

# **The Philadelphia Protestant Home**

Financial Statements and  
Supplementary Information

December 31, 2023 and 2022

# The Philadelphia Protestant Home

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December 31, 2023 and 2022

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## **Independent Auditors' Report**

To the Board of Directors of  
The Philadelphia Protestant Home

### **Opinion**

We have audited the financial statements of The Philadelphia Protestant Home (PPH), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PPH as of December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PPH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PPH's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PPH's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PPH's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Baker Tilly US, LLP*

Philadelphia, Pennsylvania  
April 4, 2024

## The Philadelphia Protestant Home

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 557,855	\$ 1,986,648	Current maturities of long-term debt	\$ 2,110,000	\$ 2,060,000
Resident trust funds/deposits	15,000	34,575	Accounts payable, trade	1,828,390	1,257,444
Assets whose use is limited:			Accounts payable, construction	-	23,280
Donor restricted	119,588	143,535	Accrued expenses	1,284,328	1,448,779
Board-designated	2,110,000	2,060,000	Resident trust funds/deposits	15,000	34,575
Accounts receivable, residents, net of estimated allowance for credit losses of \$351,000 in 2023 and \$256,000 in 2022	1,421,737	651,077	Accrued pension contributions	256,135	275,272
Bequest receivable	1,100,000	2,103,733	Total current liabilities	5,493,853	5,099,350
Other receivables	155,906	469,954	<b>Long-Term Debt, Net</b>	12,953,318	14,673,834
Prepaid expenses	415,895	329,023	<b>Deferred Revenue From Advance Fees</b>	6,367,429	6,696,100
Total current assets	<u>5,895,981</u>	<u>7,778,545</u>	<b>Other Liabilities</b>	518,596	522,890
<b>Assets Whose Use is Limited</b>			Total liabilities	<u>25,333,196</u>	<u>26,992,174</u>
Board-designated	19,752,845	18,197,033	<b>Net Assets</b>		
Statutory minimum liquid reserve	550,000	546,000	Without donor restrictions	29,326,057	28,123,411
Self-insurance trust funds	996,775	1,073,431	With donor restrictions	<u>1,219,588</u>	<u>2,247,268</u>
Total assets whose use is limited	<u>21,299,620</u>	<u>19,816,464</u>	Net assets	30,545,645	30,370,679
<b>Property and Equipment, Net</b>	<u>27,855,281</u>	<u>28,641,908</u>	Total liabilities and net assets	<u>\$ 55,878,841</u>	<u>\$ 57,362,853</u>
<b>Annuities Receivable</b>	<u>42,129</u>	<u>56,619</u>			
<b>Derivative Financial Instruments</b>	<u>785,830</u>	<u>1,069,317</u>			
Total assets	<u>\$ 55,878,841</u>	<u>\$ 57,362,853</u>			

See notes to financial statements

# The Philadelphia Protestant Home

## Statements of Operations

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Revenues Without Donor Restrictions</b>		
Net resident service revenues	\$ 29,112,886	\$ 27,302,017
Investment income	1,459,345	1,445,767
Other revenues	579,862	472,222
Net assets released from restrictions	1,305,162	213,911
Contributions	870,637	1,616,577
Grant revenues	-	210,987
	<u>33,327,892</u>	<u>31,261,481</u>
<b>Expenses</b>		
Salaries and wages	16,005,970	15,838,277
Contracted services	3,931,828	3,454,557
Payroll taxes and employee benefits	3,886,547	4,279,437
Depreciation	3,657,651	3,584,501
Other	2,756,082	2,616,517
Supplies	1,186,372	1,177,079
Utilities	720,231	723,875
Interest	546,976	535,979
Nursing home assessment	289,246	204,225
Provision for doubtful collections	9,945	28,630
	<u>32,990,848</u>	<u>32,443,077</u>
Total expenses	<u>32,990,848</u>	<u>32,443,077</u>
Operating income (loss)	337,044	(1,181,596)
<b>Other Income (Loss)</b>		
Change in net unrealized gains and losses on investments	1,140,853	(4,982,437)
Change in fair value of derivative financial instruments	(283,487)	1,237,896
	<u>1,194,410</u>	<u>(4,926,137)</u>
Revenues in excess of (less than) expenses	1,194,410	(4,926,137)
<b>Net Assets Released From Restrictions Used for Purchase of Property and Equipment</b>		
	<u>8,236</u>	<u>8,400</u>
Increase (decrease) in net assets without donor restrictions	<u>\$ 1,202,646</u>	<u>\$ (4,917,737)</u>

See notes to financial statements

## The Philadelphia Protestant Home

### Statements of Changes in Net Assets

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Net Assets Without Donor Restrictions</b>		
Revenues in excess of (less than) expenses	\$ 1,194,410	\$ (4,926,137)
Net assets released from restrictions used for purchase of property and equipment	<u>8,236</u>	<u>8,400</u>
Increase (decrease) in net assets without donor restrictions	<u>1,202,646</u>	<u>(4,917,737)</u>
<b>Net Assets With Donor Restrictions</b>		
Contributions	271,228	2,327,643
Change in value of annuities	14,490	(19,548)
Net assets released from restrictions used for:		
Benevolent care and other operations	(1,305,162)	(213,911)
Purchase of property and equipment	<u>(8,236)</u>	<u>(8,400)</u>
(Decrease) increase in net asset with donor restrictions	<u>(1,027,680)</u>	<u>2,085,784</u>
Increase (decrease) in net assets	174,966	(2,831,953)
<b>Net Assets, Beginning</b>	<u>30,370,679</u>	<u>33,202,632</u>
<b>Net Assets, Ending</b>	<u>\$ 30,545,645</u>	<u>\$ 30,370,679</u>

See notes to financial statements

# The Philadelphia Protestant Home

## Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 174,966	\$ (2,831,953)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	3,657,651	3,584,501
Amortization of debt issuance costs	68,254	48,496
Change in fair value of derivative financial instruments	283,487	(1,237,896)
Proceeds from advance fees	1,538,837	2,060,464
Amortization of advance fees	(1,770,933)	(1,683,975)
Net realized and unrealized (gain) loss on investments	(1,870,990)	3,928,298
Changes in assets and liabilities:		
Accounts receivable, residents	(770,660)	198,603
Bequest receivable	1,003,733	(2,103,733)
Other receivables	295,473	(352,133)
Prepaid expenses	(86,872)	(56,989)
Annuities receivable	14,490	19,548
Accounts payable, trade	570,946	(221,501)
Accrued expenses	(183,588)	126,851
Resident trust funds/deposits	(19,575)	(28,225)
Other liabilities	(4,294)	(63,527)
Net cash provided by operating activities	<u>2,900,925</u>	<u>1,386,829</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(2,894,304)	(4,644,778)
Net sales of investments	261,178	1,507,758
Net cash used in investing activities	<u>(2,633,126)</u>	<u>(3,137,020)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of long-term debt	321,230	2,445,535
Refunds of advance fees	(78,000)	-
Repayment of long-term debt	(2,060,000)	(2,005,000)
Net cash (used in) provided by financing activities	<u>(1,816,770)</u>	<u>440,535</u>
Net decrease in cash, cash equivalents and restricted cash and cash equivalents	(1,548,971)	(1,309,656)
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>3,238,189</u>	<u>4,547,845</u>
<b>Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 1,689,218</u>	<u>\$ 3,238,189</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 475,032</u>	<u>\$ 437,326</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Obligations incurred for the acquisition of property and equipment	<u>\$ -</u>	<u>\$ 23,280</u>
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheets</b>		
Cash and cash equivalents	\$ 557,855	\$ 1,986,648
Resident trust funds/deposits	15,000	34,575
Assets whose use is limited, donor restricted	119,588	143,535
Assets whose use is limited, self insurance trust funds	996,775	1,073,431
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 1,689,218</u>	<u>\$ 3,238,189</u>

See notes to financial statements



# The Philadelphia Protestant Home

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Notes to Financial Statements

December 31, 2023 and 2022

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

The Philadelphia Protestant Home (PPH) operates a continuing care retirement community providing housing, healthcare and other related services to residents through the operation of 253 independent living units, 188 personal care units, 23 of which are dedicated to Alzheimer's residents and a 116-bed nursing facility. PPH's operations are located in the Lawndale section of Philadelphia, Pennsylvania. Its primary service area includes Philadelphia, Pennsylvania and surrounding communities.

### Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited. For purposes of the statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include resident trust funds/deposits and assets whose use is limited, purchased with an initial maturity of three months or less.

### Investments and Investment Risk

Investments in equity securities with readily determinable fair values are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, and interest and dividends) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

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

### Assets Whose Use is Limited

Assets whose use is limited includes donor-restricted funds, assets set aside by the Board of Directors for future capital improvements, for benevolent care and to meet statutory minimum liquid reserve requirements (Note 4); and assets set aside in irrevocable trusts to fund self-insured general liability, professional liability, workers' compensation and employee health insurance.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

# The Philadelphia Protestant Home

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Notes to Financial Statements  
December 31, 2023 and 2022

## Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Amortization of deferred financing costs, which is a component of interest expense, was \$68,254 and \$48,496 in 2023 and 2022, respectively.

## Annuities Receivable

The annuities receivable are the result of contracts whereby donors transferred cash or investments to a third party and the third party makes periodic payments to the donors. The contributions received by PPH are the unconditional rights to receive the remainder interest of the gift annuities. The annuities receivable represents the difference between the assets managed by the third party and the present value of the estimated future payments to be distributed by the third party to the annuitants. Contributions related to the annuities receivable are recorded as contributions with donor restrictions.

## Resident Trust Funds/Deposits

Resident trust funds/deposits are accounted for as trust funds and are maintained separate from other funds.

## Derivative Financial Instruments

PPH entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate risk on its long-term debt. The interest rate swap agreements are reported at fair value in the balance sheets and related changes in fair value are reported in the statements of operations as a change in fair value of derivative financial instruments.

## Advance Fees

Under entrance fee plans for independent living units, PPH receives payments in advance. Under these agreements, 100% of the entrance fee paid is refundable if the agreement is terminated during the first six months of occupancy; after six months of occupancy, no refund is due or payable.

Refunds to residents are paid when PPH enters into an agreement with a new resident for the independent living unit vacated and receives the applicable advance fee for the independent living unit. Contractual refund obligations under resident agreements approximate \$544,575 at December 31, 2023.

The advance fees received are amortized to income using the straight-line method over the annually adjusted estimated remaining life expectancies of the residents and are classified as deferred revenue from advance fees in the balance sheets.

Personal care and nursing services provided to independent living residents are paid for on a fee-for-service basis and are not included under the advance fee plans.

## Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by PPH have been limited by donors to specific purposes or time periods.

# The Philadelphia Protestant Home

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Notes to Financial Statements  
December 31, 2023 and 2022

## Accounts Receivable, Residents

PPH assesses collectability on all resident accounts prior to providing services. An allowance for expected credit losses is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when PPH has exhausted all collection efforts and accounts are deemed impaired.

## Bequest Receivable

PPH is the beneficiary of a bequest receivable that has been probated and is irrevocable. Management believes the full amount of the bequest receivable is collectable therefore no allowance for expected credit losses is recorded.

## Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration PPH expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of skilled nursing, personal care and independent living revenue streams, which are primarily derived from providing housing, skilled nursing, personal care and independent living services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. PPH has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, PPH considers the services provided to residents in each level of care to be one performance obligation, which is satisfied over time as services are provided. As such, skilled nursing, personal care and independent living revenues are recognized on a daily or month-to-month basis as services are rendered.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenues from entrance fees in the balance sheet. Amortization of nonrefundable entrance fees was \$1,770,933 in 2023 and \$1,683,975 in 2022.

PPH receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. PPH estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

PPH provides care to residents who meet certain criteria without charge or at amounts less than its established rates. Because PPH does not pursue collection of amounts determined to qualify as benevolent care, they are not reported as revenues. PPH maintains records to identify and monitor the level of benevolent care it provides. Charges foregone, based on established rates, for services rendered and supplies furnished were approximately \$4,310,000 in 2023 and \$4,701,000 in 2022. These amounts are not materially different than the difference between the cost of providing services to residents that qualified for benevolent care and the amounts these residents were able to pay for services rendered. PPH received contributions restricted for benevolent care of \$267,579 in 2023 and \$3,094,182 in 2022.

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Notes to Financial Statements  
December 31, 2023 and 2022

## Donor-Restricted Gifts

PPH reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations and statements of changes in net assets as net assets released from restrictions.

## Income Taxes

PPH is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

PPH accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2023 and 2022.

## Revenues in Excess of (Less than) Expenses

The statements of operations include the determination of revenues in excess of (less than) expenses. Changes in net assets without donor restrictions which are excluded from revenues in excess of (less than) expenses, 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 purposes of acquiring such assets).

## Use of Estimates

The preparation of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Subsequent Events

PPH evaluated subsequent events for recognition or disclosure through April 4, 2024, the date the financial statements were available to be issued.

## New Accounting Pronouncement

### Reference Rate Reform

During March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. PPH has elected the optional expedients and exceptions included in ASU No. 2020-04 as of December 31, 2023. The adoption of ASU No. 2020-04 did not have a significant effect on PPH's financial statements.

# The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

## 2. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 557,855	\$ 1,986,648
Accounts receivable, residents, net	1,421,737	651,077
Other receivables	155,906	469,954
Assets whose use is limited, Board-designated	<u>21,862,845</u>	<u>20,257,033</u>
Total	<u>\$ 23,998,343</u>	<u>\$ 23,364,712</u>

PPH has certain board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above.

As stated in Note 4, PPH designated a portion of its investments reserved to comply with the requirements of Act 82 at December 31, 2023 and 2022, respectively. Although PPH does not intend to utilize the Act 82 reserves for general expenditures as part of its annual budget and approval process, amounts designated as Act 82 reserves could be made available as necessary. The Act 82 reserves do not have third-party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

## 3. Net Resident Service Revenues

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

**Medical Assistance** - The Pennsylvania Department of Human Services has a mandatory Medical Assistance managed care program, Community Health Choices (CHC). The primary goals of CHC are to better coordinate health care coverage and improve access to medical care. The services for which Medical Assistance program beneficiaries are eligible did not change under CHC.

CHC became effective for PPH on January 1, 2019. Under CHC, each Medical Assistance program beneficiary is able to choose a managed care organization (MCO). The rates paid by the MCOs were subject to a "floor" through December 31, 2021. The "floor" was equal to the average of each of PPH's prior four quarters (i.e. January 1, 2018 through December 31, 2018) Medical Assistance rates. Effective January 1, 2023, nursing services provided to Medical Assistance program beneficiaries are paid by the MCOs at prospectively determined rates per day. These rates are adjusted quarterly based on a resident classification system that is based on clinical, diagnostic and other factors.

**Medicare** - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments.

PPH is reimbursed for therapy services provided to Medicare Part B beneficiaries at the lesser of a published fee schedule or actual charges.

## The Philadelphia Protestant Home

### Notes to Financial Statements

December 31, 2023 and 2022

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

PPH has also entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to PPH under these agreements includes prospectively determined rates per day or discounts from established charges.

PPH disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors.

Net resident service revenues consist of the following at December 31, 2023:

	<u>Skilled Nursing</u>	<u>Personal Care</u>	<u>Independent Living</u>	<u>Other Resident Services</u>	<u>Total</u>
Self-pay	\$ 6,017,280	\$ 8,454,238	\$ 3,170,595	\$ 407,593	\$ 18,049,706
Medicare A	1,688,058	-	-	-	1,688,058
Medical assistance	4,820,002	-	-	-	4,820,002
Commercial	1,711,425	-	-	-	1,711,425
Medicare B	199,537	-	-	-	199,537
Ancillary	335,451	-	-	-	335,451
Nursing home assessment	537,774	-	-	-	537,774
Amortization of advance fees	-	-	1,770,933	-	1,770,933
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 15,309,527</u>	<u>\$ 8,454,238</u>	<u>\$ 4,941,528</u>	<u>\$ 407,593</u>	<u>\$ 29,112,886</u>

Net resident service revenues consist of the following at December 31, 2022:

	<u>Skilled Nursing</u>	<u>Personal Care</u>	<u>Independent Living</u>	<u>Other Resident Services</u>	<u>Total</u>
Self-pay	\$ 6,497,469	\$ 8,292,374	\$ 3,252,026	\$ 428,950	\$ 18,470,819
Medicare A	944,500	-	-	-	944,500
Medical assistance	3,742,795	-	-	-	3,742,795
Commercial	1,094,002	-	-	-	1,094,002
Medicare B	567,380	-	-	-	567,380
Ancillary	352,638	-	-	-	352,638
Nursing home assessment	445,908	-	-	-	445,908
Amortization of advance fees	-	-	1,683,975	-	1,683,975
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 13,644,692</u>	<u>\$ 8,292,374</u>	<u>\$ 4,936,001</u>	<u>\$ 428,950</u>	<u>\$ 27,302,017</u>

## The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

### 4. Assets Whose Use is Limited

The composition of assets whose use is limited is set forth in the following table:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,717,204	\$ 2,085,179
Certificates of deposit	577,253	561,094
Mutual funds:		
Equity:		
Large blend	6,984,101	5,898,171
Small blend	1,532,189	1,313,042
Medium blend	1,084,708	955,510
Large value	8,195,074	7,836,329
Fixed income:		
Intermediate term	628,304	611,323
Short-term	2,294,678	2,248,563
Inflation-protected	515,697	510,788
 Total	 <u>\$ 23,529,208</u>	 <u>\$ 22,019,999</u>

Investment return is comprised of the following:

	<u>2023</u>	<u>2022</u>
Investment income:		
Interest and dividend income	\$ 807,599	\$ 486,006
Net realized gain on sales of securities	730,137	1,054,139
Investment advisory fees	(78,391)	(94,378)
 Total	 <u>\$ 1,459,345</u>	 <u>\$ 1,445,767</u>
 Other incomes:		
Change in net unrealized gains and losses on investments	 <u>\$ 1,140,853</u>	 <u>\$ (4,982,437)</u>

## The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

In compliance with Act 82, the Board of Directors designated a portion of Board-designated assets reserved to meet the requirements of Act 82. The designated amount was approximately \$550,000 at December 31, 2023 and was calculated as follows:

Budgeted operating expenses for the year ending December 31, 2024 for the independent living units	\$ 5,196,616	
Less budgeted depreciation and amortization expense for the independent living units	<u>(748,000)</u>	
Expenses subject to minimum liquid reserve requirement	4,448,616	
Statutory requirement	<u>10%</u>	
Statutory minimum liquid reserve requirement	<u>\$ 445,000</u>	(a)
Estimated debt service requirements for the year ending December 31, 2024 related to the independent living units 2015 Bonds:		
Principal	\$ 445,000	
Interest	<u>105,000</u>	
Statutory minimum liquid reserve requirement	<u>\$ 550,000</u>	(b)
Greater of (a) or (b) above	<u>\$ 550,000</u>	

### 5. Property and Equipment, Net

Property and equipment, net is as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 408,538	\$ 408,538
Land improvements	3,769,619	3,769,620
Buildings and building improvements	67,249,764	64,823,411
Fixed equipment	6,068,544	4,752,141
Furniture and equipment	8,554,367	8,496,648
Construction in progress	<u>6,500</u>	<u>935,950</u>
Total	86,057,332	83,186,308
Less accumulated depreciation	<u>58,202,051</u>	<u>54,544,400</u>
Property and equipment, net	<u>\$ 27,855,281</u>	<u>\$ 28,641,908</u>



# The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

## 6. Long-Term Debt

### Bonds

During December 2015, the Philadelphia Authority for Industrial Development (PAID) issued, on behalf of PPH, Revenue Bond Series 2015 (the 2015 Bonds) in the amount of \$23,000,000. The proceeds were used to refund the Series 2008 bonds, finance a payment due in connection with termination of an interest rate swap related to the Series 2008 Bonds, finance capital expenditures and pay a portion of the financing costs related to the issuance. The 2015 Bonds bear interest at a variable rate determined monthly based on changes to the Secured Overnight Financing Rate (SOFR), as defined (4.78% at December 31, 2023). Principal matures in varying amounts through 2027. Pursuant to the 2015 Bonds, PPH granted the Bank of New York Mellon Trust Company, N.A., as trustee for the bondholders, a security interest in its gross receipts as well as first mortgage lien on substantially all real property.

During August 2020, PAID issued, on behalf of PPH, Revenue Bond Series 2020 (the 2020 Bonds) in the amount of \$6,500,000. The proceeds were used to finance renovations and miscellaneous capital expenditures and pay a portion of the financing costs related to the issuance. The 2020 Bonds bears interest at a variable rate determined monthly based on changes to the SOFR rate, as defined (7.06% at December 31, 2023). Principal matures in varying amounts through 2028. The 2020 Bonds are secured by a security interest in PPH's gross receipts as well as a first mortgage lien on substantially all real property, on a parity with the 2015 Bonds.

### Line of Credit

PPH maintains a \$1,500,000 line of credit. Interest accrues on the line of credit at a Bloomberg Short-Term Bank Yield Index Overnight Rate plus 2.25% (7.68% as of December 31, 2023). There was no outstanding balance as of December 31, 2023 and 2022. The principal balance on the line of credit is payable in full at the maturity date, which is December 31, 2024.

### Interest Rate Swaps

PPH has entered into two interest rate swap agreements (the Agreements).

In January 2016, PPH entered into a 10-year interest rate swap agreement (the Swap #1) related to the 2015 Bonds. Swap #1 requires PPH to pay a fixed rate of 1.52% while receiving a variable interest rate based upon 70% of the one-month SOFR. Payments due on Swap #1 are secured by a note payable up to \$1,600,000.

In August 2020, PPH entered into a 10-year interest rate swap agreement (Swap #2) related to the 2020 Bonds. Swap #2 became effective in October 2022 and requires PPH to pay a fixed rate of 3.47% while receiving a variable interest rate based upon 82.6% of the daily SOFR. Payments due on Swap #2 are secured by a note payable up to \$200,000.

The payments to and from the counterparty to the Agreements are classified as a component of interest expense in the statements of operations. As a result of the Agreements, interest expense was decreased by approximately \$414,000 and \$10,000 in 2023 and 2022, respectively.

The fair value of the Agreements are the estimated amount PPH would be paid to terminate the Agreement. PPH estimates that it would be paid \$231,167 for Swap #1 and be paid \$554,663 for Swap #2 at December 31, 2023. PPH estimates that it would have been paid \$361,132 for Swap #1 and \$708,185 for Swap #2 at December 31, 2022. The changes in the fair value of the above Agreements are included in revenues in excess of (less than) expenses since the Agreements were not designated as a hedging instrument. The changes in fair value are classified as change in fair value of derivative financial instruments in the statements of operations and was \$283,487 and \$1,237,896 in 2023 and 2022, respectively.

# The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

## Long-Term Debt Summary

Long-term debt is as follows:

	<u>2023</u>	<u>2022</u>
2015 Bonds	\$ 8,780,000	\$ 10,840,000
2020 Bonds	6,500,000	6,178,770
	15,280,000	17,018,770
Less current maturities	2,110,000	2,060,000
Less unamortized debt issuance costs	216,682	284,936
	<u>\$ 12,953,318</u>	<u>\$ 14,673,834</u>

Scheduled principal repayments are as follows:

Years ending December 31:	
2024	\$ 2,110,000
2025	2,570,000
2026	3,475,000
2027	3,570,000
2028	1,335,000
Thereafter	2,220,000
	<u>15,280,000</u>
Total	<u>\$ 15,280,000</u>

## 7. Accrued Expenses

Accrued expenses are as follows at December 31:

	<u>2023</u>	<u>2022</u>
Salaries and wages and related payroll taxes	\$ 956,557	\$ 1,216,409
Vacation	252,045	160,334
Interest	75,726	72,036
	<u>1,284,328</u>	<u>1,448,779</u>
Total	<u>\$ 1,284,328</u>	<u>\$ 1,448,779</u>

## 8. 401(k) Plan

PPH established a qualified 401(k) Plan effective January 1, 2005. Eligible employees may defer a portion of their salaries. Matching and nonmatching contributions by PPH for eligible employees are at the discretion of the Board of Directors. Employer contributions to the plan were \$397,844 for 2023, of which the nonmatching portion of \$256,135 was funded in 2023 and the matching portion of \$141,709 was funded in 2023. Employer contributions to the plan were \$417,310 for 2022, of which the nonmatching portion of \$275,272 was funded in 2022 and the matching portion of \$142,038 was funded in 2022.

# The Philadelphia Protestant Home

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Notes to Financial Statements  
December 31, 2023 and 2022

## 9. Self-Insurance

### Medical Malpractice and General Liability Claims Coverage

PPH is subject to asserted and unasserted medical malpractice and general liability claims encountered in the ordinary course of business. For medical malpractice claims, PPH is approved by the Commonwealth of Pennsylvania Insurance Department to self-insure this exposure. Under the arrangement, PPH maintains a trust fund to provide a source of funds and reserves for the payment of medical malpractice claims. PPH also self-insures its exposure for general liability claims. Other liabilities on the balance sheets include \$99,279 at both December 31, 2023 and 2022, respectively, for estimated medical malpractice losses. The trust fund balance, at fair value, is \$398,774 and \$379,741 at December 31, 2023 and 2022, respectively.

PPH established the estimated liabilities for known medical malpractice matters after consulting with legal counsel. The outcome of these matters cannot be predicted with certainty; however, any potential future losses related to these matters could have a material adverse effect on PPH's future financial position and results of operations.

PPH does not believe additional incidents have occurred or will be asserted for medical malpractice and general liability claims that will have a material adverse effect on the financial statements.

### Workers' Compensation Insurance

PPH is approved to self-insure its workers' compensation liability under the Workers' Compensation Act as allowed by the Bureau of Workers' Compensation of the Commonwealth of Pennsylvania. Under the arrangement, PPH maintains a trust fund to provide a source of funds and reserves for the payment of workers' compensation benefits. The trust fund balance, at fair value, is \$577,254 and \$561,095 at December 31, 2023 and 2022, respectively. Other liabilities on the balance sheets include \$101,673 and \$120,000 at December 31, 2023 and 2022, respectively, for estimated workers' compensation claims. The estimated liabilities for workers' compensation claims were arrived at using information provided by the outside third party administrator for the plan.

### Employee Health Insurance

PPH participates in a self-insured program for health insurance. PPH holds a stop-loss policy that limits the maximum liability for benefits payable under such claims. Other liabilities on the balance sheets include \$317,644 and \$303,611 as of December 31, 2023 and 2022, respectively, for reserves for unpaid claims related to the health plan. Assets whose use is limited related to the health plan were \$20,747 and \$132,595 as of December 31, 2023 and 2022, respectively. PPH does not anticipate any significant change in loss trends, settlements or other costs that would cause a significant change in net assets.

## 10. Concentrations of Credit Risk

PPH grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medical Assistance, Medicare and various commercial insurance companies.

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

# The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

## 11. Concentration of Labor Subject to Collective Bargaining Agreement

PPH has a contract with United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC (the Union Contract) as of December 31, 2023. Approximately 37% of PPH's employees are covered by this contract. The Union Contract expires on June 30, 2024. Management is in the process of negotiating a new Union Contract for a multi-year term.

## 12. Contingency, Senior Living Services Industry

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

## 13. Functional Expenses

PPH provides housing, healthcare and other related services to residents within its geographic location. The financial statements report certain expense categories that are attributable to more than one resident service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest and other costs, are allocated to a function based on a prorated basis of total expenses.

Expenses relating to providing these services are approximately as follows:

	2023			
	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 14,256,277	\$ 1,687,388	\$ 62,305	\$ 16,005,970
Contracted services	2,961,793	943,551	26,484	3,931,828
Payroll taxes and employee benefits	2,949,193	930,397	6,957	3,886,547
Depreciation	3,160,211	490,125	7,315	3,657,651
Interest	472,587	73,295	1,094	546,976
Supplies and other expense	4,273,950	647,921	40,005	4,961,876
	<u>\$ 28,074,011</u>	<u>\$ 4,772,677</u>	<u>\$ 144,160</u>	<u>\$ 32,990,848</u>

  

	2022			
	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 13,904,866	\$ 1,863,111	\$ 70,300	\$ 15,838,277
Contracted services	2,537,218	889,621	27,718	3,454,557
Payroll taxes and employee benefits	3,109,778	1,144,594	25,065	4,279,437
Depreciation	2,939,291	609,365	35,845	3,584,501
Interest	439,503	91,116	5,360	535,979
Supplies and other expense	4,241,345	469,862	39,119	4,750,326
	<u>\$ 27,172,001</u>	<u>\$ 5,067,669</u>	<u>\$ 203,407</u>	<u>\$ 32,443,077</u>

# The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

## 14. Fair Value Measurements and Financial Instruments

### Fair Value Measurements

PPH measures its assets whose use is limited and derivative financial instrument at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

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

Level 3 - Significant unobservable inputs

The fair value of PPH's assets whose use is limited, annuities receivable and derivative financial instrument was measured using the following inputs at December 31, 2023 and 2022:

	<b>2023</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets whose use is limited:				
Certificates of deposit	\$ 577,253	\$ -	\$ 577,253	\$ -
Mutual funds:				
Equity:				
Large blend	6,984,101	6,984,101	-	-
Small blend	1,532,189	1,532,189	-	-
Medium blend	1,084,708	1,084,708	-	-
Large value	8,195,074	8,195,074	-	-
Fixed income:				
Intermediate term	628,304	628,304	-	-
Short-term	2,294,678	2,294,678	-	-
Inflation-protected	515,697	515,697	-	-
Total	<u>\$ 21,812,004</u>	<u>\$ 21,234,751</u>	<u>\$ 577,253</u>	<u>\$ -</u>
Derivative financial instruments	<u>\$ 785,830</u>	<u>\$ -</u>	<u>\$ 785,830</u>	<u>\$ -</u>
Reconciliation of assets whose use is limited to the balance sheet:				
Assets whose use is limited:				
Cash equivalents	\$ 1,717,204			
Assets measured in the fair value hierarchy	<u>21,812,004</u>			
Total assets whose use is limited	<u>\$ 23,529,208</u>			

## The Philadelphia Protestant Home

Notes to Financial Statements  
December 31, 2023 and 2022

	2022			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited:				
Certificates of deposit	\$ 561,094	\$ -	\$ 561,094	\$ -
Mutual funds:				
Equity:				
Large blend	5,898,171	5,898,171	-	-
Small blend	1,313,042	1,313,042	-	-
Medium blend	955,510	955,510	-	-
Large value	7,836,329	7,836,329	-	-
Fixed income:				
Intermediate term	611,323	611,323	-	-
Short-term	2,248,563	2,248,563	-	-
Inflation-protected	510,788	510,788	-	-
Total	<u>\$ 19,934,820</u>	<u>\$ 19,373,726</u>	<u>\$ 561,094</u>	<u>\$ -</u>
Derivative financial instruments	<u>\$ 1,069,317</u>	<u>\$ -</u>	<u>\$ 1,069,317</u>	<u>\$ -</u>
Reconciliation of assets whose use is limited to the balance sheet:				
Assets whose use is limited:				
Cash equivalents	\$ 2,085,179			
Assets measured in the fair value hierarchy	<u>19,934,820</u>			
Total assets whose use is limited	<u>\$ 22,019,999</u>			

### Financial Instruments

Assets whose use is limited are valued at fair value based on quoted market prices in active markets for mutual funds and estimated using similarly quoted prices for certificates of deposit.

PPH measures its derivative financial instrument at fair value using information from the counterparty to the agreements. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price PPH would be paid to terminate the agreement.

# The Philadelphia Protestant Home

Schedules of Revenues Without Donor Restrictions and Expenses  
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Revenues Without Donor Restrictions</b>		
Resident service revenues:		
Nursing	\$ 17,962,818	\$ 16,706,333
Personal care	9,547,887	8,977,331
Independent living:		
Monthly fees	3,170,595	3,252,026
Amortization of advance fees	1,770,933	1,683,975
Ancillary service revenues	5,619,879	5,619,551
Other	360,423	382,435
	<u>38,432,535</u>	<u>36,621,651</u>
Less contractual adjustments and benevolent care:		
Contractual adjustments	8,273,171	8,681,192
Benevolent care	1,046,478	638,442
	<u>9,319,649</u>	<u>9,319,634</u>
Net resident service revenues	29,112,886	27,302,017
Investment income	1,459,345	1,445,767
Other revenues	579,862	472,222
Net assets released from restrictions	1,305,162	213,911
Contributions	870,637	1,616,577
Grant revenues	-	210,987
	<u>33,327,892</u>	<u>31,261,481</u>
<b>Expenses</b>		
Nursing	\$ 8,180,848	\$ 8,145,940
General and administrative	4,464,447	4,872,116
Personal care	3,845,944	3,818,561
Dining services	4,783,058	4,546,074
Plant operations	3,559,419	3,150,919
Housekeeping and laundry	1,726,107	1,642,818
Social services, activities and volunteer services	1,193,319	1,101,369
Rehabilitation	743,833	840,575
Nursing home assessment	289,246	204,225
Depreciation	3,657,651	3,584,501
Interest	546,976	535,979
	<u>32,990,848</u>	<u>32,443,077</u>