Consolidated Financial Statements and Supplementary Information

Christian Health Care Center and Affiliates
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Christian Health Care Center and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2016 and 2015

Contents

Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors

The Board of Trustees
Christian Health Care Center

We have audited the accompanying consolidated financial statements of Christian Health Care Center and Affiliates (the Center), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Christian Health Care Center and Affiliates at December 31, 2016 and 2015, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2016, and consolidating statement of operations and changes in net assets for the year then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

May 1, 2017

Christian Health Care Center and Affiliates

Consolidated Balance Sheets

	December 31 2016	2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,545,988**	$ 4,576,705
Short-term investments	**7,502,577**	6,903,116
Assets limited to use, current portion	**2,193,470**	1,825,722
Accounts receivable, less allowances for uncollectible of approximately $10,000 and $12,000 in 2016 and 2015, respectively	**8,156,914**	6,975,056
Prepaid expenses and other current assets	**1,609,748**	464,068
Total current assets	**23,008,697**	20,744,667
Assets limited to use, less current portion	**2,960,342**	2,680,866
Other assets	**5,105,502**	4,133,995
Intangible assets, net	**1,955,271**	2,005,515
Property, plant, and equipment, net	**85,853,621**	82,159,341
Total assets	**$ 118,883,433**	$ 111,724,384
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 2,550,406**	$ 1,968,048
Accounts payable and accrued expenses	**3,849,438**	3,045,862
Accrued payroll	**1,677,619**	2,043,030
Accrued interest	**42,118**	29,400
Estimated amounts due to third-party payers	**–**	48,898
Total current liabilities	**8,119,581**	7,135,238
Benefits payable	**1,296,200**	1,320,200
Pension obligations and other liabilities	**16,645,699**	15,757,312
Long-term debt, less current portion	**57,742,569**	55,188,934
Total liabilities	**83,804,049**	79,401,684
Commitments and contingencies		
Net assets:		
Unrestricted	**34,136,185**	30,879,501
Temporarily restricted	**215,218**	715,218
Permanently restricted	**727,981**	727,981
Total net assets	**35,079,384**	32,322,700
Total liabilities and net assets	**$ 118,883,433**	$ 111,724,384

See accompanying notes.

Christian Health Care Center and Affiliates

Consolidated Statements of Operations

	Year Ended December 31	
	2016	**2015**
Revenue:		
Net patient service revenue less provision for bad debt	**$ 77,959,686**	$ 74,922,496
Other revenue	**1,379,286**	848,593
Total revenue	**79,338,972**	75,771,089
Expenses:		
Salaries and wages	**44,913,158**	43,825,554
Employee benefits	**11,700,021**	11,146,886
Supplies and other	**17,105,641**	16,394,221
Interest and amortization	**1,051,867**	387,190
Depreciation	**4,442,067**	3,607,222
Total expenses	**79,212,754**	75,361,073
Income from operations	**126,218**	410,016
Investment income and net realized gains and losses	**477,028**	320,106
Estate bequests	**321,634**	11,228
Foundation fundraising and contributions, net of expenses	**1,019,825**	986,700
Net change in unrealized gains and losses on investments	**144,170**	(409,584)
Excess of revenue over expenses	**2,088,875**	1,318,466
Grant proceeds for capital expenditures	**267,370**	–
Net assets released from restrictions for capital purposes	**500,000**	–
Change in pension liability to be recognized in future periods	**400,439**	1,208,770
Increase in unrestricted net assets	**$ 3,256,684**	$ 2,527,236

See accompanying notes.

Christian Health Care Center and Affiliates

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at January 1, 2015	$ 28,352,265	$ 715,218	$ 727,981	$ 29,795,464
Excess of revenue over expenses	1,318,466	–	–	1,318,466
Change in pension liability to be recognized in future periods	1,208,770	–	–	1,208,770
Increase in net assets	2,527,236	–	–	2,527,236
Balance at December 31, 2015	30,879,501	715,218	727,981	32,322,700
Excess of revenue over expenses	2,088,875	–	–	2,088,875
Grant proceeds for capital expenditures	**267,370**	**–**	**–**	**267,370**
Net assets released for capital purposes	**500,000**	**(500,000)**	**–**	**–**
Change in pension liability to be recognized in future periods	**400,439**	**–**	**–**	**400,439**
Increase in net assets	**3,256,684**	**(500,000)**	**–**	**2,756,684**
Balance at December 31, 2016	**$ 34,136,185**	**$ 215,218**	**$ 727,981**	**$ 35,079,384**

See accompanying notes.

Christian Health Care Center and Affiliates

Consolidated Statements of Cash Flows

	Year Ended December 31 2016	2015
Operating activities		
Increase in net assets	**$ 2,756,684**	$ 2,527,236
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**4,442,067**	3,607,222
Amortization of deferred financing costs	**83,374**	63,461
Amortization of intangible assets	**50,244**	4,187
Net change in unrealized gains and losses on investments	**(144,170)**	409,584
Changes in operating assets and liabilities:		
Accounts receivable, net	**(1,181,858)**	(102,186)
Prepaid expenses and other current assets	**(1,145,677)**	26,875
Other assets	**(971,507)**	(2,187,633)
Accounts payable and accrued expenses, accrued payroll and accrued interest	**450,883**	(1,363,251)
Estimated amounts due to third-party payers	**(48,898)**	(109,102)
Benefits payable, pension obligation and other liabilities	**864,384**	2,807,179
Net cash provided by operating activities	**5,155,526**	5,683,572
Investing activities		
Business acquisition	**–**	(18,000,000)
Purchases of property, plant, and equipment	**(8,136,347)**	(10,126,306)
Purchase of short-term investments	**(455,291)**	(593,547)
Net investment in assets limited to use	**(647,224)**	(2,034,583)
Net cash used in investing activities	**(9,238,862)**	(30,754,436)
Financing activities		
Payments of long-term debt	**(1,968,006)**	(5,060,293)
Payment of deferred financing costs	**(4,880)**	(527,248)
Proceeds from issuance of long-term debt	**5,025,505**	30,854,547
Net cash provided by financing activities	**3,052,619**	25,267,006
(Decrease) increase in cash and cash equivalents	**(1,030,717)**	196,142
Cash and cash equivalents at beginning of year	**4,576,705**	4,380,563
Cash and cash equivalents at end of year	**$ 3,545,988**	$ 4,576,705
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 1,059,530**	$ 485,198

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization

Christian Health Care Center and affiliates (collectively, the Center) provide senior life, short-term rehabilitation and mental-health services from a 78-acre campus in Wyckoff/Hawthorne, NJ and an 11-acre campus in Wayne, NJ. From these two locations, the Center consists of a 298-bed skilled nursing facility (Heritage Manor), a 95-bed assisted living residence (Longview), a 39-bed congregate residence (Hillcrest), 290 senior residential housing units (Evergreen Court and Siena Village), a 40-bed long-term care behavioral management facility (Southgate), a 58-bed mental health facility (Ramapo Ridge) and several geriatric and mental health outpatient programs. Individuals associated with churches from the Reformed tradition founded the Center in 1911.

The accompanying consolidated financial statements include the consolidated financial position and operating results of the Christian Health Care Center, the Christian Health Care Center Foundation, Inc. (the Foundation), CHCC CCRC, Inc. (Vista) and CHCC of Wayne, LLC (Siena Village) and the consolidated financial position and operating results of the consolidated Center. The Center is the sole member of the Foundation, Vista and Siena Village. The Foundation was established to assist the Center in the furtherance of its charitable mission. Vista is a start-up continuing care retirement community (CCRC) facility and had no operations in 2015 or 2016. Siena Village was acquired on December 4, 2015 and is a 250-unit apartment complex designed to meet the needs of seniors on fixed incomes seeking to maximize their independence by offering low-income, moderate-income, and market rate apartments. During 2016, the Center formed Summer Hill of Wayne, L.P. (Summer Hill). Summer Hill had no operations during the year ended December 31, 2016.

Through May 31, 2016, the Center and Holland Mutual Charitable Health Corporation (Holland Mutual) were governed by boards that share several members. Holland Mutual was established to operate for the advancement of charitable health care issues and care, as well as other charitable, religious, educational and scientific purposes. Due to the existence of common control through common board members, the financial statements of these entities had been combined. Effective June 1, 2016, the assets and liabilities of Holland Mutual were transferred to the Center and Holland Mutual was dissolved. As a result, the accompanying financial statements present the consolidated financial position and operating results of the Center. All significant intercompany and inter-entity balances and transactions have been eliminated in the accompanying consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable, and liabilities, such as estimated settlements with third-party payers, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash Equivalents

The Center considers all highly liquid financial instruments with a maturity of three months or less when purchased to be cash equivalents, except for amounts included in short-term investments and assets limited to use. Included in cash and cash equivalents are amounts on deposit at financial institutions which exceed Federal Deposit Insurance Company limits. Management believes that the institutions are viable entities and minimal risk of loss exists.

Receivables for Patient Care

Patient accounts receivable for which the Center receives payment under cost reimbursement, prospective payment formula or negotiated rates, which cover the majority of patient services at the Center, are stated at the estimated net realizable amounts from their respective payers, which are generally less than the established billing rates of the Center.

The amount of the allowance for uncollectibles is based on management’s assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators and/or anticipated collection amounts. Additions to the allowance for uncollectibles result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectibles.

Investments and Investment Income

Investment securities included in short-term investments consist of certificates of deposit, equity securities, mutual funds, fixed income securities (government and corporate debt obligations) and an interest in a hedge fund. Investments in marketable securities are reported at fair value in the accompanying consolidated balance sheets. The fair value of marketable investments is

1. Organization and Summary of Significant Accounting Policies (continued)

determined by reference to quoted market prices. The Center's interest in a hedge fund limited partnership is reported based on the fund's net asset value derived from the application of the equity method of accounting. The Center's risk with respect to the hedge fund's investment activities, which may include securities lending, short sales, and trading in futures or other derivative products, is limited to the Center's capital balance with the fund. Donated investments are recorded at their fair value at the date of gift. All investments are classified as trading securities.

Investment income (including realized gains and losses on investments, interest, and dividends) and net change in unrealized gains and losses are included in the excess of revenue over expenses unless the income is restricted by donor or law. Investment income related to assets held by trustees under debt financing agreements is included in income from operations.

Assets Limited to Use

Assets limited to use include assets held by trustees under debt financing agreements, assets designated for a deferred employee compensation plan, designated assets set aside by the Board of Trustees for other purposes and assets designated for specific purposes by donors.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain financing and are amortized over the term of the related debt using the effective interest method. In conjunction with the Construction Loan and Improvement Loan (Note 6), the Center paid approximately $4,900 and $527,000 in 2016 and 2015, respectively, for such costs.

Intangible Assets

Definite-lived intangible assets of the Center represent the estimated fair value of leases acquired through the Sienna Village business combination at the date of acquisition. Amortization is calculated using the straight-line method over the estimated useful lives (40 years) of the intangible assets.

The Center reviews the carrying value of its definite-lived intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If these future undiscounted cash flows are less than the carrying value of the asset,

1. Organization and Summary of Significant Accounting Policies (continued)

then the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the intangible assets are used and the effects of obsolescence, demand, competition and other economic factors.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost, except for donated property, plant and equipment, which are recorded at fair value at the date of donation. Assets acquired under capitalized leases are recorded at the present value of the lease payments at the inception of the lease. Annual provisions for depreciation and amortization of property, plant, and equipment are computed using the straight-line method over the estimated useful lives of the assets or the lesser of the estimated useful life of the asset or lease term (ranging from 3 to 40 years).

Insurance Liabilities

The Center maintains claims-made professional and general liability and worker's compensation coverage through a commercial insurance carrier. Estimated incurred but not reported claims at December 31, 2016 and 2015 are immaterial to the consolidated financial statements. The Center recorded an estimated insurance recovery receivable and long-term insurance claim liability related to workers' compensation, professional and general liabilities of approximately $303,000 and $249,000 at December 31, 2016 and 2015, respectively, included in other assets and pension obligations and other liabilities in the accompanying consolidated financial statements.

Effective August 1, 2016, the Center is self-funded for its employee health benefits plan exposure. The Center has purchased stop loss coverage through HCC Life Insurance Company which is reinsured through a captive insurance company. The stop-loss insurance program purchased by the Center covers specific and aggregate stop loss insurance with a specific deductible of $75,000 per contract for the period of August 1, 2016 through December 31, 2016. The policy has been renewed for the period January 1, 2017 through December 31, 2017. At December 31, 2016, the Center has recorded a reserve for incurred but not reported medical claims of $405,000, included in current liabilities within the accompanying consolidated balance sheets. At December 31, 2016, the Center has recorded an investment in the captive insurance company of approximately $59,000, which is accounted for on the cost basis and recorded within other assets in the accompanying consolidated balance sheet.

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The Center separately accounts for and reports donor restricted and unrestricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than the donor or grantor.

Temporarily restricted net assets are those whose use is temporarily limited by the donors for a specific time period or purpose. Assets are released from restrictions when the funds have been used for the intended purpose. The Center reports contributions of temporarily restricted net assets for which the restriction was met in the year the contribution was made as increases in unrestricted net assets. Investment income earned is recorded as an increase in unrestricted net assets, unless the use is specified by the donor.

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Center follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its permanently restricted contributions and net assets, as enacted by the State of New Jersey in 2009.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payers, and others for service rendered and includes estimated retroactive adjustments for ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related service is rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of discounted rates under the Center’s self-pay patient policy.

1. Organization and Summary of Significant Accounting Policies (continued)

The components of patient service revenue for the years ended December 31, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts) and after the provision for bad debts, recognized from these major payor sources based on primary insurance designation, is as follows:

	2016	2015
Patient service revenue (net of contractual allowances and discounts, but before the provision for bad debts):		
Third-party payers	**$ 47,115,458**	$ 49,056,774
Self-pay	**30,896,428**	25,916,022
	78,011,886	74,972,796
Provision for bad debt	**(52,200)**	(50,300)
Net patient service revenue less provision for bad debts	**$ 77,959,686**	$ 74,922,496

Accounts receivable are also reduced by an allowance for uncollectible accounts. The Center analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debt, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectibles.

The Center's allowance for uncollectibles totaled approximately $10,000 and $12,000 at December 31, 2016 and 2015, respectively. The allowance for uncollectibles for self-pay accounts was approximately 1% of self-pay accounts receivable as of December 31, 2016 and 2015. Overall, the total of self-pay discounts and write-offs has not changed significantly during the years ended December 31, 2016 and 2015. The Center has not experienced significant changes in write-off trends and did not change its charity care policy during the years ended December 31, 2016 and 2015.

The Center provides care to patients under Medicare, Medicaid and other third-party contractual arrangements. Medicare and Medicaid regulations require annual retroactive settlements for certain payment components through cost reports filed by the Center. These retroactive settlements

1. Organization and Summary of Significant Accounting Policies (continued)

are estimated and recorded in the consolidated financial statements in the year in which they occur or can be estimated. The estimated settlements recorded at December 31, 2016 and 2015, could differ from actual settlements based on the results of cost report audits. Cost reports filed with Medicare and Medicaid for all years through 2014 have been audited and settled as of December 31, 2016. The Center did not record any revenue related to settlements of prior years during 2015 and 2016.

Revenue from the Medicare and Medicaid programs accounted for approximately 55% of the Center's net patient service revenue for the years ended December 31, 2016 and 2015. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Center. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future. The Center 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 noncompliance that could have a material adverse effect on the accompanying consolidated financial statements.

Performance Indicator

The consolidated statements of operations include excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include grant proceeds for capital expenditures, net assets released from restrictions for capital purposes and change in pension liability to be recognized in future periods. Transactions deemed by management to be ongoing and central to the provision of the Center's services are reported as revenue and expenses from operations.

Tax Status

The Center, the Foundation and Vista are not-for-profit corporations, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The entities are also exempt from state and local income taxes. Siena Village is disregarded for tax purposes. Disregarded entity status

1. Organization and Summary of Significant Accounting Policies (continued)

provides that the Center is subject to unrelated business income taxation on Siena Village income derived from activities not specific to the Center. Provisions for income tax are not material to the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 amounts previously reported in order to conform to the current year presentation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-04, the provisions of ASU 2014-09 are effective for the Center for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The Center has not completed the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*, that will require management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Early application is permitted. Management adopted ASU 2014-15 for the year ended December 31, 2016. The adoption of ASU 2014-15 did not impact the Center's 2016 consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If certain criteria are met, an entity may account for such an arrangement under the internal use software guidance included in Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, whereby amounts are capitalized. If such criteria are not met, the cloud computing arrangement is considered a service contract and the related costs are expensed as incurred. ASU 2015-05 is effective for public business entities for fiscal years beginning after December 15, 2015 with the option to apply the guidance prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. Management adopted ASU 2015-05 prospectively as of January 1, 2016 with no impact to the 2016 consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. Management adopted ASU 2015-07 during the year ended December 31, 2016. As a result, approximately $425,000 of defined benefit pension plan assets measured at net asset value at December 31, 2016 (approximately $322,000 at December 31, 2015) are not categorized within the fair value hierarchy in Note 14.

In February 2016, the FASB issued ASU 2016-02, *Leases,* which will require a lessee to report most leases on their statement of financial position but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for the Center for annual periods beginning after December 15, 2018, and interim periods the following year. Early adoption is permitted. The Center has not completed the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Center for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. The Center has not completed the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for the Center for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The Center has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 addresses how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. The standard is effective for the Center for annual periods beginning after

1. Organization and Summary of Significant Accounting Policies (continued)

December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. Adoption of ASU 2017-07 will require the Center to present all other components (aggregate of approximately $.8 million for 2016) as a separate line item excluded from the subtotal for operating income. Net periodic benefit cost is reported currently within employee benefits expense on the consolidated statements of operations.

2. Acquisition

In connection with the Center's purchase of Sienna Village in 2015 and in accordance with ASC 805, *Business Combinations*, the fair value of the assets acquired and liabilities assumed were used to establish a new accounting basis. The acquisition-date fair value of the consideration transferred totaled $18,000,000 in the form of cash.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

Property and equipment	$ 15,990,298
Intangible assets subject to amortization – leases	2,009,702
Total net assets acquired	$ 18,000,000

The acquisition was consummated to further the growth strategies of the Center.

3. Intangible Assets

The gross and net carrying amounts and accumulated amortization of identifiable intangible assets as of December 31, 2016 for each asset category were as follows:

	December 31, 2016		**December 31, 2015**	
	Intangible Assets	**Accumulated Amortization**	**Intangible Assets**	**Accumulated Amortization**
Leases	**$ 2,009,702**	**$ 54,431**	$ 2,009,702	$ 4,187
Less accumulated amortization	**(54,431)**		(4,187)	
	$ 1,955,271		$ 2,005,515	

3. Identifiable Intangible Assets (continued)

The amortization expense approximated $50,200 and $4,200 for the fiscal years ended December 31, 2016 and 2015, respectively. The following table presents the estimated future amortization expense of identifiable intangible assets for the five succeeding fiscal years:

Fiscal Year	Amortization Expense
2017	$ 50,200
2018	50,200
2019	50,200
2020	50,200
2021	50,200

During fiscal 2016 and 2015, the Company performed an impairment review of identifiable intangible assets. As a result, no impairment of identifiable intangible assets was recognized in either fiscal year.

4. Charity Care

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. As the collection of amounts determined to qualify as charity care is not pursued, such services are not reported as patient revenue. The cost of charity care is derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

In addition, the Center provides several other charitable programs and activities, such as educational and health monitoring programs, that are primarily offered for the benefit of the local communities that the Center serves. In accordance with its mission, the Center commits substantial resources to sponsor a broad range of services to both the indigent as well as the broader community. Community benefits provided to the indigent include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services

4. Charity Care (continued)

such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Community benefits provided to the broader community include the costs of providing services to other populations who may not qualify as indigent but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the estimated cost of community benefits provided to both the indigent and the broader community follows:

	2016	2015
Community benefits provided to the indigent:		
Charity care provided	**$ 978,400**	$ 1,128,900
Unpaid cost of public programs, Medicaid and other indigent care programs	**8,859,000**	9,947,700
Community benefits provided to the broader community:		
Non-billed services for the community	**54,600**	235,700
Estimated cost of community benefits	**$ 9,982,000**	$ 11,312,300

5. Short-Term Investments and Assets Limited to Use

Short-term investments consist of the following:

	December 31	
	2016	**2015**
Certificates of deposit	**$ 277,569**	$ 274,168
Equity securities	**1,572,107**	1,389,201
Mutual funds	**5,370,129**	5,035,189
Fixed income securities	**81,081**	76,507
Alternative investment – hedge fund (equity method)	**201,691**	128,051
	$ 7,502,577	$ 6,903,116

Assets limited to use are maintained for the following purposes:

	December 31	
	2016	**2015**
Cash and cash equivalents:		
Under debt financing arrangements	**$ 2,125,470**	$ –
By Board of Trustees	**–**	1,740,722
Permanently restricted by donor	**727,981**	727,981
Mutual funds:		
Deferred employee compensation plan	**2,300,361**	2,037,885
Total assets limited to use	**5,153,812**	4,506,588
Less current portion	**2,193,470**	1,825,722
Assets limited to use, less current portion	**$ 2,960,342**	$ 2,680,866

Investment return is as follows:

	Year Ended December 31	
	2016	**2015**
Interest and dividend income – other holdings	**$ 80,985**	$ 218,841
Net realized gains and losses	**396,043**	101,265
Net change in unrealized gains and losses	**144,170**	(409,584)
	$ 621,198	$ (89,478)

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	December 31	
	2016	**2015**
Land and land improvements	**$ 2,873,376**	$ 2,805,778
Buildings and improvements	**92,027,123**	90,732,940
Major movable equipment	**12,854,444**	12,266,602
Fixed and other equipment	**21,902,645**	18,851,922
Transportation vehicles	**2,615,742**	2,382,045
	132,273,330	127,399,289
Accumulated depreciation	**(61,870,486)**	(57,428,419)
	70,402,844	69,970,870
Construction in progress	**15,450,777**	12,188,471
	$ 85,853,621	$ 82,159,341

Substantially all property, plant, and equipment have been collateralized under debt agreements.

Construction in progress includes approximately $15.0 million expended through December 31, 2016 for a proposed CCRC project (Vista). Vista has received necessary approvals from the Wyckoff and Hawthorne Boards of Adjustments.

The Center received approval from the New Jersey Department of Community Affairs to collect deposits from prospective residents in September 2014 and has commenced marketing efforts. Upon obtaining the necessary financing for the project, management anticipates that the Center will be reimbursed for the construction in progress expenditures paid on behalf of Vista in excess of its equity contribution.

The Center capitalized interest of approximately $241,000 and $186,000 during 2016 and 2015, respectively, related to construction projects.

7. Benefits Payable

During 1996, the Holland Mutual Burying Fund, then an unrelated not-for-profit organization that provided death benefits to its subscribers, transferred its assets and obligations to Holland Mutual. Benefits payable represent certificates held by subscribers for the payment of a death benefit for funeral expenses and is calculated based on the dollar value of the certificate purchased by the individual. Effective June 1, 2016, Holland Mutual dissolved and transferred its assets and obligations to the Center as described in Note 1. As of December 31, 2016, there were 2,444 certificates outstanding.

8. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2016	**2015**
New Jersey Health Care Facilities Financing Authority (NJHCFFA) Variable Rate Revenue Bonds, Series 2009[(a)]	**$ 11,065,000**	$ 11,670,000
NJHCFFA Revenue and Refunding Bonds, Series 1997 B[(b)]	**6,000,000**	6,400,000
NJHCFFA Variable Rate Series 2005[(c)]	**5,365,000**	5,540,000
NJHCFFA Variable Rate Composite Program[(d)]	**100,000**	200,000
NJHCFFA Tax Exempt Equipment Note [(e)]	**508,404**	967,184
Revolving construction loan[(f)]	**10,368,648**	6,147,274
Capital lease obligations and other[(g)]	**65,365**	149,044
Improvement Loan [(h)]	**12,000,000**	11,195,868
New Jersey Economic Authority[(i)]	**15,854,452**	16,000,000
	61,326,869	58,269,370
Less:		
Unamortized deferred financing costs	**1,033,894**	1,112,388
Current portion	**2,550,406**	1,968,048
	$ 57,742,569	$ 55,188,934

(a) On February 19, 2009, the NJHCFFA issued $14,970,000 of Series 2009 Variable Rate Revenue Bonds (Series 2009 Bonds), on behalf of the Center. The proceeds were used for the refunding of the Series A Bonds, as described below, and renovations to the nursing home. The Series 2009 Bonds are payable in annual installments of principal through July 2038 with interest at a variable rate (not to exceed 12%). The average

8. Long-Term Debt (continued)

interest rate during 2016 and 2015 was 0.72% and 0.33%, respectively. The Series 2009 Bonds are secured by a letter of credit with a bank with an available amount of approximately $11,221,000 which expires May 1, 2020.

(b) On January 7, 1998, the NJHCFFA issued $19,460,000 of Revenue and Refunding Bonds Series 1997 A (Series A Bonds). The Series A Bonds were advance refunded in February 2009 through the issuance of the Series 2009 Bonds. The Series A Bonds were fully redeemed.

Concurrently with the issuance of the Series A Bonds, the NJHCFFA issued $10,500,000 of Revenue and Refunding Bonds Series 1997 B (Series B Bonds). The Series B Bonds are at a variable interest rate with maturities through 2028. The average interest rate during 2016 and 2015 was 0.77% and 0.27%, respectively. The proceeds of the Series B Bonds were used for the construction of the assisted living facility which was completed in 1999. The Series B Bonds are secured by substantially all the Center's assets and gross receipts and a letter of credit with a bank. The letter of credit is for approximately $6,099,000 and expires May 1, 2020.

(c) In December 2005, the Center financed $6,600,000 through the NJHCFFA Variable Rate Composite Program (COMP Program Series 2005). The bond proceeds were used for: the construction and equipping of a two-story addition at the inpatient mental health facility; the acquisition of property situated adjacent to the facility and various other renovations. The bonds are payable in annual installments of principal through July 2035 and are at variable interest rates (not to exceed 12%) that averaged 0.67% and 0.30% during 2016 and 2015, respectively. The bonds are secured by a letter of credit with a bank. The letter of credit is for approximately $5,460,000 and expires May 1, 2020.

(d) In September 1998, the Center financed $1,000,000 through the NJHCFFA Variable Rate Composite Program (COMP Program). The bond proceeds were used to refinance its previously outstanding bank loan that was used to renovate its senior housing residence. The bonds are payable in equal biannual installments of principal through July 2018 and are at a variable rate of interest (not to exceed 12%) that averaged 0.96% and 0.59% during 2016 and 2015, respectively. The bonds are secured by a letter of credit with a bank. The letter of credit is for approximately $102,000 and expires July 1, 2018.

8. Long-Term Debt (continued)

(e) In January 2008, the Center financed $3,500,000 through a NJHCFFA Tax Exempt Equipment Note. The proceeds were used to purchase furniture and equipment. Payments of principal and interest are due through January 2018 and are at a fixed interest rate of 3.6%. In January 2013, the Tax Exempt Equipment Note was refinanced to a fixed rate of 2.169% and supplemented with an additional borrowing of $400,000.

(f) In December 2004, the Center entered into a $5,000,000 revolving construction loan with a bank (Construction Loan). In April 2015, Vista entered into a new $13,000,000 revolving construction loan (New Construction Loan) with another bank to replace the Construction Loan. Accordingly, the proceeds of the New Construction Loan were utilized to fully pay off the outstanding balance of the Construction Loan and to pay ongoing pre-construction costs of the Vista project. Advances under the New Construction Loan bear interest at the 30-day LIBOR plus 1.60% for the entire term of the loan. The interest rates at December 31, 2016 and 2015 were 2.22% and 1.84% on the New Construction Loan and the Construction Loan, respectively. At December 31, 2016, there was $2,631,000 available under the New Construction Loan. The Center has fully guaranteed the New Construction Loan at December 31, 2016.

(g) The Center has entered into various capital lease agreements related to software licenses and vehicles totaling approximately $149,000. The obligations bear interest at rates ranging from 6.3% to 10.1%.

(h) In June 2014, the Center entered into a $12,000,000 line of credit (Improvement Loan) with a bank for improvement of the existing nursing facility. During 2016 and 2015, approximately $804,000 and $8,707,000 were drawn on the line. The term of the Improvement Loan is 26.5 years with a maturity in January 2041. The first 18 months of the loan are interest-only followed by a 24-year fully amortizing loan starting January 2017. The interest rate is a floating rate at the 30-day LIBOR plus 1.60%. The interest rates at December 31, 2016 and 2015 were 2.22% and 1.84%, respectively. At December 31, 2016, there were no amounts available under this Improvement Loan.

8. Long-Term Debt (continued)

(i) In December 2015, Siena Village financed $16,000,000 through the New Jersey Economic Development Authority. The bond proceeds were used to fund the acquisition of a 250-unit senior residential housing facility (the Facility), located in Wayne, New Jersey. The bonds are payable in monthly installments on a 30-year fully amortizing basis through December 2045. The interest rate is a tax-exempt floating rate of 65% of the 30-day LIBOR plus 1.20% with a minimum of 1.63% and a maximum of 2.68%. The interest rate at December 31, 2016 and 2015 was 1.63%. The bank has the option to tender the bonds in full on December 1, 2022 or reset the interest rate. The bonds are secured by a first leasehold mortgage on and a gross receipts pledge of the Facility.

The holders of the Series 2009 Bonds, the Series B Bonds, the COMP Program Series 2005 bonds, and the COMP Program bonds have the right to tender their bonds for purchase on a weekly basis. The reimbursement terms of the letters of credit securing these debt issuances are such that in the event that a bondholder demanded repayment on the bonds, and adequate funds are not available from the remarketing of such bonds, the Center would reimburse the letter of credit bank over a long-term period.

Under the terms of the various loan documents for its outstanding debt instruments, the Christian Health Care Center and the Foundation (collectively, the Obligated Group) are required to maintain certain financial ratios and comply with other restrictive financial covenants as described in the respective agreements. The Obligated Group was in compliance with the financial covenants at December 31, 2016 and 2015.

Scheduled debt maturities are as follows:

	Series 2009 Bonds	Series B Bonds	COMP Series 2005	COMP Program	Tax Exempt Revenue Note	Improvement Loan	Construction Loan	New Jersey Development Authority Series 2015 Bonds	Capital Lease Obligations and Other	Total
2017	$ 650,000	$ 400,000	$ 180,000	$ –	$ 468,871	$ 458,000	$ –	$ 360,413	$ 33,122	$ 2,550,406
2018	695,000	400,000	190,000	100,000	39,533	500,000	10,368,648	370,584	29,648	12,693,413
2019	740,000	400,000	195,000	–	–	500,000	–	381,057	2,595	2,218,652
2020	790,000	400,000	205,000	–	–	500,000	–	390,700	–	2,285,700
Thereafter	8,190,000	4,400,000	4,595,000	–	–	10,042,000	–	14,351,698	–	41,578,698
	$ 11,065,000	$ 6,000,000	$ 5,365,000	$ 100,000	$ 508,404	$ 12,000,000	$ 10,368,648	$ 15,854,452	$ 65,365	$ 61,326,869

9. Line of Credit

The Center had a $1,000,000 revolving line of credit (the line) with a bank which expired on September 30, 2016. The line was not renewed. The line was secured by the Center's accounts receivable. Advances under the line bore interest at an annual variable rate equal to the prime rate or an annual fixed rate equal to 1% in excess of LIBOR. At December 31, 2015, there were no outstanding amounts under the line.

10. Pension Plans

Defined Benefit Plan

On January 1, 2000, the Center's Board of Trustees adopted a resolution to curtail the Center's defined benefit pension plan (the Plan) effective December 31, 1999. All participants in the Plan, as of 2005, are fully vested; however, no benefits accrue for any service after December 31, 1999.

The funded status of the Plan as recognized in the Center's consolidated balance sheets is as follows:

	December 31	
	2016	**2015**
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 14,108,956**	$ 15,163,662
Interest cost	**588,603**	604,352
Actuarial (gains) losses	**(62,395)**	(1,071,626)
Benefits paid	**(651,711)**	(587,432)
Benefit obligation at end of year	**13,983,453**	14,108,956
Change in plan assets:		
Fair value of plan assets at beginning of year	**5,134,915**	5,266,286
Actual return on plan assets	**144,807**	(211,947)
Employer contributions prior to measurement period	**674,696**	668,008
Benefits paid	**(651,711)**	(587,432)
Fair value of plan assets at end of year	**5,302,707**	5,134,915
Funded status of plan	**$ (8,680,746)**	$ (8,974,041)

10. Pension Plans (continued)

The funded status of the pension plan is included in pension obligation and other liabilities in the consolidated balance sheets. The benefit obligation for the Center's pension plan totaled approximately $13,983,000 and $14,109,000 at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, there are approximately $6,183,000 and $6,583,300, respectively, of actuarial losses that have not yet been recognized in net periodic pension cost, but have been cumulatively recorded in unrestricted net assets. Approximately $614,000 of unrecognized actuarial loss is expected to be recognized in net periodic pension cost during the year ending December 31, 2017.

The Center recorded net periodic pension cost as follows:

	Year Ended December 31	
	2016	**2015**
Interest cost on the projected benefit obligation	**$ 588,603**	$ 604,352
Expected return on plan assets	**(445,771)**	(457,072)
Net amortization and deferrals	**639,008**	806,163
Net periodic pension benefit cost	**$ 781,840**	$ 953,443

The following assumptions were used in determining the benefit obligations and net periodic benefit costs:

	2016	**2015**
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	**4.14%**	4.34%
Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	**4.34%**	4.06%
Expected long-term rate of return on plan assets	**8.75%**	8.75%

10. Pension Plans (continued)

The expected long-term rate of return on plan assets was selected by applying historical yields to the asset allocation of the Plan's portfolio. An 8.75% expected long-term return on plan assets was based on the investment policy and asset allocation in effect as of the beginning of the fiscal year. The actuarial gains and losses in 2016 and 2015, respectively, primarily relate to changes in discount rate and mortality assumptions used to measure the projected benefit obligation.

The Plan's investment policy is designed to achieve the following long-term investment objectives:

- To maintain or exceed a target funding level of 100% of the Plan's liabilities, defined as the market value of the portfolio assets as a percentage of the accumulated benefit obligation, and

- To achieve a long-term rate of return of 8.75%, as established by management.

Recognizing that the pension liabilities are of a long-term nature, the objective is to achieve these goals over a three- to five-year timeframe.

The asset allocation guidelines and permissible ranges by asset category are as follows:

Asset Category	**Guideline Allocation**	**Permissible Range**
Equities	65%	Up to 65%
Debt securities	35	Not less than 30%
Other	–	Up to 10%

The Plan's asset allocations by asset category are as follows:

	December 31	
	2016	**2015**
Equities	**66%**	69%
Corporate bonds	**21**	21
Other	**13**	10
	100%	100%

10. Pension Plans (continued)

The Plan has received a favorable ruling from the Internal Revenue Service to operate as a church plan. Under church plan status, the Plan is not subject to many of the compliance provisions of the Employee Retirement Income Security Act of 1974 (ERISA), such as minimum funding levels.

The Center makes contributions to the Plan based on the recommendations of its consulting actuary and subject to available cash resources. The Center expects to contribute $600,000 to the Plan in 2016. Benefits under the Plan are not covered by the Pension Benefit Guaranty Corporation.

The measurement date used to determine the pension amounts is December 31.

The benefit payments under the Plan are expected to be paid as follows:

2017	$ 722,693
2018	775,280
2019	801,494
2020	813,208
2021	833,043
2022–2026	4,271,420

Defined Contribution Plan

Effective January 1, 2000, the Center adopted a defined contribution 401(k) plan (the 401(k) Plan). The 401(k) Plan provides for employer and employee contributions. Employees can make elective contributions to the 401(k) Plan of up to 100% of compensation which will be contributed by the Employer of the Plan, unless prohibited by applicable deferral limits. Employer contributions to the Plan consist of a regular contribution and a matching contribution. The regular employer contribution was equal to 2% of participants’ eligible total compensation until December 31, 2011. Effective January 1, 2012, the regular employer contribution rate is 1.5%. The matching employer contribution is equal to 50% of the employees’ elective contribution up to a maximum of 2% of a participant’s eligible compensation. Pension expense under the 401(k) Plan was approximately $806,000 and $792,000 for the years ended December 31, 2016 and 2015, respectively.

10. Pension Plans (continued)

Deferred Employee Compensation Plan

Effective January 1, 2002, the Center adopted a deferred compensation 457(b) plan (the 457(b) Plan). The 457(b) Plan provides for employee contributions and discretionary employer contributions. Employees can make elective contributions to the 457(b) Plan of up to 100% of compensation, unless prohibited by applicable deferral limits. The Center has not made any discretionary contributions to the 457(b) Plan for the years ended December 31, 2016 and 2015. The consolidated balance sheets as of December 31, 2016 and 2015 include an asset and liability of approximately $2,300,000 and $2,038,000, respectively, related to the 457(b) Plan within assets limited to use and pension obligations and other liabilities, respectively.

11. Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or on appeal against the Center. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that litigation will not result in losses in excess of insurance coverage and will not materially affect the consolidated financial position or results of operations of the Center. No provision has been made in the accompanying consolidated financial statements for any deductibles or claims that have been incurred but not reported.

12. Net Assets

The Center's net assets are as follows:

	December 31	
	2016	**2015**
Unrestricted net assets:		
Unrestricted – general	**$ 32,010,716**	$ 29,138,779
Unrestricted – Employee Fund	**519,790**	495,189
Unrestricted – residents' assistance	**1,605,679**	1,245,533
Unrestricted net assets	**34,136,185**	30,879,501
Temporarily restricted net assets:		
Capital projects	**–**	500,000
Residents' assistance	**215,218**	215,218
Temporarily restricted net assets	**215,218**	715,218
Permanently restricted net assets	**727,981**	727,981
Total net assets	**$ 35,079,384**	$ 32,322,700

12. Net Assets (continued)

The Center has internally designated certain unrestricted net assets for discretionary employee expenditures, such as employee events, and residents' assistance.

The Center expends the income distributed from permanently restricted related assets on an annual basis in support of benevolent purposes (2016 and 2015 distributions totaled approximately $3,000 and $2,000, respectively).

Foundation fundraising and contribution income is reported net of related expenses of approximately $113,000 and $105,000 in 2016 and 2015, respectively. Assets released from the Foundation for use at the Center were approximately $21,000 and $53,200 in 2016 and 2015, respectively.

13. Concentrations of Credit Risk

The Center grants credit, under contractual arrangements, without collateral to its residents and patients, many of whom are from the northern New Jersey area and are insured under third-party payer agreements. Concentrations of gross accounts receivable from patients and third-party payers were as follows:

	December 31	
	2016	**2015**
Medicare	**41%**	38%
Medicaid	**20**	32
Self-pay patients and residents	**20**	11
Commercial and other insurance	**19**	19
	100%	100%

14. Functional Expenses

The Center provides general health care services to residents within its geographic area. Expenses related to providing these services are as follows:

	Year Ended December 31	
	2016	**2015**
Senior life, short-term rehabilitation and mental health services	**$ 56,774,156**	$ 53,247,891
General and administrative	**22,438,598**	22,113,182
	$ 79,212,754	$ 75,361,073

15. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Center measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

The Center follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

15. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial instruments (included in cash and cash equivalents, short-term investments (excluding amounts accounted for using the equity method of accounting) and assets limited to use) carried at fair value in the accompanying consolidated balance sheets are classified in the tables below in one of the three categories described above as of December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 6,399,439**	**$ –**	**$ –**	**$ 6,399,439**
Certificate of deposit	**277,569**	**–**	**–**	**277,569**
Equity securities:				
U.S. large cap	**2,100,853**	**–**	**–**	**2,100,853**
U.S. mid cap	**84,731**	**–**	**–**	**84,731**
Foreign equities	**21,600**	**–**	**–**	**21,600**
Fixed income:				
Government bonds and GSE bonds	**–**	**81,081**	**–**	**81,081**
Mutual funds – equity:				
U.S. large cap	**2,055,745**	**–**	**–**	**2,055,745**
U.S. mid cap	**685,627**	**–**	**–**	**685,627**
U.S. small cap	**431,251**	**–**	**–**	**431,251**
International developed equity	**771,072**	**–**	**–**	**771,072**
International emerging equity	**226,602**	**–**	**–**	**226,602**
Mutual funds – fixed income:				
Corporate bonds	**1,683,134**	**–**	**–**	**1,683,134**
High yield bonds	**297,015**	**–**	**–**	**297,015**
International developed/emerging market bonds	**328,623**	**–**	**–**	**328,623**
Mutual funds – other:				
Global public REITS	**292,076**	**–**	**–**	**292,076**
Realty shares	**7,898**	**–**	**–**	**7,898**
Commodities	**126,585**	**–**	**–**	**126,585**
Hedge strategies – diversified	**51,811**	**–**	**–**	**51,811**
Hedge strategies – conservative	**77,974**	**–**	**–**	**77,974**
	$ 15,919,605	**$ 81,081**	**$ –**	**$ 16,000,686**

15. Fair Value Measurements (continued)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,073,545	$ –	$ –	$ 7,073,545
Certificate of deposit	274,168	–	–	274,168
Equity securities:			–	
U.S. large cap	1,790,424	–	–	1,790,424
U.S. mid cap	119,565	–	–	119,565
Foreign equities	12,500	–	–	12,500
Fixed income:				
Government bonds and GSE bonds	–	76,507	–	76,507
Mutual funds – equity:				
U.S. large cap	2,275,046	–	–	2,275,046
U.S. mid cap	482,066	–	–	482,066
U.S. small cap	340,127	–	–	340,127
International developed equity	661,299	–	–	661,299
International emerging equity	160,424	–	–	160,424
Mutual funds – fixed income:				
Corporate bonds	965,413	–	–	965,413
High yield bonds	254,240	–	–	254,240
International developed/emerging market bonds	360,929	–	–	360,929
Mutual funds – other:				
Global public REITS	269,082	–	–	269,082
Realty Shares	2,724	–	–	2,724
Stable value	535,755	–	–	535,755
Commodities	105,429	–	–	105,429
Hedge strategies – diversified	50,716	–	–	50,716
Hedge strategies – conservative	48,399	–	–	48,399
	$ 15,781,851	$ 76,507	$ –	$ 15,858,358

15. Fair Value Measurements (continued)

Assets invested in the Center's defined benefit pension plan, at fair value as of December 31 2016 and 2015, are classified in the tables below in one of the three categories described above:

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 278,936**	**$ –**	**$ –**	**$ 278,936**
Mutual funds – equity:				
U.S. large cap	**1,340,859**	**–**	**–**	**1,340,859**
U.S. mid cap	**453,598**	**–**	**–**	**453,598**
U.S. small cap	**713,709**	**–**	**–**	**713,709**
International developed equity	**1,026,369**	**–**	**–**	**1,026,369**
Mutual funds – fixed income:				
Corporate bonds	**654,299**	**–**	**–**	**654,299**
High yield bonds	**221,908**	**–**	**–**	**221,908**
Mutual funds – other:				
Global fixed	**188,490**	**–**	**–**	**188,490**
	$ 4,878,168	**$ –**	**$ –**	**$ 4,878,168**
Assets measured at net asset value:				
Alternative investments – managed futures				**424,539**
				$ 5,302,707

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 188,106	$ –	$ –	$ 188,106
Mutual funds – equity:				
U.S. large cap	1,848,081	–	–	1,848,081
U.S. mid cap	378,445	–	–	378,445
U.S. small cap	336,393	–	–	336,393
International developed equity	811,165	–	–	811,165
International emerging equity	207,920	–	–	207,920
Mutual funds – fixed income:				
Corporate bonds	565,275	–	–	565,275
High yield bonds	317,731	–	–	317,731
Mutual funds – other:				
Global fixed	160,056	–	–	160,056
	$ 4,813,172	$ –	$ –	$ 4,813,172
Assets measured at net asset value:				
Alternative investments – managed futures				321,743
				$ 5,134,915

15. Fair Value Measurements (continued)

Fair value for Level 1 is based on quoted market prices. Level 2 assets consist of certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

The approximate fair value of the Center's long-term debt, excluding capital leases (not reported at fair value in the accompanying consolidated balance sheets) was $61,260,000 and $58,120,000 at December 31, 2016 and 2015, respectively. The fair value of the Center's long-term debt is based upon quoted market prices, when available, and other valuation considerations. Fair value of long-term debt is classified as Level 2 of the valuation hierarchy. The carrying value of long-term debt, excluding capital leases is $61,261,504 and $58,120,326 at December 31, 2016 and 2015, respectively.

16. Subsequent Events

Subsequent events have been evaluated through May 1, 2017, which is the date the consolidated financial statements were issued.

On April 27, 2017 the Center purchased Summer Hill Apartments through its subsidiary, Summer Hill, for $12,800,000. Summer Hill Apartments is a 164-unit senior residential housing complex located in the Township of Wayne, New Jersey. The transaction was financed with bank proceeds of approximately $5,760,000, assumption of the seller's outstanding mortgage obligations of approximately $5,840,000 to the New Jersey Housing Mortgage Finance Agency (NJHFMA), and an equity contribution from the Center.

Supplementary Information

Christian Health Care Center and Affiliates

Consolidating Balance Sheet

December 31, 2016

	Christian Health Care Center	Christian Health Care Center Foundation	Eliminations/ Reclassifications	Total Obligated Group	CHCC CCRC, Inc.	CHCC of Wayne, LLC	Eliminations/ Reclassifications	Total Consolidated
Assets								
Current assets:								
Cash and cash equivalents	$ 898,479	$ 1,539,190	$ –	$ 2,437,669	$ –	$ 1,108,319	$ –	$ 3,545,988
Short-term investments	7,287,531	215,046	–	7,502,577	–	–	–	7,502,577
Assets limited to use, current portion	2,193,470	–	–	2,193,470	–	–	–	2,193,470
Accounts receivable, net	8,156,914	–	–	8,156,914	–	–	–	8,156,914
Prepaid expenses and other current assets	1,558,597	51,151	–	1,609,748	–	–	–	1,609,748
Total current assets	20,094,991	1,805,387	–	21,900,378	–	1,108,319	–	23,008,697
Assets limited to use, less current portion	2,960,342	–	–	2,960,342	–	–	–	2,960,342
Other assets	2,023,220	–	–	2,023,220	2,878,407	203,875	–	5,105,502
Interest in the assets of the Foundation	1,805,387	–	(1,805,387)	–	–	–	–	–
Intangible assets, net	–	–	–	–	–	1,955,271	–	1,955,271
Property, plant and equipment, net	55,362,951	–	–	55,362,951	14,628,745	15,861,925	–	85,853,621
	$ 82,246,891	$ 1,805,387	$ (1,805,387)	$ 82,246,891	$ 17,507,152	$ 19,129,390	$ –	$ 118,883,433
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	$ 2,189,993	$ –	$ –	$ 2,189,993	$ –	$ 360,413	$ –	$ 2,550,406
Accounts payable and accrued expenses	3,741,567	–	–	3,741,567	–	107,871	–	3,849,438
Accrued payroll	1,677,619	–	–	1,677,619	–	–	–	1,677,619
Accrued interest	20,543	–	–	20,543	–	21,575	–	42,118
Total current liabilities	7,629,722	–	–	7,629,722	–	489,859	–	8,119,581
Benefits payable	1,296,200	–	–	1,296,200	–	–	–	1,296,200
Pension obligations and other liabilities	13,563,417	–	–	13,563,417	2,878,407	203,875	–	16,645,699
Long-term debt, less current portion	32,383,129	–	–	32,383,129	10,368,648	14,990,792	–	57,742,569
	54,872,468	–	–	54,872,468	13,247,055	15,684,526	–	83,804,049
Net assets:								
Unrestricted	26,431,224	1,805,387	(1,805,387)	26,431,224	4,260,097	3,444,864	–	34,136,185
Temporarily restricted	215,218	–	–	215,218	–	–	–	215,218
Permanently restricted	727,981	–	–	727,981	–	–	–	727,981
Total net assets	27,374,423	1,805,387	(1,805,387)	27,374,423	4,260,097	3,444,864	–	35,079,384
	$ 82,246,891	$ 1,805,387	$ (1,805,387)	$ 82,246,891	$ 17,507,152	$ 19,129,390	$ –	$ 118,883,433

Christian Health Care Center and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year Ended December 31, 2016

	Christian Health Care Center	Christian Health Care Center Foundation	Eliminations/ Reclassifications	Total Obligated Group	CHCC CCRC, Inc.	CHCC of Wayne, LLC	Eliminations/ Reclassifications	Consolidated Total
Revenue:								
Net patient service revenue less provision for bad debt	$ 75,405,327	$ –	$ –	$ 75,405,327	$ –	$ 2,554,359	$ –	$ 77,959,686
Investment income	504,872	–	(504,872)	–	–	847	(847)	–
Fund raising activities, net	–	272,275	(272,275)	–	–	–	–	–
Estate bequests	1,321	320,313	(321,634)	–	–	–	–	–
Unrestricted gifts and contributions	–	747,550	(747,550)	–	–	–	–	–
Other revenue	1,216,365	–	–	1,216,365	–	162,921	–	1,379,286
Total revenue	77,127,885	1,340,138	(1,846,331)	76,621,692	–	2,718,127	(847)	79,338,972
Expenses:								
Salaries and wages	44,561,334	–	–	44,561,334	–	351,824	–	44,913,158
Employee benefits	11,568,456	–	–	11,568,456	–	131,565	–	11,700,021
Supplies and other	16,144,733	–	(28,691)	16,116,042	–	989,599	–	17,105,641
Interest and amortization	682,760	–	–	682,760	–	369,107	–	1,051,867
Depreciation	3,981,562	–	–	3,981,562	–	460,505	–	4,442,067
Total expenses	76,938,845	–	(28,691)	76,910,154	–	2,302,600	–	79,212,754
Income from operations	189,040	1,340,138	(1,817,640)	(288,462)	–	415,527	(847)	126,218
Investment income	–	–	476,181	476,181	–	–	847	477,028
Estate bequests	–	–	321,634	321,634	–	–	–	321,634
Foundation fundraising and contributions	–	–	1,019,825	1,019,825	–	–	–	1,019,825
Net change in unrealized gains and losses on investments	114,583	29,587	–	144,170	–	–	–	144,170
Contributions from (to) affiliate	691,079	(691,079)	–	–	–	–	–	–
Excess of revenue over expenses	994,702	678,646	–	1,673,348	–	415,527	–	2,088,875
Equity transfer	590,658	–	–	590,658	(590,658)	–	–	–
Grant proceeds for capital expenditures	267,370	–	–	267,370	–	–	–	267,370
Net assets released from restrictions for capital purposes	500,000	–	–	500,000	–	–	–	500,000
Change in accrued pension liability to be recognized in future periods	400,439	–	–	400,439	–	–	–	400,439
Net change in interest in Foundation Assets	678,646	–	(678,646)	–	–	–	–	–
Increase (decrease) in unrestricted net assets	3,431,815	678,646	(678,646)	3,431,815	(590,658)	415,527	–	3,256,684
Decrease in temporarily restricted net assets	(500,000)	–	–	(500,000)	–	–	–	(500,000)
Increase (decrease) in net assets	2,931,815	678,646	(678,646)	2,931,815	(590,658)	415,527	–	2,756,684
Net assets at beginning of year	24,442,608	1,126,741	(1,126,741)	24,442,608	4,850,755	3,029,337	–	32,322,700
Net assets at end of year	$ 27,374,423	$ 1,805,387	$ (1,805,387)	$ 27,374,423	$ 4,260,097	$ 3,444,864	$ –	$ 35,079,384

EY | Assurance | Tax | Transactions | Advisory