PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Financial Statements
and Schedule

December 31, 2007 and 2006

(With Independent Auditor's Report Thereon)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the financial statements and supporting information of Presbyterian Homes in the Presbytery of Huntingdon, as of December 31, 2007 and 2006, and attest that they are accurate, complete and fairly presented.

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

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

Financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 81 years.

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

Stephen E. Proctor
Chief Executive Officer
PHI

Jeffrey J. Davis
Chief Financial Officer
PHI

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Presbyterian Homes in the Presbytery of Huntingdon (an affiliate of PHI) as of December 31, 2007 and 2006, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes in the Presbytery of Huntingdon as of December 31, 2007 and 2006, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, PA
March 10, 2008

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Financial Position

December 31, 2007 and 2006

Assets		**2007**	**2006**
Current assets:			
Cash and cash equivalents	$	1,320,342	1,629,882
Investments		6,194,082	6,871,915
Accounts receivable, net		3,215,216	3,016,683
Pledges receivable, current portion		147,500	—
Inventory		38,352	37,009
Prepaid expenses and other current assets		217,714	201,713
Total current assets		11,133,206	11,757,202
Assets whose use is limited, net of current portion		1,853,086	1,836,586
Property and equipment (net of accumulated depreciation of $22,103,395 and $21,819,817, respectively)		30,280,525	29,278,320
Assets under capital leases (net of accumulated depreciation of $48,459 and $16,690, respectively)		57,234	83,018
Funds held in trust by others		696,866	431,489
Other assets:			
Deferred financing costs (net of accumulated amortization of $271,026 and $251,567, respectively)		213,919	233,378
Total assets	$	44,234,836	43,619,993

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Financial Position

December 31, 2007 and 2006

Liabilities and Net Assets	**2007**	**2006**
Current liabilities:		
Accounts payable	$ 1,385,428	1,399,627
Accrued expenses	3,268,221	3,550,040
Current portion:		
Obligations on capital leases	36,460	31,201
Long-term debt	877,749	903,426
Total current liabilities	5,567,858	5,884,294
Resident deposits	255,600	238,668
Deferred revenue – entrance fees	7,801,227	8,054,076
Due to affiliated entities	73,616	17,198
Long-term debt, net of current portion		
Obligations on capital leases	21,657	51,131
Long-term debt	14,058,428	15,761,775
Total liabilities	27,778,386	30,007,142
Net assets:		
Unrestricted	13,716,974	11,344,776
Temporarily restricted	265,008	64,131
Permanently restricted	2,474,468	2,203,944
Total net assets	16,456,450	13,612,851
Total liabilities and net assets	$ 44,234,836	$ 43,619,993

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2007

(with comparative December 31, 2006 totals)

	2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2006 Total
Revenues, gains and other support:					
Resident services, including amortization of entrance fees of $727,211 and $627,192	$ 32,948,241	—	—	32,948,241	30,226,716
Interest and dividend income	330,850	—	—	330,850	311,039
Realized gains on investments	498,239	—	—	498,239	61,609
Realized gain on sale of property and equipment	109,620	—	—	109,620	3,258
Contributions	552,182	198,428	255,518	1,006,128	224,535
Net assets released from restrictions	588	(588)	—	—	—
Total revenues, gains and other support	34,439,720	197,840	255,518	34,893,078	30,827,157
Expenses:					
Nursing services	11,593,637	—	—	11,593,637	10,668,569
Rehabilitation	1,667,302	—	—	1,667,302	1,344,069
Recreation and special services	931,966	—	—	931,966	854,025
Pharmacy	848,621	—	—	848,621	753,855
Social services	240,504	—	—	240,504	167,141
Physician services	97,921	—	—	97,921	68,128
Food services	3,535,295	—	—	3,535,295	3,399,346
Building operations and maintenance	2,613,163	—	—	2,613,163	3,268,486
Housekeeping	947,155	—	—	947,155	885,441
Laundry and linen	537,451	—	—	537,451	509,039
General and administrative	3,851,993	—	—	3,851,993	3,446,812
Employee benefits	2,421,049	—	—	2,421,049	2,314,753
Interest	832,934	—	—	832,934	737,963
Depreciation	1,818,800	—	—	1,818,800	1,849,431
Amortization	19,459	—	—	19,459	19,362
Loss on early extinguishment of debt	16,947	—	—	16,947	—
Total expenses	31,974,197	—	—	31,974,197	30,286,420
Change in net assets before discontinued operations and unrealized (loss) gain on investments and assets held in trust by others	2,465,523	197,840	255,518	2,918,881	540,737
Discontinued operations, including realized losses on sale of property and equipment of $17,525 and $84,927, respectively	(4,596)	—	—	(4,596)	(303,362)
Unrealized (loss) gain on investments and assets held in trust by others	(88,729)	3,037	15,006	(70,686)	335,685
Change in net assets	2,372,198	200,877	270,524	2,843,599	573,060
Net assets, beginning of year	11,344,776	64,131	2,203,944	13,612,851	13,039,791
Net assets, end of year	$ 13,716,974	265,008	2,474,468	16,456,450	13,612,851

See accompanying notes to consolidated financial statements.

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Activities and Changes in Net Assets

Year ended December 31, 2006

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Resident services, including amortization of entrance fees of $627,192	$ 30,226,716	—	—	30,226,716
Interest and dividend income	311,039	—	—	311,039
Realized gains on investments	61,609	—	—	61,609
Realized gain on sale of property and equipment	3,258	—	—	3,258
Contributions	129,456	—	95,079	224,535
Total revenues, gains and other support	30,732,078	—	95,079	30,827,157
Expenses:				
Nursing services	10,668,569	—	—	10,668,569
Rehabilitation	1,344,069	—	—	1,344,069
Recreation and special services	854,025	—	—	854,025
Pharmacy	753,855	—	—	753,855
Social services	167,141	—	—	167,141
Physician services	68,128	—	—	68,128
Food services	3,399,346	—	—	3,399,346
Building operations and maintenance	3,268,486	—	—	3,268,486
Housekeeping	885,441	—	—	885,441
Laundry and linen	509,039	—	—	509,039
General and administrative	3,446,812	—	—	3,446,812
Employee benefits	2,314,753	—	—	2,314,753
Interest	737,963	—	—	737,963
Depreciation	1,849,431	—	—	1,849,431
Amortization	19,362	—	—	19,362
Total expenses	30,286,420	—	—	30,286,420
Change in net assets before discontinued operations and unrealized gain on investments amd assets held in trust by others	445,658	—	95,079	540,737
Discontinued operations, including realized losses on sale of property and equipment of $84,927	(303,362)	—	—	(303,362)
Unrealized gain on investments and assets held in trust by others	308,538	4,859	22,288	335,685
Change in net assets	450,834	4,859	117,367	573,060
Net assets, beginning of year	10,893,942	59,272	2,086,577	13,039,791
Net assets, end of year	$ 11,344,776	64,131	2,203,944	13,612,851

See accompanying notes to consolidated financial statements

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 2,843,599	573,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,826,618	1,886,959
Proceeds from entrance fees and deposits	621,329	1,767,081
Amortization of entrance fees	(727,211)	(627,192)
Loss on early extinguishment of debt	16,947	—
Unrealized loss (gains) on investments and assets held in trust by others	70,686	(335,685)
Realized gains on investments	(498,239)	(61,609)
Realized (gain) loss on disposal of assets	(92,095)	81,669
Contributions restricted for long-term purposes	(255,518)	(95,079)
Change in funds held in trust by others	(250,371)	(4,859)
Amortization	19,459	19,459
Change in assets and liabilities:		
Accounts receivable	(198,533)	(1,042,488)
Pledges receivable	(147,500)	—
Other current assets	(17,345)	14,684
Accounts payable	(14,199)	(246,797)
Accrued expenses and deferred revenue other	(281,818)	392,325
Net cash provided by operating activities	2,915,809	2,321,528
Cash flows from investing activities:		
Acquisition of property and equipment	(3,846,037)	(3,847,873)
Net proceeds on the sale of property and equipment	1,135,093	—
Purchases of investments	(11,329,195)	(14,162,421)
Proceeds from sale of investments	12,403,075	14,451,776
Net cash used in investing activities	(1,637,064)	(3,558,518)
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(130,035)	(280,246)
Principal payments on long-term debt	(1,745,971)	(786,555)
Proceeds on the issuance of bonds	—	1,790,871
Borrowings through capital lease obligations	10,084	95,608
Repayments on obligations under capital leases	(34,299)	(38,708)
Contributions restricted for long-term purposes	255,518	95,079
Due to affiliated entity	56,418	(184,148)
Net cash (used in) provided by financing activities	(1,588,285)	691,901
Net decrease in cash and cash equivalents	(309,540)	(545,089)
Cash and cash equivalents, beginning of year	1,629,882	2,174,971
Cash and cash equivalents, end of year	$ 1,320,342	$ 1,629,882

See accompanying notes to consolidated financial statements.

(1) General Information

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

The Corporation owns, operates and manages four continuing care retirement communities. In total, the Corporation includes 98 independent living units, 96 assisted living units, 376 nursing beds.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Tax Status

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

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

(e) ***Cash and Cash Equivalents***

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the statements of financial position and cash flows, except for those included in investments or assets whose use is limited. At times during the years ended December 31, 2007 and 2006, cash balances may have exceeded the federally insured limit of $100,000.

(f) ***Investments***

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange in the statements of financial position. Alternate investments – limited partnerships are not readily marketable and are presented at estimated fair value as determined by the investment managers. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments – limited partnerships. 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, 2007 and 2006, no amounts were charged to realized loss as management believes the decline in value is temporary due to the general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

		2007	2006
Interest and dividends	$	330,850	311,039
Realized gains on investments		498,239	61,609
Unrealized (losses) gains on investments and assets held in trust by others		(70,686)	335,685
	$	758,403	708,333

Investment expenses of $27,240 and $12,029 as of December 31, 2007 and 2006, 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:

		2007	2006
Total accounts receivable	$	3,480,560	3,200,702
Less: allowance for doubtful accounts		(265,344)	(184,019)
Net accounts receivable	$	3,215,216	3,016,683

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

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

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

(i) ***Pledges Receivable***

In December 2007, a pledge was made to the Corporation for a total of $147,500. The organization received the full amount of the gift in January 2008.

(j) ***Inventories***

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

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

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

Depreciable lives are determined as follows:

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

(continued)

(l) Funds Held in Trust by Others

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

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

Also included in funds held in trust by others are contributions receivable from charitable remainder trusts that are held by independent trustees. Periodic payments are made to annuitants and the remaining corpus will revert to the Corporation upon the death of the annuitant. These annuities are recorded at the present value of the annuity amount discounted at the contract rate over the estimated remaining life of the annuitant.

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

	2007	2006
Assets held in trust by others	$ 477,955	367,358
Contributions receivable from remainder trusts	218,911	64,131
	$ 696,866	431,489

(m) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. Amortization expense is expected to be approximately $19,459 for each of the next five years.

(n) 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.

(o) Deferred Revenue – Entrance Fees

Entrance fees collected from residents at move-in pursuant to a Residence and Care Agreement are initially recorded as deferred revenue. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the fee refundable upon reoccupancy or six months, whichever is sooner, is amortized on a straight-line basis over the remaining useful life of the applicable facility. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon a resident's death or termination of the contract.

The amount of entrance fees refundable to residents at December 31, 2007 and 2006 under contractual refund provisions was approximately $2,362,000 and $2,224,000, respectively.

(p) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the statement of financial position. These deposits are transferred to deferred revenue upon occupancy of the related units.

(q) Statutory Liquid Reserve

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

(r) Temporarily and Permanently Restricted Net Assets

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

(continued)

(s) *Donor Restrictions*

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

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

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

(t) *Resident Service Revenue and Business Concentration*

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

Medicare reimbursement provided for a prospective payment system ("PPS") for skilled nursing services. Skilled nursing facilities are paid a federal per diem rate for covered services, which include routine and ancillary services and capital-related costs. In conjunction with PPS, consolidated billing for Medicare Part A services is required for skilled nursing facilities. Under consolidated billing for Medicare Part A services, facilities must bill Medicare for all of the services residents receive, with several exceptions, including all therapy services. The Corporation's skilled nursing facilities began utilizing this new rate methodology in January 1999.

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

(continued)

(t) ***Resident Service Revenue and Business Concentration (continued)***

Revenues from Medicare and Medicaid represent approximately 60% and 65% of revenues for 2007 and 2006, respectively. Medicare and Medicaid receivables represent approximately 73% and 76% of accounts receivable at December 31, 2007 and 2006, respectively.

The Commonwealth of Pennsylvania (the State) received approval from the Federal Center for Medicare Services (CMS), to retroactively assess a nursing bed assessment.

For the period July 1, 2005 to June 30, 2006 $1.54 a day for continuing care retirement community non-Medicare occupied beds, and $15.95 a day for stand alone nursing facility non-Medicare occupied beds. As a part of this, nursing home providers received an additional supplement of $5.17 a day, based on a number of factors, including their Medicaid utilization.

July 1, 2006 to June 30, 2007 $1.97 a day for continuing care retirement community non-Medicare occupied beds, and $20.35 a day for stand alone nursing facility non-Medicare occupied beds. As a part of this, nursing home providers received an additional supplement of $10.66 a day, based on a number of factors, including their Medicaid utilization.

The supplemental and assessment amounts per day have not yet been finalized for the period 7/1-12/31/07. The State has published proposed amounts but no amount has been included on the Corporation's financial statements for this period.

For the years ended December 31, 2007 and 2006 the Corporation received approximately $354,000 and $154,000 additional revenue, respectively for the net effect of this assessment and supplement which is recorded as resident service revenue.

(u) ***Charity Care***

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

(v) ***Donated Services***

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

(w) ***Fundraising Expense***

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

(x) Classification of Expenses

		2007	2006
Program activities	$	28,105,307	26,839,608
General and administrative		3,749,405	3,349,541
Fundraising		102,538	97,271
Loss on early extinguishment of debt		16,947	—
	$	31,974,197	30,286,420

(y) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2007 and 2006, was $95,413 and $105,918, respectively.

(z) Performance Indicator

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

(aa) Consolidated Statement of Cash Flows

Interest paid during the years ended December 31, 2007 and 2006 was $821,151 and $707,151, respectively.

(3) Investments

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

	2007		2006	
	Cost	Fair value	Cost	Fair value
Money market funds	$ 37,247	37,247	887,006	887,006
Certificates of deposit	80,000	79,772	360,164	356,861
Marketable equity securities	–	–	1,013,114	1,151,633
Government agencies securities	–	–	1,947,611	1,937,952
Corporate debt securities	–	–	150,662	148,173
Mutual funds - equity	4,871,290	5,044,118	3,117,055	3,490,325
Mutual funds - fixed income	2,170,694	2,212,005	482,831	474,950
Alternate investment - limited partnerships	588,360	674,026	255,000	261,601
Totals	$ 7,747,591	8,047,168	8,213,443	8,708,501
Less assets whose use is limited (note 5)		(1,853,086)		(1,836,586)
Total investments		$ 6,194,082		$ 6,871,915

During 2007, the Corporation moved its investments from individual fixed income and equity investments including bonds issued by the US Government and its agencies, corporate bonds, and common stock to a diversified portfolio of mutual funds and alternative investments. The Corporation has seventeen mutual funds, three investments in limited partnerships and one certificate of deposit as of December 31, 2007. The Corporation had seventy five individual fixed income, certificates of deposit, mutual funds and equity investments as of December 31, 2006.

As of December 31, 2007, eight mutual funds had a market value that had been below cost for less than a year. In total, their market value was less than four percent below cost. As of December 31, 2006, twenty individual holdings had a market value that had been below cost for less than a year. These consisted primarily of fixed income and equity investments and mutual funds, and in total, their market value was less than two percent below cost.

The certificate of deposit was the only investment to have a market value that has been below cost for more than a year as of December 31, 2007. In total, its market value was less than one percent below cost. Eighteen individual holdings had a market value that had been below cost for more than a year as of December 31, 2006. These consisted primarily of equity and fixed income funds, and in total, their market value was less than six percent below cost.

(continued)

(3) Investments (continued)

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

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

A summary of investments with fair values below cost as of December 31, 2006 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury obligations and direct obligations of U.S government agencies	$ 922,415	(2,949)	864,842	(12,367)	1,787,257	(15,316)
Corporate bonds	148,173	(2,489)	—	—	148,173	(2,489)
Subtotal debt securities	1,070,588	(5,438)	864,842	(12,367)	1,935,430	(17,805)
Mutual funds	547,751	(10,227)	—	—	547,751	(10,227)
Common stocks	82,263	(17,491)	52,226	(46,395)	134,489	(63,886)
Subtotal securities	630,014	(27,718)	52,226	(46,395)	682,240	(74,113)
Certificate of deposit	139,690	(310)	217,172	(2,993)	356,862	(3,303)
Total temporarily impaired securities	$ 1,840,292	(33,466)	1,134,240	(61,755)	2,974,532	(95,221)

(4) Related Party Transactions

The Corporation incurs a management fee payable to its parent organization under a management agreement whereby PHI provides the Corporation with various management and administrative services to each of the Corporation's operating facilities. The Corporation also incurs certain operating expenses under the management agreement, which is comprised primarily of the salaries and benefits of certain key management personnel provided to the Corporation by the parent organization. As a part of the affiliation agreement, this amount shall not exceed 4% of current year revenue. For the years ended December 31, 2007 and 2006, the corporation incurred fess under the agreement of $1,282,539 and $1,455,471, which are classified as general and administrative expenses in the consolidated statement of activities and changes in net assets. PHI paid the Corporation for services that should have been provided by PHI. This amounted to $59,004 and $173,328 for the years ended December 31, 2007 and 2006, respectively and was classified as resident service revenue on the consolidated statement of activities and changes in net assets.

Amounts payable to PHI as of December 31, 2007 and 2006 under the Management Agreement are included in due to affiliated entities. During 2007 and 2006 the Corporation paid the net amount of $1,290,529 and $1,282,143, respectively to satisfy amounts owed under the Management Agreement. Amounts due to affiliates for various expenses as of December 31, 2007 and 2006 were $73,616 and $17,198, respectively.

Prelude Systems, Inc. (Prelude), is a joint venture between the Corporation and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both PHI and Diakon as well as other healthcare and community service organizations. During 2007 and 2006, respectively, the Corporation paid Prelude approximately $444,231 and $215,933 for information services provided by Prelude.

During 2007 and 2006, the Corporation purchased pharmaceuticals of $676,734 and $507,747, respectively from Continuing Care Rx, Inc. of which $169,271 and $78,431 was included in accounts payable as of December 31, 2007 and 2006, respectively. PHI is a minority shareholder of CCRx Holdings, Inc, the parent corporation of Continuing Care Rx, Inc.

(5) Assets Whose Use is Limited

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

	2007	2006
Permanently restricted investments	$ 1,853,086	1,836,586

(6) Property and Equipment

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

	2007		2006	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 3,033,429	–	886,747	–
Land improvements	3,180,829	1,890,650	3,149,927	1,732,533
Buildings and improvements	37,697,549	14,025,824	38,712,447	13,744,585
Departmental equipment, furniture and fixtures	6,751,809	4,976,175	6,485,589	4,745,577
Furniture	819,456	786,301	1,355,053	1,199,318
Vehicles	488,621	424,445	452,752	397,804
Construction-in-progress	412,227	–	55,622	–
	52,383,920	22,103,395	$ 51,098,137	21,819,817
Net book value		$ 30,280,525		$ 29,278,320

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

During 2006, the Board of Directors voted to close the Corporation's stand-alone personal care unit, Moshannon Heights. As a part of the closure, Windy Hill Retirement Village constructed a new wing to which the current residents of Moshannon Heights were transferred. Construction at Windy Hill was completed in April of 2006. The construction was completed with the proceeds of the 2006 College Township Revenue Bonds. In 2007, the Corporation sold the Moshannon Heights building for approximately $200,000.

For the years ended December 31, 2007 and 2006, Moshannon Heights' loss consisted of:

	2007	2006
Depreciation	$ (7,818)	(37,528)
Interest	—	(3,026)
Amortization	—	(97)
Other expenditures, net of loss	3,222	(262,710)
Total loss on discontinued operations	$ (4,596)	(303,361)

(continued)

(6) Property and Equipment

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

As of December 31, 2007 there were no material commitments for future construction. As of December 31, 2006, commitments for future construction totaled approximately $1.8 million.

(7) Long-term Debt

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

	2007	2006
1995 Series A revenue note to Omega Financial, payable in equal monthly installments of principal and interest sufficient to amortized the principal balance to July 10, 2026. The note bears a floating rate which was 3.95% at December 31, 2007 and 2006. The note is collateralized by certain receivables and property at Westminster Woods	2,993,917	3,145,574
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 3.47% and 3.96% at December 31, 2007 and 2006, respectively. The bonds are collateralized by all or portions of the following facilties: Westminster Woods, Woodland Retirement Center and Hollidaysburg Home	7,445,000	8,010,000
Series 2002 Huntingdon County Industrial Development Authority, Mortage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which was 5.295% at December 31, 2007 and 2006. The note is collateralized by a second lien position on the Westminster Woods facility	824,473	859,663

(7) Long-term Debt (continued)

	2007	2006
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating rate of 5.01% as of December 31, 2007 and 2006. The bonds are collateralized by the Windy Hill campus.	3,657,787	3,771,689
Management Services Office ("MSO") mortgage, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2023. The note bears interest at a variable rate, which was 5.44% at December 31, 2006. The note is collateralized by the MSO facility	–	858,275
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000	15,000	20,000
	14,936,177	16,665,201
Less current portion	(877,749)	(903,426)
	$ 14,058,428	15,761,775

Under the terms of the Corporation's 1997 Series Bonds, the Corporation is required to maintain certain measures of financial performance as long as the bonds are outstanding. These covenants have been met as of December 31, 2007 and 2006.

Maturities for the five years subsequent to December 31, 2007 are as follows:

Years ended December 31,	Aggregate maturities
2008	$ 877,749
2009	905,026
2010	948,299
2011	992,211
2012	1,041,793
Thereafter	10,171,099
	$ 14,936,177

(continued)

(8) Notes Payable

The Corporation has a revolving line of credit with Omega Financial, which provides for borrowings of up to $1,000,000 at an interest rate based on the prime rate minus .25%, which was 8.25% and 8% as of December 31, 2007 and 2006, respectively. This line was terminated in January 2008.The line of credit is secured by the Corporation's endowment fund. The Corporation also signed for a revolving line of credit with Bank of America in May 2007, which provides for borrowings of up to $1,000,000 at an interest rate of the prime rate minus .50%, which was 8% as of December 31, 2007. This line expires June 30, 2009. As of December 31, 2007 and 2006, the Corporation had no outstanding borrowings on either line of credit.

(9) Leases

The Corporation is obligated under capital leases for equipment that expires during the next two years. At December 31, 2007 and 2006, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	2007	2006
Office equipment	$ 105,693	99,708
Accumulated amortiztion	(48,459)	(16,690)
	$ 57,234	83,018

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2007 follows:

2008	$ 39,275
2009	22,192
	61,467
Amounts representing interest	(3,350)
	$ 58,117

(continued)

(9) Leases (continued)

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

2008	$	10,438
2009		3,835
2010		2,242
	$	16,515

Rental expense under operating leases was $23,401 and $13,527 for the years ended December 31, 2007 and 2006, respectively

(10) Workers' Compensation Insurance

The Corporation has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. In 2006, the Corporation maintained a restricted investment account in the amount of $1,134,125 as collateral for this self-insurance program. In 2007, the Corporation maintained a letter of credit for $1,300,000 in connection with this self-insurance program. The letter of credit will expire on March 16, 2008. At December 31, 2007 and 2006, the Corporation has recorded an accrued expense of approximately $1.34 and $1.23 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(11) Temporarily Restricted Net Assets

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

		2007	2006
Charity care and/or equipment, including pledges receivable	$	181,024	–
Contributions receivable from charitable trust for charity care		83,984	64,131
	$	265,008	64,131

Net assets of $588 and $0 were released from restriction during 2007 and 2006, respectively in satisfaction of the above restrictions.

(continued)

(12) Permanently Restricted Net Assets

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

	2007	2006
Investments to be held in perpetuity, the income from which is expendable to support the Corporation's operations	$ 1,861,586	1,836,586
Beneficial interest in assets of Foundation	134,927	–
Benefit in perpetual trusts	477,955	367,358
	$ 2,474,468	2,203,944

(13) Charity Care

The Corporation provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Corporation considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $2.5 and $2.0 million for the years ended December 31, 2007 and 2006, respectively of which the amount of charges foregone for services and supplies was approximately $613,000 and $627,000 for 2007 and 2006, respectively.

(14) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of PHI. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2007 and 2006, retirement plan expense totaled approximately $388,005 and $263,268, respectively.

(15) Commitments and Contingencies

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

(continued)

(16) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

Investments: The fair values of U.S. Government securities, notes, corporate bonds, equity securities and mutual funds are estimated based on quoted market prices for those or similar investments. Alternate investments – limited partnerships are valued as described in note 2(e).

Long-term debt: The carrying amount included in long-term debt in the statement of financial position for bonds payable and mortgages payable approximate fair value based on quoted market prices for the same or similar issues.

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2007 and 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

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

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations as disclosed in note 4.

Independent Auditor's Report on Supplementary Information

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

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

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, PA
March 10, 2008

PRESBYTERIAN HOMES IN THE PRESBYTERY OF HUNTINGDON

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

As of December 31, 2007

2008 Budgeted Operating Expenses	$ 33,516,865	
Less: depreciation expense	(1,781,896)	
Expenses subject to minimum liquid assets requirement	31,734,969	
Percentage of continuing care residents at December 31, 2007	21%	
	6,664,343	
Statutory requirement	10%	
Statutory minimum liquid reserve requirement	$ 666,434	(a)
Next 12 months debt service payments:		
Principal payments	$ 877,749	
Interest payments	746,928	
Total debt service for next 12 months	1,624,677	
Percentage of continuing care residents at December 31, 2007	21%	
Statutory minimum liquid reserve requirement	$ 341,182	(b)
Assets satisfying statutory minimum liquid reserve requirement		
Unrestricted cash and investments	$ 7,514,424	
Greater of (a) or (b)	666,434	
Assets in excess of statutory minimum liquid reserve requirement	$ 6,847,990	