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PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Financial Statements
and Schedule

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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PRESBYTERIAN
SENIOR LIVING

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, 2008 and 2007, and attest that they are accurate, complete and fairly presented.

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

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

Financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 82 years.

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

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

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Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Presbyterian Homes in the Presbytery of Huntingdon (an affiliate of PHI, doing business as Presbyterian Senior Living) as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These 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 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 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, 2008 and 2007, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, Pennsylvania
March 20, 2009

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Financial Position

December 31, 2008 and 2007

Assets		2008	2007
Current assets:			
Cash and cash equivalents	$	712,897	1,320,342
Investments		1,348,940	6,185,582
Accounts receivable, net		3,631,700	3,215,216
Pledges receivable, current portion		10,326	147,500
Inventory		55,471	38,352
Prepaid expenses and other current assets		149,878	217,714
Total current assets		5,909,212	11,124,706
Assets whose use is limited		1,884,624	1,861,586
Pledges receivable, net of current portion		13,827	—
Property and equipment (net of accumulated depreciation of $23,956,747 and $22,103,395, respectively)		31,779,333	30,280,525
Assets under capital leases (net of accumulated depreciation of $91,315 and $48,459, respectively)		79,342	57,234
Due from affiliates		1,075,523	—
Funds held in trust by others		521,459	696,866
Beneficial interest in assets of affiliate		2,733,598	—
Deferred financing costs (net of accumulated amortization of $290,631 and $271,026, respectively)		205,656	213,919
Total assets	$	44,202,574	44,234,836

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Financial Position

December 31, 2008 and 2007

Liabilities and Net Assets	**2008**	**2007**
Current liabilities:		
Accounts payable	$ 1,710,958	1,385,428
Accrued expenses	3,477,942	3,268,221
Notes payable - lines of credit	21,229	—
Current portion:		
Obligations under capital leases	42,694	36,460
Long-term debt	952,694	877,749
Total current liabilities	6,205,517	5,567,858
Resident deposits	114,500	255,600
Deferred revenue – entrance fees	8,039,059	7,801,227
Fair value of interest rate swap	139,636	—
Due to affiliates	—	73,616
Long-term debt, net of current portion		
Obligations under capital leases	35,475	21,657
Long-term debt	13,921,747	14,058,428
Total liabilities	28,455,934	27,778,386
Net assets:		
Unrestricted	13,212,508	13,716,974
Temporarily restricted	185,374	265,008
Permanently restricted	2,348,758	2,474,468
Total net assets	15,746,640	16,456,450
Total liabilities and net assets	$ 44,202,574	$ 44,234,836

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

		2008	2007
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $970,456 and $727,211	$	35,208,734	32,948,241
Interest and dividend income		277,893	330,850
Realized (losses) gains on investments		(53,303)	498,239
Gain on sale of property and equipment		2,573	109,620
Contributions, gifts and bequests		200,298	552,182
Net assets released from restrictions		147,500	588
Total operating revenues, gains, and other support		35,783,695	34,439,720
Expenses:			
Nursing services		11,606,853	11,063,586
Rehabilitation		1,654,351	1,663,790
Recreation and special services		981,923	931,738
Pharmacy		852,246	848,621
Social services		232,256	240,504
Physician services		90,575	97,921
Food services		3,816,106	3,531,551
Building operations and maintenance		2,932,226	2,608,627
Housekeeping		962,071	946,348
Laundry and linen		538,680	536,297
General and administrative		4,322,716	3,715,882
Employee benefits		2,740,849	3,101,192
Interest		630,419	832,934
Depreciation		1,898,781	1,818,800
Amortization		19,261	19,459
Total expenses		33,279,313	31,957,250
Income from continuing operations		2,504,382	2,482,470
Discontinued operations:			
Discontinued operations, net of gain of $17,575 in 2007		–	(4,596)
Operating income		2,504,382	2,477,874
Decrease in fair value of interest rate swap		(139,636)	–
Loss on early extinguishment of debt		–	(16,947)
Excess of operating revenues, gains and other support over expenses		2,364,746	2,460,927
Other changes:			
Unrealized losses on investments		(2,869,212)	(88,729)
(Decrease) increase in unrestricted net assets		(504,466)	2,372,198

See accompanying notes to consolidated financial statements.

(continued)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
Temporarily restricted net assets:		
Contributions, gifts and bequests	30,253	198,428
Unrealized gain on investments	37,613	3,037
Net assets released from restrictions	(147,500)	(588)
Change in temporarily restricted net assets	(79,634)	200,877
Permanently restricted net assets:		
Contributions, gifts and bequests	23,038	255,518
Change in fair value of funds held in trust by others	(148,748)	15,006
Change in permanently restricted net assets	(125,710)	270,524
Change in net assets	(709,810)	2,843,599
Net assets, beginning of year	16,456,450	13,612,851
Net assets, end of year	$ 15,746,640	16,456,450

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (709,810)	2,843,599
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,898,781	1,826,618
Proceeds from entrance fees and deposits	1,136,363	621,329
Amortization of entrance fees	(970,456)	(727,211)
Loss on early extinguishment of debt	—	16,947
Unrealized loss on fair value of interest rate swap	139,636	—
Unrealized losses on investments and funds held in trust by others	2,980,347	70,686
Realized losses (gains) on investments	53,303	(498,239)
Realized gain on disposal of assets	(2,573)	(92,095)
Contributions restricted for long-term purposes	(23,038)	(255,518)
Change in funds held in trust by others	—	(250,371)
Amortization of deferred financing costs	19,605	19,459
Amortization of bond discount	(344)	—
Change in assets and liabilities:		
Accounts receivable	(416,484)	(198,533)
Pledges receivable	123,347	(147,500)
Other current assets	50,717	(17,345)
Accounts payable	325,530	(14,199)
Accrued expenses	209,721	(281,818)
Net cash provided by operating activities	4,814,645	2,915,809
Cash flows from investing activities:		
Acquisition of property and equipment	(3,419,697)	(3,846,037)
Net proceeds on the sale of property and equipment	2,573	1,135,093
Purchases of investments	(3,883,611)	(11,329,195)
Proceeds from sale of investments	3,105,374	12,403,075
Increase in due from affiliates	(1,149,139)	—
Net cash used in investing activities	(5,344,500)	(1,637,064)
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(69,175)	(130,035)
Principal payments on long-term debt	(895,270)	(1,745,971)
Proceeds on the issuance of bonds	833,878	—
Financing costs incurred	(11,342)	—
Borrowings on notes payable	21,229	—
Borrowings through capital lease obligations	64,965	10,084
Repayments on obligations under capital leases	(44,913)	(34,299)
Contributions restricted for long-term purposes	23,038	255,518
Net increase in due to affiliates	—	56,418
Net cash used in financing activities	(77,590)	(1,588,285)
Net decrease in cash and cash equivalents	(607,445)	(309,540)
Cash and cash equivalents, beginning of year	1,320,342	1,629,882
Cash and cash equivalents, end of year	$ 712,897	$ 1,320,342

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 operations of the Foundation. The Corporation and Foundation are governed by independent Boards of Directors. A majority of the Corporations' board of directors are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, 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 four continuing care retirement communities. In total, the Corporation includes 99 independent living units, 95 assisted living units, and 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) *Income Taxes*

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

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

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

(d) *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.

(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. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation up to $250,000 and $100,000 per bank as of December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the Corporation's cash balances exceeded the FDIC coverage by $211,454 and $929,204, respectively.

(continued)

(f) ***Investments***

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange in the statements of financial position. Alternate investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2008 and 2007, no amounts were charged to realized loss as management believes the decline in value is temporary due to the general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

	2008	2007
Interest and dividends	$ 277,893	330,850
Realized (losses) gains on investments	(53,303)	498,239
Unrealized losses on investments and funds held in trust by others	(2,980,347)	(70,686)
	$ (2,755,757)	758,403

Investment expenses of $31,991 and $27,240 as of December 31, 2008 and 2007, respectively have been included in general and administrative expenses.

(g) ***Accounts Receivable***

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

	2008	2007
Total accounts receivable	$ 3,904,230	3,480,560
Less: allowance for doubtful accounts	(272,530)	(265,344)
Net accounts receivable	$ 3,631,700	3,215,216

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.

(continued)

(h) ***Assets Whose Use is Limited***

Assets whose use is limited primarily include assets held by a trustee under the terms of various bond indentures and permanently restricted investments. Amounts required to meet current obligations of the Corporation have been reclassified in the statement of financial position as current assets. No amounts have been classified as current at December 31, 2008 or 2007.

(i) ***Pledges Receivable***

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

		2008
Pledges receivables	$	30,689
Less: unamortized discount		(436)
Subtotal		30,253
Less: allowance for uncollectibles		(6,100)
Net pledges receivables	$	24,153

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

Amounts due in:		
Less than one year	$	17,389
One to five years		13,300
	$	30,689

(j) ***Inventories***

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

(k) ***Property and Equipment***

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

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

(l) ***Derivatives and Hedging Activities***

The Corporation utilized an interest rate swap agreement to hedge variable interest rates; which was accounted for using Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.*

The Corporation's interest rate swap was carried at fair value asset as determined by a third party. Changes in fair value were reported in the statement of operations and changes in net assets as a component of the excess of operating revenue, gains and other support over expenses. For 2008, an adjustment to the liability was recorded causing a loss of $139,636. This adjustment represented the decrease in the fair value (liability) of the swap.

(m) ***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 and assets held in trust by others.

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)

(m) Funds Held in Trust by Others (continued)

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

		2008	2007
Beneficial interest in perpetual trusts	$	342,893	477,955
Beneficial interest in assets of Foundation		121,241	134,927
Contribution receivable from remainder trust		57,325	83,984
	$	521,459	696,866

(n) 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. Amortization expense is expected to be approximately $19,843 for each of the next five years.

(o) Workers' Compensation

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

(p) 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) 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, 2008 and 2007 under contractual refund provisions was approximately $2,263,000 and $2,363,000, respectively.

(continued)

(r) ***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.

(s) ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. 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.

(t) ***Donor Restrictions***

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying 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.

(u) 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. The Corporation is certified to receive benefits under Medicare and Medicaid.

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

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 60% of revenues for 2008 and 2007. Medicare and Medicaid receivables represent approximately 68% and 73% of accounts receivable at December 31, 2008 and 2007, respectively.

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

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan Amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Public Welfare (DPW) based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been finalized for the period 7/1-12/31/08. For the years ended December 31, 2008 and 2007, the Corporation received or will receive approximately $874,000 and $354,000, respectively, in additional revenue for the net effect of this assessment and supplement.

(continued)

(v) ***Charity Care***

The Corporation provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Corporation considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $2.8 million and $2.5 million for the years ended December 31, 2008 and 2007, respectively, of which the amount of charges foregone for services and supplies was approximately $684,000 and $613,000, respectively.

(w) ***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.

(x) ***Advertising***

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2008 and 2007, was $98,869 and $95,413, respectively.

(y) ***Classification of Expenses***

	2008	2007
Program activities	$ 28,956,597	28,105,307
General and administrative	4,200,063	3,749,405
Fundraising	122,653	102,538
	$ 33,279,313	31,957,250

(z) ***Fundraising Expense***

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

(aa) ***Operating Income***

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include changes in the fair value of swap agreements, and loss on the early extinguishment of debt.

(continued)

(ab) Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets which includes a performance indicator of operations labeled as "excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net assets which are excluded from this measure are unrealized losses on investments".

(ac) Consolidated Statement of Cash Flows

Interest paid during the years ended December 31, 2008 and 2007 was $596,435 and $821,151, respectively.

(ad) Reclassifications

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

(3) Investments

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

	Cost	value	Cost	value
Money market funds	$ 36,600	36,600	37,247	37,247
Certificates of deposit	–	–	80,000	79,772
Equity securities	3,131,885	2,018,675	4,871,290	5,044,118
Fixed income securities	719,047	630,934	2,170,694	2,212,005
Alternate investments	621,725	547,355	588,360	674,026
Totals	$ 4,509,257	3,233,564	7,747,591	8,047,168
Less assets whose use is limited (note 5)		(1,884,624)		(1,861,586)
Total investments		$ 1,348,940		$ 6,185,582

In December 2008, the Corporation transferred $2,733,598 of the its investments to PHI Investment Management Services Corporation, where they are held for the exclusive benefit of the Corporation.

(3) Investments (continued)

The Corporation has seventeen mutual funds and three alternate investments as of December 31, 2008. The Corporation had seventeen mutual funds, three alternate investments and one certificate of deposit as of December 31, 2007.

As of December 31, 2008, twelve mutual funds and the three alternate investments had a market value that had been below cost for less than a year. In total, their market value was approximately twenty seven percent below cost. As of December 31, 2007, eight mutual funds had a market value that had been below cost for less than a year. In total, their market value was less than four percent below cost.

As of December 31, 2008, five mutual funds had a market value that had been below cost for more than a year. In total, their market value was approximately forty five percent below cost. The certificate of deposit was the only investment to have a market value that has been below cost for more than a year as of December 31, 2007. In total, its market value was less than one percent below cost.

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 2,388,206	(984,800)	261,403	(216,523)	2,649,609	(1,201,323)
Alternative investments	547,355	(74,370)	—	—	547,355	(74,370)
Total temporarily impaired securities	$ 2,935,561	(1,059,170)	261,403	(216,523)	3,196,964	(1,275,693)

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,543,821	(62,154)	—	—	1,543,821	(62,154)
Certificate of deposit	—	—	79,772	(228)	79,772	(228)
Total temporarily impaired securities	$ 1,543,821	(62,154)	79,772	(228)	1,623,593	(62,382)

(continued)

(4) Related Party Transactions

The Corporation incurs a management fee payable to its parent organization under a management agreement whereby Presbyterian Senior Living, 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 is 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. For the years ended December 31, 2008 and 2007, the corporation incurred fees under the agreement of $1,713,828 and $1,282,539, which are classified as general and administrative expenses in the consolidated statement of operations and changes in net assets. Presbyterian Senior Living paid the Corporation for services that should have been provided by Presbyterian Senior Living. This amounted to $44,576 and $59,004 for the years ended December 31, 2008 and 2007, respectively and was classified as resident service revenue on the consolidated statement of operations and changes in net assets.

Amounts payable to Presbyterian Senior Living as of December 31, 2008 and 2007 under the Management Agreement are included in due to affiliated entities. During 2008 and 2007 the Corporation paid the net amount of $3,215,000 and $1,290,529, respectively to satisfy amounts owed under the Management Agreement. Amounts due from affiliates for various expenses as of December 31, 2008 were $1,075,523. Amounts due to affiliates for various expenses as of December 31, 2007 were $73,616.

As noted in Note 7, the Corporation became a part of the Presbyterian Homes Obligated Group (the Group) in 2008. Under this arrangement all of the members of the Group are jointly and severally liable for all the debt of each obligated group member.

As noted in Note 3, In December 2008, $2,733,598 of the Corporation's unrestricted investments were transferred to PHI Investment Management Services Corporation, where they are held for the exclusive benefit of the Corporation.

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2008 and 2007, respectively, the Corporation paid Prelude approximately $406,784 and $444,231 for information services provided by Prelude, of which $42,674 and $80,287 is included in accounts payable as of December 31, 2008 and 2007, respectively.

During 2008 and 2007, the Corporation purchased pharmaceuticals of $310,616 and $676,734, respectively from Continuing Care Rx, Inc. of which $617 and $169,271 was included in accounts payable as of December 31, 2008 and 2007, respectively. PHI is a minority shareholder of CCRx Holdings, Inc, the parent corporation of Continuing Care Rx, Inc.

(continued)

(5) Assets Whose Use is Limited

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

	2008	2007
Permanently restricted investments	$ 1,884,624	1,861,586

(6) Property and Equipment

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

	2008		2007	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 3,391,198	–	$ 3,033,429	–
Land improvements	3,202,321	2,059,696	3,180,829	1,890,650
Buildings and improvements	38,274,905	15,365,132	37,697,549	14,025,824
Departmental equipment, furniture and fixtures	6,954,319	5,280,950	6,751,809	4,976,175
Furniture	819,456	799,245	819,456	786,301
Vehicles	486,049	451,724	488,621	424,445
Construction-in-progress	2,607,832	–	412,227	–
	$ 55,736,080	23,956,747	$ 52,383,920	22,103,395
Net book value		$ 31,779,333		$ 30,280,525

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

In 2007, the Corporation sold the Moshannon Heights building, the Corporation's stand-alone personal care unit, for approximately $200,000.

(6) Property and Equipment (continued)

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

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

During 2007, the Corporation disposed of its MSO building for approximately $1.3 million. The proceeds from the sale were applied to the purchase of land for Chimney Rocks which cost $2.4 million. This land will be used for future expansion.

As of December 31, 2008, commitments for future construction totaled approximately $1.5 million.

(7) Long-term Debt

In 2008, the Corporation participated in the issuance of the Cumberland County Series 2008 A, B and C bonds, for which an obligated group (the Group) consisting of the Corporation, Quincy Retirement Community, Presbyterian Homes in the Presbytery of Huntingdon, Grace Senior Community Living Corporation, and PHI Investment Management Services are members. The financing obligates all members of the Group to be jointly and severally liable for the 2008 bonds, along with any prior indebtedness of each obligated group member. A portion of the funds were used to refund all of the Kirkland Village Northampton County Series 1998 and 2002 bonds and the Presbyterian Homes Cumberland County Series 2005B bonds. The remainder of the funds provided approximately $25 million for capital improvements and to pay for issuance costs. The $25 million is being held in a project fund at Bank of NY, the balance of which was $9,238,833 as of December 31, 2008.

(7) Long-term Debt (continued)

Long-term debt of the group and of the amounts payable by the Corporation as of December 31, 2008 consisted of the following:

	The Group	The Corporation
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 1.15% at December 31, 2008, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Group.	6,000,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2005 to 2026, interest rates ranging from 2.15% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Group	10,575,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2004 to 2032, interest adjusted weekly, 1.33% at December 31, 2008, collateralized by letter of credit	8,405,000	—
Kent County Delaware Economic Development Revenue Bond Series 2003B, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 1.80% at December 31, 2008, collateralized by property and equipment and gross revenues of the Group	7,170,358	—
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Group	16,800,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2009 to 2021, interest rates ranging from 4% to 5.45%, collateralized by property and equipment and gross revenues of the Group	17,415,000	832,350
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 1.75% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group	45,000,000	—

(7) Long-term Debt (continuued)

	The Group	The Corporation
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 1.30% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group	15,685,000	—
1995 Series A revenue note to Omega Financial, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 3.16% at December 31, 2008. The note is collateralized by a letter of credit and by property and equipment and gross revenues of the Group	2,847,828	2,847,828
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 0.95% at December 31, 2008. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Group	6,855,000	6,855,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which was 5.295% at December 31, 2008. The note is collateralized by a letter of credit and property and equipment and gross revenues of the Group	789,852	789,852
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating rate of 5.01% as of December 31, 2008 The bonds are collateralized by property and equipment and gross revenues of the Group.	3,538,228	3,538,228

(continued)

(7) Long-term Debt (continued)

	The Group	The Corporation
Mortgage note payable,Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bears an interest rate of 4.51% at December 31, 2008. The note is collateralized by property and equipment and gross revenues of the Group.	7,683,836	—
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000	10,000	10,000
	148,775,102	14,873,258
Less: Current portion	(3,838,138)	(952,694)
Unamortized discount	368,075	(940)
Plus: Unamortized premium	(309,729)	2,123
	$ 144,995,310	13,921,747

(7) Long-term Debt (continued)

Long-term debt of the Corporation as of December 31, 2007 consisted of the following:

		The Group	The Corporation
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, 2007. The note is collateralized by certain receivables and property at Westminster Woods.		—	2,993,917
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 3.47% at December 31, 2007. The bonds are collateralized by all or portions of the following facilities: Westminster Woods, Woodland Retirement Center and Hollidaysburg Home.		—	445,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which was 5.295% at December 31, 2007. The note is collateralized by a second lien position on the Westminster Woods facility.		—	824,473
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating rate of 5.01% as of December 31, 2007. The bonds are collateralized by the Windy Hill campus.		—	3,657,787
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000		—	15,000
		—	14,936,177
Less: Current portion		—	(877,749)
	$	—	14,058,428

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

(7) Long-term Debt (continued)

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, 2008 and 2007.

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

Years ended December 31,	The Group's Aggregate maturities	The Corporation's Aggregate maturities
2009	$ 3,838,138	952,694
2010	4,373,371	1,015,765
2011	4,529,765	1,061,025
2012	4,731,482	1,112,617
2013	4,006,213	1,112,763
Thereafter	127,296,133	9,618,394
	$ 148,775,102	14,873,258

(7) Long-term Debt (continued)

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

Notional Amount	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$10,000,000	SIFMA MSI	M&T	06/05/08	06/01/11	2.81%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wachovia	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wachovia	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$29,540,000	SIFMA MSI	Morgan Stanley	10/09/08	10/01/10	2.552%	Cumberland County 2008 B, Cumberland County 1993 A, Cumberland County 2003 B
$6,855,000	SIFMA MSI	M&T	10/02/08	09/30/10	2.84%	Montgomery County 1997
$7,170,358	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

Pursuant to all these agreements the intermediary assumes the risk of varying interest rates, with the difference between the weekly variable rates and the fixed rates above being either paid by, or reimbursed to, the Corporations. As discussed in Note 2, swap agreements are reported at fair value.

(8) Notes Payable

In January of 2008, the Corporation signed for a revolving line of credit with Bank of America, which provides for borrowings of up to $1,000,000 at an interest rate of the prime rate minus 150 basis points, which was 1.75% as of December 31, 2008. This line expires June 30, 2009. The line of credit is collateralized by property, plant and equipment of the Group. As of December 31, 2008, the Corporation had outstanding borrowings of $21,229 on this line of credit. The Corporation had a revolving line of credit with Omega Financial, which provided for borrowings of up to $1,000,000 at an interest rate based on the prime rate minus .25%, which was 8% as of December 31, 2007. This line was terminated in January 2008. That line of credit was secured by the Corporation's endowment fund. As of December 31, 2007, the Corporation had no outstanding borrowings on the line of credit.

(9) Leases

The Corporation is obligated under capital leases for equipment that expires during the next three years. At December 31, 2008 and 2007, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	2008	2007
Office equipment	$ 170,657	105,693
Accumulated amortiztion	(91,315)	(48,459)
	$ 79,342	57,234

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

2009	$ 45,468
2010	23,276
2011	13,653
	82,397
Amounts representing interest	(4,228)
	$ 78,169

(continued)

(9) Leases (continued)

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:

2009	$	24,323
2010		5,460
2011		2,366
	$	32,149

Rental expense under operating leases was $26,599 and $23,401 for the years ended December 31, 2008 and 2007, respectively

(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. In 2007, the Corporation maintained a letter of credit for $1,300,000 in connection with this self-insurance program. In 2008, the Corporation combined its letter of credit for $4,300,000 with Presbyterian Senior Living, in connection with this self-insurance program. The letter of credit will expire on March 16, 2009. At December 31, 2008 and 2007, the Corporation has recorded an accrued expense of approximately $1.25 and $1.34 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(11) Temporarily Restricted Net Assets

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

		2008	2007
Charity care and/or equipment, including pledges receivable	$	128,049	181,024
Contributions receivable from remainder trust for charity care		57,325	83,984
	$	185,374	265,008

Net assets of $147,500 and $588 were released from restriction during 2008 and 2007, respectively 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:

	2008	2007
Investments to be held in perpetuity, the income from which is expendable to support the Corporation's operations	$ 1,884,624	1,861,586
Beneficial interest in assets of Foundation	121,241	134,927
Beneficial interest in perpetual trusts	342,893	477,955
	$ 2,348,758	2,474,468

(13) Endowment

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

Interpretation of relevant law

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

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

(13) Endowment (continued)

The following schedule represents the changes in endowment net asset for the year ended December 31, 2008:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	–	1,861,586	1,861,586
Investment income		425	–	425
Contributions		–	23,038	23,038
Appropriation of endowment assets assets for expenditures		(425)	–	(425)
Endowment net assets, end of year	$	–	1,884,624	1,884,624

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	–	1,836,586	1,836,586
Investment return:				
Investment income		3,037	–	3,037
Contributions		–	25,000	25,000
Appropriation of endowment assets assets for expenditures		(3,037)	–	(3,037)
Endowment net assets, end of year	$	–	1,861,586	1,861,586

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2008 or 2007.

(continued)

(13) Endowment (continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

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

The Corporation has a total return policy for calculating the amounts available for distribution each year a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2008 and 2007. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2008 and 2007 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(continued)

(14) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2008 and 2007, retirement plan expense totaled approximately $233,514 and $388,005, respectively.

(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 valuation techniques were used to measure the fair value of assets and liabilities on page 35 on a recurring basis as of December 31, 2008:

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

Alternative investments: Fair value of alternative investments was based on estimated fair values provided by investment managers. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value of measurement.

Beneficial interest in perpetual trusts and net assets of Foundation: Fair value of the beneficial interest in perpetual trusts and net assets of Foundation was based on the Corporation's percent ownership of the trust assets. The trust assets were valued based on quoted market prices for identical securities.

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

(continued)

(16) Financial Instruments

Long-term debt: Long-term debt is carried at cost in the statements of financial position for bonds payable and mortgages payable at December 31, 2008 and 2007. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $14,873,257 and $14,936,177 at December 31, 2008 and 2007, respectively, and its fair values at December 31, 2008 and 2007 approximates $13,199,921 and $15,015,423, respectively.

Interest rate swap: Fair value of the interest rate swap was based on the net present value of expected future cash flows of the difference between the fixed interest rate of the interest rate swap and the counterparty's forward LIBOR curve. The forward LIBOR curve is readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Corporation has categorized the interest rate swap as Level 2.

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

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

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

SFAS 157 established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

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

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

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

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

(continued)

(16) Financial Instruments

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	36,600	36,600	–	–
Equity securities		2,018,675	2,018,675	–	–
Fixed income securities		630,934	630,934	–	–
Alternate investments		547,355	–	–	547,355
Total investments		3,233,564	2,686,209	–	547,355
Beneficial interest in perpetual trusts		342,893	342,893	–	–
Contributions receivable from remainder trust		57,325	–	–	57,325
Beneficial interest in assets of affiliate		2,733,598	2,733,598	–	–
Beneficial interest in assets of Foundation		121,241	121,241	–	–
Interest rate swap		(139,636)	–	(139,636)	–

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

Description		Alternative Investments	Contribution Receivable From Remainder Trust	Level 3 Total
Balance at December 31, 2007	$	674,026	83,984	758,010
Contributions		46,026	–	46,026
Unrealized losses		(172,697)	(26,659)	(199,356)
Balance at December 31, 2008	$	547,355	57,325	604,680

(16) Financial Instruments

Unrealized losses on alternative investments are reported as unrestricted and remainder trusts are permanently restricted in the statements of operations and changes in net assets.

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

Financial instruments with off-balance-sheet risk to the 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.

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, Pennsylvania
March 20, 2009

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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

As of December 31, 2008

2009 Budgeted Operating Expenses	$ 33,516,865	
Less: depreciation expense	(1,828,148)	
Expenses subject to minimum liquid assets requirement	31,688,717	
Percentage of continuing care residents at December 31, 2008	23%	
	7,288,405	
Statutory requirement	10%	
Statutory minimum liquid reserve requirement	$ 728,840	(a)
Next 12 months debt service payments:		
Principal payments	$ 952,694	
Interest payments	673,688	
Total debt service for next 12 months	1,626,382	
Percentage of continuing care residents at December 31, 2008	23%	
Statutory minimum liquid reserve requirement	$ 374,068	(b)
Assets satisfying statutory minimum liquid reserve requirement		
Unrestricted cash and investments	$ 2,061,837	
Greater of (a) or (b)	728,840	
Assets in excess of statutory minimum liquid reserve requirement	$ 1,332,997	