PRESBYTERIAN HOMES OBLIGATED GROUP

Combined financial statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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, 2009 and 2008, 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 103 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

ParenteBeard

Independent Auditors' Report

The Board of Trustees
Presbyterian Homes Obligated Group

We have audited the accompanying combined statements of financial position of the Presbyterian Homes Obligated Group (the Obligated Group) as of December 31, 2009 and 2008, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended. These combined financial statements are the responsibility of the Obligated Group's management. 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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.

As described in Note 2(a), these special-purpose combined financial statements were prepared in accordance with the accounting requirements set forth in the Master Trust Indenture by and among the Obligated Group and the Bank of New York, dated May 1, 2008, as amended through the fourth supplemental indenture dated February 1, 2010, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such requirements preclude the consolidation of certain affiliates which are not members of the Obligated Group.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial positions of the Obligated Group as of December 31, 2009 and 2008, and the changes in its net assets, and its cash flows for the years then ended in accordance with the accounting requirements described in Note 2(a).

ParenteBeard LLC

Lancaster, Pennsylvania
April 8, 2010

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statement of Financial Position

December 31, 2009 and 2008

Assets		2009	2008
Cash and cash equivalents	$	1,743,660	2,746,954
Investments		66,083,582	56,129,577
Accounts receivable, net		13,828,614	13,586,309
Interest receivable		11,807	209,900
Inventory		331,104	324,887
Prepaid expenses and other current assets		975,168	893,319
Assets whose use is limited		13,914,017	12,400,720
Assets whose use is limited, construction funds held by trustee		977,004	12,214,554
Pledges receivable		794,555	979,164
Property and equipment (net of accumulated depreciation of $162,653,430 and $152,592,858, respectively)		181,923,596	179,361,519
Assets under capital leases (net of accumulated depreciation of $394,993 and $252,196, respectively)		288,718	361,340
Due from affiliates		28,716,675	17,556,223
Funds held in trust by others		13,808,806	12,433,305
Deferred financing costs (net of accumulated amortization of $1,036,391 and $876,255, respectively)		2,997,253	3,179,069
Other assets		140,684	147,834
Total assets	$	326,535,243	312,524,674

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statement of Financial Position

December 31, 2009 and 2008

Liabilities and Net Assets		2009	2008
Accounts payable	$	8,260,748	8,677,267
Accrued expenses		10,480,134	14,057,203
Notes payable		15,961,805	14,471,788
Accrued interest		757,880	815,236
Resident deposits		1,203,997	1,914,446
Deferred revenue - entrance fees		61,274,430	61,378,688
Fair value of interest rate swaps		2,160,379	2,883,121
Annuities payable		884,695	885,335
Accrued pension		194,967	651,586
Long-term debt			
Obligations under capital leases		279,907	342,152
Long-term debt		148,114,328	148,833,448
Total liabilities		249,573,270	254,910,270
Net assets:			
Unrestricted		54,125,455	36,608,023
Temporarily restricted		3,895,202	3,639,242
Permanently restricted		18,941,316	17,367,139
Total net assets		76,961,973	57,614,404
Total liabilities and net assets	$	326,535,243	312,524,674

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statement of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

		2009	2008
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $8,269,096 and $7,932,078, respectively	$	154,199,632	150,214,771
Interest and dividend income		2,748,687	2,796,245
Realized (loss) gains on investments		(1,456,083)	18,657
(Loss) gain on sale of property and equipment		(136,352)	615,733
Contribution from the Long Home		–	7,302,090
Contributions, gifts and bequests		1,273,374	1,548,711
Net assets released from restrictions		1,300,554	587,774
Total operating revenues, gains, and other support		157,929,812	163,083,981
Expenses:			
Nursing services		47,622,413	47,390,318
Rehabilitation		7,156,015	6,268,001
Recreation and special services		4,999,966	4,856,164
Pharmacy		3,488,799	3,295,406
Social services		700,022	700,484
Physician services		433,081	386,763
Food services		16,711,136	16,049,617
Building operations and maintenance		15,657,188	15,485,339
Housekeeping		3,803,256	3,874,826
Laundry and linen		1,508,903	1,684,394
General and administrative		21,335,436	21,478,573
Employee benefits		13,752,820	12,282,760
Interest		5,423,895	5,839,813
Depreciation		10,947,983	10,746,775
Amortization		178,471	223,676
Total expenses		153,719,384	150,562,909
Operating income		4,210,428	12,521,072
Increase (decrease) in fair value of interest rate swaps		722,742	(2,917,402)
Gain (loss) on early extinguishment of debt		49,295	(1,331,704)
Loss on abandoned project		(273,694)	–
Excess of operating revenues, gains and other support over expenses		4,708,771	8,271,966
Other changes:			
Transfer of investments to PHI Investment Services Corporation		40,020	475,056
Pension-related changes other than net periodic pension costs		396,432	(309,830)
Unrealized gains (loss) on investments		12,372,209	(20,391,682)
Total other changes		12,808,661	(20,226,456)
Increase (decrease) in unrestricted net assets		17,517,432	(11,954,490)

See accompanying notes to combined financial statements.

(Continued)

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statement of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

		2009	2008
Temporarily restricted net assets:			
Contributions, gifts and bequests		1,069,523	124,957
Interest and dividend income		166,314	114,760
Unrealized gain on investments		320,677	241,643
Net assets released from restrictions		(1,300,554)	(587,774)
Change in temporarily restricted net assets		255,960	(106,414)
Permanently restricted net assets:			
Contributions, gifts and bequests		111,570	138,344
Contribution from the Long Home		–	728,086
Change in fair value of funds held in trust by others		1,462,607	(3,840,937)
Change in permanently restricted net assets		1,574,177	(2,974,507)
Change in net assets		19,347,569	(15,035,411)
Net assets, beginning of year		57,614,404	72,649,815
Net assets, end of year	$	76,961,973	57,614,404

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statement of Cash Flows

Years ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	19,347,569	(15,035,411)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		10,947,983	10,746,775
Bad debt write-offs		590,412	704,580
Proceeds from entrance fees and deposits		9,542,446	9,829,887
Amortization of entrance fees		(8,269,096)	(7,932,078)
(Gain) loss on early extinguishment of debt		(49,295)	1,331,704
Change in assets held in trust by others		–	2,318,522
Change in fair value of interest rate swaps		(722,742)	2,917,402
Unrealized (gain) loss on investments and change in fair value of funds held in trust by others		(14,155,493)	23,990,976
Realized loss (gains) on investments		1,456,083	(18,657)
Realized loss (gain) on sale of property and equipment		136,352	(615,733)
Transfer of investments to PHI Investment Management Services Corporation		(40,020)	(475,056)
Contributions restricted for long-term purposes		(111,570)	(138,344)
Non-cash contribution from Grace Manor and the Long Home		–	(8,241,862)
Amortization of deferred costs		181,816	231,459
Amortization of bond premium		(3,345)	(7,783)
Loss on abandoned project		273,694	–
Changes in assets and liabilities:			
Increase in accounts receivable		(832,717)	(2,645,647)
Decrease in pledges receivable		184,609	366,764
Increase in other assets		117,177	16,540
(Decrease) increase in accounts payable		(416,519)	2,147,418
(Decrease) increase in accrued expenses		(4,091,044)	3,095,340
Net cash provided by operating activities		14,086,300	22,586,796
Cash flows from investing activities:			
Acquisition of property and equipment		(13,847,484)	(19,465,900)
Net proceeds from sale of property and equipment		–	1,123,281
Transfer of investments to PHI Investment Management Services Corporation		40,020	475,056
Purchases of investments		(43,755,421)	(110,434,104)
Proceeds from sale of investments		54,849,578	85,490,777
Due from affiliates		(11,160,452)	(4,638,952)
Net cash used in investing activities		(13,873,759)	(47,449,842)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(2,088,057)	(1,683,671)
Principal payments on and redemptions of long-term debt		(4,107,660)	(60,995,148)
Proceeds from issuance of long-term debt		3,441,180	78,212,950
Financing costs incurred		–	(875,596)
Net borrowings of notes payable		1,490,017	9,485,390
Borrowings through capital leases		101,242	320,387
Repayments on capital leases		(163,487)	(157,728)
Contributions restricted for long-term purposes		111,570	138,344
Decrease in annuities payable		(640)	(45,755)
Net cash (used in) provided by financing activities		(1,215,835)	24,399,173
Net decrease in cash and cash equivalents		(1,003,294)	(463,873)
Cash and cash equivalents, beginning of year		2,746,954	3,210,827
Cash and cash equivalents, end of year	$	1,743,660	2,746,954

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, two stand-alone independent living facilities, and three stand alone assisted living homes. In total, the Obligated Group includes 962 independent living units, 477 assisted living units, and 1222 nursing beds.

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	1,222	712	376	134	—
Assisted living units	477	307	95	32	43
Independent living units	962	678	100	184	—
Total	2,661	1,697	571	350	43

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.

On June 1, 2008, Grace Manor, an 18 unit independent living facility, affiliated with Presbyterian Homes, Inc. and became a subsidiary of the Presbyterian Homes, Inc.. This affiliation was recorded as a contribution of $425,659. The consolidated financial statements of Presbyterian Homes include the financial position and operations of Grace Manor since June 1, 2008. In December 2009, Grace Manor merged with Presbyterian Homes, Inc. All the activities of Grace Manor are now recorded as a part of Presbyterian Homes.

(continued)

(1) General Information (continued)

On September 30, 2009, the Long Community Inc. joined the Obligated Group. Due to this pooling of interest, the Obligated Group's 2008 financial statements have been amended to include the results of the Long Community, Inc.. The Obligated Group's combined financial statements for 2009 include the results of the Long Community, Inc. as if it had been part of the Obligated Group for the full year starting on January 1, 2009. A summary of the changes to the 2008 statements is as follows:

		Original Audit 2008	TLC 2008	Amended 2008
Assets	$	304,384,529	8,140,145	312,524,674
Liabilities		254,800,301	109,969	254,910,270
Net assets		49,584,228	8,030,176	57,614,404
Results of operations:				
Unrestricted revenue	$	155,781,891	7,302,090	163,083,981
Unrestricted expenses		150,562,909	—	150,562,909
Change in unrestricted net assets		(19,256,580)	7,302,090	(11,954,490)
Change in temporarily restricted net assets		(106,414)	—	(106,414)
Change in permanently restricted net assets		(3,702,593)	728,086	(2,974,507)
Total change in net assets		(23,065,587)	8,030,176	(15,035,411)

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with the accounting requirements set forth in the master trust indenture by and among the Bank of New York, dated May 1, 2008, as amended through the fourth supplemental indenture dated February 1, 2010, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such requirements preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(continued)

(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 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's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2006, 2007 and 2008 remain subject to examination by the Internal Revenue Service.

(d) *Use of Estimates*

The preparation of combined financial statements in accordance with the accounting requirements set forth in the master trust indenture as amended 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.

(continued)

(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 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 for up to $250,000. At December 31, 2009 and 2008, the Obligated Group's cash balances exceeded the FDIC coverage by $269,765 and $270,285, respectively.

(f) *Investments*

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in fixed securities are measured at fair value, as determined by a national exchange in the statement of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2009 and 2008, 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:

		2009	2008
Interest and dividends	$	2,915,001	2,911,005
Realized (losses) gains on investments		(1,456,083)	18,657
Unrealized gains (losses) on investments and funds held in trust by others		14,155,493	(23,990,976)
	$	15,614,411	(21,061,314)

Investment expenses of $220,528 and $204,670 as of December 31, 2009 and 2008, 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:

		2009	2008
Total accounts receivable	$	15,567,293	15,668,089
Less: allowance for doubtful accounts		(1,738,679)	(2,081,780)
Net accounts receivable	$	13,828,614	13,586,309

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

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

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

		2009	2008
Pledges receivable	$	908,468	1,121,098
Less: unamortized discount		(38,983)	(55,834)
Subtotal		869,485	1,065,264
Less: allowance for uncollectibles		(74,930)	(86,100)
Net pledges receivable	$	794,555	979,164

(continued)

(i) Pledges Receivable (continued)

Pledges receivable as of December 31, 2009 is as follows:

Amounts due in:		
Less than one year	$	472,924
One to five years		435,544
	$	908,468

(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 Obligated Group's policy is to capitalize items in excess of $2,000 or for a group of items functioning as a group totaling $2,000 or more.

Depreciable lives are determined as follows:

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

(l) Costs of Borrowing

Interest cost incurred on borrowed funds less interest income on these funds during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of $775,825 and $263,503 was capitalized in 2009 and 2008, respectively.

(m) 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.

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:

		2009	2008
Beneficial interest in assets of Foundation	$	47,320	121,241
Beneficial interest in perpetual trusts		11,909,926	10,453,313
Contributions receivable from remainder trusts		1,807,940	1,803,904
Gift annuities		43,620	54,847
	$	13,808,806	12,433,305

(continued)

(n) 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 statement of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2009, an adjustment to the liability was recorded causing a gain of $722,742. This adjustment represents the decrease in the liability of the swaps. For 2008, an adjustment to the liability was recorded causing a loss of $2,917,402. This adjustment represents the increase in the liability of the swaps.

(o) 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 approximately $181,816 for each of the next five years.

(p) 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.

(q) Estimated Obligation to Provide Future Services to Continuing Care Residents

At certain Continuing Care Retirement Communities, the members of the Obligated Group provide health care coverage for certain residents under the terms of a Residence and Care Agreement. The Obligated Group annually estimates the present value of the net cost of future services and the use of facilities to be provided to current residents covered by Residence and Care Agreements and compares that amount to the balance of deferred entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred entrance fees, a liability is recorded (estimated obligation to provide future services to continuing care residents, in excess of amounts received or to be received). Management's assumptions used in the estimate may vary by facility. Assumptions made in these estimates include a 4% inflation rate for nursing costs, a 4% inflation rate for other operating costs, and a 6% discount rate based on the approximate cost of borrowing for the Corporation. Management's estimation resulted in no obligation in excess of recorded amounts to provide future services to continuing care residents.

(r) 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.

(s) 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 guaranteed fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

The amount of entrance fees refundable to residents at December 31, 2009 and 2008 under contractual refund provisions was approximately $23,922,000 and $23,899,800, respectively.

(t) Statutory Liquid Reserves

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 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. The reserve requirement is considered to be fulfilled by the Obligated Group's unrestricted cash and investments.

(u) 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.

(v) *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 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.

(w) *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 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 is certified to receive benefits under Medicare and Medicaid.

The Obligated Group's nursing care facility primarily derives its 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.

Revenues from Medicare and Medicaid represent approximately 45% of revenues for both 2009 and 2008. Medicare and Medicaid receivables represent approximately 41% and 60% of accounts receivable at December 31, 2009 and 2008, respectively.

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

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 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, 2009, the rates for July 1, 2009 through December 31, 2009, have not been finalized. Revenues have been accrued based on estimated rates for this period.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DPW based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been finalized for the period July 1, 2009, through December 31, 2009. Included in revenues are estimates for these amounts. For the years ended December 31, 2009 and 2008, the Obligated Group received or will receive approximately $1,700,000 and $2,000,000 in additional revenue for the net effect of this assessment and supplement.

(x) Charity Care

The Obligated Group provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Obligated Group does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Obligated Group considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $17.5 million and $12.4 million for the years ended December 31, 2009 and 2008, respectively, of which the amount of charges foregone for services and supplies was approximately $3.3 million and $2.4 million, respectively.

(y) Contributed Services

Contributed services are reflected in the accompanying financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Obligated Group. No amounts have been included in the accompanying financial statements as amounts are not material. The Obligated Group pays for most services requiring specific expertise.

(z) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2009 and 2008 was $389,550 and $594,815, respectively.

(aa) Classification of expenses

		2009	2008
Program activities	$	132,383,948	129,084,336
General and administrative		20,800,019	20,972,213
Fundraising		535,417	506,360
	$	153,719,384	150,562,909

(ab) 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.

(ac) Operating Income

The combined statements of operations and change in net assets include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include gain (loss) on the early extinguishment of debt, increase (decrease) in fair value of interest rate swaps and loss on abandoned projects.

(ad) Performance Indicator

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

(ae) Statement of Cash Flows

Interest paid during the years ended December 31, 2009 and 2008 was $6,257,076 and $5,471,199, respectively. In 2008, the Obligated Group recognized non-cash contributions from Long Home and Grace Manor of $8,241,862, consisting of property and equipment of $3,569,619, investments and funds held in trust by others of $5,348,975, less a mortgage of $566,764 and accrued liabilities of $109,969. In 2009, Presbyterian Homes, Inc. sold bonds at a discount of $180,548.

(af) Subsequent Events

In June 2009, the FASB issued a new accounting standard related to subsequent events. During 2009, the Obligated Group adopted the standard, which provides guidance on accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard did not have a material effect on the Obligated Group's financial statements.

The Obligated Group has evaluated subsequent events through April 8, 2010, which is the date the financial statements were available to be issued.

(ag) Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 financial presentation. These reclassifications had no effect on the change in net assets.

(3) Investments

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

	2009		2008	
	Fair value	Cost	Fair value	Fair Cost
Money market funds	$ 13,376,398	13,376,398	11,723,161	11,723,161
Certificates of deposit	—	—	20,789,366	20,789,366
Equity securities	41,307,566	46,026,700	29,945,117	44,874,033
Fixed income securities	17,666,445	17,318,606	12,301,996	13,544,804
Alternate investments	8,624,194	8,115,777	5,985,211	6,615,243
Totals	$ 80,974,603	84,837,481	80,744,851	97,546,607
Less assets whose use is limited (note 5)	(14,891,021)		(24,615,274)	
Total investments	$ 66,083,582		$ 56,129,577	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group has nineteen mutual funds, and six alternative investments and several other fixed income securities as of December 31, 2009. As of December 31, 2008, the Obligated Group had sixteen mutual funds, three alternate investments and several certificates of deposits and other fixed income securities.

(3) **Investments (continued)**

As of December 31, 2009, one mutual fund had a market value that had been below cost for less than a year. In total, its market value was less than four percent below cost. As of December 31, 2008, twelve mutual funds and four alternate investments had a market value that had been below cost for less than a year. In total, their market value was twenty-six percent below cost.

Thirteen mutual funds and two alternate investments had a market value that had been below cost for more than a year as of December 31, 2009. In total, their market value was less than fourteen percent below cost. Six mutual funds had a market value that had been below cost for more than a year as of December 31, 2008. In total, their market value was thirty-eight percent below cost.

A summary of investments with fair values below cost as of December 31, 2009 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 1,798,401	(67,387)	34,700,087	(5,508,917)	36,498,488	(5,576,304)
Alternative investments	–	–	2,613,155	(361,936)	2,613,155	(361,936)
Total temporarily impaired investments	$ 1,798,401	(67,387)	37,313,242	(5,870,853)	39,111,643	(5,938,240)

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual Funds	$ 33,372,846	(13,203,551)	4,778,877	(2,970,747)	38,151,723	(16,174,298)
Alternative investments	5,178,294	(636,949)	–	–	5,178,294	(636,949)
Total temporarily impaired investments	$ 38,551,140	(13,840,500)	4,778,877	(2,970,747)	43,330,017	(16,811,247)

(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, 2009 and 2008, the Obligated Group incurred management fees and other expenses under the management agreement totaling $8,991,316 and $8,295,737, respectively, which is classified as general and administrative expenses in the combined statements of operations and changes in net assets.

In addition, the Obligated Group purchased medications from Continuing Care Rx, Inc. The Obligated Group terminated its contract with Continuing Care Rx, Inc. during 2008. Presbyterian Senior Living is a minority shareholder in CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, Inc. Total purchases from Continuing Care Rx, Inc. for 2009 and 2008 were approximately $990 and $1,353,634, respectively, of which $0 and $617 is included in accounts payable as of December 31, 2009 and 2008, respectively.

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, 2009 and 2008, Presbyterian Senior Living Services, Inc. had $17,620,000 and 18,025,000, 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 has also guaranteed a line of credit with a maximum available amount of $1,250,000 for Presbyterian Senior Living Services, Inc., which is subject to renewal on June 30, 2010.

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2009 and 2008, the Obligated Group paid Prelude approximately $1,722,661 and $1,433,869, respectively, for information services provided by Prelude, of which $28,392 and $150,420 is included in accounts payable as of December 31, 2009 and 2008, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2009 and 2008 are $28,716,675 and $17,556,223, respectively.

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

(5) Assets Whose Use is Limited

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

		2009	2008
Permanently restricted investments	$	5,060,750	4,531,423
QRC - unrestricted benevolent care		1,347,567	840,118
Bond fund		1,621,399	1,297,343
Debt service reserve fund		5,884,301	5,731,836
Held by trustee - for future projects		977,004	12,214,554
	$	14,891,021	24,615,274

(6) Property and Equipment

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

		2009			2008		
		Cost		Accumulated depreciation	Cost		Accumulated depreciation
Land	$	19,705,107		–	19,495,721		–
Land improvements		18,400,550		12,693,155	18,370,097		12,027,784
Buildings and improvements		243,132,050		114,407,650	237,186,250		106,295,673
Departmental equipment, furniture and fixtures		37,772,250		30,297,199	37,292,732		29,125,204
Furniture		3,232,638		3,109,973	3,242,630		3,070,703
Vehicles		2,324,774		2,145,453	2,311,517		2,073,494
Construction-in-progress		20,009,657		–	14,055,430		–
	$	344,577,026		162,653,430	331,954,377		152,592,858
Net book value			$	181,923,596		$	179,361,519

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.

On October 1, 2008, Presbyterian Homes, Inc. sold the administrative office and all the assets to Christ Community Church for approximately $1,069,000, and recognized a gain of $587,727. Additional gains on fixed assets totaled $28,006 during 2008.

(continued)

(6) Property and Equipment (continued)

On October 9, 2008, Presbyterian Homes, Inc. purchased the property adjacent to the Easton Home for approximately $195,000. The house on the property was demolished. Costs associated with the demolition were approximately $23,250.

As of December 31, 2009 approximately $189,640 was committed for future renovations.

(7) Long-term Debt

In 2008, the Obligated Group participated in the issuance of the Cumberland County Series 2008 A, B and C bonds. The financing obligates all members of the Obligated Group to be jointly and severally liable for the 2008 bonds, along with any prior indebtedness of each obligated group member. A portion of the funds were used to refund all of the Kirkland Village Northampton County Series 1998 and 2002 bonds and the Presbyterian Homes Cumberland County 2005B Series bonds. Presbyterian Homes realized a loss of $1,331,704, net of $386,451 of gain, on early extinguishment of debt in 2008. The remainder of the funds provided approximately $25 million for capital improvements and to pay for issuance costs. The $25 million is being held in a project fund at Bank of NY, the balance of which was $19,165 and $9,257,955 as of December 31, 2009 and 2008, respectively.

Long-term debt of the group and of the amounts payable by the Obligated Group as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.4% and 1.15% at December 31, 2009 and 2008, 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 2005 to 2026, interest rates ranging from 2.15% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group	12,530,000	10,575,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2004 to 2032, interest adjusted weekly, 0.21% and 1.33% at December 31, 2009 and 2008, respectively, collateralized by letter of credit	8,250,000	8,405,000

(7) Long-term Debt (continued)

	2009	2008
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 0.994% and 1.80% at December 31, 2009 and 2008, respectively, collateralized by property and equipment and gross revenues of the Obligated Group.	6,556,577	7,170,358
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group	16,800,000	16,800,000
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2009 to 2021, interest rates ranging from 4% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group	16,880,000	17,415,000
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 0.22% and 1.75% at December 31, 2009 and 2008, 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, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.3% and 1.30% at December 31, 2009 and 2008, respectivley, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	15,685,000	15,685,000
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 3.16% and 3.95% at December 31, 2009 and 2008, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,712,141	2,847,828
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 0.3% and 0.95% at December 31, 2009 and 2008, respectively. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	6,235,000	6,855,000

(continued)

(7) Long-term Debt (continued)

	2009	2008
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 5.295% at both December 31, 2009 and 2008. The note is collateralized by property and equipment and gross revenues of the Obligated Group	752,020	789,852
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was 5.01% at both December 31, 2009 and 2008. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group.	3,412,285	3,538,228
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bears an interest rate of 4.51%. The note is collateralized by property and equipment and gross revenues of the Obligated Group.	7,421,852	7,683,836
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000	5,000	10,000
	148,239,875	148,775,102
Less: Unamortized discount	(463,649)	(309,729)
Plus: Unamortized premium	338,102	368,075
	$ 148,114,328	148,833,448

During November and December 2008, Presbyterian Homes, Inc. repurchased $3,170,000 of the Cumberland County 2003A Series Bonds. These were being held with the option to remarket at a future date. In 2008, a gain was recorded on the transactions of $386,451, which was netted against loss on early extinguishment of debt. In 2009, an additional $50,000 of the Cumberland County 2003A bonds were repurchased and $405,000 of the Cumberland County 2005A bonds were repurchased. All of the repurchased bonds were resold in October of 2009. A net gain of $49,295 was recorded in 2009 for the above transactions.

(7) **Long-term Debt (continued)**

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, 2009 and 2008.

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

Scheduled maturities for the five years subsequent to December 31, 2009 and thereafter are as follows:

Years ended December 31,		Aggregate maturities
2010	$	4,394,241
2011		4,550,627
2012		4,752,339
2013		4,027,060
2014		4,122,262
Thereafter		126,393,346
	$	148,239,875

(7) Long-term Debt (continued)

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

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$10,000,000	SIFMA MSI	M&T	06/05/08	06/01/11	2.81%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wachovia	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wachovia	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$29,250,000	SIFMA MSI	Morgan Stanley	10/09/08	10/01/10	2.552%	Cumberland County 2008 B, Cumberland County 1993 A, Cumberland County 2003 B
$6,235,000	SIFMA MSI	M&T	10/02/08	09/30/10	2.84%	Montgomery County 1997
$6,556,577	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

The fair value of the interest rate swap liabilities at December 31, 2009 and 2008 are as follows:

Counterparty	Fair Value 12/31/2009	Fair Value 12/31/2008
M&T	$ 316,700	$ 342,100
Wachovia	451,565	515,018
Wachovia	478,323	679,561
Morgan Stanley	511,297	687,188
M&T	143,530	139,636
Bank of America	258,964	519,618
Total	$ 2,160,379	$ 2,883,121

(continued)

(7) Long-term Debt (continued)

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

(8) Notes Payable

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable based on the prime rate of the financial institution less one hundred and fifty basis points. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2009 and 2008, under the line of credit agreements, the Obligated Group had available a total maximum of $23,500,000 from the financial institutions. As of December 31, 2009 and 2008, the Obligated Group had $15,961,805 and $14,471,788, respectively, outstanding under these agreements at interest rates ranging from 0.25% to 3.375%.

(9) Leases

The Obligated Group is obligated under capital leases for equipment that expires in 2012. At December 31, 2009 and 2008, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

		2009	2008
Office equipment	$	683,711	613,536
Accumulated amortization		(394,993)	(252,196)
	$	288,718	361,340

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

(9) Leases (continued)

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, 2009 follows:

2010	$ 162,990
2011	117,846
2012	7,720
	288,556
Amounts representing interest	(8,649)
	$ 279,907

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2013. The future minimum lease payments under these operating leases are as follows:

2010	$ 118,668
2011	75,599
2012	32,437
2013	4,055
	$ 230,759

Rental expense under operating leases was $226,137 and $225,295 for the years ended December 31, 2009 and 2008, 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 $884,695 and $885,335 at December 31, 2009 and 2008, 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 $1,217,464 and $1,188,493 as of December 31, 2009 and 2008, respectively, to satisfy annuities.

(11) Workers' Compensation Insurance

The Obligated Group has instituted a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self-payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Obligated Group has contracted with major insurance carriers for excess insurance coverage, loss control services, and administration. In 2009 and 2008, the Obligated Group maintained a letter of credit for $4,300,000, in connection with this self-insurance program. At December 31, 2009 and 2008, the Obligated Group has recorded an accrued expense of approximately $4.9 million and $5.5 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.

(12) Medical Malpractice Claims Coverage

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

(13) Temporarily Restricted Net Assets

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

		2009	2008
Trust assets held for the benefit of The Easton Home	$	1,097,794	678,524
Charity care and/or equipment, including pledges receivable			
Endowment		228,740	237,572
Other		2,240,845	2,295,471
Contributions receivable from remainder trusts		327,823	427,675
	$	3,895,202	3,639,242

Net assets of $1,300,554 and $587,774 were released from restriction during 2009 and 2008, respectively, in satisfaction of the above restrictions.

(continued)

(14) Permanently Restricted Net Assets

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

	2009	2008
Trust assets held for the benefit of The Easton Home	$ 830,086	830,086
Investments to be held in perpetuity, the income from which is expendable to support:		
Operations	1,919,504	1,884,624
Charity care and/or equipment	2,710,701	2,646,799
Contributions recievable from remainder trusts	1,480,159	1,376,229
Beneficial interest in assets of foundation	47,320	121,241
Gift annuities	43,620	54,847
Beneficial interest in perpetual trusts	11,909,926	10,453,313
	$ 18,941,316	17,367,139

(continued)

(15) Endowment

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

Interpretation of relevant law

The Board of Trustees of the 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

(15) **Endowment (continued)**

The following schedule represents the changes in endowment net assets for the year ended December 31, 2009:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	237,572	4,531,423	4,768,995
Investment return:				
Investment income		90,103	–	90,103
Contributions		–	98,782	98,782
Appropriation of endowment assets for expenditures		(98,935)	–	(98,935)
Endowment net assets, end of year	$	228,740	4,630,205	4,858,945

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	140,760	4,393,079	4,533,839
Investment return:				
Investment income		137,548	–	137,548
Contributions		50,832	138,344	189,176
Appropriation of endowment assets for expenditures		(91,568)	–	(91,568)
Endowment net assets, end of year	$	237,572	4,531,423	4,768,995

(continued)

(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 generally accepted accounting principles, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2009 or 2008.

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 or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The 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.

(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 4.0% for 2009 and 2008. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the 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 2009 and 2008 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Obligated Group's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(16) Retirement Plan

The Obligated Group has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of PHI and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2009 and 2008, retirement plan expense totaled approximately $1,323,225 and $1,035,187, respectively.

QRC has a defined benefit pension plan covering substantially all employees. This plan was curtailed and the benefits were frozen effective December 31, 2004. The benefits are based on years of service and the employee's average compensation during the last 10 years of employment. The Obligated Group's funding policy is to contribute annually the minimum amount required under statutory funding limitations. Contributions are intended to provide for benefits attributed to service through December 31, 2004.

(16) Retirement Plan (continued)

The following table sets forth the plan's funded status and amounts recognized in the Obligated Group's combined financial statements as of and for the years ended December 31:

		2009	2008
Projected benefit obligation for service rendered to date	$	(2,913,230)	(2,933,492)
Plan assets at fair value		2,718,263	2,281,906
Accrued pension liability, net	$	(194,967)	(651,586)
Change in Benefit Obligation:			
Project benefit obligation - beginning of year	$	(2,933,492)	(2,732,684)
Interest cost		(167,387)	(163,420)
Distributions		68,224	101,545
Change due to assumptions as of end of year		121,724	(127,193)
Experience loss as of beginning of year		(2,299)	(11,740)
Projected benefit obligation - end of year	$	(2,913,230)	(2,933,492)
Change in Plan Assets:			
Fair value of plan assets - beginning of year	$	2,281,906	2,371,926
Actual return on plan assets		415,922	(154,332)
Contributions		88,659	170,097
Benefits Paid		(68,224)	(105,785)
Fair value of plan assets - end of year	$	2,718,263	2,281,906

The accumulated benefit obligation amounted to $2,913,230 and $2,933,492 as of December 31, 2009 and 2008, respectively.

Items not recognized as a component of net period pension cost amounted to $425,640 and $825,075 as of December 31, 2009 and 2008, respectively.

(16) Retirement Plan (continued)

Net periodic pension expense included in following components for the years ended December 31:

		2009	2008
Service cost	$	–	4,240
Interest cost		167,387	163,420
Expected return on plan assets		(184,439)	(194,157)
Amortization of unrecognized net loss		48,527	7,495
Net Periodic Pension Expense	$	31,475	(19,002)

The plan's funded status as of any measurement date is based on prevailing market conditions as to discount rate and plan assets and, accordingly, is subject to volatility.

The following weighted average rates were used in determining the actuarial present value of the projected benefit obligations and the related net periodic pension cost as of December 31:

	2009	2008
Discount rate	6.01%	5.75%
Expected rate of return on plan asset:	8.0%	8.0%
Rate of compensation increase	3.0%	3.0%

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the plan.

The expected return on plan assets was determined based on capital market assumptions developed by QRC's independent investment advisors along with other factors such as asset allocation target, investment manager performance, and overall pension performance. The capital market assumptions were projected over a five, ten and 30-years time horizon. Specifically, investment returns for the pension fund were projected over a 10-years period using varying equity allocations.

(16) Retirement Plan (continued)

QRC's overall investment strategy is to achieve an asset allocation as follows:

Asset Class	% of Market Value of Portfolio
Money Market	5.0%
Fixed Income	55.0%
Large Cap Equity	18.0%
Mid Cap Equity	4.0%
Small Cap Equity	6.0%
International Equity	10.0%
Emerging Markets Equity	2.0%

Variance from the strategic asset allocation should not exceed 5%.

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 18, at December 31, 2009, by asset category are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 135,259	135,259	–	–
Equity securities	1,095,686	1,095,686	–	–
Debt securities	1,487,318	1,487,318	–	–
Total	2,718,263	2,718,263	–	–

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 18, at December 31, 2008, by asset category are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds	$ 525	525	–	–
Equity securities	368,154	368,154	–	–
Debt securities	1,913,227	1,913,227	–	–
Total	2,281,906	2,281,906	–	–

(16) Retirement Plan (continued)

The pension plan assets were invested and allocated in the following manner as of December 31:

	2009	2008
Equity securities	40.3%	16.2%
Debt securities	54.7%	83.8%
Money market funds	5.0%	0.0%

QRC's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by the participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is reviewed annually by QRC. The policy is established and administered in a manner that is compliant at all times with applicable government regulations.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the years ending December 31:

2010	50,800
2011	65,030
2012	73,020
2013	84,868
2014	99,558
2015-2019	716,620

QRC is not required and therefore, does not expect to contribute to the pension plan during the year ending December 31, 2010.

(17) Commitments and Contingencies

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

(18) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

Alternative investments: Net asset values of alternative investments was based on estimated fair values provided by investment managers. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

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

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

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

Long-term debt: Long-term debt is carried at cost in the statements of financial position for bonds payable and mortgages payable at December 31, 2009 and 2008. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $148,114,328 and $148,833,448 at December 31, 2009 and 2008, respectively, and its fair values at December 31, 2009 and 2008 approximates $124,090,100 and $118,111,100, respectively.

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, 2009 and 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

(continued)

(18) Financial Instruments (continued)

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.

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, 2009 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 13,376,398	13,376,398	–	–
Equity securities	41,307,566	41,307,566	–	–
Fixed income securities	17,666,445	17,666,445	–	–
Alternate investments	8,624,194	–	–	8,624,194
Total investments	80,974,603	72,350,409	–	8,624,194
Beneficial interest in perpetual trusts	11,909,926	–	–	11,909,926
Contributions receivable from remainder trusts	1,807,940	–	–	1,807,940
Gift annuities	43,620	–	–	43,620
Beneficial interest in assets of foundation	47,320	47,320	–	–
Total assets	$ 94,783,409	72,397,729	–	22,385,680
Interest rate swaps	$ (2,160,379)	–	(2,160,379)	–

(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, 2008 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 32,512,527	32,512,527	–	–
Equity securities	29,945,117	29,945,117	–	–
Fixed income securities	12,301,996	12,301,996	–	–
Alternate investments	5,985,211	–	–	5,985,211
Total investments	80,744,851	74,759,640	–	5,985,211
Beneficial interest in perpetual trusts	10,453,313	–	–	10,453,313
Contributions receivable from remainder trusts	1,803,904	–	–	1,803,904
Gift annuities	54,847	–	–	54,847
Beneficial interest in assets of foundation	121,241	121,241	–	–
Total assets	$ 93,178,156	74,880,881	–	18,297,275
Interest rate swaps	$ (2,883,121)	–	(2,883,121)	–

(18) **Financial Instruments (continued)**

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2009 is as follows:

Description		Altermative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance at December 31, 2007	$	5,208,262	2,076,872	13,332,463	139,044
Unrealized gains (losses)		(1,234,890)	(272,968)	(2,879,150)	(84,197)
Proceeds received		1,973,319	–	–	–
Contributions		46,026			
Realized gains		(7,506)	–	–	–
Balance at December 31, 2008	$	5,985,211	1,803,904	10,453,313	54,847
Unrealized gains (losses)		1,098,220	4,036	1,456,613	(11,227)
Distributions		(53,469)	–	–	–
Contributions		1,552,448			
Realized gains		41,784	–	–	–
Balance at December 31, 2009	$	8,624,194	1,807,940	11,909,926	43,620

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 statement 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.

ParenteBeard

Independent Auditors' Report on Supplementary Information

To the Board of Trustees
Presbyterian Homes Obligated Group

Our report on the audits of the basic combined financial statements of Presbyterian Homes Obligated Group for 2009 and 2008 appears on page 2. Those audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information presented on pages 46 to 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 2009 combining information on pages 46 to 48 is also presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations and changes in net assets of the individual entities. The 2009 information on page 49 is also presented for purposes of additional analysis of the statutory minimum liquid reserves of the individual entities. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

ParenteBeard LLC

Lancaster, Pennsylvania
November 19, 2010

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2009

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	$	342,359	1,078,994	–	106,407	215,900	1,743,660	–	1,743,660
Investments		8,118,414	2,166,200	49,845,620	5,953,348	–	66,083,582	–	66,083,582
Accounts receivable, net		8,554,222	3,505,200	–	(11,597)	1,780,789	13,828,614	–	13,828,614
Interest receivable		11,807	–	–	–	–	11,807	–	11,807
Inventories		231,913	65,737	–	–	33,454	331,104	–	331,104
Prepaid expenses and other current assets		696,688	111,088	–	4,504	162,888	975,168	–	975,168
Assets whose use is limited		9,569,557	1,919,504	–	–	2,424,956	13,914,017	–	13,914,017
Assets whose use is limited, construction funds		19,165	–	–	–	957,839	977,004	–	977,004
Pledges receivable		771,002	23,553	–	–	–	794,555	–	794,555
Property and equipment, net		131,610,729	32,514,100	–	2,810,280	14,988,487	181,923,596	–	181,923,596
Assets under capital lease, net		206,850	60,235	–	–	21,633	288,718	–	288,718
Due from (to) affiliates		27,594,341	3,490,477	491,850	(874,853)	(1,985,140)	28,716,675	–	28,716,675
Funds held in trust by others		7,756,123	521,756	–	853,175	4,677,752	13,808,806	–	13,808,806
Beneficial interest in assets of affiliate		1,927,880	3,598,977	–	–	–	5,526,857	(5,526,857)	–
Unamortized deferred costs:									
Deferred financing costs, net		2,686,690	222,235	–	–	88,328	2,997,253	–	2,997,253
Other assets		140,684	–	–	–	–	140,684	–	140,684
Total assets	$	200,238,424	49,278,056	50,337,470	8,841,264	23,366,886	332,062,100	(5,526,857)	326,535,243

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2009

Liabilities and Net Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Accounts payable	$	5,016,469	1,956,359	–	61,975	1,225,945	8,260,748	–	8,260,748
Accrued expenses		6,873,235	2,950,193	43,049	41,103	572,554	10,480,134	–	10,480,134
Notes payable		15,961,805	–	–	–	–	15,961,805	–	15,961,805
Accrued interest		725,038	32,842	–	–	–	757,880	–	757,880
Resident deposits		1,047,542	107,365	–	–	49,090	1,203,997	–	1,203,997
Deferred revenue – entrance fees		46,725,339	8,169,072	–	–	6,380,019	61,274,430	–	61,274,430
Fair value of interest rate swaps		1,922,166	238,213	–	–	–	2,160,379	–	2,160,379
Annuities payable		880,109	–	–	–	4,586	884,695	–	884,695
Accrued pension		–	–	–	–	194,967	194,967	–	194,967
Long-term debt									
Obligations on capital leases		201,437	57,525	–	–	20,945	279,907	–	279,907
Long-term debt		123,939,933	16,752,543	–	–	7,421,852	148,114,328	–	148,114,328
Total liabilities		203,293,073	30,264,112	43,049	103,078	15,869,958	249,573,270	–	249,573,270
Net assets:									
Unrestricted		(16,999,076)	16,416,739	46,091,344	7,885,011	2,054,061	55,448,079	(1,322,624)	54,125,455
Temporarily restricted		3,550,024	222,328	–	–	122,850	3,895,202	–	3,895,202
Permanently restricted		10,394,403	2,374,877	4,203,077	853,175	5,320,017	23,145,549	(4,204,233)	18,941,316
Total net assets		(3,054,649)	19,013,944	50,294,421	8,738,186	7,496,928	82,488,830	(5,526,857)	76,961,973
Total liabilities and net assets	$	200,238,424	49,278,056	50,337,470	8,841,264	23,366,886	332,062,100	(5,526,857)	326,535,243

Presbyterian Homes Obligated Group

Combining Schedule of Activities

Periods ended December 31, 2009

		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	$	103,077,384	35,806,335	(28,769)	568,991	14,775,691	154,199,632	–	154,199,632
Interest and dividend income		709,492	265,862	1,579,339	237,843	154,356	2,946,892	(198,205)	2,748,687
Realized gains (losses) on investments		(36,980)	(153,916)	(1,452,784)	121,385	(50,238)	(1,572,533)	116,450	(1,456,083)
Gain (loss) on sale of property and equipment		62,513	(10,562)	–	300	(188,603)	(136,352)	–	(136,352)
Contributions, gifts and bequests		1,069,075	76,581	–	69,812	57,906	1,273,374	–	1,273,374
Net assets released from restrictions		724,620	109,232	–	–	466,702	1,300,554	–	1,300,554
Total revenues, gains, and other support		105,606,104	36,093,532	97,786	998,331	15,215,814	158,011,567	(81,755)	157,929,812
Expenses:									
Nursing services		30,187,302	11,730,960	–	456,438	5,247,713	47,622,413	–	47,622,413
Rehabilitation		4,329,927	2,029,865	–	–	796,223	7,156,015	–	7,156,015
Recreation and special services		3,486,253	991,850	–	40,298	481,565	4,999,966	–	4,999,966
Pharmacy		2,165,796	923,830	–	10,666	388,507	3,488,799	–	3,488,799
Social services		419,515	201,699	–	–	78,808	700,022	–	700,022
Physician services		240,737	130,493	–	557	61,294	433,081	–	433,081
Food services		10,991,014	3,940,557	–	271,568	1,507,997	16,711,136	–	16,711,136
Building operations and maintenance		10,572,646	2,839,196	–	205,193	2,040,153	15,657,188	–	15,657,188
Housekeeping		2,462,489	969,130	–	19,932	351,705	3,803,256	–	3,803,256
Laundry and linen		865,289	457,695	–	3,388	182,531	1,508,903	–	1,508,903
General and administrative		14,283,086	4,347,214	158,613	299,356	2,261,279	21,349,548	(14,112)	21,335,436
Employee benefits		8,571,318	3,460,978	–	117,482	1,603,042	13,752,820	–	13,752,820
Interest		4,525,512	586,254	–	–	312,129	5,423,895	–	5,423,895
Depreciation		7,858,665	1,866,448	–	8,234	1,214,636	10,947,983	–	10,947,983
Amortization		153,134	20,314	–	–	5,023	178,471	–	178,471
Total expenses		101,112,683	34,496,483	158,613	1,433,112	16,532,605	153,733,496	(14,112)	153,719,384
Operating income (loss)		4,493,421	1,597,049	(60,827)	(434,781)	(1,316,791)	4,278,071	(67,643)	4,210,428
Change in fair value of interest rate swap		821,319	(98,577)	–	–	–	722,742	–	722,742
Gain on early extinguishment of debt		49,295	–	–	–	–	49,295	–	49,295
Loss on abandoned projects		(273,694)	–	–	–	–	(273,694)	–	(273,694)
(Deficit) excess of operating revenues, gains and other support over expenses		5,090,341	1,498,472	(60,827)	(434,781)	(1,316,791)	4,776,414	(67,643)	4,708,771
Other changes:									
Transfer of investments to PHI Investment Services Corporation		(1,690,068)	2,260	1,728,102	–	(280)	40,020	–	40,020
Pension-related changes other than net periodic pension costs		–	–	–	–	396,432	396,432	–	396,432
Unrealized gains (losses) on investments		(395,687)	1,703,493	10,786,024	1,017,702	474,341	13,585,873	(1,213,664)	12,372,209
Total other changes		(2,085,755)	1,705,759	12,514,126	1,017,702	870,493	14,022,325	(1,213,664)	12,808,661
Increase (decrease) in unrestricted net assets		3,004,586	3,204,231	12,453,299	582,921	(446,298)	18,798,739	(1,281,307)	17,517,432
Temporarily restricted net assets:									
Contributions, gifts and bequests		479,109	137,127	–	–	453,287	1,069,523	–	1,069,523
Interest and dividend income		90,103	–	–	–	76,211	166,314	–	166,314
Unrealized gain on investments		311,618	9,059	–	–	–	320,677	–	320,677
Net assets released from restriction		(724,620)	(109,232)	–	–	(466,702)	(1,300,554)	–	(1,300,554)
Change in temporarily restricted net assets		156,210	36,954	–	–	62,796	255,960	–	255,960
Permanently restricted net assets:									
Contributions, gifts and bequests		34,581	34,880	–	–	42,109	111,570	–	111,570
Change in fair value of funds held in trust by others		628,177	(8,761)	3,341	125,089	719,258	1,467,104	(4,497)	1,462,607
Change in permanently restricted net assets		662,758	26,119	3,341	125,089	761,367	1,578,674	(4,497)	1,574,177
Change in net assets		3,823,554	3,267,304	12,456,640	708,010	377,865	20,633,373	(1,285,804)	19,347,569
Net assets, beginning of year		(6,878,203)	15,746,640	37,837,781	8,030,176	7,119,063	61,855,457	(4,241,053)	57,614,404
Net assets, end of year	$	(3,054,649)	19,013,944	50,294,421	8,738,186	7,496,928	82,488,830	(5,526,857)	76,961,973

PRESBYTERIAN HOMES OBLIGATED GROUP

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

As of December 31, 2009

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group	
2010 Budgeted Operating Expenses	$ 103,331,479	35,295,674	150,000	1,453,594	16,287,451	156,518,198	
Less: depreciation expense	(7,702,563)	(1,932,035)	-	(10,635)	(1,227,000)	(10,872,233)	
Expenses subject to minimum liquid assets requirement	95,628,916	33,363,639	150,000	1,442,959	15,060,451	145,645,965	
Percentage of residents subject to residence and care arrangements at December 31, 2009	46%	23%	0%	0%	59%	43%	
	43,989,301	7,673,637	-	-	8,885,666	62,627,765	
Statutory requirement	10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$ 4,398,930	767,364	0	0	888,567	6,262,776	(a)
Next 12 months debt service payments:							
Principal payments	$ 3,150,000	969,992	-	-	274,249	4,394,241	
Interest payments	4,967,096	686,370	-	-	331,834	5,985,300	
Total debt service for next 12 months	8,117,096	1,656,362	-	-	606,083	10,379,541	
Percentage of residents subject to residence and care arrangements at December 31, 2009	46%	23%	0%	0%	59%	43%	
Statutory minimum liquid reserve requirement	$ 3,733,864	380,963	-	-	357,589	4,463,203	(b)
Assets satisfying statutory minimum liquid reserve requiremen							
Unrestricted cash and investments	$ 8,360,773	3,245,194	48,728,156	6,059,755	215,900	66,609,778	
Greater of (a) or (b)	4,398,930	767,364	-	-	888,567	6,262,776	
Assets in excess of statutory minimum liquid reserve requiremen	$ 3,961,843	2,477,830	48,728,156	6,059,755	(672,667)	60,347,002	