# THE OSBORN NETWORK, INC. AND SUBSIDIARIES
# COMBINED FINANCIAL STATEMENTS
# (UNAUDITED)
# AND OFFICER CERTIFICATION

JUNE 30, 2017

# THE OSBORN NETWORK, INC. AND SUBSIDIARIES

## JUNE 2017 FINANCIAL REPORT

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I, Robert S Davis, CFO & Treasurer of the Osborn Network, Inc. and subsidiaries (The Osborn), certify that to the best of my knowledge the attached unaudited reports are true and correct. They are in compliance with the covenants set forth in the September 2012 Loan Agreements.

RASD

Robert S Davis
CFO & Treasurer

**THE OSBORN NETWORK, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| | Unaudited 6/30/2017 |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash | $ 6,285,395 |
| Cash - resident's fund | 17,700 |
| Waiting list deposits held in escrow | 840,833 |
| Investments | 51,909,740 |
| Accounts receivable - net of allowances | 3,204,810 |
| Prepaid expenses | 773,345 |
| Cash surrender value of life insurance policies | 745,066 |
| Other current assets | 167,189 |
| Total current assets | 63,944,078 |
| Long-term assets | |
| Bond fund escrow | 5,525,732 |
| Art collection | 102,600 |
| Fixed assets - net of accumulated depreciation | 109,695,089 |
| Beneficial interest in remainder trust | 1,662,884 |
| Total long-term assets | 116,986,305 |
| Total assets | $ 180,930,383 |

THE OSBORN NETWORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | Unaudited 6/30/2017 |
|---|---|
| **LIABILITIES AND NET ASSETS** | |
| Current liabilities | |
| Accounts payable & accrued expenses | $ 5,117,303 |
| Accrued payroll and vacations payable | 3,405,804 |
| Current portion of mortgage payable | 1,845,000 |
| Current portion of accrued postretirement benefits other than pension | 60,775 |
| Residents deposits | 17,700 |
| Waiting list deposits | 840,833 |
| Total Current Liabilities | 11,287,415 |
| Long-term liabilities | |
| Refundable entrance fees | 160,038,775 |
| Mortgage payable | 35,697,458 |
| Premium on bonds payable | 1,739,574 |
| Long term portion of accrued pension | 12,008,426 |
| Long term portion of accrued postretirement benefits | 616,334 |
| Total Long Term Liabilities | 210,100,567 |
| Total liabilities | 221,387,982 |
| Unrestricted net assets | (40,457,599) |
| Total liabilities and net assets | $ 180,930,383 |

**THE OSBORN NETWORK, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

| | | Unaudited 6/30/2017 |
|---|---|---|
| Revenues | | |
| * Resident fees | $ | 29,956,644 |
| Interest and dividends | | 216,839 |
| Contribution and trust income | | 167,176 |
| Other income | | 484,800 |
| Management fee | | - |
| Total revenues | $ | 30,825,459 |
| Expenses | | |
| Resident services | $ | 15,063,525 |
| Facilities and property | | 2,065,470 |
| Administration, marketing and finance | | 3,209,716 |
| Other | | 7,893,032 |
| Depreciation | | 4,744,740 |
| Interest | | 794,065 |
| Total Expenses | $ | 33,770,548 |
| Operating Income (Loss) | | (2,945,089) |
| Nonoperating | | |
| Realized and unrealized gains(losses) on investments | | 3,995,722 |
| Increase in cash surrender value of life insurance policies | | 105,882 |
| Change in net assets | $ | 1,156,515 |
| Net assets - beginning of year | | (41,614,114) |
| Net assets - as of June 30, 2017 | $ | (40,457,599) |

* Resident fees does not include charity care subsidy

**THE OSBORN NETWORK, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**SIX MONTHS ENDED JUNE 30, 2017**

| | Unaudited 6/30/2017 |
|---|---|
| Cash flows from opertating activities | |
| Change in net assets | $ 1,156,515 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | |
| Depreciation | 4,727,890 |
| Amortization of bond issuance costs | 16,851 |
| Amortization of bond premium | (34,791) |
| Realized and unrealized losses (gains) on investments | (3,995,722) |
| Increase in cash surrender value of life insurance policies | (105,882) |
| Decrease (increase) in assets | |
| Accounts receivable | 79,649 |
| Prepaid expenses | 134,701 |
| Other current assets | (2,766) |
| Increase (decrease) in liabilities | |
| Accounts payable and accrued expenses | (888,672) |
| Accrued compensation payable | 87,394 |
| Accrued pension and postretirement benefits other then pension | (762,500) |
| Net cash provided (used) by operating activities | 362,244 |
| Cash flow from investing activities | |
| Investment in life insurance policies | 39,979 |
| Proceeds from sales of investments | 10,873,441 |
| Purchases of investments | (11,005,680) |
| Fixed asset acquisitions | (2,290,607) |
| Drawdowns from (deposits into) bond escrow | (936,232) |
| Net cash provided (used) by investing activities | (3,319,099) |
| Cash flow from financing activities | |
| Refundable entrance fee deposits | 3,447,941 |
| Mortgage principal payments | - |
| Net cash provided (used) by financing activities | 3,447,941 |
| Net change in cash | 491,086 |
| Cash - beginning of year | 5,794,309 |
| Cash - as of June 30, 2017 | $ 6,285,395 |
| Supplemental disclosure of cash flow information | |
| Cash paid during the year for interest | $ 828,856 |

# THE OSBORN RETIREMENT COMMUNITY OCCUPANCY REPORT

6/30/2017

| | Year to date Private Pay Actual | Year to date Private Pay Budget | Variance | Year to date Charity Care Actual | Year to date Charity Care Budget | Variance |
|---|---|---|---|---|---|---|
| Pavilion Private Pay & Scholarship | 48.28 | 41.88 | 6.40 | 2.52 | 3.55 | (1.03) |
| Pavilion Medicare & HMO | 29.56 | 34.07 | (4.51) | 0.00 | 0.00 | 0.00 |
| Rental Independent | 13.17 | 11.37 | 1.80 | 6.00 | 6.00 | 0.00 |
| Rental Asst. Living | 69.90 | 71.24 | (1.34) | 5.38 | 5.00 | 0.38 |
| Memory Care | 11.32 | 11.67 | (0.35) | 1.67 | 1.00 | 0.67 |
| Sterling Park | 180.10 | 183.30 | (3.20) | 0.00 | 0.00 | 0.00 |
| Total | 352.31 | 353.53 | (1.22) | 15.57 | 15.55 | 0.02 |

SUMMARY

| | Year to date Actual | Year to date Budget | Variance |
|---|---|---|---|
| Pavilion Private Pay & Scholarship | 50.80 | 45.43 | 5.37 |
| Pavilion Medicare & HMO | 29.56 | 34.07 | (4.51) |
| Rental Independent | 19.17 | 17.37 | 1.80 |
| Rental Asst. Living | 75.28 | 76.24 | (0.96) |
| Memory Care | 12.99 | 12.67 | 0.32 |
| Sterling Park | 180.10 | 183.30 | (3.20) |
| Total | 367.89 | 369.08 | (1.19) |

OSBORN CONSOLIDATED
BUDGET INCOME AND EXPENSE REPORT
FOR THE PERIOD ENDED JUNE 30, 2017

| SUMMARY | BUDGET | ACTUAL | VARIANCE | VARIANCE % |
|---|---|---|---|---|
| REVENUE (W/O CHARITY CARE) | $30,600,286 | $30,608,620 | $8,334 | 0.03% |
| TOTAL OPERATING EXPENSE | $28,515,075 | $28,229,568 | $285,506 | 1.00% |
| OPERATING SURPLUS/(DEF) BEFORE DEBT SVC AND CHARITY CARE | $2,085,211 | $2,379,052 | $293,841 | 14.09% |
| DEBT SERVICE AND LINE OF CREDIT INTEREST | $1,751,357 | $1,751,356 | $1 | 0.00% |
| OPERATING SURPLUS/(DEF) | $333,854 | $627,696 | $293,842 | 88.01% |
| INTEREST AND DIVIDEND INCOME | $262,500 | $216,839 | ($45,661) | -17.39% |
| TOTAL OPERATING SURPLUS (DEF) | $596,354 | $844,535 | $248,181 | 41.62% |
| CHARITY CARE SUBSIDY INVESTMENT CAP | $1,184,849 | $1,194,544 | $9,695 | 0.82% |
| TOTAL CHARITY CARE SUBSIDY (INVESTMENT CAP AND OPERATIONS) | $1,254,095 | $1,114,583 | ($139,512) | -11.12% |
| TOTAL SURPLUS (DEF) [with Charity Cap] | $1,781,204 | $2,039,079 | $257,876 | 14.48% |
| TOTAL SURPLUS (DEF) [ with Total Charity Care] | $1,850,450 | $1,959,118 | $108,668 | 5.87% |
| Adjusted Net Operating Margin | 5.28% | 6.09% | | |

**EXECUTIVE SUMMARY -**
**KEY AREAS OF INTEREST**
**FOR THE PERIOD ENDED JUNE 30, 2017**
**Additional Information**

## (1) Debt Service Coverage Ratio:

| | | | 12 months ended 6/30/2017 | Covenant |
|---|---|---|---|---|
| Operating income (loss) | | $ | (5,954,862) | |
| Add: Depreciation and amortization expense | | $ | 9,436,166 | |
| Add: Interest expense | | $ | 1,621,832 | |
| Add: Charity subsidy | | $ | 2,265,220 | |
| Add: Net Entrance Fees | | $ | 6,703,831 | |
| Funds available for debt service | A | $ | 14,072,187 | |
| Maximum annual debt service | B | $ | 3,504,457 | |
| **Debt service coverage ratio ( A / B )** | | | **4.02** | **1.20** |

## (2) Days cash on hand Ratio:

| | | | | |
|---|---|---|---|---|
| Operating cash fund balance | | $ | 6,285,395 | |
| Investment fund balance | | $ | 51,909,740 | |
| Total fund | A | $ | 58,195,135 | |
| Operating expenses, excluding depreciation | B | $ | 57,104,018 | |
| **Days cash on hand ratio ( A / B )* 365 days** | | | **371.97** | **175.00** |