PHI (D.B.A. PRESBYTERIAN SENIOR LIVING)

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

PRESBYTERIAN SENIOR LIVING

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements and supporting information of Presbyterian Senior Living, as of December 31, 2008 and 2007, 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.

Financial statements report our financial position 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 financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

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 a combined ministry that has served older persons in the name of Christ for the more than 102 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 Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

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Independent Auditor's Report

The Board of Trustees
Presbyterian Senior Living:

We have audited the accompanying consolidated statements of financial position of PHI, doing business as Presbyterian Senior Living, and affiliates (collectively the Corporation), as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Geneva House, Inc., Westminster Place at Parkesburg, Schartner House Apartments and Presbyterian Apartments, Inc., affiliates of Presbyterian Senior Living, which statements reflect total assets constituting 5.19 and 3.51 percent and total revenues constituting 1.03 percent and .95 percent, of the related 2008 and 2007 consolidated totals, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Geneva House, Inc., Westminster Place at Parkesburg, Schartner House Apartments and Presbyterian Apartments, Inc. is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living and affiliates as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, Pennsylvania
March 20, 2009

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	2,902,709	3,882,044
Investments		58,227,855	66,511,010
Accounts receivable, net		14,524,361	12,890,562
Assets whose use is limited - current portion		1,857,979	1,314,345
Pledges receivable, current portion		421,986	583,907
Interest receivable		209,900	218,513
Inventory		524,887	254,222
Prepaid expenses and other current assets		1,318,593	1,438,037
Total current assets		79,988,270	87,092,640
Assets whose use is limited, net of current portion		13,788,926	18,651,054
Assets whose use is limited, construction funds held by trustee		12,214,554	–
Pledges receivable, net of current portion		557,178	762,021
Property and equipment (net of accumulated depreciation of $180,250,915 and $168,933,167, respectively)		231,560,117	212,602,674
Assets under capital leases (net of accumulated depreciation of $405,847 and $238,140, respectively)		4,166,400	245,389
Funds held in trust by others		12,433,305	15,737,028
Fair value of interest rate swaps		–	34,281
Unamortized deferred costs:			
Deferred marketing costs, net of accumulated amortization of $2,514,573 and $2,144,722		–	27,791
Deferred financing costs, net of accumulated amortization of $1,027,285 and $1,547,926		3,492,709	4,167,558
Other assets		262,375	54,452
Total assets	$	358,463,834	339,374,888

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2008 and 2007

Liabilities and Net Assets		**2008**	**2007**
Current liabilities:			
Accounts payable	$	12,379,706	7,205,347
Accrued expenses		15,114,565	13,241,435
Notes payable		15,267,906	9,873,581
Accrued interest		992,143	641,025
Current portion:			
Annuities payable		201,896	194,610
Obligations under capital leases		205,605	158,073
Long-term debt		4,418,998	5,051,324
Total current liabilities		48,580,819	36,365,395
Resident deposits		2,103,298	2,331,993
Deferred revenue - entrance fees		77,141,735	78,267,914
Fair value of interest rate swaps		3,456,708	–
Annuities payable, net of current portion		1,084,220	1,005,728
Accrued pension		651,586	360,758
Long-term debt, less current portion:			
Obligations under capital leases		4,019,692	84,245
Long-term debt		165,588,317	148,070,941
Total liabilities		302,626,375	266,486,974
Net assets:			
Unrestricted (including tax credit equity of $9,308,234 and $5,702,876, respectively)		34,362,302	48,352,993
Temporarily restricted		3,772,168	3,857,425
Permanently restricted		17,702,989	20,677,496
Total net assets		55,837,459	72,887,914
Total liabilities and net assets	$	358,463,834	339,374,888

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

		2008	2007
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $9,485,770 and $9,106,172	$	162,040,773	153,354,513
Sales of other services and materials		218,936	109,383
Net rental income		1,731,156	1,463,486
Interest and dividend income		3,151,433	3,666,707
Realized (losses) gains on investments		(39,566)	2,520,527
Gain on sale of property and equipment		628,509	110,850
Contributions, gifts and bequests		1,588,076	2,583,846
Contribution from The Long Home		7,302,090	–
Net assets released from restrictions		603,933	770,505
Total operating revenues, gains, and other support		177,225,340	164,579,817
Expenses:			
Nursing services		49,652,655	46,628,452
Rehabilitation		6,535,311	6,534,403
Recreation and special services		5,267,727	4,743,105
Pharmacy		3,365,219	3,589,167
Social services		759,653	715,580
Physician services		420,087	418,869
Food services		17,728,842	16,689,544
Building operations and maintenance		18,542,372	17,415,760
Housekeeping		4,287,551	4,104,018
Laundry and linen		1,732,623	1,701,593
General and administrative		25,374,720	22,847,729
Employee benefits		13,525,085	13,448,884
Interest		7,201,252	7,955,310
Depreciation		13,170,078	12,542,461
Amortization		243,297	292,999
Total expenses		167,806,472	159,627,874
Income from continuing operations		9,418,868	4,951,943

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
Income from continuing operations	9,418,868	4,951,943
Discontinued operations:		
Discontinued operations, net of gain of $4,725,387 in 2007	–	4,828,738
Operating income	9,418,868	9,780,681
Equity received from tax credit limited partner	4,049,670	2,305,815
Decrease in fair value of interest rate swaps	(3,490,989)	(122,619)
Loss on early extinguishment of debt	(1,331,704)	(91,013)
Loss on impairment of assets	–	(987,144)
Excess of operating revenues, gains and other support over expenses	8,645,845	10,885,720
Other changes:		
Pension-related changes other than net periodic pension costs	(309,830)	–
Unrealized loss on investments	(22,326,706)	(49,037)
Total other changes	(22,636,536)	(49,037)
(Decrease) increase in unrestricted net assets	(13,990,691)	10,836,683
Temporarily restricted net assets:		
Contributions, gifts and bequests	140,680	640,799
Interest and dividend income	136,353	28,403
Unrealized gain on investments	241,643	349,161
Net assets released from restrictions	(603,933)	(770,505)
Change in temporarily restricted net assets	(85,257)	247,858
Permanently restricted net assets:		
Contributions, gifts and bequests	138,344	499,861
Contribution from The Long Home	728,086	–
Change in fair value of funds held in trust by others	(3,840,937)	954,585
Change in permanently restricted net assets	(2,974,507)	1,454,446
Change in net assets	(17,050,455)	12,538,987
Net assets, beginning of year	72,887,914	60,348,927
Net assets, end of year	$ 55,837,459	72,887,914

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(17,050,455)	12,538,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		13,170,078	12,582,973
Proceeds from entrance fees and deposits		12,764,480	13,272,506
Amortization of entrance fees		(9,485,770)	(9,235,083)
Loss on early extinguishment of debt		1,331,704	91,013
Change in fair value of interest rate swaps		3,490,989	122,619
Unrealized loss (gains) on investments and change in fair value of funds held in trust by others		25,926,000	(1,254,709)
Realized losses (gains) on investments		39,566	(2,520,527)
Realized gain on sale of property and equipment		(628,509)	(4,836,237)
Contributions restricted for long-term purposes		(138,344)	(499,861)
Non-cash contributions from Grace Manor and Long Home		(8,293,481)	–
Amortization of deferred costs		251,080	290,255
Amortization of bond (premium) discount		(7,783)	3,313
Loss on impairment of assets		–	987,144
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		(1,633,799)	157,223
Decrease (increase) in pledges receivable		366,764	(123,907)
(Increase) decrease in other assets		(350,531)	298
Increase (decrease) in accounts payable		5,174,359	(4,023,659)
Increase in accrued expenses		2,405,107	334,805
Net cash provided by operating activities		27,331,455	17,887,153
Cash flows from investing activities:			
Acquisition of property and equipment, net of disposals		(32,973,685)	(19,705,587)
Net proceeds from sale of property and equipment		1,123,281	7,733,323
Purchases of investments		(113,460,089)	(55,908,587)
Proceeds from sale of investments		96,585,936	54,652,393
Net cash used in investing activities		(48,724,557)	(13,228,458)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(4,633,584)	(4,752,416)
Principal payments on and redemptions of long-term debt		(61,891,429)	(11,328,053)
Proceeds from issuance of long-term debt		78,212,950	8,000,000
Financing costs incurred		(875,596)	(104,634)
Net borrowings of notes payable		5,394,325	2,570,291
Borrowings through capital leases		4,185,114	30,541
Repayments on capital leases		(202,135)	(167,377)
Contributions restricted for long-term purposes		138,344	499,861
Increase in annuities payable		85,778	29,828
Net cash provided by (used in) financing activities		20,413,767	(5,221,959)
Net decrease in cash and cash equivalents		(979,335)	(563,264)
Cash and cash equivalents, beginning of year		3,882,044	4,445,308
Cash and cash equivalents, end of year	$	2,902,709	3,882,044

See accompanying notes to consolidated financial statements.

(1) General Information

PHI (d.b.a. Presbyterian Senior Living) (the Corporation), a not-for-profit corporation, is the parent corporation of Presbyterian Homes, Inc. (Pres Homes), Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Presbyterian Senior Living Services, Inc. (PSLSI), Quincy United Methodist Home, doing business as Quincy Retirement Community (QRC), Presbyterian Apartments, Inc. (PAI), Schartner House Apartments (SHA), Westminster Place at Parkesburg and Geneva House, Inc. (GHI), which are controlled affiliates of Presbyterian Senior Living. The Corporation also owns 46 percent of Prelude Systems, Inc., a technical services organization, 6 percent of CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, a pharmaceutical company.

In 2007, the Corporation was awarded tax credits for an affordable senior living project in Parkesburg and formed Westminster Place at Parkesburg, Inc. The Corporation purchased land for $544,000.

In 2007, the Corporation also formed two new corporations. PHI Life, Inc. is a PACE program (Program of All-inclusive Care for the Elderly). In 2007, it was awarded contracts for three counties. The corporation also formed PHI Services, Inc., a wholly owned taxable corporation to perform services to the community. The first company under this corporation is Mission Driven Products.

In 2008, the Corporation formed a new corporation, PHI Investment Management Services Corporation (PIMSI). This corporation will manage and maintain all of the investments of Presbyterian Senior Living for the benefit of the corporations.

On June 1, 2008, Grace Manor (GM), an 18 unit independent living facility, affiliated with the Pres Homes and became a subsidiary of the Corporation. This affiliation was recorded as a contribution of $425,659. The consolidated financial statements of the Corporation include the financial position and operations of Grace Manor since June 1, 2008.

In 2008, the Corporation also formed the Presbyterian Homes Obligated Group (the Group). The Group consists of Pres Homes, PHPH, QRC and PIMSI. Under this arrangement all of the members of the Group are jointly and severally liable for all the debt of each obligated group member. In June 2008, the Group participated in the issuance of the Cumberland County Series 2008 A and B bonds. In November 2008, the Group participated in the issuance of the Cumberland County Series 2008 C bonds.

(1) General Information (continued)

On December 31, 2008, the corporation affiliated with the Long Home (LH), a 50 bed personal care facility located in the City of Lancaster which serves indigent individuals of Lancaster County, Pennsylvania who are over the age of sixty-five years. The Long Home was created from testamentary gifts from the estates of Judge Henry G. Long and his daughter, Catherine H. Long. As directed under the Last Wills and testaments of Judge Long and Ms. Long, four trustees were appointed to run the Corporation and they used the testamentary gifts to build the facility in 1902 and have used the remaining funds to run the facility to this day. The affiliation was recorded as a contribution of $8,030,176.

The Corporation serves as a management company for the above affiliates and is governed by a Board of Trustees. Some of the members of the Board of Trustees are also members of the Board of Directors of certain affiliated corporations. The Corporation's affiliates do business primarily in Pennsylvania, but also in Maryland, Ohio and Delaware.

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

	Total	Pres Homes	PSLSI	PHPH	QRC	SHA	PAI	GHI	LH
Nursing beds	1,252	711	31	376	134	—	—	—	—
Assisted living units	565	359	29	95	32	—	—	—	50
Independent living units	1,120	635	202	99	184	—	—	—	—
HUD housing units	277	—	—	—	—	50	165	62	—
Total	3,214	1,705	262	570	350	50	165	62	50

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

These consolidated financial statements have been prepared to focus on the Corporation as a whole. All material intercompany transactions have been eliminated.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation 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.

(b) ***Income Taxes***

The Corporation and most of its affiliates are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The FSP defers the effective date of FASB Interpretation No 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluation uncertain tax positions for each set of financial statements where the deferral applies.

The Corporation has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007, the Corporation has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

(c) ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) ***Cash and Cash Equivalents***

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statements of cash flows. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation for up to $250,000 and $100,000 per bank as of December 31, 2008 and 2007, respectively. At December 31, 2008 the Corporation's cash balances exceeded the FDIC coverage by $211,454. At December 31, 2007, the Corporation's cash balances exceeded the FDIC coverage by $1,486,005.

(e) ***Investments***

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange, in the 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, 2008 and 2007, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

		2008	2007
Interest and dividends	$	3,287,786	3,695,110
Realized (loss) gains on investments		(39,566)	2,520,527
Unrealized (losses) gains on investments and change in fair value of funds held in trust by others		(25,926,000)	1,254,709
	$	(22,677,780)	7,470,346

Investment expenses of $239,784 and $300,495 as of December 31, 2008 and 2007, respectively have been included in general and administrative expenses.

(f) ***Accounts Receivable***

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

		2008	2007
Total accounts receivable	$	16,675,642	14,792,181
Less: allowance for doubtful accounts		(2,151,281)	(1,901,619)
Net accounts receivable	$	14,524,361	12,890,562

The allowance for doubtful accounts is established based on management's assessment of the collectibility of specific resident's accounts and the aging of accounts receivable.

(Continued)

(g) Assets Whose Use is Limited

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures, permanently restricted investments and other reserves. Amounts required to meet current obligations of the Corporation have been reclassified in the statement of financial position as current assets.

(h) Pledges Receivable

The Corporation recorded these pledges due in more than one year at the net present value, less an allowance for uncollectibles.

	2008	2007
Pledges receivables	$ 1,121,098	1,530,668
Less: unamortized discount	(55,834)	(85,953)
Subtotal	1,065,264	1,444,715
Less: allowance for uncollectibles	(86,100)	(98,787)
Net pledges receivables	$ 979,164	1,345,928

Pledges receivable as of December 31, 2008 is as follows:

Amounts due in:	
Less than one year	$ 495,784
One to five years	625,314
	$ 1,121,098

(i) 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.

(j) ***Property and Equipment***

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. The Corporation's policy is to capitalize items in excess of $2,000 or for a group of items functioning as a group totaling $2,000 or more. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets.

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	4-5 years

(k) ***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 $263,503 and $0 was capitalized in 2008 and 2007, respectively.

(l) ***Funds Held in Trust by Others***

The Corporation has 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 Corporation is notified of the trust's existence. The Corporation 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 at 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 contributions receivable from charitable remainder trusts that are held by independent trustees. Periodic payments are made to annuitants and the remaining corpus will revert to the Corporation upon 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.

(Continued)

(l) ***Funds Held in Trust by Others (continued)***

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

		2008	2007
Beneficial interest in perpetual trusts	$	10,453,313	13,386,185
Beneficial interest in assets of foundation		121,241	134,927
Other endowment		—	39,889
Gift annuities		54,847	99,155
Contributions receivable from remainder trusts		1,803,904	2,076,872
	$	12,433,305	15,737,028

(m) ***Derivatives and Hedging Activities***

The Corporation utilized interest rate swap agreements to hedge variable interest rates; which were accounted for using Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* The Corporation recorded a liability of $3,456,708 and an asset of $34,281, representing the fair value (liability) asset of the swaps as of December 31, 2008 and 2007, respectively.

All of the Corporations' interest rate swaps are carried at fair value asset (liability) as determined by a third party. Changes in fair value are reported in the consolidated statement of operations and changes in net assets as a component of the change in net assets. For 2008 and 2007, adjustments were recorded causing a loss of $3,490,989 and $122,619, respectively. These adjustments represent the decrease in the fair value asset of the swaps.

The terms of the various interest rate swaps are described in note 7.

(n) ***Deferred Costs***

The Corporation has deferred the marketing costs incurred in connection with acquiring initial continuing care contracts for its independent living facilities. When the independent living units are substantially occupied, these costs are amortized on a straight-line basis over a period approximating the average life expectancy of the initial residents occupying the units.

The Corporation 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 $233,686 for each of the next five years.

(o) ***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.

(p) ***Estimated Obligation to Provide Future Services to Continuing Care Residents***

At certain Continuing Care Retirement Communities, the Corporation provides health care coverage for certain residents under the terms of a Residence and Care Agreement. The Corporation 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 6% discount rate based on the approximate cost of borrowing for the Corporation. Management's estimation resulted in no obligation in excess of recorded amounts to provide future services to continuing care residents.

(q) ***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 statement of financial position. These deposits are transferred to deferred revenue upon occupancy of the related units.

(r) ***Deferred Revenue – Entrance Fees***

Entrance fees collected from residents at move-in pursuant to a resident and care agreement are initially recorded as deferred revenue. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable facility. For PHPH only, the portion of the fee that is refundable is based upon reoccupancy or six months, whichever is sooner. 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 a resident's death or termination of the contract.

The amount of guaranteed entrance fees refundable to residents at December 31, 2008 and 2007 under contractual refund provisions was approximately $51,992,000 and $51,764,000, respectively.

(Continued)

(s) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity, the interest and dividend income from which is used for the charitable purpose.

(t) *Donor Restrictions*

The Corporation 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 statement of activities 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 financial statements.

The Corporation 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 Corporation 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 upon 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.

(u) *Resident Services 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 Corporation derives a portion of its revenues from federal and state reimbursement programs with a significant majority of state reimbursement from Pennsylvania Medicaid. The Corporation is certified to receive benefits under Medicare and Medicaid.

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

Nursing services provided to 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 Corporation's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state.

(Continued)

(u) ***Resident Services Revenue and Business Concentration (continued)***

Revenues from Medicare and Medicaid represent approximately 43% of revenues for 2008 and 2007. Medicare and Medicaid receivables represent approximately 59% and 63% of accounts receivable at December 31, 2008 and 2007, respectively.

The Corporation's nursing care facility primarily derives its revenue from private-pay, Medicare and Medicaid patients. Private-pay rates are established on the basis of the cost of delivering services and competitive considerations 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.

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 the Department of Public Welfare (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 7/1-12/31/08. For the years ended December 31, 2008 and 2007, the Corporation received or will receive approximately $2,003,000 and $1,487,000, respectively, in additional revenue for the net effect of this assessment and supplement.

(v) ***Charity Care***

The Corporation provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Corporation considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $12.7 million and $12.8 million for the years ended December 31, 2008 and 2007, respectively, of which the amount of charges foregone for services and supplies was approximately $2.6 million and $2.4 million, respectively.

(w) ***Advertising***

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2008 and 2007, was $674,978 and $684,349, respectively.

(x) ***Classification of Expenses***

		2008	2007
Program activities	$	142,260,468	135,763,893
General and administrative		24,184,484	22,638,573
Fundraising		1,223,966	1,225,408
	$	167,668,918	159,627,874

(y) ***Fundraising Expenses***

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statement of operations and changes in net assets.

(z) ***Operating Income***

The consolidated statements of operations and changes 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 changes in the fair value of swap agreements, equity received from tax credit limited partner, loss on early extinguishment of debt and loss on impairment of assets.

(aa) ***Performance Indicator***

The Corporation measures the performance of its operations using the consolidated statements of operations and changes 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, and unrealized (loss) gains on investments".

(ab) ***Statements of Cash Flows***

Interest paid during the years ended December 31, 2008 and 2007 was $6,854,923 and $8,007,016, respectively. Interest of $263,503 and $0 was capitalized in 2008 and 2007, respectively. The Corporation recognized non-cash contributions from Long Home and Grace Manor of $8,293,481, consisting of property and equipment of $3,569,619, investments and funds held in trust by others of $5,400,595, less a mortgage of $566,764 and accrued liabilities of $109,969.

(ac) ***Reclassification***

Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 financial presentation. These reclassifications had no effect on the change in net assets.

(Continued)

(3) Investments

The cost and market value of investments at December 31 are as follows:

		2008		2007	
		Market	Cost	Market	Cost
Certificates of deposit	$	20,789,366	20,789,366	79,772	80,000
Money market funds		13,110,960	13,110,960	4,956,600	4,956,600
Equity securities		33,412,321	20,956,925	47,654,723	44,437,400
Fixed income securities		12,742,259	14,044,578	27,930,018	27,555,442
Alternate investments		6,034,408	6,678,261	5,855,296	5,017,975
Totals	$	86,089,314	75,580,090	86,476,409	82,047,417
Less assets whose use is limited (note 4)		(27,861,459)		(19,965,399)	
Total investments	$	58,227,855		$ 66,511,010	

In December 2008, Pres Homes, PHPH, QRC and Presbyterian Senior Living transferred a total of $38,318,407 of their investments to PHI Investment Management Services Corporation, where they are held for the exclusive benefit of the corporations.

The Corporation invests in a variety of equity and fixed income mutual funds, other equity and fixed income securities, alternative investments, and certificates of deposit and money market funds.

As of December 31, 2008, forty four mutual funds and three alternative investments had a market value that had been below cost for less than a year. In total, their market value was twenty seven percent below cost. As of December 31, 2007, six mutual funds had a market value that had been below cost for less than a year. In total, their market value was less than three and a half percent below cost.

(3) Investments (continued)

As of December 31, 2008, five mutual funds had a market value that have been below cost for more than a year. In total the market value was thirty eight percent below cost. Only one individual holding had a market value that had been below cost for more than a year as of December 31, 2007. This was a certificate of deposit and in total the market value was less than one half percent below cost.

A summary of investments with fair values below cost as of December 31, 2008 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 35,470,526	(14,015,290)	5,086,504	(3,061,011)	40,557,030	(17,076,301)
Alternate investments	4,684,142	(542,979)	—	—	4,684,142	(542,979)
Total temporarily impaired securities	$ 40,154,668	(14,558,269)	5,086,504	(3,061,011)	45,241,172	(17,619,280)

A summary of investments with fair values below cost as of December 31, 2007 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 10,425,604	(333,105)	—	—	10,425,604	(333,105)
Certificates of deposit	—	—	79,772	(228)	79,772	(228)
Total temporarily impaired securities	$ 10,425,604	(333,105)	79,772	(228)	10,505,376	(333,333)

(4) Assets Whose Use is Limited

At December 31 assets whose use is limited which are carried at market value consisted of the following:

		2008	2007
Permanently restricted investments	$	4,867,273	4,728,929
QRC - unrestricted benevolent care		840,118	1,309,569
Debt service reserve funds		5,731,836	7,390,387
Held by trustee - for future projects		12,214,554	2,874,501
Operating reserve fund		1,508,055	1,531,994
Bond funds		1,297,342	606,645
Assets designated for renovation and charity care		509,017	707,700
Other reserves required by financing arrangements		893,264	815,674
		27,861,459	19,965,399
Less current portion		(1,857,979)	(1,314,345)
	$	26,003,480	18,651,054

(5) Related Party Transactions

Prelude Systems, Inc. (Prelude), is a joint venture between the Corporation 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. Presbyterian Senior Living's investment in Prelude is 46% and accounted for under the equity method is included in investments in marketable equity securities and totaled $648,504 and $635,217 as of December 31, 2008 and 2007, respectively. During 2008 and 2007, respectively, Presbyterian Senior Living paid Prelude approximately $1,892,000 and $1,936,000 for information services provided by Prelude, of which $171,637 and $327,478 was included in accounts payable as of December 31, 2008 and 2007, respectively.

Following is summarized financial information of Prelude as of December 31:

		2008	2007
Assets	$	3,159,090	3,357,158
Liablities		1,727,431	1,949,464
Equity		1,431,659	1,407,694
Sales		8,046,879	7,110,220
Net Income		23,964	251,838

(Continued)

(5) Related Party Transactions (continued)

In addition, the Corporation's affiliates purchased medications from Continuing Care Rx, Inc. During 2008, these contracts were terminated. Total purchases by affiliates from Continuing Care Rx, Inc. for 2008 and 2007 were approximately $1,400,788 and $3,394,457, respectively, of which $617 and $642,000 was included in accounts payable as of December 31, 2008 and 2007, respectively. The Corporation is a minority shareholder in CCRx Holdings, Inc, the parent corporation of Continuing Care Rx, Inc.

(6) Property and Equipment

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

		2008	2007
Land	$	35,455,258	30,897,267
Land improvements		20,728,711	20,095,946
Buildings and improvements		285,492,296	275,850,608
Departmental equipment, furniture and fixtures		42,199,135	41,683,549
Furniture		3,687,873	3,851,496
Vehicles		2,860,575	2,860,970
Construction-in-progress		21,387,184	6,296,005
		411,811,032	381,535,841
Accumulated depreciation		(180,250,915)	(168,933,167)
	$	231,560,117	212,602,674

As the Corporation undertakes expansion projects 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.

Construction-in-progress consists of construction costs incurred for various renovation and expansion projects at the Corporation's existing facilities.

As of December 31, 2008, commitments for future construction totaled approximately $20,350,000.

(6) Property and Equipment (continued)

In October 2005, Presbyterian Senior Living received an allocation from the Pennsylvania Housing Finance Agency of approximately $6.4 million in tax credits payable over ten years. The credits were used for the construction of a fifty unit senior apartment building at a total cost of approximately $8 million which will be rent and income restricted for lower income seniors for a period of 30 years. Schartner House Inc. was organized by the Corporation to be a general partner for this project. The partnership, Schartner House Associates, L.P. (the Partnership) has a general partner, Schartner House Inc, a special limited partner, MMA Special Limited Partner, Inc. and an investor limited partner, MMA Financial Institutional Tax Credits XXI. The amount of equity provided by MMA during 2008 and 2007 is included in unrestricted net assets as a minority interest (labeled as tax credit equity) of $5,950,663 and $5,702,876, respectively.

In 2007, Presbyterian Senior Living formed Westminster Place at Parkesburg, Inc to be the general partner in Westminster Place at Parkesburg, L.P. Westminster Place at Parkesburg will consist of 72 dwelling units. It is anticipated that the project will qualify for and will be allocated low income housing credits pursuant to Internal Revenue Code Section 42. Westminster Place at Parkesburg will rent and restrict income for lower income seniors for a period of 30 years. The partnership, Westminster Place at Parkesburg, L.P. (the Partnership) has a general partner, Westminster Place at Parkesburg Inc, and two investor limited partners, Enterprise RB Fund I, L.P. and Community Housing Alliance II, L.P. The amount of equity provided by the investor limited partners during 2008 is included in unrestricted net assets as a minority interest (labeled as tax credit equity) of $3,357,571.

On October 1, 2008, the Corporation sold the administrative office and all the assets to Christ Community Church for approximately $1,069,000, and recognized a gain of $587,727. Additional gains on fixed assets totaled $51,134 and $1,230 during 2008 and 2007, respectively.

During 2007, it was determined that a planned construction project at Saint Andrew's Village was not moving forward and $987,144 of assets were considered impaired.

On April 1, 2007, the Corporation sold Forest Park Health Center, a 114 bed nursing living facility for approximately $6,597,000, and recognized a gain of $4,742,912.

For the year ended December 31, 2007, Forest Park Health Center's gain consisted of:

		2007
Depreciation	$	(32,694)
Interest		(18,346)
Amortization		(569)
Other expenditures, net of gain of $4,742,912		4,884,943
Total gain on discontinued operations	$	4,833,334

(6) Property and Equipment (continued)

In 2007, the Corporation sold the Moshannon Heights building for approximately $200,000.

For the year ended December 31, 2007, Moshannon Heights' loss consisted of:

		2007
Depreciation	$	(7,818)
Other expenditures, net of loss of $17,525		3,222
Total loss on discontinued operations	$	(4,596)

During 2007, the Corporation disposed of its MSO building for approximately $1.3 million. The proceeds from the sale were used to purchase land for Chimney Rocks. This land will be used for future expansion.

(7) Long-term Debt

Long-term debt as of December 31 consisted of the following:

		2008	2007
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 1.15% and 3.40% at December 31, 2008 and 2007, respectively, secured by irrevocable letter of credit and by property and equipment and gross revenues of the 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 property and equipment and gross revenues of the Group.		10,575,000	14,920,000
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, 1.33% and 3.39% at December 31, 2008 and 2007, respectively, collateralized by letter of credit		8,405,000	8,540,000
Kent County Delaware Economic Development Revenue Bond Series 2003, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 1.80% and 4.48% at December 31, 2008 and 2007, respectively, collateralized by property and equipment and gross revenues of the Group		7,170,358	7,765,747

(7) Long-term Debt

Long-term debt as of December 31 consisted of the following:

	2008	2007
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 Group	16,800,000	16,800,000
Cumberland County Municipal Authority Revenue Bonds Series 2005B, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly after first year, 4.25% at December 31, 2007, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of Presbyterian Homes, Inc.	—	16,800,000
Northampton County Industrial Development Authority Series 1998 First Mortgage Revenue Refunding Bonds, principal due in varying annual amounts through 2023, interest rate at 5.625%, collateralized by property and equipment and gross revenues of Presbyterian Housing and Services Corporation	—	14,045,000
Northampton County Industrial Development Authority Series 2002 First Mortgage Revenue Refunding Bonds, principal due in varying annual amounts through 2030, interest adjusted weekly, 3.39% at December 31, 2007, collateralized by a letter of credit	—	23,350,000
Fannie Mae mortgage payable executed on March 29, 1973, amortization of principal from May 1, 1973 through September 2013, interest rate of 7% effective rate of 0% beginning in 2003 due to FHA subsidy	504,672	601,009
HUD Flexible Subsidy Loans payable, principal balance due upon sale of the project building or upon full payment of the HUD mortgage, simple interest of 1% payable at time of principal payments	1,672,491	1,672,491
Mortgage payable for building loan provided by HUD, monthly installments of principal and interest, interest rate of 3%	854,454	924,871
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly 2.05% and 3.55% at December 31, 2007 and 2006, respectively, collateralized by letter of credit	3,340,000	3,340,000

(7) Long-term Debt (continued)

	2008	2007
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly 2.50% and 5.11% at December 31, 2008 and 2007, respectively, collateralized by letter of credit	14,685,000	15,060,000
Term Loan with S&T Bank, bearing interest at a variable rate of 7.25% at December 31, 2007, principal and interest payments due monthly, final principal payment due May 2009, collateralized by property and equipment of corporate office of PHI	—	357,418
1995 Series A revenue note to Omega Financial, 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% and 3.95% at December 31, 2008 and 2007, respectively. The note is collateralized by a letter of credit and by property and equipment and gross revenues of the Group	2,847,828	2,993,917
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 0.95% and 3.47% at December 31, 2008 and 2007, respectively. These bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Group.	6,855,000	7,445,000
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 was 5.295% at December 31, 2008 and 2007, respectively. The note is collateralized by a letter of credit and by property and equipment and gross revenues of the Group	789,852	824,473
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 rate of 5.01% as of December 31, 2008 and 2007. The bonds are collateralized by property and equipment and gross revenues of the Group	3,538,228	3,657,787

(Continued)

(7) Long-term Debt (continued)

		2008	2007
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 Group.		17,415,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 1.75% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group.		45,000,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 1.30% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group.		15,685,000	—
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due October 2027. The note bears an interest rate of 4.51% at December 31, 2008 and 2007, respectively. The note is collateralized by property and equipment and gross revenues of the Group.		7,683,836	7,933,209
Note payable, John Deere Credit, payable in monthly installments of $374. The note bears an interest rate of 3.80%. The note is collateralized by equipment		—	7,301
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000		10,000	15,000
Note payable, to secure a subsidy from the Department of Housing and Urban Development, non-compounding interest of 1% per annum has been accruing since the note's inception.		117,250	117,250
		169,948,969	153,170,473
Less: Current portion		(4,418,998)	(5,051,324)
Unamortized discount		(309,729)	(393,024)
Plus: Unamortized premium		368,075	344,816
	$	165,588,317	148,070,941

(7) Long-term Debt (continued)

All of the obligations above are collateralized by either property, plant and equipment and gross revenues of the Corporation's consolidated affiliates, or by a letter of credit.

As noted in Note 1, in 2008, the Presbyterian Homes Obligated Group (the Group) was formed. In June 2008, the Group participated in the issuance of the Cumberland County Series 2008 A and B bonds. In November 2008, the Group participated in the issuance of the Cumberland County Series 2008 C bonds. The financing obligates all members of the group to be jointly and severally liable for the 2008 bonds, along with any prior indebtedness of each obligated group member. A portion of the funds were used to refund all of the Kirkland Village Northampton County Series 1998 and 2002 bonds and the Presbyterian Homes Cumberland County 2005B Series bonds. Presbyterian Homes, Inc. realized a loss of $1,331,704 on early extinguishment of debt (net of $386,451 of gain). The remainder of the funds provided approximately $25 million for capital improvements and to pay for issuance costs. The $25 million is being held in a project fund at Bank of NY, the balance of which was $9,238,833 as of December 31, 2008.

During November and December 2008, Presbyterian Homes, Inc. repurchased $3,170,000 of the Cumberland County 2003A Series Bonds. These are being held with the option to remarket at a future date. A gain was recorded on the transactions of $386,451, which was netted against loss from early extinguishment of debt.

On August 16, 2007, QRC consolidated its outstanding mortgages into one mortgage revenue note totaling $8,000,000. The funds were used to refund all of the outstanding mortgage notes and provide approximately $2.8 million for capital improvements and to pay for issuance costs. The $2.8 million is being held in a project fund at M&T bank.

Under the terms of the bond indentures, the Corporations are required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indentures also place limits on additional borrowings and require the Corporations to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants have been met at December 31, 2008 and 2007 for all the corporations.

The Corporation had outstanding letters of credit of $18,676,000 and $42,072,000 at December 31, 2008 and 2007, respectively as required by certain bonds for PSLSI.

(7) Long-term Debt (continued)

Current Maturities of Long-term Debt

Maturities for the five years subsequent to December 31, 2008 and thereafter are as follows:

Years ended December 31,		Aggregate maturities
2009	$	4,418,998
2010		4,993,905
2011		5,190,583
2012		5,438,227
2013		4,667,473
Thereafter		145,239,783
	$	169,948,969

In July 2008, GMRC entered into a swap agreement on the Series B bonds for a notational amount of $14,685,000 at 3.702%, which expires on July 1, 2010. Pursuant to this agreement the intermediary assumed 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, GMRC. As discussed in Note 2, the swap agreement is reported at fair value.

(7) Long-term Debt (continued)

During 2008, the obligated group entered into five swap agreements with financial intermediaries, which fix the interest rates to be paid by the obligated group on the Cumberland County Series 1993 and 2008B bonds, a portion of the Cumberland County 2003B bonds, the Kent County 2003B bonds and the Montgomery County 1997 bonds as follows:

Notional Amount	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	Wachovia	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wachovia	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$29,540,000	SIFMA MSI	Morgan Stanley	10/09/08	10/01/10	2.552%	Cumberland County 2008 B, Cumberland County 1993 A, Cumberland County 2003 B
$6,855,000	SIFMA MSI	M&T	10/02/08	09/30/10	2.84%	Montgomery County 1997
$7,170,358	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

Pursuant to all these agreements the intermediary 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. As discussed in Note 2, swap agreements are reported at fair value.

(8) Notes Payable

The Corporation has available various lines of credit with financial institutions. Interest rates on these lines of credit are variable based on the prime rate of the various financial institutions or the LIBOR rate. As of December 31, 2008 and 2007, under the line of credit agreements, the Corporation had available a maximum of $29,950,000 and $14,900,000 from the financial institutions. As of December 31, 2008 and 2007, the Corporation had amounts totaling $15,267,906 and $9,873,581 outstanding under these agreements at interest rates ranging from 1.75% to 8.25%.

(9) Leases

The Corporation is obligated under various capital leases for equipment and its corporate office that expire at various dates. The gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows at December 31:

	2008	2007
Building and improvements	$ 3,765,000	—
Medical and office equipment	807,247	483,529
Accumulated amortization	(405,847)	(238,140)
	$ 4,166,400	245,389

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2008 follows:

2009	$ 710,905
2010	653,294
2011	590,946
2012	490,301
2013	510,730
Thereafter	8,693,406
	11,649,582
Amounts representing interest	(7,424,285)
	$ 4,225,297

(Continued)

(9) Leases (continued)

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2011. The future minimum lease payments under these operating leases are as follows:

2009	$ 207,553
2010	75,212
2011	23,181
	$ 305,946

Rental expense under operating leases was $266,748 and $308,861 for the years ended December 31, 2008 and 2007, respectively.

(10) Annuities

The Corporation 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. Total annuities payable were $1,286,116 and $1,200,338 at December 31, 2008 and 2007, respectively. The Corporation uses published mortality rate tables adopted by the Internal Revenue Service and an assumed discount rate of approximately 4% to 6% to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $1,777,849 and $1,711,732 as of December 31, 2008 and 2007, respectively to satisfy annuities.

(11) Workers' Compensation Insurance

The Corporation has a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania and the State of Delaware Bureau of Workers' Compensation. This program provides for self payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. The Corporation maintains a letter of credit for $4.3 million in connection with this self-insurance program At December 31, 2008 and 2007, the Corporation has recorded an accrued expense of approximately $5.5 million and $5 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(Continued)

(12) Temporarily Restricted Net Assets

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

		2008	2007
Trust assets held for the benefit of The Easton Home	$	678,524	1,297,564
Charity care and/or equipment, including pledges receivable			
Endowment		332,691	217,516
Other		2,333,278	1,817,409
Contributions receivable from remainder trusts		427,675	524,936
	$	3,772,168	3,857,425

Net assets of $603,933 and $770,505 were released from restriction during 2008 and 2007 respectively in satisfaction of the above restrictions.

(13) Permanently Restricted Net Assets

Permanently restricted net assets are allocated to the following purposes at December 31:

		2008	2007
Investments to be held in perpetuity, the income from which is expendable to support :			
Operations	$	1,884,624	1,861,586
Charity care and/or equipment endowment		2,982,649	2,867,343
Trust assets held for the benefit of The Easton Home		830,086	830,086
Contributions receivable from remainder trusts		1,376,229	1,551,936
Beneficial interest in assets of foundation		121,241	134,927
Gift annuities		54,847	99,155
Beneficial interest in perpetual trusts		10,453,313	13,332,463
	$	17,702,989	20,677,496

(14) Endowment

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

(14) Endowment (continued)

Interpretation of relevant law

The Board of Trustees of the Corporation 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 Corporation 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 asset for the year ended December 31, 2008:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 217,516	4,728,929	4,946,445
Investment return:			
Investment income	156,911	–	156,911
Contributions	50,832	138,344	189,176
Appropriation of endowment assets for expenditures	(92,568)	–	(92,568)
Endowment net assets, end of year	$ 332,691	4,867,273	5,199,964

(Continued)

(14) Endowment (continued)

The following schedule represents the changes in endowment net asset for the year ended December 31, 2007:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	219,899	4,527,383	4,747,282
Investment return:				
Investment income		145,445	–	145,445
Contributions		–	201,546	201,546
Appropriation of endowment assets for expenditures		(147,828)	–	(147,828)
Endowment net assets, end of year	$	217,516	4,728,929	4,946,445

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 Corporation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2008 or 2007.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. 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 Corporation 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.

(14) Endowment (continued)

Strategies Employed for Achieving Objectives

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

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

The Corporation has a total return policy for calculating the amounts available for distribution each year a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2008 and 2007. Actual distributions are for specific projects approved by the Board of Directors. 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 Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2008 and 2007 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(15) Retirement Plan

The Corporation 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 Presbyterian Senior Living and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2008 and 2007, retirement plan expense totaled approximately $1,186,000 and $1,552,000, respectively.

QRC has a defined benefit pension plan covering substantially all employees. This plans 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. QRC'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. In September 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). Effective for the fiscal year ended December 31, 2008, QRC adopted the provisions of this standard and recognized the funded status of the plan that it sponsors.

(15) Retirement Plan (continued)

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

		2008	2007
Projected benefit obligation for service rendered to date	$	(2,933,492)	(2,732,684)
Plan assets at fair value		2,281,906	2,371,926
Accrued pension liability, net	$	(651,586)	(360,758)
Change in Benefit Obligation:			
Project benefit obligation - beginning of year	$	(2,732,684)	(2,588,542)
Interest cost		(163,420)	(158,130)
Distributions		101,545	71,384
Change due to assumptions as of end of year		(127,193)	122,702
Experience loss as of beginning of year		(11,740)	(180,098)
Projected benefit obligation - end of year	$	(2,933,492)	(2,732,684)
Change in Plan Assets:			
Fair value of plan assets - beginning of year	$	2,371,926	2,285,866
Actual return on plan assets		(154,332)	182,824
Contributions		170,097	–
Benefits Paid		(105,785)	(96,764)
Fair value of plan assets - end of year	$	2,281,906	2,371,926

The accumulated benefit obligation amounted to $2,933,492 and $2,732,684 as of December 31, 2008 and 2007, respectively.

Items not recognized as a component of net period pension cost amounted to $825,075 and $345,148 at December 31, 2008 and 2007, respectively.

(Continued)

(15) Retirement Plan (continued)

Net periodic pension expense included in following components for the years ended December 31, 2008 and 2007:

	2008	2007
Service cost	$ 4,240	25,380
Interest cost	163,420	158,130
Expected return on plan assets	(194,157)	(183,998)
Amortiztion of unrecognized net loss	7,495	17,802
Net Periodic Pension Expense	$ (19,002)	17,314

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, 2008 and 2007:

	2008	2007
Discount rate	5.75%	6.00%
Expected rate of return on plan asset	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 the Home'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)

(15) Retirement Plan (continued)

The pension plan assets were invested and allocated in the following manner as of December 31, 2008 and 2007:

	2008	2007
Equity securities	16.2%	47.8%
Debt securities	83.8%	43.6%
Other	0.0%	8.6%

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

2009	47,284
2010	57,503
2011	71,325
2012	79,052
2013	90,676
2014-2017	659,962

QRC is not required and therefore, does not expect to contribute to the pension plan during the year ending December 31, 2009.

In 2007, QRC began participating in a retirement plan through Presbyterian Senior Living.

(16) Commitments and Contingencies

The Corporation 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 Corporation's assets, liabilities, net assets, operations or cash flows.

(17) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of assets and liabilities in the table on page 42 on a recurring basis as of December 31, 2008:

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

Alternative investments: Fair value 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. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value of measurement.

Beneficial interest in perpetual trusts and in 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 trust assets. The trust assets were valued based on quoted market prices for identical securities.

Contributions receivable from remainder trusts and gift annuities: Fair value of the contributions receivable from remainder trusts and gift annuities was based on the present value of future cash inflows. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value of measurement.

Long-term debt: Long-term debt is carried at cost in the statements of financial position for bonds payable and mortgages payable at December 31, 2008 and 2007. Fair value is based on quoted market prices for the same or similar issues The total outstanding was $169,948,969 and $153,170,473 at December 31, 2008 and 2007, respectively, and its fair values at December 31, 2008 and 2007 approximates $135,495,615 and $151,919,861, respectively.

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. Therefore, the Corporation has categorized the interest rate swap as Level 2.

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2008 and 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

(Continued)

(17) Financial Instruments (continued)

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for combined financial statements issued for fiscal years beginning after November 15, 2007.

The primary effect of SFAS 157 on the Corporation was to expand the required disclosures pertaining to the methods used to determine fair values.

SFAS 157 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 under SFAS 157 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.

(17) 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, 2008 are as follows:

Description	Total	Level 1	Level 2	Level 3
Certificates of deposit and money market funds	$ 33,900,326	33,900,326	–	–
Equity securities	33,412,321	33,412,321	–	–
Fixed income securities	12,742,259	12,742,259	–	–
Alternate investments	6,034,408	–	–	6,034,408
Total investments	86,089,314	80,054,906	–	6,034,408
Beneficial interest in perpetual trusts	10,453,313	10,453,313	–	–
Beneficial interest in assets of foundation	121,241	121,241	–	–
Gift annuities	54,847	–	–	54,847
Contributions receivable from remainder trusts	1,803,904	–	–	1,803,904
Interest rate swap	(3,456,708)	–	(3,456,708)	–

For assets and liabilities falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2008 is as follows:

Description	Altermative Investments	Contributions Receivable from Remainder Trusts	Gift Annuities	Level 3 Total
Balance at December 31, 2007	$ 5,855,296	2,076,872	139,044	8,071,212
Unrealized losses	(1,867,867)	(272,968)	(84,197)	(2,225,032)
Proceeds received	2,054,485			2,054,485
Realized losses	(7,506)	–	–	(7,506)
Balance at December 31, 2008	$ 6,034,408	1,803,904	54,847	7,893,159

(Continued)

(17) Financial Instruments (continued)

Unrealized and realized losses on alternative investments are reported as unrestricted and remainder trusts and gift annuities are permanently restricted in the 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.

(18) Subsequent event

In March 2009, the Corporation and Bloomsburg Health Ventures (BHV), the controlling affiliate for Bloomsburg Hospital, agreed to form an new not-for-profit corporation for the purpose of developing approximately sixty acres of land adjacent to the hospital into a senior living community. BHV will be transferring the land to the new corporation in exchange for a minority interest and the Corporation will be responsible for the majority of the future development thereon.