PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
BOARD OF DIRECTORS
SEPTEMBER 30, 2014

Past Chairs		Officers	
Dr. Edwin Kagin	- 1948-1952	Chair	- Mr. Harold J. Wiens
Dr. Irving A. West	- 1952-1984	Vice Chair	- Mr. Kenneth S. Larson
Dr. B.J. Kennedy	- 1985-1989	President/Chief Executive Officer	- Mr. Daniel A. Lindh
Mr. Donald E. Garretson	- 1989-1991	Secretary	- Ms. Janna R. Severance
Mr. Hugh K. Schilling	- 1991-1993	Treasurer/Chief Financial Officer	- Mr. Mark T. Meyer
Mr. Robert H. Bratnober	- 1993-1995		
Mr. Peter Heegaard	- 1995-1997		
Mr. Donald M. Davies	- 1997-2001		
Mr. Martin V. Chorzempa	- 2002-2003		
Ms. Sally E. Howard	- 2004-2005		
Mr. Michael C. Bingham	- 2006-2008		
Mr. Austin Chapman	- 2009-2010		
Mr. Robert S. Dunbar	- 2011-2012		

Directors

	No. of Years Served		No. of Years Served
Berglund, Mr. Donald	3	Olson, Dr. Philip K.	6
Chapman, Mr. Austin	9	Stoltz, Mr. Daniel E.	1
Chien, Mr. Theodore	9	Tortelli, Mr. Ronald C.	8
Clymer, Mr. John	2	Wessner, Mr. David	2
Emmerich, Mrs. Karol D.	8	White, Mrs. Julie M.	1
Larson, Mr. Kenneth S.	3	Wiens, Mr. Harold J.	6
Olson, Mr. Allen I.	8	Crittenden, Rev. David D.	Synod Representative (Ex-officio)
Olson, Mrs. Carole Mae	9		

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Presbyterian Homes and Services and Affiliates
Roseville, Minnesota

We have audited the accompanying consolidated financial statements of Presbyterian Homes and Services and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes and Services and Affiliates as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2014

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013
(DOLLAR AMOUNTS IN THOUSANDS)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:		
Unrestricted	$ 57,162	$ 55,269
Restricted for Residents	6,359	5,741
Cash Held or Restricted, Current Portion	14,201	30,891
Accounts Receivable, Net	19,657	24,479
Pledges Receivable, Current Portion	100	2,100
Prepaid Expenses and Other Assets	1,503	1,687
Total Current Assets	98,982	120,167
INVESTMENTS AND OTHER ASSETS		
Investments and Cash Held or Restricted:		
By Agreements with Trustees and Others	33,672	53,762
Restricted by Donors and Others	22,073	21,472
Replacement Reserves	20,956	17,606
Endowment Funds, Including Perpetual Trust	55,203	52,459
Pledges Receivable	5,320	516
Deferred Financing Costs, Less Accumulated Amortization	16,529	14,786
Investment in Other Entities	16,289	16,192
Other Assets	5,367	12,210
Total Investments and Other Assets	175,409	189,003
PROPERTY AND EQUIPMENT		
Land	139,863	138,760
Building and Land Improvements	833,839	702,749
Equipment and Furnishings	125,319	109,160
Automotive Equipment	2,098	1,722
Construction in Progress	39,882	100,121
Subtotal	1,141,001	1,052,512
Less: Accumulated Depreciation	291,266	260,209
Net Property and Equipment	849,735	792,303
Total Assets	$ 1,124,126	$ 1,101,473

See accompanying Notes to Consolidated Financial Statements.

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 19,238	$ 18,254
Accounts Payable	6,705	10,938
Construction Payable	592	15,174
Security Deposits and Other Resident Fund Payables	5,583	4,997
Accrued Payroll and Benefits	13,412	11,566
Accrued Interest and Other	20,041	20,868
Total Current Liabilities	65,571	81,797
LONG-TERM DEBT AND OTHER OBLIGATIONS		
Long-Term Debt, Less Current Maturities	737,767	732,721
Resident Notes Payable and Entrance Loan Deposits	102,160	84,501
Other	17,889	19,442
Total Long-Term Debt and Other Obligations	857,816	836,664
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted, Undesignated	142,010	132,493
Unrestricted, Designated by Board for Endowment Fund	10,769	8,945
Non-Controlling Interest	-	(354)
Total Unrestricted	152,779	141,084
Temporarily Restricted	3,526	3,713
Permanently Restricted	44,434	38,215
Total Net Assets	200,739	183,012
Total Liabilities and Net Assets	$ 1,124,126	$ 1,101,473

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(DOLLAR AMOUNTS IN THOUSANDS)

	2014	2013
OPERATING REVENUE	$ 314,864	$ 290,521
OPERATING EXPENSE		
Services to Residents	198,212	184,576
General and Administrative	37,860	37,078
Interest	31,652	27,216
Depreciation and Amortization	37,446	32,813
Total Operating Expense	305,170	281,683
OPERATING INCOME	9,694	8,838
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT		
Unrestricted Contributions	1,924	1,203
Income from Endowment Investments	365	434
Net Change in Fair Value of Investments	880	5,650
Interest Rate Swap Market Adjustment	1,923	2,943
Gain on Acquisition and Forgiveness of Debt	9,289	-
Loss on Refinancing	(2,990)	(602)
Loss on Asset Disposal and Impairment	(12,371)	(249)
Fundraising Expense	(1,250)	(1,552)
Other Nonoperating Income	(240)	(255)
Total Nonoperating Gains (Losses) and Other Support	(2,470)	7,572
EXCESS OF REVENUE OVER EXPENSE	7,224	16,410
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Distributions	(200)	(110)
Unrestricted Capital Contributions	1,600	-
Net Assets Released from Restriction	3,071	1,204
CHANGE IN UNRESTRICTED NET ASSETS	11,695	17,504
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,884	1,081
Net Assets Released from Restriction	(3,071)	(1,204)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(187)	(123)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	5,542	2,178
Gain (Loss) from Endowment Investments	677	(801)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	6,219	1,377
CHANGE IN NET ASSETS	17,727	18,758
Net Assets - Beginning of Year	183,012	164,254
NET ASSETS - END OF YEAR	$ 200,739	$ 183,012
SUPPLEMENTAL DISCLOSURE OF TOTAL REVENUE AND EXPENSE		
Operating Revenue	$ 314,864	$ 290,521
Total Contributions	10,350	4,462
Total Revenue	325,214	294,983
Operating Expense	305,170	281,683
Other Nonoperating Losses	2,317	(5,458)
Total Operating Expenses and Other Nonoperating Losses	307,487	276,225
Change in Net Assets	$ 17,727	$ 18,758

See accompanying Notes to Consolidated Financial Statements.

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(DOLLAR AMOUNTS IN THOUSANDS)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 17,727	$ 18,758
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	36,397	31,515
Amortization	1,049	1,298
Loss on Refinancing	2,990	602
Contributions Restricted for Capital Expenditures or Endowments	(8,426)	(3,259)
Gain on Acquisition and Forgiveness of Debt	(9,289)	-
Loss on Asset Disposal and Impairment	12,371	249
Net Change in Fair Value of Investments	(1,557)	(4,849)
Interest Rate Swap Market Adjustment	(1,923)	(2,943)
Changes in Assets and Liabilities:		
Receivables	4,822	(6,138)
Prepaid Expenses and Other Assets	7,027	(2,352)
Pledge Receivable	(2,804)	(324)
Accounts Payable	(4,233)	4,334
Accrued Expenses	1,389	1,724
Net Cash Provided by Operating Activities	55,540	38,615
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(116,729)	(91,982)
Change in Amounts Held with Trustees and Others	30,068	49,060
Change in Other Restricted Investments	1,542	(4,511)
Investments in or Advances to Affiliated Entities and Changes in Other Assets	(97)	(371)
Net Cash Used by Investing Activities	(85,216)	(47,804)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(46,555)	(20,352)
Proceeds from Long-Term Debt	57,821	33,842
Proceeds from Resident Entrance Loan Deposits	30,409	14,635
Payments on Resident Entrance Loan Deposits	(12,750)	(11,412)
Financing Costs Paid	(5,782)	(832)
Cash Received from Contributions Restricted for Capital Expenditures or Endowment	8,426	3,259
Net Cash Provided by Financing Activities	31,569	19,140
NET INCREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	1,893	9,951
Unrestricted Cash and Cash Equivalents - Beginning	55,269	45,318
UNRESTRICTED CASH AND CASH EQUIVALENTS - ENDING	$ 57,162	$ 55,269

See accompanying Notes to Consolidated Financial Statements.

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(DOLLAR AMOUNTS IN THOUSANDS)

	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest (Net of Interest Capitalized)	$ 33,784	$ 23,782
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property Acquired through Construction Payable	$ 10,172	$ 19,428
Refinanced Long-Term Debt	$ 124,747	$ 28,631

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The consolidated financial statements include the consolidated accounts of Presbyterian Homes and Services and Affiliates (the Organization), a Minnesota not-for-profit corporation structured similar to a holding company for care centers and other senior residences, services to community participants and projects being developed. Several of the care centers, communities and divisions are incorporated as non-profit corporations or limited liability companies. The Organization operates primarily in the Twin Cities, Minnesota, metropolitan area, with three campuses in Iowa, located in Ankeny, Williamsburg and Clive, and three campuses in Wisconsin, located in Pewaukee, New Richmond and Waukesha. Subsequent to year-end, the Organization closed on financing to develop an additional two campuses in Wisconsin, to be located in Hudson and Menomonee Falls. As of September 30, 2014, the Organization was comprised of the following:

Divisions	Activity
Care Centers	Care centers provide a variety of skilled nursing and other services and programs to their residents. There are currently 14 skilled nursing communities with a total of 1,335 beds in service.
Housing and Assisted Living	Housing and assisted living communities provide room rentals and services to residents at 33 communities. There are a total of 5,360 units in communities that include independent living, assisted living, memory care apartments, duplexes and town houses. Some of the units are restricted for rental to elderly tenants that meet income restrictions, and the rental rate may be restricted.
Optage	Provides a variety of services to community participants in their homes from home-delivered meals and companionship to personal care, therapies, physician and end-of-life care.
Management and Services	Administrative support for the affiliated organizations and similar not-for-profit organizations.
Foundation	Recipient of the Organization's fund-raising efforts.
Development, Marketing and Design Services	Provide a comprehensive package of market research, strategic planning, project development, financing, construction, interior design, marketing and management for the senior housing industry.

As of September 30, 2014, the Organization also has contributed capital and appoints board members in three non-profit relationships. These consolidated financial statements do not include the accounts of the joint ventures, as the Organization does not control them (see Note 5).

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Affiliation and Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its affiliates. All material intercompany balances, transactions, and earnings have been eliminated in consolidation.

Non-Controlling Interest

The non-controlling interest includes other partners' interests related to the venture of Central Towers Limited Partnership. The Organization is the general partner of Central Towers Limited Partnership, which is consolidated in these financial statements. A pro rata share of the net assets applicable to the other partner's interest in Central Towers Limited Partnership has been recognized in the Organization's consolidated financial statements as non-controlling interest. During the year ended September 30, 2014, the Organization bought out the non-controlling partner's interest.

Tax Exempt Status

The Organization and its affiliates are generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the state statutes; consequently, no provision has been made for income taxes. However, there are immaterial amounts of unrelated business income in certain affiliates that are taxable.

The Organization follows the accounting standard for contingencies in evaluating uncertain tax positions. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS. The Organization's tax returns for the 2011, 2012, and 2013 fiscal years are open to examination by the IRS.

Community Benefit

The Organization provides a subsidy to certain residents, based on their income levels, to reduce the charges for rents and services. Because the Organization does not pursue collection of amounts determined to qualify as community support, they are not reported as revenue. As part of its operations, the Organization provides various services, outreach programs and support programs at a low cost to the community. The amount by which the costs of providing these services exceed the revenue earned is considered community support. During the years ended September 30, 2014 and 2013, the amount of community support provided was approximately $1,803 and $2,042, respectively.

Use of Estimates

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

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board of directors has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. The Organization has elected to present temporarily restricted contributions that are fulfilled in the same period within the unrestricted net assets class. These are primarily contributions that are restricted for the acquisition of property and equipment.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. A significant portion of the income derived from these resources is used for capital investments, new project development, and furtherance of the Organization's mission. A large portion of the assets are held by a trust for the Organization.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Income earned on temporary or permanently restricted support, including capital appreciation is recognized in the period earned. Conditional promises to give cash or other assets are recorded when the condition has been satisfied.

Excess of Revenue Over Expense

The consolidated statements of operations and changes in net assets include excess of revenue over expense. Changes in unrestricted net assets which are excluded from excess of revenue over expense, consistent with industry practice, include unrealized gains and losses on non-trading securities, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess of Revenue Over Expense (Continued)

The financial performance of the Organization is influenced by the startup of new projects. For each of the years ended September 30, 2014 and 2013, the Organization has been in various stages of developing, constructing and leasing new projects. The Organization expenses, as they are incurred, all of the costs associated with the marketing and preparation of these projects for opening and also incurs expense over revenue as these projects are leased up to stabilized occupancy. The Organization incurred expense in excess of revenue of approximately $5,434 and $2,854 for 2014 and 2013, respectively, related to these new projects.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows the Organization considers all unrestricted, undesignated cash accounts, certificates of deposit and highly liquid debt instruments with a maturity of three months or less when purchased to be cash and cash equivalents. The carrying amount of cash equivalents is a reasonable estimate of fair value.

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and temporary cash investments. The Organization believes it places its cash and cash equivalents and temporary cash investments with high quality credit institutions. At times such investments may be in excess of the FDIC insurance limit.

The Organization has investments in a variety of investment funds. In general, investments are exposed to various risks such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that change in the values of the investments will occur in the near term and that such changes could materially affect account balances and the consolidated statements of operations and changes in net assets.

Investments and Cash Held or Restricted

Investments and cash held or restricted includes assets held by trustees under bond and mortgage indenture agreements, assets held under HUD mortgage agreements, assets restricted by donors, replacement reserves (designated by the Organization over which it retains control and may, at its discretion, subsequently use for other purposes), and assets held as endowment funds, including perpetual trusts. Investments in debt and equity securities with readily determinable fair market values are measured at fair value in the accompanying consolidated statements of financial position. The fair value of the perpetual trust approximates the estimated present value of the future cash flows. The current portion of restricted cash and investments is determined based upon the amount required to meet current liabilities for which the cash is restricted.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Cash Held or Restricted (Continued)

Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments, interest, and dividends) are included in excess of revenue over expense unless the income or loss is restricted by donor. Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recognized when earned. Realized gains and losses are recognized based upon specific identification, and unrealized gains and losses are recognized based upon the change in fair values of investments between reporting periods and reported as net change in fair value of investments.

Under the HUD regulatory agreements, the HUD entities are required to make deposits into restricted escrow, reserve for replacement and residual receipt accounts. All disbursements from the reserve for replacement and residual receipts account require proper written approval from HUD.

Accounts Receivable

The Organization uses the allowance method to account for uncollectible accounts. The allowance is based on management's estimate of potential bad debts, historical collection history and by considering the resident's financial history, credit history, and economic condition. When the Organization has exhausted all collection efforts and accounts are deemed uncollectible, they are charged to bad debt expense. Accounts receivable are net of an allowance for doubtful accounts of approximately $892 and $1,057 as of September 30, 2014 and 2013, respectively.

Pledges Receivable

Pledges are recorded as receivables in the year made. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledges are received. Amortization of the discount is included as additions to the appropriate donor restricted net asset classification.

Tax Increment Financing

The Organization has various tax increment financing (TIF) agreements, whereby the Organization will receive a portion of the annual tax increment generated by the project facilities with the TIF agreements. The Organization does not record the notes receivable as an asset, as the realization of the notes is contingent on the Organization complying with the terms and conditions of the TIF agreements and paying future annual real estate taxes. The Organization reports the annual real estate tax expense net of the estimated annual TIF reimbursement. The annual TIF reimbursement was approximately $711 and $722 for the years ended September 30, 2014 and 2013, respectively.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Financing Costs and Amortization

Deferred financing costs of $21,539 and $19,962 at September 30, 2014 and 2013, respectively, are amortized over the terms of the related debt using the effective interest method. Accumulated amortization was $5,010 and $5,176 at September 30, 2014 and 2013, respectively.

Investment in Other Entities

Investment in other entities includes share certificates owned in a Cooperative, and investments in not-for-profit unconsolidated joint ventures that are recorded at cost, and an investment in a for-profit joint venture that is recorded under the equity method of accounting. During the year ended September 30, 2014, the Organization bought out the other member's share of a joint venture. As a result, the Organization consolidated this entity (see Note 6).

Property and Equipment

Property and equipment with an original cost at or above one thousand dollars are recorded at cost for purchased assets or fair value at date of receipt for donated assets. Depreciation is computed on the straight-line method over the following lives:

Buildings and Land Improvements	10 - 50 Years
Equipment and Furnishings	5 - 12 Years
Automotive Equipment	3 - 5 Years

Contributed property, equipment, and material is recorded at fair value at the date of donation. A contribution is also recognized when assets or businesses are acquired where the fair value of the assets exceeds the purchase price. If donors stipulate how long property or equipment is to be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property, equipment, and materials are recorded as unrestricted support.

Maintenance, repairs, and replacements which do not improve the assets or extend the assets' lives are expensed as incurred.

Construction and development costs have been deferred until the projects have been completed. When the projects are completed, these costs will be capitalized and depreciated over the life of the projects. If the projects are cancelled, the construction and development costs are expensed during that period.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The Organization reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the asset to the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset. Should the sum of the undiscounted cash flows be less than the carrying value, the Organization would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount which the carrying value exceeds its fair value.

Interest Capitalization

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation.

Resident Notes Payable and Entrance Loan Deposits

Certain residents that rented units at certain facilities made entrance loan deposits totaling approximately $102,160 and $84,501 as of September 30, 2014 and 2013, respectively. Some of the tenants received interest-bearing notes for their deposits, but most received non-interest bearing notes. The deposits were or are expected to be used by the Organization to fund construction costs as an alternative to conventional financing methods. The notes and deposits are due 90 to 120 days after the resident moves out. The Organization anticipates that the notes and deposits that come due, as a result of the resident moving out, will be repaid from the proceeds of the next resident moving in. However, if this does not occur, the funds designated by the board of directors as replacement reserves (see Note 2) will be used.

The replacement reserves and the resident notes are reported as long-term asset and liability, respectively, on the consolidated statements of financial position. At each of the facilities, the contracts with the residents limit the total amount of the deposits that the Organization must return at any one time. The maximum amounts at each of the facilities range from $100 to $2,000. If at any time the net amount it has returned to former residents exceeds the amount that it has received from new tenants by the applicable maximum amount, the Organization is not required to refund additional deposits until new deposits are collected bringing the amount owed under the maximum amount.

Asset Retirement Obligation

Asset retirement obligation represents obligations to dispose of assets that are legally required to be removed at a future date. These are recorded at the net present value using a risk-free interest rate and inflationary rate and are included in other long-term liabilities on the consolidated statements of financial position.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Service Revenue

The primary source of housing and assisted living revenue is rental charges to residents. Rental revenue is recognized ratably over the terms of the leases, which are generally on a month-to-month basis. Revenue from services provided is recognized when they are provided. Resident service revenue, where a third-party payer is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, adjusted by an estimate made for contractual adjustments or discounts provided to third-party payers.

Certain Care Centers of the Organization charge rates for most services that are provided primarily through third-party payers including the Medical Assistance and Medicare programs. The Medical Assistance programs are established in accordance with rules established by the states of Minnesota, Wisconsin and Iowa. The Medicare program is administered by the United States Centers for Medicare and Medicaid Services (CMS). The rates charged to residents in these facilities are subject to retroactive adjustment based on audits. The Organization does not expect adjustments (if any) to be material to the consolidated financial statements and, accordingly, no provision for adjustments has been recorded.

Revenues and accounts receivable from Medical Assistance, Elderly Waiver and Medicare residents were as follows for the years ended September 30, 2014 and 2013, respectively:

	2014	2013
Revenues:		
Medical Assistance	$ 36,356	$ 34,379
Elderly Waiver	4,447	4,421
Medicare	26,478	26,656
Accounts Receivable:		
Medical Assistance	$ 2,646	$ 3,275
Elderly Waiver	807	631
Medicare	3,165	3,132

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services, since no objective basis is available to measure the value of such services, and the types of services received do not meet accounting principles generally accepted in the United States of America's criteria for recognition. Nevertheless, volunteers gave approximately 136,000 hours of their time to the Organization during the year ended September 30, 2014. The Organization tracks community impact activities which are reported separately under the Organization's annual Social Accountability Report.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Rate Swaps

The Organization records all derivative instruments, currently consisting of interest rate swap agreements, on the consolidated statements of financial position at their respective fair values and all changes in fair value in the consolidated statement of operations and changes in net assets as interest rate swap market adjustment.

Fair Value Measurements

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value, however may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 2 INVESTMENTS AND CASH HELD OR RESTRICTED

The fair value of investments is based upon quoted market prices for those or similar investments. The fair value of the perpetual trust approximates the estimated present value of the future cash flows. Guaranteed investment contracts are recorded at contract cost. At September 30, 2014 and 2013, the Organization had investments in the following categories:

	2014	2013
Cash and Cash Equivalents	$ 47,029	$ 50,703
Mutual Funds	6,174	5,848
U.S. Government Securities	8,131	15,366
Corporate Bonds	17,345	39,869
Common Stocks	17,938	10,116
Municipalities	3,879	1,799
Alternative Investments	265	589
Certificates of Deposit	14,050	21,025
Perpetual Trust	31,294	30,875
Total	$ 146,105	$ 176,190

Total recorded income and gains on investments consist of the following:

	Years Ended September 30,	
	2014	2013
Operating Revenues:		
Investment Income - Other	$ 5,603	$ 5,268
Nonoperating Revenues:		
Investment Income - Endowment Funds	365	434
Net Change in Fair Value of Investments	1,557	4,849
Total	$ 7,524	$ 10,551

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 2 INVESTMENTS AND CASH HELD OR RESTRICTED (CONTINUED)

Investments and cash restricted for specific purposes are based on bond indentures, board designation or other agreements. A description and composition of these funds at September 30 are as follows:

Description	2014	2013
Reserve Fund - Available for payments to Bond Fund in the event that sufficient funds are not available to meet debt service requirements. Interest earned which accumulates in excess of reserve requirements may be transferred to the Bond Fund.	$ 22,831	$ 27,433
Bond Fund - Available for payment of principal and interest on bonds.	10,810	12,250
Project Fund - Available for payments for construction of facilities, startup and other project costs.	574	35,087
Resident entrance deposits and other cash and investments designated for future construction costs.	7,208	13,161
Restricted by agreements with HUD.	427	429
Restricted by agreement with Minnesota Department of Commerce pledged as security for workers' compensation self-insurance reserves (see Note 12).	4,564	4,167
Replacement Reserves - funds designated by the Organization for future repairs and replacements and restricted by HUD.	20,956	17,606
Endowment Funds, Including Perpetual Trust	55,203	52,459
Restricted by Financing Arrangements and Other	23,532	13,598
Subtotal	146,105	176,190
Less: Current Portion	14,201	30,891
Total	$ 131,904	$ 145,299

Approximately $8,393 and $7,137 at September 30, 2014 and 2013, respectively, of replacement reserve funds were restricted by agreements with HUD or other lenders. The remaining replacement reserves represent funds that are designated by the board of directors for future repairs and replacements or other operating requirements. The funds may also be used to repay resident notes and entrance deposits if required.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Nature of Business and Summary of Significant Accounting Policies. The following tables present the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of September 30, 2014 and 2013:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets	September 30, 2014	Level 1	Level 2	Level 3
Investments and Cash Held or Restricted:				
Mutual Funds	$ 6,174	$ 6,174	$ -	$ -
U.S. Government Securities	8,131	8,131	-	-
Corporate Bonds	17,345	-	17,345	-
Common Stocks	17,938	17,938	-	-
Municipalities	3,879	-	3,879	-
Alternative Investments	265	-	-	265
Perpetual Trust	31,294	-	-	31,294
Total	$ 85,026	$ 32,243	$ 21,224	$ 31,559
Liabilities				
Derivatives	$ 11,051	$ -	$ 11,051	$ -

Assets	September 30, 2013	Level 1	Level 2	Level 3
Investments and Cash Held or Restricted:				
Mutual Funds	$ 5,848	$ 5,848	$ -	$ -
U.S. Government Securities	15,366	15,366	-	-
Corporate Bonds	39,869	-	39,869	-
Common Stocks	10,116	10,116	-	-
Municipalities	1,799	-	1,799	-
Alternative Investments	589	-	-	589
Perpetual Trust	30,875	-	-	30,875
Total	$ 104,462	$ 31,330	$ 41,668	$ 31,464
Liabilities				
Derivatives	$ 12,974	$ -	$ 12,974	$ -

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (Continued)

The following tables provide a summary of changes to fair value of the Organizations Level 3 financial assets for the years ended September 30, 2014 and 2013.

	Perpetual Trust	Alternative Investments	Total
Beginning Balance - 10/1/13	$ 30,875	$ 589	$ 31,464
Total Gains or Losses (Realized or Unrealized) for the Year Included in:			
Realized Gains	1,595	-	1,595
Unrealized Gains (Losses)	72	(324)	(252)
Disbursements	(1,248)	-	(1,248)
Ending Balance - 9/30/14	$ 31,294	$ 265	$ 31,559

	Perpetual Trust	Alternative Investments	Total
Beginning Balance - 10/1/12	$ 28,813	$ 671	$ 29,484
Total Gains or Losses (Realized or Unrealized) for the Year Included in:			
Realized Gains	1,945	-	1,945
Unrealized Gains (Losses)	1,294	(82)	1,212
Disbursements	(1,177)	-	(1,177)
Ending Balance - 9/30/13	$ 30,875	$ 589	$ 31,464

Investments and cash held or restricted (securities) are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. Securities valued using Level 3 includes alternative investments and perpetual trusts that are valued based on the present value of future cash flow from these investments. Significant changes in any of these inputs would result in a significant change to the fair value measurement.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (Continued)

Quoted market prices are available and used for exchange-traded derivatives, such as certain interest rate futures and option contracts; such derivatives are classified as using Level 1 inputs. However, substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, fair values are determined using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities and, accordingly, are classified as Level 2 inputs.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a non-recurring basis as of September 30, 2014:

Assets	September 30, 2014	Level 1	Level 2	Level 3
Property and Equipment	$ 369	$ -	$ -	$ 369

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets accounting standard, long-lived assets held and used with a carrying value of $7,397 were written down to their fair value of $369 at September 30, 2014 resulting in a loss on impairment of $7,028 which is included in loss on asset disposal and impairment on the consolidated statements of operations and changes in net assets for the year ended September 30, 2014. There were no assets measured at fair value on a non-recurring basis as of September 30, 2013.

Fair Value of Financial Instruments

The following disclosures represent financial instruments in which the ending balances at September 30, 2014 and 2013 are not carried at fair value in their entirety on the consolidated statement of financial position.

	September 30, 2014		September 30, 2013	
	Cost	Fair Value	Cost	Fair Value
Long-Term Debt	$ 757,005	$ 799,704	$ 750,975	$ 714,675

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Long-Term Debt

The fair value of long-term debt is calculated based on the estimated trade values as of September 30, 2014 and 2013. The value is estimated using the rates currently offered for like debt instruments with similar remaining maturities. Based upon these inputs the fair market value of long-term debt would have been classified as a Level 3 liability.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

All Other

The carrying value is a reasonable estimate of the fair value for all other financial instruments due to the short-term nature of those financial instruments.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of September 30 consist of the following:

	2014	2013
Temporarily Restricted	$ 437	$ 2,692
Permanently Restricted	5,040	35
Total Pledges Receivable	5,477	2,727
Less: Unamortized Discount	17	76
Total Net Pledges Receivable	5,460	2,651
Less: Current Portion	100	2,100
Less: Amount Reported as Endowment Funds	40	35
Non-Current Pledges Receivable	$ 5,320	$ 516

Pledges receivable that are permanently restricted, or temporarily restricted for capital, are presented as non-current assets. At September 30, 2014, the amount of pledges expected to be collected within the next five years are as follows:

Year Ending September 30,	Amount
2015	$ 5,424
2016	23
2017	15
2018	15
2019	-
Thereafter	-
Total	$ 5,477

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS

Investment in Gideon Pond Cooperative (the Cooperative)

The Organization has received or purchased share certificates (each share represents the right to occupy a cooperative housing unit in the Cooperative's buildings) and at September 30, 2014 owned 98 cooperative share certificates of 101 total shares. The share certificates are carried at the lower of amortized cost or estimated fair value. All units held by the Organization are currently available to lease to tenants.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

Investment in Gideon Pond Cooperative (the Cooperative) (Continued)

At September 30, the investment in Gideon Pond Cooperative consisted of the following components:

	2014	2013
Share of Certificates	$ 9,297	$ 9,204
Garages	272	265
Total	$ 9,569	$ 9,469

Unconsolidated Affiliates

The Organization assists various other not-for-profit corporations with the development of senior housing projects. For some of these entities, the Organization is generally allowed to appoint members to the entity's board of directors, but does not maintain control over the board. Other entities, while operating as not-for-profit entities, are joint ventures with another not-for-profit organization. In these joint ventures, both entities appoint board members, and distributions (if any) are determined by the entities' bylaws and membership control agreements. As a result of not having control, these affiliates (the Unconsolidated Affiliates) are not included in these consolidated financial statements.

The Organization generally provides capital to these Unconsolidated Affiliates to assist them in the project's development. Sometimes these advances fund initial costs, which are reimbursed to the Organization when the project is financed. For the years ended September 30, 2014 and 2013, the Organization has contributed capital of approximately $6,720 and $6,723, respectively, to these Unconsolidated Affiliates, which it has recorded as an investment at its original cost basis. These investments are reduced upon distributions received from the Unconsolidated Affiliates, and the Organization recognizes revenue from distributions received in excess of the original cost basis.

The Organization generally provides management services to the Unconsolidated Affiliates under management contracts. For the years ended September 30, 2014 and 2013, the management fees earned were approximately $820 and $785, respectively.

The Unconsolidated Affiliates at September 30, 2014 include PSA Housing and Assisted Living, Inc. (St. Andrews Village), Crosby Senior Services (Heartwood), and Carondelet Village, Inc. PHS Walnut Ridge, LLC was an unconsolidated affiliate at September 30, 2013, PHS bought out the partner's share during the year ended September 30, 2014 (see Note 6)

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

Unconsolidated Affiliates (Continued)

The following is summarized financial data for the Unconsolidated Affiliates as of and for the years ended September 30, 2014 and 2013:

	2014	2013
Assets	$ 93,087	$ 126,657
Liabilities	92,657	122,776
Net Assets	$ 430	$ 3,881
Operating Revenues	$ 25,323	$ 20,049
Operating Expenses	15,240	12,990
Interest Expense	5,812	5,216
Depreciation and Amortization Expense	3,970	3,352
Net Loss	$ 301	$ (1,509)

Other Assets

Other assets include the following at September 30:

	2014	2013
Real Estate Development Costs	$ 1,456	$ 7,872
Donated Land Held for Future Resale	1,520	1,520
Notes Receivable	1,165	1,674
Other	1,226	1,144
Total	$ 5,367	$ 12,210

Real estate development costs include costs related to planned developments of new projects. These generally include costs related to architectural drawings, market research, site development, and other predevelopment costs. Once construction begins on these projects the costs are transferred to construction in progress. If the Organization determines to not move forward with a project, these costs will be expensed at that time.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

Other Assets (Continued)

Notes receivable consist of an unsecured note from Carondelet Village, Inc. related to funds advanced by the Organization to fund Carondelet Village, Inc.'s required debt service reserve fund. The note earns interest at a rate of 6% per year and is payable upon demand unless Carondelet Village, Inc. is in default on payment of their bonds or payment of the note would cause them to be in default on their bond payments. The balance of this note was $568 and $1,067 at September 30, 2014 and 2013, respectively. Collection of this note is fully expected and accordingly, no allowance has been provided. Also included in notes receivable is an unsecured note from Crosby Senior Services related to deferred development fees. The note earns interest at a rate of .5% and is payable from Crosby's entrance deposits and available cash. The balance of this note was $597 and $607 as of September 30, 2014 and 2013, respectively. Collection of this note is fully expected and accordingly, no allowance has been provided.

NOTE 6 ACQUIRED OPERATIONS

PHS Walnut Ridge, LLC

Effective May 1, 2014; the Organization acquired the other partner's share of this former joint venture. The total cost of the acquisition was approximately $1,150 in addition to assumption of the assets and liabilities of PHS Walnut Ridge, LLC.

The following is a summary of the assets and liabilities acquired in the transactions described above:

	2014
Cash	$ 874
Accounts Receivable	115
Other Assets	712
Assets Limited to Use	354
Property and Equipment	33,300
Total Assets	$ 35,355
Accounts Payable	$ 81
Accrued Expenses	504
Other Liabilities	490
Long-Term Debt	27,837
Total Liabilities	$ 28,912

As a result of the transaction above, the Organization recorded a gain on acquisition of approximately $6,443, which is included in gain on acquisition and forgiveness of debt on the consolidated statements of operations and changes in net assets.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 6 ACQUIRED OPERATIONS (CONTINUED)

PHS Walnut Ridge, LLC (Continued)

Total revenues of $2,925, including non-operating revenues, attributable to current year acquisitions, are included in the consolidated statements of operations and changes in net assets for the period from acquisition through September 30, 2014.

The changes in net assets attributable to the acquisition described above for the period from acquisition through September 30, 2014 are summarized in the following table:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - September 30, 2013	$ -	$ -	$ -	$ -
Change in Net Assets	6,905	-	-	6,905
Net Assets - September 30, 2014	$ 6,905	$ -	$ -	$ 6,905

The acquired entity's revenue for the year ended September 30, 2014, including nonoperating revenues, would have increased by $4,019 to $6,944 had the acquisition occurred on October 1, 2013.

The consolidated revenue for the year ended September 30 2013, including non-operating revenues, would have increased by $6,730 had the acquisition occurred on October 1, 2012.

NOTE 7 CONSTRUCTION IN PROGRESS

Wayzata Bay Senior Housing, Inc.

During the year ended September 30, 2010, the Organization acquired property in Wayzata, Minnesota to be used in a planned master development. The development is to be completed in multiple stages.

North and Superior

The first stage of the project added 254 senior living units and approximately 32,000 square feet of retail space and was financed with proceeds from long-term debt and equity. At September 30, 2013, approximately $85,471 had been incurred and is included in construction in progress on the consolidated financial statements. This first stage of construction was completed in October 2013 at a total cost of approximately $104,093.

West

The second stage of the project will add 73 senior living units, 26 market rate apartment units and approximately 40,700 square feet of retail space. The estimated cost of this phase is $65,857 which is being financed with proceeds from long-term debt and equity. At September 30, 2014, approximately $22,156 has been incurred and is included in construction in progress on the consolidated financial statements. This stage is expected to be complete in May 2015.

NOTE 7 CONSTRUCTION IN PROGRESS (CONTINUED)

Wayzata Bay Senior Housing, Inc. (Continued)

Plaza

The third stage of the project will add 21,700 square feet of retail space. The estimated cost of this phase is $14,950 which is being financed with proceeds from long-term debt and equity. At September 30, 2014, approximately $7,423 has been incurred and is included in construction in progress on the consolidated financial statements. This stage is expected to be complete beginning in February 2015.

Maranatha

During the year ended September 30, 2012, the Organization began construction on a rebuild of the Maranatha campus which consists of 97 care center beds through the moratorium exception process. The project was financed with proceeds from long-term debt and equity. At September 30, 2013, approximately $13,753 had been incurred related to this project and is included in construction in progress on the consolidated financial statements. The project was completed and opened in December 2013 at a total cost of approximately $16,089.

Interlude

During the year ended September 30, 2014, the Organization began construction on a transitional care campus in Plymouth, Minnesota which will consist of 50 transitional care apartments and 5 care suites. The cost of this project is expected to be approximately $17,000 and is being financed with proceeds from long-term debt and equity. At September 30, 2014, approximately $8,196 had been incurred related to this project and is included in construction in progress on the consolidated financial statements. The project is expected to be complete in February 2015. The project is a partnership between Presbyterian Homes and Services (90%) and Allina Health System (10%).

Woodland Hill

Subsequent to year-end, the Organization closed on $44,485 revenue bonds. The proceeds from the bonds, in addition to equity, are being used to finance construction of a senior living facility in Hudson, Wisconsin consisting of 95 senior apartments, 46 assisted living units, 19 memory care units and a medical suite to be leased to a tenant that will offer dialysis services. The project is expected to cost approximately $48,000 and is expected to be completed in February 2016. At September 30, 2014, approximately $662 had been incurred related to this project and is included in construction in progress on the consolidated financial statements.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 7 CONSTRUCTION IN PROGRESS (CONTINUED)

Dickson Hollow

Subsequent to year-end, the Organization closed on $44,235 revenue bonds. The proceeds from the bonds, in addition to equity, are being used to finance construction of a senior living facility in Menomonee Falls, Wisconsin consisting of 120 senior apartments, 42 assisted living units, 18 memory care units and a town center. The project is expected to cost approximately $48,300 and is expected to be completed in January 2016. At September 30, 2014, approximately $527 had been incurred related to this project and is included in construction in progress on the consolidated financial statements in addition to the land acquired for $2,938 which is reported as land on the consolidated financial statements.

Other

The Organization has also incurred construction costs related to the planned development of new building projects, as well as planned renovations and remodeling of existing nursing facilities and senior housing projects.

NOTE 8 LONG-TERM DEBT

Notes, Bonds and Mortgages

Notes, bonds and mortgages at September 30 consist of the following:

Description		2014	2013
Revenue Bonds, Series 2003 for Farmstead, payments due at a variable interest rate through 2033.	(4)	$ 10,345	$ 10,645
2.0% to 6.0% Revenue Refunding Bonds, Series 2010, for Mayfield, payments due through 2030.		5,085	5,285
2.0% to 6.0% Revenue Refunding Bonds, Series 2010, for Gideon Pond Commons, LLC, payments due through 2030.		14,715	15,240
Summerhouse of Bloomington, Mississippi Shores, Echo Ridge, Summerhouse of Shoreview, payments due at a variable interest rate through 2038.	(5)	22,880	23,195
5% to 5.5% Revenue Bonds, Series 2006, for Bloomington Care Center, payments due through 2041.		20,655	20,965
5.5% Mortgage Note for Castle Ridge Apartments, payment due through 2015, with balloon payment. Refinanced in 2014.		-	3,415
2.75% Revenue Refunding Note for Castle Ridge Apartments, Series 2014. Payments due through 2029 with balloon payment.		10,000	-

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2014	2013
7.5% Revenue Note, Series 2004, for Castle Ridge Apartments, payments due through 2014, with balloon payment. Refinanced in 2014.		-	6,714
4.25% to 5.7% Revenue Bonds, Series 1998, for Castle Ridge, payments due through 2028.		2,500	2,615
6.77% Mortgage Note for Central Towers, payments due through 2026. Debt forgiven in 2014.		-	2,400
2% Mortgage Note for Central Towers, payments due through 2018. Debt paid off in 2014.		-	106
1% MHFA Mortgage Note for Central Towers, payments due through 2027.		125	125
2.9% to 6.25% Revenue Bonds, Series 2003 for Summerwood of Chanhassen, payments due through 2033, less unamortized bond discount. Refinanced in 2014.		-	21,489
2.9% Revenue Refunding Notes, for Summerwood of Chanhassen, payments due through 2033.		19,686	-
5% to 6% Revenue Bonds, Series 2006, for Norris Square, payments due through 2041.		28,450	28,750
2.33% Loan Participation Notes, Series 2003, for Croixdale, payments due through 2025.	(6)	6,500	6,994
Revenue Refunding Bonds, for EagleCrest, payments due at a variable interest rate through 2039.	(7)	21,700	22,115
5.30% Mortgage Note for Country Inn & Suites, payments due through 2023. Project sold and note repaid in 2014.	(2)	-	3,509
Note payable, for Maranatha, Maximum Borrowing Limit of $20,000. Refinanced in 2014.	(10)	-	16,959
3.0% Revenue Refunding Notes for Maranatha, payments due through 2034.		19,869	-
6.0% Mortgage Note for Maranatha, payments due through 2031.		878	907
2.34% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Avalon Square, payments due through 2043.		17,510	17,933
4.88% Mortgage Note to Department of Housing and Urban Development (HUD) for Ridgeview Terrace, payments due through 2032.		1,614	1,672

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2014	2013
4.88% Mortgage Note to HUD for Newton Manor, payments due through 2025.		989	1,054
Revenue Refunding Bonds, Series 2005 for Timber Hills, payments due at a variable interest rate through 2035.	(4)	25,735	26,335
3.12% mortgage for PHS Management LLC (Hamline Office Building), due through 2029.		4,535	4,778
2.63% Revenue Note Payable, Series 2008 for Mill Pond Apartments, payments due through 2028.	(6)	2,958	3,133
4.75% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Mill Pond Care Center, payments due through 2035.		4,703	4,830
Revenue Bonds, Series 2003 for Oakcrest, payments due at a variable interest rate through 2033.	(4)	6,060	6,260
5.0% Mortgage Note for Lake Minnetonka Shores, Series 2010 payments due through 2020. Refinanced in 2014.	(8)	-	27,295
2.92% Revenue Refunding Notes for Lake Minnetonka Shores, payments due through 2034.	(6)	27,633	-
0% Note Payable for Ankeney, IA property, principal paid in equal annual installments through 2019.		327	397
3.26% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Summerwood of Plymouth, payments due through 2047.		17,064	17,352
4.75% - 7.625% Revenue Bonds, Series 2006 for Grace-Pointe Gables East, payments due through 2033, less unamortized bond discount. Paid off in 2014.		-	6,830
7.625 Subordinated Note for Grace-Pointe Gables East.		1,000	1,000
5.25% to 6.5% Revenue Bonds, Series 2007, for Waverly Gardens, payments due through 2047.		79,645	80,345
4.5% to 5.6% Revenue Refunding Bonds, Series 2006, for Kirkland Crossings, payments due through 2041. Refinanced in 2014.		-	17,205
2.88% Revenue Refunding Note for Kirkland Crossings, payments due through 2034 with balloon payment.		16,050	-
Revenue Refunding Bonds, Series 2005, for Boutwells Landing, payments due at a variable interest rate through 2035.	(3)	53,265	54,660

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2014	2013
6% Mortgage Note for Boutwells Landing, payments due through 2019.		856	1,010
1.4% to 6.0% Revenue Refunding Bonds, Series 2013 for Boutwells Landing, payments due through 2036.		20,285	20,760
Revenue Bonds, Series 2004 for Beacon Hill, payments due at a variable interest rate through 2034.	(4)	9,110	9,310
2.31% Revenue Bonds, Series 2006 and 2007 for Highland Ridge, payments through 2017 with balloon payment. Refinanced in 2014.		-	4,528
2.31% Revenue Bonds, Series 2005B, for Highland Ridge, payments through 2017 with balloon payment. Refinanced in 2014.	(2)	-	4,061
Unsecured note payable for Highland Ridge. Limit of $2,000. Interest at the short term applicable federal rate for the month of the advance, as published by the IRS. Due 1/31/2014. Paid off in 2014.		-	1,952
2.6% Revenue Refunding Note for Highland Ridge, payments due through 2029.		7,803	-
4% to 5.75% Revenue Refunding Bonds, Series 2006, for Stonecrest, payments due through 2041.		12,770	12,960
1.75% to 5.25% Revenue Refunding Bonds, Series 2012, for Stonecrest, payments due through 2034.		7,275	7,490
4.25% Revenue Note, Series 2003 for GracePointe Gables Gables West, payments due through 2023.	(6)	1,723	1,876
4.25% Revenue Note, Series 2003, for GracePointe Terrace, payments due through 2023.	(6)	1,538	1,675
1.75% to 4.65% Revenue Bonds, Series 2013 for GracePointe Commons, payments due through 2033.		9,345	9,515
Revenue Note, Series 2010, for Founders Ridge, payments due through 2018, with balloon payment. Refinanced in 2014.	(9)	-	16,268
2.96% Revenue Refunding Notes, Series 2014A &B for Founders Ridge, payments due through 2035.		15,700	-
3.45% to 6.65% Revenue Bonds, Series 2011, for Deerfield, payments due through 2043.		13,050	13,140

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2014	2013
5.15% to 6.0% Revenue Bonds, Series 1998, for Deerfield, payments due through 2032.		5,700	5,855
4.25% to 5.75% Revenue Bonds, Series 2006, for Mckenna Crossing, due through 2042.		28,195	28,585
3.5% Loan Payable, for Johanna Shores, payments due through 2033.		31,178	32,000
3.5% Revenue Notes, Series 2013A & B, for PHS West Health, Inc., payments due through 2028. Maximum borrowing limit of $13,080.		5,152	-
Promissory notes payable for West. Payments due through 2020. Maximum borrowing limit of $41,510.	(11)	20,519	-
Construction term loan for Plaza.	(12)	3,508	-
4.48% loan payable for Walnut Ridge, payments due through 2038.		21,539	-
3.12% Revenue note, Series 2012, for Walnut Ridge, payments due through 2038.		3,406	-
5.375% Revenue bonds, Series 2007B for Walnut Ridge, payments due through 2025.		1,450	-
4.70% to 6.00% Revenue Bonds, Series 2012, for North and Superior, due through 2047.		81,260	104,375
$5,800 Option Agreement, Lot 1, Block 1, Wayzata Bay Redevelopment, Interest accrues at 5.0% through the option term of April 1, 2016.	(1)	6,525	6,235
.25% Note Payable for Wayzata Bay Redevelopment, payments due through 2013.		-	1,160
Other		6,642	5,713
Subtotal		757,005	750,975
Less: Current Maturities		19,238	18,254
Total		$ 737,767	$ 732,721

(1) In conjunction with the acquisition of 100% interest in Wayzata Bay Redevelopment Company during 2012, an option was granted to the former partner to purchase a portion of the retail property once developed. In consideration for this option, the former partner paid $5,800. This option payment accrues interest at 5% and shall be applied against the purchase price of the property if the option is exercised. If the option is not exercised, the option payment, including accrued interest, is refundable. The option expires April 1, 2016.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

(2) The interest rate and monthly payment will be adjusted in 2015 (if applicable). Debt was refinanced or repaid in 2014.

(3) The 2005 Revenue Bonds are scheduled to be paid in varying annual installments through 2035; however, the 2005 Revenue Bonds can be called on a daily basis by the bondholders. The Organization has remarketing agreement with underwriters that provides for a “best efforts” remarketing of the 2005 Revenue Bonds. The 2005 Revenue Bonds are secured by a credit enhancement from Federal Home Loan Mortgage Corporation (Freddie Mac), which is effective for the term of the bonds. If the credit enhancement is used to pay for Revenue Bonds that were not remarketed, such amounts are due 13 months after the draw. Accordingly based on the terms of the credit enhancement, the 2005 Revenue Bonds, other than the original amount scheduled to be paid in fiscal year 2015, are reported as long-term liabilities.

(4) The mortgage loan is secured by a letter of credit enhancement agreement with Fannie Mae, which guarantees the payment of the mortgage loan.

(5) The bonds are secured by a credit enhancement agreement with Freddie Mac, which guarantees the payment of the bonds.

(6) The interest rate is set upon issuance, and re-set every five years through a predetermined index, and have interest rate floors and ceilings as set in the agreement.

(7) The EagleCrest Revenue Bonds that were issued in 2009 are scheduled to be paid in varying annual principal installments, but can be called on a weekly basis by the bondholders. The bonds are secured by a credit enhancement agreement with Freddie Mac which guarantees the payment of the bonds. In addition, any draws upon the liquidity agreement are to be repaid 365 plus 1 days after drawn upon which supports the classification as a long-term liability.

(8) The mortgage note was issued in 2010 for Lake Minnetonka Housing, Lake Minnetonka Care Center, and Lake Minnetonka Employee Housing. The interest rate on the note was 4% until June 1, 2010, at which time the rate reset to the greater of 3% plus 70% times the sum of the current 30-day LIBOR rate or 4%. At any time after the date of substantial completion of the project improvements and the note has been fully funded or the Organization agrees in writing that no further advances shall be made under this note, the Organization may elect to fix the interest rate for either (I) a period of five years at a rate equal to the greater of 70% times the sum of the current five-year LIBOR swap rate plus 3% or 5%; or (II) fixed through May 31, 2015, at rate equal to the greater of 70% times the sum of a comparable term LIBOR swap rate plus 3% or 5%. If the Organization has failed to notify the lender which option they select by June 1, 2012, option (I) above shall the default option. The Organization selected option (I) and fixed the interest rate at 5% for five years. The mortgage note was refinanced in 2014.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

(9) The revenue note was issued to finance construction of the Founders Ridge project. The interest rate on the note is variable throughout the construction period, calculated as the one month LIBOR rate plus a spread. The rate became fixed through a swap at 4.42% on October 1, 2012 through maturity. The revenue note was refinanced in 2014.

(10) The interest rate on the note is fixed at 7% through June 30, 2014. Beginning July 1, 2014, the interest rate shall become fixed per annum at a rate equal to the greater of 4.75% or 1.5% plus the highest U.S. prime rate of interest. The note was refinanced in 2014.

(11) The initial interest rate is 2.664%. Each advance of loan proceeds will bear interest at a rate equal to 2.5% in excess of the LIBOR rate in effect as of the 25th day of the preceding month. Interest only payments commenced January 1, 2014 and continue through December 31, 2015. Commencing January 1, 2016, principal and interest become payable in equal monthly installments sufficient to fully amortize the notes by December 1, 2045. The outstanding principal on the notes is due January 1, 2020.

(12) The initial interest rate is fixed at 4.74% and will reset on the 5th and 10th anniversaries of the loan at a rate equal to 3% plus the yield on the US Treasury Securities five-year maturity. Interest only payments begin commencing November 1, 2014 through November 1, 2015. Beginning December 1, 2015, principal and interest payments become payable in equal monthly installments sufficient to amortize the loan over 25 years. The outstanding principal is due November 1, 2025.

Substantially all of the Organization’s property, equipment and assets, plus the assignment of rents and income contracts, is pledged as collateral on the above debts.

Many of the notes and bonds include various restrictive covenants requiring adherence to be in compliance with the terms of the note or bond.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Annual maturities on the notes, bonds and mortgages for the five years subsequent to September 30, 2014 based on the terms of letters of credit or credit enhancement agreements as well as management's expectation are approximately as follows, the maturities reflect any changes made to the requirements subsequent to September 30, 2014.

Year Ending September 30,	Management's Expected Amount	Credit Terms Amount
2015	$ 19,238	$ 19,238
2016	28,167	170,046
2017	20,430	16,523
2018	21,134	16,993
2019	34,764	30,375
Thereafter	633,272	503,830
Total	$ 757,005	$ 757,005

Interest Cost

The total interest cost incurred during the construction period, net of interest earnings on invested tax-exempt bond proceeds, for the years ended September 30, 2014 and 2013, was approximately $2,236 and $7,074, respectively. These amounts are capitalized as part of the cost of construction.

Line of Credit

The Organization has a line of credit through Associated Bank with a maximum borrowing limit of $2,500,000 and a variable interest rate equal to prime (3.25% at September 30, 2014). The line of credit matures on January 10, 2015 at which time all unpaid principal and interest becomes due and is secured by the Organization's receivables. At September 30, 2014 and 2013 the outstanding balance on the line of credit was $911 and $1,709, respectively and is included in long-term debt, less current maturities on the consolidated statements of financial position.

Derivatives and Variable Interest Rate Risk Management

The Organization uses derivative instruments to manage variable interest rates on certain of the Organization's long-term debt issues. As part of the Organization's strategy to manage the variability of interest rates, the Organization has entered into interest rate swap agreements to reduce the impact of changes in interest rates.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Derivatives and Variable Interest Rate Risk Management (Continued)

At September 30, 2014, the Organization has the following interest rate swap agreements with commercial banks which effectively limit the Organization's interest rate exposure.

	Notional Amount	Swap Rate	Termination Date
Agreement related to Series 1999 and 2002 Revenue bonds for Presbyterian Homes of Arden Hills, Inc. and Presbyterian Home Care Centers, Inc. Transferred to Presbyterian Homes and Services in 2011.	$ 25,841	3.391% Fixed	October 1, 2029
Agreement related to Series 2005 Revenue Revenue bonds for Boutwells Landing.	32,651	3.566% Fixed	November 1, 2015
Agreement related to Series 2007 Revenue bonds for Waverly Gardens.	80,645	USD-SIFMA Municipal Swap Index	October 1, 2047
Agreement related to Series 2007 Revenue bonds for EagleCrest, agreement transferred to Presbyterian Homes and Services in 2009.	21,880	USD-SIFMA Municipal Swap Index	July 1, 2042
Agreement related to Series 2010 Revenue Bonds for Founders Ridge. Transferred to Presbyterian Homes and Services in 2014.	15,604	2.74% Fixed	April 1, 2018

The fair value of the derivative instruments was as follows at September 30, 2014 and 2013:

	Balance Sheet Location	September 30, 2014	September 30, 2013
Derivatives not Designated as Hedging Instruments	Other Long-Term Liabilities	$ 11,051	$ 12,974

The effect of the derivative instruments on the consolidated statements of operations and changes in net assets was as follows for the years ended September 30, 2014 and 2013:

	Location of Gain Recognized in Excess of Revenue Over Expense	Amount of Gain on Derivatives Recognized in Excess of Revenue Over Expense	
		Year Ended September 30,	
		2014	2013
Derivatives not Designated as Hedging Instruments	Interest Rate Swap Market Adjustment	$ 1,923	$ 2,943

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 LONG-TERM DEBT (CONTINUED)

Derivatives and Variable Interest Rate Risk Management (Continued)

The fair value of the derivatives reflects the price that a third-party would be willing to pay or receive in arm's-length transactions and includes mark-to-market adjustments to reflect the effects of changes in the related index. The Organization recognized its derivatives as a net asset or liability at fair value on the consolidated statements of financial position. Changes in the fair value of the fixed-rate swaps are recorded in the consolidated statements of operations and changes in net assets as nonoperating gains or losses and are included in excess of revenue over expense, as these transactions do not qualify for hedge accounting.

The Organization also purchases interest rate cap agreements on other variable rate bonds, which have terms of three to five years. The Organization amortizes these costs over the term of the agreement. In addition, the Organization funds an escrow account over the term of the agreement in anticipation of purchasing another interest rate cap upon maturity. At September 30, 2014 and 2013, the value of these interest rate caps were approximately $693 and $943, respectively, and are included in prepaids and other assets on the consolidated statement of financial position.

NOTE 9 NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are contributions that are restricted by the donor for the following, which are mainly related to capital acquisitions at September 30:

	2014	2013
Arden Hills Care Center	$ 154	$ 148
Highland Ridge	-	2,000
Gracepointe Crossing	253	245
Bloomington Care Center	49	257
Woodland Hill	250	-
Endowment Earnings	1,331	1,050
Other	1,489	13
Total	$ 3,526	$ 3,713

Permanently Restricted Net Assets

At September 30, permanently restricted net assets consist of the following:

	2014	2013
John S. Holl Trust	$ 31,294	$ 30,875
Presbyterian Homes of Wisconsin Endowment	2,750	2,675
PHS General Endowment	10,390	4,665
Total Permanently Restricted Net Assets	$ 44,434	$ 38,215

Investment income on the John S. Holl trust and other endowment funds is unrestricted. The John S. Holl trust is a perpetual trust held by third-party trustee for the Organization. The fair value of this trust at September 30 is reported as permanently restricted net assets.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 9 NET ASSETS (CONTINUED)

Board Designated Net Assets

At September 30, board designated net assets consist of the following:

	2014	2013
Highland Ridge Endowment	$ 3,673	$ 3,386
Croixdale Endowment	2,115	1,979
North Oaks Endowment	1,801	1,806
PHS General Endowment Funds	3,180	1,774
Total Board Designated Endowments	$ 10,769	$ 8,945

Debt agreements or bylaws of certain affiliates may limit the ability of the Organization to transfer, advance or use these unrestricted funds for the benefit of the other affiliates.

The bylaws of Croixdale do not allow for the net assets of Croixdale, $16,471 at September 30, 2014, to be used by or transferred to the Organization or its affiliates. The bylaws of Highland Ridge do not allow for the net assets of Highland Ridge, $21,010 at September 30, 2014, to be used by or transferred to the Organization or its affiliates.

Interpretation of Relevant Law

The Organization interpreted the State Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 in the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 9 NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

The following tables show the changes in endowment net assets for the years ended September 30, 2014 and 2013, including permanently restricted pledges received in 2014 that have not been collected:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year - 10/1/13	$ 8,945	$ 1,050	$ 7,340	$ 17,335
Investment Return: Investment Income	365	677	-	1,042
Contributions	1,630	-	5,800	7,430
Net Assets Appropriated for Expenditure and Sales	(171)	(396)	-	(567)
Endowment Net Assets, End of Year - 9/30/14	$ 10,769	$ 1,331	$ 13,140	$ 25,240

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year - 10/1/12	$ 9,748	$ 1,278	$ 8,025	$ 19,051
Investment Return: Investment Income	(629)	174	-	(455)
Contributions	818	-	(685)	133
Net Assets Appropriated for Expenditure and Sales	(992)	(402)	-	(1,394)
Endowment Net Assets, End of Year - 9/30/13	$ 8,945	$ 1,050	$ 7,340	$ 17,335

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 endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses. The Organization expects its endowment funds, over time, to provide an average rate of return in line with or better than their respective benchmarks or peer groups. Actual results in any given year may vary from this amount.

NOTE 9 NET ASSETS (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return 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 meets the Organization's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year, 3% to 5% of the previous 16 quarter trailing average of its endowment fund's fair value on June 30 of the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 10 PENSION PLAN

The Organization participates in contributory, defined contribution pension plan 403(b). All employees who have one year or more of service, have reached the age of 21 and work more than 20 hours per week are eligible to participate in the plan. Participants vest in the employer contribution at graduated rates, up to full vesting after five years.

The Organization contributes 3% of eligible employee salaries for those employee who have 1 to 5 years of service and have elected to contribute 1% of their salaries, 4% of eligible employee salaries for those employees who have 6 to 11 years of service and have elected to contribute 2% of their salaries, and 5% of eligible employee salaries for those employees who have 12 or more years of service and have elected to contribute 3% of their salaries.

Contributions to the plan by the Organization approximated $2,536 and $2,564 for the years ended September 30, 2014 and 2013, respectively.

(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 11 FUNCTIONAL EXPENSE

Expense by classifications for the years ended September 30, 2014 and 2013 were:

	2014	2013
Program Services:		
Services to Residents	$ 267,310	$ 244,605
Supporting Services:		
Management and General	37,860	37,078
Fundraising	1,250	1,552
Total Program Expenses	$ 306,420	$ 283,235

NOTE 12 COMMITMENTS AND CONTINGENCIES

Workers' Compensation Self-Insurance

The Organization self-insures its workers' compensation claims. The Organization has purchased reinsurance for specific claims greater than $480 and annual aggregate claims greater than $4,305 up to a maximum of $5,000. Expenses are recorded as claims are incurred. Incurred but not reported claims and expected claim adjustment costs are actuarially estimated and accrued. As required by the state of Minnesota, the Organization has pledged cash and investments of $4,564 and $4,167 at September 30, 2014 and 2013, respectively, to secure the payment of claims. Expenses incurred were approximately $2,229 and $2,090 for the years ended September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, management has estimated reserves and recorded liabilities for outstanding claims of approximately $3,470 and $3,460, respectively, which is included in other long-term liabilities on the consolidated statements of financial position.

The Organization's provision for outstanding losses, although supported by actuarial projections and other data, is ultimately based on management's expectations of future events. It is possible that these estimates could change as more detailed information concerning the losses is received and the effect of such changes could be material to the consolidated financial statements.

Employee Health Self-Insurance

The Organization has self-insured for employee health insurance claims. The Organization has purchased reinsurance for specific claims greater than $250 and annual aggregate claims greater than $12,920. Expenses are recorded as claims are incurred. An estimate of incurred but not reported claims is accrued and amounted to approximately $2,721 and $1,831 at September 30, 2014 and 2013, respectively. This accrual is included in accrued payroll and benefits on the consolidated statements of financial position. Claims and administrative expenses incurred were approximately $9,578 and $8,833 for the years ended September 30, 2014 and 2013, respectively.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Professional Liability Insurance

The Organization is covered by professional liability insurance on a claims made basis. For the year ended September 30, 2014, per claim, per location, and aggregate maximum annual coverage was $5,000, $7,000 and $30,000, respectively. The deductible on professional liability is $1,000. The Organization records its estimate of claim liabilities for deductibles and claims in excess of coverage based on actuarial estimates which amounted to $2,995 and $2,441 at September 30, 2014 and 2013, respectively, which is included in other long-term liabilities on the consolidated statements of financial position. If this policy should lapse and not be replaced with equivalent coverage, claims occurring during, but reported subsequent to, its term will be uninsured.

Cooperative Units Acquisition Commitments

In 2000, the Organization entered into an agreement to acquire the remaining membership unit certificates (three as of September 30, 2014) in Gideon Pond Cooperative (the Cooperative) as those units become available for sale. The price established by the Cooperative's bylaws as of September 30, 2014, for the remaining units have an average value of $150 each. Because the individual unit owner determines when they will sell their unit, the Organization will not recognize an asset or liability until the title is transferred to the Organization.

Heartwood Guarantee

The Organization has provided a guarantee in the amount of $600 for tax-exempt revenue bonds issued in the amount of $22,935 used to finance a 98-unit senior housing, assisted living and memory care campus in Crosby, Minnesota. The project is a joint venture between the Organization and the Cuyuna Regional Medical Center and opened in October 2008. The project is an Unconsolidated Affiliate of the Organization (see Note 5).

Litigation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from resident and patient services. Management believes that the Organization is in substantial compliance with current laws and regulations.

NOTE 13 SUBSEQUENT EVENTS

Subsequent to year-end, the Organization issued $44,235 Series 2014 revenue bonds to finance the construction and equipping of Dickson Hollow, a new senior housing project as described in Note 7.

Subsequent to year-end, the Organization issued $44,485 Series 2014 revenue bonds to finance the construction and equipping of Woodland Hill, a new senior housing project as described in Note 7.

In preparing these consolidated financial statements, the Organization has considered events and transactions that have occurred through December 5, 2014, the date the consolidated financial statements were available to be issued.

CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors and Stockholders
Presbyterian Homes and Services and Affiliates
Shoreview, Minnesota

We have audited the consolidated financial statements of Presbyterian Homes and Services and Affiliates as of and for the years ended September 31, 2014 and 2013, and our report thereon dated December 5, 2014, which expressed an unqualified opinion on those consolidated financial statements, appears on pages 2 and 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 5, 2014

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services	Optage Inc.				Presbyterian Homes Hospice, Inc.	Presbyterian Homes of Andover, Inc.
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Assisted Living	Optage Home and Community Based Services	Optage Primary Care	Optage Hospice	Farmstead
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents:							
Unrestricted	$ (2,191)	$ 927	$ 3,466	$ (256)	$ (3,114)	$ 1,489	$ 6,076
Restricted for Residents	-	-	-	-	-	-	-
Cash Held or Restricted, Current Portion	-	-	-	-	-	-	331
Accounts Receivable, Less Allowance for Doubtful Accounts	31	1,176	174	203	147	441	91
Pledges Receivable, Current Portion	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	13	1	-	1	9	1	64
Total Current Assets	(2,147)	2,104	3,640	(52)	(2,958)	1,931	6,562
INVESTMENTS AND OTHER ASSETS							
Investments and Cash Held or Restricted:							
By Agreements with Trustees and Others	-	-	-	-	-	-	-
Restricted by Donors and Others	-	-	-	-	-	-	-
Replacement Reserves	-	-	-	-	-	-	708
Endowment Funds	-	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	-	-	-	-	-	-	228
Investment in Other Entities	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-
Due from Affiliates	-	54	-	1	1	-	329
Total Investments and Other Assets	-	54	-	1	1	-	1,265
PROPERTY AND EQUIPMENT							
Land	-	-	-	-	-	-	720
Buildings and Land Improvements	-	21	16	-	-	-	11,686
Equipment and Furnishings	-	1,984	172	444	64	297	2,457
Automotive Equipment	-	552	-	-	-	-	11
Construction in Progress	-	-	-	-	-	-	-
Subtotal	-	2,557	188	444	64	297	14,874
Less: Accumulated Depreciation	-	934	108	225	24	124	7,586
Net Property and Equipment	-	1,623	80	219	40	173	7,288
Total Assets	$ (2,147)	$ 3,781	$ 3,720	$ 168	$ (2,917)	$ 2,104	$ 15,115

Presbyterian Homes of Arden Hills, Inc.	Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Castle Ridge Apartments, LLC	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership
Johanna Shores	Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers
$ 5,048	$ 785	$ 8,720	$ 265	$ 1,722	$ 405	$ (4,846)	$ 1,781	$ 361
7	-	-	3	-	113	-	1	58
-	(140)	450	887	-	95	-	81	-
1,028	1	119	980	34	(2,792)	1,479	557	2
-	-	-	-	-	-	-	-	-
49	40	15	11	4	-	36	8	36
6,132	686	9,304	2,146	1,760	(2,179)	(3,331)	2,428	457
-	-	1,342	1,488	-	-	-	133	-
-	605	-	-	-	-	1,230	-	-
5,618	278	1,567	1,183	54	-	908	594	282
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
606	212	253	358	365	248	-	56	-
-	-	9,569	-	-	-	147	-	-
204	-	-	-	-	929	17	-	-
-	-	382	-	-	-	805	-	-
6,428	1,095	13,113	3,029	419	1,177	3,107	783	282
475	545	360	342	2,451	6,000	231	718	348
48,005	9,423	5,659	24,760	15,157	7,114	9,280	4,538	9,861
8,818	1,764	684	3,976	2,389	1,674	2,622	1,276	1,875
89	8	-	61	-	-	55	47	-
-	-	-	-	-	-	-	-	-
57,387	11,740	6,703	29,139	19,997	14,788	12,188	6,579	12,084
13,710	5,403	4,015	9,394	1,593	5,011	7,609	3,930	5,318
43,677	6,337	2,688	19,745	18,404	9,777	4,579	2,649	6,766
$ 56,237	$ 8,118	$ 25,105	$ 24,920	$ 20,583	$ 8,775	$ 4,355	$ 5,860	$ 7,505

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	PHS/ Chanhassen, Inc	PHS/Cottage Grove, Inc.	PHS/CG Center LLC		PHM New Richmond Senior Housing, Inc.	PHS/EagleCrest, Inc.		
	Summerwood of Chanhassen	Norris Square	Norris Marketplace	Croixdale Croixdale	Deerfield	EagleCrest	Country Inn & Suites	Hamline Center
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents:								
Unrestricted	$ 2,646	$ 1,855	$ (3,506)	$ 7,937	$ 1,516	$ 18,025	$ -	$ (5,231)
Restricted for Residents	-	-	-	-	84	-	-	-
Cash Held or Restricted, Current Portion	-	720	38	-	454	528	-	-
Accounts Receivable, Less Allowance for Doubtful Accounts	41	42	-	22	492	100	-	-
Pledges Receivable, Current Portion	-	-	-	100	-	-	-	-
Prepaid Expenses and Other Assets	8	8	-	4	6	81	-	1
Total Current Assets	2,695	2,625	(3,468)	8,063	2,552	18,734	-	(5,230)
INVESTMENTS AND OTHER ASSETS								
Investments and Cash Held or Restricted:								
By Agreements with Trustees and Others	-	1,859	-	-	1,249	-	-	-
Restricted by Donors and Others	-	150	-	-	-	-	-	-
Replacement Reserves	331	212	-	233	634	2,801	-	-
Endowment Funds	-	-	-	2,115	-	-	-	-
Pledges Receivable	-	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	455	709	-	73	518	640	-	-
Investment in Other Entities	-	1,791	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	1
Due from Affiliates	-	170	-	680	-	3,833	-	-
Total Investments and Other Assets	786	4,891	-	3,101	2,401	7,274	-	1
PROPERTY AND EQUIPMENT								
Land	3,565	3,375	4,797	603	885	3,950	-	2,061
Buildings and Land Improvements	21,896	20,059	5	15,822	19,130	22,236	-	4,038
Equipment and Furnishings	3,094	3,180	-	1,807	3,804	3,209	-	60
Automotive Equipment	-	-	-	-	33	116	-	-
Construction in Progress	-	-	904	-	-	-	-	-
Subtotal	28,555	26,614	5,706	18,232	23,852	29,511	-	6,159
Less: Accumulated Depreciation	9,233	6,007	-	6,063	2,875	12,431	-	637
Net Property and Equipment	19,322	20,607	5,706	12,169	20,977	17,080	-	5,522
Total Assets	$ 22,803	$ 28,123	$ 2,238	$ 23,333	$ 25,930	$ 43,088	$ -	$ 293

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc.	Noah's Ark Affordable Housing, Inc.
Maranatha	Foundation	PHW/ Helpmates	Avalon Square	Ridgeview Terrace	Newton Manor	Timber Hills	Mill Pond Apartments	Mill Pond	Mississippi Shores	Oakcrest
$ 2,032	$ 580	$ 1,415	$ 669	$ 35	$ 14	$ 7,122	$ 795	$ 65	$ 44	$ 1,504
8	-	-	84	19	16	210	-	-	-	114
433	-	-	174	36	33	433	-	47	316	218
1,165	(1)	34	47	2	35	55	3	269	(4)	3
-	-	-	-	-	-	-	-	-	-	-
11	-	-	15	8	5	237	2	27	14	27
3,649	579	1,449	989	100	103	8,057	800	408	370	1,866
55	-	-	-	-	-	267	-	-	-	218
-	726	60	-	-	-	-	-	-	-	-
398	-	-	443	67	214	703	155	1,010	295	450
-	43,783	2,750	-	-	-	-	-	-	-	-
-	5,250	-	-	-	-	-	-	-	-	-
153	-	-	160	53	50	378	58	54	67	142
-	-	1,916	-	-	-	-	-	-	-	-
-	3,870	-	-	-	-	-	-	-	-	-
-	-	3,026	-	-	-	-	-	-	-	-
606	53,629	7,752	603	120	264	1,348	213	1,064	362	810
1,110	-	-	1,580	230	100	4,414	1,165	1,064	190	794
19,394	-	-	21,012	1,897	2,517	31,765	3,637	9,205	3,565	9,382
5,016	-	18	2,359	332	389	2,918	543	1,466	871	1,743
65	-	-	61	-	-	24	-	128	-	21
-	-	-	-	-	-	-	-	-	-	-
25,585	-	18	25,012	2,459	3,006	39,121	5,345	11,863	4,626	11,940
3,144	-	11	9,022	1,364	1,653	13,940	2,017	5,369	2,413	5,583
22,441	-	7	15,990	1,095	1,353	25,181	3,328	6,494	2,213	6,357
$ 26,696	$ 54,208	$ 9,208	$ 17,582	$ 1,315	$ 1,720	$ 34,586	$ 4,341	$ 7,966	$ 2,945	$ 9,033

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing and Assisted Living, Inc.										
	Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
ASSETS											
CURRENT ASSETS											
Cash and Cash Equivalents:											
Unrestricted	$ 1,468	$ (30,052)	$ 9,192	$ 884	$ 6,698	$ 915	$ -	$ 426	$ 4,077	$ (19,787)	$ (135)
Restricted for Residents	7	-	-	-	-	-	-	45	-	3,720	-
Cash Held or Restricted, Current Portion	-	-	-	136	-	-	-	-	211	-	-
Accounts Receivable, Less Allowance for Doubtful Accounts	1,507	5,581	165	76	3,959	761	-	368	2	176	58
Pledges Receivable, Current Portion	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	39	-	236	60	5	-	-	9	4	-	2
Total Current Assets	3,021	(24,471)	9,593	1,156	10,662	1,676	-	848	4,294	(15,891)	(75)
INVESTMENTS AND OTHER ASSETS											
Investments and Cash Held or Restricted:											
By Agreements with Trustees and Others	30	-	4,564	-	-	-	-	-	241	-	-
Restricted by Donors and Others	-	-	-	-	-	-	-	-	-	15,151	-
Replacement Reserves	2,470	(553)	1,490	2,061	-	-	-	463	469	-	6
Endowment Funds	-	-	-	-	-	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	559	-	120	195	-	-	-	245	134	-	-
Investment in Other Entities	-	10,146	-	-	-	-	-	-	-	357	-
Other Assets	-	2,321	13	-	597	-	-	-	-	-	-
Due from Affiliates	-	10,374	5,114	-	202	-	-	-	492	44,255	-
Total Investments and Other Assets	3,059	22,288	11,301	2,256	799	-	-	708	1,336	59,763	6
PROPERTY AND EQUIPMENT											
Land	3,709	5,807	400	1,770	293	-	-	113	273	-	-
Buildings and Land Improvements	25,227	512	8,173	14,907	741	-	-	369	4,369	-	-
Equipment and Furnishings	8,682	8	3,710	1,796	256	22	-	-	957	-	146
Automotive Equipment	108	-	85	4	-	-	-	38	-	-	-
Construction in Progress	-	-	-	-	-	-	-	14	-	-	-
Subtotal	37,726	6,327	12,368	18,477	1,290	22	-	534	5,599	-	146
Less: Accumulated Depreciation	11,802	281	4,906	5,937	301	13	-	33	3,400	-	29
Net Property and Equipment	25,924	6,046	7,462	12,540	989	9	-	501	2,199	-	117
Total Assets	$ 32,004	$ 3,863	$ 28,356	$ 15,952	$ 12,450	$ 1,685	$ -	$ 2,057	$ 7,829	$ 43,872	$ 48

		PHS/ Oakdale, Inc.	Presbyterian Homes of North Oaks, Inc.	Kirkland Crossings, Inc.	Wayzata Bay Senior Housing, Inc.				Shepherd's Path Senior Housing, Inc.	PHS/ Shoreview, Inc.
Walnut Ridge	Woodland Hill	Echo Ridge	Waverly Gardens	Kirkland Crossings	North and Superior	West	Plaza	Wayzata Bay Redevelopment	Mckenna Crossing	Summerhouse of Shoreview
$ 1,420	$ (189)	$ 1,657	$ 15,347	$ 3,639	$ (7,280)	$ (11,901)	$ (5,452)	$ 3,665	$ (3,871)	$ 1,139
305	-	-	1	193	-	-	-	-	171	-
-	6	368	3,107	-	2,194	-	-	-	445	(109)
35	-	-	580	33	326	-	-	-	275	1
-	-	-	-	-	-	-	-	-	-	-
4	-	36	35	6	3	-	-	-	8	30
1,764	(183)	2,061	19,070	3,871	(4,757)	(11,901)	(5,452)	3,665	(2,972)	1,061
-	-	-	5,718	-	6,053	3,256	-	-	2,000	-
-	651	-	2,000	-	-	-	-	-	-	605
89	-	293	455	431	-	-	-	(9,530)	203	240
-	-	-	1,801	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
666	20	184	1,025	321	1,896	1,431	236	35	900	149
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	148	-	-
-	-	2	-	89	-	-	-	-	-	-
755	671	479	10,999	841	7,949	4,687	236	(9,347)	3,103	994
3,617	-	470	13,205	1,235	12,280	7,935	1,375	25,548	5,260	579
28,979	-	7,211	65,628	14,518	99,486	-	-	-	27,402	7,069
1,435	-	1,163	7,177	1,977	6,591	-	-	-	2,934	833
-	-	21	69	83	4	-	-	-	-	2
-	662	-	-	-	-	22,156	7,423	-	-	-
34,031	662	8,865	86,079	17,813	118,361	30,091	8,798	25,548	35,596	8,483
552	-	4,152	19,902	7,111	2,752	-	-	36	4,697	3,545
33,479	662	4,713	66,177	10,702	115,609	30,091	8,798	25,512	30,899	4,938
$ 35,998	$ 1,150	$ 7,253	$ 96,246	$ 15,414	$ 118,801	$ 22,877	$ 3,582	$ 19,830	$ 31,030	$ 6,993

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Valley Senior Service Alliance Boutwells Landing		PHS/Beacon Hill, Inc.	Williamsburg Retirement Community, Inc.	PHS/ Woodbury, Inc.	Grandview Christian Homes GracePointe	Mill Ridge Commons GracePointe	Grandview West, Inc. GracePointe
	Housing	Care Center	Beacon Hill	Highland Ridge	Stonecrest	Gables West	Terrace	Commons
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents:								
Unrestricted	$ 8,998	$ 2,485	$ 6,747	$ 1,903	$ 5,213	$ 412	$ 640	$ 904
Restricted for Residents	520	-	-	104	-	11	-	565
Cash Held or Restricted, Current Portion	1,025	378	276	-	658	-	-	372
Accounts Receivable, Less Allowance for Doubtful Accounts	309	988	36	119	63	970	5	66
Pledges Receivable, Current Portion	-	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	182	20	46	8	4	20	1	3
Total Current Assets	11,034	3,871	7,105	2,134	5,938	1,413	646	1,910
INVESTMENTS AND OTHER ASSETS								
Investments and Cash Held or Restricted:								
By Agreements with Trustees and Others	2,500	1,583	-	-	758	-	-	358
Restricted by Donors and Others	-	-	-	-	-	786	-	-
Replacement Reserves	1,045	147	803	95	401	560	60	120
Endowment Funds	-	-	-	4,754	-	-	-	-
Pledges Receivable	70	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	664	509	185	27	521	38	35	226
Investment in Other Entities	-	-	-	-	-	-	-	-
Other Assets	70	-	-	-	-	133	-	-
Due from Affiliates	-	(177)	12	-	698	-	-	1,043
Total Investments and Other Assets	4,349	2,062	1,000	4,876	2,378	1,517	95	1,747
PROPERTY AND EQUIPMENT								
Land	5,864	652	1,281	1,176	1,776	134	6	94
Buildings and Land Improvements	84,357	23,375	10,034	31,939	17,448	3,960	3,143	11,587
Equipment and Furnishings	7,996	4,458	2,505	4,248	2,519	2,455	565	1,579
Automotive Equipment	121	40	-	88	21	120	6	17
Construction in Progress	-	-	-	-	-	-	-	-
Subtotal	98,338	28,525	13,820	37,451	21,764	6,669	3,720	13,277
Less: Accumulated Depreciation	39,609	5,192	7,386	11,176	6,412	2,539	1,011	3,000
Net Property and Equipment	58,729	23,333	6,434	26,275	15,352	4,130	2,709	10,277
Total Assets	$ 74,112	$ 29,266	$ 14,539	$ 33,285	$ 23,668	$ 7,060	$ 3,450	$ 13,934

PHS West Health, Inc. / Interlude	PHW Menomonee Falls, Inc. / Dickson Hollow	Eliminations	Consolidated
$ (155)	$ -	$ -	$ 57,162
-	-	-	6,359
-	-	-	14,201
-	-	(2,778)	19,657
-	-	-	100
-	-	-	1,503
(155)	-	(2,778)	98,982
-	-	-	33,672
-	109	-	22,073
-	-	-	20,956
-	-	-	55,203
-	-	-	5,320
364	8	-	16,529
-	-	(7,637)	16,289
3	-	(2,939)	5,367
-	-	(71,385)	-
367	117	(81,961)	175,409
-	2,938	-	139,863
-	-	(7,675)	833,839
2	-	-	125,319
-	-	-	2,098
8,196	527	-	39,882
8,198	3,465	(7,675)	1,141,001
-	-	(1,254)	291,266
8,198	3,465	(6,421)	849,735
$ 8,410	$ 3,582	$ (91,160)	$ 1,124,126

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
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(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services	Optage Inc.				Presbyterian Homes Hospice, Inc.	Presbyterian Homes of Andover, Inc.
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Assisted Living	Optage Home and Community Based Services	Optage Primary Care	Optage Hospice	Farmstead
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Current Maturities of Long-Term Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ 482
Accounts Payable	14	239	10	20	23	75	227
Construction Payable	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	-	-	-	-	-	-	-
Accrued Payroll and Benefits	-	126	135	236	121	86	99
Accrued Interest and Other	-	-	-	-	-	-	107
Total Current Liabilities	14	365	145	256	144	161	915
LONG-TERM DEBT AND OTHER OBLIGATIONS							
Long-Term Debt, Less Current Maturities	77	-	-	-	-	-	9,863
Resident Notes Payable and Entrance Loan Deposits	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due to Affiliates	807	-	695	-	-	-	-
Total Long-Term Debt and Other Obligations	884	-	695	-	-	-	9,863
NET ASSETS							
Unrestricted, Undesignated	(3,045)	3,416	2,880	(88)	(3,061)	1,943	4,337
Unrestricted, Designated by Board for Endowment Fund	-	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-
Total Unrestricted	(3,045)	3,416	2,880	(88)	(3,061)	1,943	4,337
Temporarily Restricted	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-
Total Net Assets (Deficit)	(3,045)	3,416	2,880	(88)	(3,061)	1,943	4,337
Total Liabilities and Net Assets	$ (2,147)	$ 3,781	$ 3,720	$ 168	$ (2,917)	$ 2,104	$ 15,115

Presbyterian Homes of Arden Hills, Inc.	Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Castle Ridge Apartments, LLC	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership
Johanna Shores	Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers
$ 840	$ 164	$ 545	$ 325	$ 559	$ 476	$ -	$ 120	$ -
426	49	88	171	65	31	304	152	1,041
-	-	-	-	-	-	-	-	-
12	13	-	3	-	100	-	1	52
884	2	205	447	96	-	532	211	30
673	270	648	696	413	336	35	111	130
2,835	498	1,486	1,642	1,133	943	871	595	1,253
30,338	7,541	13,895	20,290	15,140	9,524	-	2,358	147
-	1,972	-	-	3,138	-	-	-	-
3,611	-	-	-	970	4	30	4	324
4,426	253	-	2,178	2,412	3,259	-	870	939
38,375	9,766	13,895	22,468	21,660	12,787	30	3,232	1,410
15,027	(2,146)	9,724	810	(2,210)	(4,955)	3,454	2,033	4,842
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
15,027	(2,146)	9,724	810	(2,210)	(4,955)	3,454	2,033	4,842
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
15,027	(2,146)	9,724	810	(2,210)	(4,955)	3,454	2,033	4,842
$ 56,237	$ 8,118	$ 25,105	$ 24,920	$ 20,583	$ 8,775	$ 4,355	$ 5,860	$ 7,505

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	PHS/ Chanhassen, Inc	PHS/Cottage Grove, Inc.	PHS/CG Center LLC	Croixdale	PHM New Richmond Senior Housing, Inc.	PHS/EagleCrest, Inc.		
	Summerwood of Chanhassen	Norris Square	Norris Marketplace	Croixdale	Deerfield	EagleCrest	Country Inn & Suites	Hamline Center
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Current Maturities of Long-Term Debt	$ 793	$ 320	$ -	$ 505	$ 350	$ 547	$ -	$ -
Accounts Payable	142	79	1	92	4,032	111	-	30
Construction Payable	-	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	-	-	-	-	84	27	-	-
Accrued Payroll and Benefits	116	134	-	122	620	292	-	-
Accrued Interest and Other	426	602	225	148	237	667	-	100
Total Current Liabilities	1,477	1,135	226	867	5,323	1,644	-	130
LONG-TERM DEBT AND OTHER OBLIGATIONS								
Long-Term Debt, Less Current Maturities	18,893	28,276	-	5,995	18,371	21,153	-	-
Resident Notes Payable and Entrance Loan Deposits	-	904	-	-	-	-	-	-
Other	-	-	-	-	-	1,031	-	-
Due to Affiliates	4,471	-	2,386	-	1,762	-	-	876
Total Long-Term Debt and Other Obligations	23,364	29,180	2,386	5,995	20,133	22,184	-	876
NET ASSETS								
Unrestricted, Undesignated	(2,038)	(2,192)	(374)	14,356	474	19,260	-	(713)
Unrestricted, Designated by Board for Endowment Fund	-	-	-	2,115	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-	-
Total Unrestricted	(2,038)	(2,192)	(374)	16,471	474	19,260	-	(713)
Temporarily Restricted	-	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-	-
Total Net Assets (Deficit)	(2,038)	(2,192)	(374)	16,471	474	19,260	-	(713)
Total Liabilities and Net Assets	$ 22,803	$ 28,123	$ 2,238	$ 23,333	$ 25,930	$ 43,088	$ -	$ 293

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc.	Noah's Ark Affordable Housing, Inc.
Maranatha	Foundation	PHW/ Helpmates	Avalon Square	Ridgeview Terrace	Newton Manor	Timber Hills	Mill Pond Apartments	Mill Pond	Mississippi Shores	Oakcrest
$ 774	$ -	$ -	$ 432	$ 61	$ 68	$ 783	$ 180	$ 134	$ 58	$ 284
255	263	2	131	75	11	219	121	170	140	39
433	-	-	-	-	-	-	-	-	-	-
8	-	-	83	19	12	204	-	-	-	100
396	-	19	152	-	-	133	-	254	6	26
221	294	-	42	17	42	585	93	19	56	273
2,087	557	21	840	172	133	1,924	394	577	260	722
19,972	-	-	17,078	1,553	921	24,952	2,778	4,569	2,652	5,776
-	-	-	-	-	-	7,321	-	-	-	-
-	497	-	-	-	-	-	-	-	-	-
288	9,186	-	405	18	56	1	148	488	235	31
20,260	9,683	-	17,483	1,571	977	32,274	2,926	5,057	2,887	5,807
4,349	(3,326)	6,422	(741)	(428)	610	388	1,021	2,332	(202)	2,504
-	3,180	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
4,349	(146)	6,422	(741)	(428)	610	388	1,021	2,332	(202)	2,504
-	3,511	15	-	-	-	-	-	-	-	-
-	40,603	2,750	-	-	-	-	-	-	-	-
4,349	43,968	9,187	(741)	(428)	610	388	1,021	2,332	(202)	2,504
$ 26,696	$ 54,208	$ 9,208	$ 17,582	$ 1,315	$ 1,720	$ 34,586	$ 4,341	$ 7,966	$ 2,945	$ 9,033

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing and Assisted Living, Inc.										
	Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Current Maturities of Long-Term Debt	$ 1,050	$ 45	$ 251	$ 298	$ -	$ -	$ -	$ -	$ 205	$ -	$ -
Accounts Payable	414	(8,035)	684	58	12	195	-	2,024	14	31	30
Construction Payable	-	-	-	-	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	8	1	-	-	-	-	-	46	-	3,716	-
Accrued Payroll and Benefits	729	(823)	4,989	113	167	48	-	160	9	-	36
Accrued Interest and Other	610	-	206	281	195	-	-	43	282	201	75
Total Current Liabilities	2,811	(8,812)	6,130	750	374	243	-	2,273	510	3,948	141
LONG-TERM DEBT AND OTHER OBLIGATIONS											
Long-Term Debt, Less Current Maturities	26,583	281	4,284	16,766	-	-	-	1,000	4,880	911	615
Resident Notes Payable and Entrance Loan Deposits	-	-	-	-	-	-	-	-	-	1,975	-
Other	26	-	2,748	-	-	-	-	24	-	2,796	-
Due to Affiliates	936	-	-	-	-	71	-	7,191	-	-	-
Total Long-Term Debt and Other Obligations	27,545	281	7,032	16,766	-	71	-	8,215	4,880	5,682	615
NET ASSETS											
Unrestricted, Undesignated	1,648	12,394	15,194	(1,564)	12,076	1,371	-	(8,431)	2,439	34,242	(708)
Unrestricted, Designated by Board for Endowment Fund	-	-	-	-	-	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-
Total Unrestricted	1,648	12,394	15,194	(1,564)	12,076	1,371	-	(8,431)	2,439	34,242	(708)
Temporarily Restricted	-	-	-	-	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-	-	-	-	-
Total Net Assets (Deficit)	1,648	12,394	15,194	(1,564)	12,076	1,371	-	(8,431)	2,439	34,242	(708)
Total Liabilities and Net Assets	$ 32,004	$ 3,863	$ 28,356	$ 15,952	$ 12,450	$ 1,685	$ -	$ 2,057	$ 7,829	$ 43,872	$ 48

		PHS/ Oakdale, Inc.	Presbyterian Homes of North Oaks, Inc.	Kirkland Crossings, Inc.	Wayzata Bay Senior Housing, Inc.				Shepherd's Path Senior Housing, Inc.	PHS/ Shoreview, Inc.
Walnut Ridge	Woodland Hill	Echo Ridge	Waverly Gardens	Kirkland Crossings	North and Superior	West	Plaza	Wayzata Bay Redevelopment	Mckenna Crossing	Summerhouse of Shoreview
$ 1,005	$ -	$ 149	$ 740	$ 445	$ 1,595	$ -	$ -	$ -	$ 410	$ 117
114	249	60	225	63	193	-	-	-	85	42
-	-	-	-	-	159	-	-	-	-	-
272	-	-	1	144	-	-	-	-	165	-
85	-	13	373	114	201	-	-	-	183	10
315	-	160	3,579	121	2,705	332	75	150	426	173
1,791	249	382	4,918	887	4,853	332	75	150	1,269	342
26,530	-	6,834	78,261	15,605	85,393	20,519	3,508	6,525	27,785	5,366
-	-	-	21,357	554	27,195	1,995	-	-	3,956	2,634
-	-	-	4,498	-	2,000	-	-	-	-	-
772	-	164	1,133	-	4,506	-	-	12,901	272	-
27,302	-	6,998	105,249	16,159	119,094	22,514	3,508	19,426	32,013	8,000
6,905	901	(127)	(15,722)	(1,632)	(5,146)	31	(1)	254	(2,252)	(1,349)
-	-	-	1,801	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
6,905	901	(127)	(13,921)	(1,632)	(5,146)	31	(1)	254	(2,252)	(1,349)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
6,905	901	(127)	(13,921)	(1,632)	(5,146)	31	(1)	254	(2,252)	(1,349)
$ 35,998	$ 1,150	$ 7,253	$ 96,246	$ 15,414	$ 118,801	$ 22,877	$ 3,582	$ 19,830	$ 31,030	$ 6,993

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Valley Senior Service Alliance Boutwells Landing		PHS/Beacon Hill, Inc.	Williamsburg Retirement Community, Inc.	PHS/ Woodbury, Inc.	Grandview Christian Homes GracePointe	Mill Ridge Commons GracePointe	Grandview West, Inc. GracePointe
	Housing	Care Center	Beacon Hill	Highland Ridge	Stonecrest	Gables West	Terrace	Commons
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Current Maturities of Long-Term Debt	$ 1,760	$ 520	$ 336	$ 449	$ 420	$ 160	$ 143	$ 340
Accounts Payable	302	268	101	110	58	1,139	15	51
Construction Payable	-	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	499	-	-	2	-	11	-	-
Accrued Payroll and Benefits	237	404	98	207	94	355	9	113
Accrued Interest and Other	1,281	235	77	54	614	8	94	271
Total Current Liabilities	4,079	1,427	612	822	1,186	1,673	261	775
LONG-TERM DEBT AND OTHER OBLIGATIONS								
Long-Term Debt, Less Current Maturities	52,068	19,765	8,774	7,354	19,625	1,563	1,395	9,005
Resident Notes Payable and Entrance Loan Deposits	26,426	-	-	2,429	-	-	78	226
Other	1,316	-	-	-	-	10	-	-
Due to Affiliates	(292)	-	-	1,670	-	2,410	11	-
Total Long-Term Debt and Other Obligations	79,518	19,765	8,774	11,453	19,625	3,983	1,484	9,231
NET ASSETS								
Unrestricted, Undesignated	(9,485)	8,074	5,153	16,256	2,857	1,404	1,705	3,928
Unrestricted, Designated by Board for Endowment Fund	-	-	-	3,673	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-	-
Total Unrestricted	(9,485)	8,074	5,153	19,929	2,857	1,404	1,705	3,928
Temporarily Restricted	-	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	1,081	-	-	-	-
Total Net Assets (Deficit)	(9,485)	8,074	5,153	21,010	2,857	1,404	1,705	3,928
Total Liabilities and Net Assets	$ 74,112	$ 29,266	$ 14,539	$ 33,285	$ 23,668	$ 7,060	$ 3,450	$ 13,934

PHS West Health, Inc. / Interlude	PHW Menomonee Falls, Inc. / Dickson Hollow	Eliminations	Consolidated
$ -	$ -	$ -	$ 19,238
162	20	(827)	6,705
-	-	-	592
-	-	-	5,583
8	-	-	13,412
12	-	-	20,041
182	20	(827)	65,571
5,152	-	(692)	737,767
-	-	-	102,160
-	-	(2,000)	17,889
-	3,450	(71,385)	-
5,152	3,450	(74,077)	857,816
3,076	112	(16,256)	142,010
-	-	-	10,769
-	-	-	-
3,076	112	(16,256)	152,779
-	-	-	3,526
-	-	-	44,434
3,076	112	(16,256)	200,739
$ 8,410	$ 3,582	$ (91,160)	$ 1,124,126

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services	Optage Inc.				Presbyterian Homes Hospice, Inc.	Presbyterian Homes of Andover, Inc.
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Assisted Living	Optage Home and Community Based Services	Optage Primary Care	Optage Hospice	Farmstead
OPERATING REVENUE							
Net Services to Residents	$ 131	$ 6,850	$ 3,146	$ 3,764	$ 726	$ 3,361	$ 4,983
Other Operating Revenues	-	49	1	1	198	5	76
OPERATING REVENUE	131	6,899	3,147	3,765	924	3,366	5,059
OPERATING EXPENSE							
Services to Residents	353	5,439	2,843	2,634	1,296	1,923	2,485
General and Administrative	4	715	204	761	937	720	658
Interest	-	-	-	-	-	-	563
Depreciation and Amortization	-	300	23	72	16	62	508
Total Operating Expense	357	6,454	3,070	3,467	2,249	2,705	4,214
OPERATING INCOME (LOSS)	(226)	445	77	298	(1,325)	661	845
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT							
Unrestricted Contributions	-	-	-	-	-	-	-
Income From Endowment Investments	-	-	-	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	-	-
Gain on Acquisition and Debt Forgiveness	-	-	-	-	-	-	-
Gain (Loss) on Refinancing	-	-	-	-	-	-	-
Loss on Asset Disposal and Impairment	-	(3)	-	-	-	-	-
Fundraising Expenses	-	-	-	-	-	-	-
Other Nonoperating Expenses	-	-	-	-	-	(6)	(3)
Total Nonoperating Gains (Losses) and Other Support	-	(3)	-	-	-	(6)	(3)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(226)	442	77	298	(1,325)	655	842
OTHER CHANGES IN UNRESTRICTED NET ASSETS							
Transfers (to) from Affiliates	-	844	-	-	-	6	3
Distributions	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	(226)	1,286	77	298	(1,325)	661	845
TEMPORARILY RESTRICTED NET ASSETS							
Temporarily Restricted Contributions	-	-	-	-	-	-	-
Released from Restriction	-	-	-	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS							
Permanently Restricted Contributions	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ (226)	$ 1,286	$ 77	$ 298	$ (1,325)	$ 661	$ 845

Presbyterian Homes of Arden Hills, Inc.	Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Castle Ridge Apartments, LLC	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership
Johanna Shores	Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers
$ 23,625	$ 1,426	$ 6,653	$ 13,860	$ 5,139	$ 1	$ 14,204	$ 5,688	$ 1,372
415	222	191	29	34	2,153	45	33	26
24,040	1,648	6,844	13,889	5,173	2,154	14,249	5,721	1,398
18,160	570	3,885	10,677	2,800	1,221	11,279	4,624	877
2,536	239	813	1,078	611	21	1,302	580	447
1,336	504	827	1,131	778	658	435	152	110
2,260	401	299	1,147	801	496	422	229	371
24,292	1,714	5,824	14,033	4,990	2,396	13,438	5,585	1,805
(252)	(66)	1,020	(144)	183	(242)	811	136	(407)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(84)	-	-	-	357	-	-	-	-
-	-	-	-	-	-	-	-	5,236
-	-	-	-	(486)	(114)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(4)	-	-	(6)	(1)	-	-	(1)	(3)
(88)	-	-	(6)	(130)	(114)	-	(1)	5,233
(340)	(66)	1,020	(150)	53	(356)	811	135	4,826
60	-	-	228	1	-	7	1	12
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(280)	(66)	1,020	78	54	(356)	818	136	4,838
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
$ (280)	$ (66)	$ 1,020	$ 78	$ 54	$ (356)	$ 818	$ 136	$ 4,838

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	PHS/ Chanhassen, Inc	PHS/Cottage Grove, Inc.	PHS/CG Center LLC	Croixdale	PHM New Richmond Senior Housing, Inc.	PHS/EagleCrest, Inc.		
	Summerwood of Chanhassen	Norris Square	Norris Marketplace	Croixdale	Deerfield	EagleCrest	Country Inn & Suites	Hamline Center
OPERATING REVENUE								
Net Services to Residents	$ 5,997	$ 5,767	$ -	$ 4,104	$ 7,504	$ 10,980	$ -	$ (1)
Other Operating Revenues	94	77	-	112	88	148	1,388	575
OPERATING REVENUE	6,091	5,844	-	4,216	7,592	11,128	1,388	574
OPERATING EXPENSE								
Services to Residents	2,888	3,046	62	2,211	6,142	6,009	309	247
General and Administrative	786	792	4	594	969	1,310	628	9
Interest	704	1,539	-	169	1,152	1,295	152	-
Depreciation and Amortization	1,057	970	45	669	1,134	965	185	229
Total Operating Expense	5,435	6,347	111	3,643	9,397	9,579	1,274	485
OPERATING INCOME (LOSS)	656	(503)	(111)	573	(1,805)	1,549	114	89
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT								
Unrestricted Contributions	-	1	-	4	-	-	-	-
Income From Endowment Investments	-	-	-	211	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	227	-	-
Gain on Acquisition and Debt Forgiveness	-	-	-	-	-	-	-	-
Gain (Loss) on Refinancing	(633)	-	-	-	-	-	-	-
Loss on Asset Disposal and Impairment	-	-	-	-	(35)	-	(654)	-
Fundraising Expenses	-	-	-	-	-	-	-	-
Other Nonoperating Expenses	(4)	(2)	-	(3)	(1)	(2)	-	-
Total Nonoperating Gains (Losses) and Other Support	(637)	(1)	-	212	(36)	225	(654)	-
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	19	(504)	(111)	785	(1,841)	1,774	(540)	89
OTHER CHANGES IN UNRESTRICTED NET ASSETS								
Transfers (to) from Affiliates	4	2	-	12	1,080	1,642	(1,615)	-
Distributions	-	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	23	(502)	(111)	797	(761)	3,416	(2,155)	89
TEMPORARILY RESTRICTED NET ASSETS								
Temporarily Restricted Contributions	-	-	-	-	-	-	-	-
Released from Restriction	-	-	-	-	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS								
Permanently Restricted Contributions	-	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ 23	$ (502)	$ (111)	$ 797	$ (761)	$ 3,416	$ (2,155)	$ 89

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc.	Noah's Ark Affordable Housing, Inc.
Maranatha	Foundation	PHW/ Helpmates	Avalon Square	Ridgeview Terrace	Newton Manor	Timber Hills	Mill Pond Apartments	Mill Pond	Mississippi Shores	Oakcrest
$ 10,098	$ -	$ 330	$ 5,472	$ 468	$ 444	$ 8,485	$ 788	$ 5,839	$ 603	$ 1,788
64	-	99	143	4	2	65	5	37	2	21
10,162	-	429	5,615	472	446	8,550	793	5,876	605	1,809
8,836	564	280	2,760	159	118	3,800	289	4,564	169	885
982	7	12	845	145	154	1,020	91	669	133	261
1,024	-	-	438	80	50	1,473	80	226	110	84
863	-	3	793	71	95	1,135	151	398	195	423
11,705	571	295	4,836	455	417	7,428	611	5,857	607	1,653
(1,543)	(571)	134	779	17	29	1,122	182	19	(2)	156
-	1,718	-	-	-	-	-	-	-	-	-
-	1	129	-	-	-	-	-	-	-	-
-	463	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(4)	-	-	-	-	-	-	-	-	-	-
-	(2,659)	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(2)	-	(71)	(33)	-	-	(3)	-	(6)	-	-
(6)	(477)	58	(33)	-	-	(3)	-	(6)	-	-
(1,549)	(1,048)	192	746	17	29	1,119	182	13	(2)	156
3,502	(4,536)	(41)	79	-	-	13	-	6	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	1,071	-	-	-	-	-	-	-	-	-
1,953	(4,513)	151	825	17	29	1,132	182	19	(2)	156
-	2,884	-	-	-	-	-	-	-	-	-
-	(1,071)	-	-	-	-	-	-	-	-	-
-	1,813	-	-	-	-	-	-	-	-	-
-	5,542	-	-	-	-	-	-	-	-	-
-	548	75	-	-	-	-	-	-	-	-
-	6,090	75	-	-	-	-	-	-	-	-
$ 1,953	$ 3,390	$ 226	$ 825	$ 17	$ 29	$ 1,132	$ 182	$ 19	$ (2)	$ 156

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing & Assisted Living, Inc.										
	Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
OPERATING REVENUE											
Net Services to Residents	$ 20,807	$ 28	$ -	$ 5,585	$ -	$ -	$ -	$ 4,979	$ 1,196	$ -	$ 1,330
Other Operating Revenues	787	86	14,239	33	5,738	5,225	-	28	38	3,943	10
OPERATING REVENUE	21,594	114	14,239	5,618	5,738	5,225	-	5,007	1,234	3,943	1,340
OPERATING EXPENSE											
Services to Residents	15,669	32	-	2,781	-	-	-	4,264	379	-	804
General and Administrative	2,239	129	11,391	721	1,930	5,203	-	621	220	(750)	605
Interest	1,190	-	149	561	-	-	-	301	277	32	21
Depreciation and Amortization	1,743	60	545	650	46	1	-	382	234	-	15
Total Operating Expense	20,841	221	12,085	4,713	1,976	5,204	-	5,568	1,110	(718)	1,445
OPERATING INCOME (LOSS)	753	(107)	2,154	905	3,762	21	-	(561)	124	4,661	(105)
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT											
Unrestricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Income From Endowment Investments	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	-	-	-	-	-	-
Gain on Acquisition and Debt Forgiveness	-	(2,390)	-	-	-	-	-	-	-	-	-
Gain (Loss) on Refinancing	(1,126)	-	-	-	-	-	-	-	-	-	-
Loss on Asset Disposal and Impairment	-	(2,002)	-	-	-	-	-	(7,028)	-	-	-
Fundraising Expenses	-	-	(1,250)	-	-	-	-	-	-	-	-
Other Nonoperating Expenses	(7)	-	-	(15)	-	-	-	-	(1)	-	-
Total Nonoperating Gains (Losses) and Other Support	(1,133)	(4,392)	(1,250)	(15)	-	-	-	(7,028)	(1)	-	-
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(380)	(4,499)	904	890	3,762	21	-	(7,589)	123	4,661	(105)
OTHER CHANGES IN UNRESTRICTED NET ASSETS											
Transfers (to) from Affiliates	57	994	1,256	(979)	-	-	-	-	6	(4,885)	-
Distributions	-	-	-	-	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	(323)	(3,505)	2,160	(89)	3,762	21	-	(7,589)	129	(224)	(105)
TEMPORARILY RESTRICTED NET ASSETS											
Temporarily Restricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Released from Restriction	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS											
Permanently Restricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ (323)	$ (3,505)	$ 2,160	$ (89)	$ 3,762	$ 21	$ -	$ (7,589)	$ 129	$ (224)	$ (105)

			Presbyterian	Kirkland					Shepherd's	PHS/
		PHS/	Homes of	Crossings, Inc.	Wayzata Bay Senior Housing, Inc.				Path Senior	Shoreview, Inc.
Walnut	Woodland	Oakdale, Inc.	North Oaks, Inc.	Kirkland	North and			Wayzata Bay	Housing, Inc.	Summerhouse
Ridge	Hill	Echo Ridge	Waverly Gardens	Crossings	Superior	West	Plaza	Redevelopment	Mckenna Crossing	of Shoreview
$ 2,905	$ -	$ 1,413	$ 19,099	$ 5,408	$ 6,569	$ -	$ -	$ -	$ 6,924	$ 1,186
20	-	22	467	56	247	-	-	-	119	18
2,925	-	1,435	19,566	5,464	6,816	-	-	-	7,043	1,204
1,097	-	403	10,305	2,695	3,860	-	-	6	4,155	390
301	-	235	1,810	697	1,567	1	1	1	926	201
489	-	402	4,941	947	4,034	-	-	-	1,608	340
576	-	354	2,762	576	2,817	-	-	-	1,520	284
2,463	-	1,394	19,818	4,915	12,278	1	1	7	8,209	1,215
462	-	41	(252)	549	(5,462)	(1)	(1)	(7)	(1,166)	(11)
-	-	-	-	-	3	32	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	437	-	-	-	-	-	-	-
6,443	-	-	-	-	-	-	-	-	-	-
-	-	-	-	(484)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(1)	-	(2)	(29)	(10)	-	-	-	-	(1)	-
6,442	-	(2)	408	(494)	3	32	-	-	(1)	-
6,904	-	39	156	55	(5,459)	31	(1)	(7)	(1,167)	(11)
1	901	6	79	57	20	-	-	-	332	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
6,905	901	45	235	112	(5,439)	31	(1)	(7)	(835)	(11)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
$ 6,905	$ 901	$ 45	$ 235	$ 112	$ (5,439)	$ 31	$ (1)	$ (7)	$ (835)	$ (11)

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
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YEAR ENDED SEPTEMBER 30, 2014
(DOLLAR AMOUNTS IN THOUSANDS)

	Valley Senior Service Alliance Boutwells Landing Housing	Valley Senior Service Alliance Boutwells Landing Care Center	PHS/Beacon Hill, Inc. Beacon Hill	Williamsburg Retirement Community, Inc. Highland Ridge	PHS/ Woodbury, Inc. Stonecrest	Grandview Christian Homes GracePointe Gables West	Mill Ridge Commons GracePointe Terrace	Grandview West, Inc. GracePointe Commons
OPERATING REVENUE								
Net Services to Residents	$ 14,748	$ 12,339	$ 4,264	$ 7,238	$ 6,123	$ 9,642	$ 889	$ 3,796
Other Operating Revenues	186	168	27	60	62	92	4	26
OPERATING REVENUE	14,934	12,507	4,291	7,298	6,185	9,734	893	3,822
OPERATING EXPENSE								
Services to Residents	7,929	8,904	1,889	4,904	2,769	8,376	361	1,836
General and Administrative	1,338	1,671	617	846	717	1,015	143	453
Interest	1,713	1,077	487	205	1,067	78	69	375
Depreciation and Amortization	3,364	1,121	560	1,377	858	387	157	489
Total Operating Expense	14,344	12,773	3,553	7,332	5,411	9,856	730	3,153
OPERATING INCOME (LOSS)	590	(266)	738	(34)	774	(122)	163	669
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT								
Unrestricted Contributions	105	-	-	61	-	-	-	-
Income From Endowment Investments	-	-	-	24	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	417	-	-	-	-
Interest Rate Swap Market Adjustment	986	-	-	-	-	-	-	-
Gain on Acquisition and Debt Forgiveness	-	-	-	-	-	-	-	-
Gain (Loss) on Refinancing	-	-	-	(143)	-	-	-	-
Loss on Asset Disposal and Impairment	-	-	-	10	-	-	-	-
Fundraising Expenses	-	-	-	-	-	-	-	-
Other Nonoperating Expenses	(12)	-	(3)	(5)	(2)	(1)	-	-
Total Nonoperating Gains (Losses) and Other Support	1,079	-	(3)	364	(2)	(1)	-	-
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	1,669	(266)	735	330	772	(123)	163	669
OTHER CHANGES IN UNRESTRICTED NET ASSETS								
Transfers (to) from Affiliates	(584)	-	3	509	4	803	-	-
Distributions	(200)	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	2,000	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	885	(266)	738	2,839	776	680	163	669
TEMPORARILY RESTRICTED NET ASSETS								
Temporarily Restricted Contributions	-	-	-	-	-	-	-	-
Released from Restriction	-	-	-	(2,000)	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	(2,000)	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS								
Permanently Restricted Contributions	-	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	54	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	54	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ 885	$ (266)	$ 738	$ 893	$ 776	$ 680	$ 163	$ 669

PHS West Health, Inc. Interlude	PHW Menomonee Falls, Inc. Dickson Hollow	Eliminations	Consolidated
$ -	$ -	$ -	$ 300,063
-	2	(23,304)	14,801
-	2	(23,304)	314,864
-	-	-	198,212
105	-	(18,131)	37,860
-	-	(3,781)	31,652
-	-	(220)	37,446
105	-	(22,132)	305,170
(105)	2	(1,172)	9,694
-	-	-	1,924
-	-	-	365
-	-	-	880
-	-	-	1,923
-	-	-	9,289
-	-	-	(2,990)
-	-	-	(12,371)
-	-	-	(1,250)
-	-	-	(240)
-	-	-	(2,470)
(105)	2	(1,172)	7,224
-	110	-	-
-	-	-	(200)
3,200	-	(1,600)	1,600
-	-	-	-
-	-	-	3,071
3,095	112	(2,772)	11,695
-	-	-	2,884
-	-	-	(3,071)
-	-	-	(187)
-	-	-	5,542
-	-	-	677
-	-	-	6,219
$ 3,095	$ 112	$ (2,772)	$ 17,727