. There were no unfunded commitments related to this fund at June 30, 2018.

4. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>Depreciable Lives</u>
Land and improvements	\$ 9,383	\$ 9,688	0 - 20 Years
Buildings and improvements	176,656	168,316	5 - 50 Years
Furniture and equipment	29,067	35,258	3 - 20 Years
Construction in progress	18,662	27,412	
	233,768	240,674	
Less accumulated depreciation	<u>(127,164)</u>	<u>(132,130)</u>	
	<u>\$ 106,604</u>	<u>\$ 108,544</u>	

Construction in progress as of June 30, 2018 consists primarily of \$17,600 of costs related to a repositioning project at the Phoebe Richland campus. The project is substantially completed, placed in service, and is being depreciated, however it is currently recorded in construction in process until the contractor completes the remaining portion of the contract to the Organization's satisfaction. There is expected to be an additional \$1,160 of costs to complete the project.

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5. Long-Term Debt

Long-term debt at June 30, 2018 and 2017 consist of the following with all installment payments at actual amounts:

	<u>2018</u>	<u>2017</u>
Affordable Housing:		
Senior Apartments at the Wyomissing Club Associates, LP		
Citizens Bank mortgage payable, due in monthly installments of \$3,308, including interest at 5.00% to December 2019.	\$ 54	\$ 90
Fulton Bank mortgage payable, due in monthly installments of \$3,187, including interest at 5.00% to December 2019.	52	87
City of Reading mortgage note payable, due in semi-annual installments of \$14,607, including interest at 5.886% to November 2022. The note is due earlier than November 2022 if the project is sold.	249	249
City of Reading mortgage note payable to Community Development Block Grant ("CDBG"), interest accrued and capitalized at 5.30% per annum through July 2028, with all principal and accrued interest due July 2028. The note is due earlier than July 2028 if the project is sold.	1,318	1,252
City of Reading mortgage note payable (Rehab Program), interest accrued and capitalized at 6.00% per annum through July 2028, with all principal and accrued interest due July 2028. The note is due earlier than July 2028 if the project is sold.	415	391
City of Reading mortgage note payable to HOME Investment Partnership Program ("HOME"), interest accrued and capitalized at 6.00% per annum. Annual payments of \$5,000 are due through July 2028. The note is due earlier than July 2028 if the project is sold.	1,179	1,115

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(In Thousands)

	<u>2018</u>	<u>2017</u>
Furnace Creek Associates, LP		
6.75% mortgage payable to Rural Development ("RD") in monthly installments of \$6,890, including interest, through February 2046. The monthly payments include an interest subsidy of \$4,382 that effectively reduces the interest rate to 1.00%.	\$ 1,032	\$ 1,045
1.00% second mortgage payable to Berks Housing Opportunities One, Inc., monthly payments of \$1,522, including interest at 1.00% through December 2025. This note is due earlier than December 2025 if the project is sold.	131	148
1.00% third mortgage payable to Berks County., monthly payments of \$536, including interest at 1.00% through December 2025. This note is due earlier than December 2025 if the project is sold.	47	53
1.00% fourth mortgage payable to Berks Community Action Program. Interest accrues annually, payments of principal and interest deferred until December 31, 2025; thereafter, monthly payments of \$625, including interest at 1.00% through December 2045. This note is due earlier than December 2045 if the project is sold.	126	125
0.00% developer fee note. Potential loan payments will be determined on an annual basis if sufficient cash flow exists.	115	115
Weidner Manor Associates, LP		
Fulton Bank development note payable, due in monthly installments of \$1,946, interest rate is 1.00% above the bank's prime rate, which was 6.00% and 5.25% as of June 30, 2018 and 2017, respectively.	26	48
Fulton Bank mortgage note payable to Federal Home Loan Bank Affordable Housing Program ("FHLB AHP"), noninterest-bearing, due upon any default on development note above.	85	85
Berks Community Action Program mortgage note payable to Neighborhood Assistance Program ("NAP"), monthly payments of \$2,457 (subject to available cash flows), including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	294	291

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	<u>2018</u>	<u>2017</u>
Weidner Manor Associates, LP (Continued)		
Amity-Berks Development Company ("Amity-Berks") mortgage note payable, monthly payments of \$1,547 (subject to available cash flows), including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	\$ 92	\$ 92
Berks County mortgage note payable to Pennsylvania Housing Finance Agency ("PHFA"), monthly payments of \$2,077 (subject to available cash flows), including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	248	246
Berks County mortgage note payable to HOME, monthly payments of \$3,204 (subject to available cash flow), including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	383	379
Wind Gap Manor Associates, LP		
First mortgage payable to the PHFA. The mortgage is non-interest bearing. Payment of principal is deferred during the initial 30 years of project operation beginning November 1999. However, principal payments shall be due and payable from excess of revenues over expenses during any calendar year. 50% of excess revenue shall be used to repay principal and 50% shall be used as return on equity as limited by agency guidelines. In the event the project is sold or refinanced by the partnership, the note becomes due. Any unpaid principal is due November 2029.	729	839
Second mortgage payable to Lafayette Bank, using funds from the FHLB AHP. This mortgage is non-interest bearing. Principal payments will never be due unless the Partnership defaults on leasing units to low income senior citizens.	104	104
Franklin & Noble Manor Associates, LP		
1.00% second mortgage payable to Berks County, monthly payments of \$5,420 including interest at 3.00% through December 2026.	483	533
1.00% third mortgage payable to Berks Housing Opportunities, Inc., monthly payments of \$840 including interest at 3.00% through December 2026.	76	83

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	<u>2018</u>	<u>2017</u>
Franklin & Noble Manor Associates, LP (Continued)		
0.00% mortgage payable to the County of Berks, payments of principal deferred until 2034.	\$ 250	\$ 250
Fourth mortgage payable to Berks Community Action Program, Inc., no interest shall accrue or be payable. Payment of principal deferred until January 2028.	54	54
Devitt House, Inc.		
8.75% mortgage payable to RD in monthly installments of \$10,586, including interest, through August 2041. The monthly payments include an interest subsidy of \$7,550 that effectively reduces the interest rate to 1.00%.	1,251	1,267
John F. Lutz Associates, LP		
Note payable to the PHFA payable in monthly payments of \$999, including interest at 5.90%, secured by a primary mortgage, a security agreement on other assets, and an assignment on all income under leases of the property. The note is scheduled to mature January 2022.	39	48
Note payable to the PHFA with no interest. Principal payments shall be due and payable from excess of revenues over expenses during any calendar year. 50% of excess revenue shall be used to repay principal and 50% shall be used as return on equity as limited by agency guidelines. In the event the project is sold or refinanced by the partnership, the note becomes due. The note is secured by a secondary position mortgage, a security agreement on other assets, and an assignment of all income under leases of the property.	186	197
Note payable to Berks Housing Opportunities, Inc. with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1.00% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and be added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	243	240

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(In Thousands)

	<u>2018</u>	<u>2017</u>
John F. Lutz Associates, LP (Continued)		
Note payable to Berks Community Action Program with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1.00% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and be added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	\$ 491	\$ 486
Note payable to the County of Berks with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1.00% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and is added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	227	225
Obligated Group		
Lehigh County General Purpose Authority Variable Rate Demand Revenue Refunding Bonds, Series B of 1998. The Series B of 1998 bonds outstanding are due in varying annual installments through May 2021. The bonds are secured by an irrevocable letter of credit issued by Citizens Bank. The bonds bear interest at a weekly rate, subject to conversion to a monthly rate or a term rate, defined as the variable rate of interest equal to the minimum rate of interest necessary to sell the Series B of 1998 bonds as determined by the remarketing agent (1.69% and 1.09% as of June 30, 2018 and 2017, respectively).	910	1,190
Berks County Municipal Authority Federally-Taxable Variable Rate Demand Revenue Refunding Bonds, Series C of 1998. The Series C of 1998 bonds outstanding are due in varying annual installments through May 2022. The bonds are secured by an irrevocable letter of credit issued by Citizens Bank. The bonds bear interest at a weekly rate, subject to conversion to a monthly rate or a term rate, defined as the variable rate of interest equal to the minimum rate of interest necessary to sell the Series C of 1998 bonds as determined by the remarketing agent (2.18% and 1.40% as of June 30, 2018 and 2017, respectively).	1,520	1,850

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(In Thousands)

	<u>2018</u>	<u>2017</u>
Obligated Group (Continued)		
Berks County Municipal Authority Revenue Refunding Bonds, Series 2008. The 2008 Bonds were converted to index rate bonds during 2014, at which point KeyBank National Association became the sole bondholder. The 2008 bonds outstanding are due in varying annual installments through May 2038. The bonds bear a variable interest rate (2.75% and 1.05% at June 30, 2018 and 2017, respectively), which was swapped to a fixed rate of 3.29% through May 2028. At June 30, 2018, the overall effective interest rate was 4.70%.	\$ 28,920	\$ 29,914
Berks County Municipal Authority Revenue Refunding Bonds, Series A1 of 2012. The Series A1 of 2012 bonds outstanding are due in varying monthly installments through May 2022. Citizens Bank of Pennsylvania is the sole bondholder. The bonds bear a variable interest rate (3.21% and 2.67% at June 30, 2018 and 2017, respectively), which was swapped to a fixed rate of 1.06% through May 2022. At June 30, 2018, the overall effective interest rate was 2.83%.	6,390	8,070
Lehigh County General Purpose Authority Revenue Refunding Bonds, Series A2 of 2012. The Series A2 of 2012 bonds outstanding are due in varying monthly installments through May 2022. Citizens Bank of Pennsylvania is the sole bondholder. The bonds bear a variable interest rate (3.34% and 2.67% at June 30, 2018 and 2017, respectively), which was swapped to a fixed rate of 1.09% through May 2022. At June 30, 2018, the overall effective interest rate was 2.92%.	1,980	2,445
The Borough of Langhorne Manor Higher Education and Health Authority Revenue Bonds, Series 2014. Proceeds from the 2014 bonds were used for the refunding of the Phoebe Richland Health Care Revenue Note Series 2003 in the amount of \$2,560 and to finance additions and renovations at Phoebe Richland (Note 4) and capitalized interest of the Series 2014 Bonds (the "Projects"). Monthly installments of principal and interest will be paid through May 2041. Citizens Bank of Pennsylvania is the sole bondholder. The bonds are secured by a primary mortgage. The bonds bear a variable interest rate (2.75% and 2.10% at June 30, 2018 and 2017, respectively), of which a portion was swapped to a fixed rate of 2.24% through April 2024. At June 30, 2018, the overall effective interest rate was 3.42%.	18,030	18,159

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(In Thousands)

	<u>2018</u>	<u>2017</u>
Phoebe Housing		
0.00% note payable to a not-for-profit corporation, collateralized by real estate; note matures January 2046.	\$ 80	\$ 80
Apartments		
Phoebe Apartments, Inc., 3.00% mortgage payable to HUD, collateralized by property, plant, and equipment, due in monthly installments of \$6,266 including interest through January 2024. The note is due earlier than January 2024 if the project is sold.	<u>390</u>	<u>453</u>
	68,199	72,298
Less unamortized bond discount	(14)	(18)
Less unamortized deferred financing costs	(1,240)	(1,408)
Less current portion	<u>(4,519)</u>	<u>(4,332)</u>
	<u>\$ 62,426</u>	<u>\$ 66,540</u>

The Obligated Group consists of Phoebe Home, Inc., Phoebe Services, Inc., Phoebe-Devitt Homes, Phoebe Berks Health Care Center, Inc., and Phoebe Richland Health Care Center.

As security for the payment of the bonds payable, the Obligated Group and any future members of the Obligated Group will grant a security interest in the pledged assets to the Master Trustee. Pledged assets include gross revenue of the Obligated Group and any subsequent members of the Obligated Group and proceeds thereof.

As additional security for bond payments, the Obligated Group has granted to the Master Trustee a mortgage on certain facilities consisting of real estate, improvements, personal property, building, equipment, and other property interests.

The Series B of 1998 Bonds and Series C of 1998 Bonds are backed by letter of credits and subject to remarketing agreements. In the event that any or all of the Bonds are tendered by the bondholder and are unable to be remarketed, the letter of credits would be drawn upon to repay the tendered Bonds. Any drawings under the letter of credits are repayable on or before the first to occur of the following: the date on which the Bonds purchased with the proceeds from a draw on the letter of credits are successfully remarketed by the remarketing agent, the date on which the Bonds purchased with the proceeds from a draw on the letters of credit are redeemed or otherwise paid in full, the occurrence of an event of default, or the date the letters of credit expires. The letter of credit for the Series B of 1998 Bonds will expire in May 2021. The letter of credit for the Series C of 1998 Bonds will expire in May 2022. Certain debt provisions require the maintenance of the letters of credit.

The Obligated Group has agreed to comply with the terms of various debt agreements. The agreements also place limits on the incurrence of additional borrowings as long as the Bonds are outstanding.

Management regularly assesses refinancing options for long-term debt obligations based on market availability and requirements of partnership agreements and other agreements related to the Organization's long-term debt obligations.

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(In Thousands)

The aggregate maturities of long-term debt as of June 30, 2018 are as follows. The Organization has no intention of selling any of the Affordable Housing or Apartment projects and thus they are included in thereafter on the maturity schedule.

2019	\$ 4,519
2020	4,429
2021	4,490
2022	3,660
2023	2,152
Thereafter	<u>48,949</u>
Total	<u>\$ 68,199</u>

6. Employee Benefit Plans

The Organization maintains a 401(k) plan where eligible participants may contribute a portion of pretax annual compensation subject to IRS limits. In addition to participant contributions, the Organization's Board of Trustees may make discretionary contributions. Discretionary contributions in 2018 and 2017 were 3% of base eligible participant compensation, amounting to \$769 and \$1,315 during the years ended June 30, 2018 and 2017, respectively.

The Organization follows the recognition and disclosure provisions of accounting for defined benefit plans and other postretirement plans, which requires organizations to recognize the funded status of defined benefit plans and other postretirement plans as a net asset or liability and to recognize changes in that funding status in the year in which the changes occur through other changes in unrestricted net assets to the extent those changes are not included in periodic pension cost.

The defined benefit plan is a noncontributory defined benefit plan covering union employees at two affiliates. The benefits are based on a flat dollar amount based on years of service as specified by the plan. The plan has a projected benefit obligation and accumulated benefit obligation of \$13,742 and \$14,406 as of June 30, 2018 and 2017, respectively. The projected benefit obligation and the accumulated benefit obligation are the same amount since there are no future compensation levels to factor into the obligations. The benefits under this plan were frozen effective June 30, 2006. The plan will continue to make benefit payments for all vested accrued benefits as of June 30, 2006.

The following table sets forth the pension benefit obligation, fair value of plan assets, and funded status at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Benefit obligation at June 30	\$ (13,742)	\$ (14,406)
Fair value of plan assets	<u>10,814</u>	<u>10,493</u>
Funded status at end of the year	<u>\$ (2,928)</u>	<u>\$ (3,913)</u>
Amounts recognized in the statement of financial position consist of pension liability	<u>\$ 2,928</u>	<u>\$ 3,913</u>
Amounts recognized in unrestricted net assets consist of net actuarial loss	<u>\$ (6,396)</u>	<u>\$ (7,114)</u>

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(In Thousands)

The net loss for the defined benefit plan that will be amortized from unrestricted net assets into net periodic pension cost for the next fiscal year is \$386.

The following summarizes the net periodic pension cost, employer contribution and benefits paid by the pension plan for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Net periodic pension cost	\$ 112	\$ 247
Employer contributions	379	377
Benefits paid	(632)	(603)

Net periodic pension cost under the defined benefit plan for the years ended June 30, 2018 and 2017 included the following components:

	<u>2018</u>	<u>2017</u>
Interest cost on projected benefit obligation	\$ 562	\$ 559
Expected return on plan assets	(854)	(806)
Net amortization and deferral	404	494
Net periodic pension cost	<u>\$ 112</u>	<u>\$ 247</u>

Assumptions used in the actuarial computation that derived the benefit obligation and net periodic pension cost were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.25 %	4.00 %
Expected long-term rate of return on assets	8.25	8.25

The Organization invests in a diversified portfolio consisting of an array of asset classes in an attempt to emphasize long-term growth of principal while avoiding excessive risk and minimizing volatility. The Organization's investment policy targets a diversified mix of equities, fixed income securities, and non-traditional investments that has been determined to be appropriate in terms of risk/reward trade-off taking into account the expected funded status of the plan, cash contributions, and expense. Professional investment firms manage the plan assets. The overall investment policy is reviewed semi-annually to assure the continued relevance of the goals, objectives, strategies, and investment manager performance.

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(In Thousands)

The Plan's overall investment strategy is to achieve an asset allocation within the following allowable ranges:

Asset category:	<u>Policy Range</u>
Publicly traded equities	25-70 %
Fixed income	20-60
Non-traditional investments:	
Absolute return (hedge funds)	0-30
Real assets / managed futures	0-10
Cash and cash equivalents	0-20

The Plan's weighted average asset allocation as of June 30, 2018 and 2017 by asset category was as follows:

Asset category:	<u>2018</u>	<u>2017</u>
Publicly traded equities	66.37 %	61.32 %
Fixed income	26.20	28.35
Non-traditional investments	5.16	5.16
Cash and cash equivalents	2.27	5.17
	<u>100.00 %</u>	<u>100.00 %</u>

The Organization's funding policy is to contribute annually the maximum actuarially computed amount. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future. The Organization expects to contribute approximately \$352 to the Plan during 2019.

Projected benefit payments from the Plan as of June 30, 2018 are estimated as follows:

2019	\$ 624
2020	653
2021	658
2022	685
2023	745
2024 - 2028	3,952

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The fair value of plan assets is based on the fair value hierarchy as discussed in Note 3. The plan held no Level 3 assets at June 30, 2018. The fair value of plan assets at June 30, 2018, are as follows:

Description	Total	Level 1	Level 2
Cash/money market accounts	\$ 246	\$ 246	\$ -
Equity securities:			
Consumer cyclical	93	93	-
Consumer non-cyclical	145	145	-
Consumer services	30	30	-
Energy	15	15	-
Information technology	192	192	-
Materials	40	40	-
International equities	1,847	1,847	-
Capital equipment and services	22	22	-
Mutual funds:			
Domestic	1,055	1,055	-
International	283	283	-
Exchange traded funds	3,334	3,334	-
Other	121	121	-
Total equity securities	7,177	7,177	-
Fixed income:			
Government obligations:			
U.S. Treasury notes	936	-	936
Federal agency notes	92	-	92
Mortgage-backed securities	327	-	327
Corporate obligations	1,038	-	1,038
Mutual funds	440	-	440
Total fixed income	2,833	-	2,833
Total assets in the fair value hierarchy	10,256	\$ 7,423	\$ 2,833
Non-traditional investments, measured at net asset value	558		
Total plan assets	\$ 10,814		

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The fair value of plan assets is based on the fair value hierarchy as discussed in Note 3. The plan held no Level 3 assets at June 30, 2017. The fair value of plan assets at June 30, 2017, are as follows:

Description	Total	Level 1	Level 2
Cash/money market accounts	\$ 542	\$ 542	\$ -
Equity securities:			
Consumer cyclical	107	107	-
Consumer non-cyclical	173	173	-
Consumer services	62	62	-
Energy	11	11	-
Health care	41	41	-
Information technology	254	254	-
Materials	92	92	-
International equities	1,218	1,218	-
Capital equipment and services	31	31	-
Transportation	51	51	-
Mutual funds:			
Domestic	604	604	-
International	193	193	-
Exchange traded funds	3,544	3,544	-
Other	54	54	-
Total equity securities	6,435	6,435	-
Fixed income:			
Government obligations:			
U.S. Treasury notes	786	-	786
Federal agency notes	139	-	139
Mortgage-backed securities	327	-	327
Corporate obligations	1,163	-	1,163
Mutual funds	560	-	560
Total fixed income	2,975	-	2,975
Total assets in the fair value hierarchy	9,952	\$ 6,977	\$ 2,975
Non-traditional investments, measured at net asset value	541		
Total plan assets	\$ 10,493		

Non-traditional investments consist of Blackstone Alternative Alpha Fund of \$0 and \$31 at June 30, 2018 and 2017, respectively and The SkyBridge Multi-Advisor Hedge Fund Portfolios, LLC – Series G of \$558 and \$510 at June 30, 2018 and 2017, respectively. See description of these funds in Note 3.

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7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Charitable care/pastoral care	\$ 1,159	\$ 1,145
Building and equipment purchases	1,667	1,656
Information technology (operations)/staff skills	754	716
Operations/resident quality of life	722	655
	<u>\$ 4,302</u>	<u>\$ 4,172</u>

Permanently restricted net assets consist of the following. They are invested in perpetuity, the income from which is expendable to support:

	<u>2018</u>	<u>2017</u>
Charitable care/pastoral care	\$ 1,798	\$ 1,783
Building and equipment purchases	43	43
Information technology (operations)/staff skills	380	380
Operations/resident quality of life	7,132	6,953
	<u>\$ 9,353</u>	<u>\$ 9,159</u>

8. Net Assets Released from Restrictions

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. The amounts released during the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Charitable care/pastoral care	\$ 311	\$ 399
Building and equipment purchases	165	75
Information technology (operations)/staff skills	193	269
Operations/resident quality of life	146	1,254
	<u>\$ 815</u>	<u>\$ 1,997</u>

In addition, permanently restricted net assets of \$65 were released in 2017 due to the termination of a trust held by others. No permanently restricted net assets were released in 2018.

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9. Endowment Funds

The Organization's endowments consist of funds established for a variety of reasons and purposes. Its endowments include donor-restricted and board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the relevant state law. Unless specifically defined, the Organization considers the following factors to determine when a donor-restricted endowment fund is required by donor stipulation to accumulate or appropriate endowment funds:

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 58	\$ 1,819	\$ 4,306	\$ 6,183
Board-designated endowment funds	3,153	-	-	3,153
	<u>\$ 3,211</u>	<u>\$ 1,819</u>	<u>\$ 4,306</u>	<u>\$ 9,336</u>
	2017			
Donor-restricted endowment funds	\$ 63	\$ 1,515	\$ 4,260	\$ 5,838
Board-designated endowment funds	3,054	-	-	3,054
	<u>\$ 3,117</u>	<u>\$ 1,515</u>	<u>\$ 4,260</u>	<u>\$ 8,892</u>

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The following schedules represent the changes in endowment net assets for the years ended June 30:

	2018			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,117	\$ 1,515	\$ 4,260	\$ 8,892
Investment return:				
Investment income	94	528	-	622
Contributions	-	-	46	46
Appropriation of endowment assets for expenditure	-	(224)	-	(224)
Endowment net assets, end of year	<u>\$ 3,211</u>	<u>\$ 1,819</u>	<u>\$ 4,306</u>	<u>\$ 9,336</u>
	2017			
Endowment net assets, beginning of year	\$ 2,952	\$ 1,239	\$ 4,188	\$ 8,379
Investment return:				
Investment income	165	462	-	627
Contributions	-	-	72	72
Appropriation of endowment assets for expenditure	-	(186)	-	(186)
Endowment net assets, end of year	<u>\$ 3,117</u>	<u>\$ 1,515</u>	<u>\$ 4,260</u>	<u>\$ 8,892</u>

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Organization to retain as a fund of perpetual duration. These deficiencies are reported as a component of unrestricted net assets. There were no deficiencies reported as of either June 30, 2018 or 2017.

Return Objectives and Risk Parameters

The Organization 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 Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of 7.25% annually. Actual returns in any given year may vary from this amount.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Strategies Employed for Achieving Objectives

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

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

The Organization has a policy of appropriating restricted net assets for distribution based on 4% of portfolio value for the previous three years. The amount needed to fund distributions will first be taken from any accumulated excess earnings from prior years, then from current year investment earnings. Any undistributed income is added back to the Temporarily Restricted Fund balance. Over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3.1% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets to be held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

10. Self-Insured Reserves and Claims

The Organization purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. The Organization believes it has adequate insurance coverage for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverage.

The Organization capitalized PRRRG, a wholly-owned, captive insurance subsidiary, to underwrite the primary layer of professional and general liability insurance on a claims-made basis.

Professional (\$500 thousand per claim) and general (\$1 million per claim) liability coverage is provided by PRRRG on a directly written basis. Reserve requirements on reported and incurred but not reported claims are established based on actuarial projections of ultimate losses and total \$1,236 and \$1,216 as of June 30, 2018 and 2017, respectively. These reserves are included in other liabilities on the consolidated statement of financial position. In addition, the Organization purchases excess insurance of \$5 million per claim and in the aggregate for professional and general liability risks from a commercial carrier. Restricted funds held by PRRRG included cash of \$49 and investments of \$4,216 as of June 30, 2018 and cash of \$21 and investments of \$4,268 as of June 30, 2017. Premiums incurred by the Affiliated Organizations to PRRRG were \$379 in 2018 and \$361 in 2017.

The Organization participates in a self-insured program for workers' compensation insurance. In the case of catastrophes or other events that would cause excessive worker's compensation claims, the Organization is reinsured for losses in excess of \$600 thousand per occurrence.

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported which approximates \$945 and \$1,020 as of June 30, 2018 and 2017, respectively. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserve for unpaid losses and loss adjustment expenses is adequate. The estimates are reviewed annually. As adjustments to the liability reserves become necessary, they are reflected in current operations.

To qualify for workers' compensation self-insurance, the Organization has fulfilled certain collateral requirements of the Commonwealth of Pennsylvania. The Organization maintains a \$1 million irrevocable stand-by letter of credit to secure future obligations under the terms of the self-insurance program.

The Organization participates in a self-insured program for health insurance. The Organization holds a stop-loss policy that limits the maximum liability for benefits payable under such claims up to \$175 per participant per year during 2018 and \$125 per participant per year during 2017. Reserves for potential unpaid claims related to the health plan were \$640 and \$633 as of June 30, 2018 and 2017, respectively. These reserves are included in accrued expenses on the consolidated statement of financial position. Amounts held by the health plan were \$0 and \$101 as of June 30, 2018 and 2017, respectively.

Other investments restricted for self-insurance purposes were \$111 and \$107 as of June 30, 2018 and 2017, respectively.

11. Classification of Expenses

Expenses by functional classifications for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program activities	\$ 111,487	\$ 111,039
General and administrative	9,062	9,007
Fundraising	717	888
	<u>\$ 121,266</u>	<u>\$ 120,934</u>

Phoebe-Devitt Homes and Affiliated Organizations

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

12. Concentration of Credit Risk

The Organization maintains cash accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

Phoebe Apartments, Inc.'s sole asset is a 131-unit apartment project. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The nursing care facilities primarily derive their revenues from private-pay, Medicare, and Medicaid patients. Private-pay rates are established on the basis of the cost of delivering services and competitive considerations and, as such, are essentially market driven. In contrast, Medicare and Medicaid payment rates are regulated by the federal and state governments. As a result, the industry is sensitive to related legislative changes and is affected by reductions in governmental spending for these programs. Legislation dealing with nursing home revenues could be introduced, and if enacted, such legislation may have an impact upon the nursing care facilities.

13. Contingencies

Senior Living Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

Legal Actions

From time to time, the Organization is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organization's financial position or the results of operations.

Phoebe-Devitt Homes and Affiliated Organizations

Consolidating Schedule of Financial Position

June 30, 2018

(In Thousands)

	Phoebe-Devitt Homes	Phoebe Home	Phoebe Services	Phoebe Berks Health Care Center	Phoebe Richland Health Care	Wyncote Church Home	PCCBS	PRRRG	Phoebe Apartments	Phoebe Housing	Affordable Housing	Eliminations	Total
Assets													
Current Assets													
Cash and cash equivalents	\$ 5,833	\$ 15,232	\$ -	\$ 8,609	\$ 2,750	\$ -	\$ -	\$ 49	\$ 98	\$ 50	\$ 1,551	\$ (27,658)	\$ 6,514
Resident and patient funds	-	226	-	11	54	72	-	-	-	-	-	-	363
Accounts receivable	-	3,416	2,203	1,551	1,795	638	742	307	30	-	9	(409)	10,282
Due from related parties	221	882	99	314	321	1,376	6	-	(3)	108	(24)	(3,300)	-
Prepaid expenses and other	73	303	3,047	295	58	34	19	2	12	-	135	-	3,978
Total current assets	6,127	20,059	5,349	10,780	4,978	2,120	767	358	137	158	1,671	(31,367)	21,137
Investments	29,303	305	13	7,119	-	16,991	-	-	-	-	-	-	53,731
Assets Whose Use is Limited	16,229	319	128	135	1,663	802	58	4,216	666	-	1,201	-	25,417
Statutory Minimum Liquid Reserve	-	742	-	2,621	19	52	41	-	-	-	-	-	3,475
Property and Equipment, Net	-	24,878	5,311	43,700	19,157	4,355	442	-	793	-	7,968	-	106,604
Due from Related Parties, 1998 Refinancing	-	-	7,557	6,350	-	-	-	-	-	-	-	(13,907)	-
Other Assets													
Investments in affiliates	1,385	1,530	3,096	645	504	-	-	-	-	-	-	(7,160)	-
Equity method investments	3,415	-	-	-	-	-	1,093	-	-	-	-	-	4,508
Investments in affiliated partnerships	-	-	-	-	-	-	-	-	-	385	-	(385)	-
Note receivable, related party	109	-	730	-	142	620	-	-	-	76	-	(1,677)	-
Other assets	-	-	-	-	-	-	-	-	-	457	-	(279)	178
Total other assets	4,909	1,530	3,826	645	646	620	1,093	-	-	918	-	(9,501)	4,686
Total assets	\$ 56,568	\$ 47,833	\$ 22,184	\$ 71,350	\$ 26,463	\$ 24,940	\$ 2,401	\$ 4,574	\$ 1,596	\$ 1,076	\$ 10,840	\$ (54,775)	\$ 215,050

Phoebe-Devitt Homes and Affiliated Organizations

Consolidating Schedule of Financial Position

June 30, 2018

(In Thousands)

	Phoebe-Devitt Homes	Phoebe Home	Phoebe Services	Phoebe Berks Health Care Center	Phoebe Richland Health Care	Wyncote Church Home	PCCBS	PRRRG	Phoebe Apartments	Phoebe Housing	Affordable Housing	Eliminations	Total
Liabilities and Net Assets													
Current Liabilities													
Accounts payable	\$ (96)	\$ 1,608	\$ 2,487	\$ 2,243	\$ 937	\$ 432	\$ 362	\$ 17	\$ 87	\$ -	\$ 250	\$ (526)	\$ 7,801
Accrued expenses	-	2,210	2,540	890	1,018	426	546	20	30	7	148	-	7,835
Resident and patient funds	-	211	-	11	49	59	-	-	-	-	-	-	330
Due to related parties	-	(51)	22,180	(93)	5,165	1,971	1,654	-	3	(490)	681	(31,020)	-
Current portion of long-term debt	-	-	2,860	1,035	132	-	-	-	64	-	428	-	4,519
Due to related party	14	-	142	109	-	-	620	-	-	-	-	(885)	-
Total current liabilities	(82)	3,978	30,209	4,195	7,301	2,888	3,182	37	184	(483)	1,507	(32,431)	20,485
Other Liabilities													
Long-term debt, net	-	(24)	7,830	27,089	17,584	-	-	-	326	80	10,432	(891)	62,426
Due to related parties, 1998 refinancing	2,118	8,106	-	3,683	-	-	-	-	-	-	-	(13,907)	-
Refundable entrance fees	-	7,111	2	32,709	2	37	-	-	57	-	117	-	40,035
Deferred revenue, entrance fees	-	1,711	-	9,334	9	16	2,264	-	-	-	-	-	13,334
Accrued pension liability	-	2,817	-	111	-	-	-	-	-	-	-	-	2,928
Charitable gift annuities	238	52	-	94	-	-	-	-	-	-	-	-	384
Phoebe-Devitt Homes equity	-	-	-	1,278	2,582	-	-	-	-	-	-	(3,860)	-
Workers' compensation reserve	-	630	65	205	5	40	-	-	-	-	-	-	945
Interest rate swaps	-	-	(130)	2,820	221	-	-	-	-	-	-	-	2,911
Other	776	24	-	363	9	-	-	1,236	-	457	-	-	2,865
Total other liabilities	3,132	20,427	7,767	77,686	20,412	93	2,264	1,236	383	537	10,549	(18,658)	125,828
Total liabilities	3,050	24,405	37,976	81,881	27,713	2,981	5,446	1,273	567	54	12,056	(51,089)	146,313
Net Assets													
Unrestricted	43,632	22,575	(16,397)	(11,871)	(1,250)	21,083	(3,079)	3,301	1,024	1,022	(1,272)	(3,686)	55,082
Temporarily restricted	2,537	320	597	704	-	97	34	-	5	-	8	-	4,302
Permanently restricted	7,349	533	8	636	-	779	-	-	-	-	48	-	9,353
Total net assets	53,518	23,428	(15,792)	(10,531)	(1,250)	21,959	(3,045)	3,301	1,029	1,022	(1,216)	(3,686)	68,737
Total liabilities and net assets	\$ 56,568	\$ 47,833	\$ 22,184	\$ 71,350	\$ 26,463	\$ 24,940	\$ 2,401	\$ 4,574	\$ 1,596	\$ 1,076	\$ 10,840	\$ (54,775)	\$ 215,050

Phoebe-Devitt Homes and Affiliated Organizations

Consolidating Schedule of Activities

Year Ended June 30, 2018

(In Thousands)

	Phoebe-Devitt Homes	Phoebe Home	Phoebe Services	Phoebe Berks Health Care Center	Phoebe Richland Health Care	Wyncote Church Home	PCCBS	PRRRG	Phoebe Apartments	Phoebe Housing	Affordable Housing	Eliminations	Total
Operating Revenues													
Net patient and resident service revenue	\$ -	\$ 33,219	\$ 24,648	\$ 25,256	\$ 17,802	\$ 5,648	\$ 1,038	\$ -	\$ 906	\$ -	\$ 1,793	(1,911)	\$ 108,399
Amortization of entrance fees	-	378	-	1,505	1	4	170	-	-	-	-	-	2,058
Contributions	231	199	4	287	7	57	-	-	-	-	1	-	786
Change in value, charitable gift annuities	(26)	(6)	-	(10)	-	-	-	-	-	-	-	-	(42)
Investment income	969	115	37	173	2	305	440	94	6	7	3	(7)	2,144
Net realized gains on investments	3,494	53	-	538	-	943	-	109	-	-	-	-	5,137
Gain on disposal of property and equipment	-	-	26	-	-	-	-	-	-	-	-	-	26
Net assets released from restrictions for operations	172	252	-	83	49	64	22	-	-	2	6	-	650
Other revenues	-	355	9,271	333	59	4	7,260	380	50	138	224	(17,087)	987
Total operating revenue	4,840	34,565	33,986	28,165	17,920	7,025	8,930	583	962	147	2,027	(19,005)	120,145
Operating Expenses													
Salaries and wages	-	15,799	10,743	6,696	6,696	3,107	4,254	-	171	-	214	-	47,680
Employee benefits and other staff costs	(2)	5,385	2,488	1,724	1,928	701	901	-	38	-	29	(42)	13,150
Resident supplies	-	1,204	16,034	541	540	225	-	-	-	-	-	(1,696)	16,848
Contracted services	466	7,793	3,107	8,329	6,089	1,985	4,258	107	348	61	439	(16,653)	16,329
Other expenses	247	4,320	3,466	3,333	1,659	588	345	371	181	2	765	(561)	14,716
Interest	-	319	2	1,429	589	-	-	-	13	-	431	-	2,783
Depreciation	-	2,383	971	3,706	1,328	369	45	-	126	-	660	-	9,588
Amortization	-	12	20	110	24	-	-	-	-	-	6	-	172
Total operating expenses	711	37,215	36,831	25,868	18,853	6,975	9,803	478	877	63	2,544	(18,952)	121,266
Operating (loss) income	4,129	(2,650)	(2,845)	2,297	(933)	50	(873)	105	85	84	(517)	(53)	(1,121)
Debt Forgiveness	-	-	-	-	-	-	-	-	-	(215)	215	-	-
Change in Fair Value of Interest Rate Swaps	-	-	98	1,529	478	-	-	-	-	-	-	-	2,105
Net Periodic Pension Cost, Nonoperating	-	(105)	-	(8)	-	-	-	-	-	-	-	-	(113)
Excess (deficiency) of operating revenues over expenses	4,129	(2,755)	(2,747)	3,818	(455)	50	(873)	105	85	(131)	(302)	(53)	871

Phoebe-Devitt Homes and Affiliated Organizations

 Consolidating Schedule of Activities
 Year Ended June 30, 2018
 (In Thousands)

	Phoebe-Devitt Homes	Phoebe Home	Phoebe Services	Phoebe Berks Health Care Center	Phoebe Richland Health Care	Wyncote Church Home	PCCBS	PRRRG	Phoebe Apartments	Phoebe Housing	Affordable Housing	Eliminations	Total
Other Changes													
Pension related changes, other than net periodic pension cost	\$ -	\$ 669	\$ -	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 719
Net unrealized (losses) gains on investments	(1,298)	(17)	-	(160)	-	49	-	(49)	-	-	-	-	(1,475)
Net assets released from restrictions, capital	-	-	-	153	-	6	-	-	-	6	-	-	165
Total other changes	(1,298)	652	-	43	-	55	-	(49)	-	6	-	-	(591)
Change in unrestricted net assets (deficit)	2,831	(2,103)	(2,747)	3,881	(455)	105	(873)	56	85	(125)	(302)	(53)	280
Changes in Temporarily Restricted Net Assets													
Contributions	150	208	(3)	60	49	11	-	-	-	1	3	-	479
Investment income	140	-	-	-	-	-	-	-	-	-	-	-	140
Net unrealized (losses) on investments	(755)	-	-	-	-	-	-	-	-	-	-	-	(755)
Net realized gains on investments	1,081	-	-	-	-	-	-	-	-	-	-	-	1,081
Net assets released from restrictions	(172)	(252)	-	(236)	(49)	(70)	(22)	-	-	(8)	(6)	-	(815)
Change in temporarily restricted net assets	444	(44)	(3)	(176)	-	(59)	(22)	-	-	(7)	(3)	-	130
Changes in Permanently Restricted Net Assets													
Contributions	8	50	-	-	-	-	-	-	-	-	-	-	58
Change in value of funds held in trust by others	136	-	-	-	-	-	-	-	-	-	-	-	136
Change in permanently restricted net assets	144	50	-	-	-	-	-	-	-	-	-	-	194
Change in net assets (deficit)	3,419	(2,097)	(2,750)	3,685	(455)	46	(895)	56	85	(132)	(305)	(53)	604
Net Assets (Deficit), Beginning of Year	50,099	25,525	(13,042)	(14,216)	(795)	21,913	(2,150)	3,245	944	1,154	(911)	(3,633)	68,133
Net Assets (Deficit), End of Year	\$ 53,518	\$ 23,428	\$ (15,792)	\$ (10,531)	\$ (1,250)	\$ 21,959	\$ (3,045)	\$ 3,301	\$ 1,029	\$ 1,022	\$ (1,216)	\$ (3,686)	\$ 68,737

Phoebe-Devitt Homes and Affiliated Organizations

Statutory Minimum Liquid Reserve - Phoebe Home, Inc.

June 30, 2018

Calculation Based on Budgeted Operating Expenses

Budgeted operating expenses for the year ended June 30, 2019	\$ 37,152,107
Less budgeted depreciation expense	(2,545,516)
Less budgeted amortization expense	<u>(9,603)</u>

Expenses subject to minimum liquid reserve requirement	34,596,988
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Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>21.45%</u>
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Subtotal	7,421,054
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Statutory requirement	<u>10%</u>
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(a) \$	<u><u>742,105</u></u>
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Calculation Based on Debt Service Requirements

Debt service requirements for the year ended June 30, 2019:	
Principal and interest payments	\$ 1,059,773

Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>21.45%</u>
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(b) \$	<u><u>227,321</u></u>
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Statutory Minimum Liquid Reserve Requirement

Greater of (a) or (b)	<u><u>\$ 742,105</u></u>
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Phoebe-Devitt Homes and Affiliated Organizations

Statutory Minimum Liquid Reserve - Phoebe Berks Health Care Center, Inc.
June 30, 2018

Calculation Based on Budgeted Operating Expenses

Budgeted operating expenses for the year ended June 30, 2019	\$ 26,652,749
Less budgeted depreciation expense	(3,725,163)
Less budgeted amortization expense	<u>(99,420)</u>

Expenses subject to minimum liquid reserve requirement	22,828,166
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Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>58.57%</u>
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Subtotal	13,370,457
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Statutory requirement	<u>10%</u>
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(a)	<u>\$ 1,337,046</u>
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Calculation Based on Debt Service Requirements

Debt service requirements for the year ended June 30, 2019:	
Principal and interest payments	\$ 4,474,209

Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>58.57%</u>
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(b)	<u>\$ 2,620,544</u>
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Statutory Minimum Liquid Reserve Requirement

Greater of (a) or (b)	<u>\$ 2,620,544</u>
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Phoebe-Devitt Homes and Affiliated Organizations

Statutory Minimum Liquid Reserve - Wyncote Church Home

June 30, 2018

Calculation Based on Budgeted Operating Expenses

Budgeted operating expenses for the year ended June 30, 2019	\$ 7,465,488
Less budgeted depreciation expense	<u>(405,301)</u>
Expenses subject to minimum liquid reserve requirement	7,060,187
Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>7.35%</u>
Subtotal	518,924
Statutory requirement	<u>10%</u>
(a)	<u><u>\$ 51,892</u></u>

Calculation Based on Debt Service Requirements

Debt service requirements for the year ended June 30, 2019:	
Principal and interest payments	\$ -
Percentage of residents subject to CCRC arrangements at June 30, 2018	<u>7.35%</u>
(b)	<u><u>\$ -</u></u>

Statutory Minimum Liquid Reserve Requirement

Greater of (a) or (b)	<u><u>\$ 51,892</u></u>
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Phoebe-Devitt Homes and Affiliated Organizations

Statutory Minimum Liquid Reserve - Phoebe Richland Health Care Center

June 30, 2018

Calculation Based on Budgeted Operating Expenses

Budgeted operating expenses for the year ended June 30, 2019	\$ 18,492,267
Less budgeted depreciation expense	(1,326,694)
Less budgeted amortization expense	<u>(23,362)</u>

Expenses subject to minimum liquid reserve requirement 17,142,211

Percentage of residents subject to CCRC arrangements at June 30, 2018 1.08%

Subtotal 185,136

Statutory requirement 10%

(a) \$ 18,514

Calculation Based on Debt Service Requirements

Debt service requirements for the year ended June 30, 2019:

Principal and interest payments \$ 788,802

Percentage of residents subject to CCRC arrangements at June 30, 2018 1.08%

(b) \$ 8,519

Statutory Minimum Liquid Reserve Requirement

Greater of (a) or (b) \$ 18,514

Phoebe-Devitt Homes and Affiliated Organizations

Statutory Minimum Liquid Reserve - Pathstones by Phoebe

June 30, 2018

Calculation Based on Budgeted Operating Expenses

Budgeted operating expenses for the year ended June 30, 2019	\$	440,878
Less budgeted depreciation expense		<u>(33,713)</u>
Expenses subject to minimum liquid reserve requirement		407,165
Percentage of residents subject to CCRC arrangements at June 30, 2018		<u>100.00%</u>
Subtotal		407,165
Statutory requirement		<u>10%</u>
(a)	\$	<u><u>40,717</u></u>

Calculation Based on Debt Service Requirements

Debt service requirements for the year ended June 30, 2019:		
Principal and interest payments	\$	-
Percentage of residents subject to CCRC arrangements at June 30, 2018		<u>100.00%</u>
(b)	\$	<u><u>-</u></u>

Statutory Minimum Liquid Reserve Requirement

Greater of (a) or (b)	\$	<u><u>40,717</u></u>
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