PRESBYTERIAN HOMES OBLIGATED GROUP

Combined financial statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

Carbis Walker LLP

Certified Public Accountants & Consultants

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

"WE HELP YOU"

800.452.3003 www.carbis.com

PRESBYTERIAN HOMES OBLIGATED GROUP

Table of Contents

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, 2012 and 2011, 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 106 years.

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

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

Independent Auditors' Report

The Board of Trustees
Presbyterian Homes Obligated Group

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Presbyterian Homes Obligated Group (the Obligated Group) which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes Obligated Group as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financial statements, an error resulting in an overstatement of previously reported expenses for the years prior to December 31, 2011 and an understatement of previously reported expenses for the year ended December 31, 2011 were discovered by the Obligated Group's management during the current year. Accordingly, the 2011 financial statements have been restated and an adjustment has been made to the beginning net assets as of December 31, 2011 to correct the errors. Our opinion is not modified with respect to this matter.

Basis of Combination

We draw attention to Note 2a of the combined financial statements, which describes the basis of combination. The combined financial statements are prepared by the Presbyterian Homes Obligated Group to include only those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the seventeenth supplemental indenture dated October 1, 2012. The consolidated financial statements of PHI, doing business as Presbyterian Senior Living, and affiliates, have been issued to its Board of Trustees as the consolidated financial statements of the primary reporting entity.

Carbis Walker LLP

Carbis Walker LLP
New Castle, Pennsylvania
March 29, 2013

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2012 and 2011

Assets		**2012**	**2011 Restated**
Cash and cash equivalents	$	2,100,880	2,351,632
Investments		67,121,771	66,690,581
Statutory liquid reserves		5,578,231	13,600,000
Accounts receivable, net		17,971,134	15,225,180
Prepaid expenses and other current assets		1,712,672	2,877,410
Assets whose use is limited		12,153,481	12,119,972
Assets whose use is limited, construction funds		12,652,208	9,903,931
Pledges receivable		238,377	339,280
Property and equipment (net of accumulated depreciation of $193,645,321 and $182,173,822, respectively)		228,295,257	208,704,432
Assets under capital leases (net of accumulated amortization of $317,098 and $214,890, respectively)		247,010	166,822
Due from affiliates		58,801,046	43,079,304
Funds held in trust by others		13,426,741	12,685,199
Deferred financing costs (net of accumulated amortization of $1,769,626 and $1,465,251, respectively)		3,052,855	3,055,950
Other assets		783,280	46,312
Total assets	$	424,134,943	390,846,005

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2012 and 2011

Liabilities and Net Assets		**2012**	**2011 Restated**
Accounts payable	$	10,543,636	10,449,918
Accrued expenses		13,104,487	12,802,039
Notes payable		12,917,383	15,757,089
Accrued interest		656,181	577,647
Resident deposits		1,561,934	852,237
Deferred revenue - entrance fees		60,206,303	60,926,008
Fair value of interest rate swaps		1,311,038	1,792,358
Annuities payable		1,031,459	1,076,123
Long-term debt			
Obligations under capital leases		250,552	163,362
Long-term debt		199,956,092	181,237,837
Total liabilities		301,539,065	285,634,618
Net assets:			
Unrestricted		101,843,375	84,800,219
Temporarily restricted		2,411,391	2,792,559
Permanently restricted		18,341,112	17,618,609
Total net assets		122,595,878	105,211,387
Total liabilities and net assets	$	424,134,943	390,846,005

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2012 and 2011

	2012	2011 Restated
Operating revenues, gains, and other support:		
Resident services, including amortization of entrance fees of $8,847,252 and $9,049,965, respectively	$ 170,092,640	167,594,134
Interest and dividend income	3,221,565	1,996,337
Realized gains on investments	768,489	448,086
Gain on sale of property and equipment and other assets	21,890	1,163,885
Contributions, gifts and bequests	1,678,185	675,283
Net assets released from restrictions	1,310,021	2,786,394
Total operating revenues, gains, and other support	177,092,790	174,664,119
Expenses:		
Nursing services	49,629,081	47,924,785
Rehabilitation	9,296,656	8,657,759
Recreation and special services	5,242,289	5,036,281
Pharmacy	2,782,493	3,324,761
Social services	726,088	690,601
Physician services	427,038	416,029
Food services	18,269,099	17,804,037
Building operations and maintenance	16,862,530	16,703,982
Housekeeping	3,591,683	3,565,332
Laundry and linen	1,393,727	1,473,996
General and administrative	25,045,367	24,412,237
Employee benefits	13,050,020	14,190,617
Interest	5,647,458	4,597,446
Depreciation	12,088,121	11,270,790
Amortization	230,960	223,626
Total expenses	164,282,610	160,292,279
Operating income	12,810,180	14,371,840
Increase (decrease) in fair value of interest rate swaps	481,320	(73,392)
(Loss) gain on early extinguishment of debt	(74,932)	67,275
Loss on abandoned project	–	(96,619)
Excess of operating revenues, gains and other support over expenses	13,216,568	14,269,104
Other changes:		
Purchase of non-controlling interest	–	(2,669,141)
Transfer to parent	6,843	22,382
Pension-related changes other than net periodic pension costs	–	(67,021)
Unrealized gains (losses) on investments	3,819,745	(1,165,261)
Total other changes	3,826,588	(3,879,041)
Increase in unrestricted net assets	17,043,156	10,390,063

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2012 and 2011

	2012	2011 Restated
Temporarily restricted net assets:		
Contributions, gifts and bequests	614,329	881,274
Interest and dividend income	68,967	94,397
Unrealized gain (loss) on investments	245,557	(51,215)
Net assets released from restrictions	(1,310,021)	(2,786,394)
Change in temporarily restricted net assets	(381,168)	(1,861,938)
Permanently restricted net assets:		
Contributions, gifts and bequests	112,130	83,607
Change in fair value of funds held in trust by others	610,373	(659,084)
Change in permanently restricted net assets	722,503	(575,477)
Change in net assets	17,384,491	7,952,648
Net assets, beginning of year	105,211,387	97,258,739
Net assets, end of year	$ 122,595,878	105,211,387

See accompanying notes to combined financial statements.

PRESBYTERIAN HOMES OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended December 31, 2012 and 2011

		2012	2011 Restated
Cash flows from operating activities:			
Change in net assets	$	17,384,491	7,952,648
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		12,088,121	11,270,790
Provision for bad debt		927,012	908,890
Proceeds from entrance fees and deposits		12,140,848	11,729,615
Amortization of entrance fees		(8,847,252)	(9,049,965)
Loss (gain) on early extinguishment of debt		74,932	(67,275)
Change in fair value of interest rate swaps		(481,320)	73,392
Unrealized (gain) loss on investments and change in fair value of funds held in trust by others		(4,675,675)	1,875,560
Realized gain on investments		(768,489)	(448,086)
Realized gain on sale of property and equipment and other assets		(21,890)	(1,163,885)
Contributions restricted for long-term purposes		(112,130)	(83,607)
Amortization of deferred costs		201,555	194,349
Amortization of bond premium		29,405	29,277
Loss on abandoned project		–	96,619
Changes in assets and liabilities:			
Increase in accounts receivable		(3,672,966)	(1,736,323)
Decrease in pledges receivable		100,903	425,077
Decrease (increase) in other assets		427,770	(1,553,810)
Increase (decrease) in accounts payable		93,718	(499,581)
Increase in accrued expenses		380,982	898,217
Net cash provided by operating activities		25,270,015	20,851,902
Cash flows from investing activities:			
Acquisition of property and equipment		(31,737,244)	(30,930,297)
Net proceeds from sale of property and equipment		–	2,499,720
Purchases of investments		(57,295,528)	(84,335,703)
Proceeds from sale of investments		66,806,943	67,973,781
Due from affiliates		(15,721,742)	(7,583,264)
Net cash used in investing activities		(37,947,571)	(52,375,763)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(3,303,604)	(3,819,129)
Principal payments on and redemptions of long-term debt		(11,306,463)	(5,590,675)
Proceeds from issuance of long-term debt		30,000,000	36,436,287
Financing costs incurred		(278,079)	(140,537)
Net (repayments) borrowings of notes payable		(2,839,706)	4,493,224
Borrowings through capital leases		220,030	112,342
Repayments on capital leases		(132,840)	(72,752)
Contributions restricted for long-term purposes		112,130	83,607
(Decrease) increase in annuities payable		(44,664)	10,869
Net cash provided by financing activities		12,426,804	31,513,236
Net decrease in cash and cash equivalents		(250,752)	(10,625)
Cash and cash equivalents, beginning of year		2,351,632	2,362,257
Cash and cash equivalents, end of year	$	2,100,880	2,351,632
Supplemental schedule of non-cash investing activities			
Assets held for sale	$	–	2,742,604

See accompanying notes to combined financial statements.

(1) General Information

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

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

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

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

As of December 31, 2012, there were 32 independent living units under construction at Ware Presbyterian Village, which is part of the Presbyterian Homes Obligated Group, and 36 tax credit independent living units under construction at Quincy Retirement community, which are not included in the above unit counts.

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

These combined financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and only include those entities set forth in the master trust indenture by and among BNY Mellon, dated May 1, 2008, as amended through the seventeenth supplemental indenture dated October 1, 2012. Requirements of the master trust indenture preclude the consolidation of certain affiliates that are not members of the Obligated Group. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

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

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

(c) Income Taxes

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

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

The Obligated Group's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2009, 2010, and 2011 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

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

(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 combined statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Obligated Group's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. At times during 2012 and 2011 the Obligated Group's cash balances may have exceeded the FDIC coverage. The Obligated Group has not experienced any loss in these accounts.

(f) Investments

Investments securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange in the consolidated statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Annual independent audits of each private investment partnership are provided and included in management's review.

A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2012 and 2011, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

	2012	2011
Interest and dividends	$ 3,290,532	2,090,734
Realized gains on investments	768,489	448,086
Unrealized gains (losses) on investments and funds held in trust by others	4,675,675	(1,875,560)
	$ 8,734,696	663,260

Investment expenses of $343,267 and $263,390 for the years ended December 31, 2012 and 2011, respectively, have been included in general and administrative expenses.

(continued)

(g) Accounts Receivable

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

		2012	2011
Total accounts receivable	$	19,936,523	16,702,741
Less: allowance for doubtful accounts		(1,965,389)	(1,477,561)
Net accounts receivable	$	17,971,134	15,225,180

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

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

(h) Assets Whose Use is Limited

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

(i) Pledges Receivable

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

		2012	2011
Pledges receivable	$	248,894	383,960
Less: unamortized discount		(169)	(7,686)
Subtotal		248,725	376,274
Less: allowance for uncollectibles		(10,348)	(36,994)
Net pledges receivable	$	238,377	339,280

All pledges receivable as of December 31, 2012 were due in less than one year.

(j) Property and Equipment

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

Depreciable lives are determined as follows:

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

(k) Costs of Borrowing

The average cost of capital during the period of construction of capital assets is capitalized as a component of construction-in-progress. Interest of $587,740 and $686,486 was capitalized in 2012 and 2011, respectively.

(l) Funds Held in Trust by Others

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

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

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

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

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

		2012	2011
Beneficial interest in assets of Foundation	$	34,696	43,816
Beneficial interest in perpetual trusts		12,800,949	12,106,509
Contributions receivable from remainder trusts		570,427	508,451
Gift annuities		20,669	26,423
	$	13,426,741	12,685,199

(m) Derivatives and Hedging Activities

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

The Obligated Group's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the combined statements of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2012, an adjustment to the liability was recorded causing a gain of $481,320. This adjustment represents the decrease in the liability of the interest rate swaps. For 2011, an adjustment to the liability was recorded causing a loss of $73,392. This adjustment represents the increase in the liability of the interest rate swaps.

(n) Deferred Financing Costs

The Obligated Group has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. Amortization expense is expected to be $210,074 for each of the next five years.

(o) Workers' Compensation

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

(p) Resident Deposits

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

(q) Deferred Revenue – Entrance Fees

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

The amount of entrance fees guaranteed refundable to residents at December 31, 2012 and 2011 under contractual refund provisions was approximately $20,755,000 and $21,669,000, respectively.

(r) Statutory Liquid Reserves

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

(s) Temporarily and Permanently Restricted Net Assets

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

(t) Donor Restrictions

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

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

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

(u) Resident Service Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Medicaid, and other third-party payors for services rendered. The Obligated Group derives a portion of its revenues from federal and state reimbursement programs with a significant portion of state reimbursement from Pennsylvania's Department of Public Welfare (DPW).

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

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

Revenues from Medicare and Medicaid represent approximately 45% of revenues for both 2012 and 2011. Medicare and Medicaid receivables represent approximately 46% and 44% of accounts receivable at December 31, 2012 and 2011, respectively.

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

Nursing services provided to Pennsylvania Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Obligated Group's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state. Rates are calculated by DPW on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2012, the rates for July 1, 2012 through December 31, 2012, have not been finalized. Revenues have been accrued based on proposed rates for this period.

In January 2005, the Centers for Medicare and Medicaid Services (CMS) approved a Pennsylvania State Plan amendment implementing a Nursing Home Assessment (the Assessment). The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to DPW based upon all non-Medicare days. DPW makes supplemental payments back to nursing home facilities, based upon a standard rate per Medicaid day claimed. The supplemental and assessment amounts per day have not yet been approved by CMS for the period July 1, 2012, through December 31, 2012. Included in revenues are estimates for these amounts. For the years ended December 31, 2012 and 2011, the Obligated Group received or will receive approximately $2,600,000 and $1,970,000 in additional revenue for the net effect of this assessment and supplement.

(v) Charity Care

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

(continued)

(v) Charity Care (continued)

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

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

		2012	2011
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$	3,208,672	3,805,672
Additional benevolent care provided at amounts less than pre-established charges for private pay services		22,393,439	19,435,528
Giving and income designated for resident financial support		1,196,755	1,175,246

(w) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2012 and 2011 was $418,360 and $274,862, respectively.

(x) Classification of expenses

		2012	2011
Program activities	$	139,237,243	135,880,042
General and administrative		24,582,060	23,713,402
Fundraising		463,307	698,835
		164,282,610	160,292,279

(y) Fundraising Expense

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

(z) Operating Income

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

(aa) Performance Indicator

The Obligated Group measures the performance of its operations using the combined statements of operations and changes in net assets, which includes a performance indicator of operations labeled as "excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net assets which are excluded from this measure are: purchase of non-controlling interest, transfer to parent, pension-related changes other than net periodic pension costs, and unrealized gains (losses) on investments.

(ab) Combined Statements of Cash Flows

Interest paid during the years ended December 31, 2012 and 2011 was $5,569,967 and $5,310,052, respectively.

(ac) Subsequent Events

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

The Obligated Group has evaluated subsequent events through March 29, 2013, which is the date the combined financial statements were issued.

(continued)

(3) Investments

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

	2012			2011	
	Fair value	Cost		Fair value	Cost
Money market funds	$ 18,736,298	18,736,298		53,785,316	53,785,316
Equity securities	42,621,913	40,253,717		11,674,234	11,825,382
Fixed income securities	20,481,846	20,090,012		23,051,111	22,933,915
Alternate investments	15,665,634	10,815,306		13,803,823	9,512,660
Totals	$ 97,505,691	89,895,333		102,314,484	98,057,273
Less:					
Assets whose use is limited (note 5)	(24,805,689)			(22,023,903)	
Statutory liquid reserves	(5,578,231)			(13,600,000)	
Total investments	$ 67,121,771		$	66,690,581	

The Obligated Group invests primarily in a diversified portfolio of mutual funds. The Obligated Group has nineteen mutual funds, seven alternative investments and several other fixed income securities as of December 31, 2012. The Obligated Group has twenty three mutual funds, seven alternative investments and several other fixed income securities as of December 31, 2011.

As of December 31, 2012, nine mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than three percent below cost. As of December 31, 2011, twenty mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than five percent below cost.

Three mutual funds and one alternate investment had a market value that had been below cost for more than a year as of December 31, 2012. In total, its market value was three percent below cost. Only one alternate investment had a market value that had been below cost for more than a year as of December 31, 2011. In total, its market value was eleven percent below cost.

(continued)

(3) Investments (continued)

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

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

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

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

(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, 2012 and 2011, the Obligated Group incurred management fees and other expenses under the management agreement totaling $12,728,378 and $11,621,388, respectively, which is classified as general and administrative expenses in the combined statements of operations and changes in net assets.

(continued)

(4) Related Party Transactions (continued)

The Obligated Group is an irrevocable guarantor of all the debts of Presbyterian Senior Living Services, Inc. (Glen Meadows), an affiliate organization. As of December 31, 2012 and 2011, Presbyterian Senior Living Services, Inc. had $16,220,000 and $16,720,000, respectively, in outstanding debt. In the event of a deficiency judgment from the sale of real property pledged as security for the purchase of a facility in Glen Arm, Maryland, the Obligated Group has guaranteed to repay all of the outstanding debt which matures through 2029.

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is a technical information services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2012 and 2011, the Obligated Group paid Prelude $1,788,432 and $1,767,588, respectively, for information services provided by Prelude, of which $22,982 and $195,205 is included in accounts payable as of December 31, 2012 and 2011, respectively.

Amounts due from affiliate entities, principally Presbyterian Senior Living, as of December 31, 2012 and 2011 are $58,801,046 and $43,079,304, respectively.

The amounts receivable from the Corporation's affiliated organizations are unsecured, non-interest bearing and have no fixed repayment terms, except loans to Geneva House, 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:

		2012	2011
Permanently restricted investments	$	4,415,811	4,384,406
Bond fund		1,690,620	1,661,587
Debt service reserve fund		6,047,050	6,073,979
Held by trustee-for future projects		12,652,208	9,903,931
	$	24,805,689	22,023,903

(6) Property and Equipment

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

	2012		2011	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 24,800,473	–	21,199,451	–
Land improvements	18,434,947	14,155,633	18,313,456	13,666,615
Buildings and improvements	305,772,643	140,692,230	275,334,335	130,865,148
Departmental equipment, furniture and fixtures	40,464,086	33,764,696	38,915,078	32,554,593
Furniture	3,303,642	3,184,809	3,279,715	3,162,220
Vehicles	2,166,999	1,847,953	2,288,095	1,925,246
Construction-in-progress	26,997,788	–	31,548,124	–
	$ 421,940,578	193,645,321	390,878,254	182,173,822
Net book value		$ 228,295,257		$ 208,704,432

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

In early 2012, management, with board approval, decided to redevelop The Long Home property. Therefore, in 2011 the value of The Long Home was moved from asset held for sale and placed back into property, plant and equipment.

In 2012, Quincy Retirement Community demolished a building to begin a new project. Costs associated with the demolition were approximately $129,000.

As of December 31, 2012 and 2011 approximately $19,000,000 and $16,250,000, respectively, was committed for future renovations.

(6) Property and Equipment (continued)

During 2012, an error from 2000 was discovered. A building with an acquisition value of $1,687,774 was given a useful life of seven years. Straight line depreciation was being used and the asset was fully depreciated by December 2007. Based on the Obligated Group's capitalization policy, the building should have had a useful life of forty years. Once the error was detected, depreciation on the building was recalculated and the accumulated depreciation was adjusted accordingly. The effect of this error resulted in the following adjustment of the 2011 combined statements of operations and changes in net assets**:**

	Depreciation Expense	Change in Net Assets
December 31, 2011 balance, as previously reported	$ 11,228,596	7,994,842
Cumulative effect of error	42,194	(42,194)
Balance as restated	$ 11,270,790	7,952,648

The effect of this error resulted in the following adjustment of the 2011 combined statements of financial position**:**

	Accumulated Depreciation	Property and Equipment (net of accumulated depreciation)	Ending Net Assets
December 31, 2011 balance, as previously reported	$ 183,376,361	207,501,893	104,008,848
Cumulative effect of error	(1,202,539)	1,202,539	1,202,539
Balance as restated	$ 182,173,822	208,704,432	105,211,387

(7) Long-term Debt

Long-term debt of the group and of the amounts payable by the Obligated Group as of December 31, 2012 and 2011 consisted of the following:

		2012	2011
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.15% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Obligated Group	$	6,000,000	6,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2019 to 2026, interest rates ranging from 4.75% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		8,530,000	9,900,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2013 to 2032, interest adjusted weekly, 0.15% and 0.12% at December 31, 2012 and 2011, respectively, collateralized by letter of credit		7,665,000	7,880,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 0.977% and 1.011% at December 31, 2012 and 2011, respectively, collateralized by property and equipment and gross revenues of the Obligated Group		4,570,453	5,256,721
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		16,760,000	15,680,000
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2021, interest rates ranging from 5% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group		13,895,000	14,935,000

(7) Long-term Debt (continued)

	2012	2011
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2022 to 2038, interest adjusted weekly, 0.14% and 0.12% at December 31, 2012 and 2011, 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, 0.15% and 0.12% at at December 31, 2012 and 2011, respectivley, collateralized by a letter of credit and by property and equip,emt and gross revenues of the Obligated Group	15,685,000	15,685,000
York County Industrial Development Authority Bonds Series 2010, tax exempt bank qualified debt, principal due in varying annual amounts from 2013 to 2033, interest adjusted weekly, 2.25% at both December 31, 2012 and 2011, collateralized by property and equipment and gross revenues of the Obligated Group	20,000,000	20,000,000
Bank of America taxable 5 year term loan , principal due in varying amounts, interest is fixed at 3.15%, and is collateralized by property and equipment and gross revenues of the Obligated Group	12,657,880	13,000,000
General Municipal Authority of the Township of Manheim Revenue Bonds Series 2011, principal maturities based on a twenty year repayment schedule. Interest will be fixed for the first 120 months, subsequent interest rates will be reset in a 10 year increment. Interest was 3.48% at both December 31, 2012 and 2011. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,634,447	10,000,000
1995 Series A revenue note to First National Bank of PA, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 2.054% at both December 31, 2012 and 2011, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	2,262,186	2,422,458

(7) Long-term Debt (continued)

	2012	2011
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 0.18% and 0.17% at December 31, 2012 and 2011, respectively. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group	4,180,000	4,900,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which adjusts every five years and was 0.9903% and 2.71% at December 31, 2012 and 2011, respectively. The note is collateralized by property and equipment and gross revenues of the Obligated Group	582,105	648,446
Series 2005 College Township Revenue Bonds, payable in equal installments of $23,305 per month to include principal and interest through September 2026. The bonds bear a floating interest rate, which adjusts every five years and was 3.83% at both December 31, 2012 and 2011. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group.	2,976,172	3,136,466
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bore an interest rate of 4.51% at December 31, 2011. The note was collateralized by property and equipment and gross revenues of the Obligated Group	-	6,860,569
Quincy Sewer Authority Revenue Bonds Series 2012, payable in equal monthly installments of principal and interest, due August 15, 2032. The note bears an interest rate of 3.35%. The note is collateralized by property and equipment and gross revenues of the Obligated Group	9,870,974	-

(continued)

(7) Long-term Debt (continued)

		2012	2011
Uwchlan Township Industrial Development Authority Revenue Note Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to June 2032. Interest is fixed at 3.5% until 6/1/2022. Interest rates will be reset in 10 year increments. The note is collateralized by property and equipment and gross revenues of the Obligated Group		9,828,086	-
General Municipal Authority of the Township of Manhiem Revenue Bond Series 2012, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to August 2032. A call option is available at the lender's discretion on August 2022. The note bears a fixed interest rate of 2.75% until 2019 at which time the rate will become variable equal to 68% of the Wall Street Journal Prime Rate. The note is collateralized by property and equipment and gross revenues of the Obligated Group		9,896,278	-
		199,993,510	181,304,660
Unamortized discount		(276,286)	(338,726)
Plus: Unamortized premium		238,868	271,903
	$	199,956,092	181,237,837

During 2011, $1,110,000 of the Cumberland County 2005A bonds and $75,000 of the Cumberland County 2003A bonds were repurchased. During 2012, $1,080,000 of the Cumberland County 2005A bonds were sold. The bonds remaining are currently being held with the option to remarket at a future date.

Under the terms of the Obligated Group's debt, the Obligated Group is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2012 and 2011.

Several of the bonds are backed by letters of credit and subject to remarketing agreements. In the event that any or all of the bonds are tendered by the bondholder and are unable to be remarketed, the letter of credit would be drawn upon to repay the tendered bonds. Any drawings under the letters of credit are repayable on or before the first to occur of the following: the date on which the bonds purchased with the proceeds from a draw on the letter of credit are successfully remarketed by the remarketing agent, the date on which the bonds purchased with the proceeds from a draw on the letters of credit are redeemed or otherwise paid in full, the occurrence of an event of default, or the date the letters of credit expires. The letters of credit for the bonds will expire at various dates through November 2016.

(7) Long-term Debt (continued)

Scheduled maturities for the five years subsequent to December 31, 2012 and thereafter are as follows:

Years ended December 31,	Aggregate maturities
2013	$ 6,891,622
2014	7,952,156
2015	8,238,241
2016	8,527,950
2017	8,828,943
Thereafter	159,554,598
	$ 199,993,510

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

Amount Swapped	Basis	Counterparty	Effective Date	Expiration Date	Interest Rate	Underlying Issue
$10,000,000	SIFMA MSI	M&T	7/1/11	7/1/14	0.95%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/13	3.09%	Cumberland County 2008 B
$10,000,000	SIFMA MSI	Wells Fargo	06/05/08	06/01/15	3.28%	Cumberland County 2008 B
$4,628,436	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

(7) Long-term Debt (continued)

The fair value of the interest rate swap liabilities at December 31, 2012 and 2011 are as follows:

Counterparty	Fair Value 12/31/2012	Fair Value 12/31/2011
M&T	$ 110,000	$ 111,500
Wells Fargo	124,527	381,171
Wells Fargo	725,184	880,304
Bank of America	-	7,740
Bank of America	351,327	411,643
Total	$ 1,311,038	$ 1,792,358

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

(8) Notes Payable

The Obligated Group has lines of credit with Bank of America and M&T Bank. Interest rates on these lines of credit are variable based on the prime rate of the financial institution less one hundred and fifty basis points. The lines of credit are collateralized by property, plant and equipment of the Obligated Group. As of December 31, 2012 and 2011, under the line of credit agreements, the Obligated Group had available a total maximum of $16,750,000 from the financial institutions. As of December 31, 2012 and 2011, the Obligated Group had $12,917,383 and $15,757,089, respectively, outstanding under these agreements at interest rates ranging from 2.20% to 3.06%.

(continued)

(9) Leases

The Obligated Group is obligated under capital leases for equipment that expires in 2015. At December 31, 2012 and 2011, the gross amounts of the equipment and related accumulated amortization recorded under capital leases were as follows:

	2012	2011
Office equipment	$ 564,108	381,712
Accumulated amortization	(317,098)	(214,890)
	$ 247,010	166,822

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

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2012 follows:

2013	$ 141,519
2014	99,482
2015	16,082
	257,083
Amounts representing interest	(6,531)
	$ 250,552

The Obligated Group leases certain equipment under operating leases, which expire at various dates through 2016. The future minimum lease payments under these operating leases are as follows:

2013	$ 233,232
2014	123,187
2015	50,039
2016	2,700
	$ 409,158

Rental expense under operating leases was $658,918 and $517,157 for the years ended December 31, 2012 and 2011, respectively.

(10) Annuities

The Obligated Group has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Obligated Group. Total annuities payable were $1,031,459 and $1,076,123 at December 31, 2012 and 2011, respectively. The Obligated Group uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4 to 6 percent to determine the present value of the actuarially determined liability. The Obligated Group has assets included in investments of $1,339,408 and $1,352,582 as of December 31, 2012 and 2011, 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 2012 and 2011, the Obligated Group maintained a letter of credit for $2,600,000 and $3,000,000, respectively, in connection with this self-insurance program. At both December 31, 2012 and 2011, the Obligated Group has recorded an accrued expense of approximately $4.9 million for workers' compensation claims which includes known case reserves and an estimate of the Obligated Group's liability for incurred but not reported claims.

(12) Medical Malpractice Claims Coverage

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

(continued)

(13) Temporarily Restricted Net Assets

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

		2012	2011
Trust assets held for the benefit of The Easton Home	$	693,334	486,787
Charity care and/or equipment, including pledges receivable			
Endowment		110,726	166,233
Other		1,276,314	1,862,980
Contributions receivable from remainder trusts		331,017	276,559
	$	2,411,391	2,792,559

Net assets of $1,310,021 and $2,786,394 were released from restriction during 2012 and 2011, respectively, in satisfaction of the above restrictions.

(14) Permanently Restricted Net Assets

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

		2012	2011
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		1,996,910	1,973,630
Charity care and/or equipment		2,418,392	2,406,253
Contributions receivable from remainder trusts		239,410	231,892
Beneficial interest in assets of foundation		34,696	43,816
Gift annuities		20,669	26,423
Beneficial interest in perpetual trusts		12,800,949	12,106,509
	$	18,341,112	17,618,609

(15) Endowment

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

Interpretation of relevant law

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

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

(15) Endowment (continued)

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 166,233	4,379,883	4,546,116
Investment return:			
Investment income	68,967	–	68,967
Contributions	–	107,130	107,130
Appropriation of endowment assets for expenditures	(106,278)	–	(106,278)
Other changes			
Adjustments for prior year	(18,196)	(71,711)	(89,907)
Endowment net assets, end of year	$ 110,726	4,415,302	4,526,028

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

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

(15) Endowment (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Obligated Group to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2012 or 2011.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

(15) Endowment (continued)

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

The Obligated Group has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.00% and 4.0% for 2012 and 2011, respectively. Actual distributions are to satisfy donor restrictions. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Obligated Group considered the long-term expected return on its endowment. Accordingly, over the long term, the Obligated Group expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2012 and 2011 an allocation of three and four percent, respectively, 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, 2012 and 2011, retirement plan expense totaled approximately $1,354,650 and $1,948,670, respectively.

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

(17) Commitments and Contingencies

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

(18) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

Alternative investments: Alternative investments are held in private investment partnerships, which include publically traded securities, real estate and natural resources. Partnership agreements specify the type of investments held, liquidity, manager compensation, and other funding requirements. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Annual independent audits of each private investment partnership are provided and included in management's review.

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

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

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

Long-term debt and notes payable: Long-term debt and notes payable are carried at cost in the combined statements of financial position for notes payable, bonds payable and mortgages payable at December 31, 2012 and 2011. Fair value is based on quoted market prices for the same or similar issues. The totals outstanding were $212,873,475 and $196,994,926 at December 31, 2012 and 2011, respectively, and its fair values at December 31, 2012 and 2011 approximates $216,137,183 and $176,055,589, respectively.

CarbisWalker LLP

(18) Financial Instruments (continued)

The Obligated Group has a number of other financial instruments, none of which are held for investment purposes. The Obligated Group estimates that the fair value of all financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying combined statements of financial position.

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

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

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

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

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes to the fair value methodologies used to measure fair value at December 31, 2012 and 2011.

(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, 2012 are as follows:

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 18,736,298	18,736,298	–	–
Equity securities	42,621,913	42,621,913	–	–
Fixed income securities	20,481,846	20,481,846	–	–
Alternate investments	15,665,634	–	–	15,665,634
Total investments	97,505,691	81,840,057	–	15,665,634
Beneficial interest in perpetual trusts	12,800,949	–	–	12,800,949
Contributions receivable from remainder trusts	570,427	–	–	570,427
Gift annuities	20,669	–	–	20,669
Beneficial interest in assets of foundation	34,696	34,696	–	–
Total assets	$ 110,932,432	81,874,753	–	29,057,679
Interest rate swaps	$ (1,311,038)	–	(1,311,038)	–

Carbis Walker LLP

(18) Financial Instruments (continued)

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

Description	Total	Level 1	Level 2	Level 3
Money market funds and certificates of deposit	$ 53,785,316	53,785,316	–	–
Equity securities	11,674,234	11,674,234	–	–
Fixed income securities	23,051,110	23,051,110	–	–
Alternate investments	13,803,823	–	–	13,803,823
Total investments	102,314,483	88,510,660	–	13,803,823
Beneficial interest in perpetual trusts	12,106,509	–	–	12,106,509
Contributions receivable from remainder trusts	508,451	–	–	508,451
Gift annuities	26,423	–	–	26,423
Beneficial interest in assets of foundation	43,816	43,816	–	–
Total assets	$ 114,999,682	88,554,476	–	26,445,206
Interest rate swaps	$ (1,792,358)	–	(1,792,358)	–

(18) Financial Instruments (continued)

For investments falling within Level 3 in the fair value hierarchy, the activity recognized during the year ended December 31, 2012 is as follows:

Description		Altermative Investments	Contributions Receivable from Remainder Trusts	Beneficial Interest in Perpetual Trusts	Gift Annuities
Balance at December 31, 2010	$	10,488,196	1,975,453	12,747,824	26,482
Unrealized gains (losses)		852,167	(2,101)	(641,315)	(59)
Distributions		(633,275)	(1,464,901)	–	–
Contributions		3,042,915	–	–	–
Realized gains		53,820	–	–	–
Balance at December 31, 2011	$	13,803,823	508,451	12,106,509	26,423
Unrealized gains (losses)		1,260,634	61,976	694,440	(5,754)
Distributions		(1,108,722)	–	–	–
Contributions		1,677,407	–	–	–
Realized gains		32,492	–	–	–
Balance at December 31, 2012	$	15,665,634	570,427	12,800,949	20,669

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

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

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

Independent Auditors' Report on Supplementary Information

To the Board of Trustees
Presbyterian Homes Obligated Group

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

Carbis Walker LLP

Carbis Walker, LLP
New Castle, Pennsylvania
March 29, 2013

Combining Schedule of Financial Position

December 31, 2012

Assets		Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group Subtotal	Eliminating Entries	Obligated Group Total
Cash and cash equivalents	$	1,861,335	202,834	–	2,300	34,411	2,100,880	–	2,100,880
Investments		172,625	7,105,586	48,997,330	7,596,179	3,250,051	67,121,771	–	67,121,771
Statutory reserves		3,976,567	750,775	–	–	850,889	5,578,231	–	5,578,231
Accounts receivable, net		10,931,866	4,813,173	–	66,110	2,159,985	17,971,134	–	17,971,134
Prepaid expenses and other current assets		997,068	168,499	–	19,860	527,245	1,712,672	–	1,712,672
Assets whose use is limited		7,738,177	1,996,910	2,192,178	–	226,216	12,153,481	–	12,153,481
Assets whoes use is limited, capital assets held by trustee		11,128,162	–	–	1,524,046	–	12,652,208	–	12,652,208
Pledges receivable		161,937	76,440	–	–	–	238,377	–	238,377
Property and equipment, net		137,138,429	35,518,062	–	42,969,219	12,669,547	228,295,257	–	228,295,257
Assets under capital lease, net		146,430	80,948	–	4,347	15,285	247,010	–	247,010
Due from (to) affiliates		55,385,862	6,658,180	3,543,867	(6,299,479)	(487,384)	58,801,046	–	58,801,046
Funds held in trust by others		6,924,937	566,518	–	898,168	5,037,118	13,426,741	–	13,426,741
Beneficial interest in assets of affiliate		1,523,420	–	–	–	–	1,523,420	(1,523,420)	–
Unamortized deferred costs: Deferred financing costs, net		2,497,608	158,985	–	348,455	47,807	3,052,855	–	3,052,855
Other assets		783,280	–	–	–	–	783,280	–	783,280
Total assets	$	241,367,703	58,096,910	54,733,375	47,129,205	24,331,170	425,658,363	(1,523,420)	424,134,943

See accompanying independent auditors' report on supplementary information.

Presbyterian Homes Obligated Group

Combining Schedule of Financial Position

December 31, 2012

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	$	5,518,411	2,271,521	–	2,098,074	655,630	10,543,636	–	10,543,636
Accrued expenses - other		7,657,165	3,449,309	32,500	1,240,624	724,889	13,104,487	–	13,104,487
Notes payable		12,917,383	–	–	–	–	12,917,383	–	12,917,383
Accrued interest		633,997	22,184	–	–	–	656,181	–	656,181
Resident deposits		516,509	968,400	–	35,300	41,725	1,561,934	–	1,561,934
Deferred revenue – entrance fees		43,444,170	9,062,656	–	–	7,699,477	60,206,303	–	60,206,303
Fair value of interest rate hedge		1,250,709	60,329	–	–	–	1,311,038	–	1,311,038
Annuities payable		987,736	21,041	–	–	22,682	1,031,459	–	1,031,459
Long-term debt									
Obligations on capital leases		148,457	82,170	–	4,390	15,535	250,552	–	250,552
Long-term debt		143,270,295	13,492,163	–	36,530,726	6,662,908	199,956,092	–	199,956,092
Total liabilities		216,344,832	29,429,773	32,500	39,909,114	15,822,846	301,539,065	–	301,539,065
Net assets:									
Unrestricted		13,187,011	25,936,538	53,177,455	6,320,096	3,222,275	101,843,375	–	101,843,375
Temporarily restricted		2,141,695	245,153	-	1,827	22,716	2,411,391	–	2,411,391
Permanently restricted		9,694,165	2,485,446	1,523,420	898,168	5,263,333	19,864,532	(1,523,420)	18,341,112
Total net assets		25,022,871	28,667,137	54,700,875	7,220,091	8,508,324	124,119,298	(1,523,420)	122,595,878
Total liabilities and net assets	$	241,367,703	58,096,910	54,733,375	47,129,205	24,331,170	425,658,363	(1,523,420)	424,134,943

See accompanying independent auditors' report on supplementary information.

Presbyterian Homes Obligated Group

Combining Schedule of Activities

Periods ended December 31, 2012

	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	$ 111,334,744	40,077,608	–	1,847,214	16,840,024	170,099,590	(6,950)	170,092,640
Interest and dividend income	564,726	350,270	1,695,585	352,529	328,735	3,291,845	(70,280)	3,221,565
Realized gains on investments	36,482	(22,499)	394,097	298,324	119,662	826,066	(57,577)	768,489
Gain on sale of property and equipment	555	350	–	28,884	(7,899)	21,890	–	21,890
Contributions	942,191	546,487	–	101,636	87,871	1,678,185	–	1,678,185
Net assets released from restrictions	1,135,187	116,427	–	21,419	36,988	1,310,021	–	1,310,021
Total revenues, gains, and other support	114,013,885	41,068,643	2,089,682	2,650,006	17,405,381	177,227,597	(134,807)	177,092,790
Expenses:								
Nursing services	31,025,407	12,530,651	–	669,101	5,403,922	49,629,081	–	49,629,081
Rehabilitation	5,309,595	3,028,220	–	–	958,841	9,296,656	–	9,296,656
Recreation and special services	3,439,251	1,109,812	–	119,675	573,551	5,242,289	–	5,242,289
Pharmacy	1,630,101	825,745	–	9,693	316,954	2,782,493	–	2,782,493
Social services	456,121	193,993	–	39	75,935	726,088	–	726,088
Physician care	244,384	122,444	–	8,999	51,211	427,038	–	427,038
Food services	11,920,096	4,423,904	–	417,886	1,507,213	18,269,099	–	18,269,099
Building operations and maintenance	11,246,266	3,071,519	–	512,928	1,902,833	16,733,546	–	16,733,546
Housekeeping	2,436,047	843,405	–	12,187	300,044	3,591,683	–	3,591,683
Laundry and linen	782,018	447,229	–	609	170,822	1,400,678	(6,951)	1,393,727
General and administrative	16,258,823	5,516,964	240,185	637,780	2,398,966	25,052,718	(7,351)	25,045,367
Employee benefits	8,059,856	3,349,253	–	192,457	1,448,454	13,050,020	–	13,050,020
Interest	4,384,305	434,617	–	522,935	305,601	5,647,458	–	5,647,458
Depreciation	8,218,923	2,096,269	–	605,916	1,167,013	12,088,121	–	12,088,121
Amortization	191,051	20,290	–	13,969	5,650	230,960	–	230,960
Total expenses	105,602,244	38,014,315	240,185	3,724,174	16,587,010	164,167,928	(14,302)	164,153,626
Operating income (loss)	8,411,641	3,054,328	1,849,497	(1,074,168)	818,371	13,059,669	(120,505)	12,939,164
Change in fair value of interest rate swap	454,855	26,465	–	–	–	481,320	–	481,320
Gain on early extinguishment of debt	–	–	–	–	(74,932)	(74,932)	–	(74,932)
Cost of demolition	–	–	–	–	(128,984)	(128,984)	–	(128,984)
(Deficit) excess of operating revenues, gains and other support over expenses	8,866,496	3,080,793	1,849,497	(1,074,168)	614,455	13,337,073	(120,505)	13,216,568
Other changes:								
Transfer to affiliated entity	25,536,095	164,838	(6,582,480)	(22,891,894)	–	(3,773,441)	3,780,284	6,843
Unrealized gains on investments	(142,470)	427,814	2,814,892	439,462	212,302	3,752,000	67,745	3,819,745
Total other changes	25,393,625	592,652	(3,767,588)	(22,452,432)	212,302	(21,441)	3,848,029	3,826,588
Increase (decrease) in unrestricted net assets	34,260,121	3,673,445	(1,918,091)	(23,526,600)	826,757	13,315,632	3,727,524	17,043,156
Temporarily restricted net assets:								
Contributions, grants and bequests	439,842	148,043	–	1,722	24,722	614,329	–	614,329
Interest and dividend income	68,967	–	–	–	–	68,967	–	68,967
Unrealized loss on investments	239,604	5,953	–	–	–	245,557	–	245,557
Net assets released from restriction	(1,135,187)	(116,427)	–	(21,419)	(36,988)	(1,310,021)	–	(1,310,021)
Change in temporarily restricted net assets	(386,774)	37,569	–	(19,697)	(12,266)	(381,168)	–	(381,168)
Permanently restricted net assets:								
Contributions	83,850	23,280	–	–	5,000	112,130	–	112,130
Change in fair value of assets held in trust by others	250,426	23,876	206,546	37,946	296,970	815,764	(205,391)	610,373
Change in permanently restricted net assets	334,276	47,156	206,546	37,946	301,970	927,894	(205,391)	722,503
Change in net assets	34,207,623	3,758,170	(1,711,545)	(23,508,351)	1,116,461	13,862,358	3,522,133	17,384,491
Net assets, beginning of year	(9,184,752)	24,908,967	56,412,420	30,728,442	7,391,863	110,256,940	(5,045,553)	105,211,387
Net assets, end of year	$ 25,022,871	28,667,137	54,700,875	7,220,091	8,508,324	124,119,298	(1,523,420)	122,595,878

See accompanying independent auditors' report on supplementary information.

PRESBYTERIAN HOMES OBLIGATED GROUP

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

As of December 31, 2012

	Presbyterian Homes, Inc.	Presbyterian Homes in the Presbytery of Huntingdon	PHI Management Services Corporation	The Long Community	Quincy United Methodist Home	Obligated Group	
2013 Budgeted Operating Expenses	$ 108,396,520	38,672,321	235,000	4,917,202	16,901,530	169,122,573	
Less: depreciation expense	(8,010,952)	(2,104,135)	-	(932,246)	(1,126,825)	(12,174,158)	
Expenses subject to minimum liquid assets requirement	100,385,568	36,568,186	235,000	3,984,956	15,774,705	156,948,415	
Percentage of residents subject to residence and care arrangements at December 31, 2012	34%	19%	0%	0%	48%		
	34,131,093	6,947,955	-	-	7,571,858	48,650,907	
Statutory requirement	10%	10%	10%	10%	10%	10%	
Statutory minimum liquid reserve requirement	$ 3,413,109	694,796	0	0	757,186	4,865,091	(a)
Next 12 months debt service payments:							
Principal payments	$ 4,699,852	1,197,501	-	738,897	241,306	6,877,556	
Interest payments	4,064,628	484,027	-	1,053,236	270,458	5,872,349	
Total debt service for next 12 months	8,764,480	1,681,528	-	1,792,133	511,764	12,749,905	
Percentage of residents subject to residence and care arrangements at December 31, 2012	34%	19%	0%	0%	48%		
Statutory minimum liquid reserve requirement	$ 2,979,923	319,490	-	-	245,647	3,545,060	(b)
Statutory minimum liquid reserve, greater of (a) or (b)	$ 3,413,109	694,796	-	-	757,186	4,865,091	
Total per Bank Statements as of 12/31/2012	3,976,567	750,775	-	-	850,889	5,578,231	
Assets in excess of statutory minimum liquid reserve requirement	$ 563,458	55,980	-	-	93,703	713,141	
Assets satisfying statutory minimum liquid reserve requirement							