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PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Financial Statements
and Schedule

December 31, 2005

(With Independent Auditor's Report Thereon)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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RETIREMENT AND SENIOR
CARE SERVICES

1217 Slate Hill Road • Camp Hill, Pennsylvania 17011

Certification of Chief Executive and Chief Financial Officers

We are responsible for the financial statements and supporting information of Presbyterian Homes in the Presbytery of Huntingdon, as of December 31, 2005, 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 PHI 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 ministry that has served older persons in the name of Christ for the past 80 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 PHI's mission.

Stephen E. Proctor
Chief Executive Officer
PHI

Jeffrey J. Davis
Chief Financial Officer
PHI

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Presbyterian Homes, Inc. • Presbyterian Housing & Services Corporation • Presbyterian Senior Living Services, Inc.
Presbyterian Apartments, Inc. • Geneva House, Inc. • Presbyterian Homes in the Presbytery of Huntingdon

www.phihomes.org

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Independent Auditor's Report

The Board of Directors
Presbyterian Homes in the Presbytery of Huntingdon:

We have audited the accompanying consolidated statement of financial position of Presbyterian Homes in the Presbytery of Huntingdon (an affiliate of PHI) as of December 31, 2005, and the related consolidated statement of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes in the Presbytery of Huntingdon as of December 31, 2005, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, PA
February 25, 2006

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statement of Financial Position

December 31, 2005

Assets		**2005**
Current assets:		
Cash and cash equivalents	$	2,174,971
Investments		6,171,579
Accounts receivable, net		1,974,195
Assets whose use is limited - required for current liabilities		535,000
Inventory		127,039
Prepaid expenses and other current assets		126,367
Total current assets		11,109,151
Assets whose use is limited, net of current portion		1,916,271
Property and equipment (net of accumulated depreciation of $20,376,525)		27,435,733
Assets under capital leases (net of accumulated depreciation of $34,608)		46,360
Funds held in trust by others		404,342
Other assets:		
Deferred financing costs (net of accumulated amortization of $232,108)		252,837
Total assets	$	41,164,694

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statement of Financial Position

December 31, 2005

Liabilities and Net Assets		**2005**
Current liabilities:		
Accounts payable	$	1,646,424
Accrued expenses		3,157,716
Current portion:		
Obligations on capital leases		24,945
Long-term debt		835,720
Total current liabilities		5,664,805
Resident deposits		226,623
Deferred revenue – entrance fees		7,206,477
Due to affiliated entities		201,346
Long-term debt, net of current portion		
Obligations on capital leases		487
Long-term debt		14,825,165
Total liabilities		28,124,903
Net assets:		
Unrestricted		10,893,942
Temporarily restricted		59,272
Permanently restricted		2,086,577
Total net assets		13,039,791
Total liabilities and net assets	$	41,164,694

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2005

	2005			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support:				
Resident services, including amortization of entrance fees of $584,173	$ 29,188,796	—	—	29,188,796
Interest and dividend income	163,892	—	—	163,892
Realized gains on investments	2,743	—	—	2,743
Contributions	244,505	—	70,223	314,728
Net assets released from restrictions	114,440	(114,440)	—	—
Total revenues, gains and other support	29,714,376	(114,440)	70,223	29,670,159
Expenses:				
Nursing services	9,905,536	—	—	9,905,536
Rehabilitation	1,406,776	—	—	1,406,776
Recreation and special services	780,030	—	—	780,030
Pharmacy	593,761	—	—	593,761
Social services	161,136	—	—	161,136
Physician services	88,303	—	—	88,303
Food services	3,042,998	—	—	3,042,998
Building operations and maintenance	2,696,156	—	—	2,696,156
Housekeeping	771,297	—	—	771,297
Laundry and linen	461,759	—	—	461,759
General and administrative	4,901,624	—	—	4,901,624
Employee benefits	2,492,201	—	—	2,492,201
Interest	530,768	—	—	530,768
Depreciation	1,741,565	—	—	1,741,565
Amortization	24,247	—	—	24,247
Total expenses	29,598,157	—	—	29,598,157
Change in net assets before unrealized gain (loss) on investments and assets held in trust by others	116,219	(114,440)	70,223	72,002
Unrealized gain (loss) on investments and assets held in trust by others	232,399	3,193	(2,763)	232,829
Change in net assets	348,618	(111,247)	67,460	304,831
Net assets, beginning of year	10,545,324	170,519	2,019,117	12,734,960
Net assets, end of year	$ 10,893,942	59,272	2,086,577	13,039,791

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statement of Cash Flows

Year ended December 31, 2005

		2005
Cash flows from operating activities:		
Change in net assets	$	304,831
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		1,741,565
Proceeds from entrance fees and deposits		1,650,135
Amortization of entrance fees		(584,173)
Unrealized gains on investments and assets held in trust by others		(232,829)
Realized gains on investments		(2,743)
Contributions restricted for long-term purposes		(70,223)
Change in funds held in trust by others		114,010
Amortization		24,247
Change in assets and liabilities:		
Accounts receivable		120,357
Other current assets		(538)
Accounts payable		691,049
Accrued expenses and deferred revenue other		981,847
Net cash provided by operating activities		4,737,535
Cash flows from investing activities:		
Acquisition of property and equipment		(3,412,149)
Purchases of investments		(3,596,574)
Proceeds from sale of investments		2,992,613
Change in assets whose use is limited		343,855
Net cash used in investing activities		(3,672,255)
Cash flows from financing activities:		
Refunds of entrance fees and deposits		(253,412)
Principal payments on long-term debt		(1,138,057)
Proceeds on the issuance of bonds		2,033,551
Payments on notes payable		(326,027)
Repayments on obligations under capital leases		(25,536)
Contributions restricted for long-term purposes		70,223
Due to affiliated entity		201,346
Net cash provided by financing activities		562,088
Net increase in cash and cash equivalents		1,627,368
Cash and cash equivalents, beginning of year		547,603
Cash and cash equivalents, end of year	$	2,174,971

See accompanying notes to consolidated financial statements.

(1) General Information

Presbyterian Homes in the Presbytery of Huntingdon (the Corporation) is a not-for-profit corporation, which provides services in Hollidaysburg, Philipsburg, Huntingdon and Orbisonia, Pennsylvania. The Corporation is also the parent company to a fully controlled affiliate Presbyterian Homes in the Presbytery of Huntingdon Foundation (the Foundation). The Foundation was established in 2004 to operate exclusively for the support and benefit of Presbyterian Homes in the Presbytery of Huntingdon. The consolidated financial statements of the Corporation include the financial position and activities of the Foundation. The Corporation and Foundation are governed by independent Board of Directors. Prior to April 1, 2005 the Corporations' Board of Directors was elected by the PHPH Board of Directors and the Presbytery of Huntingdon. As of April 1, 2005, the Corporation affiliated with PHI, whereby the Board of Trustees of PHI elects the majority of the Corporations' board of directors, with the remaining positions being elected by the Presbytery of Huntingdon. The Foundations board of directors is elected by the Corporation's Board of Directors.

The Corporation owns, operates and manages a stand-alone skilled nursing facility, three continuing care retirement communities, and a stand-alone personal care home. In total, the Corporation includes 87 independent living units, 139 assisted living units, 376 nursing beds.

The Corporation has received a Certificate of Authority from the Pennsylvania Insurance Department as required by the Continuing Care Provider Registration and Disclosure Act of 1984, (the Act).

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Homes in the Presbytery of Huntingdon as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated 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.

(continued)

(c) 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. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. The interest and dividend income from these restricted assets is used for the charitable purpose.

(d) 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 on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

(e) 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 the purposes of the statements of financial position and cash flows, except for those included in investments or assets whose use is limited. At times during the year ended December 31, 2005, cash balances may have exceeded the federally insured limit of $100,000.

(f) Consolidated Statement of Cash Flows

Interest paid during the year ended December 31, 2005 was $531,702.

(continued)

(g) Accounts Receivable

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

	2005
Total accounts receivable	$ 2,213,485
Less: allowance for doubtful accounts	(239,290)
Net accounts receivable	$ 1,974,195

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

(h) Deferred Financing Costs

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.

(i) Property and Equipment

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

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-25 years
Departmental equipment, furniture and fixtures	10-25 years
Furniture	5-15 years
Vehicles	5 years

(j) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. 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 year ended December 31, 2005, no amounts were charged to realized loss.

(continued)

(j) Investments (continued)

Investment income consisted of the following:

		2005
Interest and dividends	$	163,892
Realized gains on investments		2,743
Unrealized gains on investments and assets held in trust by others		232,829
	$	399,464

Investment expenses of $15,684 as of December 31, 2005 has been included in general and administrative expenses.

(k) 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.

(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:

		2005
Assets held in trust by others	$	345,070
Contributions receivable from remainder trusts		59,272
	$	404,342

(m) Assets Whose Use is Limited

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

(n) Deferred Revenue – Entrance Fees

Entrance fees collected from residents at move-in pursuant to a Residence and Care Agreement are initially recorded as deferred revenue. 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 or six months, whichever is sooner, is amortized on a straight-line basis over the remaining useful life of the applicable facility. 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 entrance fees refundable to residents at December 31, 2005 under contractual refund provisions was approximately $5,900,000.

(o) Statutory Liquid Reserve

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

(p) 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.

(q) Resident Service Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Pennsylvania Medicaid and other third-party payors for services rendered. The Corporation derives a portion of its revenues from federal and state reimbursement programs with a significant majority of state reimbursement from Pennsylvania Medicaid. All of the skilled nursing facilities operated by the Corporation are certified to receive benefits under Medicare and Medicaid.

The reimbursement methodology for a variety of health care providers has changed significantly as a result of provisions contained in the Balanced Budget Act of 1997 ("Budget Act"). The Budget Act provides for a prospective payment system ("PPS") for Medicare reimbursement for skilled nursing services (rather than the retrospective cost-based methodology in place prior to July 1, 1998). Skilled nursing facilities are paid a federal per diem rate for covered services, which include routine and ancillary services and capital-related costs. In conjunction with PPS, consolidated billing for Medicare Part A Services is required for skilled nursing facilities. Under consolidated billing for Medicare Part A Services, facilities must bill Medicare for all of the services residents receive, with several exceptions. including all therapy services. The Corporation's skilled nursing facilities began utilizing this new rate methodology in January 1999.

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 diagnostic 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.

Revenues from Medicare and Medicaid represent approximately 65% of revenues for 2005. Medicare and Medicaid receivables represent approximately 66% of accounts receivable at December 31, 2005.

(continued)

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

In January 2005, the Commonwealth of Pennsylvania (the State) received approval from the Federal Center for Medicare Services (CMS), to retroactively assess a nursing bed assessment for the State's July 1, 2003 to June 30, 2004 fiscal year. The assessment is $1.50 a day for continuing care retirement community non-Medicare occupied beds, and $15.91 a day for stand alone nursing facility non-Medicare occupied beds. As a part of this, nursing home providers received an additional supplement of $5.17 a day, based on a number of factors, including their Medicaid utilization. During 2005, the Corporation received $1.2 million as a net of the assessment and supplement which is recorded as resident services revenue.

(r) Fundraising Expense

Fundraising expenses incurred by the Corporation are included in general and administrative on the statement of activities.

(s) Donated Services

Donated services are reflected in the financial statements at the fair value of the service donated. The Corporation pays for most services requiring specific expertise.

(t) Charity Care

The Corporation provides care to residents, who meet certain criteria under its charity care policy, at amounts less than its established rates. Charity care is recorded as a reduction of revenue.

(u) 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.

(v) 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(w) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the year ended December 31, 2005, was $ 87,733.

(x) Classification of Expenses

		2005
Program activities	$	24,696,533
General and administrative		4,860,477
Fundraising		41,147
	$	29,598,157

(y) Tax Status

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

(z) Performance Indicator

The Corporation measures the performance of its operations using the statement of activities, which includes a performance indicator of operations labeled as "changes in net assets before unrealized gain (loss) on investments and assets held in trust by others". Changes in unrestricted net assets which are excluded from this measure are: unrealized gains (losses) on investments and assets held in trust by others, and other significant adjustments which do not directly indicate operational performance.

(3) Investments

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

		2005		
		Cost		Fair value
Money market funds	$	629,724		629,724
Certificates of deposit		1,076,175		1,069,200
Marketable equity securities		2,194,485		2,189,379
Government agencies securities		1,716,265		1,712,212
Corporate debt securities		260,074		255,990
Mutual Funds		1,742,158		2,056,581
Totals	$	7,618,881		7,913,086
Less permanently restricted investments (note 5)				(1,741,507)
Total investments			$	6,171,579

(3) Investments (continued)

The Corporation invests in a wide variety of individual fixed income and equity investments including bonds issued by the US Government and it's agencies, corporate bonds, and common stock. The Corporation has approximately sixty one of such individual holdings.

As of December 31, 2005, nineteen individual holdings have a market value that has been below cost for less than a year. These are both equity and fixed income funds, and in total, their market value is less than three percent below cost. The Corporation believes the decline in market value of these holdings is temporary in nature as they reflect general market conditions for equity and other fixed income securities instead of a permanent decline in the value of the individual securities.

Thirty-five individual holdings have a market value that has been below cost for more than a year. These are both equity and fixed income funds, and in total, their market value is less than ten percent below cost. The Corporation believes the decline in market value of these holdings is temporary in nature as they reflect general market conditions for equity and other fixed income securities instead of a permanent decline in the value of the individual securities.

A summary of investments with fair values below cost as of December 31, 2005 follows:

		Less than 12 Months		More than 12 Months		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. Government agencies	$	276,447	(3,724)	655,000	(14,622)	931,447	(18,346)
Corporate bonds		74,666	(358)	181,325	(3,726)	255,991	(4,084)
Subtotal debt securities		351,113	(4,082)	836,325	(18,348)	1,187,438	(22,430)
Mutual Funds		363,740	(27)	44,600	(6)	408,340	(33)
Common stocks		314,514	(28,365)	562,983	(172,016)	877,497	(200,381)
Subtotal securities		678,254	(28,392)	607,583	(172,022)	1,285,837	(200,414)
Certificates of Deposit		254,510	(590)	393,992	(6,385)	648,502	(6,975)
Total temporarily impaired securites	$	1,283,877	(33,064)	1,837,900	(196,755)	3,121,777	(229,819)

(4) Related Party Transactions

The Corporation incurs a management fee payable to its parent organization under a management agreement whereby PHI provides the Corporation with various management and administrative services to each of the Corporation's operating facilities. The Corporation also incurs certain operating expenses under the management agreement which are comprised primarily of the salaries and benefits of certain key management personnel provided to the Corporation by the parent organization. As a part of the affiliation agreement, this amount shall not exceed 4% of current year revenue. Total expenses incurred for the period April 1, 2005 through December 31, 2005 were $1,113,751, which is classified as general and administrative expenses in the consolidated statement of activities and changes in net assets. PHI paid the Corporation for services that should have been provided by PHI. This amounted to $429,483 and was classified as resident service revenue on the consolidated statement of activities and changes in net assets.

Amounts payable to PHI as of December 31, 2005 under the Management Agreement are included in due to affiliated entities. During 2005 the Corporation paid the net amount of $684,268 to satisfy amounts owed under the Management Agreement. Amounts due to affiliates for various expenses as of December 31, 2005 are $201,346.

In addition, the Corporation purchases medications from Continuing Care Rx, Inc. As of December 29, 2004, PHI sold its majority interest in Continuing Care Rx Holdings, Inc. and remains a minority shareholder. Total purchases from Continuing Care Rx, Inc. for 2005 were approximately $307,700, of which $60,627 is included in accounts payable as of December 31, 2005.

(5) Assets Whose Use is Limited

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

	2005
Permanently restricted investments	$ 1,741,507
Bond fund	709,764
	2,451,271
Less current portion	(535,000)
	$ 1,916,271

(6) Property and Equipment

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

	2005	
	Cost	Accumulated depreciation
Land	$ 869,747	–
Land improvements	3,113,502	1,554,782
Buildings and improvements	32,888,547	12,570,338
Departmental equipment, furniture and fixtures	6,642,764	4,749,308
Furniture	1,374,251	1,128,205
Vehicles	451,879	373,892
Construction-in-progress	2,471,568	–
	$ 47,812,258	20,376,525
Net book value		$ 27,435,733

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

During 2005, the Board of Directors voted to close the Corporation's stand-alone personal care unit, Moshannon Heights. As a part of the closure, Windy Hill Retirement Village has begun construction of a new wing to which the current residents of Moshannon Heights will be transferred. Completion of the Windy Hill construction is anticipated in April of 2006. The construction is being completed with a construction loan of $3.8 million (See note 7 for loan details), and an offer has been made on the Moshannon Heights facility for $450,000 subject to several conditions.

As of December 31, 2005, commitments for future construction totaled approximately $1.8 million.

(7) Long-term Debt

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

	2005
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 3.95% at December 31, 2005. The note is collateralized by certain receivables and property at Westminster Woods	3,291,353
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 at December 31, 2005 was 3.57%. The bonds are collateralized by all or portions of the following facilties: Westminster Woods, Woodland Retirement Center, and Hollidaysburg Home.	8,545,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and 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, 2005. The note is collateralized by a second lien position on the Westminster Woods facility.	894,931
Series 2005 College Township Revenue Bonds, payable upon completion of the Windy Hill Village assisted living facility. Payments of $24,474 per month to include principal and interest. Interest accrues on the loan commencing with each construction draw at rate based on 69.6% of prime rate, 5.04% as of December 31, 2005.	2,008,551

(7) Long-term Debt (Continued)

		2005
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, 2005. The note is collateralized by the MSO facility		896,050
Presbytery of Huntingdon revolving loan with no interest payable in 5 annual installments of $5,000		25,000
		15,660,885
Less current portion		(835,720)
	$	14,825,165

Under the terms of the Corporation's 1997 Series Bonds, the Corporation is required to maintain certain measures of financial performance as long as the bonds are outstanding. These covenants have been met as of December 31, 2005.

Maturities for the five years subsequent to December 31, 2005 are as follows:

Years ended December 31,		Aggregate maturities
2006	$	835,720
2007		1,009,888
2008		1,054,022
2009		1,104,018
2010		1,154,918
Thereafter		10,502,319
	$	15,660,885

(8) Notes Payable

The Corporation has a revolving line of credit with Omega Financial, which provides for borrowings of up to $1,500,000 at an interest rate based on the prime rate minus .25%, which was 7% as of December 31, 2005. The line of credit is secured by the Corporation's endowment fund. As of December 31, 2005, the Corporation had no outstanding borrowings.

(continued)

(9) Leases

The Corporation is obligated under two capital leases for equipment that expire during the next two years. At December 31, 2005, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

		2005
Office equipment	$	80,968
Accumulated amortiztion		(34,608)
	$	46,360

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, 2005 follows:

2006	$	25,733
2007		638
		26,371
Amounts representing interest		(939)
	$	25,432

The Corporation leases certain equipment under operating leases, which expire at various dates through 2009. The future minimum lease payments under these operating leases are as follows:

2006	$	14,072
2007		14,072
2008		8,460
2009		1,771
	$	38,375

Rental expense under operating leases was $6,768 for the year ended December 31, 2005.

(continued)

(10) Workers' Compensation Insurance

The Corporation has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. The Corporation maintains a letter of credit for $300,000 in connection with this self-insurance program. The letter of credit is secured by a pledge of a money market account totaling approximately $300,000. At December 31, 2005, the Corporation has recorded an accrued expense of approximately $1.25 million for workers' compensation claims which includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(11) Temporarily Restricted Net Assets

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

	2005
Contributions receivable from charitable trust for charity care	$ 59,272

Net assets of $114,440 were released from restriction during 2005 in satisfaction of the above restrictions.

(12) Permanently Restricted Net Assets

Income from the following permanently restricted net assets as of December 31 is restricted for:

	2005
Investments to be held in perpetuity, the income from which is expendable to support the Corporation's operations	$ 1,741,507
Benefit in perpetual trusts	345,070
	$ 2,086,577

(continued)

(13) 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 $2.6 million for the year ended December 31, 2005, of which the amount of charges foregone for services and supplies was approximately $765,000.

(14) 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 five years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI. For the year ended December 31, 2005, retirement plan expense totaled approximately $531,700. Starting in 2006, the Corporation's plan was merged into PHI's with essentially the same provisions.

(15) 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.

(16) Financial Instruments

(a) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value because of the short term nature of those investments.

Investments: The fair values of U.S. Government securities, notes, commercial bonds and equity securities are estimated based on quoted market prices for those or similar investments. Management has determined the fair value of other equity securities based on the stock prices and implied yields of similar publicly traded securities as of December 31, 2005.

Long-term debt: The carrying amount included in long-term debt in the statement of financial position for bonds payable and mortgages payable approximate fair value.

(16) Financial Instruments (continued)

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, 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

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

Financial instruments with off-balance-sheet risk to the Corporation, consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation'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 as disclosed in note 4.

bmc

Independent Auditor's Report on Supplementary Information

To the Board of Directors
Presbyterian Homes in the Presbytery of Huntingdon :

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following supplementary information accompanying the consolidated financial statements is presented for purposes of additional analysis and is not required part of the basic consolidated financials statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on such information.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, PA
February 25, 2006

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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

As of December 31, 2005

2006 Budgeted Operating Expenses	$ 29,892,313	
Less: depreciation expense	(1,809,021)	
Expenses subject to minimum liquid assets requirement	28,083,292	
Percentage of continuing care residents at December 31, 2005	22%	
	6,178,324	
Statutory requirement	10%	
Statutory minimum liquid reserve requirement	$ 617,832	(a)
Next 12 months debt service payments:		
Principal payments	$ 835,720	
Interest payments	657,972	
Total debt service for next 12 months	1,493,692	
Percentage of residents subject to residence and care arrangements at December 31, 2005	22%	
Statutory minimum liquid reserve requirement	$ 328,612	(b)
Assets satisfying statutory minimum liquid reserve requirement		
Unrestricted cash and investments	$ 8,346,550	
Greater of (a) or (b)	617,832	
Assets in excess of statutory minimum liquid reserve requirement	$ 7,728,718	