PRESBYTERIAN HOMES OBLIGATED GROUP

Combined financial statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

PRESBYTERIAN HOMES OBLIGATED GROUP

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PRESBYTERIAN
SENIOR LIVING

Certification of Chief Executive and Chief Financial Officers

We are responsible for the combined financial statements of the Presbyterian Homes Obligated Group as of December 31, 2010 and 2009, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Combined financial statements report our financial positions and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these combined financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Combined financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 104 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

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Independent Auditors' Report

The Board of Trustees
Presbyterian Homes Obligated Group

We have audited the accompanying combined statements of financial position of the Presbyterian Homes Obligated Group (the Obligated Group) as of December 31, 2010, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended. These combined financial statements are the responsibility of the Obligated Group's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of the Obligated Group for the year ended December 31, 2009, were audited by other auditors whose report, dated April 8, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 combined financial statements referred to above present fairly, in all material respects, the financial position of the Obligated Group as of December 31, 2010, and the results of their operations, changes in its net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying combined financial statements are those of the Presbyterian Homes Obligated Group (see Note 2(a) to the combined financial statements), and are not those of the primary reporting entity. The consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates, have been issued to its Board of Trustees as the consolidated financial statements of the primary reporting entity.

Carbis Walker LLP

Carbis Walker LLP
New Castle, Pennsylvania
March 24, 2011

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2010 and 2009

Assets		**2010**	**2009**
Cash and cash equivalents	$	2,362,257	1,743,660
Investments		66,764,533	61,168,373
Statutory liquid reserves		5,955,534	6,262,776
Accounts receivable, net		14,397,747	13,828,614
Interest receivable		6,605	11,807
Inventory		291,293	331,104
Prepaid expenses and other current assets		1,025,512	975,168
Assets whose use is limited		12,515,736	12,566,450
Assets whose use is limited, construction funds held by trustee		19,176	977,004
Pledges receivable		764,357	794,555
Assets held for sale		2,742,604	–
Property and equipment (net of accumulated depreciation of $173,282,174 and $162,653,430, respectively)		186,525,095	184,886,148
Assets under capital leases (net of accumulated depreciation of $362,879 and $394,993, respectively)		131,769	288,718
Due from affiliates		35,496,040	28,570,919
Funds held in trust by others		14,810,256	13,808,806
Deferred financing costs (net of accumulated amortization of $1,402,171 and $1,036,391, respectively)		3,110,030	2,997,253
Other assets		46,502	140,684
Total assets	$	346,965,046	329,352,039

See accompanying notes to combined financial statements.

(Continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2010 and 2009

Liabilities and Net Assets		**2010**	**2009**
Accounts payable	$	10,949,499	8,312,494
Accrued expenses		11,583,126	10,480,134
Notes payable		11,263,865	15,961,805
Accrued interest		603,766	757,880
Resident deposits		1,304,516	1,203,997
Deferred revenue - entrance fees		61,467,074	61,274,430
Fair value of interest rate swaps		1,718,966	2,160,379
Annuities payable		1,065,254	884,695
Accrued pension		440,979	194,967
Long-term debt			
Obligations under capital leases		123,772	279,907
Long-term debt		150,430,223	148,114,328
Total liabilities		250,951,040	249,625,016
Net assets:			
Non-controlling interest		2,765,050	2,765,050
Unrestricted		69,795,981	54,125,455
Temporarily restricted		4,654,497	5,151,950
Permanently restricted		18,798,478	17,684,568
Total net assets		96,014,006	79,727,023
Total liabilities and net assets	$	346,965,046	329,352,039

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2010 and 2009

		2010	2009
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $8,756,294 and $8,269,096, respectively	$	158,823,840	154,199,632
Interest and dividend income		2,626,175	2,748,687
Realized loss on investments		(1,596,244)	(1,456,083)
Gain (loss) on sale of property and equipment		6,154	(136,352)
Contributions, gifts and bequests		702,259	4,038,424
Net assets released from restrictions		2,567,361	1,300,554
Total operating revenues, gains, and other support		163,129,545	160,694,862
Expenses:			
Nursing services		46,671,453	47,622,413
Rehabilitation		7,996,849	7,156,015
Recreation and special services		4,806,955	4,999,966
Pharmacy		3,453,759	3,488,799
Social services		707,094	700,022
Physician services		398,690	433,081
Food services		16,801,699	16,711,136
Building operations and maintenance		16,148,403	15,657,188
Housekeeping		3,500,685	3,803,256
Laundry and linen		1,404,763	1,508,903
General and administrative		22,806,076	21,335,436
Employee benefits		13,599,417	13,752,820
Interest		4,944,329	5,423,895
Depreciation		10,881,516	10,947,983
Amortization		212,025	178,471
Total expenses		154,333,713	153,719,384
Operating income		8,795,832	6,975,478
Increase in fair value of interest rate swaps		441,413	722,742
Gain on early extinguishment of debt		725	49,295
Loss on abandoned project		(44,970)	(273,694)
Excess of operating revenues, gains and other support over expenses		9,193,000	7,473,821
Other changes:			
Transfer of investments to PHI Investment Services Corporation		–	40,020
Pension-related changes other than net periodic pension costs		(300,000)	396,432
Unrealized gains on investments		6,777,526	12,372,209
Total other changes		6,477,526	12,808,661
Increase in unrestricted net assets		15,670,526	20,282,482

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2010 and 2009

	2010	2009
Temporarily restricted net assets:		
Contributions, gifts and bequests	1,600,343	1,069,523
Interest and dividend income	92,780	166,314
Unrealized gain on investments	376,785	320,677
Net assets released from restrictions	(2,567,361)	(1,300,554)
Change in temporarily restricted net assets	(497,453)	255,960
Permanently restricted net assets:		
Contributions, gifts and bequests	281,790	111,570
Change in fair value of funds held in trust by others	832,120	1,462,607
Change in permanently restricted net assets	1,113,910	1,574,177
Change in net assets	16,286,983	22,112,619
Net assets, beginning of year	79,727,023	57,614,404
Net assets, end of year	$ 96,014,006	79,727,023

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 16,286,983	22,112,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,881,516	10,947,983
Provision for bad debt	782,332	590,412
Proceeds from entrance fees and deposits	11,948,511	9,542,446
Amortization of entrance fees	(8,756,294)	(8,269,096)
Gain on early extinguishment of debt	(725)	(49,295)
Change in fair value of interest rate swaps	(441,413)	(722,742)
Unrealized gain on investments and change in fair value of funds held in trust by others	(7,986,431)	(14,155,493)
Realized loss on investments	1,596,244	1,456,083
Realized (gain) loss on sale of property and equipment	(6,154)	136,352
Transfer of investments to PHI Investment Management Services Corporation	–	(40,020)
Contributions restricted for long-term purposes	(281,790)	(111,570)
Amortization of deferred costs	182,889	181,816
Amortization of bond premium	29,136	(3,345)
Loss on abandoned project	44,970	273,694
Changes in assets and liabilities:		
Increase in accounts receivable	(1,351,465)	(832,717)
Decrease in pledges receivable	30,198	184,609
Decrease in other assets	88,851	117,177
Increase (decrease) in accounts payable	2,637,005	(364,773)
Increase (decrease) in accrued expenses	1,194,890	(4,091,044)
Net cash provided by operating activities	26,879,253	16,903,096
Cash flows from investing activities:		
Acquisition of property and equipment	(12,402,330)	(16,810,036)
Assets held for sale	(2,742,604)	–
Transfer of investments to PHI Investment Management Services Corporation	–	40,020
Purchases of investments	(34,578,192)	(43,755,421)
Proceeds from sale of investments	35,686,553	54,849,578
Due from affiliates	(6,925,121)	(11,014,696)
Net cash used in investing activities	(20,961,694)	(16,690,555)
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(2,899,054)	(2,088,057)
Principal payments on and redemptions of long-term debt	(4,276,229)	(4,107,660)
Proceeds from issuance of long-term debt	6,563,713	3,441,180
Financing costs incurred	(295,666)	–
Net (repayments) borrowings of notes payable	(4,697,940)	1,490,017
Borrowings through capital leases	–	101,242
Repayments on capital leases	(156,135)	(163,487)
Contributions restricted for long-term purposes	281,790	111,570
Increase (decrease) in annuities payable	180,559	(640)
Net cash used in financing activities	(5,298,962)	(1,215,835)
Net increase (decrease) in cash and cash equivalents	618,597	(1,003,294)
Cash and cash equivalents, beginning of year	1,743,660	2,746,954
Cash and cash equivalents, end of year	$ 2,362,257	1,743,660

See accompanying notes to combined financial statements.

(1) General Information

The Presbyterian Homes Obligated Group (the Obligated Group) consists of the following not-for-profit corporations: Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Quincy Retirement Community (QRC), The Long Community Inc (TLC), PHI Bloomsburg Senior Care Inc (BSC) and PHI Investment Management Services, Inc (PIMSI). Between all the members of the Obligated Group, they own, operate and manage one stand alone skilled nursing facility, eleven continuing care retirement communities, three stand-alone independent living facilities, and three stand alone personal care homes. In total, the Obligated Group includes 964 independent living units, 465 personal care units, and 1,221 nursing beds.

The following table details the number of beds/units that operate under each member of the Group:

	Total	Pres Homes	PHPH	QRC	TLC
Nursing beds	1,221	711	376	134	—
Personal care units	465	307	91	32	35
Independent living units	964	678	103	183	—
Total	2,650	1,696	570	349	35

The Obligated Group is governed by the Board of Trustees of PHI, doing business as Presbyterian Senior Living. Presbyterian Senior Living is the parent organization for the members of the Obligated Group.

On September 30, 2009, the Long Community Inc. joined the Obligated Group. The Obligated Group's combined financial statements for 2009 include the results of the Long Community Inc. as if it had been part of the Obligated Group for the full year starting on January 1, 2009.

(continued)

(1) General Information (continued)

On November 22, 2010, PHI Bloomsburg Senior Care Inc. joined the Obligated Group. Due to this change in reporting entity, the Obligated Group's 2009 combined financial statements have been amended to include the results of PHI Bloomsburg Senior Care.. The Obligated Group's combined financial statements for 2010 include the results of PHI Bloomsburg Senior Care Inc. as if it had been part of the Obligated Group for the full year starting on January 1, 2010. A summary of the changes to the 2009 combined statements is as follows:

		Original Audit 2009	PHI Bloomsburg Senior Care 2009	Amended 2009
Assets	$	326,535,243	2,816,796	329,352,039
Liabilities		249,573,270	51,746	249,625,016
Net assets		76,961,973	2,765,050	79,727,023
Results of operations:				
Unrestricted revenue	$	157,929,812	2,765,050	160,694,862
Unrestricted expenses		153,719,384	–	153,719,384
Change in unrestricted net assets		17,517,432	2,765,050	20,282,482
Change in temporarily restricted net assets		255,960	–	255,960
Change in permanently restricted net assets		1,574,177	–	1,574,177
Total change in net assets		19,347,569	2,765,050	22,112,619

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and only include those entities set forth in the master trust indenture by and among the Bank of New York, dated May 1, 2008, as amended through the eighth supplemental indenture dated November 22, 2010. Requirements of the master trust indenture preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These combined financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Obligated Group as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Income Taxes

The Obligated Group and all its members are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Obligated Group follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's combined financial statements and prescribes 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. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the combined financial statements.

The Obligated Group's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2007, 2008 and 2009 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of combined financial statements in accordance with the accounting requirements set forth in the master trust indenture as amended 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

(e) Cash and Cash Equivalents

The Obligated Group considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the combined statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Obligated Group's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. At December 31, 2010 and 2009, the Obligated Group's cash balances exceeded the FDIC coverage by $811,732 and $269,765, respectively.

(f) Investments

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in fixed securities are measured at fair value, as determined by a national exchange in the combined statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2010 and 2009, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to the general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

		2010	2009
Interest and dividends	$	2,718,955	2,915,001
Realized losses on investments		(1,596,244)	(1,456,083)
Unrealized gains on investments and funds held in trust by others		7,986,431	14,155,493
	$	9,109,142	15,614,411

Investment expenses of $255,735 and $220,528 for the years ended December 31, 2010 and 2009, respectively, have been included in general and administrative expenses.

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts, as follows:

		2010	2009
Total accounts receivable	$	15,898,343	15,567,293
Less: allowance for doubtful accounts		(1,500,596)	(1,738,679)
Net accounts receivable	$	14,397,747	13,828,614

Receivables are considered past due when payments have not been received by the Obligated Group within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectibility of a receivable is confirmed.

(h) Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures and permanently restricted investments.

(i) Pledges Receivable

The Corporation records material pledges due in more than one year at the net present value less a discounted uncollectible amount.

		2010	2009
Pledges receivable	$	819,058	908,468
Less: unamortized discount		(16,948)	(38,983)
Subtotal		802,110	869,485
Less: allowance for uncollectibles		(37,753)	(74,930)
Net pledges receivable	$	764,357	794,555

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2010 is as follows:

Amounts due in:		
Less than one year	$	553,923
One to five years		265,135
	$	819,058

(j) Inventories

Inventories consist of medical and dietary supplies. Inventory is valued at the lower of cost or market using the first-in, first-out method of inventory costing.

(k) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The Obligated Group's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	3-35 years
Buildings and improvements	5-75 years
Departmental equipment, furniture and fixtures	1-40 years
Furniture	5-25 years
Vehicles	4 years

(l) Costs of Borrowing

Interest cost incurred on borrowed funds less interest income on these funds during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of $918,495 and $775,825 was capitalized in 2010 and 2009, respectively.

(continued)

(m) Funds Held in Trust by Others

The members of the Obligated Group have been named as a beneficiary of several trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the Obligated Group is notified of the trust's existence. The Obligated Group receives the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trust are reported as investment income, increasing unrestricted net assets.

Assets held in trust by others are valued based on the estimated fair value of the underlying investments. The change in the fair value of assets held in trust by others is reported as permanently restricted unrealized gains or losses on investments.

Also included in funds held in trust by others are gift annuities held by an independent trustee. Periodic payments are made until the death of the annuitant. These annuities are recorded at the present value of the annuity amount discounted at the contract rate over the estimated remaining life of the annuitant.

A summary of these funds at December 31 is as follows:

		2010	2009
Beneficial interest in assets of Foundation	$	60,497	47,320
Beneficial interest in perpetual trusts		12,747,824	11,909,926
Contributions receivable from remainder trusts		1,975,453	1,807,940
Gift annuities		26,482	43,620
	$	14,810,256	13,808,806

(n) Derivatives and Hedging Activities

The Obligated Group utilizes interest rate swap agreements to hedge variable interest rates but elected not to elect hedge accounting for these agreements.

The Obligated Group's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the combined statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2010, an adjustment to the liability was recorded causing a gain of $441,413. This adjustment represents the decrease in the liability of the interest rate swaps. For 2009, an adjustment to the liability was recorded causing a gain of $722,742. This adjustment represents the decrease in the liability of the interest rate swaps.

(continued)

(o) Deferred Financing Costs

The Obligated Group has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. Amortization expense is expected to be approximately $194,671 for each of the next five years.

(p) Workers' Compensation

Accrued expenses include a provision for estimated self-insured workers' compensation claims for both reported claims not yet paid and claims incurred but not reported.

(q) Estimated Obligation to Provide Future Services to Continuing Care Residents

At certain Continuing Care Retirement Communities, the members of the Obligated Group provide health care coverage for certain residents under the terms of a Residence and Care Agreement. The Obligated Group annually estimates the present value of the net cost of future services and the use of facilities to be provided to current residents covered by Residence and Care Agreements and compares that amount to the balance of deferred entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred entrance fees, a liability is recorded (estimated obligation to provide future services to continuing care residents, in excess of amounts received or to be received). Management's assumptions used in the estimate may vary by facility. Assumptions made in these estimates include a 4% inflation rate for nursing costs, a 4% inflation rate for other operating costs, and a 6% discount rate based on the approximate cost of borrowing for the Obligated Group. Management's estimation resulted in no obligation in excess of recorded amounts to provide future services to continuing care residents.

(r) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the combined statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related units.

(continued)

(s) Deferred Revenue – Entrance Fees

Entrance fees collected from residents at move-in pursuant to a Residence and Care Agreement are initially recorded as deferred revenue-entrance fees. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

The amount of entrance fees guaranteed refundable to residents at December 31, 2010 and 2009 under contractual refund provisions was approximately $22,694,000 and $23,922,000, respectively.

(t) Statutory Liquid Reserves

The Continuing Care Provider Registration and Disclosure Act requires a working capital reserve equivalent to the greater of the total debt service payments due during the next 12 months on account of any loan or long-term financing, or 10% of the projected annual operating expenses of the Obligated Group exclusive of depreciation. The reserve is computed on only the proportional share of financing or operating expenses that are applicable to Residence and Care Agreements. The reserve requirement is considered to be fulfilled by the Obligated Group's unrestricted cash and investments.

(u) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Obligated Group has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Obligated Group in perpetuity. The interest and dividend income from these restricted assets is used for the charitable purpose.

(v) Donor Restrictions

The Obligated Group 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 the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying combined financial statements.

(continued)

(v) Donor Restrictions (continued)

The Obligated Group reports non-cash gifts as unrestricted support 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 support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Obligated Group reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions, including unconditional promises to give, are recognized as revenues when the promise to give is first made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

(w) Resident Service Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Pennsylvania Medicaid, and other third-party payors for services rendered. The Obligated Group derives a portion of its revenues from federal and state reimbursement programs with a significant portion of state reimbursement from Pennsylvania's Department of Public Welfare (DPW).

The Obligated Group's nursing care facilities primarily derive their revenue from private-pay, Medicare, and Medicaid. Private pay rates are established on the basis of the cost of delivering services and competitive consideration and, as such are essentially market driven. In contrast, Medicare and Medicaid payment rates are regulated by the federal and state governments. As a result, the industry is sensitive to related legislative changes and is affected by reductions in governmental spending for these programs.

Revenues from Medicare and Medicaid represent approximately 45% of revenues for both 2010 and 2009. Medicare and Medicaid receivables represent approximately 43% and 41% of accounts receivable at December 31, 2010 and 2009, respectively.

Skilled nursing services provided to Medicare beneficiaries are paid under terms of a prospective payment system ("PPS") at pre determined rates based on clinical, diagnostic and other factors.

(w) Resident Service Revenue and Business Concentration (continued)

Nursing services provided to Pennsylvania Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Obligated Group's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by DPW on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2010, the rates for July 1, 2010 through December 31, 2010, have not been finalized. Revenues have been accrued based on estimated rates for this period.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DPW based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been finalized for the period July 1, 2010, through December 31, 2010. Included in revenues are estimates for these amounts. For the years ended December 31, 2010 and 2009, the Obligated Group received or will receive approximately $1,680,000 and $1,700,000 in additional revenue for the net effect of this assessment and supplement.

(x) Charity Care

The Obligated Group provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Obligated Group does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Obligated Group considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $20.6 million and $17.5 million for the years ended December 31, 2010 and 2009, respectively, of which the amount of charges foregone for services and supplies was approximately $3.8 million and $3.3 million, respectively.

In August 2010, Financial Accounting Standards Board (FASB) issued authoritative guidance on improving disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribes that the amount of charity care disclosed in the combined financial statements shall be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provides that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques may be used to estimate these costs, and that these techniques shall be disclosed and that any funds received to offset or subsidize charity care services also shall be disclosed. The Obligated Group will adopt this new accounting standards update in the year ending December 31, 2011. The Obligated Group is currently evaluating the impact of its pending adoption on the Obligated Group's combined financial statements.

(continued)

(y) Contributed Services

Contributed services are reflected in the accompanying combined financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Obligated Group. No amounts have been included in the accompanying combined financial statements as amounts are not material. The Obligated Group pays for most services requiring specific expertise.

(z) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2010 and 2009 was $357,505 and $389,550, respectively.

(aa) Classification of expenses

	2010	2009
Program activities	$ 131,527,637	132,383,948
General and administrative	22,358,814	20,800,019
Fundraising	447,262	535,417
	$ 154,333,713	153,719,384

(ab) Fundraising Expense

Fundraising expenses incurred by the Obligated Group are included in general and administrative on the combined statements of operations and changes in net assets.

(ac) Operating Income

The combined statements of operations and change in net assets include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include gain on the early extinguishment of debt, increase in fair value of interest rate swaps and loss on abandoned project.

(ad) Performance Indicator

The Obligated Group measures the performance of its operations using the combined statements of operations and change in net assets, which includes a performance indicator of operations labeled as "excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net assets which are excluded from this measure are: pension-related changes other than net periodic pension costs, unrealized gains on investments and transfer of investments.

(ae) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2010 and 2009 was $6,016,938 and $6,257,076, respectively. In 2009, Presbyterian Homes, Inc. sold bonds at a discount of $180,548.

(af) Subsequent Events

In June 2009, the FASB issued a new accounting standard related to subsequent events. During 2009, the Obligated Group adopted the standard, which provides guidance on accounting for and disclosure of events that occur after the balance sheet date but before combined financial statements are issued or are available to be issued. The adoption of this standard did not have a material effect on the Obligated Group's combined financial statements.

The Obligated Group has evaluated subsequent events through March 24, 2011, which is the date the combined financial statements were issued.

(ag) Reclassification

Certain amounts in the 2009 combined financial statements have been reclassified to conform with the 2010 financial presentation. These reclassifications had no effect on the change in net assets.

(3) Investments

The cost and fair value of investments at December 31 is as follows:

	2010		2009	
	Fair value	Cost	Fair value	Cost
Money market funds	$ 15,217,272	15,217,272	13,376,398	13,376,398
Equity securities	41,657,336	40,087,151	41,307,566	46,026,700
Fixed income securities	17,892,175	17,511,521	17,666,445	17,318,606
Alternate investments	10,488,196	9,073,581	8,624,194	8,115,777
Totals	$ 85,254,979	81,889,525	80,974,603	84,837,481
Less assets whose use is limited (note 5)	(12,534,912)		(13,543,454)	
Total investments	$ 72,720,067		$ 67,431,149	

(3) Investments (continued)

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group has twenty-one mutual funds, and six alternative investments and several other fixed income securities as of December 31, 2010. As of December 31, 2009, the Obligated Group had nineteen mutual funds, six alternate investments and several other fixed income securities.

As of December 31, 2010, one mutual fund had a market value that had been below cost for less than a year. In total, its market value was less than three percent below cost. As of December 31, 2009, one mutual fund had a market value that had been below cost for less than a year. In total, its market value was less than four percent below cost.

Six mutual funds and one alternate investment had a market value that had been below cost for more than a year as of December 31, 2010. In total, their market value was less than seven percent below cost. Thirteen mutual funds and two alternate investments had a market value that had been below cost for more than a year as of December 31, 2009. In total, their market value was fourteen percent below cost.

A summary of investments with fair values below cost as of December 31, 2010 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 1,580,673	(33,683)	16,533,004	(904,078)	18,113,677	(937,761)
Alternative investments	–	–	707,170	(307,965)	707,170	(307,965)
Total temporarily impaired investments	$ 1,580,673	(33,683)	17,240,174	(1,212,043)	18,820,847	(1,245,726)

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2009 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 1,798,401	(67,387)	34,700,087	(5,508,917)	36,498,488	(5,576,304)
Alternative investments	–	–	2,613,155	(361,936)	2,613,155	(361,936)
Total temporarily impaired investments	$ 1,798,401	(67,387)	37,313,242	(5,870,853)	39,111,643	(5,938,240)

(4) Related Party Transactions

The Obligated Group members incur a management fee payable to their parent organization under a management agreement whereby Presbyterian Senior Living provides the Obligated Group with various management and administrative services to each of the Obligated Group's operating facilities. The Obligated Group members also incur certain operating expenses under the management agreement that are comprised primarily of the salaries and benefits of certain key management personnel provided to the Obligated Group by the parent organization. During the years ended December 31, 2010 and 2009, the Obligated Group incurred management fees and other expenses under the management agreement totaling $11,398,872 and $8,991,316, respectively, which is classified as general and administrative expenses in the combined statements of operations and changes in net assets.

In 2009, the Obligated Group purchased medications from Continuing Care Rx, Inc. At that time, Presbyterian Senior Living was a non-controlling interest in CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, Inc. This interest was sold during 2010. Total purchases from Continuing Care Rx, Inc. for 2009 were approximately $990, of which none was included in accounts payable as of December 31,2009.

The Obligated Group is an irrevocable guarantor of all the debts of Presbyterian Senior Living Services, Inc. (Glen Meadows), an affiliate organization. As of December 31, 2010 and 2009, Presbyterian Senior Living Services, Inc. had $17,185,000 and $17,620,000, respectively, in outstanding debt. In the event of a deficiency judgment from the sale of real property pledged as security for the purchase of a facility in Glen Arm, Maryland, the Obligated Group has guaranteed to repay all of the outstanding debt which matures through 2029.

(4) Related Party Transactions

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2010 and 2009, the Obligated Group paid Prelude approximately $1,796,016 and $1,722,661, respectively, for information services provided by Prelude, of which $30,898 and $28,392 is included in accounts payable as of December 31, 2010 and 2009, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2010 and 2009 are $35,496,040 and $28,570,919, respectively.

The amounts receivable from the Corporation's affiliated organizations are unsecured, non-interest bearing and have no fixed repayment terms, except loans to Schartner House Associates and Westminster Place at Parkesburg.

(5) Assets Whose Use is Limited

At December 31 assets whose use is limited consisted of the following:

	2010	2009
Permanently restricted investments	$ 4,901,921	5,060,750
Bond fund	1,636,485	1,621,399
Debt service reserve fund	5,977,330	5,884,301
Held by trustee - for future projects	19,176	977,004
	$ 12,534,912	13,543,454

(continued)

(6) Property and Equipment

A summary of property and equipment and accumulated depreciation at December 31 is as follows:

	2010		2009	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 20,060,544	–	19,705,107	–
Land improvements	18,449,466	13,308,926	18,400,550	12,693,155
Buildings and improvements	250,809,513	123,075,658	243,132,050	114,407,650
Departmental equipment, furniture and fixtures	38,491,378	31,631,444	37,772,250	30,297,199
Furniture	3,235,483	3,137,768	3,232,638	3,109,973
Vehicles	2,314,294	2,128,378	2,324,774	2,145,453
Construction-in-progress	26,446,591	–	22,972,209	–
	$ 359,807,269	173,282,174	347,539,578	162,653,430
Net book value		$ 186,525,095		$ 184,886,148

As the Obligated Group undertakes expansion and improvement projects, costs are included in construction-in-progress. As projects are completed, the costs are transferred to buildings and building improvements. Ongoing improvement and expansion is anticipated in the normal course of operations.

During 2010, management decided to sell the Long Home and plans to move the current residents to its new location, The Long Community at Highland. Therefore, the current value of The Long Home has been moved to assets held for sale.

As of December 31, 2010 approximately $20,590,000 was committed for future renovations.

(continued)

(7) Long-term Debt

Long-term debt of the group and of the amounts payable by the Obligated Group as of December 31, 2010 and 2009 consisted of the following:

		2010	2009
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.39% and 0.4% at December 31, 2010 and 2009, respectively, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Obligated Group.	$	6,000,000	6,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2005 to 2026, interest rates ranging from 2.15% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		11,275,000	12,530,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2004 to 2032, interest adjusted weekly, 0.36% and 0.21% at December 31, 2010 and 2009, respectively, collateralized by letter of credit		8,075,000	8,250,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 1.012% and 0.994% at December 31, 2010 and 2009, respectively, collateralized by property and equipment and gross revenues of the Obligated Group		5,919,161	6,556,577
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		16,790,000	16,800,000
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2009 to 2021, interest rates ranging from 4% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group		15,925,000	16,880,000
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 0.33% and 0.22% at December 31, 2010 and 2009, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group		45,000,000	45,000,000

(continued)

(7) Long-term Debt (continued)

	2010	2009
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.36% and 0.3% at December 31, 2010 and 2009, respectivley, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	15,685,000	15,685,000
York County Industrial Development Authority Bonds Series 2010, tax exempt bank qualified debt, principal due in varying annual amounts from 2013 to 2033, interest adjusted weekly, 2.25% at December 31, 2010, collateralized by property and equipment and gross revenues of the Obligated Group	6,563,713	-
1995 Series A revenue note to First National Bank of PA, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 3.16% at both December 31, 2010 and 2009. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,572,254	2,712,141
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 0.39% and 0.3% at December 31, 2010 and 2009, respectively. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	5,585,000	6,235,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which adjusts every five years and was 2.71$ and 5.295% at December 31, 2010 and 2009, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	709,008	752,020
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was of 5.01% at both December 31, 2010 and 2009. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group.	3,279,612	3,412,285

(continued)

(7) Long-term Debt (continued)

	2010	2009
Mortgage note payable,Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bears an interest rate of 4.51%. The note is collateralized by property and equipment and gross revenues of the Obligated Group.	7,147,615	7,421,852
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000	-	5,000
	150,526,364	148,239,875
Less: Unamortized discount	(401,208)	(463,649)
Plus: Unamortized premium	305,067	338,102
	$ 150,430,223	148,114,328

In 2008, Presbyterian Homes, Inc. repurchased $3,170,000 of the Cumberland County 2003A Series Bonds. These were being held with the option to remarket at a future date. In 2009, an additional $50,000 of the Cumberland County 2003A bonds were repurchased and $405,000 of the Cumberland County 2005A bonds were repurchased. All of these repurchased bonds were resold in October of 2009. A net gain of $49,295 was recorded in 2009 for the above transactions. In March 2010, $10,000 of the Cumberland County 2005A bonds were repurchased, and are currently being held with the option to remarket at a future date.

Under the terms of the Obligated Group's debt, the Obligated Group is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2010 and 2009.

Several of the bonds are backed by letters of credit and subject to remarketing agreements. In the event that any or all of the bonds are tendered by the bondholder and are unable to be remarketed, the letter of credit would be drawn upon to repay the tendered bonds. Any drawings under the letters of credit are repayable on or before the first to occur of the following: the date on which the bonds purchased with the proceeds from a draw on the letter of credit are successfully remarketed by the remarketing agent, the date on which the bonds purchased with the proceeds from a draw on the letters of credit are redeemed or otherwise paid in full, the occurrence of an event of default, or the date the letters of credit expires. The letters of credit for the bonds will expire at various dates through June 2015.

(continued)

(7) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2010 and thereafter are as follows:

Years ended December 31,		Aggregate maturities
2011	$	4,461,046
2012		4,670,604
2013		4,345,328
2014		4,812,534
2015		4,984,133
Thereafter		127,252,719
	$	150,526,364

The obligated group entered into several swap agreements with financial intermediaries, which fix the interest rates to be paid by the obligated group on the Cumberland County Series 1993 and 2009B bonds, a portion of the Cumberland County 2003B bonds, the Kent County 2003B bonds, and the Montgomery County 1997 bonds as follows:

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$10,000,000	SIFMA MSI	M&T	06/05/08	06/01/11	2.81%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$6,556,577	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

(7) Long-term Debt (continued)

The fair value of the interest rate swap liabilities at December 31, 2010 and 2009 are as follows:

Counterparty	Fair Value 12/31/2010	Fair Value 12/31/2009
M&T	$ 104,200	$ 316,700
Wells Fargo	539,543	451,565
Wells Fargo	721,208	478,323
Morgan Stanley	-	511,297
M&T	-	143,530
Bank of America	354,015	258,964
Total	$ 1,718,966	$ 2,160,379

The M&T Bank and the Morgan Stanley swaps expired on September 30, 2010 and October 1, 2010, respectively.

Pursuant to all these agreements the counterparty assumes the risk of varying interest rates, with the difference between the weekly variable rates and the fixed rates above being either paid by, or reimbursed to, the Obligated Group.

(8) Notes Payable

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable based on the prime rate of the financial institution less one hundred and fifty basis points. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2010 and 2009, under the line of credit agreements, the Obligated Group had available a total maximum of $16,750,000 and $23,500,000, respectively, from the financial institutions. As of December 31, 2010 and 2009, the Obligated Group had $11,263,865 and $15,961,805, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 3.0625%.

(9) Leases

The Obligated Group is obligated under capital leases for equipment that expires in 2012. At December 31, 2010 and 2009, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

	2010	2009
Office equipment	$ 494,648	683,711
Accumulated amortization	(362,879)	(394,993)
	$ 131,769	288,718

Amortization expense for the assets held under capital leases is included in depreciation expense in the combined statements of operations and changes in net assets.

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2010 follows:

2011	$ 117,846
2012	7,720
	125,566
Amounts representing interest	(1,794)
	$ 123,772

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2013. The future minimum lease payments under these operating leases are as follows:

2011	$ 196,534
2012	142,233
2013	51,060
	$ 389,827

Rental expense under operating leases was $214,995 and $246,053 for the years ended December 31, 2010 and 2009, respectively.

(10) Annuities

The Obligated Group has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Obligated Group. Total annuities payable were $1,065,254 and $884,695 at December 31, 2010 and 2009, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4% to 6% percent to determine the present value of the actuarially determined liability. The Obligated Group has assets included in investments of $1,326,907 and $1,217,464 as of December 31, 2010 and 2009, respectively, to satisfy annuities.

(11) Workers' Compensation Insurance

The Obligated Group has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Obligated Group has contracted with major insurance carriers for excess insurance coverage, loss control services, and administration. In 2010 and 2009, the Obligated Group maintained a letter of credit for $4,300,000, in connection with this self-insurance program. At December 31, 2010 and 2009, the Obligated Group has recorded an accrued expense of approximately $4.6 million and $4.9 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

(12) Medical Malpractice Claims Coverage

The Obligated Group maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Obligated Group's insurance coverages or will have a material adverse effect on the combined financial statements.

(continued)

(13) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2010	2009
Trust assets held for the benefit of The Easton Home	$ 524,027	1,097,794
Charity care and/or equipment, including pledges receivable		
Endowment	225,631	228,740
Other	2,162,304	2,240,886
Contributions receivable from remainder trusts	1,742,535	1,584,530
	$ 4,654,497	5,151,950

Net assets of $2,567,361 and $1,300,554 were released from restriction during 2010 and 2009, respectively, in satisfaction of the above restrictions.

During 2010, it was determined that a contribution receivable from a trust, which was previously classified as permanently restricted, should have been classified as temporarily restricted. As a result of determining the correct classification, the contribution receivable was reclassified from permanently restricted net assets to temporarily restricted net assets. This reclassification had the effect of decreasing permanently restricted net assets and increasing temporarily restricted net assets as of the beginning net asset values for 2009 in the amount of $1,256,748.

(14) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31 are restricted for:

		2010	2009
Trust assets held for the benefit of The Easton Home	$	830,086	830,086
Investments to be held in perpetuity, the income from which is expendable to support:			
Operations		1,942,638	1,919,504
Charity care and/or equipment		2,958,033	2,710,702
Contributions recievable from remainder trusts		232,918	223,410
Beneficial interest in assets of foundation		60,497	47,320
Gift annuities		26,482	43,620
Beneficial interest in perpetual trusts		12,747,824	11,909,926
	$	18,798,478	17,684,568

(15) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Obligated Group. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(15) Endowment (continued)

Interpretation of relevant law

The Board of Trustees of the Obligated Group has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Obligated Group classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Obligated Group considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

The following schedule represents the changes in endowment net assets for the year ended December 31, 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 228,740	4,630,206	4,858,946
Investment return:			
Investment income	92,780	–	92,780
Contributions	–	270,465	270,465
Appropriation of endowment assets for expenditures	(95,889)	–	(95,889)
Endowment net assets, end of year	$ 225,631	4,900,671	5,126,302

(continued)

(15) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 237,572	4,531,423	4,768,995
Investment return:			
Investment income	90,103	–	90,103
Contributions	–	98,783	98,783
Appropriation of endowment assets for expenditures	(98,935)	–	(98,935)
Endowment net assets, end of year	$ 228,740	4,630,206	4,858,946

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Obligated Group to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2010 or 2009.

Return Objectives and Risk Parameters

The Obligated Group has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Obligated Group must hold in perpetuity for donor-specified purposes. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Obligated Group expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

(continued)

(15) Endowment (continued)

Strategies Employed for Achieving Objectives

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

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2010 and 2009. Actual distributions are to satisfy donor restrictions. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Obligated Group considered the long-term expected return on its endowment. Accordingly, over the long term, the Obligated Group expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2010 and 2009 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Obligated Group's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(16) Retirement Plan

The Obligated Group has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2010 and 2009, retirement plan expense totaled approximately $1,178,443 and $1,323,225, respectively.

QRC has a defined benefit pension plan covering many of its employees. This plan was curtailed and the benefits were frozen effective December 31, 2004. The benefits are based on years of service and the employee's average compensation during the last 10 years of employment. The Obligated Group's funding policy is to contribute annually the minimum amount required under statutory funding limitations. Contributions are intended to provide for benefits attributed to service through December 31, 2004. During 2010, the Obligated Group accrued $300,000 for the termination of the plan.

(16) Retirement Plan (continued)

The following table sets forth the plan's funded status and amounts recognized in the Obligated Group's combined financial statements as of and for the years ended December 31:

		2010	2009
Projected benefit obligation for service rendered to date	$	(3,064,587)	(2,913,230)
Plan assets at fair value		2,612,451	2,718,263
Accrued pension liability, net	$	(452,136)	(194,967)
Change in Benefit Obligation:			
Project benefit obligation - beginning of year	$	(2,913,230)	(2,933,492)
Interest cost		(174,892)	(167,387)
Distributions		307,104	68,224
Change due to assumptions as of end of year		(258,802)	121,724
Experience loss as of beginning of year		(24,767)	(2,299)
Projected benefit obligation - end of year	$	(3,064,587)	(2,913,230)
Change in Plan Assets:			
Fair value of plan assets - beginning of year	$	2,718,263	2,281,906
Actual return on plan assets		118,036	415,922
Contributions		83,256	88,659
Benefits Paid		(307,104)	(68,224)
Fair value of plan assets - end of year	$	2,612,451	2,718,263

The accumulated benefit obligation amounted to $3,064,587 and $2,913,230 as of December 31, 2010 and 2009, respectively.

Items not recognized as a component of net period pension cost amounted to $794,629 and $425,640 as of December 31, 2010 and 2009, respectively.

(continued)

(16) Retirement Plan (continued)

Net periodic pension expense included in following components for the years ended December 31:

		2010	2009
Service cost	$	–	–
Interest cost		174,892	167,387
Expected return on plan assets		(217,693)	(184,439)
Amortization of unrecognized net loss		14,237	48,527
Net Periodic Pension Expense	$	(28,564)	31,475

The plan's funded status as of any measurement date is based on prevailing market conditions as to discount rate and plan assets and, accordingly, is subject to volatility.

The following weighted average rates were used in determining the actuarial present value of the projected benefit obligations and the related net periodic pension cost as of December 31:

	2010	2009
Discount rate	5.5%	6.01%
Expected rate of return on plan assets	8.0%	8.0%
Rate of compensation increase	3.0%	3.0%

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the plan.

The expected return on plan assets was determined based on capital market assumptions developed by QRC's independent investment advisors along with other factors such as asset allocation target, investment manager performance, and overall pension performance. The capital market assumptions were projected over a five, ten and 30-years time horizon. Specifically, investment returns for the pension fund were projected over a 10-years period using varying equity allocations.

(continued)

(16) Retirement Plan (continued)

QRC's overall investment strategy is to achieve an asset allocation as follows:

Asset Class	% of Market Value of Portfolio
Money Market	41.0%
Fixed Income	59.0%

Variance from the strategic asset allocation should not exceed 5%.

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 18, at December 31, 2010, by asset category are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 1,070,050	1,070,050	–	–
Debt securities	1,542,401	1,542,401	–	–
Total	2,612,451	2,612,451	–	–

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 18, at December 31, 2009, by asset category are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 135,259	135,259	–	–
Equity securities	1,095,686	1,095,686	–	–
Debt securities	1,487,318	1,487,318	–	–
Total	2,718,263	2,718,263	–	–

(continued)

(16) Retirement Plan (continued)

The pension plan assets were invested and allocated in the following manner as of December 31:

	2010	2009
Equity securities	0.0%	40.3%
Debt securities	59.0%	54.7%
Money market funds	41.0%	5.0%

QRC's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by the participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is reviewed annually by QRC. The policy is established and administered in a manner that is compliant at all times with applicable government regulations.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the years ending December 31:

2011	$	66,145
2012		74,257
2013		86,192
2014		101,023
2015		109,384
2016-2020		820,559

QRC is not required and therefore, does not expect to contribute to the pension plan during the year ending December 31, 2011.

(17) Commitments and Contingencies

The Obligated Group is involved in several legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the final outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Obligated Group's assets, liabilities, net assets, operations or cash flows.

(18) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, certificates of deposit and equity and fixed income securities: Fair value of money market funds, certificates of deposit and equity and fixed income securities was based on quoted market prices for the identical security.

Alternative investments: Net asset values of alternative investments was based on estimated fair values provided by investment managers. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

Beneficial interest in perpetual trusts and net assets of foundation: Fair value of the beneficial interest in perpetual trusts and net assets of foundation was based on the Obligated Group's percent ownership of the underlying trust assets, which approximate the value of estimated future cash flows to be received from the trust.

Contributions receivable from remainder trusts: Fair value of the contributions receivable from remainder trusts was based on the present value of future cash inflows.

Interest rate swaps: Fair value of the interest rate swaps are based on the net present value of expected future cash flows of the difference between the fixed interest rate of the interest rate swap and the counterparty's forward yield curve. The forward yield curve is readily available in public markets or can be derived from information available in publicly quoted markets.

Long-term debt: Long-term debt is carried at cost in the combined statements of financial position for bonds payable and mortgages payable at December 31, 2010 and 2009. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $150,430,233 and $148,114,328 at December 31, 2010 and 2009, respectively, and its fair values at December 31, 2010 and 2009 approximates $121,332,300 and $124,090,100, respectively.

The Obligated Group has a number of other financial instruments, none of which are held for investment purposes. The Obligated Group estimates that the fair value of all financial instruments at December 31, 2010 and 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying combined statements of financial position.

(continued)

(18) Financial Instruments (continued)

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 15,217,272	15,217,272	–	–
Equity securities	41,657,336	41,657,336	–	–
Fixed income securities	17,892,175	17,892,175	–	–
Alternate investments	10,488,196	–	–	10,488,196
Total investments	85,254,979	74,766,783	–	10,488,196
Beneficial interest in perpetual trusts	12,747,824	–	–	12,747,824
Contributions receivable from remainder trusts	1,975,453	–	–	1,975,453
Gift annuities	26,482	–	–	26,482
Beneficial interest in assets of foundation	60,497	60,497	–	–
Total assets	$ 100,065,235	74,827,280	–	25,237,955
Interest rate swaps	$ (1,718,966)	–	(1,718,966)	–

(continued)

(18) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 13,376,398	13,376,398	–	–
Equity securities	41,307,566	41,307,566	–	–
Fixed income securities	17,666,445	17,666,445	–	–
Alternate investments	8,624,194	–	–	8,624,194
Total investments	80,974,603	72,350,409	–	8,624,194
Beneficial interest in perpetual trusts	11,909,925	–	–	11,909,925
Contributions receivable from remainder trusts	1,807,940	–	–	1,807,940
Gift annuities	43,620	–	–	43,620
Beneficial interest in assets of foundation	47,320	47,320	–	–
Total assets	$ 94,783,408	72,397,729	–	22,385,679
Interest rate swaps	$ (2,160,379)	–	(2,160,379)	–

(18) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2010 is as follows:

Description		Altermative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance at December 31, 2008	$	5,985,211	1,803,904	10,453,313	54,847
Unrealized gains (losses)		1,098,220	4,036	1,456,613	(11,227)
Distributions		(53,469)	–	–	–
Contributions		1,552,448			
Realized gains		41,784	–	–	–
Balance at December 31, 2009	$	8,624,194	1,807,940	11,909,926	43,620
Unrealized gains (losses)		927,070	167,513	837,898	(17,138)
Distributions		(45,000)	–	–	–
Contributions		955,786			
Realized gains		26,146	–	–	–
Balance at December 31, 2010	$	10,488,196	1,975,453	12,747,824	26,482

Unrealized and realized gains (losses) on alternative investments are reported as unrestricted and remainder trusts, gift annuities and beneficial interest in perpetual trusts are permanently restricted in the combined statements of operations and changes in net assets.

(b) Financial Instruments with Off-Balance-Sheet Risk

Financial instruments with off-balance-sheet risk to the Obligated Group consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Obligated Group’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

Carbis Walker LLP
Certified Public Accountants & Consultants
Members: Carbis Walker Group ■ McGladrey Alliance ■ AICPA Alliance for CPA Firms

Meadville, PA
New Castle, PA
Pittsburgh, PA

Independent Auditors' Report on Supplementary Information

To the Board of Trustees
Presbyterian Homes Obligated Group

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The following supplementary information accompanying the combined financial statements is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Carbis Walker LLP

Carbis Walker LLP
New Castle, Pennsylvania
March 24, 2011

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2010

Assets		**Presbyterian Homes, Inc.**	**Presbyterian Homes in the Presbytery of Huntingdon**	**PHI Management Services Corporation**	**The Long Community**	**Quincy United Methodist Home**	**PHI Bloomsburg Senior Care**	**Obligated Group Subtotal**	**Eliminating Entries**	**Obligated Group Total**
Cash and cash equivalents	$	1,428,901	728,751	-	13,959	189,923	723	2,362,257	–	2,362,257
Investments		6,942,616	1,857,423	50,031,876	6,716,357	1,216,261	-	66,764,533	–	66,764,533
Statutory liquid reserves		4,239,958	778,069	-	-	937,507	-	5,955,534	–	5,955,534
Accounts receivable, net		8,293,472	4,011,985	-	(23)	2,092,313	-	14,397,747	–	14,397,747
Interest receivable		6,605	-	-	-	-	-	6,605	–	6,605
Inventories		213,345	47,580	-	-	30,368	-	291,293	–	291,293
Prepaid expenses and other current assets		752,032	110,197	-	141	163,142	-	1,025,512	–	1,025,512
Assets whose use is limited		7,613,910	1,942,638	2,128,580	-	1,768,115	-	13,453,243	–	13,453,243
Assets whoes use is limited, capital assets held by trustee		19,176	-	-	-	-	-	19,176	–	19,176
Pledges receivable		752,992	6,365	-	5,000	-	-	764,357	–	764,357
Assets held for sale		-	-	-	2,742,604	-	-	2,742,604	–	2,742,604
Property and equipment, net		136,036,946	32,967,264	-	57,846	14,470,070	2,992,969	186,525,095	–	186,525,095
Assets under capital lease, net		95,751	26,847	-	-	9,171	-	131,769	–	131,769
Due from (to) affiliates		29,090,499	5,346,068	3,545,367	(1,487,059)	(820,369)	(178,466)	35,496,040	–	35,496,040
Funds held in trust by others		8,319,088	582,851	-	915,143	4,993,174	-	14,810,256	–	14,810,256
Beneficial interest in assets of affiliate		1,354,114	4,052,836	-	-	-	-	5,406,950	(5,406,950)	–
Unamortized deferred costs: Deferred financing costs, net		2,825,447	201,278	-	-	83,305	-	3,110,030	–	3,110,030
Other assets		46,502	-	-	-	-	-	46,502	–	46,502
Total assets	$	208,031,354	52,660,152	55,705,823	8,963,968	25,132,980	2,815,226	353,309,503	(5,406,950)	347,902,553

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2010

Liabilities and Net Assets (Liabilities)		**Presbyterian Homes, Inc.**	**Presbyterian Homes in the Presbytery of Huntingdon**	**PHI Management Services Corporation**	**The Long Community**	**Quincy United Methodist Home**	**PHI Bloomsburg Senior Care**	**Obligated Group Subtotal**	**Eliminating Entries**	**Obligated Group Total**
Accounts payable	$	7,375,755	2,609,842	-	27,929	883,483	52,490	10,949,499	–	10,949,499
Accrued expenses - other		7,876,680	2,901,894	44,375	75,167	685,010	-	11,583,126	–	11,583,126
Notes payable		11,263,865	-	-	-	-	-	11,263,865	–	11,263,865
Accrued interest		572,297	31,469	-	-	-	-	603,766	–	603,766
Resident deposits		878,736	388,530	-	-	37,250	-	1,304,516	–	1,304,516
Deferred revenue – entrance fees		44,930,932	8,923,506	-	-	7,612,636	-	61,467,074	–	61,467,074
Fair value of interest rate hedge		1,633,163	85,803	-	-	-	-	1,718,966	–	1,718,966
Annuities payable		1,056,421	3,259	-	-	5,574	-	1,065,254	–	1,065,254
Accrued pension		-	-	-	-	440,979	-	440,979	–	440,979
Long-term debt										
Obligations on capital leases		89,649	25,813	-	-	8,310	-	123,772	–	123,772
Long-term debt		127,546,870	15,735,738	-	-	7,147,615	-	150,430,223	–	150,430,223
Total liabilities		203,224,368	30,705,854	44,375	103,096	16,820,857	52,490	250,951,040	–	250,951,040
Net assets (liabilities):										
Non-controlling interest		-	-	-	-	-	2,765,050	2,765,050	–	2,765,050
Unrestricted		(9,215,551)	19,317,029	52,158,371	7,929,871	1,511,294	(2,314)	71,698,700	(1,902,719)	69,795,981
Temporarily restricted		4,413,915	185,185	-	15,858	39,539	-	4,654,497	–	4,654,497
Permanently restricted		9,608,622	2,452,084	3,503,077	915,143	5,823,783	-	22,302,709	(3,504,231)	18,798,478
Total net assets (liabilities)		4,806,986	21,954,298	55,661,448	8,860,872	7,374,616	2,762,736	101,420,956	(5,406,950)	96,014,006
Total liabilities and net assets (liabilities)	$	208,031,354	52,660,152	55,705,823	8,963,968	24,195,473	2,815,226	352,371,996	(5,406,950)	346,965,046

Presbyterian Homes Obligated Group

Combining Schedule of Activities

Periods ended December 31, 2010

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	PHI Bloomsburg Senior Care	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Revenues, gains, and other support:									
Resident services	$ 105,961,036	36,950,401	1,106	549,296	15,363,107	-	158,824,946	(1,106)	158,823,840
Interest and dividend income	231,112	324,567	1,775,758	270,695	237,097	-	2,839,229	(213,054)	2,626,175
Realized gains on investments	(199,582)	(292,978)	(1,474,209)	180,036	(101,485)	-	(1,888,218)	291,974	(1,596,244)
Gain on sale of property and equipment	2,454	200	-	-	3,500	-	6,154	–	6,154
Contributions	591,629	34,422	-	34,973	41,235	-	702,259	–	702,259
Net assets released from restrictions	2,203,262	240,055	-	-	124,044	-	2,567,361	–	2,567,361
Total revenues, gains, and other support	108,789,911	37,256,667	302,655	1,035,000	15,667,498	-	163,051,731	77,814	163,129,545
Expenses:									
Nursing services	29,576,096	11,558,516	-	392,803	5,144,038	-	46,671,453	–	46,671,453
Rehabilitation	4,796,137	2,338,916	-	138	861,658	-	7,996,849	–	7,996,849
Recreation and special services	3,247,003	1,015,504	-	41,270	503,178	-	4,806,955	–	4,806,955
Pharmacy	2,100,264	948,362	-	6,910	398,223	-	3,453,759	–	3,453,759
Social services	440,528	203,516	-	-	63,050	-	707,094	–	707,094
Physician care	227,763	122,974	-	6,693	41,260	-	398,690	–	398,690
Food services	11,132,510	3,957,748	-	255,314	1,456,127	-	16,801,699	–	16,801,699
Building operations and maintenance	11,168,545	2,846,270	-	185,738	1,947,850	-	16,148,403	–	16,148,403
Housekeeping	2,324,560	803,383	-	22,276	350,466	-	3,500,685	–	3,500,685
Laundry and linen	780,496	433,632	-	5,434	185,201	-	1,404,763	–	1,404,763
General and administrative	15,042,903	5,110,797	173,270	286,119	2,209,107	2,314	22,824,510	(18,434)	22,806,076
Employee benefits	8,371,697	3,502,986	-	137,309	1,587,425	-	13,599,417	–	13,599,417
Interest	4,014,881	581,150	-	2,430	345,868	-	4,944,329	–	4,944,329
Depreciation	7,683,911	1,993,523	-	12,229	1,191,853	-	10,881,516	–	10,881,516
Amortization	186,712	20,290	-	-	5,023	-	212,025	–	212,025
Total expenses	101,094,006	35,437,567	173,270	1,354,663	16,290,327	2,314	154,352,147	(18,434)	154,333,713
Operating income (loss)	7,695,905	1,819,100	129,385	(319,663)	(622,829)	(2,314)	8,699,584	96,248	8,795,832
Change in fair value of interest rate swap	289,003	152,410	-	-	-	-	441,413	–	441,413
Gain on early extinguishment of debt	725	-	-	-	-	-	725	–	725
Loss on abandoned projects	(10,332)	(34,638)	-	-	-	-	(44,970)	–	(44,970)
(Deficit) excess of operating revenues, gains and other support over expenses	7,975,301	1,936,872	129,385	(319,663)	(622,829)	(2,314)	9,096,752	96,248	9,193,000
Other changes:									
Transfer of investments to PHI Investment Services Corporation	88,765	-	(788,765)	-	-	-	(700,000)	700,000	-
Pension-related changes other than net periodic pension costs	-	-	-	-	(300,000)	-	(300,000)	–	(300,000)
Unrealized gains on investments	(280,542)	963,417	6,026,407	364,523	380,061	-	7,453,866	(676,340)	6,777,526
Total other changes	(191,777)	963,417	5,237,642	364,523	80,061	-	6,453,866	23,660	6,477,526
Increase (decrease) in unrestricted net assets (liabilities)	7,783,524	2,900,289	5,367,027	44,860	(542,768)	(2,314)	15,550,618	119,908	15,670,526
Temporarily restricted net assets:									
Contributions, grants and bequests	1,345,344	198,408	-	15,857	40,734	-	1,600,343	–	1,600,343
Interest and dividend income	92,780	-	-	-	-	-	92,780	–	92,780
Unrealized loss on investments	372,281	4,504	-	-	-	-	376,785	–	376,785
Net assets released from restriction	(2,203,262)	(240,055)	-	-	(124,044)	-	(2,567,361)	–	(2,567,361)
Change in temporarily restricted net assets	(392,857)	(37,143)	-	15,857	(83,310)	-	(497,453)	–	(497,453)
Permanently restricted net assets:									
Contributions	64,724	28,723	-	-	188,343	-	281,790	–	281,790
Change in fair value of assets held in trust by others	406,244	48,485	-	61,968	315,423	-	832,120	-	832,120
Change in permanently restricted net assets	470,968	77,208	-	61,968	503,766	-	1,113,910	-	1,113,910
Change in net assets (liabilities)	7,861,635	2,940,354	5,367,027	122,685	(122,312)	(2,314)	16,167,075	119,908	16,286,983
Net assets (liabilities), beginning of year	(3,054,649)	19,013,944	50,294,421	8,738,187	7,496,928	2,765,050	85,253,881	(5,526,858)	79,727,023
Net assets (liabilities), end of year	$ 4,806,986	21,954,298	55,661,448	8,860,872	7,374,616	2,762,736	101,420,956	(5,406,950)	96,014,006

See accompanying independent auditors' report.

PRESBYTERIAN HOMES OBLIGATED GROUP

Statutory Minimum Liquid Reserves
(See Independent Auditor's Report on Supplementary Information)

As of December 31, 2010

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group	
2011 Budgeted Operating Expenses	$ 102,132,032	35,987,459	151,000	1,414,957	16,530,314	156,215,762	
Less: depreciation expense	(7,910,752)	(2,158,367)	-	(12,400)	(1,161,341)	(11,242,860)	
Expenses subject to minimum liquid assets requirement	94,221,280	33,829,092	151,000	1,402,557	15,368,973	144,972,902	
Percentage of residents subject to residence and care arrangements at December 31, 2010	45%	23%	0%	0%	61%		
	42,399,576	7,780,691	-	-	9,375,074	59,555,341	
Statutory requirement	10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$ 4,239,958	778,069	0	0	937,507	5,955,534	(a)
Next 12 months debt service payments:							
Principal payments	$ 3,160,379	1,013,613	-	-	287,054	4,461,046	
Interest payments	4,008,441	494,267	-	-	320,807	4,823,515	
Total debt service for next 12 months	7,168,820	1,507,880	-	-	607,861	9,284,561	
Percentage of residents subject to residence and care arrangements at December 31, 2010	45%	23%	0%	0%	61%		
Statutory minimum liquid reserve requirement	$ 3,225,969	346,812	-	-	370,795	3,943,576	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$ 4,239,958	778,069	-	-	937,507	5,955,534	