

**PRESBYTERIAN HOMES IN THE
PRESBYTERY OF HUNTINGDON
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003
&
ADDITIONAL INFORMATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Presbyterian Homes in the
Presbytery of Huntingdon:

We have audited the accompanying combined balance sheet of Presbyterian Homes in the Presbytery of Huntingdon and Affiliate (the "Homes") as of December 31, 2004 and 2003, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Homes' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes in the Presbytery of Huntingdon and Affiliate as of December 31, 2004 and 2003, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 17 to the combined financial statements, the Homes restated beginning net assets for 2003 to correct errors in 2002 and prior years.

Parante Randolph, LLC

Pittsburgh, Pennsylvania
February 3, 2005

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

COMBINED BALANCE SHEET
DECEMBER 31, 2004 AND 2003

	2004	2003	2004	2003
<u>ASSETS</u>		<u>LIABILITIES AND NET ASSETS</u>		
CURRENT ASSETS:		CURRENT LIABILITIES:		
Cash	\$ 421,483	Line of credit	\$ 326,027	\$ 1,090,087
Investments	510,000	Current portion of long-term debt	1,012,985	1,129,399
Residents funds	126,120	Accounts payable	955,375	1,456,660
Accounts receivable, net	2,094,552	Accrued expenses	1,132,053	721,608
Prepaid expenses and inventories	252,868	Other current liabilities	160,875	-
Total current assets	3,405,023	Total current liabilities	3,587,315	4,397,754
PROPERTY AND EQUIPMENT		DEPOSITS FOR ENTRANCE		
ACCUMULATED DEPRECIATION	44,481,077		128,119	316,147
	(18,669,569)	LONG-TERM DEBT		
Property and equipment, net	25,811,509		13,642,499	14,840,609
INVESTMENTS:		WORKERS' COMPENSATION		
Investments, designated:		LIABILITY	918,097	667,488
Property fund	2,423,288	UNEARNED ENTRANCE FEES		
Bond fund	612,077	ACCUMULATED AMORTIZATION	9,420,758	8,498,789
Endowment fund	1,829,192		(2,802,608)	(2,199,203)
Workers' compensation collateral fund	763,122	Unearned entrance fees, net	6,618,150	6,299,596
Workers' compensation trust fund	316,444			
Held under trust indenture	1,765	Total liabilities	24,894,180	26,521,584
Total investments, designated	5,945,888			
Donor-restricted Investments, endowment	1,671,284	NET ASSETS:		
		Unrestricted	10,545,324	10,177,687
Total investments	7,617,172	Temporarily restricted	170,519	170,098
		Permanently restricted	2,019,117	2,003,230
OTHER ASSETS:		Total net assets	12,734,960	12,351,015
Contributions receivable from remainder trusts	170,519			
Beneficial interest in perpetual trusts	347,833			
Unamortized bond and note issuance costs, net	277,084			
Total other assets	795,436			
TOTAL	\$ 37,629,140	TOTAL	\$ 37,629,140	\$ 38,872,599

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**COMBINED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
REVENUES:		
Net resident services and other	\$26,540,605	\$24,692,283
Amortization of entrance fees	<u>624,269</u>	<u>472,281</u>
Total revenues	<u>27,164,874</u>	<u>25,164,564</u>
EXPENSES:		
Nursing services	11,504,491	11,508,327
Food services	3,273,213	3,408,497
Housekeeping services	962,005	943,638
Laundry and linen services	469,401	470,225
Rehabilitation and physical therapy	1,198,242	1,363,669
Property and maintenance	2,490,934	2,423,599
General and administrative	2,774,544	2,830,748
Fund development	159,815	147,507
Corporate marketing	217,680	197,623
Other supportive services	<u>1,970,900</u>	<u>1,734,901</u>
Expenses before depreciation and amortization and interest	25,021,225	25,028,734
Depreciation and amortization	1,726,555	1,708,229
Interest	<u>343,601</u>	<u>322,323</u>
Total expenses	<u>27,091,381</u>	<u>27,059,286</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES	73,493	(1,894,722)
UNREALIZED GAINS ON INVESTMENTS OTHER THAN TRADING SECURITIES	<u>294,144</u>	<u>672,491</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS, As restated for 2003	<u>\$ 367,637</u>	<u>\$ (1,222,231)</u>

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**COMBINED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues in excess of (less than) expenses	\$ 73,493	\$ (1,894,722)
Unrealized gains on investments other than trading securities	<u>294,144</u>	<u>672,491</u>
Increase (decrease) in unrestricted net assets, as restated for 2003	367,637	(1,222,231)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS,		
Valuation gain, contributions receivable from remainder trusts	421	15,677
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS,		
Valuation gain, beneficial interest in perpetual trusts	<u>15,887</u>	<u>40,280</u>
INCREASE (DECREASE) IN NET ASSETS,		
As restated for 2003	<u>383,945</u>	<u>(1,166,274)</u>
NET ASSETS, BEGINNING OF YEAR:		
As previously reported	12,351,015	14,175,246
Prior period adjustment	<u>-</u>	<u>(657,957)</u>
Net assets, beginning of year, as restated	<u>12,351,015</u>	<u>13,517,289</u>
NET ASSETS, END OF YEAR	<u>\$ 12,734,960</u>	<u>\$12,351,015</u>

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 383,945	\$(1,166,274)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,726,555	1,708,229
Amortization of entrance fees	(624,269)	(472,281)
Proceeds from entrance fees	1,235,799	1,209,165
Unrealized gains on investments	(294,144)	(672,491)
Valuation gain, contributions receivable from remainder trusts	(421)	(15,677)
Valuation gain, beneficial interest in perpetual trusts	(15,887)	(40,280)
(Increase) decrease in:		
Residents funds	(11,136)	139,791
Accounts receivable	379,218	71,703
Contribution receivable	-	335,220
Prepaid expenses and inventories	(7,933)	24,416
Increase (decrease) in:		
Accounts payable	(501,285)	143,561
Accrued expenses	410,445	(422,740)
Other current liabilities	160,875	-
Deposits for entrance and personal funds	(188,028)	(618,019)
Workers' compensation liability	250,609	9,531
Net cash provided by operating activities	<u>2,904,343</u>	<u>233,854</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,720,450)	(2,061,449)
Decrease in investments	<u>846,140</u>	<u>1,606,977</u>
Net cash used in investing activities	<u>(874,310)</u>	<u>(454,472)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	-	1,523,576
Payment of long-term debt	(1,318,624)	(1,059,501)
Net (payments) borrowings on line of credit	(764,060)	532,498
Refunds of entrance fees	(292,966)	(363,175)
Payment of bond and note issuance costs	<u>-</u>	<u>(46,784)</u>
Net cash (used in) provided by financing activities	<u>(2,375,650)</u>	<u>586,614</u>
NET (DECREASE) INCREASE IN CASH	(345,617)	365,996
CASH, BEGINNING OF YEAR	<u>767,100</u>	<u>401,104</u>
CASH, END OF YEAR	<u><u>\$ 421,483</u></u>	<u><u>\$ 767,100</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Interest paid	<u><u>\$ 343,601</u></u>	<u><u>\$ 330,230</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FLOW INVESTING AND FINANCING ACTIVITY,		
Equipment obligation under capital lease	<u><u>\$ 4,100</u></u>	<u><u>\$ -</u></u>

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF OPERATIONS

Presbyterian Homes in the Presbytery of Huntingdon, along with its affiliate, Presbyterian Homes in the Presbytery of Huntingdon Foundation (the "Foundation") (collectively the "Homes") is primarily engaged in rendering services to elderly individuals through supervised residential living and medical care with facilities in Hollidaysburg, Philipsburg, Huntingdon, and Orbisonia, Pennsylvania.

The Foundation was established in 2004 to operate exclusively for the support and benefit of Presbyterian Homes in the Presbytery of Huntingdon.

PRINCIPLES OF COMBINATION

The combined financial statements include Presbyterian Homes in the Presbytery of Huntingdon and the Foundation. All significant intercompany balances and transactions have been eliminated.

USE OF ESTIMATES

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

DONOR-RESTRICTED GIFTS

The Homes report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Permanently restricted net assets have been restricted by donors to be maintained by the Homes in perpetuity. Temporarily restricted net assets have been limited by donors to a specific time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

The Homes report gifts of property and equipment (or other long-lived assets) 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 Homes report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

CONTRIBUTED SERVICES

Contributed services are reported in the combined statement of operations 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 Homes. The value of contributed services meeting the requirements for recognition was not material and has not been recorded.

ACCOUNTS RECEIVABLE

Accounts receivable are reported at net realizable value. Accounts are charged to bad debt expense when deemed uncollectible based on a periodic review by management. The allowance for doubtful accounts is estimated based upon periodic review of individual accounts. The allowance for doubtful accounts was approximately \$162,500 at December 31, 2004. There was no allowance for doubtful accounts at December 31, 2003.

INVESTMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in revenues in excess of (less than) expenses unless restricted by donor or law. Unrealized gains and losses on investments other than trading securities are excluded from revenues in excess of (less than) expenses unless the investments are trading securities.

Although the Homes' investments are invested in a variety of financial instruments, managed by investment advisors, the fair values, reported in the combined balance sheet, are subject to various market risks including changes in the equity markets, the interest rate environment, and economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the fair value of investments reported in the accompanying combined balance sheet could change materially in the near term.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Depreciation expense was \$1,702,308 in 2004 and \$1,684,961 in 2003.

BOND AND NOTE ISSUANCE COSTS

The Homes incurred financing costs in connection with the issuance of Series 2002 notes, Series 1997 bonds, Series 1995 notes, and Series 1985 bonds. These costs, consisting primarily of underwriting, legal, and consulting fees, are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Accumulated amortization was \$207,860 and \$183,613 at December 31, 2004 and 2003, respectively. Amortization expense was \$24,247 in 2004 and \$23,268 in 2003.

**CONTRIBUTIONS RECEIVABLE FROM REMAINDER TRUSTS
AND BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The Homes received as contributions several remainder trusts and perpetual trusts. Under these agreements, the Homes recorded the assets and recognized temporarily restricted or permanently restricted contribution revenues, based on the existence of time restrictions, at the fair value of the Homes' interest in the trust net assets. Income earned on the trust assets and distributed to the Homes is recorded as investment income in the accompanying combined statement of operations unless otherwise restricted by the donor. Subsequent changes in fair value are recorded as valuation gains or losses in temporarily or permanently restricted net assets.

RESIDENTS' FUNDS

In accordance with government regulations, the Homes established personal accounts for all non-full pay residents.

UNEARNED ENTRANCE FEES

Entrance fees are received from applicants for residence.

Westminster House residents are required to remit an administrative fee of 5% of the cost of the unit upon the initial signing. Entrance fees paid by the residents are recognized as income over the resident's estimated life expectancy. The unearned portion of entrance fees received is reported as unearned entrance fees on the combined balance sheet.

Westminster Square residents are required to remit an administrative fee of 5% of the cost of the unit upon the initial signing. Upon termination of the agreement, a guaranteed return of 25% of the original entrance fees will be made to the occupant or their estate. The remaining balance is recognized over the resident's estimated life expectancy. The unearned portion of entrance fees received is reported as unearned entrance fees on the combined balance sheet.

Prior to January 1, 2003, Friendship Hall residents were required to remit a pre-occupancy deposit. Upon occupancy, the Homes recognize 10% of the deposit as revenue. The remaining balance is recognized over two and one half years, with the unearned portion reported as unearned entrance fees on the combined balance sheet.

Westminster Woods and Windy Hill applicants execute a resident agreement that requires payment of an entrance fee based on the type of agreement selected. Thirty-five percent of the entrance fee is due upon execution of the agreement and the remainder is due upon occupancy. Prior to occupancy, the entrance fee, less a \$500 administration fee are refundable upon termination of the agreement. The Homes vests the entrance fee over a period up to 100 months depending on the agreement selected. The non-refundable portion of the entrance fee is amortized into revenue over the life expectancy of the resident. The difference between the vested calculation and amortized revenue, if any, is recognized in the year the contract terminates.

NET RESIDENT SERVICES REVENUE

Net resident services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that the estimates used could change in the near term. Approximately 65% of the nursing service days are eligible for reimbursement by governmental third-party payors.

INCOME TAXES

Presbyterian Homes in the Presbytery of Huntingdon and the Foundation are recognized by the Internal Revenue Service as not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes pursuant to Section 509(a) of the IRC.

REVENUES IN EXCESS OF (LESS THAN) EXPENSES

The combined statement of operations includes the determination of revenues in excess of (less than) expenses. Changes in unrestricted net assets, which are excluded from the determination of revenues in excess of (less than) expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

RECLASSIFICATIONS

Certain reclassifications were made to the 2003 combined financial statements to conform to the 2004 presentation.

2. NET RESIDENT SERVICES REVENUE

The Homes has agreements with third-party payors that provide for payments to the Homes at amounts different from its established rates. A significant portion of the Homes' net resident service revenue is derived from these third-party payor programs. A summary of the principal payment arrangements with third-party payors follows:

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

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

The Homes' Medicare cost reports have been settled through December 31, 2003.

- **MEDICAL ASSISTANCE:** Nursing services provided to Medical Assistance program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

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

The Homes also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Homes under these agreements includes prospectively determined rates per day or discounts from established charges.

3. CONCENTRATIONS OF CREDIT RISK

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

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

4. INVESTMENTS

Designated and donor-restricted investments are invested in cash and cash equivalents, marketable debt (governmental and corporate bonds), and equity securities (common and preferred stock and mutual funds) in accordance with the Homes' investment policy and restrictions imposed by third parties.

The purpose and definition of the designated and donor-restricted investments are as follows:

1. The property fund is comprised of cash and securities held by Wachovia Securities and consists of certain statutory reserves necessary to be maintained under the Commonwealth of Pennsylvania, Department of Insurance Guidelines. The purpose of the fund is to accumulate deposits received in anticipation of construction and resale of independent living units. The fund is also used to accumulate deposits to renovate, replace, and expand the physical plant of the Homes in accordance with its mission. Management also maintains a liquid reserve within the fund to settle resident transfers and termination refunds of independent living contracts.
2. The bond fund consists of cash and securities held by Wachovia Securities funded through operations for debt retirement. Cash is deposited periodically from current operations to pay bond debt service and earnings are accumulated to pay future debt service.
3. The endowment fund consists of cash and securities held in trust by Omega Financial. The purpose of the fund is to invest principal so that all the interest and dividend payments accrue to the Homes' general fund for the purpose of providing benevolent care to residents. The fund grows through specific designated contributions and through the growth of principal from capital gains. The Homes' board of directors and investment advisors set the investment objectives for the endowment fund each January. Within the endowment fund are donor-restricted investments totaling \$1,671,284 at December 31, 2004 and 2003, which are managed within the same parameters as the designated portion of the fund. Each year, the Homes may receive a principal distribution from the endowment fund based on an eight-year average total return adjusted by the average inflation rate for that period. The total return in excess of inflation is multiplied by the average market value for the same time period to arrive at the principal distribution.

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

4. The workers' compensation collateral fund is held by PNC Brokerage and is a statutory fund required by the Commonwealth of Pennsylvania to comply with Self-Funding Workers Compensation Regulations. The funding requirement is determined by past history of claims and a reserve requirement is statutorily determined. The purpose of the fund is to pay workers compensation claims in event of default.
5. The workers' compensation trust fund is held by PNC Bank and is an actuarially determined fund based on past experience of workers compensation claims. Claim experience, statutory requirements, and actuarial determination dictate the funding requirements annually. The fund is pledged to secure a letter of credit with S&T Bank.
6. Restricted funds held under trust indenture agreements are limited as to use under the terms of the debt agreements.

The fair values by investment type are as follows at December 31:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$1,419,351	\$1,633,636
U.S. Government obligations	2,588,465	2,945,092
Corporate bonds	442,256	852,501
Corporate stocks	2,207,928	1,920,782
Mutual fund	<u>1,469,172</u>	<u>1,327,157</u>
Total	<u>\$8,127,172</u>	<u>\$8,679,168</u>

Balance sheet classifications of investments are as follows at December 31:

	<u>2004</u>	<u>2003</u>
Investments	\$ 510,000	\$ 485,000
Investments, designated funds	5,945,888	6,522,884
Investments, restricted funds	<u>1,671,284</u>	<u>1,671,284</u>
Total	<u>\$8,127,172</u>	<u>\$8,679,168</u>

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

The following schedule summarizes the investment return for the years ended December 31:

	<u>2004</u>	<u>2003</u>
Other revenues, Primarily interest and dividends	<u>\$146,870</u>	<u>\$217,170</u>
Other changes in unrestricted net assets, Unrealized gains on investments other than trading securities	<u>\$294,144</u>	<u>\$672,491</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Residents	\$ 539,746	\$ 554,057
Third-party payors	<u>1,717,275</u>	<u>1,919,713</u>
Total	2,257,021	2,473,770
Less allowance for doubtful accounts	<u>162,469</u>	<u>-</u>
Accounts receivable, net	<u>\$2,094,552</u>	<u>\$2,473,770</u>

Included in accounts receivable from third-party payors are retroactive cost settlements of \$180,794 at December 31, 2004 and 2003.

6. CONTRIBUTIONS RECEIVABLE FROM REMAINDER TRUSTS AND BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Homes is the beneficiary of several remainder trusts and perpetual trusts. Under these agreements, a donor made an initial gift to a trust held by a third-party, naming the Homes as a remainder beneficiary or a beneficiary of the income derived from the trust. The Homes' contributions receivable from remainder trusts at December 31, 2004 and 2003 was \$170,519 and \$170,098, respectively. The Homes' beneficial interest in perpetual trusts at December 31, 2004 and 2003 was \$347,833 and \$331,946, respectively.

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT

Major classes of property and equipment and their respective depreciable lives are summarized below:

	LONG-TERM CARE				PERSONAL CARE			INDEPENDENT LIVING			ADMINISTRATION		DEPRECIABLE LIVES
	HOLIDAYSBURG HOME	WOODLAND RETIREMENT CENTER	WESTMINSTER WOODS	WINDY HILL	MOSHANNON HEIGHTS	WESTMINSTER WOODS	HOLLIDAYSBURG HOME	WESTMINSTER WOODS	WINDY HILL	MANAGEMENT SERVICES OFFICE	TOTAL		
											2004	2003	
Land and land improvements	\$ 245,161	\$ 330,652	\$ 1,602,038	\$ 320,343	\$ 15,435	\$ 376,200	\$ 13,128	\$ 690,444	\$ 1,411,801	\$ 337,791	\$ 5,342,993	\$ 3,493,155	12-20 years
Buildings and permanent fixtures	4,040,860	3,127,877	8,510,146	3,463,847	972,281	3,532,065	3,312,218	1,650,284	-	753,131	29,362,709	27,867,262	10-50 years
Office equipment	530,641	42,272	147,450	84,112	30,712	-	-	-	-	676,598	1,511,795	1,496,123	5-20 years
Furniture and fixtures	325,601	633,085	363,889	226,915	185,622	45,852	58,874	155,787	-	5,901	2,001,726	1,987,189	3-50 years
Machinery and equipment	504,988	1,730,841	901,747	803,837	280,525	66,652	61,944	100,016	-	-	4,450,550	4,391,077	3-10 years
Rental property	161,169	-	-	-	-	-	-	-	-	-	161,169	226,813	20 years
Vehicles	132,002	113,706	115,906	65,644	17,127	-	-	-	-	-	444,385	305,880	4-5 years
Construction in progress	48,746	48,955	467,930	-	-	-	-	602,436	-	37,691	1,205,758	2,991,457	
Total	5,989,368	6,027,388	12,109,106	4,964,698	1,501,702	4,020,769	3,446,164	3,198,967	1,411,801	1,811,112	44,481,077	42,758,928	
Accumulated depreciation	3,836,893	2,955,869	3,897,679	3,198,359	1,160,670	910,872	1,176,263	1,023,335	97,349	412,279	18,689,568	16,989,661	
Property and equipment, net	\$2,152,475	\$3,071,519	\$8,211,427	\$1,766,339	\$341,032	\$3,109,897	\$2,269,901	\$2,175,632	\$1,314,452	\$1,398,833	\$25,811,509	\$25,789,267	

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

8. LINE OF CREDIT

The Homes has a \$200,000 unsecured line of credit with First Commonwealth Bank. The line is renewable annually and bears interest at prime rate (5.25% at December 31, 2004). There were no borrowings at December 31, 2004 or 2003.

The Homes has a \$1,500,000 revolving line of credit with Omega Financial, which bears interest at prime rate minus .25% (5.00% at December 31, 2004). The line is secured by the Homes' endowment fund. Borrowings were \$326,027 and \$1,090,087 at December 31, 2004 and 2003.

9. LONG-TERM DEBT

Long-term debt is as follows at December 31:

	<u>2004</u>	<u>2003</u>
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 balance to April 2017. The bonds bear a floating interest rate, which at December 2004 was 1.74%. The bonds are collateralized by all or portions of the following facilities: Westminster Woods, Woodland Retirement Center, and Hollidaysburg Home	\$9,055,000	\$9,539,980
1995 Series A and B revenue notes to Omega Financial, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The notes bear a floating interest rate, which at December 31, 2004 was 3.00%. The notes are collateralized by certain receivables and property:		
Series A, Westminster Woods Project	3,436,055	3,603,103
Series B, Renovations at Hollidaysburg Home	88,115	155,670
1985 Series bonds, principal and interest payable quarterly, with a floating interest rate to December 1, 2005. At December 31, 2004, the interest rate was 2.75%. The bonds were used to construct the Windy Hill facility and are collateralized by certain property	150,000	640,000

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

	<u>2004</u>	<u>2003</u>
Series 2002 Huntington 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 2.69% at December 31, 2004. The note is collateralized by a second lien position on the Westminster Woods facility	\$ 931,716	\$ 970,725
Management Services Office ("MSO") mortgage. Principal and interest of \$6,107 are due monthly through June 2023. The note bears interest at a variable rate, which was 3.33% at December 31, 2004. The note is collateralized by the MSO facility	938,710	979,907
Presbytery of Huntingdon revolving loan with no interest, due 2005	5,000	10,000
Capital lease obligation to Waypoint Bank, due in monthly installments of principal and interest of \$2,087 through December 2006; interest is payable at 5.86%; collateralized by equipment	47,753	70,623
Capital lease obligation to Waypoint Bank, due in monthly installments of principal and interest of \$128 through May 2007; interest is payable at 7.58%; collateralized by equipment	<u>3,135</u>	<u>-</u>
Total	14,655,484	15,970,008
Less current portion	<u>1,012,985</u>	<u>1,129,399</u>
Long-term debt	<u>\$13,642,499</u>	<u>\$14,840,609</u>

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Following is a summary of scheduled principal payments on the long-term debt as of December 31, 2004:

	MSO <u>Mortgage</u>	SERIES <u>2002</u>	SERIES <u>1997</u>	SERIES <u>1995</u>	SERIES <u>1985</u>	<u>OTHER</u>	<u>TOTAL</u>
2005	\$ 42,809	\$ 38,168	\$ 510,000	\$ 241,427	\$150,000	\$30,581	\$ 1,012,985
2006	44,124	39,207	535,000	195,897	-	24,945	839,173
2007	45,616	40,275	565,000	182,615	-	362	833,868
2008	47,158	41,371	590,000	188,174	-	-	866,703
2009	48,753	42,498	620,000	193,901	-	-	905,152
Thereafter	<u>710,251</u>	<u>730,197</u>	<u>6,235,000</u>	<u>2,522,156</u>	<u>-</u>	<u>-</u>	<u>10,197,604</u>
Total	<u>\$938,710</u>	<u>\$931,716</u>	<u>\$9,055,000</u>	<u>\$3,524,170</u>	<u>\$150,000</u>	<u>\$55,888</u>	<u>\$14,655,484</u>

10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were comprised of contributions receivable from charitable remainder trusts of \$170,519 and \$170,098 at December 31, 2004 and 2003, respectively.

Permanently restricted net assets are restricted for the following at December 31:

	<u>2004</u>	<u>2003</u>
Investments to be held in perpetuity, the income from which is expendable to support the Homes operations	\$1,671,284	\$1,671,284
Split-interest agreement and perpetual trusts held by third parties in perpetuity	<u>347,833</u>	<u>331,946</u>
Total permanently restricted net assets	<u>\$2,019,117</u>	<u>\$2,003,230</u>

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

11. CLASSIFICATION OF EXPENSES

The Homes provides housing, healthcare, and related services to residents within its geographic region. Expenses related to providing these services in 2004 were as follows:

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND DEVELOPMENT AND MARKETING</u>
Advertising	\$ 123,787	\$ 99,210	\$ 24,533	\$ 44
Bond financing costs	28,623	4,376	24,247	-
Bond pool costs	114,190	-	114,190	-
Consultant fees and contracted services	409,143	16,488	327,331	65,324
Data processing	102,132	-	102,132	-
Depreciation and amortization	1,726,555	1,575,803	150,752	-
Food and related expenses	1,521,608	1,521,608	-	-
Inspections, licenses, and fees	47,452	21,073	26,379	-
Insurance	387,355	387,355	-	-
Interest	343,601	307,792	35,809	-
Professional fees	620,591	451,368	169,223	-
Medical supplies	950,630	950,630	-	-
Medical consultant and fees	349,112	348,963	149	-
Therapy services	1,077,105	1,077,105	-	-
Memberships, dues, and education	91,228	41,181	49,446	601
Office supplies, postage, and printing	70,008	1,139	62,553	6,316
Other expenses	245,678	239,396	1,972	4,310
Payroll taxes and employee benefits	3,750,954	3,358,524	326,306	16,110
Real estate tax	130,206	130,206	-	-
Repairs and maintenance	97,080	94,732	2,348	-
Salaries and wages	13,216,025	11,744,394	1,405,507	66,124
Supplies and minor equipment	611,701	530,377	81,324	-
Telephone	64,271	-	64,271	-
Travel	23,858	5,852	16,880	1,126
Utilities	959,808	959,808	-	-
Vehicle expense	28,680	28,680	-	-
Total expenses	<u>\$27,091,381</u>	<u>\$23,896,060</u>	<u>\$ 2,985,352</u>	<u>\$ 159,955</u>

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

The Homes provides housing, healthcare, and related services to residents within its geographic region. Expenses related to providing these services in 2003 were as follows:

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND DEVELOPMENT AND MARKETING</u>
Advertising	\$ 129,084	\$ 93,721	\$ 30,620	\$ 4,743
Bond financing costs	51,248	27,980	23,268	-
Bond pool costs	119,805	-	119,805	-
Consultant fees and contracted services	388,458	79,754	287,451	21,253
Data processing	109,940	-	109,940	-
Depreciation and amortization	1,708,229	1,585,635	122,594	-
Food and related expenses	1,152,171	1,152,171	-	-
Inspections, licenses, and fees	91,799	23,308	68,491	-
Insurance	355,874	355,874	-	-
Interest	322,323	301,133	21,190	-
Professional fees	338,174	214,204	123,970	-
Medical supplies	1,076,394	1,076,394	-	-
Medical consultant and fees	334,546	333,899	647	-
Therapy services	934,749	934,749	-	-
Memberships, dues, and education	107,787	46,510	58,899	2,378
Office supplies, postage, and printing	92,601	-	76,807	15,794
Other expenses	143,058	137,848	2,933	2,277
Payroll taxes and employee benefits	3,374,458	3,044,623	311,241	18,594
Real estate tax	120,440	120,440	-	-
Repairs and maintenance	134,785	133,800	985	-
Salaries and wages	14,138,215	12,640,974	1,416,805	80,436
Supplies and minor equipment	710,886	649,770	61,116	-
Telephone	123,478	-	123,478	-
Travel	36,819	9,617	25,172	2,030
Utilities	940,850	940,850	-	-
Vehicle expense	23,115	23,115	-	-
Total expenses	<u>\$27,059,286</u>	<u>\$23,926,369</u>	<u>\$ 2,985,412</u>	<u>\$ 147,505</u>

12. RETIREMENT PLAN

The Homes has a tax deferred annuity plan under Internal Revenue Code Section 403(b). Under this plan, the Homes contributes 25% of participating employees contributions up to 4% of such employees' compensation. The Homes offers a defined contribution profit sharing retirement plan for all eligible employees with the Omega Financial serving as trustee. Contributions to this plan are at the discretion of the board of directors. Retirement plan expense under the plans was \$418,084 in 2004 and \$83,943 in 2003.

13. DEBT SERVICE COVERAGE RATIO

The Homes is obligated by the 1997 Series Bonds agreement to maintain a debt service requirement of 120% for the term of the bonds. The following schedule summarizes the debt service coverage ratio calculation for the year ended December 31, 2004:

Net revenue:	
Excess of cost of services provided over revenue	\$ 73,493
Depreciation and amortization	1,726,555
Interest	<u>343,601</u>
Net revenue available for debt service	<u>\$2,143,649</u>
Annual debt service – 2004	<u>\$1,658,127</u>
Debt service coverage ratio	<u>129%</u>

14. RESERVE REQUIREMENT

The Insurance Department of the Commonwealth of Pennsylvania licensed the Homes as a continuing care provider. In accordance with this licensure, the Homes must establish and maintain certain liquid reserves. The minimum required reserve amount at December 31, 2004 is calculated by multiplying the ratio of total continuing care residents to total facility residents times the greater of annual long-term debt service or 10% of prospective operating expenses exclusive of depreciation and amortization. The calculation is as follows:

PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Total continuing care residents	80
Total facility residents	536
Ratio = 80/536	14.93%
Long-term debt service, annual	<u>\$1,317,226</u>
Prospective operating expenses exclusive of depreciation and amortization (\$25,398,625 multiplied by 10%)	<u>\$2,539,863</u>
Required reserve (\$2,539,863 multiplied by 14.93%)	<u>\$ 379,202</u>

The Homes met this requirement at December 31, 2004.

15. CONTINGENCIES

The Homes self-funds its workers' compensation claims liability. Under this method, the Homes does not make premium payments to an insurance company, instead, the Homes reimburses a claims administrator for any paid claims and provides sufficient funds for any reserves for outstanding claims. Claims paid and expenses associated with the self-funded workers' compensation plan totaled \$605,475 in 2004 and \$455,405 in 2003. All reserves for claims have been accrued at December 31, 2004 and 2003. The Homes is required to deposit cash on an annual basis in a separate trust account. Prospective annual funding levels are determined by an actuarial analysis.

In December 2004, the Homes also obtained a \$300,000 letter of credit with a bank to secure the Homes' workers' compensation program. The letter of credit is secured by a pledge of a money market account totaling approximately \$300,000.

The long-term care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for resident services, and Medicare and Medical Assistance fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in penalties, as well as significant repayments for resident services previously billed. Management believes that the Homes is in compliance with fraud and abuse as well as other applicable government laws and regulations. The board of directors has adopted a corporate compliance plan which is reviewed periodically. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time.

16. EXPANSION PROJECT AND RELATED COMMITMENTS AND CONTINGENCIES

The Westminster Woods facility is being built in phases and construction is expected over the next two to four years. During 2003, the final cottages of the first phase were completed and placed into service. Road and land development construction was completed in the fall of 2003 for construction of 17 additional independent living units. Construction of the units commenced in the spring of 2004 at the point residents make commitments through signed contracts. During 2004, four units were sold and occupied.

In September 2004, the board of directors approved ceasing operations at the Moshannon Heights personal care facility by the end of 2005. The ending of operations will coincide with the addition of 18 personal care beds at the Windy Hill Village facility. Construction on the Windy Hill Village addition is expected to begin in the spring of 2005. Operations at Moshannon Heights are anticipated to end in December of 2005.

17. PRIOR PERIOD ADJUSTMENT

During 2004, the Homes discovered that an estimated liability for incurred but not reported claims relating to their self-funded workers' compensation plan was not recorded in prior years. Accordingly, previously issued financial statements were restated. The effect of the restatement was to decrease the change in unrestricted net assets by \$9,531 in 2003. The effect of the restatement on prior years was to decrease unrestricted net assets by \$657,957 at January 1, 2003 to record the estimated liability for incurred but not reported workers' compensation claims.

18. AFFILIATION AGREEMENT

In November 2004, the board of directors finalized plans to enter into an affiliation agreement with PHI/Presbyterian Homes, Inc. of Camp Hill, PA ("PHI"). Under the agreement the Homes will become one of PHI's subsidiary corporations and will continue to serve residents within the bounds of the Presbytery of Huntingdon. PHI shares with the Homes a number of key similarities and beliefs; several of which are: nearly identical mission statements, similar relationships with the Presbyterian Church (USA), 501(c)3 corporate structures, commitments to charitable care, a desire to expand and grow to serve future generations of seniors, and histories, both organizations have been in existence for more than 75 years. The effective date of the affiliation is April 1, 2005.

19. SUBSEQUENT EVENT

The Pennsylvania Department of Public Welfare (the "Department") submitted a plan for approval to the Centers for Medicare & Medicaid Services ("CMS") related to a per diem assessment on Pennsylvania nursing home providers (the "Plan"). The Plan was pursued by Pennsylvania in an effort to increase the federal share of Medical Assistance funding. The Plan was approved by CMS on January 5, 2005.

The Plan requires the Homes to pay an assessment of \$15.91 for free-standing nursing facilities or \$1.50 for continuing care retirement communities per day on its nursing facility days, excluding Medicare Part A days, for the period July 1, 2003 through December 31, 2004. In turn, the Department will provide additional reimbursement to the Homes for this same period in two separate components, as follows:

- The first component is \$10.66 per day on the Homes' Medical Assistance days for the period July 1, 2003 through June 30, 2004; this additional reimbursement will continue for Medical Assistance days between July 1, 2004 and December 31, 2004, however, the per diem amount has not been determined; The second component will be calculated by multiplying the assessment paid by the Homes by the Homes' Medical Assistance occupancy percentage.
- The financial effects of the Plan will be reported in the Homes' 2005 financial statements. Management believes the current structure of the Plan will not have a negative financial effect on the Homes.

**INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION**

Board of Directors
Presbyterian Homes in the
Presbytery of Huntingdon:

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying additional information presented on pages 27 to 37 is presented for purposes 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.

Parente Randolph, LLC

Pittsburgh, Pennsylvania
February 3, 2005

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF REVENUES AND EXPENSES FROM OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	LONG-TERM CARE				PERSONAL CARE				INDEPENDENT LIVING				TOTALS	
	HOLIDAYSBURG HOME	WINDY HILL	WESTMINSTER WOODS	WOODLAND RETIREMENT CENTER	MOSHANNON HEIGHTS	HOLLIDAYSBURG HOME	WESTMINSTER WOODS	HOLIDAYSBURG HOME	WINDY HILL	WESTMINSTER WOODS	2004	2003		
REVENUES:														
Net resident services	\$4,568,962	\$7,096,460	\$4,105,141	\$6,486,108	\$ 659,516	\$1,312,174	\$ 910,748	\$ 368,545	\$100,899	\$821,138	\$26,409,691	\$24,409,504		
Other revenue	20,801	2,351	4,535	11,143	37,079	-	-	-	-	-	75,909	217,487		
Total revenues	4,589,763	7,098,811	4,109,676	6,477,251	696,595	1,312,174	910,748	368,545	100,899	821,138	26,485,600	24,626,991		
COST OF SERVICES PROVIDED	4,443,385	7,040,648	4,608,574	6,587,042	1,104,619	1,046,921	903,495	475,624	101,777	619,183	26,931,268	26,909,017		
EXCESS (DEFICIENCY) OF NET RESIDENT RESIDENT SERVICES REVENUE OVER COST OF SERVICES PROVIDED BEFORE NONOPERATING REVENUE	\$ 146,378	\$ 58,163	\$ (498,898)	\$ (109,791)	\$ (408,024)	\$ 265,253	\$ 7,253	\$ (107,079)	\$ (878)	\$201,955	(445,668)	(2,282,026)		
NONOPERATING REVENUE, Net											829,613	1,115,752		
INCREASE (DECREASE) IN NET ASSETS											\$ 383,945	\$ (1,166,274)		

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF NONOPERATING REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
NONOPERATING REVENUE, NET:		
Nonoperating income:		
Return on investments	\$ 310,452	\$ 728,448
Trust income	<u>146,865</u>	<u>218,956</u>
Total nonoperating income	<u>457,317</u>	<u>947,404</u>
Fund raising income:		
Contributions:		
Presbytery benevolence	39,427	37,726
Harvest Home	27,649	26,395
Individual benevolence	9,200	50,204
Benevolent care dinner	12,590	14,630
Chaplaincy fund	10,100	10,080
Golf outing	48,740	28,082
Other	97,440	123,457
Bequests, unrestricted	246,322	-
Memorials	22,792	4,856
Gifts in kind	<u>17,991</u>	<u>20,421</u>
Total fund raising income	<u>532,251</u>	<u>315,851</u>
Less fund raising and marketing expenses:		
Salaries and wages	66,124	80,436
Payroll taxes and employee benefits	16,110	18,594
Office supplies and postage	4,575	10,056
Printing	1,741	5,738
Benevolent care dinner	4,310	2,277
Advertising and promotion	44	4,743
Travel	1,126	2,028
Memberships, dues, and education	601	2,378
Other	<u>65,324</u>	<u>21,253</u>
Total fund raising and marketing expenses	<u>159,955</u>	<u>147,503</u>
Excess of fund raising income over expenses	<u>372,296</u>	<u>168,348</u>
Total nonoperating revenue, net	<u>\$ 829,613</u>	<u>\$1,115,752</u>

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF LONG-TERM HEALTH CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS		WOODLAND	
	2004	2003	2004	2003	2004	2003	2004	2003
NURSING SERVICES:								
Salaries and wages	\$1,341,219	\$1,304,652	\$2,225,985	\$2,501,814	\$1,123,272	\$1,108,008	\$2,192,144	\$2,116,942
Payroll taxes and employee benefits	331,003	295,681	548,169	482,024	269,645	228,483	490,955	441,997
Total	1,672,222	1,600,333	2,774,154	2,983,838	1,392,917	1,336,491	2,683,099	2,558,939
NURSING SUPPORT SERVICES:								
Salaries and wages	243,559	162,031	464,894	500,244	190,598	169,387	431,075	340,303
Payroll taxes and employee benefits	36,727	30,951	63,400	51,990	36,693	30,584	64,492	51,040
Medical and other supplies	354,613	326,328	512,339	503,528	267,866	227,455	356,472	324,955
Consultant and medical fees	12,961	11,823	8,230	7,281	12,660	11,231	14,225	12,000
Nurse assistant training school	4,668	4,056	987	2,290	5,916	628	1,320	654
Other	29,733	40,293	61,030	65,422	35,332	22,641	38,317	52,826
Total before allocations	682,261	575,482	1,110,880	1,130,755	549,065	461,926	905,901	781,778
Personal care allocation	(19,489)	(17,508)	-	-	(17,135)	(16,361)	-	-
Independent living allocation	-	-	-	-	(6,854)	(6,544)	-	-
Total	662,772	557,974	1,110,880	1,130,755	525,076	439,021	905,901	781,778
DIETARY SERVICES:								
Salaries and wages	315,086	396,783	273,607	364,994	276,172	294,936	277,858	356,313
Payroll taxes and employee benefits	70,991	89,732	68,530	70,081	67,699	60,797	62,854	74,281
Food and related expenses	447,507	336,562	353,490	323,554	410,989	431,037	389,861	355,393
Other	15,665	-	7,159	-	6,459	-	2,789	-
Total before allocations	849,249	823,077	702,786	758,629	761,319	786,770	733,362	785,987
Personal care allocation	(241,728)	(246,900)	-	-	(91,731)	(152,511)	-	-
Independent living allocation	(76,440)	(74,070)	-	-	(81,553)	(106,758)	-	-
Total	531,081	502,107	702,786	758,629	588,035	527,501	733,362	785,987

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF LONG-TERM HEALTH CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS		WOODLAND	
	2004	2003	2004	2003	2004	2003	2004	2003
HOUSEKEEPING SERVICES:								
Salaries and wages	\$ 166,993	\$ 169,263	\$ 187,552	\$ 200,821	\$ 129,270	\$ 131,019	\$ 169,703	\$ 163,741
Payroll taxes and employee benefits	40,538	38,361	46,186	38,692	30,967	27,010	38,007	34,187
Supplies	11,500	8,448	20,158	19,594	19,810	20,589	20,366	20,392
Other	1,782	1,637	3,103	1,084	1,294	2,507	303	2,711
Total before allocations	220,813	217,709	256,999	260,191	181,341	181,125	228,379	221,031
Personal care allocation	(85,150)	(82,795)	-	-	(54,400)	(31,983)	-	-
Independent living allocation	(2,479)	(5,414)	(156)	-	(11)	(21,210)	-	-
Total	133,184	129,500	256,843	260,191	126,930	127,932	228,379	221,031
LAUNDRY AND LINEN SERVICES:								
Salaries and wages	99,078	97,472	116,187	126,904	21,103	20,721	61,968	51,668
Payroll taxes and employee benefits	24,436	22,091	28,612	24,451	4,888	4,238	13,878	10,788
Supplies	12,768	12,575	23,454	22,989	1,797	16,896	11,929	14,997
Other	2,818	2,662	6,512	4,273	40,662	31,709	2,186	3,789
Total before allocations	139,100	134,800	174,765	178,617	68,450	73,564	89,961	81,242
Personal care allocation	(20,865)	(20,220)	-	-	(8,214)	(8,828)	-	-
Total	118,235	114,580	174,765	178,617	60,236	64,736	89,961	81,242
REHABILITATION AND PHYSICAL THERAPY:								
Salaries and wages	-	32,622	19,610	146,303	20,580	18,647	6	91,498
Payroll taxes and employee benefits	-	7,393	4,829	28,188	4,940	3,845	1	19,104
Supplies	1,198	1,580	67,794	70,636	255	633	2,272	4,099
Consultant fees	245,940	207,894	367,723	331,872	157,137	140,230	306,305	254,753
Other	63	4,135	50	91	-	70	-	-
Total	247,201	253,624	460,006	577,090	182,912	163,425	308,584	369,454

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF LONG-TERM HEALTH CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS		WOODLAND	
	2004	2003	2004	2003	2004	2003	2004	2003
MAINTENANCE:								
Salaries and wages	\$ 169,406	\$ 127,065	\$ 120,909	\$ 121,219	\$ 178,270	\$ 172,272	\$ 10,216	\$ 88,130
Payroll taxes and employee benefits	40,300	25,347	29,775	23,252	39,304	33,573	2,209	18,373
Repairs, maintenance and supplies	41,770	55,513	37,833	34,997	87,136	82,748	173,586	68,359
Utilities	226,462	215,313	150,520	145,075	285,289	264,360	139,497	170,252
Inspections	1,699	1,890	2,824	2,990	2,607	3,135	8,612	7,360
Insurance	83,210	94,186	75,574	68,614	98,420	73,089	85,279	75,693
Other	56,024	39,468	8,839	7,989	109,787	104,150	13,543	15,144
Total before allocations	618,871	558,782	426,274	404,136	800,813	733,327	432,942	443,311
Personal care allocation	(140,553)	(175,682)	-	-	(141,386)	(200,590)	-	-
Independent living allocation	(248,994)	(94,461)	(15,054)	(5,757)	(158,147)	(106,485)	-	-
Total	229,324	288,639	411,220	398,379	501,280	426,252	432,942	443,311
PROPERTY:								
Depreciation:								
Buildings and permanent fixtures	237,486	226,996	169,848	152,284	599,546	556,973	100,002	90,583
Equipment	76,060	126,886	62,018	65,184	113,712	118,592	115,148	127,064
Rental property	-	-	12,964	12,964	4,211	11,482	8,178	21,413
Vehicles	7,177	5,901	5,318	5,319	9,451	9,451	6,890	6,890
Amortization - bond issuance costs	532	531	-	-	-	-	-	-
Total before allocations	321,255	360,314	250,148	235,751	726,920	696,498	230,218	245,950
Personal care allocation	(74,138)	(92,799)	-	-	(136,822)	(189,821)	-	-
Independent living allocation	(126,155)	(116,105)	(56,267)	(41,082)	(105,004)	(103,307)	-	-
Total	120,962	151,410	193,881	194,669	485,094	403,370	230,218	245,950

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF LONG-TERM HEALTH CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS		WOODLAND	
	2004	2003	2004	2003	2004	2003	2004	2003
GENERAL, ADMINISTRATIVE, AND OTHER:								
Salaries and wages	\$ 210,855	\$ 166,147	\$ 203,250	\$ 189,395	\$ 192,973	\$ 176,142	\$ 168,687	\$ 215,529
Payroll taxes and employee benefits	52,037	37,655	50,052	36,491	46,324	36,312	37,779	45,000
Office supplies, postage, and printing	9,528	6,863	9,266	12,167	13,841	16,056	10,819	13,091
Membership dues and education expenses	8,721	9,327	9,456	12,470	7,243	7,271	7,729	8,517
Telephone	15,123	20,248	21,818	26,979	20,353	26,440	29,650	37,571
Legal and professional	63,252	51,389	8,112	12,257	5,390	8,427	17,321	27,754
Data processing	15,607	15,646	23,658	18,240	14,753	16,334	19,923	17,795
Travel	723	905	2,150	3,331	1,908	2,135	718	1,368
Other	70,731	19,884	67,081	28,374	72,792	36,673	80,865	28,819
Advertising	7,781	8,532	11,946	8,493	140,214	127,910	8,069	16,255
Interest	17,112	18,539	10,629	13,189	140,110	131,014	8,854	10,612
Bond financing costs	4,744	4,027	15,252	22,021	51,115	46,869	57,038	52,300
Bond pool costs	4,859	5,048	14,648	20,157	55,923	58,746	62,403	65,553
Management expenses allocated	237,475	296,208	310,187	386,905	258,056	321,880	277,054	345,576
Total before allocations	718,548	660,418	757,505	790,469	1,020,995	1,012,209	786,909	885,740
Personal care allocation	(143,710)	(132,084)	-	-	(204,199)	(80,977)	-	-
Independent living allocation	(21,556)	(19,813)	(30,300)	-	(255,249)	(172,076)	-	-
Total	553,282	508,521	727,205	790,469	561,547	759,156	786,909	885,740
STAFF DEVELOPMENT:								
Salaries and wages	44,598	37,786	25,610	48,376	43,867	53,690	-	2,087
Payroll taxes and employee benefits	10,925	8,564	5,385	9,321	10,530	11,071	-	436
Supplies	239	453	729	287	-	-	-	-
Other	803	133	1,230	2,748	-	47	183	99
Total	56,565	46,936	32,954	60,732	54,397	64,808	183	2,622

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
SCHEDULE OF LONG-TERM HEALTH CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS		WOODLAND	
	2004	2003	2004	2003	2004	2003	2004	2003
SOCIAL SERVICES AND ACTIVITIES:								
Salaries and wages	\$ 111,801	\$ 104,438	\$ 143,195	\$ 195,304	\$ 114,919	\$ 117,408	\$ 136,841	\$ 139,957
Payroll taxes and employee benefits	27,592	23,669	35,263	37,629	27,587	24,211	30,647	29,222
Supplies	2,490	2,540	5,017	6,893	7,260	7,340	3,130	6,365
Other	17,641	14,005	12,479	17,537	17,478	11,965	16,886	11,126
Total before allocations	159,524	144,652	195,954	257,363	167,244	160,924	187,504	186,670
Personal care allocation	(40,967)	(35,863)	-	-	(24,729)	(23,890)	-	-
Independent living allocation	-	-	-	-	(12,365)	(11,945)	-	-
Total	118,557	108,789	195,954	257,363	130,150	125,089	187,504	186,670
TOTAL LONG-TERM HEALTH CARE OPERATING EXPENSES	\$4,443,385	\$4,262,413	\$7,040,648	\$7,590,732	\$4,608,574	\$4,437,781	\$6,587,042	\$6,562,724

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF PERSONAL CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	MOSHANNON HEIGHTS		HOLLIDAYSBURG		WESTMINSTER WOODS	
	2004	2003	2004	2003	2004	2003
DIRECT EXPENSES:						
Nursing services:						
Salaries and wages	\$ 242,585	\$ 271,994	\$ 224,599	\$ 244,682	\$ 181,291	\$ 179,733
Payroll taxes and employee benefits	69,640	59,350	55,429	55,454	43,520	37,063
Total	312,225	331,344	280,028	300,136	224,811	216,796
Nursing supporting services:						
Medical and other supplies	17,602	8,933	293	1,374	-	1,589
Other	13,328	9,835	-	1,289	68	69
Total	30,930	18,768	293	2,663	68	1,658
Dietary services:						
Salaries and wages	81,464	127,311	-	-	-	-
Payroll taxes and employee benefits	22,865	27,780	-	-	-	-
Food and related expenses	137,745	99,039	-	-	-	-
Other	(1,819)	-	-	-	-	-
Total	240,255	254,130	-	-	-	-
Housekeeping services:						
Salaries and wages	57,417	47,204	-	-	-	-
Payroll taxes and employee benefits	16,484	10,300	-	-	-	-
Supplies	3,207	4,662	-	-	-	-
Total	77,108	62,166	-	-	-	-
Laundry and linen services:						
Salaries and wages	40	-	-	-	-	-
Payroll taxes and employee benefits	11	-	-	-	-	-
Supplies	819	2,003	-	-	-	-
Total	870	2,003	-	-	-	-

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
SCHEDULE OF PERSONAL CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	MOSHANNON HEIGHTS		HOLLIDAYSBURG		WESTMINSTER WOODS	
	2004	2003	2004	2003	2004	2003
Maintenance:						
Salaries and wages	\$ 34,001	\$ 44,263	\$ -	\$ -	\$ -	\$ -
Payroll taxes and employee benefits	9,761	9,658	-	-	-	-
Repairs, maintenance, and supplies	14,087	37,692	-	-	-	-
Utilities	83,721	102,041	-	-	-	-
Inspections	1,888	2,212	-	-	-	-
Insurance	41,660	42,226	-	-	-	-
Other	4,352	3,192	-	-	-	-
Total	189,470	241,284	-	-	-	-
Property:						
Depreciation:						
Buildings and permanent fixtures	24,930	24,739	-	-	-	-
Equipment	16,063	17,025	-	-	-	-
Vehicles	4,213	4,282	-	-	-	-
Interest	-	97	-	-	-	-
Amortization - bond financing costs	97	-	-	-	-	-
Total	45,303	46,143	-	-	-	-
Marketing,	-	-	-	-	-	-
Other	-	-	-	-	-	-
Social services and activities:						
Salaries and wages	12,627	13,346	-	-	-	-
Payroll taxes and employee benefits	3,625	2,912	-	-	-	-
Supplies	275	1,223	-	-	-	-
Other	2,698	97	-	-	-	-
Total	19,225	17,578	-	-	-	-
Total direct expenses	915,386	973,416	280,321	302,799	224,879	218,454

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE
SCHEDULE OF PERSONAL CARE OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	MOSHANNON HEIGHTS		HOLLIDAYSBURG		WESTMINSTER WOODS	
	2004	2003	2004	2003	2004	2003
GENERAL, ADMINISTRATIVE, AND OTHER:						
Salaries and wages	\$ 65,321	\$ 40,317	\$ -	\$ -	\$ -	\$ -
Payroll taxes and employee benefits	18,753	8,797	-	-	-	-
Office supplies, postage, and printing	2,690	7,389	-	-	-	-
Membership dues and education expenses	3,679	3,803	-	-	-	-
Telephone	13,790	12,189	-	-	-	-
Legal and professional	1,277	4,766	-	-	-	-
Data processing	8,422	6,446	-	-	-	-
Travel	1,490	1,964	-	-	-	-
Other	18,779	4,557	-	-	-	-
Advertising	3,157	5,675	-	-	-	-
Interest	2,138	1,826	-	-	-	-
Bond financing costs	801	734	-	-	-	-
Bond pool costs	876	920	-	-	-	-
Management expenses allocated	48,060	59,947	-	-	-	-
Total	189,233	159,330	-	-	-	-
ALLOCATED EXPENSES:						
General, administrative, and other	-	-	143,710	132,084	204,199	80,977
Nursing support services	-	-	19,489	17,508	17,135	16,361
Dietary services	-	-	241,728	246,900	91,731	152,511
Housekeeping services	-	-	85,150	82,795	54,400	31,983
Laundry and linen services	-	-	20,865	20,220	8,214	8,828
Social services and activities	-	-	40,967	35,863	24,729	23,890
Maintenance	-	-	140,553	175,682	141,386	200,590
Property	-	-	74,138	92,799	136,822	189,821
Total allocated expenses	-	-	766,600	803,851	678,616	704,961
TOTAL PERSONAL CARE OPERATING EXPENSES	\$1,104,619	\$1,132,746	\$1,046,921	\$1,106,650	\$ 903,495	\$ 923,415

See Notes to Combined Financial Statements

**PRESBYTERIAN HOMES IN THE PRESBYTERY
OF HUNTINGDON AND AFFILIATE**

**SCHEDULE OF INDEPENDENT LIVING OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	HOLLIDAYSBURG		WINDY HILL		WESTMINSTER WOODS	
	2004	2003	2004	2003	2004	2003
DIRECT EXPENSES:						
Maintenance:						
Salaries and wages	\$ 2,189	\$ 8,623	\$ -	\$ -	\$ 10,561	\$ 2,218
Repairs, maintenance, and supplies	7,350	15,527	2,931	1,657	28,047	12,269
Utilities	25,645	22,356	(28)	2,806	29,342	31,296
Insurance	128	4,340	-	-	10,666	-
Direct housekeeping	2,479	5,514	156	1,294	11	21,210
Other	8,139	6,676	12,098	-	46,708	27,942
Total	<u>45,930</u>	<u>63,036</u>	<u>15,157</u>	<u>5,757</u>	<u>125,335</u>	<u>94,935</u>
Property:						
Depreciation:						
Land improvements	532	658	-	-	42,194	43,596
Building and building improvements	35,194	-	-	-	-	-
Rentals	80,190	105,787	56,267	41,082	47,339	42,659
Equipment	10,239	9,660	-	-	15,471	17,052
Real estate taxes	51,256	36,939	53	-	32,823	32,760
Total	<u>177,411</u>	<u>153,044</u>	<u>56,320</u>	<u>41,082</u>	<u>137,827</u>	<u>136,067</u>
Total direct expenses	<u>223,341</u>	<u>216,080</u>	<u>71,477</u>	<u>46,839</u>	<u>263,162</u>	<u>231,002</u>
ALLOCATED EXPENSES:						
Nursing support services	-	-	-	-	6,854	6,544
Dietary services	76,440	74,070	-	-	81,553	106,758
Maintenance	154,287	-	-	-	-	-
General, administrative, and other	21,556	19,813	30,300	-	255,249	172,076
Social services and activities	-	-	-	-	12,365	11,945
Total allocated expense	<u>252,283</u>	<u>93,883</u>	<u>30,300</u>	<u>-</u>	<u>356,021</u>	<u>297,323</u>
TOTAL INDEPENDENT LIVING OPERATING EXPENSES	<u>\$475,624</u>	<u>\$309,963</u>	<u>\$101,777</u>	<u>\$ 46,839</u>	<u>\$ 619,183</u>	<u>\$ 528,325</u>

See Notes to Combined Financial Statements