ANNUAL FINANCIAL REPORT FOR

QUINCY UNITED METHODIST HOME

DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors Quincy United Methodist Home Quincy, Pennsylvania

We have audited the accompanying statements of financial position of Quincy United Methodist Home as of December 31, 2005 and 2004 and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quincy United Methodist Home as of December 31, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith Elliott Kearns Company, LLC.

Chambersburg, Pennsylvania February 3, 2006

STATEMENTS OF FINANCIAL POSITION December 31, 2005 and 2004

| ASSETS | 2005 | 2004 |
|--|---------------------|---------------|
| CURRENT ASSETS | | |
| Cash | \$ 858,630 | \$ 732,441 |
| Accounts receivable - Residents (net of allowance for doubtful | | |
| accounts of \$163,283 for 2005 and \$100,604 for 2004) | 1,117,778 | 1,204,428 |
| Bequest receivable | 3,099 | 25,399 |
| Accrued interest | 112 | 61 |
| Other receivables | 265,849 | 174,076 |
| Inventories, at lower of cost (first-in, first-out) or market | 153,870 | 168,492 |
| Prepaid expenses | 223,682 | 265,981 |
| Total current assets | 2,623,020 | 2,570,878 |
| ASSETS WHOSE USE IS LIMITED | 1,585,875 | 1,507,479 |
| OTHER ASSETS | | |
| Property and equipment, at cost less accumulated depreciation | 17,810,621 | 18,984,128 |
| Deferred expenses (net of amortization of \$362,643 for 2005 | | |
| and \$350,614 for 2004) | 97,907 | 109,937 |
| Bequests receivable, net of current portion | 0 | 3,099 |
| Perpetual trusts held by third parties | 4,851,772 | 4,844,696 |
| Total other assets | 22,760,300 | 23,941,860 |
| Total assets | \$ 26,969,195 | \$ 28,020,217 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Notes payable | \$ 478,200 | \$ 491,400 |
| Current maturities of long-term debt | 1,571,990 | 371,002 |
| Accounts payable | 723,698 | 945,861 |
| Construction accounts payable | 545,288 | 605,288 |
| Accrued expenses | 507,797 | 553,741 |
| Deferred revenue | 600 | 0 |
| Resident funds | 41,402 | 32,285 |
| Total current liabilities | 3,868,975 | 2,999,577 |
| OTHER LIABILITIES | | |
| Accrued pension costs | 630,544 | 583,614 |
| Lease contract deposits | · | • |
| Refundable deposits | 1,670,498 | 1,665,468 |
| Deferred revenue: | | |
| Refundable portion | 1,981,008 | 2,109,166 |
| Nonrefundable portion | 3,944,038 | 4,379,766 |
| Security deposits | 160 | 160 |
| Total other liabilities | 8,226,248 | 8,738,174 |
| LONG-TERM DEBT | 4,130,233 | 5,705,405 |
| Total liabilities | 16.006.456 | 15.413.156 |
| | 16,225,456 | 17,443,156 |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated Minimum pension liability adjustment | 6,110,999 | 5,979,211 |
| Minimum pension liability adjustment | (537,056) | (564,410) |
| Tomas acadily matrices 1 | 5,573,943 | 5,414,801 |
| Temporarily restricted Permanently restricted | 27,052 5 243 744 | 26,591 |
| | 5,142,744 | 5,135,669 |
| Total net assets | 10,743,739 | 10,577,061 |
| Total liabilities and net assets | \$ 26,969,195 | \$ 28,020,217 |

The Notes to Financial Statements are an integral part of these statements.

STATEMENTS OF OPERATIONS Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---|---------------|----------------|
| Revenue, Gains, and Other Support | | |
| Net resident services | \$ 11,908,708 | \$ 11,652,530 |
| Other program income | 307,999 | 240,501 |
| Gifts, bequests, and contributions | 166,927 | 237,546 |
| Investment income | 40,235 | 177,660 |
| Trust income | 199,596 | 172,141 |
| Gain (Loss) from disposal of property and equipment | 1,789 | 11,992 |
| Net assets released from restrictions | 0 | 7,260 |
| Total revenue, gains, and other support | 12,625,254 | 12,499,630 |
| Expenses | | |
| Salaries and wages | 5,429,452 | 6,122,517 |
| Payroll taxes and benefits | 749,041 | 1,728,259 |
| Supplies | 603,776 | 637,568 |
| Repairs | 119,915 | 118,493 |
| Utilities | 492,568 | 489,785 |
| Insurance | 392,922 | 394,526 |
| Marketing | 75,304 | 62,639 |
| Property taxes | 354,057 | 313,513 |
| Other | 2,507,506 | 2,037,655 |
| Bad Debts | 49,960 | 3,548 |
| Interest | 347,482 | 380,978 |
| Amortization | 12,028 | 12,028 |
| Depreciation | 1,343,329 | 1,430,054 |
| Total expenses | 12,477,340 | 13,731,563 |
| Excess (deficit) of revenues, gains and | | |
| other support over expenses | 147,914 | (1,231,933) |
| Change in net unrealized gains and (losses) on securities | (16,126) | (125,763) |
| Minimum pension liability adjustment | 27,354 | (158,306) |
| Increase (decrease) in unrestricted net assets | \$ 159,142 | (\$ 1,516,002) |

The Notes to Financial Statements are an integral part of these statements.

STATEMENTS OF CHANGES IN NET ASSETS Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---|--------------|----------------|
| Unrestricted Net Assets | | |
| Excess (deficit) of revenues over expenses | \$ 147,914 | (\$ 1,231,933) |
| Change in net unrealized gains and (losses) on securities | (16,126) | (125,763) |
| Minimum pension liability adjustment | 27,354 | (158,306) |
| Increase (decrease) in unrestricted net assets | 159,142 | (1,516,002) |
| Temporarily Restricted Net Assets | | |
| Contributions | 461 | 6,554 |
| Net assets released from restrictions | 0 | (|
| Increase (decrease) in temporarily restricted net assets | 461 | (|
| Permanently Restricted Net Assets | | |
| Increase in market value of third party trusts | 7,075 | 160,739 |
| Increase in permanently restricted net assets | 7,075 | 160,739 |
| Increase (decrease) in net assets | 166,678 | (1,355,969) |
| Net assets at beginning of year | 10,577,061 | 11,933,030 |
| Net assets at end of year | \$10,743,739 | \$10,577,061 |

STATEMENTS OF CASH FLOWS Years Ended December 31, 2005 and 2004

| | 2005 | | | 2004 | |
|--|-----------|------------|-----|------------|--|
| Cash flows from operating activities and gains and losses: | | • | | | |
| Change in net assets | \$ | 166,678 | (\$ | 1,355,969) | |
| Adjustments to reconcile change in net assets | | | | | |
| to net cash provided by operating activities: | | | | | |
| Advance fees received | | 693,666 | | 1,037,387 | |
| Depreciation | | 1,343,329 | | 1,430,054 | |
| Bad debts | | 49,960 | | 3,548 | |
| (Gain) loss on disposal of property | (| 1,789) | (| 11,992) | |
| Increase in perpetual trusts held by third parties | (| 7,075) | (| 160,739) | |
| Realized and unrealized (gain) loss on investments | | 8,773 | (| 13,439) | |
| Amortization of unearned lease contract deposits | (| 1,257,552) | (| 1,177,389) | |
| Amortization of development costs | | 12,028 | | 12,028 | |
| (Increase) decrease in: | | | | | |
| Resident accounts receivable | | 36,690 | | 57,349 | |
| Other receivables | (| 66,425) | | 88,035 | |
| Inventories | | 14,622 | | 50,462 | |
| Prepaid expenses | | 42,299 | | 39,200 | |
| Increase (decrease) in: | | | | | |
| Accounts payable | (| 282,163) | (| 57,004) | |
| Accrued expenses | ` | 986 | ` | 130,683 | |
| Resident funds | | 9,117 | | 20,006 | |
| Deferred revenue | | 600 | | 0 | |
| Security deposits | | 0 | (_ | 2,500) | |
| No. 1 1111 2 2 2 2 2 | | 762.744 | | 00.500 | |
| Net cash provided by operating activities | | 763,744 | | 89,720 | |
| Cash flows from investing activities: | | | | | |
| Purchase of property and equipment | (| 170,258) | (| 157,911) | |
| Proceeds from sale of property | | 2,226 | | 14,097 | |
| Proceeds from sale of investments | | 192,839 | | 2,677,840 | |
| Purchases of investments | <u>(</u> | 280,008) | (| 1,799,111) | |
| Net cash provided (used) by investing activities | (_ | 255,201) | _ | 734,915 | |
| Cash flows from financing activities: | | | | | |
| Net change in short-term notes payable | (| 13,200) | (| 3,600) | |
| Repayment of long-term debt | (| 374,184) | (| 363,773) | |
| Proceeds from fully refundable deposits | | 61,230 | | 109,478 | |
| Payments for fully refundable deposits | (| 56,200) | (| 47,100) | |
| Net cash used by financing activities | (| 382,354) | (| 304,995) | |
| Increase in cash | | 126,189 | | 519,640 | |
| Cash at beginning of year | | 732,441 | | 212,801 | |
| Cash at end of year | <u> </u> | | \$ | | |
| Cash at end of year | <u>\$</u> | 858,630 | D. | 732,441 | |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid during the year for: | | | | | |
| Interest | \$ | 347,482 | \$ | 380,978 | |
| | | | | | |

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Quincy United Methodist Home (QUMH) (The "Home") was established to maintain, manage, develop and support institutions for the elderly. The Home, which has a covenant relationship with the Central Pennsylvania Conference of the United Methodist Church, provides medical care programs and long-term care facilities to older persons. It also provides a retirement village and personal care program, all of which are located in the south central region of Pennsylvania. The Home grants credit to residents not covered by Medicare, Medical Assistance or any other third-party payors.

On January 1, 2005, Quincy Home Integrated Health System (the "Parent") was dissolved and the assets and liabilities were transferred to the Home, which is the surviving entity. This transfer is accounted for as a pooling of interest since no consideration was exchanged and the organizations were under common control. The financial statements for 2004 report the combined results of the two entities.

The significant accounting policies relative to the valuation of inventories are indicated on the Statements of Financial Position. Other significant accounting policies are as follows:

Basis of Accounting

These statements are presented on the accrual basis of accounting. Under this basis, revenue is recognized in the period earned and expenses in the period incurred.

Tax Exempt Status

The Home is a nonprofit corporation organized under the provisions of the laws of the Commonwealth of Pennsylvania, and as described in Section 501(c)(3) of the Internal Revenue Code, is exempt from federal income tax and classified as a public charity.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization has defined cash and cash equivalents as those amounts included in the balance sheet caption "cash". No investments are considered cash equivalents.

Resident Receivables

Resident receivables are written off when management determines, based upon prior experience, collection history, or contractual agreements, that an account is no longer collectible. Accounts that are over 60 days old are typically considered past due.

Investments

The Home reports all investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Note 1. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided on a straight-line method based upon the estimated useful lives of the assets as follows:

| Land improvements | 3-35 years |
|-------------------------------------|------------|
| Buildings and building improvements | 4-75 years |
| Building equipment | 3-30 years |
| Furnishings and movable equipment | 3-33 years |
| Vehicles | 4-8 years |

Perpetual Trusts Held by Third Parties

The Home is the beneficiary of several trusts established by donors at local banks. Funds contributed to these trusts are to be invested in perpetuity. The Home recognizes its proportional fair value in these trusts as a permanently restricted net asset on the statements of financial position.

Excess (Deficit) of Revenue Gains and Other Support Over Expenses

The Statements of Operations include excess (deficit) of revenue gains and other support over expenses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenue gains and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and the adjustment for minimum pension liability.

Lease Contracts

The Home provides retirement living accommodations through lease contracts which generally require an advance fee to be paid by the resident upon occupancy. Specifics of the contract terms are provided in Note 8. The advance fee gives the resident the right of occupancy until death or illness which prevents the resident from continuing to live independently. Advance fees are recorded as deferred revenue and recognized as income ratably over the estimated life expectancy of the resident. Under the terms of the lease contract, the Home has no obligation to provide continuation of care once the resident permanently vacates the housing unit. Upon termination of the contract, any unamortized, nonrefundable advance fees are taken directly into income.

Donor Restrictions

The Home 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Note 1. Significant Accounting Policies (Continued)

Donor Restrictions (Continued)

The Home reports gifts of property and equipment (or other long-lived assets) 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 Home reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Promises to Give (Bequests Receivable)

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Net Resident Service Revenue

The Home has agreements with third-party payors that provide for payments to the Home at amounts different from its established rates. Payment arrangements include prospectively determined rates per day and per diem payments. Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Advertising

The Home follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$72,186 and \$68,198 for 2005 and 2004, respectively.

Charity Care

The Home provides care to residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Home does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are susceptible to significant change relate to management's estimate of the allowance for doubtful accounts. Management estimates are based on historical collection rates and analysis of specific receivables. This estimate may change in the near term.

Note 1. Significant Accounting Policies (Continued)

Reclassification

Reclassifications were made to the previously reported amounts for 2004 in order for them to be comparative to 2005.

Note 2. Third Party Rate Adjustments and Revenue

Medicare reimbursement is based upon a prospective system which takes into account the acuity and services provided to individual Medicare residents. This system results in no retroactive settlements. Reimbursements from Medical Assistance (M.A.) are based on a "case-mix" reimbursement system. The rates are periodically adjusted prospectively for changes based on a predetermined pricing formula and the acuity level of M.A. residents, which result in no retroactive settlements.

During calendar year 2005, the Pennsylvania Department of Public Welfare implemented a "Nursing Facility Assessment Program". This program implements a monetary assessment on nonpublic licensed nursing facilities. The program was retroactive to July 1, 2003 and is scheduled to end June 30, 2007. The Nursing Facility Assessment Program provided for a \$ 1.50 assessment per non-Medicare resident days for the period July 1, 2003 through June 30, 2005. The assessment for the period July 1, 2005 through June 30, 2006 is \$ 1.54 per non-Medicare resident days. The total assessment of \$ 157,297 for the period July 1, 2003 through December 31, 2005 is reflected in the current year's financial statement. This amount is reported under other expenses in the statement of operations.

The Nursing Facility Assessment Program also allowed for a supplemental payment to be made to offset these costs. The per diem rates were \$ 10.66 per Medical Assistance day for the period July 1, 2003 to June 30, 2004, \$ 7.05 per Medical Assistance day for the period July 1, 2004 to June 30, 2005 and \$ 4.17 per Medical Assistance day for the period July 1, 2005 to June 30, 2006. The total supplement of \$ 708,541 for the period July 1, 2003 through December 31, 2005 is reflected in the current year's financial statement. This amount is reported under net resident services in the statement of operations.

In addition, the Pennsylvania Department of Public Welfare is proposing a new Medical Assistance Rate system to be effective July 1, 2006. As this is only in the development stage, no impact on the Home's financial performance is determinable.

Resident service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Net resident service revenue is recorded net of the provision for contractual allowances of \$ 1,011,545 in 2005 and \$ 1,388,590 in 2004 in the accompanying Statements of Operations.

Retroactive adjustments to prior years' rates by third-party payors included in the above amounts reflect an increase in net resident service revenue of \$ 26,623 for 2005 and \$ 81,270 for 2004.

Note 3. Accumulated Depreciation by Class of Asset

| Asset Description | Cost | | Accumulated Depreciation | De | preciated Cost |
|-------------------------------------|------------------|----|--------------------------|-----------|----------------|
| | | De | cember 31, 200 | 5 | |
| Land and land improvements | \$ 7,608,214 | \$ | 4,100,787 | \$ | 3,507,427 |
| Buildings and building improvements | 18,254,429 | | 8,641,386 | | 9,613,043 |
| Building equipment | 9,524,768 | | 6,335,373 | | 3,189,395 |
| Furnishings and movable equipment | 3,819,098 | | 3,257,988 | | 561,110 |
| Vehicles | 368,377 | | 346,032 | | 22,345 |
| Construction in progress | 917,301 | | 0 | | 917,301 |
| | \$ 40,492,187 | \$ | 22,681,566 | <u>\$</u> | 17,810,621 |
| | | De | cember 31, 200 | 4 | |
| Land and land improvements | \$ 7,604,089 | \$ | 3,854,206 | \$ | 3,749,883 |
| Buildings and building improvements | 18,184,310 | | 8,068,429 | | 10,115,881 |
| Building equipment | 9,466,428 | | 5,985,520 | | 3,480,908 |
| Furnishings and movable equipment | 3,893,577 | | 3,225,158 | | 668,419 |
| Vehicles | 384,463 | | 338,960 | | 45,503 |
| Construction in progress | 923,534 | | 0 | | 923,534 |
| | \$ 40,456,401 | \$ | 21,472,273 | \$ | 18,984,128 |

Depreciation expense amounted to \$1,343,329 and \$1,430,054 for 2005 and 2004, respectively

Note 4. Assets Whose Use is Limited

The Home has established certain funds to segregate assets for various purposes:

Funded depreciation

This fund has been designated by the Board of Directors for the purchase of depreciable assets and repayment of long-term debt. Income earned on these investments is reinvested in this fund.

Community Program Loan Trust Reserve

The Community Program Loan Trust Reserve has been established in accordance with the loan agreements relating to the Community Program Loan Trust disclosed in Note 6. The purpose of the reserve is to provide funds for debt service in accordance with loan covenants.

Independent living units

Proceeds from the sale of apartments and cottages are placed in this fund. Principal and income is available to be used to construct additional units, purchase depreciable assets or repay the mortgage on the Village Center - Minnich Manor.

Residents' personal funds

Established in accordance with government regulations, the Home has segregated assets to cover its obligation to qualifying residents.

Other board designated funds

This fund has been designated by the Board to be used for special projects as it determines periodically.

Note 4. Assets Whose Use is Limited (Continued)

Benevolent Care Fund

Contributions to the Organization are accumulated in this fund. The investment income is available for distribution to the Home, and is designated as a resource to help pay for the Home's operating deficits.

Trust funds and memorials

Certain individuals have established the Jean Fohl Slaybaugh Trust Fund, Snyder-Filer Memorial Fund, Bertha B. Gilbert Trust Fund, J. Parker Horn Trust Fund, and Katherine A. Gerber Trust Fund. Principal is permanently restricted, but income from these funds is unrestricted and available for general use, except for the Slaybaugh Trust Fund, income from which is restricted to management of an aviary.

Assets whose use is limited consists of the following funds at December 31:

| | 2005 | | | | 2004 | | |
|--------------------------------------|------|-----------|----|--------------|-----------|----|-----------|
| | | Cost | | Market | Cost | | Market |
| Funded depreciation | \$ | 10,688 | \$ | 10,688 \$ | 31,043 | \$ | 31,043 |
| Community program loan trust reserve | | 337,512 | | 337,512 | 337,512 | | 337,512 |
| Independent living units | | 897,140 | | 897,140 | 677,304 | | 677,304 |
| Residents' personal funds | | 42,041 | | 42,041 | 26,884 | | 26,884 |
| Other board designated funds | | 3,900 | | 3,900 | 3,900 | | 3,900 |
| Benevolent Care Fund | | 733,994 | | 793,147 | 665,266 | | 729,817 |
| Jean Fohl Slaybaugh Trust Fund | | 17,016 | | 17,016 | 17,016 | | 17,016 |
| Snyder-Filer Memorials | | 10,931 | | 10,931 | 10,931 | | 10,931 |
| Bertha B. Gilbert Trust Fund | | 22,877 | | 22,877 | 22,877 | | 22,877 |
| J. Parker Horn Trust Fund | | 2,898 | | 2,898 | 2,898 | | 2,898 |
| Katherine A. Gerber Trust Fund | | 11,035 | | 11,035 | 11,035 | | 11,035 |
| | | 2,090,032 | | 2,149,185 | 1,806,666 | | 1,871,217 |
| Less assets whose use is limited and | | | | | , , | | , , |
| are required for current liabilities | | 563,310 | | 563,310 | 363,738 | | 363,738 |
| | \$ | 1,526,722 | \$ | 1,585,875 \$ | 1,442,928 | \$ | 1,507,479 |

The aggregate values by investment type are as follows:

| | 200 | 2004 | | |
|----------------------------------|-----------------|------------------------|--------------|-----------|
| | Cost | Market | Cost | Market |
| Cash and cash equivalents | \$ 212,626 | \$ 212,626 \$ | 111,945 \$ | 111,945 |
| Certificates of deposit | 734,731 | 734,731 | 735,254 | 735,254 |
| Common stock | 233,301 | 296,518 | 200,121 | 258,824 |
| Corporate bonds | 228,466 | 232,383 | 278,466 | 291,668 |
| U.S. Government and agency notes | 108,133 | 100,152 | 108,133 | 100,779 |
| Interest receivable | 5,565 | 5,565 | 5,109 | 5,109 |
| Other | 3,900 | 3,900 | 3,900 | 3,900 |
| | \$ 1,526,722 | \$ 1,585,875 \$ | 1,442,928 \$ | 1,507,479 |

Note 4. Assets Whose Use is Limited (Continued)

At December 31, 2005 and 2004, the Home's operating cash included \$ 563,310 and \$ 363,738, respectively that has been designated by the Board of Directors for the purchase of depreciable assets and payment of long-term debt from assets whose use is limited. All operating cash is maintained in interest bearing accounts.

There were a total of eleven investment securities in an unrealized loss position at December 31, 2005. Investment gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in an unrealized loss position at December 31, 2005 are summarized in the following schedule:

| | Less than 12 Months | | 12 Months or More | | | Total | | | |
|--|---------------------|-------------|---------------------|------------------|-----------|----------------------|------------------|-----------|---------------------|
| Description of Securities | Fair Value | | nrealized Losses | Fair Value | U | Inrealized Losses | Fair Value | - | nrealized Losses |
| Bonds and notes | \$101,493 | \$ | 1,293 | \$100,152 | \$ | 7,981 | \$201,645 | \$ | 9,274 |
| Common stock | 31,244 | | 2,267 | 31,124 | _ | 5,045 | 62,368 | _ | 7,312 |
| Total temporarily impaired investment securities | <u>\$132,737</u> | <u>\$</u> _ | 3,560 | <u>\$131,276</u> | <u>\$</u> | 13,026 | <u>\$264,013</u> | <u>\$</u> | 16.586 |

Management considers several factors in determining that these losses are temporary, such as market analysis, security price volatility and specific security analysis.

Note 5. Perpetual Trusts Held by Third Parties

The Home is the beneficiary of several trusts established by donors at local banks. Funds contributed to these trusts are to be invested in perpetuity. The Home has the irrevocable right to receive all or a proportional share of the income from the trusts in perpetuity, but will not receive the principal assets held in the trusts.

The Home's proportional share of the market value of these trusts at December 31, 2005 and 2004 is \$4,851,772 and \$4,844,696, respectively.

Note 6. Notes Payable

| December 31, 2005 | Collateral | Effective Interest Rate | Notes Payable | Long-To | erm Debt Noncurrent |
|--|--|--|------------------------------|--|---|
| Note payable, M&T Bank, due April 30, 2006, monthly payments of principal of \$1,200 plus accrued interest. | All personal property, fixtures and receivables | 8.25% (prime + 1%) | \$ 478,200 | \$ 0 | \$ 0 |
| Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due August 2014. | All property, plant and equipment (except I.L.U. assets)(A) | 5.00% | 0 | 255,731 | 1,379,884 |
| Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$ 18,235, due January 2025. | All property, plant and equipment (I.L.U. assets and a second lien on all other assets) | 4.40% | 0 | 94,580 | 2,729,060 |
| Mortgage note payable, M & T Bank, payable in monthly installments of \$ 9,090, due April 30, 2006 | All property, plant and equipment (second to notes described above) | 7.50% | 0 | 1,202,588 | 0 |
| Vehicle note payable, GMAC Financial Services, payable in monthly installments of \$ 399 - \$ 449 due | Vehicle | | | .,,. | · |
| November 2006 – August 2008 Capital lease obligation, John Deere | Equipment | 0.0% - 0.90% | 0 | 14,964 | 15,124 |
| credit, payable in monthly installments at \$ 374 due June 2008 | | 3.80% | <u>0</u> <u>\$478,200</u> | 4,127 \$ 1,571,990 | 6,165 \$ 4,130,233 |
| | | | | | |
| December 31, 2004 | Collateral | Effective Interest Rate | Notes Pavable | Long-Te Current | |
| December 31, 2004 Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. | Collateral All personal property, fixtures and receivables | | Payable | Current | Noncurrent |
| Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due | All personal property, | Interest Rate 6.25% (prime + 1%) | Payable \$ 491,400 | Current \$ 0 | Noncurrent \$ 0 |
| Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due August 2014. Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$ 18,225, due | All property, plant and equipment (except I.L.U. assets)(A) All property, plant and equipment (I.L.U. assets and a second lien on all | 6.25% (prime + 1%) 5.00% | Payable \$ 491,400 | Current \$ 0 243,534 | Noncurrent \$ 0 1,636,020 |
| Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due August 2014. Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$ 18,225, due January 2025. Mortgage note payable, M & T Bank, payable in monthly installments of | All personal property, fixtures and receivables All property, plant and equipment (except I.L.U. assets)(A) All property, plant and equipment (I.L.U. assets and a second lien on all other assets) All property, plant and equipment (second to | 6.25% (prime + 1%) 5.00% | Payable \$ 491,400 0 | Current \$ 0 243,534 90,357 | Noncurrent \$ 0 1,636,020 2,826,635 |
| Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due August 2014. Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$ 18,225, due January 2025. Mortgage note payable, M & T Bank, payable in monthly installments of \$ 9,090, due July 2028. Vehicle note payable, GMAC Financial Services, payable in monthly installments of \$ 449 due November | All personal property, fixtures and receivables All property, plant and equipment (except I.L.U. assets)(A) All property, plant and equipment (I.L.U. assets and a second lien on all other assets) All property, plant and | 1nterest Rate 6.25% (prime + 1%) 5.00% 4.40% 7.50% | Payable \$ 491,400 0 0 | Current \$ 0 243,534 90,357 17,572 | Noncurrent \$ 0 1,636,020 2,826,635 1,202,497 |
| Note payable, M&T Bank, due April 30, 2005, monthly payments of principal of \$ 1,200 plus accrued interest. Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$ 28,126, due August 2014. Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$ 18,225, due January 2025. Mortgage note payable, M & T Bank, payable in monthly installments of \$ 9,090, due July 2028. Vehicle note payable, GMAC Financial Services, payable in monthly | All personal property, fixtures and receivables All property, plant and equipment (except I.L.U. assets)(A) All property, plant and equipment (I.L.U. assets and a second lien on all other assets) All property, plant and equipment (second to notes described above) | 6.25% (prime + 1%) 5.00% | Payable \$ 491,400 0 | Current \$ 0 243,534 90,357 | Noncurrent \$ 0 1,636,020 2,826,635 |

⁽A) Depreciated cost of I.L.U. property and equipment amounted to \$ 13,351,091 and \$ 14,270,131 at December 31, 2005 and 2004, respectively. Depreciated cost of all other property and equipment amounted to \$ 4,459,530 and \$ 4,713,923 at December 31, 2005 and 2004, respectively.

Note 6. Notes Payable (Continued)

During 2005 and 2004, the M&T Bank Loan terms were modified as part of a loan modification agreement and extension. This agreement set a due date for the note payable to M & T Bank and accelerated the due date of the mortgage note payable to M & T Bank from July 2028 to April 30, 2006. In addition, the agreement established a debt service coverage ratio of 1.0 to 1.0 to be satisfied.

The aggregate amounts of principal payments on long-term debt, including payments on capital lease obligations, over the next five years on the debt outstanding at December 31, 2005 are as follows:

| | L | ong-term Debt | Rela Capit | ortion ated to al Lease igation |
|--------------------------|-----|------------------|---------------|--|
| 2006 | \$ | 1,571,990 | \$ | 4,761 |
| 2007 | | 381,411 | | 4,760 |
| 2008 | | 385,031 | | 2,381 |
| 2009 | | 403,663 | | 0 |
| 2010 | | 423,201 | | 0 |
| Thereafter | | 2,536,927 | | 0 |
| | \$_ | 5,702,223 | \$ | 11,902 |
| Less amount representing | | | | |
| interest and other costs | | | (| 1,610) |
| | | | \$ | 10,292 |

The Organization incurred interest costs of \$ 347,482 and \$ 380,978 for 2005 and 2004, respectively.

These loans contain various covenants such as paying all taxes due, maintaining insurance and maintaining the property in good repair. The Organization is required to maintain a debt service coverage ratio of 1.0 to 1.0 for the year end December 31, 2005 which was met. All loans may be prepaid without penalty.

Note 7. Classification of Expenses

Expenses incurred for the years ended December 31, 2005 and 2004 were for:

| | | Total | | Program Services | Λċ | lministration | | Fund Raising |
|----------------------------|-----------|------------|----|---------------------|-----|---------------|-----------|-----------------|
| | | 10001 | | | 005 | immesti atton | | Kaising |
| Salaries and wages | \$ | 5,429,452 | \$ | 4,932,156 | | 497,296 | \$ | 0 |
| Payroll taxes and benefits | | 749,041 | | 673,081 | | 75,960 | - | 0 |
| Supplies | | 603,776 | | 582,625 | | 21,151 | | 0 |
| Repairs | | 119,915 | | 116,965 | | 2,950 | | 0 |
| Utilities | | 492,568 | | 459,606 | | 32,962 | | 0 |
| Insurance | | 392,922 | | 381,370 | | 11,552 | | 0 |
| Marketing | | 75,304 | | 34,779 | | 40,525 | | 0 |
| Property taxes | | 354,057 | | 354,057 | | 0 | | 0 |
| Other | | 2,507,506 | | 1,982,696 | | 518,444 | | 6,366 |
| Bad debts | | 49,960 | | 0 | | 49,960 | | 0 |
| Interest | | 347,482 | | 347,482 | | 0 | | 0 |
| Amortization | | 12,028 | | 12,028 | | 0 | | 0 |
| Depreciation | | 1,343,329 | | 1,310,118 | | 33,211 | | 0 |
| Total | <u>\$</u> | 12,477,340 | \$ | 11,186,963 | \$ | 1,284,011 | <u>\$</u> | 6,366 |
| | | | | 21 | 004 | | | |
| Salaries and wages | \$ | 6,122,517 | \$ | 5,368,384 | \$ | 719,950 | \$ | 34,183 |
| Payroll taxes and benefits | • | 1,728,259 | • | 1,517,572 | Ψ | 203,262 | Ψ | 7,425 |
| Supplies | | 637,568 | | 619,617 | | 17,951 | | 0 |
| Repairs | | 118,493 | | 116,483 | | 2,010 | | 0 |
| Utilities | | 489,785 | | 456,442 | | 33,343 | | 0 |
| Insurance | | 394,526 | | 383,487 | | 11,039 | | 0 |
| Marketing | | 62,639 | | 24,167 | | 38,472 | | 0 |
| Property taxes | | 313,513 | | 313,513 | | 0 | | 0 |
| Other | | 2,037,655 | | 1,670,703 | | 362,247 | | 4,705 |
| Bad debts | | 3,548 | | 0 | | 3,548 | | 0 |
| Interest | | 380,978 | | 380,978 | | 0 | | 0 |
| Amortization | | 12,028 | | 12,028 | | 0 | | 0 |
| Depreciation | _ | 1,430,054 | | 1,393,261 | | 36,561 | | 232 |
| Total | \$ | 13,731,563 | \$ | 12,256,635 | \$ | 1,428,383 | \$ | 46,545 |

Note 8. Deferred Revenue From Lease Contract Deposits

Certain residents have deposited monies with the Home to occupy independent housing units under the terms of a lifetime lease contract. A certain portion of these deposits (generally 10%) is refundable upon termination of the contract, regardless of how long the resident occupies the unit. These are recorded as liabilities and shown as refundable deposits on the Statement of Financial Position. The remaining portion of the residents' deposits represent deferred revenue, which will be recognized as income over the life expectancy of the residents. Prior to occupying the housing unit, if the potential occupant dies, or through illness, injury or incapacity is precluded from becoming a resident, they are entitled to a full refund of all monies paid. In the event the prospective occupant terminates their agreement for any other reason prior to occupancy, the Home will repay all monies less a charge of \$ 1,000. If an occupant dies or terminates their agreement after occupancy, the Home shall refund a portion of their payment based on the number of months of occupancy and whether it is a full payment lease or partial payment lease. Under a full payment lease only 10% is refundable after the fifth year and under the partial payment lease no amount is refundable after the third year. The amount of the deferred revenue from lease contract deposits considered to be nonrefundable by the Home, based on the contract terms, was \$3,944,038 and \$4,379,766 at December 31, 2005 and 2004, respectively. These lease contracts are regulated by the Commonwealth Pennsylvania Department of Insurance. The organization is required to maintain a liquid reserve to cover future costs associated with the leases.

Note 9. Pension Plan

The Home had 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 ten years of employment. The Home'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.

The following table sets forth the plan's funded status and amounts recognized in the Home's statements of financial position at December 31:

| | | 2005 | 2004 |
|---|------------|--------------|---------------|
| Benefit obligation | (\$ | 2,914,615) (| \$ 3,514,370) |
| Fair value of plan assets | | 2,284,071 | 2,930,756 |
| Funded status | <u>(\$</u> | 630,544) (3 | |
| Costs recognized in the statements of financial position: | | | |
| Pension prior service cost | \$ | 0 \$ | 0 |
| Accrued pension liability | (| 630,544) (| 583,614) |
| Minimum pension liability | | 537,056 | 564,410 |
| Weighted-average assumptions: | | | • |
| Discount rate | | 5.50% | 5.75% |
| Expected return on plan assets | | 8.00% | 8.00% |
| Rate of compensation increase | | 3.00% | 3.00% |
| Other disclosures: | | | |
| Net periodic benefit cost | \$ | 159,074 \$ | 431,225 |
| Employer contribution | | 82,500 | 370,972 |
| Change in minimum pension liability adjustment | (| 27,354) | 158,306 |
| Plan participants' contributions | • | 0 | 0 |
| Benefits paid | | 884,139 | 744,473 |

Note 9. Pension Plan (Continued)

Plan Assets

The weighted average asset allocations at December 31, by asset category were as follows:

| Asset Category | 2005 | 2004 |
|-------------------|--------|--------|
| Equity securities | 46.0% | 45.0% |
| Debt securities | 45.0% | 47.0% |
| Other | 9.0% | 8.0% |
| Total | 100.0% | 100.0% |

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

Contributions

The Home expects to contribute \$ 145,000 to the pension plan for the year ended December 31, 2006.

Estimated Future Benefit Payments

The following future benefit payments are expected to be paid:

| Year Ending December 31: | Future B | enefit Payments |
|--------------------------|----------|-----------------|
| 2006 | \$ | 70,388 |
| 2007 | | 74,354 |
| 2008 | | 82,514 |
| 2009 | | 91,991 |
| 2010 | | 123,668 |
| 2011-2015 | | 856,244 |

Curtailment of Pension Plan

The defined benefit pension plan of the Home was curtailed and benefits under the plan were frozen at December 31, 2004. The cost to curtail the plan included in operations was \$49,397 for 2004.

Note 10. Bequests Receivable

Included in bequests receivable are the following unconditional promises to give:

| | 2005 | | 2004 |
|-------------------------|---------|--------------------|-------------|
| Receivable from estates | \$ | 0 \$ | 20,082 |
| Annuity contracts | 3,09 | 9 | 8,416 |
| | \$ 3,09 | <u>9</u> <u>\$</u> | 28,498 |
| Amounts due in: | | | |
| Less than one year | \$ 3,09 | 9 \$ | 25,399 |
| One to five years | |) | 3,099 |
| Total | \$ 3,09 | <u>\$</u> | 28,498 |

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | 2005 | 2004 |
|---------------------|------------------|-----------|
| Program Services | | |
| Nursing Scholarship | <u>\$ 27,052</u> | \$ 26,591 |

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

| | | 2005 | 2004 |
|---------------------------------------|----|-----------|-----------------|
| Program Services | | | |
| General operating expenses and aviary | \$ | 4,916,528 | \$ 4,909,453 |
| Benevolent care | - | 226,216 | 226,216 |
| | \$ | 5,142,744 | \$ 5,135,669 |

Note 13. Net Assets Released From Restrictions

| Program restrictions accomplished | i | | |
|-----------------------------------|----|------|-------|
| Program Services | | | |
| Nursing education | \$ | 0 \$ | 7.260 |

2005

2004

Note 14. Return On Investments

Return on investments for the years ended December 31, 2005 and 2004 consists of the following:

| | | 2005 | 2004 |
|---------------------------------------|----|-----------|---------|
| Interest income from cash | \$ | 11,671 \$ | 5,953 |
| Interest and dividends on investments | | 28,198 | 43,382 |
| Investment expenses | (| 6,992) (| 10,877) |
| Net realized gain on investments | - | 7,358 | 139,202 |
| | \$ | 40,235 \$ | 177,660 |

Note 15. Deferred Expenses

Deferred expenses at December 31, 2005 and 2004 represent development costs associated with the Home's overall "Master Plan" for future development of its retirement community and initial direct costs of obtaining lease contracts for the independent living units. The unamortized deferred expenses relating to the above were \$ 3,500 and \$ 11,279 at December 31, 2005 and 2004, respectively. The "Master Plan" costs are being amortized over a period of 10 years. The costs of obtaining the lease contracts are amortized over the estimated life expectancy of the residents, which is nine years.

Also included in deferred expenses are the initial costs of a feasibility study conducted in 2002. Total unamortized costs amounted to \$13,612 at December 31, 2005 and 2004, respectively.

The costs incurred in obtaining the tax exempt financing through the Waynesboro Borough Authority have been recognized as a deferred expense. The unamortized deferred financing costs amounted to \$80,795 and \$85,046 at December 31, 2005 and 2004, respectively. These costs are amortized over the term of the loan which is 30 years.

Note 16. Off Balance Sheet Risks

At December 31, 2005 the Home had deposits and certificates of deposit at various local financial institutions which exceeded the Federal Deposit Insurance Corporation limits by \$1,471,137. This situation occurs throughout the year and management considers it a normal business risk.

Note 17. Concentrations of Credit Risk

The Home grants credit without collateral to its residents, many of whom are insured under third-party payor agreements. The mix of receivables from residents and third-party payors at December 31 was as follows:

| | 2005 | 2004 |
|----------------------|-------------|-------------|
| Self-pay residents | 41% | 46% |
| Medicaid | 23% | 25% |
| Medicare | 20% | 19% |
| Commercial insurance | <u>16%</u> | 10% |
| | <u>100%</u> | <u>100%</u> |

Note 18. Operating Leases

The Home leases computer equipment with a lease term through April 2006. Total lease expense was \$ 9,018 for 2005 and 2004, respectively. The monthly payments are \$ 751 and the lease can be renewed. The aggregate amount of lease payments over the next year is as follows:

2006

\$3,004

Note 19. Professional Liability Insurance

The organization is currently insured for professional liability under a claims-made policy. A liability for incurred but not reported claims has not been made because management knows of no reported claims during the policy term.

Note 20. Going Concern Uncertainty

Quincy United Methodist Home's financial statements for years prior to 2005 had reported a significant reduction in operating cash flow and as well as net assets. These factors initially created an uncertainty about Quincy United Methodist Home's ability to continue as a going concern. Management implemented major changes in 2004 and continued these changes in 2005 in order to improve the results of operations. These changes entailed rate increases, attempts to increase occupancy levels, curtailment of the pension plan in 2004 and staffing reductions. In 2005, Quincy received \$ 551,244 of net supplemental payments from Medical Assistance. In addition, the cost controls resulted in a reduction of expenses from the prior year of \$ 1,254,223. By the end of 2005, Quincy's operating results had improved from a \$ 1.5 million decrease in unrestricted net assets in 2004 to a \$ 159,142 increase in unrestricted net assets in 2005.

Management anticipates additional operational improvements in 2006. The 2006 operating budget includes cost controls (i.e. staff reductions, reductions in agency use of nursing personnel) and emphasizes maximizing revenues with rate increases and projected increases in the occupancy levels of the various levels of care. In addition, during 2005, Quincy began a more focused marketing effort that will continue through 2006.

The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

Note 21. Restatement of Net Assets

As part of the dissolution of Quincy Home Integrated Health System and the transfer of assets to Quincy United Methodist Home on January 1, 2005, management has reviewed documentation related to the funding of the Benevolent Care Fund assets to determine whether or not the restrictions on the assets were donor designated or Board designated. After careful review of this documentation, management concluded only a portion of the Benevolent Care Fund assets should be considered permanently restricted funds. This amount was \$ 226,216 based upon documentation in the Board of Directors minutes. Management believes all other assets in the Benevolent Care fund were Board designated gifts and can be considered unrestricted.

As a result of this change in understanding, the permanently restricted net assets for 2004 were decreased by \$4,370,710 and transferred to unrestricted and undesignated net assets. In addition, temporarily restricted net assets included unrestricted benevolent care income. Temporarily restricted net assets were decreased by \$113,935 and this amount was transferred to unrestricted and undesignated net assets.

This had no effect on the total assets, liabilities, net assets or change in nets assets for 2004.



INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Board of Directors Quincy United Methodist Home Quincy, Pennsylvania

Our report on our audits of the basic financial statements of Quincy United Methodist Home for 2005 and 2004 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed statements of revenue, gains and other support, the detailed statements of operating expenses, and the statutory liquid reserve calculation are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Smith Elliatt Kearn & Company, LLC.

Chambersburg, Pennsylvania February 3, 2006

DETAILED STATEMENTS OF REVENUE, GAINS, AND OTHER SUPPORT Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|---|---------------|---------------|
| Net resident services | | |
| Gross resident service revenue | \$ 8,752,155 | \$ 9,505,909 |
| Other ancillary revenue | 1,545,155 | 1,193,248 |
| Deductions from revenue | (1,011,545) | (1,388,590) |
| Independent living units | 2,546,569 | 2,288,112 |
| Other | 76,374 | 53,851 |
| Total | 11,908,708 | 11,652,530 |
| Other program income | | |
| Day care | 0 | 116,790 |
| Meals - Nonresidents | 8,408 | 19,268 |
| Other | 299,591 | 104,443 |
| Total | 307,999 | 240,501 |
| Gifts, bequests, and contributions | | |
| Bequests | 36,344 | 6,892 |
| Contributions | 130,183 | 229,568 |
| Memorials | 400 | 1,086 |
| Total | 166,927 | 237,546 |
| Other: | | |
| Investment income | 40,235 | 177,660 |
| Trust income | 199,596 | 172,141 |
| Gain (Loss) from sale of property and equipment | 1,789 | 11,992 |
| Net assets released from restrictions | 0 | 7,260 |
| Total | 241,620 | 369,053 |
| Total revenue, gains, and other support | \$ 12,625,254 | \$ 12,499,630 |

DETAILED STATEMENTS OF OPERATING EXPENSES Years Ended December 31, 2005 and 2004

| | 2005 | 2004 |
|-------------------------------------|--------------|-------------------|
| Nursing Services: | | |
| Salaries | \$ 3,484,520 | \$ 3,605,116 |
| Payroll taxes and employee benefits | 458,184 | 948,445 |
| Medical and other supplies | 204,128 | 197,307 |
| Repairs | 23,851 | 24,498 |
| Utilities | 17,737 | 23,222 |
| Other | 351,764 | 202,439 |
| Total | 4,540,184 | 5,001,027 |
| Ancillary Services: | | |
| Supplies | 25,428 | 40,942 |
| Drugs | 204,342 | 248,936 |
| Speech therapy fees | 107,781 | 95,753 |
| Occupational therapy fees | 234,579 | 194,976 |
| Oxygen charges | 11,387 | 14,857 |
| Other ancillary expenses | 45,962 | 29,587 |
| Total | | |
| 1000 | 629,479 | 625,051 |
| Physical Therapy: | | |
| Repairs | 146 | 157 |
| Physical therapy fees | 319,037 | 167,515 |
| Total | 319,183 | 167,672 |
| Music Therapy: | | |
| Salaries | 0 | 26,729 |
| Payroll taxes and employee benefits | 0 | 6,580 |
| Other | _ | |
| | 0 | 1,444 |
| Total | 0 | 34,753 |
| Quincy Village Services: | | |
| Salaries | 208,314 | 271,374 |
| Payroll taxes and employee benefits | 29,481 | 67,668 |
| Supplies | 7,862 | 15,569 |
| Repairs | 48,695 | 46,832 |
| Utilities | 88,776 | 88,280 |
| Other | 121,556 | 126,535 |
| Total | 504,684 | 616,258 |
| Maintenance Services: | | |
| Salaries | 456,619 | 556,719 |
| Payroll taxes and employee benefits | 66,779 | 169,433 |
| Supplies | 3,165 | 3,330 |
| Repairs | 37,781 | |
| Utilities | 339,841 | 34,562 |
| Other | 112,680 | 334,402 89,747 |
| Total | | |
| i Otal | 1,016,865 | 1,188,193 |

DETAILED STATEMENTS OF OPERATING EXPENSES (CONTINUED) Years Ended December 31, 2005 and 2004

| | 2005 | |
|-------------------------------------|------------|------------|
| Property Expense: | | |
| Insurance | \$ 381,370 | \$ 383,487 |
| Property taxes | 354,057 | 313,513 |
| Interest | 347,482 | 380,978 |
| Amortization | 12,028 | 12,028 |
| Depreciation | 1,310,118 | 1,393,261 |
| Total | 2,405,055 | 2,483,267 |
| Dietary Services: | | |
| Salaries | 337,609 | 364,512 |
| Payroll taxes and employee benefits | 46,293 | 130,084 |
| Supplies | 295,600 | 324,599 |
| Repairs | 5,161 | 7,656 |
| Other | 354,500 | 360,933 |
| Total | 1,039,163 | 1,187,784 |
| Housekeeping Services: | | |
| Salaries | 231,858 | 258,062 |
| Payroll taxes and employee benefits | 34,895 | 86,249 |
| Supplies | 40,679 | 30,956 |
| Repairs | 205 | 227 |
| Other | 984 | 1,487 |
| Total | 308,621 | 376,981 |
| Social Services | | |
| Salaries | 149,235 | 156,605 |
| Payroll taxes and employee benefits | 25,295 | 77,855 |
| Supplies | 4,589 | 3,891 |
| Repairs | 219 | 303 |
| Other | 25,642 | 21,652 |
| Total | 204,980 | 260,306 |
| Laundry Services: | | |
| Salaries | 46,517 | 28,742 |
| Payroll taxes and employee benefits | 6,206 | 5,350 |
| Other | 90,207 | 99,981 |
| Total | 142,930 | 134,073 |

DETAILED STATEMENTS OF OPERATING EXPENSES (CONTINUED) Years Ended December 31, 2005 and 2004

| | 2005 | 2004 | | |
|-------------------------------------|------------|------------|--|--|
| Day care and retreat center: | | | | |
| Salaries | \$ 0 | \$ 84,711 | | |
| Payroll taxes and employee benefits | 3,939 | 19,726 | | |
| Supplies | 337 | 2,091 | | |
| Repairs | 824 | 2,203 | | |
| Utilities | 13,252 | 10,538 | | |
| Other | 931 | 12,934 | | |
| Total | 19,283 | 132,203 | | |
| Beauty parlor: | | | | |
| Salaries | 17,484 | 15,814 | | |
| Payroll taxes and employee benefits | 2,009 | 6,182 | | |
| Supplies | 837 | 932 | | |
| Repairs | 83 | 45 | | |
| Other | 1,344 | 1,927 | | |
| Total | 21,757 | 24,900 | | |
| Marketing | 34,779 | 24,167 | | |
| Total Program Services | 11,186,963 | 12,256,635 | | |
| Administrative Services: | | | | |
| Salaries | 497,296 | 719,950 | | |
| Payroll taxes and employee benefits | 75,960 | 203,262 | | |
| Supplies | 21,151 | 17,951 | | |
| Repairs | 2,950 | 2,010 | | |
| Utilities | 32,962 | 33,343 | | |
| Insurance | 11,552 | 11,039 | | |
| Nursing bed assessment | 157,202 | 0 | | |
| Other | 361,242 | 362,247 | | |
| Total | 1,160,315 | 1,349,802 | | |
| Bad Debts | 49,960 | 3,548 | | |
| Marketing and fundrasing | 40,525 | 38,472 | | |
| Depreciation | 33,211 | 36,561 | | |
| Total Administration | 1,284,011 | 1,428,383 | | |

DETAILED STATEMENTS OF OPERATING EXPENSES (CONTINUED) Years Ended December 31, 2005 and 2004

| | 20 | 05 | 2004 | |
|-------------------------------------|----------------|---------|-----------|------------|
| Fund Raising | | | | |
| Salaries | \$ | 0 | \$ | 34,183 |
| Payroll taxes and employee benefits | | 0 | | 7,425 |
| Depreciation | | 0 | | 232 |
| Other | | 6,366 | | 4,705 |
| Total Fund Raising | | 6,366 | | 46,545 |
| Total Expenses | <u>\$ 12,4</u> | 177,340 | \$ | 13,731,563 |

STATUTORY LIQUID RESERVE CALCULATION December 31, 2005

| 10% of Projected Operating Expenses Projected Operating Expenses for the year ended December 31, 2006 | | \$ | 2,273,406 | | |
|---|---|----|-----------|----------|-----------|
| Less: Expenses attributable to the statutory reserve liquid asset for mortgage debt | | (| 237,000) | ł | |
| Less: Depreciation and amortization expense | • | (| 969,727) | <u>.</u> | |
| Projected Operating Costs, excluding interest and Depreciation | | | | \$ | 1,066,679 |
| | | | | | 10% |
| | | | | \$ | 106,668 |
| Long-term Financing Current Debt Service Requirements | | | | \$ | 327,896 |
| Conclusion | | | | | |
| Liquid Reserve Required | | | ; | \$ | 327,896 |
| Funds available to meet Liquid Reserve Requirements | | | : | \$ | 343,825 |