Ohio Presbyterian Retirement Services and Subsidiaries

Consolidated Financial Statements

For the Years Ended

June 30, 2014 and 2013

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Financial Statements
Years Ended June 30, 2014 and 2013

Contents

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Independent Auditor's Report

To the Board of Directors
Ohio Presbyterian Retirement Services
and Subsidiaries

We have audited the accompanying consolidated financial statements of Ohio Presbyterian Retirement Services and Subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013 and the related consolidated statements of activities 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 Consolidated 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.

Auditor's 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 auditor's 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 Corporation'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 Corporation'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.

To the Board of Directors
Ohio Presbyterian Retirement Services
and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio Presbyterian Retirement Services and Subsidiaries as of June 30, 2014 and 2013 and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

October 27, 2014

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Financial Position

	As of June 30	
	2014	2013
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 12,981	$ 17,523
Cash and investments - board designated	30,486	19,546
Investments	41,546	38,082
Accounts receivable, net	19,884	21,802
Contributions receivable	2,053	2,340
Assets whose use is limited	4,292	3,505
Prepaid expenses and other	1,804	1,769
Total Current Assets	**113,046**	**104,567**
Assets whose use is limited, less current portion	58,519	6,660
Investments, less current portion	42,681	35,077
Beneficial interests in assets held by others	17,365	15,705
Property and equipment, net	283,874	275,686
Financing costs, net	3,649	3,081
Deferred development costs, net	1,144	1,311
Operating rights and other	5,923	5,061
Contributions receivable, net of current portion	2,200	2,456
Total Assets	**$ 528,401**	**$ 449,604**

See accompanying notes to the consolidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Financial Position
(continued)

	As of June 30	
	2014	2013
	(In Thousands)	
Liabilities		
Current liabilities:		
Accounts payable and other accrued expenses	$ 11,388	$ 9,509
Payroll and related liabilities	11,214	11,303
Interest payable	4,463	2,178
Deposits	7,721	3,980
Deferred revenue, current	6,822	7,597
Refundable entrance fees, current	3,600	2,700
Note payable - line of credit	-	11,000
Long-term debt, current	6,165	2,717
Interest rate swap liability	13,820	-
Total Current Liabilities	**65,193**	**50,984**
Long-term debt, net of current portion	270,014	201,044
Refundable entrance fees, net of current portion	31,863	30,929
Deferred revenue, net of current portion	29,608	29,336
Gift annuity obligations, net of current portion	3,806	3,839
Interest rate swap liability, net of current portion	1,900	15,400
Total Liabilities	**402,384**	**331,532**
Net Assets		
Unrestricted	74,667	71,965
Temporarily restricted	2,595	2,566
Permanently restricted	48,755	43,541
Total Net Assets	**126,017**	**118,072**
Total Liabilities and Net Assets	**$ 528,401**	**$ 449,604**

See accompanying notes to the consolidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets

	Years Ended June 30	
	2014	2013
	(In Thousands)	
Unrestricted Net Assets		
Operating Revenue and Other Support:		
Net service revenue	$ 192,815	$ 193,001
Net assets released to support operations	422	324
Total Operating Revenue and Other Support	193,237	193,325
Operating Expenses:		
Salaries and wages	83,572	82,546
Employee benefits and payroll taxes	25,035	24,396
Depreciation and amortization	19,173	18,130
Therapy, medical supplies, drugs and other ancillary	17,137	16,646
Interest expense, net	9,504	9,146
Professional fees	9,378	9,206
Utilities	7,059	6,905
Food	6,612	6,374
Other	5,790	5,078
Franchise permit fees	3,515	3,354
Supplies	3,234	3,138
Real estate taxes	2,678	2,881
Training, travel and mileage reimbursement	2,384	1,943
Bad debt	2,057	3,606
Maintenance and repair	1,837	1,634
Marketing and advertising	1,003	969
Total Operating Expenses	199,968	195,952
Loss from Operations	**(6,731)**	**(2,627)**
Non-Operating Income (Losses):		
Contributions	1,842	1,647
Fundraising expenses	(2,718)	(2,416)
Net assets released to support fundraising expenses	864	288
Interest and dividend income - net	1,585	1,953
Realized gain on investments - net	6,228	1,957
Unrealized gain on investments	2,110	2,340
Other	(801)	(1,630)
Realized loss on early extinguisment of debt	(134)	(732)
Non-Operating Income	**8,976**	**3,407**
Performance Income before Change in Fair Value of Interest Rate Swaps	**2,245**	**780**
Change in fair value of interest rate swaps	(320)	7,652
Performance Income	**$ 1,925**	**$ 8,432**
Other Changes in Unrestricted Net Assets:		
Net assets released for purchase of property and equipment	777	498
Increase in Unrestricted Net Assets	**$ 2,702**	**$ 8,930**

Consolidated Statements of Activities and Changes in Net Assets continued on next page.
See accompanying notes to the consolidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
(continued)

	Years Ended June 30	
	2014	2013
	(In Thousands)	
Unrestricted Net Assets		
Increase in Unrestricted Net Assets	**$ 2,702**	**$ 8,930**
Temporarily Restricted Net Assets		
Contributions	1,658	2,600
Investment income	98	110
Net assets released to support:		
Operations	(422)	(324)
Fundraising expenses	(251)	(82)
Purchase of property and equipment	(777)	(498)
Other changes	(277)	(171)
Increase in Temporarily Restricted Net Assets	**29**	**1,635**
Permanently Restricted Net Assets		
Contributions	4,406	1,782
Investment income	57	75
Net assets released to support fundraising expenses	(613)	(206)
Other changes	(375)	(598)
Change in value of the beneficial interest in assets held by others	1,739	628
Increase in Permanently Restricted Net Assets	**5,214**	**1,681**
Increase in Net Assets	**7,945**	**12,246**
Net Assets at Beginning of Year	118,072	105,826
Net Assets at End of Year	**$ 126,017**	**$ 118,072**

See accompanying notes to the consolidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended June 30	
	2014	2013
	(In Thousands)	
Cash Flows from Operating Activities		
Increase in net assets	$ 7,945	$ 12,246
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of entrance fees	(5,927)	(6,151)
Depreciation and amortization	19,173	18,130
Increase in beneficial interest in assets held by others	(1,660)	(794)
Decrease (increase) in fair value of interest rate swaps	320	(7,652)
Realized and unrealized gain on investments	(8,338)	(4,297)
Restricted contributions and investment income	(6,219)	(4,567)
Provision for bad debt	2,057	3,606
(Increase) decrease in assets:		
Accounts receivable	(139)	(9,103)
Contributions receivable	543	(300)
Prepaid expenses and other	(35)	500
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	1,879	1,021
Payroll and related liabilities	(89)	1,915
Interest payable	2,285	(287)
Deferred revenue	1,056	196
Net cash provided by operating activities	**12,851**	**4,463**
Cash Flows from Investing Activities		
Purchase of property and equipment	(26,927)	(26,235)
Net (purchases) sales of investments and cash and investments - board designated	(13,670)	2,131
Deposits and other	(861)	(542)
Net cash used in investing activities	**(41,458)**	**(24,646)**

Consolidated Statements of Cash Flows continued on next page.
See accompanying notes to the consolidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Consolidated Statements of Cash Flows
(continued)

	Years Ended June 30	
	2014	2013
	(In Thousands)	
Cash Flows from Operating Activities		
Net cash provided by operating activities	**$ 12,851**	**$ 4,463**
Cash Flows from Investing Activities		
Net cash used in investing activities	**(41,458)**	**(24,646)**
Cash Flows from Financing Activities		
Proceeds from long-term debt issuance	75,049	30,000
Payment of long-term debt	(2,631)	(40,294)
Proceeds from note payable - line of credit	-	11,000
Payment of note payable - line of credit	(11,000)	-
(Increase) decrease in assets whose use is limited	(52,646)	19,761
Payment of financing costs	(1,010)	(429)
Gross proceeds from entrance fees and related deposits	13,627	6,896
Refunded entrance fees	(3,528)	(2,720)
Increase in gift annuity obligations	347	311
Payment of gift annuity obligations	(380)	(356)
Restricted contributions and investment income	6,237	4,567
Net cash provided by financing activities	**24,065**	**28,736**
Net (Decrease) Increase in Cash and Cash Equivalents	**(4,542)**	**8,553**
Cash and Cash Equivalents at Beginning of Year	17,523	8,970
Cash and Cash Equivalents at End of Year	**$ 12,981**	**$ 17,523**
Supplemental Disclosure of Cash flow Information:		
Cash paid during the year for interest, net of capitalized interest	$ 7,219	$ 11,235

See accompanying notes to the consoldidated financial statements.

Ohio Presbyterian Retirement Services and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)
June 30, 2014 and 2013

1. Organization

These consolidated financial statements include Ohio Presbyterian Retirement Services (OPRS or the Parent), OPRS Communities (OPRSC) including its wholly owned subsidiary BV Apartments, LLC, Ohio Presbyterian Retirement Services Foundation (OPRSF), and Senior Independence (SI). Each entity is an Ohio nonprofit corporation, exempt from federal tax under Section 501(c)(3) of the Internal Revenue Code. OPRS, OPRSC, OPRSF, and SI are collectively referred to as the Corporation herein.

For the years ended June 30, 2014 and 2013, OPRSC operated 11 continuing care retirement communities throughout Ohio. SI provides various services including skilled nursing home health care, non-skilled home care assistance, hospice care, therapy care, adult day care, and transportation to people living in 41 counties in Ohio.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include all accounts of the Corporation. All significant intercompany accounts were eliminated in consolidation.

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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes demand deposits and other short-term, highly liquid investments with an original maturity of three months or less, excluding amounts whose use is limited or other arrangements including those under trust agreements.

Cash and Investments – Board Designated

Cash and investments – board designated consist of funds whose use is limited by the Corporation's Board of Directors for future purposes as determined by the Board.

2. Significant Accounting Policies (continued)

Cash in Excess of Insured Limits

The Corporation maintains cash balances at several financial institutions located primarily in the vicinity of Columbus, Ohio. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250 per institution. From time to time the Corporation's balances may exceed amounts insured by the FDIC.

Investments and Assets Whose Use is Limited

Investments include those held in equity securities and debt securities that are reported at fair value, as further described herein, on the consolidated statements of financial position.

Assets whose use is limited include investments in equity securities and debt securities that are reported at fair value, as further described herein, in the consolidated statements of financial position for funds that are restricted by donors, debt agreements, regulatory agreements and certain Corporation imposed reserves.

Investment income generated from investments and assets whose use is limited consists of realized gains and losses on the sale of investments, unrealized gains and losses, interest and dividend income. For purposes of classifying investment income on the statements of activities and changes in net assets, accounting standards provide that investments may be classified as trading, available for sale, or held to maturity depending on an organization's investment policy. For the Corporation, investments are considered to be trading securities. Accordingly, all categories of investment income are reported as components of the performance income (loss), unless the income or loss is restricted by donor or law.

Net Service Revenue and Accounts Receivable

The Corporation records service revenue and accounts receivable in the month that services are provided to residents, patients, clients and other parties. Net service revenue and accounts receivable are recorded and reported based on anticipated payment at the net realizable amounts using standardized private pay rates and recording offsetting contractual allowances as applicable to reimbursable amounts established by Medicare, Medicaid and other third-party payors which are originally expected to be collected. Certain payments that are received in advance of services provided are reported as deferred revenue as further described herein.

2. Significant Accounting Policies (continued)

Net Service Revenue and Accounts Receivable (continued)

Accounts receivable are further adjusted based on evaluating the status of collections. In evaluating the collectability of accounts receivable, the Corporation considers a number of factors, including the age of the accounts based on dates of service, changes in collection patterns, the composition of accounts by payor type, and general industry conditions. An allowance for doubtful accounts is recorded based upon a consideration of the likelihood that accounts will not be collected in full. At the point that collection on a particular account receivable is deemed remote, the account is written-off and removed from the accounts receivables.

Contributions Revenue and Receivables

Contributions are unconditional gifts, grants, promises to give, and bequests. Contributions may include gifts of cash, investments, property and equipment, collectible art and other items. Contributions that are not restricted by donors are reported as unrestricted non-operating revenue when the unconditional promise or actual gift is received. Unconditional contributions and promises to give are recorded as contributions receivable in the period that the unconditional and legally enforceable promise is made. Conditional contributions are not recorded as revenue or receivables until substantially all of the significant conditions are met.

Contributions restricted by the donor for specific operating programs or that have a time use restriction stipulated by the donor are recorded to temporarily restricted net assets. In the year the stipulated operating program occurs for which the funds are used to pay for related expenditures of the operating program, or when the donor time period stipulation expires, these funds are reported as releases from temporarily restricted net assets and releases to the operating section of the unrestricted net assets in the consolidated statement of activities and changes in net assets.

Contributions restricted by the donor to fund expenditures related to the acquisition or construction of property and equipment are included in temporarily restricted net assets until the related capital expenditures are incurred. At that time, the funds are reported as releases from temporarily restricted net assets to unrestricted net assets but are excluded from the performance income (loss) activity of the changes in unrestricted net assets.

Contributions restricted by the donor as endowments are credited to permanently restricted assets when received.

2. Significant Accounting Policies (continued)

Beneficial Interests in Assets Held by Others

Beneficial interests in assets held by others primarily consist of split-interest agreements within certain trust or gift agreements established by donors with third parties. These third parties may be a bank trust department or financial institution as well as non-profit family, corporate or community foundations, for which these third parties hold the gift assets. Under these agreements, the Corporation is entitled to benefits as the sole beneficiary or shares with other named beneficiaries. Since these agreements are irrevocable and the naming of the beneficiary is considered unconditional as the ceasing of existing operations by the beneficiary is the major contingency that would negate future interest in the assets, which is generally considered remote, the beneficiary then has a beneficial interest that is recorded as an asset. Accordingly, the contribution is originally recorded at the underlying gift assets fair value as of the date that the notice is received by the Corporation. The original recorded value is subsequently adjusted to the pro-rata fair value of the underlying trust assets at each year end. Trusts that will be received at the grantor/trustee’s death are reported as temporarily or permanently restricted contributions depending on the terms of the trust agreements and the use stipulations of the donor. Perpetual trusts for which the corpus is held in perpetuity are reported as permanently restricted contributions.

The Corporation is named as the beneficiary of certain trusts that either the Corporation is unable to substantiate the value of the trust or the donors have the right to change the beneficiary or revoke the agreement in its entirety. These trusts are not recorded in the consolidated financial statements and will not be recognized until the donor-imposed conditions expire, the asset value can be substantiated, and the gift is unconditional and/or irrevocable.

Property and Equipment

Property and equipment assets are recorded at cost incurred or fair value when received, if donated. Routine maintenance and repairs are recorded as an operating expense. Depreciation expense is computed and recorded using the straight-line method over the following estimated useful lives:

Land improvements	10 to 20 years
Buildings and improvements	15 to 40 years
Furniture and equipment	4 to 10 years

2. Significant Accounting Policies (continued)

Financing Costs

Financing costs consist of capitalized costs incurred in connection with obtaining financing categorized as short-term or long-term debt. Capitalized financing costs were $8,890 and $8,054 as of June 30, 2014 and 2013, respectively. Financing costs are amortized using the effective interest method over the length of the terms of the underlying debt. Accumulated amortization was approximately $5,241 and $4,973 as of June 30, 2014 and 2013, respectively. Amortization expense was $268 and $230 for the years ended June 30, 2014 and 2013, respectively. Additional financing activities occurred in 2014 as described further herein which resulted in additional capitalized costs of $1,010 and a write-off of net costs previously capitalized of $174.

Deferred Development Costs

Deferred development costs consist of certain costs associated with external fees incurred for development and marketing of new unit construction that were capitalized. Deferred development costs were $2,761 as of the years ended June 30, 2014 and 2013, respectively.

The deferred development costs are amortized on the straight-line method over approximately 15 years. Accumulated amortization was $1,617 and $1,450 as of June 30, 2014 and 2013 respectively. Amortization expense was $167 for each of the years ended June 30, 2014 and 2013.

Operating Rights and Other

Operating rights and other primarily consist of operating rights for licensed nursing facility beds. The Corporation was operating 826 licensed nursing home beds as of June 30, 2014. Capitalized costs incurred to purchase certain of those beds was $5,198 and $4,319 as of June 30, 2014 and 2013, respectively.

Intangibles with indefinite lives, such as operating rights, are not amortized to expense, but are tested for impairment annually. It was determined that no impairment exists for the operating rights intangible assets.

2. Significant Accounting Policies (continued)

Entrance Fees Revenue, Refundable Liability and Deferred Revenue Liability

All residents of facilities operated by OPRSC enter into a resideny agreement. Certain residency agreements for independent living facility units require an entrance fee and generally provide for some level of refund of all or a portion of the entrance fee upon termination of the agreement in the event of death or move-out. Anticipated refundable portions of the entrance fees are recorded as a refundable entrance fee liability. The refundable amount is based on the particular residency agreement as described herein. Payments of refunds reduce the refundable entrance fees liability. Anticipated non-refundable portions of the entrance fees are recorded as a deferred revenue liability and are recognized as revenue over the estimated remaining life expectance of each resident which is adjusted annually. Any unamortized deferred revenue liability for the non-refundable portions present at the time vacancy of a unit occurs are recognized as revenue pursuant to the terms of the applicable residency agreement.

The residency agreements which were offered beginning in 1988, also referred to as the "traditional" residency agreements, provides for the entrance fee to be recorded entirely as a deferred revenue liability initially which is recognized as revenue over the life expectancy of the resident. For purposes of determining any refund, OPRSC subtracts a 10% administrative fee from the total entrance fee amount, then reduces the remaining 90% of the entrance fee by 2% per month of residency up to 50 months, at which time no amount is refundable. If vacancy occurs prior to the 50th month, whether by voluntary or involuntary move-out including death, a pro-rata refund is available. Payment of the refund is not contingent upon re-occupancy. Traditional residency agreements represent approximately 70% to 75% of the agreements providing for an entrance fee.

Residency agreements were developed in the late 1990's that provide for the refund of 100%, 90%, or 50% of the entrance fee upon vacancy, whether voluntary or involuntary, and re-occupancy of the unit. Refundable entrance fees that are contingent upon re-occupancy by a subsequent resident but are not limited to the proceeds of re-occupancy are accounted for as refundable entrance fee liabilities. The 100% refundable occupancy agreements represent approximately 20% of the agreements providing for an entrance fee.

The residency agreements which were offered from 1982 through 1987 allow the Corporation to retain upon move-out a 10% administrative fee plus 1% of the remaining 90% of the entrance fee per month of residency for 100 months. If a resident expires after 25 months of residency, the Corporation retained 100% of the entrance fee. At this point, entrance fees for any remaining residents from this admission time period were recognized as revenue in previous years.

2. Significant Accounting Policies (continued)

Entrance Fees Revenue, Refundable Liability and Deferred Revenue Liability (continued)

For purposes of reporting a current portion of refundable entrance fees liabilities as of each year end, management estimates the amount using the approximate amount of the actual entrance fees refunded during the most recent reporting year end.

For purposes of reporting a current portion of the deferred revenue liability as of each year end, management estimates the amount based on a calculation of amortization applicable for the following year based on individuals residing in the facilities under these agreements as of the end of each year.

Gift Annuity Obligations

OPRSF entered into gift annuity agreements whereby, upon the receipt of an annuity gift, OPRSF pays the donor an annuity for the remainder of their life. At the time of the gift, an obligation is established for the present value of the annuity payments estimated to occur based upon the donor's life expectancy. The difference between the gift and the obligation is recognized as contribution revenue. The current portion of the gift annuities calculated to be paid in the following year is included in accounts payable and other accrued expenses.

As of June 30, 2014 and 2013, OPRSF had unrestricted gift annuity obligations of $896 and $960, respectively, temporarily restricted gift annuity obligations of $497 and $505, respectively, and permanently restricted gift annuity obligations of $2,591 and $2,554, respectively.

Interest Rate Swaps

The Corporation uses interest rate swaps as part of its overall debt management policy. Interest rate swaps are derivative financial instruments and are required to be recorded at fair value on the consolidated statements of financial position. The interest rate swaps were not intended to meet the accounting requirements to qualify as a financial hedge; accordingly, the related changes in fair value are reported on the consolidated statement of activities and changes in net assets as a component of the performance income.

2. Significant Accounting Policies (continued)

Description of Net Asset Classes

Temporarily restricted net assets relate to contributions received whose use was limited by donors to a specific time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified and presented as releases to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets. Permanently restricted net assets relate to contributions received whose use was restricted by donors to be maintained in perpetuity, the income from which is expendable to support the Corporation or make payments to annuitants as applicable to the terms of the gift.

Operating and Non-Operating Activities

The primary purpose of the Corporation is to provide residency and continuing care for older adults. Activities related to ongoing operations are classified as net service revenue. Revenue includes those generated from direct resident and client care, related support services, amortization of entrance fees, and sundry revenue related to the operations of the Corporation. Revenues, gains, expenses and losses that are considered not directly related to ongoing operations or that occurs infrequently are reported as non-operating income or loss on the consolidated statements of activities and changes in net assets. Unrestricted contributions revenue and related activity are reported as components of non-operating income or loss.

Performance Income

The consolidated statements of activities and changes in net assets includes a line item within the changes of unrestricted net assets described as performance income that is intended to represent a performance income or loss result for each year presented. Changes in unrestricted net assets which are excluded from that line item, consistent with industry practice, include 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) and equity transfers to and from affiliates under common control.

2. Significant Accounting Policies (continued)

Charity Care

A resident or client is classified as a charity resident or client by reference to certain established policies of the Corporation. Essentially, these policies define charity services as those services provided for which no payment is anticipated or full payment is not anticipated. Accounting standards require that charity care revenue and offsetting related charity care revenue reduction not be reported or disclosed at gross amounts. Management estimates that the approximate cost of providing charity care was $2,876 and $2,400 for the years ended June 30, 2014 and 2013, respectively. Management calculates the estimated charity care based on normalized annual operational expenses.

Functional Expenses

The Corporation provides a range of health services to residents and clients. Expenses related to providing these services were approximately $179,913 and $178,125 for the years ended June 30, 2014 and 2013, respectively. General and administrative expenses were approximately $20,055 and $17,827 for the years ended June 30, 2014 and 2013, respectively.

Fundraising Expenses

For the purpose of statements of activities and changes in net assets presentation, all fundraising expenses were aggregated and presented as a separate line item on the statements of activities and changes in net assets within the non-operating activities section. Fundraising expenses include all expenses incurred by the OPRSF.

Self-Insured Programs

<u>General and Professional Liability</u>

The Corporation utilizes a program of self-insuring general and an professional liability risks for individual losses up to $750 per claim or occurence and $2,000 in aggregate. Those amounts function as high deductible retention limits as part of professional and general liability commercial insurance policy coverages. Both the professional liability and general liability coverages have $1,000 limits per claim or occurrence, respectively, and $3,000 in aggregate, respectively. The Corporation also carries excess liability commercial insurance coverage of $10,000 for each occurrence and in aggregate.

2. Significant Accounting Policies (continued)

Self-Insured Programs (continued)

General and Professional Liability (continued)

The commercial insurance coverages only apply to claims that have been asserted and incidents reported to the insurance carrier; any unknown incidents and therefore unreported incidents would not be covered by insurance. Management intends to maintain the current claims made excess insurance coverage to cover any unknown incidents that may be asserted.

General and professional liability claims for incidents which have or may be asserted against the Corporation by various claimants that may give rise to litigation are actively identified and monitored by management with the assistance of external legal counsel. Management estimated a self-insurance reserve based on known incidents and assessment of potential settlement loss based on interaction with legal counsel and trended historical settlement activity. An estimated self-insurance reserve liability of $334 and $175 was recorded for the years ended June 30, 2014 and 2013, respectively.

Self-Insured Healthcare Benefits

The Corporation utilizes a self-insurance healthcare benefits program whereby the Corporation makes direct payment of claims instead of paying healthcare insurance premiums. The plan covers substantially all full-time employees for healthcare benefits. Participating employees do pay for a portion of the coverage depending on the level of the plan selected. The program includes a stop-loss commercial healthcare insurance policy that covers claims over $300 per employee per annum effective for episodes occurring after July 1, 2012. Effective July 1, 2014, the Corporation implemented a higher maximum amount it will pay of $700 for isolated recurring cases in an effort to decrease stop-loss premium expense resulting in an anticipated net savings. There is no maximum limit of coverage associated with the stop-loss policy. Claims are charged to operations as incurred. Management has recorded an estimated liability for self-insured claims of $1,200 and $900 as of June 30, 2014 and 2013, respectively.

Self-Insured Workers’ Compensation

The Corporation utilizes a self-insurance workers’ compensation program covering all employees for workers' compensation claims. The program includes a stop-loss commercial insurance policy that covers claims over $500 per employee or total claims in excess of $1,000. Management recorded an estimated liability for self-insured workers’ compensation of $308 and $486 as of June 30, 2014 and 2013, respectively.

2. Significant Accounting Policies (continued)

Conditional Asset Retirement Obligations

In accordance with accounting standards, management considered the need to recognize a liability for any asset retirement obligation, specifically as it relates to the Corporation's legal obligation to perform asset retirement activities, such as asbestos removal, on the Corporation's existing properties. Management is not aware of any such legal obligation to perform asset retirement activities and thus did not record a liability related to asset retirement activities as of the years ended June 30, 2014 or 2013.

Federal Income Taxes

Accounting standards require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management analyzed the tax positions taken by the Corporation pertaining to any informational or tax related forms required to file with the IRS or other taxing authorities and concluded that there were no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements as of June 30, 2014 and 2013. The non-profit corporations included in the consolidated financial statements are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to examinations by any taxing authorities for years prior to 2011.

Accounting Standards Update

During May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in the ASU clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Corporation will be required to adopt and implement this accounting update as of and for the year ending June 30, 2018. Management has not yet assessed the effect of this accounting standards update on the consolidated financial statements.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued.

3. Cash and Investments – Board Designated

The following table details the composition of board-designated cash and investments at June 30:

	2014	2013
Board designated:		
Mutual funds-fixed income	$ 7,353	$ 7,160
Mutual funds-equities	23,133	12,386
Total board designated	$ 30,486	$ 19,546

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4. Investments

The following table details the composition of investments at June 30:

	2014	2013
Unrestricted:		
U.S. Treasury bonds	$ 8,202	$ 14,513
U.S. government agencies	-	4,229
Corporate obligations and other	4,456	11,870
Marketable equity securities	212	194
Mutual funds-fixed income	4,798	4,383
Mutual funds-equities	23,830	2,846
	41,498	38,035
Temporarily restricted:		
Marketable equity securities	48	47
Current	41,546	38,082
Permanently restricted:		
U.S. Treasury bonds	100	200
Marketable equity securities	159	168
Mutual funds-fixed income	15,877	13,140
Mutual funds-equities	26,545	21,569
Non-Current	42,681	35,077
Total investments	$ 84,227	$ 73,159

(In Thousands)

5. Assets Whose Use is Limited

The following table details the composition of assets whose use is limited as of June 30:

	2014	2013
Bond indenture agreements:		
Cash and equivalents	$ 16,603	$ 2,206
U.S. Treasury bonds	1,270	698
U.S. government agencies	2,955	2,747
Corporate bonds, fixed income, and other	40,423	1,466
Accrued interest income	328	58
	61,579	7,175
Federal agency loan agreements:		
Cash and equivalents	1,130	1,833
Pooled income agreements:		
Marketable equity securities	-	11
Other agreements:		
Personal Use Accounts:		
Cash and equivalents	102	99
Self Insurance Reserve Account:		
Cash and equivalents	-	52
U.S. Treasury bonds	-	745
U.S. government agencies	-	250
	102	1,146
Total assets whose use is limited	62,811	10,165
Less amounts reported as current as required to meet obligations classified as current liabilities	(4,292)	(3,505)
Total non-current assets whose use is limited	$ 58,519	$ 6,660

(In Thousands)

5. Assets Whose Use is Limited (continued)

Interest expense of $9,666 and $9,234 in 2014 and 2013, respectively, is offset by investment earnings on bond funds whose use is limited under bond indenture agreements as described herein. Investment earnings on such bond funds were $162 and $88 in 2014 and 2013, respectively.

6. Accounts Receivable

Accounts receivable consisted of the following as of June 30:

	2014	2013
OPRS Communities:		
Private and other third party	$6,812	$6,884
Medicare and Medicaid	3,757	4,487
Entrance fees	447	290
	11,016	11,661
Senior Independence:		
Private and other third party	2,541	2,820
Medicare and Medicaid	7,497	8,741
	10,038	11,561
Other	330	600
Accounts receivable, gross	21,384	23,822
Less allowance for doubtful accounts	(1,500)	(2,020)
Accounts receivable, net	$ 19,884	$ 21,802

The Corporation routinely provides retirement living and healthcare services through its independent living, nursing facilities, and community services. The Corporation grants credit to its residents, but generally does not require collateral or other security in extending the credit. The Corporation routinely obtains assignment of, or is otherwise entitled to receive, residents' benefits payable under health insurance plans, programs, or policies (e.g., Medicare or Medicaid).

(In Thousands)

6. Accounts Receivable (continued)

The following table details the components of gross receivables at June 30:

	2014	2013
Medicare	48%	51%
Medicaid	9%	8%
Resident and client	13%	12%
Third-party payors	30%	29%
Total	100%	100%

7. Contributions Receivable

Contributions receivable consist of various promises to give including pledges, bequests or grants relating to various campaigns, purchases of property and equipment and other operational activities. Contributions receivable also include estate notes signed by residents in connection with various fundraising efforts. The estate notes are irrevocable promises to give and are to be paid upon the donor's death. Management evaluates the collectability of pledges, bequests, and estate notes receivable and has recorded an estimated allowance for doubtful accounts. The Corporation recorded all unconditional promises to give at net present value at the time of the gift, discounted at rates ranging from 1.67 percent to 3.18 percent. Anticipated collection of contributions receivable is as follows as of June 30:

	2014	2013
Contributions receivable:		
Due in one year	$2,193	$2,385
Due in two to five years	1,414	1,555
Due in more than five years	1,238	1,432
	4,845	5,372
Less:		
Discount for present value	(452)	(531)
Allowance for doubtful accounts	(140)	(45)
	4,253	4,796
Less contributions, current	(2,053)	(2,340)
Contributions receivable, net	$ 2,200	$ 2,456

(In Thousands)

8. Property and Equipment

Property and equipment and accumulated depreciation consist of the following as of June 30:

	2014	2013
Land and improvements	$ 25,671	$ 25,246
Buildings and improvements	401,089	383,060
Furniture and equipment	67,195	61,469
Construction in progress	16,104	13,413
	510,059	483,188
Less accumulated depreciation	(226,185)	(207,502)
Property and equipment, net	$ 283,874	$ 275,686

Capitalized interest expense related to new construction projects for the year ended June 30, 2014 was $1,185 net of interest earnings of $581. Capitalized interest expense related to new construction projects for the year ended June 30, 2013 was $521, net of interest earnings of $21. Depreciation expense was $18,738 for 2014 and $17,733 for 2013.

9. Deferred Revenue

Deferred revenue consists of the following as of June 30:

	2014	2013
Current:		
Non-refundable entrance fees	$5,900	$6,100
Customization fees	854	857
Other	68	640
	6,822	7,597
Non-current:		
Non-refundable entrance fees	29,608	29,336
Total Deferred Revenue	$36,430	$36,933

The Corporation made payments of refundable entrance fees of $3,528 and $2,720 in 2014 and 2013, respectively. Total contractual entrance fee refund obligations, assuming all contracts were terminated, at June 30, 2014 and 2013 were $45,249 and $42,073, respectively.

(In Thousands)

10. Note Payable – Line of Credit

In June 2013, the Corporation consummated a note payable with two financial institutions providing a non-revolving line of credit that matured in June 2014. The maximum amount available was $28,000 for which $11,000 was drawn as of June 30, 2013. Interest was payable monthly based on LIBOR plus 2.5%. As of June 30, 2013, the interest rate was 2.68%. The line of credit was collateralized by substantially all of the Corporation's unrestricted assets. As a part of the financing that resulted in proceeds from the bond issuance that occurred in November 2013, as further described herein, the outstanding balance of $11,000 was paid in full upon closing of the financing and the note payable was cancelled.

11. Long-term Debt

Long-term debt consists of the following as of June 30:

	2014	2013
Mortgage note payable, bearing interest at 2.58% due in monthly installments of $23 including interest, maturing February 1, 2033	$ 4,027	$ 4,192
Hospital Facilities Mortgage Revenue Bonds:		
2002A	13,495	13,495
2005A	10,945	10,945
2010A	25,000	25,000
2011A	31,721	33,260
2012A	19,205	19,205
2012B	7,745	7,745
2013A	50,550	-
2013B	25,000	-
	183,661	109,650
Variable Rate Taxable Demand Notes:		
2000 Series	3,130	3,165

(In Thousands)

11. Long-term Debt (continued)

	2014	2013
Variable Rate Tax Exempt Demand Bonds:		
2002B	$ 11,945	$ 12,740
2005B	14,280	14,385
2006A	60,000	60,000
	86,225	87,125
Other long-term indebtedness	193	243
Less repurchase of bonds	(37)	(37)
Long-term debt-gross	277,199	204,338
Less unamortized original issue discount	(1,020)	(577)
Total debt	276,179	203,761
Less current portion	(6,165)	(2,717)
	$ 270,014	$ 201,044

In December 1997, the Corporation issued $47,475 of Health Care Facilities Revenue Bonds Series 1997 (1997 Bonds). The 1997 Bonds were structured to include $20,235 of serial bonds with annual maturities ranging from $575 in 1998 to $2,005 in 2011 and incur interest at rates ranging from 4.25% to 5.50%, $14,570 of 5.50% term bonds maturing July 1, 2017, and $12,670 of 5.50% term bonds maturing July 1, 2021. The 1997 Bonds were paid off with the proceeds from the 2012 Bonds described herein.

In April 2000, the Corporation issued $11,245 of Variable Rate Taxable Demand Notes, Series 2000 (2000 Notes). In February 2003, $6,875,000 of the 2000 Notes was redeemed with proceeds from the 2002 Bonds, described herein. The maturity date of the remaining 2000 Notes was extended to July 1, 2033. The 2000 Notes are subject to redemption prior to maturity and are subject to purchase on the demand of the note holders prior to maturity. The 2000 Notes bear interest at a variable interest rate (.15% and .21% at June 30, 2014 and 2013, respectively) that is adjusted weekly and is payable on the first business day of each month. The Corporation is required to make monthly payments to the trustee bank in amounts sufficient to pay interest and principal as it becomes due. The 2000 Notes were further securitized by a letter of credit provided by a bank in amounts matching the outstanding principal and with a current expiration date of November 1, 2014.

11. Long-term Debt (continued)

Subsequent to June 30, 2014, the Corporation refinanced the 2000 Notes converting to a note payable loan directly with a bank. The note payable provides for a 19-year amortization of principal with an original term of 5 years ending October 31, 2019 and an option for the bank to renew for additional terms. Interest is incurred at a variable rate based on LIBOR plus 1.35%, with an increase of .25% for any ratings downgrade, and requires payments of principal and interest on a semi-annual and monthly basis, repectively, matching the original schedule stipulated with the 2000 Notes.

In November 2002, the Corporation issued $46,390 of Health Care Facilities Revenue Bonds, Series 2002, consisting of one issuance of $26,600 Health Care Facilities Refunding and Improvement Revenue Bonds, Series 2002A (2002A Bonds) and a second issuance of $19,790 Variable Rate Demand Health Care Facilities Refunding and Improvement Revenue Bonds, Series 2002B (2002B Bonds). The 2002A Bonds were structured to include $4,205 of serial bonds with annual maturities ranging from $390 to $745 from 2005 to 2012, and incur interest at rates ranging from 2.5% to 4.2%; $9,790 of 5.125% term bonds due July 1, 2022; and $12,605 of 5.25% term bonds due July 1, 2033. The 2002B Bonds were structured as term bonds scheduled to mature on July 1, 2033, are subject to redemption prior to maturity, and are subject to purchase on the demand of the note holders prior to maturity. The 2002B Bonds incur interest at a variable interest rate (.06% and .07% at June 30, 2014 and 2013, respectively) that is adjusted weekly and is payable on the first business day of each month. The Corporation is required to make monthly payments to the trustee bank in amounts sufficient to pay interest and principal as it becomes due. The 2002B Bonds were further securitized by a letter of credit provided by a bank in amounts matching the outstanding principal and with a current expiration date of November 1, 2014. Subsequent to June 30, 2014, the letter of credit was extended to an expiration date of November 1, 2017.

In March 2005, the Corporation issued $25,330 of Health Care Facilities Revenue Bonds, Series 2005, consisting of one issuance of $10,945 Health Care Facilities Improvement Revenue Bonds, Series 2005A (2005A Bonds) and a second issuance of $14,385 Variable Rate Demand Health Care Facilities Refunding and Improvement Revenue Bonds, Series 2005B (2005B Bonds). The 2005A Bonds were structured to include $3,440 of 5.0% term bonds due July 1, 2026 and $7,505 of 5.125% term bonds due July 1, 2035. The 2005B Bonds were structured as term bonds scheduled to mature on July 1, 2035, are subject to redemption prior to maturity and are subject to purchase on the demand of the note holders prior to maturity. The 2005B Bonds incur interest at a variable interest rate (.06% and .07% at June 30, 2014 and 2013, respectively) that is adjusted weekly and is payable on the first business day of each month. The Corporation is required to make monthly payments to the trustee bank in amounts sufficient to pay interest and principal as it becomes due.

11. Long-term Debt (continued)

The 2005B Bonds were further securitized by a letter of credit provided by a bank in amounts matching the outstanding principal and with a current expiration date of November 1, 2014. Subsequent to June 30, 2014, the letter of credit was extended to an expiration date of November 1, 2017.

The owners of the 2000, 2002B, and 2005B Bonds have the option to demand payment of their remaining outstanding bonds. The Corporation entered into remarketing agreements which require the remarketing agent to utilize its best efforts to remarket any such bonds that may be tendered for payment. In the event the 2000, 2002B, and 2005B Bonds cannot be remarketed, the letters of credit, referred to previously, provide that the letter of credit bank will make payment for the bonds tendered. The Corporation is obligated to make payment to the letter of credit banks for un-remarketed bonds by the expiration date of the letters of credit. A concentration of credit risk exists to the Corporation as the same bank is the issuer on these letters of credit.

In May 2006, the Corporation issued $89,105 of Health Care Facilities Refunding and Improvement Revenue Bonds, Series 2006 (2006 Bonds) consisting of three bond issues: $60,000 Variable Rate Demand Health Care Facilities Improvement Revenue Bonds, Series 2006A (2006A Bonds); $18,835 Variable Rate Demand Health Care Facilities Refunding Revenue Bonds, Series 2006B (2006B Bonds); and, $10,270 Variable Rate Demand Health Care Facilities Taxable Convertible Refunding Revenue Bonds, Series 2006C, (2006C Bonds). The 2006A Bonds were structured as term bonds scheduled to mature on July 1, 2036 and are subject to redemption prior to maturity and are subject to purchase on the demand of the note holders prior to maturity. The 2006A Bonds incur interest at a variable interest rate (.05 and .07% at June 30, 2014 and 2013, respectively) that is adjusted weekly and is payable on the first business day of each month. The Corporation is required to make monthly payments to the trustee bank in amounts sufficient to pay interest and principal as it becomes due. The Corporation redeemed the 2006B and 2006C Bonds with proceeds from the 2011A Bonds, described herein.

The owners of the 2006A Bonds have the option to demand payment of their bonds upon seven days' notice. In addition, the 2006A Bonds are subject to mandatory tender on a date that is five business days prior to the scheduled expiration date of the letter of credit securing such bonds. At this point, they become bank bonds under the letter of credit and are due as described below with respective repayments of the principal amount of remarketed bonds. The Corporation entered into a remarketing agreement which requires the remarketing agent to utilize its best efforts to remarket any such bonds that may be optionally or mandatorily tendered for payment.

11. Long-term Debt (continued)

In October 2007, the standby bond purchase agreement, entered into in connection with the 2006A Bonds issuance, that provided liquidity in the event of a failed remarketing of the 2006A Bonds was suspended and replaced with a letter of credit, provided by a four bank syndicate, that provides both credit and liquidity support for the 2006A Bonds. In the event the 2006A Bonds cannot be remarketed, the letter of credit provides for the letter of credit banks to make payment of the purchase price of the tendered 2006A Bonds. The Corporation is obligated to make payment to the letter of credit banks for the principal amount of the un-remarketed bonds in 20 equal quarterly installments beginning on the first January 1, April 1, July 1, or October 1 that is at least 367 days following the failed remarketing. The letter of credit expires July 15, 2016.

In June 2010, the Corporation issued $25,000 of Health Care Facilities Improvement Revenue Bonds, Series 2010A (2010A Bonds). The 2010A Bonds were structured as $1,185 of serial bonds with annual maturities ranging from $65 in 2016 to $330 in 2020 and incur interest at rates ranging from 4.00% to 5.00%, and $23,815 of 5.625% term bonds maturing July 1, 2026.

In June 2011, the Corporation issued $36,000 of Health Care Facilities Improvement Revenue Bonds, Series 2011A (2011A Bonds). The 2011A Bonds were directly purchased by three banks each with varying participation shares. The 2011A Bonds provide for a 20-year amortization of the principal but has an initial term of seven years expiring June 30, 2018, with the option by the banks to renew for additional terms. The 2011A Bonds incur interest at 3.95% and require principal and interest payments on a quarterly basis in scheduled principal increments.

In August 2012, the Corporation issued $30,000 of Health Care Facilities Revenue Bonds, Series 2012, consisting of one issuance of $21,485 (2012A Bonds) and a second issuance of $8,515 (2012B Bonds). Proceeds of these issuances were used to refinance the 1997 Bonds and a portion of 2002A Bonds. Both issuances were directly purchased by one bank. The 2012A Bonds incur interest at a fixed 2.63% and require principal and interest payments on an annual and semiannual basis, respectively, through maturity on July 1, 2020. The 2012B Bonds incur interest at a fixed rate of 2.75% and require principal and interest payment on an annual and semiannual basis, respectively, through maturity on July 1, 2021.

In November 2013, the Corporation issued $75,550 of Health Care Facilities Improvement Revenue Bonds, Series 2013, consisting of one issuance of $50,550 (2013A Bonds) and a second issuance of $25,000 (2013B Bonds). The 2013A Bonds were structured as four term bonds of $1,500, $2,000, $10,880 and $36,170 scheduled to mature on July 1, 2028, 2032, 2035 and 2040, respectively, and incur interest at rate of 5.25%, 5.625%, 6.000% and 6.125%, respectively. Each of the term bonds are subject mandatory principal sinking fund redemption payments beginning in 2026 in advance of the schedule maturity dates. The 2013A Bonds require interest payments each January 1 and July 1 beginning July 1, 2014.

(In Thousands)

11. Long-term Debt (continued)

The 2013B Bonds were directly purchased by one bank. The 2013B Bonds provide for a 25-year amortization of the principal but has an initial term of eight years expiring November 1, 2021, with the option by the bank to renew for additional terms. The 2013B Bonds incur interest at 4.10% and require interest payments on a monthly basis with scheduled principal payments beginning in 2026.

A Master Trust Indenture was established in 1991 and created the Obligated Group whose members consists of all entities of the Corporation except for BV Apartments LLC. Each member of the Obligated Group is jointly and severally liable for all debt related obligations issued on the master trust indenture. The Corporation has granted a security interest in all gross receipts, all trustee-held bond funds, and granted a mortgage lien on substantially all of its property and equipment. Various debt covenants exist including restrictions on additional borrowings and restrictions on transfers of assets to other related entities not included in the Obligated Group. A rate covenant exists requiring a debt service coverage ratio, as defined, to be maintained of at least 1.20. A liquidity covenant exists requiring days cash on hand, as defined, to be maintained at an amount equal to or greater than 110 days. Substantially all property and equipment and gross revenue (as defined), as well as various trustee-held bond funds, are pledged as security for the mortgage notes payable. The 2000 Series Notes, the 2002B Series Bonds, the 2005B Series Bonds, and the 2006A Series Bonds are further secured by letters of credit as previously described.

Scheduled payments of long-term debt for the five years subsequent to June 30, 2014 are as follows:

2015	$ 6,165
2016	6,495
2017	6,770
2018	7,218
2019	7,565
Thereafter	242,986
	$ 277,199

(In Thousands)

12. Interest Rate Swaps

The Corporation entered into various interest rate swap agreements with certain financial institutions which reduces exposure to volatility of interest rates on outstanding debt. The Corporation pays a fixed rate of interest, as noted in the table below, while the financial institution pays the Corporation based on a floating rate as a percentage of LIBOR. The floating rate resets every seven days.

A summary of the interest rate swaps is as follows:

	2005B Bonds	2006A Bonds	Total
Notional amount at inception	$ 14,385	$ 60,000	
Notional amount June 30, 2014	$ 14,385	$ 60,000	
Effective date	March 31, 2005	May 31, 2006	
Termination date	July 1, 2035	July 1, 2036	
Pay fixed rate	3.385%	3.871%	
Receive variable rate	67% LIBOR	67% LIBOR	
Fair value at July 1, 2012	$ (2,932)	$ (20,120)	$ (23,052)
Unrealized gain	1,017	6,635	7,652
Fair value at June 30, 2013	(1,915)	(13,485)	(15,400)
Unrealized gain (loss)	15	(335)	(320)
Fair value at June 30, 2014	$ (1,900)	$ (13,820)	$ (15,720)

Net interest paid or received under the swap agreement is included in interest expense. The Corporation incurred interest expense of $2,723 and $2,696 in 2014 and 2013, respectively, in connection with payments on the interest rate swaps which is included in interest expense.

12. Interest Rate Swaps (continued)

During fiscal year 2009, the Corporation was notified that the counterparty on the interest rate swap agreement relating to the 2006A Bonds, with a notional amount of $60,000, had filed for bankruptcy. During fiscal year 2010, the Corporation negotiated novation of this agreement to an alternate counterparty eliminating the risk of the bankrupt counterparty not being able to perform. The Corporation made no payments to facilitate this novation. The alternate counterparty was granted the right, at its discretion, to put the swap to the Corporation at five-year intervals beginning on April 20, 2015 and therefore the liability related to the fair value of the swap agreement has been classified as current on the consolidated statements of financial position as of June 30, 2014. The Corporation has the right to eliminate the put by posting collateral to the extent the swap has a negative value to the Corporation at April 20, 2015. The Corporation also has the options to end the swap agreement and fund the negative value to the existing counterparty or, in advance of April 20, 2015, secure another counterparty or renew and extend with the existing counterparty for another period. Pursuant to notice requirements included in the agreement, and to preserve its rights under the agreement, on October 3, 2014 the counterparty provided notice to exercise its option to put the swap on April 20, 2015. Assessment by the existing counterparty as well as the Corporation will occur however the existing counterparty indicated that the likely probability is that they will offer a renewal at a market based fee increase. The alternate counterparty was also given an obligation under the Master Indenture. The 2006A swap agreement includes additional termination events as defined by the agreement which include but are not limited to the long-term unsecured unsubordinated debt rating ("Rating") of the Corporation by S&P being reduced below BBB-, withdrawn, or suspended. Any additional termination event would cause a termination of the agreement and a corresponding settlement payment based on a calculation as defined in the swap agreement.

13. Fair Value Measurements

A summary of the methods and significant assumptions used to estimate the fair values of each major class of financial instruments is as follows:

Short-term Financial Instruments - The fair values of short-term financial instruments, including cash and cash equivalents, trade accounts receivable and payable, and accrued liabilities, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

Investments - Recorded at fair value in the accompanying consolidated financial statements. Fair value is determined based on methods and significant assumptions as further described herein.

13. Fair Value Measurements (continued)

Entrance Fees - The fair value cannot be determined due to the uncertainty of the date of ultimate repayment.

Long-term Obligations - The fair value of fixed rate bonds payable is based on the current interest rates for bonds of similar nature and maturities. The fair value of variable rate bonds approximates the carrying amounts in the accompanying consolidated financial statements.

Interest Rate Swaps – The fair value is based on using comparable market data and discounting for the credit rating of the Corporation as valued by an independent source.

Below is the fair value hierarchy that categorizes into three levels the inputs to valuation techniques that are used to measure fair value:

- Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1 and include valuation techniques which use prices for similar assets and liabilities.

- Level 3 includes unobservable inputs which reflect the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency. The types of instruments based on quoted market prices in active markets include most U.S. government and agency securities, active listed equities, corporate obligations, and most money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

13. Fair Value Measurements (continued)

The types of instruments valued based upon quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of pricing transparency include most municipal and provincial obligations, investment-grade, high yield corporate bonds, U.S. government and agency and mortgage securities, and interest rate swaps. Such instruments are generally classified as Level 2 securities.

Certain types of instruments are classified with Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. The Corporation relies on third-party reporting by financial institutions to determine the valuation of the amounts in Level 3.

(In Thousands)

13. Fair Value Measurements (continued)

The following tables set forth the Corporation assets and liabilities measured at fair value on a recurring basis, aggregated by the measurement level. The assets presented consist of board-designated cash and investments, investments, and assets whose use is limited.

Assets	Fair Value at June 30, 2014	Level 1	Level 2	Level 3
Board Designated				
Mutual funds-fixed income	$ 7,353	$ 7,353	$ –	$ –
Mutual funds-equities	23,133	23,133	–	–
Total board designated	$ 30,486	$ 30,486	$ –	$ –
Investments				
Unrestricted:				
U.S. Treasury bonds	$ 8,202	$ 8,202	$ –	$ –
Corporate obligations and other (a)	4,456	–	4,456	–
Marketable equity securities (b)	212	–	212	–
Mutual funds-fixed income (c)	4,798	–	4,798	–
Mutual funds-equities (d)	23,830	–	23,830	–
	41,498	8,202	33,296	–
Temporarily restricted:				
Marketable equity securities	$ 48	$ –	$ 48	$ –
Permanently restricted:				
U.S. Treasury bonds	$ 100	$ 100	$ –	$ –
Marketable equity securities (b)	159	159	–	–
Mutual funds-fixed income (c)	15,877	–	15,877	–
Mutual funds-equities (d)	26,545	–	26,545	–
	42,681	259	42,422	–
Bond indenture agreements:				
U.S. Treasury bonds	$ 1,270	$ 1,270	$ –	$ –
Mutual funds-fixed income (c)	2,955	2,955	–	–
Corporate obligations and other (a)	40,423	40,423	–	–
	44,648	44,648	–	–
Beneficial interest in assets held by others	17,365	–	–	17,365
Total	$ 176,726	$ 83,595	$ 75,766	$ 17,365
Liabilities				
Interest rate swap liabilities	$ 15,720	$ –	$ 15,720	$ –

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Assets	Fair Value at June 30, 2013	Level 1	Level 2	Level 3
Board Designated				
Mutual funds-fixed income	$ 7,160	$ 7,160	$ –	$ –
Mutual funds-equities	12,386	12,386	–	–
Total board designated	$ 19,546	$ 19,546	$ –	$ –
Investments				
Unrestricted:				
U.S. Treasury bonds	$ 14,513	$ 14,513	$ –	$ –
U.S. Government agencies	4,229	4,229	–	–
Corporate obligations and other (a)	11,870	–	11,870	–
Marketable equity securities (b)	194	–	194	–
Mutual funds-fixed income (c)	4,383	–	4,383	–
Mutual funds-equities (d)	2,846	–	2,846	–
	38,035	18,742	19,293	–
Temporarily restricted:				
Marketable equity securities	$ 47	$ –	$ 47	$ –
Permanently restricted:				
U.S. Treasury bonds	$ 200	$ 200	$ –	$ –
Marketable equity securities (b)	168	168	–	–
Mutual funds-fixed income (c)	13,140	–	13,140	–
Mutual funds-equities (d)	21,569	–	21,569	–
	35,077	368	34,709	–
Pooled income agreements:				
Marketable equity securities	$ 11	$ –	$ –	$ 11
Bond indenture agreements:				
U.S. Treasury bonds	$ 698	$ 698	$ –	$ –
Mutual funds-fixed income (c)	2,747	2,747	–	–
Corporate obligations and other (a)	1,466	1,466	–	–
	4,911	4,911	–	–
Self insurance reserve account:				
U.S. Treasury bonds	$ 745	$ 745	$ –	$ –
U.S. government agencies	250	–	250	–
	995	745	250	–
Beneficial interest in assets held by others	15,705	–	–	15,705
Total	$ 114,326	$ 44,312	$ 54,299	$ 15,715
Liabilities				
Interest rate swap liabilities	$ 15,400	$ –	$ 15,400	$ –

13. Fair Value Measurements (continued)

(a) Corporate obligations and other investments primarily consist of bond funds. The allocation of holdings at June 30, 2014 includes Level 1 investments held 100% in credit institution bonds and Level 2 investments held 98% in credit institution bonds and 2% in U.S. savings bonds. The allocation of holdings at June 30, 2013 includes Level 1 investments held 100% in credit institution bonds and Level 2 investments held 99% in credit institution bonds and 1% in U.S. savings bonds.

(b) Marketable equity securities are invested primarily in equity securities, which include common stocks, options, and futures. The allocation of holdings at June 30, 2014 includes Level 1 investments held 100% in large cap funds and Level 2 investments held 100% in small cap funds. The allocation of holdings at June 30, 2013 includes Level 1 investments held 100% in large cap funds, Level 2 investments held 100% in small cap funds, and Level 3 investments held 100% in large cap funds.

(c) Mutual funds-fixed income are primarily invested in fixed-income securities, including, but not limited to, bonds, notes, or other investments, such as government securities, commercial paper, certificates of deposit, master notes, or variable amount notes. The allocation of holdings at June 30, 2014 includes Level 1 investments held 33% in treasury notes and 67% in balanced funds and Level 2 investments held 33% in treasury notes and 67% in balanced funds. The allocation of holdings at June 30, 2013 includes Level 1 investments held 38% in treasury notes and 62% in balanced funds and Level 2 investments held 33% in treasury notes and 67% in balanced funds.

(d) Mutual funds-equities are invested primarily in equity securities. The investments may include common stock, non-U.S. municipal securities, options, and futures. The allocation of holdings at June 30, 2014 includes Level 1 investments held 16% in large cap funds, 63% international funds, 27% in small cap funds, and 11% in floating rates and the Level 2 investments held 38% in large cap funds, 35% in international funds, and 27% in small cap funds. The allocation of holdings at June 30, 2013 includes Level 1 investments held 34% in large cap funds, 39% international funds, and 27% in small cap funds and the Level 2 investments held 38% in large cap funds, 35% in international funds, and 27% in small cap funds.

(In Thousands)

13. Fair Value Measurements (continued)

The following table is a roll forward of the consolidated statement of position amounts for financial instruments classified by the Corporation within Level 3 of the valuation hierarchy defined above as of June 30, 2014 and 2013:

	Level 3 Investments
Balance at July 1, 2012	$ 14,919
Change in value of beneficial interest in assets held by others	796
Balance at June 30, 2013	$ 15,715
Change in value of beneficial interest in assets held by others	1,661
Sales	(11)
Balance at June 30, 2014	$ 17,365

The fair value of long-term debt obligations, valued using level 2 inputs, at June 30, 2014 and 2013 approximates $282,848 and $201,080, respectively.

Interest rate swaps and certain investments included in U.S. government agencies, corporate obligations and other, marketable equity securities, mutual funds-fixed income, and mutual funds-equities were determined primarily based on level 2 inputs. The Corporation estimates the fair value of the swap agreements based on similar agreements traded in active markets. The Corporation estimates the fair value of these investments using quoted prices provided by the Corporation's investment custodians.

Beneficial interest in assets held by others categorized as Level 3 assets consist primarily of beneficial interests in irrevocable trusts. The Corporation estimates the fair value of these assets based upon the fair value of the assets in the trust unless the facts and circumstances indicate that the fair value would be different from the present value of estimated future distributions.

The Corporation's policy for determining when transfers between levels are recognized is at the end of the reporting period.

(In Thousands)

14. Net Service Revenue

Net revenue is summarized below for the years ended June 30:

	2014	2013
OPRS Communities:		
Private and third party	$104,657	$104,580
Medicare	22,901	24,285
Medicaid	19,766	16,732
Amortization of entrance fees	5,927	6,151
	153,251	151,748
Senior Independence:		
Private and third party	11,657	12,298
Medicare	25,367	26,480
Medicaid	2,540	2,475
	39,564	41,253
Total Net Service Revenue	$ 192,815	$ 193,001

The Medicare program uses a prospective payment system (PPS) for skilled nursing facilities. Under PPS Part A skilled nursing facility providers bill and are paid one of several daily payment rates based on individual patient acuity levels to cover substantially all services provided to patients, including ancillary services such as respiratory, rehabilitation, therapies, and certain covered pharmaceuticals. Under PPS Part B skilled providers are paid fee screen rates based on specific therapy and other ancillary services provided. Revenue is recognized each month based on the services provided during that month end at the established rates. Providers are required to bill Medicare in sequential order of days of service for a particular month subsequent to having provided the service, thus no advance payments are received.

The Medicare program uses an episodic PPS for reimbursement of home health services. Under PPS, home health service providers commit to provide care for up to 60 days and establish an expected episodic payment rate for the full episode which is determined at the start of care based on an acuity assessment. There are various episodic rates established for acuity level and related care plan needs. Revenue for the episode of care is recorded over the anticipated 60 day episode using a calendar day prorating method. The amount of revenue recognized for episodes of care which are incomplete at a month end is based on the pro rata of number of days which were completed.

14. Net Service Revenue (continued)

The original expected episodic rate is subject to increase or decrease over the duration of the episode depending on a variety of factors, thus final determination of the final episodic rate may not occur for up to 60 days and result in adjustments to revenue over that period of time. Payment is made in two payments for each episode. Providers are required to bill episodes in two portions. The first portion is referred to as the Reimbursement Advance Payment (RAP) which pays at 60% and 50% of the expected episodic rate for an initial start of care episode and a contiguous recertified episode, respectively. The RAP claim submission may be made once the clinical assessment is complete, thus payment may be received from Medicare in an amount that is more than service provided at a particular month end.

The Ohio Medicaid program has a prospective price-based payment system for skilled nursing facilities. Under this system providers are paid a daily rate for all Medicaid beneficiary patients, adjusted periodically for changes in resident acuity on an aggregate Medicaid resident basis. Revenue is recognized each month based on the services provided during that month end at the established rates. Providers are required to bill for Medicaid services in sequential order of days of service provided for a particular month subsequent to having provided the service, thus no advance payments are received.

The amount of estimated settlements from the Medicare and Medicaid programs for any open reimbursement years was included in receivables and accounts payable as applicable. OPRS received final settlements on Medicare cost reports through 2010.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Medicare program initiated a recovery audit contractor (RAC) initiative, whereby claims will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. Management of the Corporation believes that any amounts billed and received were substantially in compliance with government regulations and thus believes that there is no significant risk for unidentified overpayments that would result in a material liability, if any.

15. Pension Plan

The Corporation sponsors the Ohio Presbyterian Retiement Services 403(b) Plan which is a defined contribution pension plan for the benefit of employees who have completed two years of continuous employment and who have worked at least 1,000 hours per year. The plan has a length of service component and a matching component.

The length of service component provides for the Corporation to fund contributions to the plan that range from 1.5% to 4.5% of each participant's annual salary, depending on years of service. The plan document provides management the discretion to adjust the contribution rates. The Corporation funds the length of service program based on a final calculation performed for all eligible employees who remain employed through the end of the plan year end, which is based on a calendar year. Based on that calculation, the Corporation then makes two applicable payments in April and October of the calendar year following the plan year end. Accordingly, $803 and $772 was recorded as a liability and reported in payroll and related liabilities as of June 30, 2014 and 2013, respectively, relating to the second payment due for the preceding calendar plan year. Pension expense for the length of service portion of the plan was $1,578 and $1,540 for the years ended June 30, 2014 and 2013, respectively.

The matching component provides for the Corporation to fund matching contributions at 50% of employee contributions up to a maximum 2% of the wages of a participating employee, limited to the IRS maximum contribution wage level. The plan document provides management the discretion to adjust the matching contribution rate. Pension expense for the matching program was $573 and $565 for the years ended June 30, 2014 and 2013, respectively. The Corporation funds the matching program after each payroll period end.

16. Commitments and Contingencies

Because of the nature of its operations, the Corporation is at all times subject to pending and threatened legal actions that arise in the normal course of its activities.

The Corporation entered into construction contracts for building projects at its various facilities which established unpaid contractual commitments of approximately $23,428 as of June 30, 2014.

17. Endowment Funds

Endowment funds represent a portion of the temporary and permanently restricted net asset activity of the Corporation. The Corporation's endowment funds consists of 1,963 individual funds established primarily for supporting residents and clients whose personal fund sources are unable to pay for their care and other activities related to the Corporation. Its endowment only includes donor-restricted endowments and there are no funds designated by the Board of OPRS or OPRSF to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence or purpose of donor-imposed restrictions.

The Board of OPRSF has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA) 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, OPRSF classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by OUPMIFA.

In accordance with OUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate temporarily restricted funds:

(1) The duration and preservation of the fund
(2) The purpose of the Corporation and the temporarily restricted fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Corporation
(7) Investment policies of the Corporation

(In Thousands)

17. Endowment Funds (continued)

OUPMIFA provides for appropriation and disbursement of endowment related funds pursuant to an appropriate spending policy. Appropriations and corresponding disbursements may exceed amounts available at any point in time depending on the underlying aggregate investment return provided that management adopted and implemented a prudent long-term investment policy. To the extent spending does exceed available investment return, or the investments incur a net loss for the year without any appropriations occurring in the year, the resulting deficit is recorded to unrestricted net assets.

	Temporarily restricted	Permanently restricted
Endowment net assets, June 30, 2012	$ 0	$ 27,142
Previous year ending deficit in unrestricted net assets	(2,378)	-
Investment return:		
Investment income	601	-
Realized gains	1,467	-
Unrealized gains	1,775	-
Total investment return	3,843	
Appropriations	(1,555)	-
Contributions	-	1,576
Other changes	-	(523)
Changes in unmatured annuity gifts	-	(167)
Deficit absorbed by unrestricted net assets	90	-
Endowment net assets, June 30, 2013	0	28,028
Investment return:		
Investment income	535	-
Realized gains	1,796	-
Unrealized gains	3,252	-
Total investment return	5,583	
Appropriations	(5,583)	
Contributions	-	4,182
Other changes	-	(707)
Changes in unmatured annuity gifts	-	95
Endowment net assets, June 30, 2014	$ -	$ 31,598

17. Endowment Funds (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting standards, such deficiencies of this nature would be reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed a mix of the Barclays Aggregate, S&P 500, Russell 1000 Value, Russell 1000 Growth, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE Value, and MSCI EAFE Growth benchmarks. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Corporation has a policy of appropriating for distribution each year 4% of its endowment fund’s average fair value over the prior three years through the calendar year end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Corporation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

(In Thousands)

18. Sarah Moore Health Care Center, Inc.

Effective August 1, 2014, OPRSC became the sole member of Sarah Moore Health Care Center, Inc. (SMHCC) pursuant to a consummated Member Substitution Agreement whereby OPRSC replaced the existing Board of Directors as the member of SMHCC. SMHCC is a senior living facility located in Delaware, Ohio that originally began operating as a home for the aged in 1892. SMHCC is an Ohio nonprofit corporation, exempt from federal tax under Section 501(c)(3) of the Internal Revenue Code. SMHCC has 32 licensed skilled nursing facility beds that are certified to participate in the Medicare and Medicaid programs; and has 65 licensed residential care facility units, for which 60 are currently in operation. SMHCC is anticipated to generate approximately 2% to 3% of the OPRS future net service revenue. There is existing debt consisting of Adjustable Rate Demand Health Care Facilities Revenue Bonds, Series 2007 (2007 Bonds), with an outstanding amount due of approximately $7,700 as of August 1, 2014. SMHHC is not a member of the Corporation's Obligated Group. The 2007 Bonds mature on November 1, 2033, and are supported by a letter of credit provided by a Bank. The letter of credit was due to expire on January 15, 2015, but was recently extended to January 15, 2017. Financial covenants are present including a fixed charge ratio that was amended and not applicable until the 8-month period ending March 31, 2015, and then tested quarterly on a 12-month rolling basis. Scheduled bond maturities are $240, $255, $265, $280, and $295 during the OPRSC fiscal years of 2015, 2016, 2017, 2018, and 2019, respectively. An interest rate swap agreement exists whereby SMHCC pays a synthetically fixed interest rate of 4.03% and the financial institution pays SMHCC the equivalent of their variable rate through an agreement term ending September 1, 2033.

The following table summarizes the fair value of the assets acquired and liabilities assumed by OPRSC upon becoming the sole corporate member of SMHCC:

Financial assets	**$ 2,053**
Property, plant, and equipment	**6,650**
Identifiable intangible assets	**430**
Financial liabilities	**(9,619)**
Total identifiable net assets	**(486)**
Goodwill	**486**
Total purchase price	**$ 0**

Since SMHCC was acquired from an unrelated party, supplemental pro forma information related to revenue and earnings for SMHCC for the years ended June 30, 2014 and 2013 is not available.

19. Evangelical Home of Michigan and Shared Services Home Health Care

Effective September 1, 2014, Senior Independence entered into a stock purchase, rights and transfer restriction agreement with Evangelical Homes of Michigan (EHM) through its wholly-owned subsidiary, Shared Services Home Health Care (Shared Services), both Michigan nonprofit corporations, whereby SI purchased a minority interest in Class B stock of Shared Services of 490 shares representing 49% of the outstanding and issued shares of that stock. The Class B stock was created in an effort to develop a joint-venture service area limited three county service area in Michigan referred to as the 'Branch', representing a portion of the counties served by Shared Services. Shared Services is the named manager of the Branch. SI has certain limited special voting rights pertaining to activities of Shared Services. There were agreements consummated whereby Shared Services will lease staff from SI and SI will provide billing services for EHM.