PRESBYTERIAN HOMES OBLIGATED GROUP

Combined financial statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

Carbis Walker LLP

Certified Public Accountants & Consultants

Members: Carbis Walker Group ▪ McGladrey Alliance ▪ AICPA Alliance for CPA Firms

PRESBYTERIAN HOMES OBLIGATED GROUP

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the combined financial statements of the Presbyterian Homes Obligated Group as of December 31, 2013 and 2012, 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.

Combined financial statements report our financial positions 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 combined financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Combined 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 107 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

Independent Auditors' Report

The Board of Trustees
Presbyterian Homes Obligated Group

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group) which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy, and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relations.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes Obligated Group as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Combination

We draw attention to Note 2a of the combined financial statements, which describes the basis of combination. The combined financial statements are prepared by the Presbyterian Homes Obligated Group to include only those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-first supplemental indenture dated November 15, 2013. The consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates, have been issued to its Board of Trustees as the consolidated financial statements of the primary reporting entity.

Adoption of New Accounting Standard for Continuing Care Retirement Communities

We draw attention to Note 2q of the combined financial statements, which discloses the Obligated Group's adoption of the new accounting standards update for continuing care retirement communities regarding refundable entrance fees. The adoption of this new standard resulted in a cumulative effect adjustment to the opening net assets balance on the combined statements of operations and changes in net assets as of January 1, 2012 in the amount of $7,932,998.

Carbis Walker LLP

Carbis Walker LLP
New Castle, Pennsylvania
March 28, 2014

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2013 and 2012

Assets		**2013**	**Restated 2012**
Cash and cash equivalents	$	1,915,291	2,100,880
Investments		70,367,250	67,121,771
Statutory liquid reserves		5,567,996	5,578,231
Accounts receivable, net		17,989,593	17,971,134
Prepaid expenses and other current assets		2,111,822	1,712,672
Assets whose use is limited		10,275,363	12,153,481
Assets whose use is limited, construction funds		13,392,479	12,652,208
Pledges receivable, net		179,359	238,377
Property and equipment (net of accumulated depreciation of $206,023,065 and $193,645,321, respectively)		249,950,313	228,295,257
Assets under capital leases (net of accumulated amortization of $316,767 and $317,098, respectively)		441,783	247,010
Due from affiliates		64,568,178	58,801,046
Funds held in trust by others		15,113,651	13,426,741
Deferred financing costs (net of accumulated amortization of $1,958,707 and $1,769,626, respectively)		2,313,916	3,052,855
Other assets		744,318	783,280
Total assets	$	454,931,312	424,134,943

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2013 and 2012

Liabilities and Net Assets		**2013**	**Restated 2012**
Accounts payable	$	9,123,365	10,543,636
Accrued expenses		15,363,390	13,104,487
Notes payable		11,420,443	12,917,383
Accrued interest		485,470	656,181
Resident deposits		2,734,618	1,561,934
Entrance fee payable		20,628,485	20,755,388
Deferred revenue - entrance fees		49,849,678	47,383,913
Fair value of interest rate swaps		714,302	1,311,038
Annuities payable		924,379	1,031,459
Long-term debt			
Obligations under capital leases		445,847	250,552
Long-term debt		210,490,113	199,956,092
Total liabilities		322,180,090	309,472,063
Net assets:			
Unrestricted		109,888,654	93,910,377
Temporarily restricted		2,771,653	2,411,391
Permanently restricted		20,090,915	18,341,112
Total net assets		132,751,222	114,662,880
Total liabilities and net assets	$	454,931,312	424,134,943

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2013 and 2012

		2013	Restated 2012
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $8,466,312 and $8,847,252, respectively	$	173,400,429	170,092,640
Interest and dividend income		3,167,830	3,221,565
Realized gains on investments		3,014,004	768,489
Gain on sale of property and equipment and other assets		16,330	21,890
Contributions, gifts and bequests		673,310	1,678,185
Net assets released from restrictions		909,622	1,310,021
Total operating revenues, gains, and other support		181,181,525	177,092,790
Expenses:			
Nursing services		49,943,705	49,629,081
Rehabilitation		8,786,857	9,296,656
Recreation and special services		5,252,151	5,242,289
Pharmacy		2,905,812	2,782,493
Social services		736,367	726,088
Physician services		432,498	427,038
Food services		18,736,156	18,269,099
Building operations and maintenance		17,228,116	16,862,530
Housekeeping		3,722,522	3,591,683
Laundry and linen		1,410,238	1,393,727
General and administrative		26,800,889	25,045,367
Employee benefits		13,273,310	13,050,020
Interest		5,640,568	5,647,458
Depreciation		12,744,205	12,088,121
Amortization		188,386	230,960
Total expenses		167,801,780	164,282,610
Operating income		13,379,745	12,810,180
Decrease in fair value of interest rate swaps		596,736	481,320
Loss on early extinguishment of debt		(938,303)	(74,932)
Excess of operating revenues, gains and other support over expenses		13,038,178	13,216,568
Other changes:			
Transfer to parent		9,152	6,843
Unrealized gains on investments		2,930,947	3,819,745
Total other changes		2,940,099	3,826,588
Increase in unrestricted net assets		15,978,277	17,043,156

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2013 and 2012

	2013	Restated 2012
Temporarily restricted net assets:		
Contributions, gifts and bequests	990,305	614,329
Interest and dividend income	208,357	68,967
Unrealized gain on investments	71,222	245,557
Net assets released from restrictions	(909,622)	(1,310,021)
Change in temporarily restricted net assets	360,262	(381,168)
Permanently restricted net assets:		
Contributions, gifts and bequests	110,269	112,130
Change in fair value of funds held in trust by others	1,639,534	610,373
Change in permanently restricted net assets	1,749,803	722,503
Change in net assets	18,088,342	17,384,491
Net assets, beginning of year (Note 2)	114,662,880	97,278,389
Net assets, end of year	$ 132,751,222	114,662,880

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	Restated 2012
Cash flows from operating activities:			
Change in net assets	$	18,088,342	17,384,491
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		12,744,205	12,088,121
Provision for bad debt		1,037,039	927,012
Proceeds from entrance fees and deposits		15,637,518	12,140,848
Amortization of entrance fees		(8,466,312)	(8,847,252)
Loss on early extinguishment of debt		938,303	74,932
Change in fair value of interest rate swaps		(596,736)	(481,320)
Unrealized gain on investments and change in fair value of funds held in trust by others		(4,641,703)	(4,675,675)
Realized gains on investments		(3,014,004)	(768,489)
Gain on sale of property and equipment and other assets		(16,330)	(21,890)
Contributions restricted for long-term purposes		(110,269)	(112,130)
Amortization of deferred costs		189,521	201,555
Amortization of bond (discount) premium		(1,135)	29,405
Changes in assets and liabilities:			
Increase in accounts receivable		(1,055,498)	(3,672,966)
Decrease in pledges receivable		59,018	100,903
Decrease in other assets		558,831	427,770
(Decrease) increase in accounts payable		(1,420,271)	93,718
Increase in accrued expenses		2,088,192	380,982
Net cash provided by operating activities		32,018,711	25,270,015
Cash flows from investing activities:			
Acquisition of property and equipment		(34,577,704)	(31,737,244)
Purchases of investments		(35,374,030)	(57,295,528)
Proceeds from sale of investments		39,245,430	66,806,943
Due from affiliates		(5,767,132)	(15,721,742)
Net cash used in investing activities		(36,473,436)	(37,947,571)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(3,532,757)	(3,303,604)
Change in entrance fee payable		(126,903)	–
Principal payments on and redemptions of long-term debt		(21,998,574)	(11,306,463)
Proceeds from issuance of long-term debt		31,595,427	30,000,000
Financing costs incurred		(369,601)	(278,079)
Net repayments of notes payable		(1,496,940)	(2,839,706)
Borrowings through capital leases		359,853	220,030
Repayments on capital leases		(164,558)	(132,840)
Contributions restricted for long-term purposes		110,269	112,130
Decrease in annuities payable		(107,080)	(44,664)
Net cash provided by financing activities		4,269,136	12,426,804
Net decrease in cash and cash equivalents		(185,589)	(250,752)
Cash and cash equivalents, beginning of year		2,100,880	2,351,632
Cash and cash equivalents, end of year	$	1,915,291	2,100,880

See accompanying notes to combined financial statements.

(1) General Information

The Presbyterian Homes Obligated Group (the Obligated Group) consists of the following not-for-profit corporations: Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Quincy Retirement Community (QRC), The Long Community Inc (TLC), and PHI Investment Management Services, Inc (PIMSI). Between all the members of the Obligated Group, they own, operate and manage one stand-alone skilled nursing facility, eleven continuing care retirement communities, three stand-alone independent living facilities, and three stand-alone personal care homes.

The Obligated Group is governed by the Board of Trustees of PHI, doing business as Presbyterian Senior Living. Presbyterian Senior Living is the parent organization for the members of the Obligated Group.

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

	Total	Pres Homes	PHPH	QRC	TLC
Nursing beds	1,221	711	376	134	—
Personal care units	462	307	91	32	32
Independent living units	1,086	677	118	183	108
Total	2,769	1,695	585	349	140

As of December 31, 2013, there were 32 independent living units under construction at Ware Presbyterian Village, which is part of the Presbyterian Homes Obligated Group, but are not included in the above unit counts.

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and only include those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the twenty-first supplemental indenture dated November 15, 2013. Requirements of the master trust indenture preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

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

(c) Income Taxes

The Obligated Group and all its members are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Obligated Group follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's combined financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the combined financial statements.

The Obligated Group is part of a consolidated federal Exempt Organization Business Income Tax Return, for which the years ended December 31, 2010, 2011, and 2012 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America as set forth in the master trust indenture 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 combined 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 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 2013 and 2012, 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 in 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 combined 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, 2013 and 2012, 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:

		2013	2012
Interest and dividends	$	3,376,187	3,290,532
Realized gains on investments		3,014,004	768,489
Unrealized gains on investments and funds held in trust by others		4,641,703	4,675,675
	$	11,031,894	8,734,696

Investment expenses of $357,887 and $340,756 for the years ended December 31, 2013 and 2012, respectively, have been included in general and administrative expenses on the combined statements of operations and changes in net assets.

(g) Accounts Receivable

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

		2013	2012
Total accounts receivable	$	20,360,692	19,936,523
Less: allowance for doubtful accounts		(2,371,099)	(1,965,389)
Net accounts receivable	$	17,989,593	17,971,134

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 collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability 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.

		2013	2012
Pledges receivable	$	229,124	248,894
Less: unamortized discount		—	(169)
Subtotal		229,124	248,725
Less: allowance for uncollectibles		(49,765)	(10,348)
Net pledges receivable	$	179,359	238,377

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2013 is as follows:

Amounts due in:		
Less than one year	$	205,527
One to five years		23,597
	$	229,124

(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 $761,884 and $587,740 was capitalized in 2013 and 2012, 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:

		2013	2012
Beneficial interest in perpetual trusts	$	14,494,504	12,800,949
Contributions receivable from remainder trusts		593,112	597,391
Gift annuities		26,035	28,401
	$	15,113,651	13,426,741

(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 2013 and 2012, an adjustment to the liability was recorded causing a gain each year of $596,736 and $481,320, respectively. These adjustments represent 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 $166,533 for the next three years, decreasing to $159,929 in year four and then decreasing again to $152,206 in year five.

(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

In 2013, the Obligated Group adopted the new accounting standards update from the Financial Accounting Standards Board (FASB) regarding refundable entrance fees. This standard was issued to clarify the reporting for refundable advanced fees received by continuing care retirement communities. This guidance clarifies that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advanced fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability.

Previously, entrance fees collected from residents at move-in pursuant to a Residence and Care Agreement were recorded as deferred revenue-entrance fees. The non-refundable portion of the fees was amortized to income over the estimated remaining life expectancy of each resident and the portion of the guaranteed fee refundable upon reoccupancy was amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The remaining amount of unamortized, nonrefundable entrance fees was recorded as revenue upon surrender of the independent living unit.

Effective January 1, 2013, the Obligated Group is no longer amortizing the guaranteed refundable portion of the entrance fees. This portion of the entrance fee is reflected as a liability on the combined statements of financial position.

(q) Deferred Revenue – Entrance Fees (continued)

The effect of this change resulted in the following adjustment of the 2012 combined financial statements:

		Entrance Fee Payable	Deferred Revenue Entrance Fees	Beginning Net Assets	Ending Net Assets
December 31, 2012 balance, as previously reported	$	—	60,206,303	105,211,387	122,595,878
Cumulative effect of change in accounting for amortizing refundable entrance fees		20,755,388	(12,822,390)	(7,932,998)	(7,932,998)
Balance as adjusted	$	20,755,388	47,383,913	97,278,389	114,662,880

The amount of entrance fees guaranteed refundable to residents at December 31, 2013 and 2012 under contractual refund provisions was approximately $20,628,000 and $20,755,000, 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.

In addition to the statutory liquid reserves, entrance fee payments in excess of 5% of the then existing entrance fee for the unit, received by the Obligated Group prior to the date the resident is permitted to occupy the living unit are included in the cash and cash equivalents and investments on the accompanying combined statements of financial position.

(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.

CarbisWalker LLP

(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 2013 and 2012, respectively. Medicare and Medicaid receivables represent approximately 48% and 46% of accounts receivable at December 31, 2013 and 2012, 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, 2013, the rates for July 1, 2013 through December 31, 2013, 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 approved by CMS for the period July 1, 2013, through December 31, 2013. Included in revenues are estimates for these amounts. For the years ended December 31, 2013 and 2012, the Obligated Group received or will receive approximately $2,700,000 and $2,600,000, respectively, in additional revenue for the net effect of this assessment and supplement.

(v) Charity Care

The Obligated Group follows the accounting standards update from the Financial Accounting Standards Board (FASB) that provides improved disclosure about charity care. The amount of charity care disclosed in the combined financial statements is measured based on the direct and indirect costs of providing charity care services. If the costs cannot be specifically attributed to services provided to charity care patients, reasonable techniques are used to estimate these costs, and these techniques are disclosed. Any funds received to offset or subsidize charity care services are also disclosed.

(continued)

(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 Obligated Group 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:

		2013	2012
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$	3,203,512	3,214,922
Additional benevolent care provided at amounts less than pre-established charges for private pay services		24,465,048	22,393,439
Giving and income designated for resident financial support		728,315	1,120,557

(w) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2013 and 2012 was $416,863 and $418,360, respectively.

(x) Classification of expenses

		2013	2012
Program activities	$	141,000,891	139,237,243
General and administrative		26,362,204	24,582,060
Fundraising		438,685	463,307
		167,801,780	164,282,610

(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 decrease in fair value of interest rate swaps and loss on the early extinguishment of debt.

(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: transfer to parent and unrealized gains on investments.

(ab) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2013 and 2012 was $6,573,165 and $6,156,663, 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, 2014, which is the date the combined financial statements were issued.

(ad) Reclassifications

Certain reclassifications were made to the 2012 accompanying combined financial statements to conform to the 2013 presentation. These reclassifications had no impact on the changes in net assets or excess of operating revenues, gains and other support over expenses as previously reported.

(3) Investments

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

	2013		2012	
	Fair value	**Cost**	**Fair value**	**Cost**
Money market funds	$ 23,609,025	23,609,025	18,736,298	18,736,298
Equity securities	41,038,873	36,068,036	42,621,913	40,253,717
Fixed income securities	17,798,902	18,010,658	20,481,846	20,090,012
Alternate investments	17,156,288	11,049,068	15,665,634	10,815,306
Totals	$ 99,603,088	88,736,787	97,505,691	89,895,333
Less:				
Assets whose use is limited (note 5)	(23,667,842)		(24,805,689)	
Statutory liquid reserves	(5,567,996)		(5,578,231)	
Total investments	$ 70,367,250		$ 67,121,771	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group has twenty one mutual funds, eight alternative investments and several other fixed income securities as of December 31, 2013. The Obligated Group has nineteen mutual funds, seven alternative investments and several other fixed income securities as of December 31, 2012.

As of December 31, 2013, eighteen mutual funds 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. As of December 31, 2012, nine mutual funds 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.

Seven mutual funds had a market value that had been below cost for more than a year as of December 31, 2013. In total, its market value was five percent below cost. Three mutual funds and one alternate investment had a market value that had been below cost for more than a year as of December 31, 2012. In total, its market value was three percent below cost.

(continued)

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2013 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 15,502,997	(406,884)	3,407,163	(174,306)	18,910,160	(581,190)
Total temporarily impaired investments	$ 15,502,997	(406,884)	3,407,163	(174,306)	18,910,160	(581,190)

A summary of investments with fair values below cost as of December 31, 2012 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 4,079,506	(90,736)	1,728,411	(49,869)	5,807,917	(140,605)
Alternative investments	–	–	1,075,482	(19,537)	1,075,482	(19,537)
Total temporarily impaired investments	$ 4,079,506	(90,736)	2,803,893	(69,406)	6,883,399	(160,142)

(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, 2013 and 2012, the Obligated Group incurred management fees and other expenses under the management agreement totaling $13,067,085 and $12,728,378, respectively, which is classified as general and administrative expenses on 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, 2013 and 2012, Presbyterian Senior Living Services, Inc. had $15,685,000 and $16,220,000, 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.

The Obligated Group is an irrevocable guarantor of the Metro Bank Loan for Stadium Place Senior Care Inc., an affiliate organization, for a maximum principal amount of $10,000,000. As of December 31, 2013 and 2012, Stadium Place Senior Care Inc. had $2,228,044 and $0, respectively, in outstanding debt. In the event of a deficiency judgment, the Obligated Group has guaranteed to repay all of this outstanding debt which matures through 2033.

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 2013 and 2012, the Obligated Group paid Prelude $1,784,400 and $1,788,432, respectively, for information services provided by Prelude, of which $15,171 and $22,982 is included in accounts payable as of December 31, 2013 and 2012, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2013 and 2012 are $64,568,178 and $58,801,046, respectively.

The amounts receivable from the Corporation’s affiliated organizations are unsecured, non-interest bearing and have no fixed repayment terms, except loans to the low income housing corporations.

(5) Assets Whose Use is Limited

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

		2013	2012
Permanently restricted investments	$	4,515,573	4,415,811
Bond fund		1,762,729	1,690,620
Debt service reserve fund		3,997,061	6,047,050
Held by trustee-for future projects		13,392,479	12,652,208
	$	23,667,842	24,805,689

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(6) Property and Equipment

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

	2013		2012	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 27,330,872	–	24,800,473	–
Land improvements	18,699,879	14,632,378	18,434,947	14,155,633
Buildings and improvements	328,360,438	151,286,444	305,772,643	140,692,230
Departmental equipment, furniture and fixtures	41,617,567	35,101,804	40,464,086	33,764,696
Furniture	3,303,642	3,207,565	3,303,642	3,184,809
Vehicles	2,018,488	1,794,874	2,166,999	1,847,953
Construction-in-progress	34,642,492	–	26,997,788	–
	$ 455,973,378	206,023,065	421,940,578	193,645,321
Net book value		$ 249,950,313		$ 228,295,257

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.

In 2012, Quincy Retirement Community demolished a building to begin a new project. Costs associated with the demolition were approximately $129,000. In 2013, Ware Presbyterian Village, a facility of Presbyterian Homes, Inc., demolished a building to begin a new project. Costs associated with the demolition were approximately $63,000.

As of December 31, 2013 and 2012 approximately $10,000,000 and $19,000,000, 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, 2013 and 2012 consisted of the following:

	2013	2012
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.07% and 0.15% at December 31, 2013 and 2012, 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 2019 to 2026, interest rates ranging from 4.75% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group. Bond was paid off in June 2013	—	8,530,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2013 to 2032, interest adjusted weekly, 0.07% and 0.15% at December 31, 2013 and 2012, respectively, collateralized by letter of credit	7,430,000	7,665,000
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 0.948% and 0.977% at December 31, 2013 and 2012, respectively, collateralized by property and equipment and gross revenues of the Obligated Group	3,856,634	4,570,453
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	15,160,000	16,760,000
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2021, interest rates ranging from 5% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group	7,810,000	13,895,000

(7) Long-term Debt (continued)

	2013	2012
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.07% and 0.14% at December 31, 2013 and 2012, 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
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, converted to fixed rate bonds in 2013, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.07% and 0.15% at December 31, 2013 and 2012, respectivley, collateralized by a letter of credit and by property and equip,emt and gross revenues of the Obligated Group	15,265,000	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 rate was locked in November of 2013 with the interest rate adjusting every 5 years, 2.75% and 2.25% at December 31, 2013 and 2012, respectively, collateralized by property and equipment and gross revenues of the Obligated Group	19,624,547	20,000,000
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 Obligated Group. Due in December 2016	12,299,933	12,657,808
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, 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 was 3.48% at both December 31, 2013 and 2012. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,272,913	9,634,447
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% at both December 31, 2013 and 2012, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,097,988	2,262,186

(7) Long-term Debt (continued)

	2013	2012
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 0.11% and 0.18% at December 31, 2013 and 2012, respectively. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	3,425,000	4,180,000
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 adjusts every five years and was 0.9903% at both December 31, 2013 and 2012. The note is collateralized by property and equipment and gross revenues of the Obligated Group	528,189	582,105
Series 2005 College Township Revenue Bonds, payable in equal installments of $23,305 per month to include principal and interest through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was 3.83% at both December 31, 2013 and 2012. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group.	2,809,204	2,976,172
Quincy Sewer Authority Revenue Bonds Series 2012, payable in equal monthly installments of principal and interest, due August 15, 2032. The note bears an interest rate of 3.35%. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,513,907	9,870,974
Uwchlan Township Industrial Development Authority Revenue Note Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2032. Interest is fixed at 3.5% until 6/1/2022. Interest rates will be reset in 10 year increments. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,471,787	9,828,086

(7) Long-term Debt (continued)

	2013	2012
General Municipal Authority of the Township of Manhiem Revenue Bond Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 2032. A call option is available at the lender's discretion on August 2022. The note bears a fixed interest rate of 2.75% until 2019 at which time the rate will become variable equal to 68% of the Wall Street Journal Prime Rate. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,515,088	9,896,278
Cumberland County Municipal Authority Revenue Bonds Series 2013A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2026, interest fixed at 3.11% at December 31, 2013, collateralized by property and equipment and gross revenues of the Obligated Group	6,548,707	—
Cumberland County Municipal Authority Revenue Bonds Series 2013B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2022, interest fixed at 3.11% at December 31, 2013, collateralized by property and equipment and gross revenues of the Obligated Group	4,911,159	—
Indiana County Industrial Development Authority Revenue Bonds Series 2013, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to November 15, 2033. The note bears a fixed interest rate of 3.48% until 2020 at which time the rate will become variable equal to 68% of the Wall Street Journal Prime Rate. The note is collateralized by property and gross revnues of the Obligated Group	9,970,858	—

(7) Long-term Debt (continued)

		2013	2012
Uwchlan Township Industrial Development Authority Revenue Bonds Series 2013, tax exempt bonds, payable in equal monthly installements of principal and interest sufficient to amortize the principal balance to June 2026. Interest is fixed at 3.6% until 6/1/2023. Interest rates will be reset in 10 year increments. The note is collateralized by property and equipment and gross revenues of the Obligated Group		9,851,507	—
		210,362,554	199,993,510
Unamortized discount		(107,180)	(276,286)
Plus: Unamortized premium		234,739	238,868
	$	210,490,113	199,956,092

During 2012, $1,080,000 of the Cumberland County 2005A bonds that were previously repurchased was sold. During 2013, $225,000 of the Cumberland County 2008C bonds was repurchased. The bonds remaining 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, 2013 and 2012.

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 November 2016.

In connection with the refund and replacement of the Cumberland County 2003A and 2008A bonds in June 2013, the Obligated Group recorded a loss on the extinguishment of debt in the amount of $938,303, representing the write-off of the unamortized debt issuance costs and discount on the original purchase. A loss on extinguishment of debt in the amount of $74,932 was recorded in 2012 in connection with the refinancing of the 2007 M&T note.

(7) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2013 and thereafter are as follows:

Years ended December 31,	Aggregate maturities
2014	$ 9,777,326
2015	10,399,296
2016	10,748,292
2017	11,113,667
2018	10,383,505
Thereafter	157,940,468
	$ 210,362,554

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	06/01/15	3.28%	Cumberland County 2008 B
$3,856,630	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

(7) Long-term Debt (continued)

The fair value of the interest rate swap liabilities at December 31, 2013 and 2012 are as follows:

Counterparty	Fair Value 12/31/2013	Fair Value 12/31/2012
M&T	$ 55,431	$ 110,000
Wells Fargo	-	124,527
Wells Fargo	439,013	725,184
Bank of America	219,858	351,327
Total	$ 714,302	$ 1,311,038

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. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2013 and 2012, 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, 2013 and 2012, the Obligated Group had $11,420,443 and $12,917,383, respectively, outstanding under these agreements at interest rates ranging from 2.17% to 3.00%.

(9) Leases

The Obligated Group is obligated under capital leases for equipment that expires in 2017. At December 31, 2013 and 2012, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

	2013	2012
Office equipment	$ 758,550	564,108
Accumulated amortization	(316,767)	(317,098)
	$ 441,783	247,010

Amortization expense of $168,989 and $139,842 for the years ended December 31, 2013 and 2012, respectively, 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, 2013 follows:

2014	$ 212,936
2015	129,497
2016	91,857
2017	27,007
	461,297
Amounts representing interest	(15,450)
	$ 445,847

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows:

2014	$ 206,545
2015	135,526
2016	57,216
2017	12,366
	$ 411,653

Rental expense under operating leases was $802,030 and $736,207 for the years ended December 31, 2013 and 2012, 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 $924,379 and $1,031,459 at December 31, 2013 and 2012, 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 $1,339,408 as of both December 31, 2013 and 2012, 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 2013 and 2012, the Obligated Group maintained a letter of credit for $3,000,000 and $2,600,000, respectively, in connection with this self-insurance program. At December 31, 2013 and 2012, the Obligated Group has recorded an accrued expense of approximately $5 million and $4.9 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.

(continued)

(13) Temporarily Restricted Net Assets

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

		2013	2012
Trust assets held for the benefit of The Easton Home	$	898,159	693,334
Charity care and/or equipment, including pledges receivable			
Endowment		62,340	110,726
Other		1,442,759	1,241,618
Gift annuities		880	7,732
Contributions receivable from remainder trusts		367,515	357,981
	$	2,771,653	2,411,391

Net assets of $909,622 and $1,310,021 were released from restriction during 2013 and 2012, respectively, in satisfaction of the above restrictions.

(14) Permanently Restricted Net Assets

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

		2013	2012
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 the following endowments:			
Operations		2,020,042	2,031,606
Scholarships		23,456	–
Charity care and/or equipment		2,472,075	2,418,392
Contributions receivable from remainder trusts		225,597	239,410
Gift annuities		25,155	20,669
Beneficial interest in perpetual trusts		14,494,504	12,800,949
	$	20,090,915	18,341,112

(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.

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

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(15) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2013:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	110,726	4,449,998	4,560,724
Investment return:				
Investment income		69,995	–	69,995
Contributions		–	100,271	100,271
Appropriation of endowment assets for expenditures		(118,381)	–	(118,381)
Other changes				
Adjustments for prior year		–	(34,696)	(34,696)
Endowment net assets, end of year	$	62,340	4,515,573	4,577,913

The following schedule represents the changes in endowment net assets for the year ended December 31, 2012:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	166,233	4,379,883	4,546,116
Investment return:				
Investment income		68,967	–	68,967
Contributions		–	107,130	107,130
Appropriation of endowment assets for expenditures		(106,278)	–	(106,278)
Other changes				
Adjustments for prior year		(18,196)	(37,015)	(55,211)
Endowment net assets, end of year	$	110,726	4,449,998	4,560,724

(15) Endowment (continued)

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, 2013 or 2012.

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.

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.

(continued)

(15) Endowment (continued)

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 3.0% for both 2013 and 2012. 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 2013 and 2012 an allocation of three 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, 2013 and 2012, retirement plan expense totaled approximately $1,350,835 and $1,354,650, respectively.

(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 is 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 and notes payable: Long-term debt and notes payable are carried at cost in the combined statements of financial position for notes payable, bonds payable and mortgages payable at December 31, 2013 and 2012. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $222,356,403 and $213,124,027 at December 31, 2013 and 2012, respectively, and its fair values at December 31, 2013 and 2012 approximates $216,121,599 and $216,387,735, respectively.

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(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, 2013 and 2012 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. There have been no changes to the fair value methodologies used to measure fair value at December 31, 2013 and 2012.

(continued)

(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, 2013 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 23,609,025	23,609,025	–	–
Equity securities	41,038,873	41,038,873	–	–
Fixed income securities	17,798,902	17,798,902	–	–
Alternate investments	17,156,288	–	–	17,156,288
Total investments	99,603,088	82,446,800	–	17,156,288
Beneficial interest in perpetual trusts	14,494,504	–	–	14,494,504
Contributions receivable from remainder trusts	593,112	–	–	593,112
Gift annuities	26,035	–	–	26,035
Total assets	$ 114,716,739	82,446,800	–	32,269,939
Interest rate swaps	$ (714,302)	–	(714,302)	–

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, 2012 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 18,736,298	18,736,298	–	–
Equity securities	42,621,913	42,621,913	–	–
Fixed income securities	20,481,846	20,481,846	–	–
Alternate investments	15,665,634	–	–	15,665,634
Total investments	97,505,691	81,840,057	–	15,665,634
Beneficial interest in perpetual trusts	12,800,949	–	–	12,800,949
Contributions receivable from remainder trusts	597,391	–	–	597,391
Gift annuities	28,401	–	–	28,401
Total assets	$ 110,932,432	81,840,057	–	29,092,375
Interest rate swaps	$ (1,311,038)	–	(1,311,038)	–

(18) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2013 is as follows:

Description	Altermative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance at December 31, 2011	$ 13,803,823	508,451	12,106,509	26,423
Unrealized gains (losses)	1,260,634	61,976	694,440	(5,754)
Distributions	(1,108,722)	–	–	–
Contributions	1,677,407	26,964	–	7,732
Realized gains	32,492	–	–	–
Balance at December 31, 2012	$ 15,665,634	597,391	12,800,949	28,401
Unrealized gains (losses)	1,443,141	(4,279)	1,693,555	(12,366)
Distributions	(3,486,606)	–	–	–
Contributions	3,399,000	–	–	10,000
Realized gains	135,119	–	–	–
Balance at December 31, 2013	$ 17,156,288	593,112	14,494,504	26,035

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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, 2014

Combining Schedule of Financial Position

December 31, 2013

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	$	1,500,334	138,958	–	241,035	34,964	1,915,291	–	1,915,291
Investments		4,187,952	7,993,573	45,775,698	8,618,139	3,791,888	70,367,250	–	70,367,250
Statutory reserves		3,966,637	750,613	–	–	850,746	5,567,996	–	5,567,996
Accounts receivable, net		10,379,682	5,113,773	–	108,830	2,387,308	17,989,593	–	17,989,593
Prepaid expenses and other current assets		1,320,536	147,451	4,234	125,244	514,357	2,111,822	–	2,111,822
Assets whose use is limited		5,759,790	2,020,042	2,245,859	–	249,672	10,275,363	–	10,275,363
Assets whose use is limited, capital assets held by trustee		13,392,479	–	–	–	–	13,392,479	–	13,392,479
Pledges receivable		154,452	26,907	–	–	(2,000)	179,359	–	179,359
Property and equipment, net		157,138,613	36,976,424	–	43,132,732	12,702,544	249,950,313	–	249,950,313
Assets under capital lease, net		275,943	50,620	–	5,799	109,421	441,783	–	441,783
Due from (to) affiliates		57,053,526	4,614,556	12,842,491	(10,261,193)	318,798	64,568,178	–	64,568,178
Funds held in trust by others		7,634,569	621,752	–	943,576	5,913,754	15,113,651	–	15,113,651
Beneficial interest in assets of affiliate		1,728,245	–	–	–	–	1,728,245	(1,728,245)	–
Unamortized deferred costs:									
Deferred financing costs, net		1,801,499	137,531	–	327,910	46,976	2,313,916	–	2,313,916
Other assets		744,318	–	–	–	–	744,318	–	744,318
Total assets	$	267,038,575	58,592,200	60,868,282	43,242,072	26,918,428	456,659,557	(1,728,245)	454,931,312

See independent auditors' report on supplementary information.

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2013

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	$	6,885,089	1,643,896	–	109,380	485,000	9,123,365	–	9,123,365
Accrued expenses - other		10,699,391	3,242,540	33,500	407,621	980,338	15,363,390	–	15,363,390
Notes payable		11,420,443	–	–	–	–	11,420,443	–	11,420,443
Accrued interest		466,807	18,663	–	–	–	485,470	–	485,470
Resident deposits		2,428,758	142,000	–	19,400	144,460	2,734,618	–	2,734,618
Entrance fee payable		17,381,499	1,982,841	–	–	1,264,145	20,628,485	–	20,628,485
Deferred revenue – entrance fees		35,031,537	7,811,640	–	–	7,006,501	49,849,678	–	49,849,678
Fair value of interest rate hedge		683,221	31,081	–	–	–	714,302	–	714,302
Annuities payable		876,139	19,857	–	–	28,383	924,379	–	924,379
Accrued pension		–	–	–	–	–	–	–	–
Long-term debt									
Obligations on capital leases		278,056	51,912	–	5,865	110,014	445,847	–	445,847
Long-term debt		156,292,272	12,307,088	–	35,468,866	6,421,887	210,490,113	–	210,490,113
Total liabilities		242,443,212	27,251,518	33,500	36,011,132	16,440,728	322,180,090	–	322,180,090
Net assets:									
Unrestricted		11,694,241	28,547,148	59,106,537	6,274,653	4,266,074	109,888,653	1	109,888,654
Temporarily restricted		2,443,643	267,098	–	12,711	48,201	2,771,653	–	2,771,653
Permanently restricted		10,457,479	2,526,436	1,728,245	943,576	6,163,425	21,819,161	(1,728,246)	20,090,915
Total net assets		24,595,363	31,340,682	60,834,782	7,230,940	10,477,700	134,479,467	(1,728,245)	132,751,222
Total liabilities and net assets	$	267,038,575	58,592,200	60,868,282	43,242,072	26,918,428	456,659,557	(1,728,245)	454,931,312

See independent auditors' report on supplementary information.

Presbyterian Homes Obligated Group

Combining Schedule of Operations and Changes in Net Assets

Periods ended December 31, 2013

	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	$ 112,858,621	39,718,289	–	3,721,567	17,108,902	173,407,379	(6,950)	173,400,429
Interest and dividend income	253,953	426,504	1,741,988	437,642	388,501	3,248,588	(80,758)	3,167,830
Realized gains on investments	49,993	321,229	2,255,977	315,735	134,213	3,077,147	(63,143)	3,014,004
Gain on sale of property and equipment	16,330	–	–	–	–	16,330	–	16,330
Contributions	129,479	38,955	–	93,792	411,084	673,310	–	673,310
Net assets released from restrictions	707,013	150,310	–	5	52,294	909,622	–	909,622
Total revenues, gains, and other support	114,015,389	40,655,287	3,997,965	4,568,741	18,094,994	181,332,376	(150,851)	181,181,525
Expenses:								
Nursing services	31,314,329	12,518,513	–	625,282	5,485,581	49,943,705	–	49,943,705
Rehabilitation	5,090,815	2,829,396	–	-	866,646	8,786,857	–	8,786,857
Recreation and special services	3,478,150	1,116,776	–	80,211	577,014	5,252,151	–	5,252,151
Pharmacy	1,690,020	965,764	–	12,294	237,734	2,905,812	–	2,905,812
Social services	466,096	188,356	–	-	81,915	736,367	–	736,367
Physician care	240,584	135,982	–	9,000	46,932	432,498	–	432,498
Food services	12,168,764	4,428,585	–	481,330	1,657,477	18,736,156	–	18,736,156
Building operations and maintenance	11,391,736	3,100,271	–	807,716	1,928,393	17,228,116	–	17,228,116
Housekeeping	2,579,529	838,661	–	42,882	261,450	3,722,522	–	3,722,522
Laundry and linen	826,082	411,107	–	1,036	178,963	1,417,188	(6,950)	1,410,238
General and administrative	17,178,824	6,075,137	250,052	601,763	2,700,653	26,806,429	(5,540)	26,800,889
Employee benefits	8,339,016	3,335,684	–	188,567	1,410,043	13,273,310	–	13,273,310
Interest	3,863,769	446,509	–	1,065,380	264,910	5,640,568	–	5,640,568
Depreciation	8,338,644	2,165,002	–	1,009,403	1,231,156	12,744,205	–	12,744,205
Amortization	144,032	21,304	–	20,545	2,505	188,386	–	188,386
Total expenses	107,110,390	38,577,047	250,052	4,945,409	16,931,372	167,814,270	(12,490)	167,801,780
Operating income	6,904,999	2,078,240	3,747,913	(376,668)	1,163,622	13,518,106	(138,361)	13,379,745
Change in fair value of interest rate swap	567,489	29,247	–	–	–	596,736	–	596,736
Loss on early extinguishment of debt	(938,303)	–	–	–	–	(938,303)	–	(938,303)
Excess of operating revenues, gains and other support over expenses	6,534,185	2,107,487	3,747,913	(376,668)	1,163,622	13,176,539	(138,361)	13,038,178
Other changes:								
Transfer to parent	23,873	–	(14,721)	–	–	9,152	–	9,152
Unrealized gains on investments	(129,399)	514,692	2,195,890	331,225	(119,822)	2,792,586	138,361	2,930,947
Total other changes	(105,526)	514,692	2,181,169	331,225	(119,822)	2,801,738	138,361	2,940,099
Increase (decrease) in unrestricted net assets	6,428,659	2,622,179	5,929,082	(45,443)	1,043,800	15,978,277	–	15,978,277
Temporarily restricted net assets:								
Contributions, grants and bequests	767,067	134,569	–	10,889	77,780	990,305	–	990,305
Interest and dividend income	208,357	–	–	–	–	208,357	–	208,357
Unrealized loss on investments	33,536	37,686	–	–	–	71,222	–	71,222
Net assets released from restriction	(707,013)	(150,310)	–	(5)	(52,294)	(909,622)	–	(909,622)
Change in temporarily restricted net assets	301,947	21,945	–	10,884	25,486	360,262	–	360,262
Permanently restricted net assets:								
Contributions	53,681	23,132	–	–	33,456	110,269	–	110,269
Change in fair value of assets held in trust by others	709,633	17,858	204,825	45,408	866,635	1,844,359	(204,825)	1,639,534
Change in permanently restricted net assets	763,314	40,990	204,825	45,408	900,091	1,954,628	(204,825)	1,749,803
Change in net assets	7,493,920	2,685,114	6,133,907	10,849	1,969,377	18,293,167	(204,825)	18,088,342
Net assets, beginning of year	17,101,443	28,655,568	54,700,875	7,220,091	8,508,323	116,186,300	(1,523,420)	114,662,880
Net assets, end of year	$ 24,595,363	31,340,682	60,834,782	7,230,940	10,477,700	134,479,467	(1,728,245)	132,751,222

See independent auditors' report on supplementary information.

PRESBYTERIAN HOMES OBLIGATED GROUP

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

As of December 31, 2013

		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group	
2013 Budgeted Operating Expenses	$	111,563,200	39,161,763	324,989	5,716,876	17,139,496	173,906,324	
Less: depreciation expense		(8,602,578)	(2,208,364)	-	(1,106,915)	(1,159,200)	(13,077,057)	
Expenses subject to minimum liquid assets requirement		102,960,622	36,953,399	324,989	4,609,961	15,980,296	160,829,267	
Percentage of residents subject to residence and care arrangements at December 31, 2013		35%	20%	0%	0%	47%		
		36,036,218	7,390,680	-	-	7,510,739	50,937,637	
Statutory requirement		10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$	3,603,622	739,068	0	0	751,074	5,093,764	(a)
Next 12 months debt service payments:								
Principal payments	$	7,034,272	1,261,106	-	1,447,485	249,348	9,992,212	
Interest payments		4,270,878	455,439	-	1,196,556	259,900	6,182,773	
Total debt service for next 12 months		11,305,150	1,716,545	-	2,644,041	509,248	16,174,985	
Percentage of residents subject to residence and care arrangements at December 31, 2013		35%	20%	0%	0%	47%		
Statutory minimum liquid reserve requirement	$	3,956,803	343,309	-	-	239,347	4,539,458	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$	3,956,803	739,068	-	-	751,074	5,446,945	
Total per Bank Statements as of 12/31/2013		3,966,637	750,613	-	-	850,746	5,567,996	
Assets in excess of statutory minimum liquid reserve requirement	$	9,834	11,545	-	-	99,672	121,052	
Assets satisfying statutory minimum liquid reserve requirement								