Carbis Walker LLP

(e) Cash and Cash Equivalents

The Obligated Group considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the combined statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Obligated Group's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. At times during 2011 and 2010, the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

(f) Investments

Investments 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 consolidated statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. 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. Annual independent audits of each private investment partnership are provided and included in management's review.

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, 2011 and 2010, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

	2011	2010
Interest and dividends	$ 2,090,734	2,718,955
Realized gains (losses) on investments	448,086	(1,596,244)
Unrealized (losses) gains on investments and funds held in trust by others	(1,875,560)	7,986,431
	$ 663,260	9,109,142

Investment expenses of $263,390 and $255,735 for the years ended December 31, 2011 and 2010, 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:

		2011	2010
Total accounts receivable	$	16,702,741	15,898,343
Less: allowance for doubtful accounts		(1,477,561)	(1,500,596)
Net accounts receivable	$	15,225,180	14,397,747

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

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

(h) Assets Whose Use is Limited

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

(i) Pledges Receivable

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

		2011	2010
Pledges receivable	$	383,960	819,058
Less: unamortized discount		(7,686)	(16,948)
Subtotal		376,274	802,110
Less: allowance for uncollectibles		(36,994)	(37,753)
Net pledges receivable	$	339,280	764,357

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2011 is as follows:

Amounts due in:		
Less than one year	$	275,458
One to five years		108,502
	$	383,960

(j) Property and Equipment

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

Depreciable lives are determined as follows:

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

(k) Costs of Borrowing

The average cost of capital during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of $686,486 and $918,495 was capitalized in 2011 and 2010, respectively.

(l) Funds Held in Trust by Others

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

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

(continued)

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

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

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

		2011	2010
Beneficial interest in assets of Foundation	$	43,816	60,497
Beneficial interest in perpetual trusts		12,106,509	12,747,824
Contributions receivable from remainder trusts		508,451	1,975,453
Gift annuities		26,423	26,482
	$	12,685,199	14,810,256

(m) Derivatives and Hedging Activities

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

The Obligated Group's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the combined statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2011, an adjustment to the liability was recorded causing a loss of $73,392. This adjustment represents the increase in the liability of the interest rate swaps. For 2010, an adjustment to the liability was recorded causing a gain of $441,413. This adjustment represents the decrease in the liability of the interest rate swaps.

(n) Deferred Financing Costs

The Obligated Group has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. Amortization expense is expected to be $203,322 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 combined statements 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-entrance fees. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

The amount of entrance fees guaranteed refundable to residents at December 31, 2011 and 2010 under contractual refund provisions was approximately $21,669,000 and $22,694,000, respectively.

(r) Statutory Liquid Reserves

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

(s) Temporarily and Permanently Restricted Net Assets

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

(t) Donor Restrictions

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

The Obligated Group reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Obligated Group reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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

(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, Medicaid, and other third-party payors for services rendered. The Obligated Group derives a portion of its revenues from federal and state reimbursement programs with a significant portion of state reimbursement from Pennsylvania's Department of Public Welfare (DPW).

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

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

Revenues from Medicare and Medicaid represent approximately 44% and 45% of revenues for 2011 and 2010, respectively. Medicare and Medicaid receivables represent approximately 44% and 43% of accounts receivable at December 31, 2011 and 2010, respectively.

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

Nursing services provided to Pennsylvania Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Obligated Group's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by DPW on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2011, the rates for July 1, 2011 through December 31, 2011, have not been finalized. Revenues have been accrued based on proposed rates for this period.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DPW based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been finalized for the period July 1, 2011, through December 31, 2011. Included in revenues are estimates for these amounts. For the years ended December 31, 2011 and 2010, the Obligated Group received or will receive approximately $1,970,000 and $1,703,000 in additional revenue for the net effect of this assessment and supplement.

(v) Charity Care

In 2011, the Obligated Group adopted the new accounting standards update from the Financial Accounting Standards Board (FASB) regarding charity care. This standard was issued to improve disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the combined financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

(v) Charity Care (continued)

The Obligated Group's policy is to provide services without charge, or at amounts less than its established rates to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financials resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Obligated Group provided and received for resident financial support are as follows:

		2011	2010
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$	3,876,121	3,801,463
Additional benevolent care provided at amounts less than pre-established charges for private pay services		19,435,528	15,946,975
Giving and income designated for resident financial support		571,217	756,301

(w) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2011 and 2010 was $274,862 and $357,505, respectively.

(x) Classification of expenses

		2011	2010
Program activities	$	135,837,848	131,527,637
General and administrative		23,713,402	22,358,814
Fundraising		698,835	447,262
		160,250,085	154,333,713

(y) Fundraising Expense

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

(z) Operating Income

The combined 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 gain on the early extinguishment of debt, (decrease) increase in fair value of interest rate swaps and loss on abandoned project.

(aa) Performance Indicator

The Obligated Group measures the performance of its operations using the combined 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: purchase of non-controlling interest, pension-related changes other than net periodic pension costs, unrealized (losses) gains on investments and transfer of investments.

(ab) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2011 and 2010 was $5,310,011 and $6,016,938, respectively.

(ac) Subsequent Events

The Obligated Group has adopted the FASB accounting standard related to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the balance sheet date but before combined financial statements are issued or are available to be issued.

The Obligated Group has evaluated subsequent events through March 28, 2012, which is the date the combined financial statements were issued.

(3) Investments

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

	2011			2010	
		Fair value	**Cost**	**Fair value**	**Cost**
Money market funds	$	53,785,316	53,785,316	15,217,272	15,217,272
Equity securities		11,674,234	11,825,382	41,657,336	40,087,151
Fixed income securities		23,051,111	22,933,915	17,892,175	17,511,521
Alternate investments		13,803,823	9,512,660	10,488,196	9,073,581
Totals	$	102,314,484	98,057,273	85,254,979	81,889,525
Less:					
Assets whose use is limited (note 5)		(22,023,903)		(12,534,912)	
Statutory liquid reserves		(13,600,000)		(5,955,534)	
Total investments	$	66,690,581		$ 66,764,533	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group has twenty three mutual funds, seven alternative investments and several other fixed income securities as of December 31, 2011. The Obligated Group has twenty-one mutual funds, and six alternative investments and several other fixed income securities as of December 31, 2010.

As of December 31, 2011, twenty mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than five percent below cost. As of December 31, 2010, one mutual fund had a market value that had been below cost for less than a year. In total, its market value was less than three percent below cost.

Only one alternate investment had a market value that had been below cost for more than a year as of December 31, 2011. In total, its market value was eleven percent below cost. Six mutual funds and one alternate investment had a market value that had been below cost for more than a year as of December 31, 2010. In total, their market value was less than seven percent below cost.

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2011 follows:

		Less than 12 Months		More than 12 Months		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$	8,825,603	(459,567)	–	–	8,825,603	(459,567)
Alternative investments		–	–	1,009,926	(124,369)	1,009,926	(124,369)
Total temporarily impaired investments	$	8,825,603	(459,567)	1,009,926	(124,369)	9,835,529	(583,936)

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

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

(4) Related Party Transactions

The Obligated Group members incur a management fee payable to their parent organization under a management agreement whereby Presbyterian Senior Living provides the Obligated Group with various management and administrative services to each of the Obligated Group's operating facilities. The Obligated Group members also incur certain operating expenses under the management agreement that are comprised primarily of the salaries and benefits of certain key management personnel provided to the Obligated Group by the parent organization. During the years ended December 31, 2011 and 2010, the Obligated Group incurred management fees and other expenses under the management agreement totaling $11,621,388 and $11,398,872, respectively, which is classified as general and administrative expenses in the combined statements of operations and changes in net assets.

(4) Related Party Transactions (continued)

The Obligated Group is an irrevocable guarantor of all the debts of Presbyterian Senior Living Services, Inc. (Glen Meadows), an affiliate organization. As of December 31, 2011 and 2010, Presbyterian Senior Living Services, Inc. had $16,720,000 and $17,185,000, respectively, in outstanding debt. In the event of a deficiency judgment from the sale of real property pledged as security for the purchase of a facility in Glen Arm, Maryland, the Obligated Group has guaranteed to repay all of the outstanding debt which matures through 2029.

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is a technical information 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 2011 and 2010, the Obligated Group paid Prelude $1,767,588 and $1,796,016, respectively, for information services provided by Prelude, of which $195,205 and $30,898 is included in accounts payable as of December 31, 2011 and 2010, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2011 and 2010 are $43,079,304 and $35,496,040, respectively.

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

(5) Assets Whose Use is Limited

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

		2011	2010
Permanently restricted investments	$	4,384,406	4,901,921
Bond fund		1,661,587	1,636,485
Debt service reserve fund		6,073,979	5,977,330
Held by trustee-for future projects		9,903,931	19,176
	$	22,023,903	12,534,912

(6) Property and Equipment

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

	2011		2010	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 21,199,451	–	20,060,544	–
Land improvements	18,313,456	13,666,615	18,449,466	13,308,926
Buildings and improvements	275,334,335	132,067,687	250,809,513	123,075,658
Departmental equipment, furniture and fixtures	38,915,078	32,554,593	38,491,378	31,631,444
Furniture	3,279,715	3,162,220	3,235,483	3,137,768
Vehicles	2,288,095	1,925,246	2,314,294	2,128,378
Construction-in-progress	31,548,124	–	26,446,591	–
	$ 390,878,254	183,376,361	359,807,269	173,282,174
Net book value		$ 207,501,893		$ 186,525,095

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

During 2010, management decided to sell the Long Home and plans to move the current residents to its new location, The Long Community at Highland. Therefore, the current value of The Long Home was moved to assets held for sale. Upon further consideration, management, with board approval, decided in early 2012 to redevelop The Long Home property. Therefore, in 2011 the value of The Long Home was put back into property, plant and equipment.

As of December 31, 2011 and 2010 approximately $16,250,000 and $20,590,000, respectively, was committed for future renovations.

(7) Long-term Debt

Long-term debt of the group and of the amounts payable by the Obligated Group as of December 31, 2011 and 2010 consisted of the following:

		2011	2010
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.12% and 0.39% at December 31, 2011 and 2010, respectively, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Obligated Group.	$	6,000,000	6,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2003 to 2026, interest rates ranging from 2.15% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		9,900,000	11,275,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2003 to 2032, interest adjusted weekly, 0.12% and 0.36% at December 31, 2011 and 2010, respectively, collateralized by letter of credit		7,880,000	8,075,000
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 1.011% and 1.012% at December 31, 2011 and 2010, respectively, collateralized by property and equipment and gross revenues of the Obligated Group		5,256,721	5,919,161
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		15,680,000	16,790,000
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2009 to 2021, interest rates ranging from 4% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group		14,935,000	15,925,000
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.12% and 0.33% at December 31, 2011 and 2010, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group		45,000,000	45,000,000

(7) Long-term Debt (continued)

	2011	2010
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.12% and 0.36% at December 31, 2011 and 2010, respectivley, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	15,685,000	15,685,000
York County Industrial Development Authority Bonds Series 2010, tax exempt bank qualified debt, principal due in varying annual amounts from 2013 to 2033, interest adjusted weekly, 2.25% at both December 31, 2011 and 2010, collateralized by property and equipment and gross revenues of the Obligated Group	20,000,000	6,563,713
Bank of America taxable 5 year term loan , principal due in varying amounts, interest is fixed at 3.15%, and is collateralized by property and equipment and gross revenues of the Group	13,000,000	—
M&T bank qualified tax exempt loan, principal maturities based on a twenty year repayment schedule. Interest will be fixed for the first 120 months, subsequent interest rates will be reset in a 10 year increment. Interest at December 31, 2011 was 3.48%. The note is collateralized by property and equipment and gross revenues of the Group.	10,000,000	—
1995 Series A revenue note to First National Bank of PA, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 2.054% and 3.16% at December 31, 2011 and 2010, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,422,458	2,572,254
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 0.17% and 0.39% at December 31, 2011 and 2010, respectively. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	4,900,000	5,585,000

(7) Long-term Debt (continued)

		2011	2010
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which adjusts every five years and was 2.71% at both December 31, 2011 and 2010. The note is collateralized by property and equipment and gross revenues of the Obligated Group		648,446	709,008
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was 3.83% and 5.01% as of December 31, 2011 2010, respectively. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group.		3,136,466	3,279,612
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bears an interest rate of 4.51%. The note is collateralized by property and equipment and gross revenues of the Group.		6,860,569	7,147,615
		181,304,660	150,526,363
Unamortized discount		(338,726)	(401,207)
Plus: Unamortized premium		271,903	305,067
	$	181,237,837	150,430,223

In March 2010, $10,000 of the Cumberland County 2005A bonds were repurchased. During 2011 an additional $1,110,000 of the Cumberland County 2005 A bonds and $75,000 of the Cumberland County 2003 A bonds were repurchased. These are currently being held with the option to remarket at a future date.

Under the terms of the Obligated Group's debt, the Obligated Group is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2011 and 2010.

(7) Long-term Debt (continued)

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

Scheduled maturities for the five years subsequent to December 31, 2011 and thereafter are as follows:

Years ended December 31,	Aggregate maturities
2012	$ 5,302,638
2013	6,596,128
2014	6,812,105
2015	7,023,813
2016	18,392,448
Thereafter	137,177,528
	$ 181,304,660

(7) Long-term Debt (continued)

The obligated group entered into several swap agreements with financial intermediaries, which fix the interest rates to be paid by the obligated group on the Cumberland County Series 2008B bonds and the Kent County 2003B bonds as follows:

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$10,000,000	SIFMA MSI	M&T	7/1/11	7/1/14	0.95%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Bank of America	7/7/11	7/7/12	0.41%	Cumberland County 2008 B
$6,556,577	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

The fair value of the interest rate swap liabilities at December 31, 2011 and 2010 are as follows:

Counterparty	Fair Value 12/31/2011	Fair Value 12/31/2010
M&T	$ 111,500	$ 104,200
Wells Fargo	381,171	539,543
Wells Fargo	880,304	721,208
Bank of America	7,740	-
Bank of America	411,643	354,015
Total	$ 1,792,358	$ 1,718,966

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

(8) Notes Payable

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable based on the prime rate of the financial institution less one hundred and fifty basis points. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2011 and 2010, under the line of credit agreements, the Obligated Group had available a total maximum of $16,750,000 from the financial institutions. As of December 31, 2011 and 2010, the Obligated Group had $15,757,089 and $11,263,865, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 3.0625%.

(9) Leases

The Obligated Group is obligated under capital leases for equipment that expires in 2015. At December 31, 2011 and 2010, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

	2011	2010
Office equipment	$ 381,712	494,648
Accumulated amortization	(214,890)	(362,879)
	$ 166,822	131,769

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

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2011 follows:

2012	$ 70,524
2013	61,445
2014	31,015
2015	6,380
	169,364
Amounts representing interest	(6,002)
	$ 163,362

(9) Leases (continued)

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2014. The future minimum lease payments under these operating leases are as follows:

2012	$ 239,187
2013	147,794
2014	38,389
	$ 425,370

Rental expense under operating leases was $331,508 and $214,995 for the years ended December 31, 2011 and 2010, respectively.

(10) Annuities

The Obligated Group has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Obligated Group. Total annuities payable were $1,076,123 and $1,065,254 at December 31, 2011 and 2010, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4% to 6% percent to determine the present value of the actuarially determined liability**.** The Obligated Group has assets included in investments of $1,352,582 and $1,326,907 as of December 31, 2011 and 2010, respectively, to satisfy annuities.

(11) Workers' Compensation Insurance

The Obligated Group has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Obligated Group has contracted with major insurance carriers for excess insurance coverage, loss control services, and administration. In 2011 and 2010, the Obligated Group maintained a letter of credit for $4,300,000, in connection with this self-insurance program. At December 31, 2011 and 2010, the Obligated Group has recorded an accrued expense of approximately $4.9 million and $4.6 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

(12) Medical Malpractice Claims Coverage

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

(13) Temporarily Restricted Net Assets

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

		2011	2010
Trust assets held for the benefit of The Easton Home	$	486,787	524,027
Charity care and/or equipment, including pledges receivable			
Endowment		166,233	225,631
Other		1,862,980	2,162,304
Contributions receivable from remainder trusts		276,559	1,742,535
	$	2,792,559	4,654,497

Net assets of $2,786,394 and $2,567,361 were released from restriction during 2011 and 2010, respectively, in satisfaction of the above restrictions.

(14) Permanently Restricted Net Assets

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

		2011	2010
Trust assets held for the benefit of The Easton Home	$	830,086	830,086
Investments to be held in perpetuity, the income from which is expendable to support:			
Operations		1,973,630	1,942,638
Charity care and/or equipment		2,406,253	2,353,641
Contributions recievable from remainder trusts		231,892	232,918
Beneficial interest in assets of foundation		43,816	60,497
Gift annuities		26,423	26,482
Beneficial interest in perpetual trusts		12,106,509	12,747,824
	$	17,618,609	18,194,086

(15) Endowment

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

(15) Endowment (continued)

Interpretation of relevant law

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

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

The following schedule represents the changes in endowment net assets for the year ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 225,631	4,296,279	4,521,910
Investment return:			
Investment income	94,397	–	94,397
Contributions	–	83,604	83,604
Appropriation of endowment assets for expenditures	(153,795)	–	(153,795)
Endowment net assets, end of year	$ 166,233	4,379,883	4,546,116

(15) Endowment (continued)

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	228,740	4,025,814	4,254,554
Investment return:				
Investment income		92,780	–	92,780
Contributions		–	270,465	270,465
Appropriation of endowment assets for expenditures		(95,889)	–	(95,889)
Endowment net assets, end of year	$	225,631	4,296,279	4,521,910

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Obligated Group to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2011 or 2010.

Return Objectives and Risk Parameters

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

(continued)

(15) Endowment (continued)

Strategies Employed for Achieving Objectives

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

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2011 and 2010. Actual distributions are to satisfy donor restrictions. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Obligated Group considered the long-term expected return on its endowment. Accordingly, over the long term, the Obligated Group expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2011 and 2010 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Obligated Group's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(16) Retirement Plan

The Obligated Group has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2011 and 2010, retirement plan expense totaled approximately $1,948,670 and $1,178,443, respectively.

Effective June 2011, the Obligated Group terminated the existing defined benefit pension plan that covered many of the employees at QRC. This plan had been curtailed and the benefits were frozen effective December 31, 2004. All vested benefits earned through June 30, 2011 were covered through the purchase of individual annuities at a cost aggregating $787,651. The remaining plan assets, which totaled $508,000 million, reverted to the Obligated Group. For financial reporting purposes, the defined benefit pension plan is considered fully terminated.

(17) Commitments and Contingencies

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

(18) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

Alternative investments: Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. 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. Annual independent audits of each private investment partnership are provided and included in management's review.

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

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

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

Long-term debt: Long-term debt is carried at cost in the combined statements of financial position for bonds payable and mortgages payable at December 31, 2011 and 2010. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $181,237,837 and $150,430,233 at December 31, 2011 and 2010, respectively, and its fair values at December 31, 2011 and 2010 approximates $160,298,503 and $121,332,300, respectively.

(continued)

(18) Financial Instruments (continued)

The Obligated Group has a number of other financial instruments, none of which are held for investment purposes. The Obligated Group estimates that the fair value of all financial instruments at December 31, 2011 and 2010 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying combined statements of financial position.

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

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

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

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

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

(18) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011 are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$	40,185,316	40,185,316	–	–
Equity securities		11,674,234	11,674,234	–	–
Fixed income securities		23,051,110	23,051,110	–	–
Alternate investments		13,803,823	–	–	13,803,823
Total investments		88,714,483	74,910,660	–	13,803,823
Beneficial interest in perpetual trusts		12,106,509	–	–	12,106,509
Contributions receivable from remainder trusts		508,451	–	–	508,451
Gift annuities		26,423	–	–	26,423
Beneficial interest in assets of foundation		43,816	43,816	–	–
Total assets	$	101,399,682	74,954,476	–	26,445,206
Interest rate swaps	$	(1,792,358)	–	(1,792,358)	–

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(18) Financial Instruments (continued)

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

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

(18) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2011 is as follows:

Description		Altermative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance at December 31, 2009	$	8,624,194	1,807,940	11,909,926	43,620
Unrealized gains (losses)		927,070	167,513	837,898	(17,138)
Distributions		(45,000)	–	–	–
Contributions		955,786	–	–	–
Realized gains		26,146	–	–	–
Balance at December 31, 2010	$	10,488,196	1,975,453	12,747,824	26,482
Unrealized gains (losses)		852,167	(2,101)	(641,315)	(59)
Distributions		(633,275)	(1,464,901)	–	–
Contributions		3,042,915	–	–	–
Realized gains		53,820	–	–	–
Balance at December 31, 2011	$	13,803,823	508,451	12,106,509	26,423

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

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

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

Independent Auditors' Report on Supplementary Information

To the Board of Trustees
Presbyterian Homes Obligated Group

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

Carbis Walker LLP

Carbis Walker, LLP
New Castle, Pennsylvania
March 28, 2012

Presbyterian Homes Obligated Group

Schedule of Combined Statement of Financial Position

December 31, 2011

Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Cash and cash equivalents	$	1,205,815	936,215	–	11,693	197,909	2,351,632	–	2,351,632
Investments		4,147,210	2,555,742	50,719,565	6,532,519	2,735,545	66,690,581	–	66,690,581
Statutory reserves		12,000,000	750,000	–	–	850,000	13,600,000	–	13,600,000
Accounts receivable, net		8,702,714	4,601,768	–	6,837	1,913,861	15,225,180	–	15,225,180
Prepaid expenses and other current assets		1,773,852	390,410	–	16,101	697,047	2,877,410	–	2,877,410
Assets whose use is limited		7,738,931	1,973,630	2,181,195	–	226,216	12,119,972	–	12,119,972
Assets whoes use is limited, capital assets		9,903,931	–	–	–	–	9,903,931	–	9,903,931
Pledges receivable		334,058	2,722	–	2,500	–	339,280	–	339,280
Property and equipment, net		132,814,628	32,872,882	–	28,534,208	13,280,175	207,501,893	–	207,501,893
Assets under capital lease, net		78,840	74,621	–	–	13,361	166,822	–	166,822
Due from (to) affiliates		36,338,759	5,704,127	3,544,560	(1,280,643)	(1,227,499)	43,079,304	–	43,079,304
Funds held in trust by others		6,552,839	536,991	–	860,222	4,735,147	12,685,199	–	12,685,199
Beneficial interest in assets of affiliate		1,316,875	3,728,678	–	–	–	5,045,553	(5,045,553)	–
Deferred financing costs, net		2,797,537	180,132	–	–	78,281	3,055,950	–	3,055,950
Other assets		46,312	–	–	–	–	46,312	–	46,312
Total assets	$	225,752,301	54,307,918	56,445,320	34,683,437	23,500,043	394,689,019	(5,045,553)	389,643,466

Presbyterian Homes Obligated Group

Schedule of Combined Statement of Financial Position

December 31, 2011

Liabilities and Net Assets		**Presbyterian Homes, Inc.**	**Presbyterian Homes in the Presbytery of Huntingdon**	**PHI Management Services Corporation**	**The Long Community**	**Quincy United Methodist Home**	**Obligated Group Subtotal**	**Eliminating Entries**	**Obligated Group Total**
Accounts payable	$	5,305,884	1,739,379	–	2,721,523	683,132	10,449,918	–	10,449,918
Accrued expenses - other		7,742,360	3,209,108	32,900	1,198,622	765,183	12,948,173	–	12,948,173
Notes payable		15,757,089	–	–	–	–	15,757,089	–	15,757,089
Accrued interest		551,929	25,718	–	–	–	577,647	–	577,647
Resident deposits		585,427	213,360	–	34,850	18,600	852,237	–	852,237
Deferred revenue – entrance fees		43,643,602	9,377,830	–	–	7,758,442	60,779,874	–	60,779,874
Fair value of interest rate hedge		1,705,564	86,794	–	–	–	1,792,358	–	1,792,358
Annuities payable		1,045,047	22,276	–	–	8,800	1,076,123	–	1,076,123
Long-term debt									
Obligations on capital leases		74,789	75,119	–	–	13,454	163,362	–	163,362
Long-term debt		159,727,901	14,649,367	–	–	6,860,569	181,237,837	–	181,237,837
Total liabilities		236,139,592	29,398,951	32,900	3,954,995	16,108,180	285,634,618	–	285,634,618
Net assets:									
Unrestricted		(22,275,650)	22,263,093	51,328,676	29,846,696	2,395,518	83,558,333	39,347	83,597,680
Temporarily restricted		2,528,470	207,583	-	21,524	34,982	2,792,559	–	2,792,559
Permanently restricted		9,359,889	2,438,291	5,083,744	860,222	4,961,363	22,703,509	(5,084,900)	17,618,609
Total net assets		(10,387,291)	24,908,967	56,412,420	30,728,442	7,391,863	109,054,401	(5,045,553)	104,008,848
Total liabilities and net assets	$	225,752,301	54,307,918	56,445,320	34,683,437	23,500,043	394,689,019	(5,045,553)	389,643,466

Presbyterian Homes Obligated Group

Schedule of Combined Statement of Operations and Changes in Net Assets

Periods ended December 31, 2011

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Revenues, gains, and other support:								
Resident services	$ 109,943,276	40,310,044	(114)	596,410	16,740,856	167,590,472	3,662.00	167,594,134
Interest and dividend income	371,245	207,945	1,080,766	227,707	249,352	2,137,015	(140,678.00)	1,996,337
Realized (losses) gains on investments	(52,073)	(230,509)	(307,746)	904,584	27,708	341,964	106,122.00	448,086
Gain (loss) on sale of property and equipment	1,207,578	5,100	–	–	(48,793)	1,163,885	–	1,163,885
Contributions	305,634	312,353	716	19,968	36,612	675,283	–	675,283
Net assets released from restrictions	2,488,893	118,008	–	38,913	140,580	2,786,394	–	2,786,394
Total revenues, gains, and other support	114,264,553	40,722,941	773,622	1,787,582	17,146,315	174,695,013	(30,894.00)	174,664,119
Expenses:								
Nursing services	30,179,826	11,996,847	–	433,097	5,315,015	47,924,785	–	47,924,785
Rehabilitation	4,851,062	2,931,344	–	83	875,270	8,657,759	–	8,657,759
Recreation and special services	3,376,150	1,063,909	–	54,001	542,221	5,036,281	–	5,036,281
Pharmacy	1,914,858	986,886	–	7,745	415,272	3,324,761	–	3,324,761
Social services	420,745	195,621	–	–	74,235	690,601	–	690,601
Physician care	248,296	118,941	–	6,500	42,292	416,029	–	416,029
Food services	11,779,738	4,233,488	–	300,982	1,489,829	17,804,037	–	17,804,037
Building operations and maintenance	11,541,490	3,050,556	–	205,289	1,906,647	16,703,982	–	16,703,982
Housekeeping	2,367,755	827,766	–	45,059	324,752	3,565,332	–	3,565,332
Laundry and linen	853,062	426,807	–	6,972	187,155	1,473,996	–	1,473,996
General and administrative	16,052,679	5,447,776	178,324	449,920	2,298,277	24,426,976	(14,739.00)	24,412,237
Employee benefits	8,738,465	3,646,219	–	173,134	1,632,799	14,190,617	–	14,190,617
Interest	3,976,023	475,947	–	(181,461)	326,937	4,597,446	–	4,597,446
Depreciation	7,879,995	2,146,246	–	12,671	1,189,684	11,228,596	–	11,228,596
Amortization	198,312	20,290	–	1	5,023	223,626	–	223,626
Total expenses	104,378,456	37,568,643	178,324	1,513,993	16,625,408	160,264,824	(14,739.00)	160,250,085
Operating income	9,886,097	3,154,298	595,298	273,589	520,907	14,430,189	(16,155.00)	14,414,034
Change in fair value of interest rate swap	(72,401)	(991)	–	–	–	(73,392)	–	(73,392)
Gain on early extinguishment of debt	67,275	–	–	–	–	67,275	–	67,275
Loss on abandoned projects	(96,619)	–	–	–	–	(96,619)	–	(96,619)
Excess of operating revenues, gains and other support over expenses	9,784,352	3,153,307	595,298	273,589	520,907	14,327,453	(16,155.00)	14,311,298
Other changes:								
Transfer of investments to PHI Investment Services Corporation	(22,903,950)	–	(173,904)	22,895,894	–	(181,960)	204,342.00	22,382
Purchase of non-controlling interest	(2,669,141)	–	–	–	–	(2,669,141)	–	(2,669,141)
Pension-related changes other than net periodic pension costs	-	–	–	–	(67,021)	(67,021)	–	(67,021)
Unrealized (losses) gains on investments	(34,096)	(207,241)	329,577	(1,252,658)	(174,054)	(1,338,472)	173,211.00	(1,165,261)
Total other changes	(25,607,187)	(207,241)	155,673	21,643,236	(241,075)	(4,256,594)	377,553.00	(3,879,041)
Increase in unrestricted net assets	(15,822,835)	2,946,066	750,971	21,916,825	279,832	10,070,859	361,398.00	10,432,257
Temporarily restricted net assets:								
Contributions, grants and bequests	559,578	141,094	–	44,579	136,023	881,274	–	881,274
Interest and dividend income	94,397	–	–	–	–	94,397	–	94,397
Unrealized loss on investments	(50,526)	(689)	–	–	–	(51,215)	–	(51,215)
Net assets released from restriction	(2,488,893)	(118,008)	–	(38,913)	(140,580)	(2,786,394)	–	(2,786,394)
Change in temporarily restricted net assets	(1,885,444)	22,397	–	5,666	(4,557)	(1,861,938)	–	(1,861,938)
Permanently restricted net assets:								
Contributions	52,615	30,992	–	–	-	83,607	–	83,607
Change in fair value of assets held in trust by others	(301,349)	(44,786)	–	(54,921)	(258,028)	(659,084)	–	(659,084)
Change in permanently restricted net assets	(248,734)	(13,794)	–	(54,921)	(258,028)	(575,477)	–	(575,477)
Change in net assets	(17,957,013)	2,954,669	750,971	21,867,570	17,247	7,633,444	361,398.00	7,994,842
Net assets, beginning of year	7,569,722	21,954,298	55,661,449	8,860,872	7,374,616	101,420,957	(5,406,951.00)	96,014,006
Net assets, end of year	$ (10,387,291)	24,908,967	56,412,420	30,728,442	7,391,863	109,054,401	(5,045,553.00)	104,008,848

PRESBYTERIAN HOMES OBLIGATED GROUP

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

As of December 31, 2011

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group	
2012 Budgeted Operating Expenses	$ 106,252,811	37,009,834	176,000	3,071,847	16,374,415	162,884,907	
Less: depreciation expense	(7,891,675)	(2,045,526)	-	(428,571)	(1,158,484)	(11,524,256)	
Expenses subject to minimum liquid assets requirement	98,361,136	34,964,308	176,000	2,643,276	15,215,931	151,360,651	
Percentage of residents subject to residence and care arrangements at December 31, 2011	37%	19%	0%	0%	49%		
	36,393,620	6,643,219	-	-	7,455,806	50,492,645	
Statutory requirement	10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$ 3,639,362	664,322	0	0	745,581	5,049,265	(a)
Next 12 months debt service payments:							
Principal payments	$ 2,708,212	1,066,823	-	187,501	299,528	4,262,064	
Interest payments	4,950,900	522,944	-	805,090	328,700	6,607,634	
Total debt service for next 12 months	7,659,112	1,589,767	-	992,591	628,228	10,869,698	
Percentage of residents subject to residence and care arrangements at December 31, 2011	37%	19%	0%	0%	49%		
Statutory minimum liquid reserve requirement	$ 2,833,871	302,056	-	-	307,832	3,443,759	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$ 3,639,362	664,322	-	-	745,581	5,049,265	