PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

BOARD OF DIRECTORS	1
INDEPENDENT AUDITORS' REPORT	2
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	44
CONSOLIDATING INFORMATION	
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	45
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS	59

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
BOARD OF DIRECTORS
SEPTEMBER 30, 2012

Past Chairs		Officers	
Dr. Edwin Kagin	- 1948-1952	Chair	- Mr. Robert S. Dunbar
Dr. Irving A. West	- 1952-1984	Vice Chair	- Mr. Harold J. Wiens
Dr. B.J. Kennedy	- 1985-1989	President/Chief Executive	- Mr. Daniel A. Lindh
Mr. Donald E. Garretson	- 1989-1991	Secretary	- Ms. Janna R. Severance
Mr. Hugh K. Schilling	- 1991-1993	Treasurer/Chief Financial (	- Mr. Mark T. Meyer
Mr. Robert H. Bratnober	- 1993-1995		
Mr. Peter Heegaard	- 1995-1997		
Mr. Donald M. Davies	- 1997-2001		
Mr. Martin V. Chorzempa	- 2002-2003		
Ms. Sally E. Howard	- 2004-2005		
Mr. Michael C. Bingham	- 2006-2008		
Mr. Austin Chapman	- 2009-2010		

Directors

	No. of Years Served		No. of Years Served
Berglund, Mr. Donald	-	Olson, Mrs. Carole Mae	8
Chapman, Mr. Austin	7	Olson, Dr. Philip K.	5
Chien, Mr. Theodore	7	Tortelli, Mr. Ronald C.	7
Doyle, Mrs. Megan A.	8	Weicht, Mr. Scott A.	9
Dunbar, Mr. Robert S.	9	Wiens, Mr. Harold J.	5
Emmerich, Mrs. Karol D.	6	Brown, Rev. Dr. Philip C.	Synod Representative (Ex-officio)
Larson, Mr. Kenneth S.	2		
Olson, Mr. Allen I.	6		

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Presbyterian Homes and Services and Affiliates
Roseville, Minnesota

We have audited the accompanying consolidated statements of financial position of Presbyterian Homes and Services and Affiliates as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes and Services and Affiliates as of September 30, 2012 and 2011, and the results of their operations and changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 4, 2012

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND 2011
(DOLLAR AMOUNTS IN THOUSANDS)

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents:		
Unrestricted	$ 45,318	$ 41,432
Restricted for Residents	5,487	4,926
Cash Held or Restricted, Current Portion	25,565	15,505
Accounts Receivable, Net	18,341	17,146
Pledges Receivable, Current Portion	110	110
Prepaid Expenses and Other Assets	1,870	1,637
Total Current Assets	96,691	80,756
INVESTMENTS AND OTHER ASSETS		
Investments and Cash Held or Restricted:		
By Agreements with Trustees and Others	117,508	55,479
Restricted by Donors and Others	11,881	15,074
Replacement Reserves	13,537	22,399
Endowment Funds, Including Perpetual Trust	47,422	40,562
Pledges Receivable	2,182	3,328
Deferred Financing Costs, Less Accumulated Amortization	15,854	15,697
Investment in Other Entities	15,821	19,429
Other Assets	9,675	25,171
Total Investments and Other Assets	233,880	197,139
PROPERTY AND EQUIPMENT		
Land	138,562	94,433
Building and Land Improvements	666,993	643,599
Equipment and Furnishings	99,688	88,335
Automotive Equipment	1,545	1,414
Construction in Progress	46,714	16,443
Subtotal	953,502	844,224
Less: Accumulated Depreciation	228,918	202,064
Net Property and Equipment	724,584	642,160
Total Assets	$ 1,055,155	$ 920,055

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 12,570	$ 11,412
Accounts Payable	6,604	6,611
Construction Payable	7,673	2,043
Security Deposits and Other Resident Fund Payables	4,766	4,287
Accrued Payroll and Benefits	11,427	9,943
Accrued Interest and Other	20,156	15,870
Total Current Liabilities	63,196	50,166
LONG-TERM DEBT AND OTHER OBLIGATIONS		
Long-Term Debt, Less Current Maturities	724,915	617,816
Resident Notes Payable and Entrance Loan Deposits	81,278	73,698
Other	21,512	24,991
Total Long-Term Debt and Other Obligations	827,705	716,505
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted, Undesignated	114,186	103,614
Unrestricted, Designated by Board for Endowment Fund	9,748	8,802
Non-Controlling Interest	(354)	(354)
Total Unrestricted	123,580	112,062
Temporarily Restricted	3,836	9,171
Permanently Restricted	36,838	32,151
Total Net Assets	164,254	153,384
Total Liabilities and Net Assets	$ 1,055,155	$ 920,055

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(DOLLAR AMOUNTS IN THOUSANDS)

	2012	2011
OPERATING REVENUE	$ 279,147	$ 268,521
OPERATING EXPENSE		
Services to Residents	177,196	165,928
General and Administrative	35,601	34,445
Interest	27,065	25,811
Depreciation and Amortization	31,321	29,014
Total Operating Expense	271,183	255,198
OPERATING INCOME	7,964	13,323
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT		
Unrestricted Contributions	1,198	2,991
Income from Endowment Investments	522	235
Net Change in Fair Value of Investments	3,391	1,069
Interest Rate Swap Market Adjustment	2,117	(3,616)
Loss on Refinancing	(2,610)	(656)
Loss on Asset Disposal	(5,275)	(2,488)
Fundraising Expense	(1,585)	(1,235)
Other Nonoperating Income	(212)	(210)
Total Nonoperating Gains (Losses) and Other Support	(2,454)	(3,910)
EXCESS OF REVENUE OVER EXPENSE	5,510	9,413
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Distributions	(200)	-
Net Assets Released from Restriction	6,208	6,163
CHANGE IN UNRESTRICTED NET ASSETS	11,518	15,576
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	873	9,663
Net Assets Released from Restriction	(6,208)	(6,163)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(5,335)	3,500
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	601	940
Gain (Loss) from Endowment Investments	4,086	(1,629)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	4,687	(689)
CHANGE IN NET ASSETS	10,870	18,387
Net Assets - Beginning of Year	153,384	134,997
NET ASSETS - END OF YEAR	$ 164,254	$ 153,384
SUPPLEMENTAL DISCLOSURE OF TOTAL REVENUE AND EXPENSE		
Operating Revenue	$ 279,147	$ 268,521
Total Contributions	2,672	13,594
Total Revenue	281,819	282,115
Operating Expense	271,183	255,198
Other Nonoperating Losses	(234)	8,530
Total Operating Expenses and Other Nonoperating Losses	270,949	263,728
Change in Net Assets	$ 10,870	$ 18,387

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(DOLLAR AMOUNTS IN THOUSANDS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 10,870	$ 18,387
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	30,388	29,635
Amortization	933	867
Loss on Refinancing	2,610	656
Contributions Restricted for Capital Expenditures or Endowments	(1,474)	(10,603)
Net Change in Fair Value of Investments	(7,477)	560
Interest Rate Swap Market Adjustment	(2,117)	3,616
Changes in Assets and Liabilities:		
Receivables	(1,195)	1,154
Prepaid Expenses and Other Assets	(1,668)	(5,627)
Pledge Receivable	1,146	(1,285)
Accounts Payable	(7)	562
Accrued Expenses	4,408	1,280
Net Cash Provided by Operating Activities	36,417	39,202
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(107,182)	(81,139)
Change in Amounts Held with Trustees and Others	(70,648)	(40,167)
Change in Other Restricted Investments	11,149	2,140
Investments in or Advances to Affiliated Entities and Changes in Other Assets	3,608	1,603
Net Cash Used by Investing Activities	(163,073)	(117,563)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(4,778)	(14,657)
Proceeds from Long-Term Debt	129,966	81,094
Proceeds from Resident Entrance Loan Deposits	16,964	9,351
Payments on Resident Entrance Loan Deposits	(9,384)	(3,469)
Financing Costs Paid	(3,700)	(3,668)
Cash Received from Contributions Restricted for Capital Expenditures or Endowment	1,474	10,603
Net Cash Provided by Financing Activities	130,542	79,254
NET INCREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	3,886	893
Unrestricted Cash and Cash Equivalents - Beginning	41,432	40,539
UNRESTRICTED CASH AND CASH EQUIVALENTS - ENDING	$ 45,318	$ 41,432

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(DOLLAR AMOUNTS IN THOUSANDS)

	2012	2011
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest (Net of Interest Capitalized)	$ 24,606	$ 27,694
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property Acquired through Construction Payable	$ 7,788	$ 358
Refinanced Long-Term Debt	$ 63,761	$ 26,025

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The consolidated financial statements include the consolidated accounts of Presbyterian Homes and Services and Affiliates (the Organization), a Minnesota not-for-profit corporation structured similar to a holding company for care centers and other senior residences, services to community participants and projects being developed. Several of the care centers, communities and divisions are incorporated as non-profit corporations or limited liability companies. The Organization operates primarily in the Twin Cities, Minnesota, metropolitan area, with two campuses in Iowa, located in Ankeny and Williamsburg, and three campuses in Wisconsin, located in Pewaukee, New Richmond and Waukesha. During the year ended September 30, 2012, the Organization sold 1221 Nicollet. As of September 30, 2012, the Organization was comprised of the following:

Divisions	Activity
Care Centers	Care centers provide a variety of skilled nursing and other services and programs to their residents. There are currently 13 skilled nursing communities with a total of 1,315 beds in service.
Housing and Assisted Living	Housing and assisted living communities provide room rentals and services to residents at 30 communities. There are a total of 4,970 units in communities that include independent living and assisted living apartments, duplexes and town houses. Some of the units are restricted for rental to elderly tenants that meet income restrictions, and the rental rate may be restricted.
Optage	Provides a variety of services to community participants in their homes from home-delivered meals and companionship to personal care, therapies and end-of-life care.
Management and Services	Administrative support for the affiliated organizations and similar not-for-profit organizations.
Foundation	Recipient of the Organization's fund-raising efforts.
Development, Marketing and Design Services	Provide a comprehensive package of market research, strategic planning, project development, financing, construction, interior design, marketing and management for the senior housing industry.

As of September 30, 2012, the Organization also has contributed capital and appoints board members in four non-profit relationships. These consolidated financial statements do not include the accounts of the joint ventures, as the Organization does not control them (see Note 5).

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Affiliation and Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its affiliates. All material intercompany balances, transactions, and earnings have been eliminated in consolidation.

Non-controlling Interest

The non-controlling interest includes other partners' interests related to the venture of Central Towers Limited Partnership. The Organization is the general partner of Central Towers Limited Partnership, which is consolidated in these financial statements. A pro rata share of the net assets applicable to the other partner's interest in Central Towers Limited Partnership has been recognized in the Organization's consolidated financial statements as non-controlling interest.

Tax Exempt Status

The Organization and its affiliates are generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the state statutes; consequently, no provision has been made for income taxes. However, there are immaterial amounts of unrelated business income in certain affiliates that are taxable.

The Organization follows the accounting standard for contingencies in evaluating uncertain tax positions. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS. The Organization's tax returns for the 2009, 2010, and 2011 fiscal years are open to examination by the IRS.

Community Benefit

The Organization provides a subsidy to certain residents, based on their income levels, to reduce the charges for rents and services. Because the Organization does not pursue collection of amounts determined to qualify as community support, they are not reported as revenue. As part of its operations, the Organization provides various services, outreach programs and support programs at a low cost to the community. The amount by which the costs of providing these services exceed the revenue earned is considered community support. During the years ended September 30, 2012 and 2011, the amount of community support provided was approximately $2,221 and $2,900, respectively.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Basis of Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board of directors has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. The Organization has elected to present temporarily restricted contributions that are fulfilled in the same period within the unrestricted net assets class. These are primarily contributions that are restricted for the acquisition of property and equipment.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. A significant portion of the income derived from these resources is used for capital investments, new project development, and furtherance of the Organization's mission. A large portion of the assets are held by a trust for the Organization.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Income earned on temporary or permanently restricted support, including capital appreciation is recognized in the period earned. Conditional promises to give cash or other assets are recorded when the condition has been satisfied.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess of Revenue Over Expense

The consolidated statements of operations and changes in net assets include excess of revenue over expense. Changes in unrestricted net assets which are excluded from excess of revenue over expense, consistent with industry practice, include unrealized gains and losses on non-trading securities, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

The financial performance of the Organization is influenced by the startup of new projects. For each of the years ended September 30, 2012 and 2011, the Organization has been in various stages of developing, constructing and leasing new projects. The Organization expenses, as they are incurred, all of the costs associated with the marketing and preparation of these projects for opening and also incurs expense over revenue as these projects are leased up to stabilized occupancy. The Organization incurred expense in excess of revenue of approximately $2,336 and $112 for 2012 and 2011, respectively, related to these new projects.

Cash and Cash Equivalents

For purposes of the statements of cash flows the Organization considers all unrestricted, undesignated cash accounts, certificates of deposit and highly liquid debt instruments with a maturity of three months or less when purchased to be cash and cash equivalents. The carrying amount of cash equivalents is a reasonable estimate of fair value.

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and temporary cash investments. The Organization believes it places its cash and cash equivalents and temporary cash investments with high quality credit institutions. At times such investments may be in excess of the FDIC insurance limit.

The Organization has investments in a variety of investment funds. In general, investments are exposed to various risks such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that change in the values of the investments will occur in the near term and that such changes could materially affect account balances and the statements of operations.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Cash Held or Restricted

Investments and cash held or restricted includes assets held by trustees under bond and mortgage indenture agreements, assets held under HUD mortgage agreements, assets restricted by donors, replacement reserves (designated by the Organization over which it retains control and may, at its discretion, subsequently use for other purposes), and assets held as endowment funds, including perpetual trusts. Investments in debt and equity securities with readily determinable fair market values are measured at fair value in the accompanying consolidated statements of financial position. The fair value of the perpetual trust approximates the estimated present value of the future cash flows. The current portion of restricted cash and investments is determined based upon the amount required to meet current liabilities for which the cash is restricted.

Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments, interest, and dividends) are included in excess of revenue over expense unless the income or loss is restricted by donor. Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recognized when earned. Realized gains and losses are recognized based upon specific identification, and unrealized gains and losses are recognized based upon the change in fair values of investments between reporting periods and reported as net change in fair value of investments.

Under the HUD regulatory agreements, the HUD entities are required to make deposits into restricted escrow, reserve for replacement and residual receipt accounts. All disbursements from the reserve for replacement and residual receipts account require proper written approval from HUD.

Accounts Receivable

The Organization uses the allowance method to account for uncollectible accounts. The allowance is based on management's estimate of potential bad debts, historical collection history and by considering the resident's financial history, credit history, and economic condition. When the Organization has exhausted all collection efforts and accounts are deemed uncollectible, they are charged to bad debt expense. Accounts receivable are net of an allowance for doubtful accounts of approximately $482 and $692 as of September 30, 2012 and 2011, respectively.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Pledges are recorded as receivables in the year made. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledges are received. Amortization of the discount is included as additions to the appropriate donor restricted net asset classification.

Tax Increment Financing

The Organization has various tax increment financing (TIF) agreements, whereby the Organization will receive a portion of the annual tax increment generated by the project facilities with the TIF agreements. The Organization does not record the notes receivable as an asset, as the realization of the notes is contingent on the Organization complying with the terms and conditions of the TIF agreements and paying future annual real estate taxes. The Organization reports the annual real estate tax expense net of the estimated annual TIF reimbursement. The annual TIF reimbursement was approximately $1,235 and $2,015 for the years ended September 30, 2012 and 2011, respectively.

Deferred Financing Costs and Amortization

Deferred financing costs of $19,917 and $20,010 at September 30, 2012 and 2011, respectively, are amortized over the terms of the related debt using the effective interest method. Accumulated amortization was $4,063 and $4,313 at September 30, 2012 and 2011, respectively.

Investment in Other Entities

Investment in other entities includes share certificates owned in a Cooperative, and investments in not-for-profit unconsolidated joint ventures that are recorded at cost, and an investment in a for-profit joint venture that is recorded under the equity method of accounting. During the years ended September 30, 2012 and 2011, the Organization bought out the other member's share of joint ventures. As a result, the Organization consolidated these entities (see Note 6).

Property and Equipment

Property and equipment are recorded at cost for purchased assets or fair value at date of receipt for donated assets. Depreciation is computed on the straight-line method over the following lives:

Buildings and Land Improvements	10 - 50 Years
Equipment and Furnishings	5 - 12 Years
Automotive Equipment	3 - 5 Years

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Contributed property, equipment, and material is recorded at fair value at the date of donation. A contribution is also recognized when assets or businesses are acquired where the fair value of the assets exceeds the purchase price. If donors stipulate how long property or equipment is to be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property, equipment, and materials are recorded as unrestricted support.

Maintenance, repairs, and replacements which do not improve the assets or extend the assets' lives are expensed as incurred.

Construction and development costs have been deferred until the projects have been completed. When the projects are completed, these costs will be capitalized and depreciated over the life of the projects. If the projects are cancelled, the construction and development costs are expensed during that period.

The Organization reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the asset to the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset. Should the sum of the undiscounted cash flows be less than the carrying value, the Organization would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount which the carrying value exceeds its fair value.

Interest Capitalization

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation.

Resident Notes Payable and Entrance Loan Deposits

Certain residents that rented units at certain facilities made entrance loan deposits totaling approximately $81,278 and $73,698 as of September 30, 2012 and 2011, respectively. Some of the tenants received interest-bearing notes for their deposits, but most received non-interest bearing notes. The deposits were or are expected to be used by the Organization to fund construction costs as an alternative to conventional financing methods. The notes and deposits are due 90 to 120 days after the resident moves out. The Organization anticipates that the notes and deposits that come due, as a result of the resident moving out, will be repaid from the proceeds of the next resident moving in. However, if this does not occur, the funds designated by the board of directors as repair and replacement reserves (see Note 2) will be used.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Notes Payable and Entrance Loan Deposits (Continued)

The repair and replacement reserves and the resident notes are reported as long-term asset and liability, respectively, on the consolidated statements of financial position. At each of the facilities, the contracts with the residents limit the total amount of the deposits that the Organization must return at any one time. The maximum amounts at each of the facilities range from $100 to $2,000. If at any time the net amount it has returned to former residents exceeds the amount that it has received from new tenants by the applicable maximum amount, the Organization is not required to refund additional deposits until new deposits are collected bringing the amount owed under the maximum amount.

Asset Retirement Obligation

Asset retirement obligation represents obligations to dispose of assets that are legally required to be removed at a future date. These are recorded at the net present value using a risk-free interest rate and inflationary rate and are included in other long-term liabilities on the consolidated statements of financial position.

Resident Service Revenue

The primary source of housing and assisted living revenue is rental charges to residents. Rental revenue is recognized ratably over the terms of the leases, which are generally on a month-to-month basis. Revenue from services provided is recognized when they are provided. Resident service revenue, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, adjusted by an estimate made for contractual adjustments or discounts provided to third-party payors.

Certain Care Centers of the Organization charge rates for most services that are provided primarily through third-party payors including the Medical Assistance and Medicare programs. The Medical Assistance programs are established in accordance with rules established by the states of Minnesota, Wisconsin and Iowa. The Medicare program is administered by the United States Centers for Medicare and Medicaid Services (CMS). The rates charged to residents in these facilities are subject to retroactive adjustment based on audits. The Organization does not expect adjustments (if any) to be material to the consolidated financial statements and, accordingly, no provision for adjustments has been recorded.

Revenues of approximately $34,610 and $33,805 from Medical Assistance care center residents and $5,272 and $5,697 from Elderly Waiver residents were recognized for the years ended September 30, 2012 and 2011, respectively. Medical Assistance accounts receivable were approximately $3,312 and $3,631 and Elderly Waiver accounts receivable were approximately $168 and $697 for the years ended September 30, 2012 and 2011, respectively. Revenues of approximately $24,553 and $26,743 from Medicare residents were recognized for the years ended September 30, 2012 and 2011, respectively. Medicare accounts receivable were approximately $3,158 and $3,607 for the years ended September 30, 2012 and 2011, respectively.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services, since no objective basis is available to measure the value of such services, and the types of services received do not meet accounting principles generally accepted in the United States of America's criteria for recognition. Nevertheless, volunteers gave approximately two hundred and twenty thousand hours of their time to the Organization during the year ended September 30, 2012. The Organization tracks community impact activities which are reported separately under the Organization's annual Social Accountability Report.

Interest Rate Swaps

The Organization records all derivative instruments, currently consisting of interest rate swap agreements, on the consolidated statements of financial position at their respective fair values and all changes in fair value in the consolidated statement of operations as interest rate swap market adjustment.

Fair Value Measurements

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value, however may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events

In preparing these consolidated financial statements, the Organization has considered events and transactions that have occurred through December 4, 2012, the date the consolidated financial statements were available to be issued.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform with the current year basis of presentation. These reclassifications had no effect on the overall net assets of the Organization.

NOTE 2 INVESTMENTS AND CASH HELD OR RESTRICTED

The fair value of investments is based upon quoted market prices for those or similar investments. The fair value of the perpetual trust approximates the estimated present value of the future cash flows. Guaranteed investment contracts are recorded at contract cost. At September 30, 2012 and 2011, the Organization had investments in the following categories:

	2012	2011
Cash and Cash Equivalents	$ 43,237	$ 63,330
Mutual Funds	7,721	5,879
U.S. Government Securities	24,920	4,023
Guaranteed Investment Contracts (GICs)	-	5,718
Corporate Bonds	81,312	15,499
Common Stocks	7,700	6,082
Municipalities	1,177	3,879
Alternative Investments	671	675
Certificates of Deposit	20,362	19,093
Perpetual Trust	28,813	24,841
Total	$ 215,913	$ 149,019

NOTE 2 INVESTMENTS AND CASH HELD OR RESTRICTED (CONTINUED)

Total recorded income and gains on investments consist of the following:

	Years Ended September 30,	
	2012	2011
Operating Revenues:		
Investment Income - Other	$ 5,604	$ 5,088
Nonoperating Revenues:		
Investment Income - Endowment Funds	522	235
Net Change in Fair Value of Investments	7,477	(560)
Total	$ 13,603	$ 4,763

Investments and cash restricted for specific purposes are based on bond indentures, board designation or other agreements. A description and composition of these funds at September 30 are as follows:

	2012	2011
Reserve Fund - Available for payments to Bond Fund in the event that sufficient funds are not available to meet debt service requirements. Interest earned which accumulates in excess of reserve requirements may be transferred to the Bond Fund.	$ 29,722	$ 18,888
Bond Fund - Available for payment of principal and interest on bonds	18,971	8,431
Project Fund - Available for payments for construction of facilities, startup and other project costs	82,460	28,549
Resident entrance deposits and other cash and investments designated for future construction costs	10,083	10,887
Restricted by agreements with HUD	377	406
Restricted by agreement with Minnesota Department of Commerce pledged as security for workers' compensation self-insurance reserves (see Note 12)	3,802	3,561
Replacement Reserves - funds designated by the Organization for future repairs and replacements and restricted by HUD	13,537	22,399
Endowment Funds, including perpetual trust	47,422	40,562
Restricted by financing arrangements and other	9,539	15,336
Subtotal	215,913	149,019
Less: Current Portion	25,565	15,505
Total	$ 190,348	$ 133,514

NOTE 2 INVESTMENTS AND CASH HELD OR RESTRICTED (CONTINUED)

Approximately $6,582 and $5,744 at September 30, 2012 and 2011, respectively, of replacement reserve funds were restricted by agreements with HUD or revenue bonds. The remaining replacement reserves represent funds that are designated by the board of directors for future repairs and replacements or other operating requirements. The funds may also be used to repay resident notes and entrance deposits if required.

NOTE 3 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Nature of Business and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of September 30, 2012 and 2011:

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets	September 30, 2012	Level 1	Level 2	Level 3
Investments and Cash Held or Restricted:				
Mutual Funds	$ 7,721	$ 7,721	$ -	$ -
U.S. Government Securities	24,920	24,920	-	-
Corporate Bonds	81,312	-	81,312	-
Common Stocks	7,700	7,700	-	-
Municipalities	1,177	-	1,177	-
Alternative Investments	671	-	-	671
Perpetual Trust	28,813	-	-	28,813
Total	$ 152,314	$ 40,341	$ 82,489	$ 29,484
Liabilities				
Derivatives	$ 15,918	$ -	$ 15,918	$ -

Assets	September 30, 2011	Level 1	Level 2	Level 3
Investments and Cash Held or Restricted:				
Mutual Funds	$ 5,879	$ 5,879	$ -	$ -
U.S. Government Securities	4,023	4,023	-	-
Corporate Bonds	15,499	-	15,499	-
Common Stocks	6,082	6,082	-	-
Municipalities	3,879	-	3,879	-
Alternative Investments	675	-	-	675
Perpetual Trust	24,841	-	-	24,841
Total	$ 60,878	$ 15,984	$ 19,378	$ 25,516
Liabilities				
Derivatives	$ 18,035	$ -	$ 18,035	$ -

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (Continued)

The following table provides a summary of changes to fair value of the Organizations Level 3 financial assets for the years ended September 30, 2012 and 2011.

	Perpetual Trust	Alternative Investments	Total
Beginning Balance - 10/1/11	$ 24,841	$ 675	$ 25,516
Total Gains or Losses (Realized or Unrealized) for the Year Included in:			
Realized Gains	1,885	-	1,885
Unrealized Gains (Losses)	3,267	(4)	3,263
Disbursements	(1,180)	-	(1,180)
Ending Balance - 9/30/12	$ 28,813	$ 671	$ 29,484

	Perpetual Trust	Alternative Investments	Total
Beginning Balance - 10/1/10	$ 26,384	$ 637	$ 27,021
Total Gains or Losses (Realized or Unrealized) for the Year Included in:			
Realized Gains	1,891	-	1,891
Unrealized Gains (Losses)	(2,191)	38	(2,153)
Disbursements	(1,243)	-	(1,243)
Ending Balance - 9/30/11	$ 24,841	$ 675	$ 25,516

Investments and cash held or restricted (securities) are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. Securities valued using Level 3 includes alternative investments and perpetual trusts that are valued based on the present value of future cash flow from these investments.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (Continued)

Quoted market prices are available and used for exchange-traded derivatives, such as certain interest rate futures and option contracts; such derivatives are classified as using Level 1 inputs. However, substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, fair values are determined using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities and, accordingly, are classified as Level 2 inputs.

Fair Value of Financial Instruments

The following disclosures represent financial instruments in which the ending balances at September 30, 2012 and 2011 are not carried at fair value in their entirety on the consolidated balance sheet.

	September 30, 2012		September 30, 2011	
	Cost	Fair Value	Cost	Fair Value
Long-Term Debt	$ 737,485	$ 732,878	$ 629,228	$ 610,960

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Long-Term Debt

The fair value of long-term debt is calculated based on the estimated trade values as of September 30, 2012 and 2011. The value is estimated using the rates currently offered for like debt instruments with similar remaining maturities.

All Other

The carrying value is a reasonable estimate of the fair value for all other financial instruments due to the short-term nature of those financial instruments.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable as of September 30 consist of the following:

	2012	2011
Unrestricted	$ 10	$ 1,150
Temporarily Restricted	2,435	2,495
Permanently Restricted	40	95
Total Pledges Receivable	2,485	3,740
Less: Unamortized Discount	153	207
Total Net Pledges Receivable	2,332	3,533
Less: Current Portion	110	110
Less: Amount Reported as Endowment Funds	40	95
Non-Current Pledges Receivable	$ 2,182	$ 3,328

Pledges receivable that are permanently restricted, or temporarily restricted for capital, are presented as non-current assets. At September 30, 2012, the amount of pledges expected to be collected within the next five years are as follows:

Year Ending September 30,	Amount
2013	$ 110
2014	2,238
2015	122
2016	5
2017	5
Thereafter	5
Total	$ 2,485

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS

Investment in Gideon Pond Cooperative (the Cooperative)

The Organization has received or purchased share certificates (each share represents the right to occupy a cooperative housing unit in the Cooperative's buildings) and at September 30, 2012 owned 95 cooperative share certificates of 101 total shares. The share certificates are carried at the lower of amortized cost or estimated fair value. All units held by the Organization are currently available to lease to tenants.

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

Investment in Gideon Pond Cooperative (the Cooperative) (Continued)

At September 30, the investment in Gideon Pond Cooperative consisted of the following components:

	2012	2011
Share of Certificates	$ 8,844	$ 8,389
Notes and Accounts Receivable on Sold Certificates	-	184
Garages	250	236
Total	$ 9,094	$ 8,809

Unconsolidated Affiliates

The Organization assists various other not-for-profit corporations with the development of senior housing projects. For some of these entities, the Organization is generally allowed to appoint members to the entity's board of directors, but does not maintain control over the board. Other entities, while operating as not-for-profit entities, are joint ventures with another not-for-profit organization. In these joint ventures, both entities appoint board members, and distributions (if any) are determined by the entities' bylaws and membership control agreements. As a result of not having control, these affiliates (the Unconsolidated Affiliates) are not included in these consolidated financial statements.

The Organization generally provides capital to these Unconsolidated Affiliates to assist them in the project's development. Sometimes these advances fund initial costs, which are reimbursed to the Organization when the project is financed. For the years ended September 30, 2012 and 2011, the Organization has contributed capital of approximately $6,727 and $10,804, respectively, to these Unconsolidated Affiliates, which it has recorded as an investment at its original cost basis. These investments are reduced upon distributions received from the Unconsolidated Affiliates, and the Organization recognizes revenue from distributions received in excess of the original cost basis.

The Organization generally provides management services to the Unconsolidated Affiliates under management contracts. For the years ended September 30, 2012 and 2011, the management fees earned were approximately $615 and $857, respectively.

The Unconsolidated Affiliates at September 30, 2012 include PSA Housing and Assisted Living, Inc. (St. Andrews Village), Crosby Senior Services (Heartwood), Carondelet Village, Inc. and affiliates, and PHS Walnut Ridge, LLC. PHS/VOA Rochester, Inc. (The Homestead of Rochester) was an unconsolidated affiliate at September 30, 2011, VOA bought out PHS's share during the year ended September 30, 2012.

During the year ended September 30, 2011, the Organization bought out its joint venture share in the former PHM/New Richmond Senior Housing, Inc. (The Deerfield) and Shepherd's Path Senior Housing, Inc. (McKenna Crossing). As a result, these organizations are included in the consolidated financial statements as of and for the periods ended September 30, 2011 (see Note 6).

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

For-Profit Joint Venture

The Organization also had a 50% interest in Wayzata Bay Redevelopment Company, LLC which was a for-profit joint venture accounted for under the equity method of accounting. During the year ended September 30, 2012, the Organization bought out is joint venture share in Wayzata Bay Redevelopment Company, LLC (see Note 6).

The following is summarized financial data for the unconsolidated affiliates as of and for the years ended September 30, 2012 and 2011:

	2012	2011
Assets	$ 128,123	161,534
Liabilities	125,158	155,604
Net Assets	$ 2,965	$ 5,930
Operating Revenues	$ 17,494	12,620
Operating Expenses	11,058	8,910
Interest Expense	4,418	4,418
Depreciation and Amortization Expense	2,703	1,947
Net Loss	$ (685)	$ (2,655)

Other Assets

Other assets include the following at September 30:

	2012	2011
Real Estate Development Costs	$ 5,307	$ 3,621
Donated Land Held for Future Resale	1,520	1,520
Notes Receivable	1,704	18,681
Other	1,144	1,350
Total	$ 9,675	$ 25,171

Real estate development costs include costs related to planned developments of new projects. These generally include costs related to architectural drawings, market research, site development, and other predevelopment costs. Once construction begins on these projects the costs are transferred to construction in progress. If the Organization determines to not move forward with a project, these costs will be expensed at that time.

NOTE 5 INVESTMENT IN OTHER ENTITIES AND OTHER ASSETS (CONTINUED)

Other Assets (Continued)

Notes receivable consist of an unsecured note receivable from Wayzata Bay Redevelopment Company, LLC related to the excess of assets over liabilities transferred by the Organization to this joint venture in prior years. The note earns interest at a rate of 5% per year and is payable upon the earlier of Wayzata Bay Redevelopment Company, LLC closing on the first construction loan with respect to the project or the dissolution and termination of Wayzata Bay Redevelopment Company, LLC. The balance of this note $16,931 at September 30, 2011. Due to the acquisition of Wayzata Bay Redevelopment Company, LLC during 2012 as described in Note 6, the note payable balance at September 30, 2012 has been forgiven between Wayzata Bay Senior Housing, Inc. and Wayzata Bay Commercial via an intercompany transfer. Also included in notes receivable is an unsecured note from Carondelet Village, Inc. related to funds advanced by the Organization to fund Carondelet Village, Inc.'s required debt service reserve fund. The note earns interest at a rate of 6% per year and is payable upon demand unless Carondelet Village, Inc. is in default on payment of their bonds or payment of the note would cause them to be in default on their bond payments. The balance of this note was $1,067 at September 30, 2012 and 2011. Collection of this note is fully expected and accordingly, no allowance has been provided. Also included in notes receivable is an unsecured note from Crosby Senior Services related to deferred development fees. The note earns interest at a rate of 2% and is payable from Crosby's entrance deposits and available cash. The balance of this note was $637 and $683 as of September 30, 2012 and 2011, respectively. Collection of this note is fully expected and accordingly, no allowance has been provided.

NOTE 6 ACQUIRED OPERATIONS

PHM New Richmond Senior Housing, Inc.

Effective January 31, 2011, the Organization reached an agreement to buy out the other partner's share of this former joint venture between the Organization and Westfield Hospital. The acquisition included PHM New Richmond Senior Housing, Inc. (Deerfield) and its wholly owned subsidiary, Deerfield Care Center, LLC (Gables). Operations of the Deerfield include a 50-unit independent senior living facility, and a 32-unit facility consisting of 16 assisted-living units and 16 community based residential units. Operations of the Gables include a 61-bed licensed nursing care facility which the Organization recently replaced (see Note 7). Total cost of this acquisition was funded with $1,250 of cash and assumption of $6,765 of outstanding debt.

NOTE 6 ACQUIRED OPERATIONS (CONTINUED)

Shepherd's Path Senior Housing, Inc.

Effective June 30, 2011, the Organization reached an agreement to buy out the other partner's share of this former joint venture between the Organization and Shepherd of the Lake Lutheran Church. The acquisition included Shepherd's Path Senior Housing, Inc. (McKenna Crossings) whose operations include a senior living facility consisting of 79 independent living units, 66 assisted-living units, 18 memory care units and a 35,340 square foot town center/community space. Total cost of this acquisition was funded with $1,125 of cash and assumption of $29,465 of outstanding debt.

Wayzata Bay Redevelopment Company, LLC

Effective March 29, 2012, the Organization reached an agreement to buy out the other partner's share of this former joint venture which was originally organized to develop the retail portions of a master development in Wayzata, Minnesota. The acquisition included the land to be developed, in addition to pre-development costs incurred to get the land ready for construction. The total cost of the acquisition was approximately $17,100, which was funded with cash and replacement reserves plus a $5,800 option to purchase a portion of the retail space in the future.

The following is a summary of the assets and liabilities acquired in the transactions described above:

	2012	2011
Cash	$ -	$ 560
Accounts Receivable	-	661
Other Assets	59	1,585
Assets Limited to Use	-	3,721
Property and Equipment	36,553	42,857
Total Assets	$ 36,612	$ 49,385
Accounts Payable	$ 83	$ 1,014
Accrued Expenses	1,664	1,508
Other Liabilities	462	7,055
Long-Term Debt	34,403	36,230
Total Liabilities	$ 36,612	$ 45,808

As a result of the transaction above for the year ended September 30, 2011, the Organization recorded a gain on acquisition of approximately $3,600, which is included in unrestricted contributions on the consolidated statements of operations and changes in net assets. The transaction during the year ended September 30, 2012 did not result in a gain.

NOTE 6 ACQUIRED OPERATIONS (CONTINUED)

Wayzata Bay Redevelopment Company, LLC (Continued)

Total revenues of $7,800, including non-operating revenues, attributable to prior year acquisitions, are included in the consolidated statements of operations and changes in net assets for the period from acquisition through September 30, 2011.

Total revenues of $-0-, including non-operating revenues, attributable to current year acquisitions, are included in the consolidated statements of operations and changes in net assets for the period from acquisition through September 30, 2012.

The changes in net assets attributable to the acquisition described above for the period from acquisition through September 30, 2012 are summarized in the following table:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - September 30, 2011	$ -	$ -	$ -	$ -
Change in Net Assets	-	-	-	-
Net Assets - September 30, 2012	$ -	$ -	$ -	$ -

The changes in net assets attributable to the acquisitions described above for the period from acquisition through September 30, 2011 are summarized in the following table:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - September 30, 2010	$ -	$ -	$ -	$ -
Change in Net Assets	1,423	999	-	2,422
Net Assets - September 30, 2011	$ 1,423	$ 999	$ -	$ 2,422

The acquired entity's revenue for the year ended September 30, 2012, including non-operating revenues, would not have changed had entity been acquired on October 1, 2011.

The consolidated revenue for the year ended September 30, 2011, including non-operating revenues, would have increased by $6,667 had the entities been acquired on October 1, 2010.

NOTE 7 CONSTRUCTION IN PROGRESS

Wayzata Bay Senior Housing, Inc.

During the year ended September 30, 2010, the Organization acquired property in Wayzata, Minnesota to be used in a planned master development. The development is to be completed in multiple stages. The first stage of the project, currently underway, will add 254 senior living units and approximately 32,000 square feet of retail space. Total construction costs of the first stage are expected to be approximately $97,467 and are being financed with proceeds from long-term debt and equity. At September 30, 2012 and 2011, approximately $18,325 and $1,642, respectively, has been incurred and is included in construction in progress.

Arden Hills

During the year ended September 30, 2011, the Organization started construction on a tear down and rebuild of the Arden Hills campus. The project is expected to be completed in two phases. Phase I was completed in November 2012 and Phase II is expected to be completed in August 2013. The project is being financed with proceeds from long-term debt and equity. The total estimated cost of the project is $46,000. At September 30, 2012 and 2011, $26,285 and $2,991 has been incurred related to this project, respectively, and is included in construction in progress on the consolidated financial statements.

Founders Ridge

During the year ended September 30, 2011, the Organization started construction on a new senior living community in Bloomington, Minnesota. Phase 1 of the project includes 56 senior apartments, 33 assisted living apartments, and 19 memory care apartments. The project was completed in the spring of 2012, and was financed with proceeds from long-term debt and equity. The total cost of the project was approximately $23,000. At September 30, 2011, $6,522 has been incurred related to this project and is included in construction in progress on the consolidated financial statements.

PHM/New Richmond Senior Housing, Inc.

During the year ended September 30, 2011, the Organization started construction on a 61-bed skilled nursing facility which replaced the existing nursing facility. The total cost of the project was approximately $13,140 and was financed by tax-exempt bonds. The project was completed in September 2012. At September 30, 2011, $1,115 had been incurred related to this project and is included in construction in progress on the consolidated financial statements.

Maranatha

During the year ended September 30, 2012, the Organization began construction on a rebuild of the Maranatha campus which consists of 97 care center beds through the moratorium exception process. The total estimated cost of the project is approximately $15,737 and is being financed with proceeds from long-term debt and equity. At September 30, 2012, $1,185 has been incurred related to this project and is included in construction in progress on the consolidated financial statements.

NOTE 7 CONSTRUCTION IN PROGRESS (CONTINUED)

Other

The Organization has also incurred construction costs related to the planned development of new building projects, as well as planned renovations and remodeling of existing nursing facilities and senior housing projects.

NOTE 8 LONG-TERM DEBT

Notes, Bonds and Mortgages

Notes, bonds and mortgages at September 30 consist of the following:

Description		2012	2011
Revenue Bonds, Series 2003 for Farmstead, payments due at a variable interest rate through 2033	(4)	$ 11,045	$ 11,345
2.0% to 6.0% Revenue Refunding Bonds, Series 2010, for Mayfield, payments due through 2030		5,475	5,665
2.0% to 6.0% Revenue Refunding Bonds, Series 2010, for PHS Bloomington Care Center, Inc., payments due through 2030		15,745	16,240
Summerhouse of Bloomington, Mississippi Shores, Echo Ridge, Summerhouse of Shoreview, payments due at a variable interest rate through 2038	(6)	23,420	23,725
5% to 5.5% Revenue Bonds, Series 2006, for Bloomington Care Center, payments due through 2041		21,260	21,545
5.5% Mortgage Note for Broadmoor Apartments, payments due through 2015, with balloon payment		3,587	3,750
7.5% Revenue Note, Series 2004, for Broadmoor Apartments, payments due through 2014, with balloon payment		6,973	7,214
4.25% to 5.7% Revenue Bonds, Series 1998, for Castle Ridge, payments due through 2028		2,725	2,830
6.77% Mortgage Note for Central Towers, payments due through 2026		2,400	2,400
2% Mortgage Note for Central Towers, payments due through 2018		128	150
1% MHFA Mortgage Note for Central Towers, payments due through 2027		125	125

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2012	2011
2.9% to 6.25% Revenue Bonds, Series 2003 for Summerwood of Chanhassen, payments due through 2033, less unamortized bond discount	(5)	21,868	22,228
5% to 6% Revenue Bonds, Series 2006, for Norris Square, payments due through 2041		29,040	29,180
7% Mortgage Note Payable with maximum borrowing limit of $10,000 for Norris Marketplace, payments due through October 2011, with balloon payment		-	1,290
2.33% Loan Participation Notes, Series 2003, for Croixdale, payments due through 2025	(7)	7,480	7,954
Revenue Refunding Bonds, for EagleCrest, payments due at a variable interest rate through 2039	(8)	22,355	22,785
5.30% Mortgage Note for Country Inn & Suites, payments due through 2023	(2)	3,777	4,031
4.50% Revenue Note, Series 2005 for Maranatha, payments due through 2031, Refinanced in 2012.	(7)	-	4,129
Note payable, for Maranatha, Maximum Borrowing Limit of $20,000.00	(11)	4,562	-
6.0% Mortgage Note for Maranatha, payments due through 2031		936	964
5.56% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Avalon Square, payments due through 2043. Refinanced in 2012.		-	17,980
2.34% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Avalon Square, payments due through 2043.		18,311	-
4.5% to 5.5% Subordinate Revenue Bonds, Series 2005, for Avalon Square, payments due through 2025. Paid in 2012.		-	1,500
4.88% Mortgage Note to Department of Housing and Urban Development (HUD) for Ridgeview Terrace, payments due through 2032		1,727	1,779
4.88% Mortgage Note to HUD for Newton Manor, payments due through 2025		1,116	1,175
Revenue Refunding Bonds, Series 2005 for Inver Grove Heights, payments due at a variable interest rate through 2035	(4)	26,935	27,535

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2012	2011
4.01% mortgage for PHS Management LLC (Hamline Office Building), due through 2029		4,995	5,203
3.975% Revenue Note Payable, Series 2008 for Mill Pond Apartments, payments due through 2028	(7)	3,289	3,435
4.75% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Mill Pond, payments due through 2035		4,952	5,068
Revenue Bonds, Series 2003 for Oakcrest, payments due at a variable interest rate through 2033	(4)	6,460	6,760
4.0% Mortgage Note for Lake Minnetonka, Series 2010 payments due through 2020	(9)	27,863	25,667
0% Note Payable for Ankeney, IA property, principal paid in equal annual installments through 2019.		467	563
Carondolet Village Debt Service Reserve Fund Notes		-	1,090
Founders Ridge Debt Service Reserve Fund Notes		-	3,429
5.48% Mortgage Note to HUD for Summerwood of Plymouth, payments due through 2043 - Refinanced in 2012		-	16,971
3.26% HUD-Insured Mortgage Payable to Oak Grove Capital Corporation for Summerwood of Plymouth, payments due through 2047		17,631	-
7.125% Mortgage Note for 1221 Building, payments due through 2015, with balloon payment. Rate was reset to 4.05% effective 12/1/10, Paid off upon sale in 2012.	(2)	-	9,001
4.75% - 7.625% Revenue Bonds, Series 2006 for Grace-Pointe East, payments due through 2033, less unamortized bond discount.		8,000	8,160
5.25% to 6.5% Revenue Bonds, Series 2007, for Waverly Gardens, payments due through 2047		80,680	80,680
4.5% to 5.6% Revenue Refunding Bonds, Series 2006, for Kirkland Crossings, payments due through 2041		17,455	17,690
Revenue Refunding Bonds, Series 2005, for Boutwells Landing, payments due at a variable interest rate through 2035	(3)	55,780	56,940
6% Mortgage Note for Boutwells Landing, payments due through 2019		1,156	1,293

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2012	2011
4.75% Tax Exempt Loan Participation Notes, Series 2007 for Boutwells Landing, payments due through 2036	(7)	18,891	19,311
Revenue Bonds, Series 2004 for Beacon Hill, payments due at a variable interest rate through 2034	(4)	9,510	9,710
2.31% Revenue Bonds, Series 2006 and 2007 for Highland Ridge, payments due through 2025		4,851	5,168
2.31% Revenue Bonds, Series 2005B, for Highland Ridge, payments through 2017 with balloon payment	(2)	4,351	4,634
Unsecured note payable for Highland Ridge. Limit of $2,000. Interest at the short term applicable federal rate for the month of the advance, as published by the IRS. Due 1/31/2014.		1,285	-
4% to 5.75% Revenue Refunding Bonds, Series 2006, for Stonecrest, payments due through 2041		13,150	13,325
5.0% to 6.4% Revenue Bonds, Series 1999, for Stonecrest, payments due through 2034. Refinanced in 2012.		-	8,000
1.75% to 5.25% Revenue Refunding Bonds, Series 2012, for Stonecrest, payments due through 2034.		7,665	-
4.5% Revenue Note, Series 2003 for GracePointe West, payments due through 2023	(7)	2,020	2,156
4.5% Revenue Note, Series 2003, for GracePointe Terrace, payments due through 2023	(7)	1,803	1,925
4.4% to 6.0% Revenue Bonds, Series 1998 for GracePointe Commons, payments due through 2033		9,740	9,955
Revenue Note, Series 2010, for Founders Ridge, payments due through 2018, with balloon payment	(10)	16,600	16,600
3.45% to 6.65% Revenue Bonds, Series 2011, for Deerfield Gables, payments due through 2043		13,140	13,140
5.15% to 6.0% Revenue Bonds, Series 1998, for Deerfield Housing, payments due through 2032		6,000	6,140
4.25% to 5.75% Revenue Bonds, Series 2006, for Mckenna Crossing, due through 2042		28,955	29,300
7.125% Note Payable, payments due through 2011; for Wayzata Bay Senior Housing, refinanced in 2012		-	9,069

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

Description		2012	2011
7.125% Note Payable, for Wayzata Bay Commercial, payments due through 2014		6,421	-
Loan Payable, for Arden Hills, Maximum Borrowing Limit of $20,000, due at a variable interest rate through 2033		19,339	100
4.70% to 6.00% Revenue Bonds, Series 2012, for Folkestone Senior Living Community, due through 2047		104,375	-
$5,800 Option Agreement, Lot 1, Block 1, Wayzata Bay Commercial, Interest accrues at 5.8% through the option term of April 1, 2016	(1)	5,945	-
.25% Note Payable for Wayzata Bay Commercial, payments due through 2013.		1,157	
Other		2,570	1,226
Subtotal		737,485	629,228
Less: Current Maturities		12,570	11,412
Total		$ 724,915	$ 617,816

(1) In conjunction with the acquisition of 100% interest in Wayzata Bay Redevelopment Company during 2012 (see Note 6), an option was granted to the former partner to purchase a portion of the retail property once developed. In consideration for this option, the former partner paid $5,800. This option payment accrues interest at 5% and shall be applied against the purchase price of the property if the option is exercised. If the option is not exercised, the option payment, including accrued interest, is refundable. The option expires April 1, 2016.

(2) The interest rate and monthly payment will be adjusted in 2015 (if applicable).

(3) The 2005 Revenue Bonds are scheduled to be paid in varying annual installments through 2035; however, the 2005 Revenue Bonds can be called on a daily basis by the bondholders. The Organization has remarketing agreement with underwriters that provides for a “best efforts” remarketing of the 2005 Revenue Bonds. The 2005 Revenue Bonds are secured by a credit enhancement from Federal Home Loan Mortgage Corporation (Freddie Mac), which is effective for the term of the bonds. If the credit enhancement is used to pay for Revenue Bonds that were not remarketed, such amounts are due 13 months after the draw. Accordingly based on the terms of the credit enhancement, the 2005 Revenue Bonds, other than the original amount scheduled to be paid in fiscal year 2012, are reported as long-term liabilities.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

(4) The mortgage loan is secured by a letter of credit enhancement agreement with Fannie Mae, which guarantees the payment of the mortgage loan.

(5) The Chanhassen 2004 Revenue Bonds require that a $1,700 reserve fund be maintained. The Organization has obtained a letter of credit from a bank to fulfill this requirement. No amounts are drawn on the letter of credit at September 30, 2012.

(6) The bonds are secured by a credit enhancement agreement with Freddie Mac, which guarantees the payment of the bonds.

(7) The interest rate is set upon issuance, and re-set every five years through a predetermined index, and have interest rate floors and ceilings as set in the agreement.

(8) The EagleCrest Revenue Bonds that were issued in 2009 are scheduled to be paid in varying annual principal installments, but can be called on a weekly basis by the bondholders. The bonds are secured by a credit enhancement agreement with Freddie Mac which guarantees the payment of the bonds. In addition, any draws upon the liquidity agreement are to be repaid 365 plus 1 days after drawn upon which supports the classification as a long-term liability.

(9) The mortgage note was issued in 2010 for Lake Minnetonka Housing, Lake Minnetonka Care Center, and Lake Minnetonka Employee Housing. The interest rate on the note was 4% until June 1, 2010, at which time the rate reset to the greater of 3% plus 70% times the sum of the current 30-day LIBOR rate or 4%. At any time after the date of substantial completion of the project improvements and the note has been fully funded or the Organization agrees in writing that no further advances shall be made under this note, the Organization may elect to fix the interest rate for either (I) a period of five years at a rate equal to the greater of 70% times the sum of the current five year LIBOR swap rate plus 3% or 5%; or (II) fixed through May 31, 2015, at rate equal to the greater of 70% times the sum of a comparable term LIBOR swap rate plus 3% or 5%. If the Organization has failed to notify the lender which option they select by June 1, 2012, option (I) above shall the default option. The Organization selected option (I) and fixed the interest rate at 5% for five years.

(10) The revenue note was issued to finance construction of the Founders Ridge project. The interest rate on the note is variable throughout the construction period, calculated as the one month LIBOR rate plus a spread. The rate became fixed at 4.42% on October 1, 2012 through maturity.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Notes, Bonds and Mortgages (Continued)

(11) The interest rate on the note is fixed at 7% through June 30, 2014. Beginning July 1, 2014, the interest rate shall become fixed per annum at a rate equal to the greater of 4.75% or 1.5% plus the highest U.S. prime rate of interest.

Substantially all of the Organization's property, equipment and assets, plus the assignment of rents and income contracts, is pledged as collateral on the above debts.

Many of the notes and bonds include various restrictive covenants requiring adherence to be in compliance with the terms of the note or bond.

Annual maturities on the notes, bonds and mortgages for the five years subsequent to September 30, 2012 based on the terms of letters of credit or credit enhancement agreements as well as management's expectation are approximately as follows, the maturities reflect any changes made to the requirements subsequent to September 30, 2012.

Year Ending September 30,	Management's Expected Amount	Credit Terms Amount
2013	$ 12,570	$ 12,570
2014	24,271	173,178
2015	31,005	27,476
2016	16,188	12,500
2017	22,654	18,370
Thereafter	630,797	493,391
Total	$ 737,485	$ 737,485

Interest Cost

The total interest cost incurred during the construction period, net of interest earnings on invested tax-exempt bond proceeds, for the years ended September 30, 2012 and 2011, was approximately $4,098 and $1,044, respectively. These amounts are capitalized as part of the cost of construction.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Derivatives and Variable Interest Rate Risk Management

The Organization uses derivative instruments to manage variable interest rates on certain of the Organization's long-term debt issues. As part of the Organization's strategy to manage the variability of interest rates, the Organization has entered into interest rate swap agreements to reduce the impact of changes in interest rates. At September 30, 2012, the Organization has the following interest rate swap agreements with commercial banks which effectively limit the Organization's interest rate exposure.

	Notional Amount	Swap Rate	Termination Date
Agreement related to Series 1999 and 2002 Revenue bonds for Presbyterian Homes of Arden Hills, Inc. and Presbyterian Home Care Centers, Inc. Transferred to Presbyterian Homes and Services in 2011	$ 27,781	3.391% Fixed	10/1/2029
Agreement related to Series 2005 Revenue Bonds for Boutwells Landing	35,178	3.566% Fixed	11/1/2015
Agreement related to Series 2007 Revenue bonds for Waverly Gardens	81,680	USD-SIFMA Municipal Swap Index	10/1/2047
Agreement related to Series 2007 Revenue Bonds for EagleCrest, agreement transferred to Presbyterian Homes and Services in 2009	22,480	USD-SIFMA Municipal Swap Index	7/1/2042
Agreement related to Series 2010 Revenue Bonds for Founders Ridge	16,600	2.74% Fixed	4/1/2018

The fair value of the derivative instruments was as follows at September 30, 2012 and 2011:

	Balance Sheet Location	September 30, 2012	September 30, 2011
Derivatives not Designated as Hedging Instruments	Other Long-Term Liabilities	$ 15,918	$ 18,035

The effect of the derivative instruments on the consolidated statements of operations and changes in net assets was as follows for the years ended September 30, 2012 and 2011:

	Location of Loss Recognized in Excess (Deficit) of Revenue Over Expense	Amount of Loss on Derivatives Recognized in Excess of Revenue Over Expense	
		Year Ended September 30,	
		2012	2011
Derivatives not Designated as Hedging Instruments	Interest Rate Swap Market Adjustment	$ (2,117)	$ 3,616

NOTE 8 LONG-TERM DEBT (CONTINUED)

Derivatives and Variable Interest Rate Risk Management (Continued)

The fair value of the derivatives reflects the price that a third-party would be willing to pay or receive in arm's-length transactions and includes mark-to-market adjustments to reflect the effects of changes in the related index. The Organization recognized its derivatives as a net asset or liability at fair value on the consolidated statements of financial position. Changes in the fair value of the fixed-rate swaps are recorded in the consolidated statements of operations as nonoperating gains or losses and are included in excess of revenue over expense, as these transactions do not qualify for hedge accounting.

The Organization also purchases interest rate cap agreements on other variable rate bonds, which have terms of three to five years. The Organization amortizes these costs over the term of the agreement. In addition, the Organization funds an escrow account over the term of the agreement in anticipation of purchasing another interest rate cap upon maturity. At September 30, 2012 and 2011, the value of these interest rate caps were approximately $963 and $946, respectively, and are included in prepaids and other assets on the consolidated statement of financial position.

NOTE 9 NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are contributions that are restricted by the donor for the following, which are mainly related to capital acquisitions at September 30:

	2012	2011
Arden Hills Care Center	$ 117	$ 1,255
Highland Ridge	1,923	1,849
Gracepointe Crossing	236	257
Bloomington Care Center	243	230
Endowment Earnings	1,278	1,506
Other	39	4,074
Total	$ 3,836	$ 9,171

NOTE 9 NET ASSETS (CONTINUED)

Permanently Restricted Net Assets

At September 30, permanently restricted net assets consist of the following:

	2012	2011
John S. Holl Trust	$ 28,813	$ 24,841
Presbyterian Homes of Wisconsin Endowment	2,524	2,247
PHS General Endowment	5,501	5,063
Total Permanently Restricted Net Assets	$ 36,838	$ 32,151

Investment income on the John S. Holl trust and other endowment funds is unrestricted. The John S. Holl trust is a perpetual trust held by third-party trustee for the Organization. The fair value of this trust at September 30 is reported as permanently restricted net assets.

Board Designated Net Assets

At September 30, board designated net assets consist of the following:

	2012	2011
Highland Ridge Endowment	$ 2,948	$ 2,548
Croixdale Endowment	1,901	1,602
North Oaks Endowment	1,719	1,633
PHS General Endowment Funds	3,180	3,019
Total Board Designated Endowments	$ 9,748	$ 8,802

Debt agreements or bylaws of certain affiliates may limit the ability of the Organization to transfer, advance or use these unrestricted funds for the benefit of the other affiliates.

The bylaws of Croixdale do not allow for the net assets of Croixdale, $14,951 at September 30, 2012, to be used by or transferred to the Organization or its affiliates. The bylaws of Highland Ridge do not allow for the net assets of Highland Ridge, $18,681 at September 30, 2012, to be used by or transferred to the Organization or its affiliates.

Interpretation of Relevant Law

The Organization interpreted the State Prudent Management of Institutional Funds Act (the Act) 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.

NOTE 9 NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

The following table shows the changes in endowment net assets for the years ended September 30, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year - 10/1/11	$ 8,802	$ 1,506	$ 7,310	$ 17,618
Investment Return:				
Investment Income	242	247	-	489
Net Appreciation/(Depreciation) (Realized and Unrealized)	764	-	-	764
Contributions	267	-	715	982
Net Assets Appropriated for Expenditure and Sales	(327)	(475)	-	(802)
Endowment Net Assets, End of Year - 9/30/12	$ 9,748	$ 1,278	$ 8,025	$ 19,051

NOTE 9 NET ASSETS (CONTINUED)

Interpretation of Relevant Law (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year - 10/1/10	$ 8,516	$ 1,509	$ 6,456	$ 16,481
Investment Return:				
Investment Income	287	227	-	514
Net Appreciation/(Depreciation) (Realized and Unrealized)	80	(307)	-	(227)
Contributions	306	437	854	1,597
Net Assets Appropriated for Expenditure and Sales	(387)	(360)	-	(747)
Endowment Net Assets, End of Year - 9/30/11	$ 8,802	$ 1,506	$ 7,310	$ 17,618

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses. The Organization expects its endowment funds, over time, to provide an average rate of return in line with or better than their respective benchmarks or peer groups. Actual results in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that meets the Organization's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

NOTE 9 NET ASSETS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year, three to five percent of the previous 16 quarter trailing average of its endowment fund's fair value on June 30th of the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 10 PENSION PLAN

The Organization participates in contributory, defined contribution pension plan 403(b). All employees who have one year or more of service, have reached the age of 21 and work more than 20 hours per week are eligible to participate in the plan. Participants vest in the employer contribution at graduated rates, up to full vesting after five years.

The Organization contributes 3% of eligible employee salaries for those employee who have 1 to 5 years of service and have elected to contribute 1% of their salaries, 4% of eligible employee salaries for those employees who have 6 to 11 years of service and have elected to contribute 2% of their salaries, and 5% of eligible employee salaries for those employees who have 12 or more years of service and have elected to contribute 3% of their salaries.

Contributions to the plan by the Organization approximated $2,384 and $2,349 for the years ended September 30, 2012 and 2011, respectively.

NOTE 11 FUNCTIONAL EXPENSE

Expense by classifications for the years ended September 30, 2012 and 2011 were:

	2012	2011
Program Services:		
Services to Residents	$ 235,582	$ 220,753
Supporting Services:		
Management and General	35,601	34,445
Fundraising	1,585	1,235
Total Program Expenses	$ 272,768	$ 256,433

NOTE 12 COMMITMENTS AND CONTINGENCIES

Workers' Compensation Self-Insurance

The Organization self-insures its workers' compensation claims. The Organization has purchased reinsurance for specific claims greater than $460 and annual aggregate claims greater than $3,198 up to a maximum of $5,000. Expenses are recorded as claims are incurred. Incurred but not reported claims and expected claim adjustment costs are actuarially estimated and accrued. As required by the state of Minnesota, the Organization has pledged cash and investments of $3,802 to secure the payment of claims. Expenses incurred were approximately $2,001 and $2,071 for the years ended September 30, 2012 and 2011, respectively. At September 30, 2012 and 2011, management has estimated reserves and recorded liabilities for outstanding claims of approximately $3,254 and $3,070, respectively, which is included in other long-term liabilities on the consolidated statements of financial position.

The Organization's provision for outstanding losses, although supported by actuarial projections and other data, is ultimately based on management's expectations of future events. It is possible that these estimates could change as more detailed information concerning the losses is received and the effect of such changes could be material to the consolidated financial statements.

Employee Health Self-Insurance

The Organization has self-insured for employee health insurance claims. The Organization has purchased reinsurance for specific claims greater than $200 and annual aggregate claims greater than $11,200. Expenses are recorded as claims are incurred. An estimate of incurred but not reported claims is accrued and amounted to approximately $1,994 and $1,775 at September 30, 2012 and 2011, respectively. This accrual is included in accrued payroll and benefits on the consolidated statements of financial position. Claims and administrative expenses incurred were approximately $7,826 and $6,990 for the years ended September 30, 2012 and 2011, respectively.

Professional Liability Insurance

The Organization is covered by professional liability insurance on a claims made basis. For the year ended September 30, 2012, per claim, per location, and aggregate maximum annual coverage was $5,000, $7,000 and $30,000, respectively. The deductible on professional liability is $1,000. The Organization records its estimate of claim liabilities for deductibles and claims in excess of coverage based on actuarial estimates which amounted to $1,641 and $1,430 at September 30, 2012 and 2011, respectively, which is included in other long-term liabilities on the consolidated statements of financial position. If this policy should lapse and not be replaced with equivalent coverage, claims occurring during, but reported subsequent to, its term will be uninsured.

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Cooperative Units Acquisition Commitments

In 2000, the Organization entered into an agreement to acquire the remaining membership unit certificates (6 as of September 30, 2012) in Gideon Pond Cooperative (the Cooperative) as those units become available for sale. The price established by the Cooperative's bylaws as of September 30, 2012, for the remaining units have an average value of $165 each. Because the individual unit owner determines when they will sell their unit, the Organization will not recognize an asset or liability until the title is transferred to the Organization.

Heartwood Guarantee

The Organization has provided a guarantee in the amount of $600 for tax-exempt revenue bonds issued in the amount of $22,935 used to finance a 98-unit senior housing, assisted living and memory care campus in Crosby, Minnesota. The project is a joint venture between the Organization and the Cuyuna Regional Medical Center and opened in October 2008. The project is an unconsolidated affiliate of the Organization (see Note 5).

Walnut Ridge Guarantee

The Organization has provided a guarantee in the amount of $6,400 for tax-exempt revenue bonds in the amount of $25,600 used to finance acquisition of a 178-unit joint venture in Clive, Iowa. The project is a joint venture between the Organization and Wedum and formed in September 2012. The project is an unconsolidated affiliate of the Organization (see Note 5).

Tax Credit Guarantee

The Organization has guaranteed the limited partner in Central Towers that the requirements to retain approximately $2,100 of low income housing tax credits will be met through 2012.

Litigation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from resident and patient services. Management believes that the Organization is in substantial compliance with current laws and regulations.

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors and Stockholders
Presbyterian Homes and Services and Affiliates
Shoreview, Minnesota

We have audited the consolidated financial statements of Presbyterian Homes and Services and Affiliates as of and for the years ended September 31, 2012 and 2011, and our report thereon dated December 4, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 4, 2012

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services	Optage Inc.					Presbyterian Homes of Arden Hills, Inc.
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Home and Community Based Services	Optage Primary Care	Presbyterian Homes Hospice, Inc. Optage Hospice	Presbyterian Homes of Andover, Inc. Farmstead	Johanna Shores
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents:							
Unrestricted	$ (1,623)	$ (400)	$ 2,796	$ (536)	$ 361	$ 4,577	$ 4,149
Restricted for Residents	-	-	-	-	-	-	20
Cash Held or Restricted, Current Portion	-	-	-	-	-	315	-
Accounts Receivable, Less Allowance for Doubtful Accounts	33	702	891	-	362	44	1,090
Pledges Receivable, Current Portion	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	-	1	1	-	-	64	67
Total Current Assets	(1,590)	303	3,688	(536)	723	5,000	5,326
INVESTMENTS AND OTHER ASSETS							
Investments and Cash Held or Restricted:							
By Agreements with Trustees and Others	-	-	-	-	-	-	255
Restricted by Donors and Others	-	-	-	-	-	-	381
Replacement Reserves	-	-	-	-	-	573	4,554
Endowment Funds	-	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	-	-	-	-	-	270	704
Investment in Other Entities	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	93
Due from Affiliates	-	16	-	-	-	330	-
Total Investments and Other Assets	-	16	-	-	-	1,173	5,987
PROPERTY AND EQUIPMENT							
Land	-	-	-	-	-	720	475
Buildings and Land Improvements	-	2	16	-	-	11,570	13,817
Equipment and Furnishings	-	1,779	486	11	99	2,192	4,684
Automotive Equipment	-	326	-	-	-	11	89
Construction in Progress	-	-	-	-	-	-	26,285
Subtotal	-	2,107	502	11	99	14,493	45,350
Less: Accumulated Depreciation	-	369	272	2	18	6,618	9,799
Net Property and Equipment	-	1,738	230	9	81	7,875	35,551
Total Assets	$ (1,590)	$ 2,057	$ 3,918	$ (527)	$ 804	$ 14,048	$ 46,864

Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Broadmoor Apartments, Inc.	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership	PHS/ Chanhassen, Inc
Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers	Summerwood of Chanhassen
$ 660	$ 7,689	$ (149)	$ 701	$ 102	$ (4,549)	$ 1,627	$ 106	$ 1,651
-	-	3	-	118	-	3	48	-
11	373	865	531	106	-	82	-	304
(1)	77	1,328	(12)	(1,963)	1,442	572	12	38
-	-	-	-	-	-	-	-	-
49	14	10	-	-	29	8	9	6
719	8,153	2,057	1,220	(1,637)	(3,078)	2,292	175	1,999
-	1,342	1,488	1,074	-	-	133	-	1,373
496	-	-	275	-	-	-	-	-
211	1,360	1,111	-	-	273	426	438	199
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
238	307	399	697	37	-	71	4	559
-	9,095	-	-	-	147	-	-	-
-	-	-	-	929	1	-	-	-
-	888	-	-	-	817	-	-	-
945	12,992	2,998	2,046	966	1,238	630	442	2,131
545	360	342	2,151	6,000	231	718	348	3,565
9,368	5,659	24,218	15,163	7,088	9,213	4,487	9,554	21,831
1,680	684	3,604	2,357	1,575	2,188	972	1,262	2,884
-	-	63	-	-	55	47	-	-
-	-	-	-	-	-	-	-	-
11,593	6,703	28,227	19,671	14,663	11,687	6,224	11,164	28,280
4,627	3,774	7,041	177	4,036	6,779	3,494	4,659	7,187
6,966	2,929	21,186	19,494	10,627	4,908	2,730	6,505	21,093
$ 8,630	$ 24,074	$ 26,241	$ 22,760	$ 9,956	$ 3,068	$ 5,652	$ 7,122	$ 25,223

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	PHS/Cottage Grove, Inc.	PHS/CG Center LLC		PHM New Richmond Senior Housing, Inc.		PHS/EagleCrest, Inc.		
	Norris Square	Norris Marketplace	Croixdale Croixdale	Deerfield Housing	Deerfield Gables	EagleCrest	Country Inn & Suites	Hamline Center
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents:								
Unrestricted	$ 2,178	$ (3,766)	$ 6,361	$ 661	$ (139)	$ 12,268	$ 1,355	$ (5,230)
Restricted for Residents	-	-	-	76	-	-	-	-
Cash Held or Restricted, Current Portion	643	-	-	329	1,700	388	-	-
Accounts Receivable, Less Allowance for Doubtful Accounts	39	-	31	57	463	105	18	-
Pledges Receivable, Current Portion	-	-	100	-	-	-	-	-
Prepaid Expenses and Other Assets	7	-	4	3	3	255	-	-
Total Current Assets	2,867	(3,766)	6,496	1,126	2,027	13,016	1,373	(5,230)
INVESTMENTS AND OTHER ASSETS								
Investments and Cash Held or Restricted:								
By Agreements with Trustees and Others	1,859	-	-	253	2,054	-	-	-
Restricted by Donors and Others	150	-	-	-	-	-	-	-
Replacement Reserves	114	-	144	422	64	2,503	289	-
Endowment Funds	-	-	1,901	-	-	-	-	-
Pledges Receivable	-	-	189	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	777	89	96	138	445	728	42	-
Investment in Other Entities	1,791	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	1
Due from Affiliates	163	-	823	220	-	4,214	-	-
Total Investments and Other Assets	4,854	89	3,153	1,033	2,563	7,445	331	1
PROPERTY AND EQUIPMENT								
Land	3,375	5,314	533	12	923	3,950	810	2,061
Buildings and Land Improvements	20,015	-	15,629	7,978	10,022	22,076	5,161	3,684
Equipment and Furnishings	3,068	-	1,682	636	2,098	2,669	1,182	15
Automotive Equipment	-	-	-	33	-	116	15	-
Construction in Progress	-	867	-	-	-	-	-	-
Subtotal	26,458	6,181	17,844	8,659	13,043	28,811	7,168	5,760
Less: Accumulated Depreciation	4,144	-	4,758	648	66	10,558	2,666	196
Net Property and Equipment	22,314	6,181	13,086	8,011	12,977	18,253	4,502	5,564
Total Assets	$ 30,035	$ 2,504	$ 22,735	$ 10,170	$ 17,567	$ 38,714	$ 6,206	$ 335

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc.	Noah's Ark Affordable Housing, Inc.
		PHW/	Avalon	Ridgeview		Timber	Mill Pond		Mississippi	
Maranatha	Foundation	Helpmates	Square	Terrace	Newton Manor	Hills	Apartments	Mill Pond	Shores	Oakcrest
$ 382	$ 851	$ 1,255	$ 497	$ 57	$ 68	$ 5,277	$ 608	$ 283	$ 31	$ 1,004
20	-	-	82	18	18	194	-	-	-	108
-	-	-	98	35	31	386	-	47	128	149
1,156	(33)	25	75	2	7	39	4	229	(1)	5
-	10	-	-	-	-	-	-	-	-	-
11	-	-	173	8	6	236	2	28	16	22
1,569	828	1,280	925	120	130	6,132	614	587	174	1,288
-	-	-	-	-	-	267	-	-	-	232
-	704	641	-	-	-	-	-	-	-	-
236	-	-	349	50	132	558	129	881	256	368
-	38,330	2,524	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
290	-	-	298	54	49	442	75	65	75	170
-	-	1,916	-	-	-	-	-	-	-	-
-	6,212	-	-	-	-	-	-	-	-	-
-	-	763	-	-	-	-	-	-	1	-
526	45,246	5,844	647	104	181	1,267	204	946	332	770
1,110	-	-	1,580	230	100	4,414	1,165	1,064	190	794
5,730	-	-	20,818	1,864	2,490	31,482	3,631	9,182	3,512	9,296
1,281	-	9	2,117	301	358	2,715	359	1,295	839	1,628
65	-	-	45	-	-	24	-	31	-	21
1,185	-	-	-	-	-	-	-	-	-	-
9,371	-	9	24,560	2,395	2,948	38,635	5,155	11,572	4,541	11,739
1,845	-	6	7,385	1,232	1,481	11,717	1,738	4,595	2,032	4,761
7,526	-	3	17,175	1,163	1,467	26,918	3,417	6,977	2,509	6,978
$ 9,621	$ 46,074	$ 7,127	$ 18,747	$ 1,387	$ 1,778	$ 34,317	$ 4,235	$ 8,510	$ 3,015	$ 9,036

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing and Assisted Living, Inc.										
	PHS Lake Minnetonka Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
ASSETS											
CURRENT ASSETS											
Cash and Cash Equivalents:											
Unrestricted	$ 384	$ (19,386)	$ 5,609	$ 1,210	$ 5,379	$ 798	$ 103	$ 740	$ 3,376	$ (2,449)	$ 495
Restricted for Residents	8	-	-	-	-	-	-	21	-	3,268	-
Cash Held or Restricted, Current Portion	-	-	-	166	-	-	-	217	177	-	-
Accounts Receivable, Less Allowance for Doubtful Accounts	1,403	4,582	146	60	291	1,244	6	621	5	295	5
Pledges Receivable, Current Portion	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	38	-	242	63	1	-	-	9	4	-	-
Total Current Assets	1,833	(14,804)	5,997	1,499	5,671	2,042	109	1,608	3,562	1,114	500
INVESTMENTS AND OTHER ASSETS											
Investments and Cash Held or Restricted:											
By Agreements with Trustees and Others	-	-	3,802	-	-	-	-	560	241	-	-
Restricted by Donors and Others	-	-	-	-	-	-	-	-	-	6,927	-
Replacement Reserves	2,040	(1,863)	1,192	1,827	-	-	-	253	381	-	-
Endowment Funds	-	-	-	-	-	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	-	-	-	-	-	-
Deferred Financing Costs, Less Accumulated Amortization	728	-	153	242	-	-	-	291	165	-	-
Investment in Other Entities	-	8,550	-	-	-	-	-	-	-	357	-
Other Assets	-	5,457	-	-	647	-	-	-	-	-	-
Due from Affiliates	104	8,701	4,014	-	404	-	-	-	1,151	30,205	-
Total Investments and Other Assets	2,872	20,845	9,161	2,069	1,051	-	-	1,104	1,938	37,489	-
PROPERTY AND EQUIPMENT											
Land	3,709	3,151	400	1,770	-	-	-	113	273	-	-
Buildings and Land Improvements	24,359	1,254	8,049	14,852	-	-	-	8,644	4,321	-	-
Equipment and Furnishings	7,037	33	3,413	1,656	100	13	-	770	881	-	-
Automotive Equipment	25	-	85	4	-	-	-	36	-	-	-
Construction in Progress	-	-	-	-	-	-	-	-	-	-	52
Subtotal	35,130	4,438	11,947	18,282	100	13	-	9,563	5,475	-	52
Less: Accumulated Depreciation	8,495	292	3,843	4,666	81	11	-	1,467	2,955	-	-
Net Property and Equipment	26,635	4,146	8,104	13,616	19	2	-	8,096	2,520	-	52
Total Assets	$ 31,340	$ 10,187	$ 23,262	$ 17,184	$ 6,741	$ 2,044	$ 109	$ 10,808	$ 8,020	$ 38,603	$ 552

PHS/ Oakdale, Inc. Echo Ridge	Presbyterian Homes of North Oaks, Inc. Waverly Gardens	Kirkland Crossings, Inc. Kirkland Crossings	Wayzata Bay Senior Housing, Inc. Folkestone	Wayzata Bay Commercial	Shepherd's Path Senior Housing, Inc. Mckenna Crossing	PHS/ Shoreview, Inc. Summerhouse of Shoreview	Valley Senior Service Alliance Boutwells Landing	PHS/Beacon Hill, Inc. Beacon Hill	Williamsburg Retirement Community, Inc. Highland Ridge	PHS/ Woodbury, Inc. Stonecrest
$ 1,557	$ 7,199	$ 3,095	$ (8,956)	$ (11,894)	$ (3,241)	$ 1,262	$ 8,736	$ 4,901	$ 488	$ 3,266
-	-	184	-	-	162	-	467	-	96	-
176	6,955	320	8,313	-	399	-	951	242	-	574
(1)	546	74	-	-	345	3	1,530	155	143	74
-	-	-	-	-	-	-	-	-	-	-
43	32	5	-	-	8	36	201	123	6	4
1,775	14,732	3,678	(643)	(11,894)	(2,327)	1,301	11,885	5,421	733	3,918
-	7,718	1,196	87,987	-	2,000	-	2,500	-	-	758
-	-	487	1,324	-	-	496	-	-	-	-
219	286	327	-	(9,530)	101	183	884	690	170	289
-	1,719	-	-	-	-	-	-	-	2,948	-
-	-	-	-	-	-	-	70	-	1,923	-
207	1,117	310	1,942	66	1,006	167	1,170	218	50	593
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	157	-	-	618
426	10,840	2,320	91,253	(9,464)	3,107	846	4,781	908	5,091	2,258
470	13,205	1,235	12,280	42,054	5,260	579	6,516	1,281	1,176	1,776
7,047	65,519	14,437	-	-	27,309	7,039	107,315	9,881	31,537	17,422
1,093	6,798	1,763	-	-	2,773	723	11,481	2,363	4,063	2,409
21	66	14	-	-	-	2	107	-	88	21
-	-	-	18,325	-	-	-	-	-	-	-
8,631	85,588	17,449	30,605	42,054	35,342	8,343	125,419	13,525	36,864	21,628
3,471	14,496	6,003	-	70	1,784	3,001	36,086	6,302	8,456	4,771
5,160	71,092	11,446	30,605	41,984	33,558	5,342	89,333	7,223	28,408	16,857
$ 7,361	$ 96,664	$ 17,444	$ 121,215	$ 20,626	$ 34,338	$ 7,489	$ 105,999	$ 13,552	$ 34,232	$ 23,033

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Grandview Christian Homes GracePointe Gables West	Mill Ridge Commons GracePointe Terrace	Grandview West, Inc. GracePointe Commons	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents:					
Unrestricted	$ 387	$ 463	$ 633	$ -	$ 45,318
Restricted for Residents	20	-	553	-	5,487
Cash Held or Restricted, Current Portion	-	-	554	-	25,565
Accounts Receivable, Less Allowance for Doubtful Accounts	1,257	11	107	(1,397)	18,341
Pledges Receivable, Current Portion	-	-	-	-	110
Prepaid Expenses and Other Assets	19	1	3	-	1,870
Total Current Assets	1,683	475	1,850	(1,397)	96,691
INVESTMENTS AND OTHER ASSETS					
Investments and Cash Held or Restricted:					
By Agreements with Trustees and Others	-	-	416	-	117,508
Restricted by Donors and Others	-	-	-	-	11,881
Replacement Reserves	348	28	72	-	13,537
Endowment Funds	-	-	-	-	47,422
Pledges Receivable	-	-	-	-	2,182
Deferred Financing Costs, Less Accumulated Amortization	46	42	222	-	15,854
Investment in Other Entities	-	-	-	(6,035)	15,821
Other Assets	121	-	-	(3,786)	9,675
Due from Affiliates	-	-	458	(54,047)	-
Total Investments and Other Assets	515	70	1,168	(63,868)	233,880
PROPERTY AND EQUIPMENT					
Land	134	6	94	-	138,562
Buildings and Land Improvements	3,935	3,142	11,581	(5,206)	666,993
Equipment and Furnishings	2,217	510	883	-	99,688
Automotive Equipment	118	6	11	-	1,545
Construction in Progress	-	-	-	-	46,714
Subtotal	6,404	3,664	12,569	(5,206)	953,502
Less: Accumulated Depreciation	1,784	704	2,100	(600)	228,918
Net Property and Equipment	4,620	2,960	10,469	(4,606)	724,584
Total Assets	$ 6,818	$ 3,505	$ 13,487	$ (69,871)	$ 1,055,155

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services		Optage Inc.				
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Home and Community Based Services	Optage Primary Care	Presbyterian Homes Hospice, Inc. Optage Hospice	Presbyterian Homes of Andover, Inc. Farmstead	Presbyterian Homes of Arden Hills, Inc. Johanna Shores
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Current Maturities of Long-Term Debt	$ -	$ -	$ -	$ -	$ -	$ 491	$ -
Accounts Payable	6	154	40	11	40	97	362
Construction Payable	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	-	-	-	-	-	-	28
Accrued Payroll and Benefits	-	90	400	76	76	103	757
Accrued Interest and Other	-	-	-	-	-	98	682
Total Current Liabilities	6	244	440	87	116	789	1,829
LONG-TERM DEBT AND OTHER OBLIGATIONS							
Long-Term Debt, Less Current Maturities	77	-	-	-	-	10,554	19,953
Resident Notes Payable and Entrance Loan Deposits	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	5,940
Due to Affiliates	805	-	666	-	-	-	4,688
Total Long-Term Debt and Other Obligations	882	-	666	-	-	10,554	30,581
NET ASSETS							
Unrestricted, Undesignated	(2,478)	1,813	2,812	(614)	688	2,705	14,454
Unrestricted, Designated by Board for Endowment Fund	-	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-
Total Unrestricted	(2,478)	1,813	2,812	(614)	688	2,705	14,454
Temporarily Restricted	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-
Total Net Assets (Deficit)	(2,478)	1,813	2,812	(614)	688	2,705	14,454
Total Liabilities and Net Assets	$ (1,590)	$ 2,057	$ 3,918	$ (527)	$ 804	$ 14,048	$ 46,864

Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Broadmoor Apartments, Inc.	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership	PHS/ Chanhassen, Inc
Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers	Summerwood of Chanhassen
$ 120	$ 505	$ 295	$ 277	$ 435	$ -	$ 110	$ 22	$ 385
68	81	157	53	116	246	91	49	127
-	-	-	531	-	-	-	-	-
13	-	3	-	105	-	3	47	-
2	187	407	63	-	490	184	40	107
245	700	714	175	340	196	185	203	587
448	1,473	1,576	1,099	996	932	573	361	1,206
7,767	14,932	20,922	17,236	10,126	-	2,590	5,215	21,483
2,136	-	-	2,622	-	-	-	-	2,849
-	-	-	1,850	4	26	4	289	-
253	-	2,910	2,411	3,227	-	874	804	1,603
10,156	14,932	23,832	24,119	13,357	26	3,468	6,308	25,935
(1,974)	7,669	833	(2,458)	(4,397)	2,110	1,611	807	(1,918)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(354)	-
(1,974)	7,669	833	(2,458)	(4,397)	2,110	1,611	453	(1,918)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(1,974)	7,669	833	(2,458)	(4,397)	2,110	1,611	453	(1,918)
$ 8,630	$ 24,074	$ 26,241	$ 22,760	$ 9,956	$ 3,068	$ 5,652	$ 7,122	$ 25,223

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

LIABILITIES AND NET ASSETS	PHS/Cottage Grove, Inc. Norris Square	PHS/CG Center LLC Norris Marketplace	Croixdale Croixdale	PHM New Richmond Senior Housing, Inc. Deerfield Housing	PHM New Richmond Senior Housing, Inc. Deerfield Gables	PHS/EagleCrest, Inc. EagleCrest	PHS/EagleCrest, Inc. Country Inn & Suites	PHS/EagleCrest, Inc. Hamline Center
CURRENT LIABILITIES								
Current Maturities of Long-Term Debt	$ 290	$ -	$ 486	$ 145	$ -	$ 399	$ 268	$ -
Accounts Payable	73	-	68	1,134	732	164	55	21
Construction Payable	-	-	-	-	1,518	-	-	-
Security Deposits and Other Resident Fund Payables	-	-	-	76	-	24	-	-
Accrued Payroll and Benefits	117	-	108	30	133	274	41	1
Accrued Interest and Other	582	240	128	178	68	555	351	150
Total Current Liabilities	1,062	240	790	1,563	2,451	1,416	715	172
LONG-TERM DEBT AND OTHER OBLIGATIONS								
Long-Term Debt, Less Current Maturities	28,905	-	6,994	5,855	13,109	21,956	3,509	-
Resident Notes Payable and Entrance Loan Deposits	992	-	-	-	-	-	-	-
Other	-	-	-	-	13	883	-	-
Due to Affiliates	-	2,386	-	17	2,093	-	-	876
Total Long-Term Debt and Other Obligations	29,897	2,386	6,994	5,872	15,215	22,839	3,509	876
NET ASSETS								
Unrestricted, Undesignated	(924)	(122)	13,050	2,735	(99)	14,459	1,982	(713)
Unrestricted, Designated by Board for Endowment Fund	-	-	1,901	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-	-
Total Unrestricted	(924)	(122)	14,951	2,735	(99)	14,459	1,982	(713)
Temporarily Restricted	-	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-	-
Total Net Assets (Deficit)	(924)	(122)	14,951	2,735	(99)	14,459	1,982	(713)
Total Liabilities and Net Assets	$ 30,035	$ 2,504	$ 22,735	$ 10,170	$ 17,567	$ 38,714	$ 6,206	$ 335

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc. Mississippi Shores	Noah's Ark Affordable Housing, Inc.
		PHW/	Avalon	Ridgeview		Timber	Mill Pond			
Maranatha	Foundation	Helpmates	Square	Terrace	Newton Manor	Hills	Apartments	Mill Pond	Shores	Oakcrest
$ 29	$ -	$ -	$ 378	$ 55	$ 62	$ 787	$ 152	$ 122	$ 42	$ 196
176	379	61	57	28	10	220	22	128	122	49
-	-	-	-	-	-	-	-	-	-	-
20	-	-	81	18	15	186	-	-	-	93
255	-	65	143	-	-	117	-	180	8	16
236	91	-	-	67	40	543	90	20	61	271
716	470	126	659	168	127	1,853	264	450	233	625
5,469	-	-	17,933	1,672	1,054	26,148	3,136	4,830	2,732	6,264
-	-	-	-	-	-	8,017	-	-	-	-
235	369	-	-	-	-	-	-	-	-	-
287	7,711	-	2,314	19	54	-	144	1,145	222	35
5,991	8,080	-	20,247	1,691	1,108	34,165	3,280	5,975	2,954	6,299
2,914	(1,868)	4,462	(2,159)	(472)	543	(1,701)	691	2,085	(172)	2,112
-	3,180	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
2,914	1,312	4,462	(2,159)	(472)	543	(1,701)	691	2,085	(172)	2,112
-	1,898	15	-	-	-	-	-	-	-	-
-	34,314	2,524	-	-	-	-	-	-	-	-
2,914	37,524	7,001	(2,159)	(472)	543	(1,701)	691	2,085	(172)	2,112
$ 9,621	$ 46,074	$ 7,127	$ 18,747	$ 1,387	$ 1,778	$ 34,317	$ 4,235	$ 8,510	$ 3,015	$ 9,036

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing and Assisted Living, Inc.										
	PHS Lake Minnetonka Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Current Maturities of Long-Term Debt	$ 585	$ 45	$ 219	$ 279	$ -	$ -	$ -	$ 170	$ 190	$ -	$ -
Accounts Payable	489	(3,367)	543	63	36	21	4	1,327	5	11	32
Construction Payable	-	-	-	-	-	-	-	-	-	-	-
Security Deposits and Other Resident Fund Payables	9	3	-	-	-	-	-	22	-	3,267	-
Accrued Payroll and Benefits	606	(1,227)	3,961	93	162	45	-	1,159	12	-	8
Accrued Interest and Other	792	35	263	258	46	-	-	262	266	268	-
Total Current Liabilities	2,481	(4,511)	4,986	693	244	66	4	2,940	473	3,546	40
LONG-TERM DEBT AND OTHER OBLIGATIONS											
Long-Term Debt, Less Current Maturities	27,278	422	4,777	17,352	-	-	-	7,766	5,285	1,650	550
Resident Notes Payable and Entrance Loan Deposits	-	-	-	-	-	-	-	-	-	1,710	-
Other	23	-	2,487	-	-	-	-	22	-	1,375	-
Due to Affiliates	-	-	-	11	-	270	-	701	-	-	-
Total Long-Term Debt and Other Obligations	27,301	422	7,264	17,363	-	270	-	8,489	5,285	4,735	550
NET ASSETS											
Unrestricted, Undesignated	1,558	14,276	11,012	(872)	6,497	1,708	105	(621)	2,262	30,322	(38)
Unrestricted, Designated by Board for Endowment Fund	-	-	-	-	-	-	-	-	-	-	-
Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-
Total Unrestricted	1,558	14,276	11,012	(872)	6,497	1,708	105	(621)	2,262	30,322	(38)
Temporarily Restricted	-	-	-	-	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-	-	-	-	-
Total Net Assets (Deficit)	1,558	14,276	11,012	(872)	6,497	1,708	105	(621)	2,262	30,322	(38)
Total Liabilities and Net Assets	$ 31,340	$ 10,187	$ 23,262	$ 17,184	$ 6,741	$ 2,044	$ 109	$ 10,808	$ 8,020	$ 38,603	$ 552

PHS/ Oakdale, Inc. Echo Ridge	Presbyterian Homes of North Oaks, Inc. Waverly Gardens	Kirkland Crossings, Inc. Kirkland Crossings	Wayzata Bay Senior Housing, Inc. Folkestone	Wayzata Bay Commercial	Shepherd's Path Senior Housing, Inc. Mckenna Crossing	PHS/ Shoreview, Inc. Summerhouse of Shoreview	Valley Senior Service Alliance Boutwells Landing	PHS/Beacon Hill, Inc. Beacon Hill	Williamsburg Retirement Community, Inc. Highland Ridge	PHS/ Woodbury, Inc. Stonecrest
$ 109	$ 335	$ 250	$ -	$ 104	$ 370	$ 85	$ 2,017	$ 284	$ 614	$ 365
52	252	111	26	8	122	94	452	115	609	88
-	-	-	5,739	-	-	-	-	-	-	-
-	-	133	-	-	155	1	441	-	3	-
15	306	106	-	-	152	11	499	99	158	87
150	3,450	302	2,530	474	412	137	1,314	72	38	638
326	4,343	902	8,295	586	1,211	328	4,723	570	1,422	1,178
7,038	79,662	16,983	103,930	13,420	28,585	5,526	73,809	9,226	9,873	20,450
-	19,985	519	4,474	-	4,226	2,945	27,831	-	2,586	-
-	4,537	-	-	-	-	-	3,446	-	-	-
164	1,132	27	4,584	6,620	813	-	-	-	1,670	-
7,202	105,316	17,529	112,988	20,040	33,624	8,471	105,086	9,226	14,129	20,450
(167)	(14,714)	(987)	(68)	-	(497)	(1,310)	(3,810)	3,756	13,810	1,405
-	1,719	-	-	-	-	-	-	-	2,948	-
-	-	-	-	-	-	-	-	-	-	-
(167)	(12,995)	(987)	(68)	-	(497)	(1,310)	(3,810)	3,756	16,758	1,405
-	-	-	-	-	-	-	-	-	1,923	-
-	-	-	-	-	-	-	-	-	-	-
(167)	(12,995)	(987)	(68)	-	(497)	(1,310)	(3,810)	3,756	18,681	1,405
$ 7,361	$ 96,664	$ 17,444	$ 121,215	$ 20,626	$ 34,338	$ 7,489	$ 105,999	$ 13,552	$ 34,232	$ 23,033

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Grandview Christian Homes GracePointe Gables West	Mill Ridge Commons GracePointe Terrace	Grandview West, Inc. GracePointe Commons	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	$ 145	$ 128	$ 225	$ -	$ 12,570
Accounts Payable	836	23	39	(584)	6,604
Construction Payable	-	-	-	(115)	7,673
Security Deposits and Other Resident Fund Payables	20	-	-	-	4,766
Accrued Payroll and Benefits	722	9	(26)	-	11,427
Accrued Interest and Other	193	85	375	-	20,156
Total Current Liabilities	1,916	245	613	(699)	63,196
LONG-TERM DEBT AND OTHER OBLIGATIONS					
Long-Term Debt, Less Current Maturities	1,875	1,675	9,515	(2,153)	724,915
Resident Notes Payable and Entrance Loan Deposits	-	88	298	-	81,278
Other	9	-	-	-	21,512
Due to Affiliates	2,495	16	-	(54,047)	-
Total Long-Term Debt and Other Obligations	4,379	1,779	9,813	(56,200)	827,705
NET ASSETS					
Unrestricted, Undesignated	523	1,481	3,061	(12,972)	114,186
Unrestricted, Designated by Board for Endowment Fund	-	-	-	-	9,748
Non-Controlling Interest	-	-	-	-	(354)
Total Unrestricted	523	1,481	3,061	(12,972)	123,580
Temporarily Restricted	-	-	-	-	3,836
Permanently Restricted	-	-	-	-	36,838
Total Net Assets (Deficit)	523	1,481	3,061	(12,972)	164,254
Total Liabilities and Net Assets	$ 6,818	$ 3,505	$ 13,487	$ (69,871)	$ 1,055,155

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes & Services		Optage Inc.				
	International Nurse Recruitment	Optage Senior Dining Choices	Optage Home and Community Based Services	Optage Primary Care	Presbyterian Homes Hospice, Inc. Optage Hospice	Presbyterian Homes of Andover, Inc. Farmstead	Presbyterian Homes of Arden Hills, Inc. Johanna Shores
OPERATING REVENUE							
Net Services to Residents	$ 114	$ 4,552	$ 8,037	$ 64	$ 2,409	$ 5,055	$ 18,958
Other Operating Revenues	-	6	4	192	2	35	191
OPERATING REVENUE	114	4,558	8,041	256	2,411	5,090	19,149
OPERATING EXPENSE							
Services to Residents	412	3,863	6,953	445	1,070	2,558	16,348
General and Administrative	1	696	1,100	396	318	637	2,326
Interest	-	-	-	-	-	594	288
Depreciation and Amortization	-	228	72	2	15	503	845
Total Operating Expense	413	4,787	8,125	843	1,403	4,292	19,807
OPERATING INCOME (LOSS)	(299)	(229)	(84)	(587)	1,008	798	(658)
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT							
Unrestricted Contributions	-	-	-	-	-	-	8
Income From Endowment Investments	-	-	-	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	-	(299)
(Gain) Loss on Refinancing	-	-	-	-	-	-	-
Loss on Asset Disposal	-	(3)	-	-	-	-	(535)
Fundraising Expenses	-	-	-	-	-	-	-
Other Nonoperating Expenses	-	-	-	-	-	(1)	(18)
Total Nonoperating Gains (Losses) and Other Support	-	(3)	-	-	-	(1)	(844)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(299)	(232)	(84)	(587)	1,008	797	(1,502)
OTHER CHANGES IN UNRESTRICTED NET ASSETS							
Transfers (to) from Affiliates	-	912	25	-	9	2	1,737
Distributions	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	(299)	680	(59)	(587)	1,017	799	235
TEMPORARILY RESTRICTED NET ASSETS							
Temporarily Restricted Contributions	-	-	-	-	-	-	-
Released from Restriction	-	-	-	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS							
Permanently Restricted Contributions	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ (299)	$ 680	$ (59)	$ (587)	$ 1,017	$ 799	$ 235

Presbyterian Homes of Bloomington, Inc.	Presbyterian Homes Bloomington Care Center, Inc.		Bloomington Bethany Senior Housing, Inc.	Broadmoor Apartments, Inc.	Presbyterian Homes Care Centers, Inc.	Castle Ridge Care Center, Inc.	Central Towers Limited Partnership	PHS/ Chanhassen, Inc
Summerhouse of Bloomington	Gideon Pond Commons	Bloomington Care Center	Founders Ridge	Broadmoor	Langton Place	Castle Ridge	Central Towers	Summerwood of Chanhassen
$ 1,358	$ 6,328	$ 13,086	$ 626	$ -	$ 13,641	$ 5,411	$ 1,436	$ 5,818
211	182	36	3	2,093	16	22	24	112
1,569	6,510	13,122	629	2,093	13,657	5,433	1,460	5,930
528	3,730	10,298	507	1,041	11,279	4,402	716	2,897
219	868	1,126	371	35	1,226	575	507	774
521	857	1,162	99	804	435	165	166	1,350
398	213	1,222	209	545	424	244	330	1,037
1,666	5,668	13,808	1,186	2,425	13,364	5,386	1,719	6,058
(97)	842	(686)	(557)	(332)	293	47	(259)	(128)
-	-	-	41	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	(526)	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	(5)	-	-	-	-	(5)	(2)
-	-	(5)	(485)	-	-	-	(5)	(2)
(97)	842	(691)	(1,042)	(332)	293	47	(264)	(130)
-	-	8	-	-	6	-	7	2
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(97)	842	(683)	(1,042)	(332)	299	47	(257)	(128)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
$ (97)	$ 842	$ (683)	$ (1,042)	$ (332)	$ 299	$ 47	$ (257)	$ (128)

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	PHS/Cottage Grove, Inc.	PHS/CG Center LLC		PHM New Richmond Senior Housing, Inc.		PHS/EagleCrest, Inc.		
	Norris Square	Norris Marketplace	Croixdale Croixdale	Deerfield Housing	Deerfield Gables	EagleCrest	Country Inn & Suites	Hamline Center
OPERATING REVENUE								
Net Services to Residents	$ 5,611	$ -	$ 3,896	$ 2,579	$ 2,452	$ 10,169	$ -	$ -
Other Operating Revenues	72	-	103	17	9	111	2,236	448
OPERATING REVENUE	5,683	-	3,999	2,596	2,461	10,280	2,236	448
OPERATING EXPENSE								
Services to Residents	2,876	89	2,085	1,599	2,212	5,177	728	321
General and Administrative	728	3	537	393	386	1,199	784	107
Interest	1,568	19	180	357	-	1,333	232	-
Depreciation and Amortization	954	44	652	429	51	984	273	170
Total Operating Expense	6,126	155	3,454	2,778	2,649	8,693	2,017	598
OPERATING INCOME (LOSS)	(443)	(155)	545	(182)	(188)	1,587	219	(150)
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT								
Unrestricted Contributions	-	-	-	-	-	-	-	-
Income From Endowment Investments	-	-	300	-	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	564	-	-
(Gain) Loss on Refinancing	-	-	-	-	-	-	-	-
Loss on Asset Disposal	-	-	-	-	-	-	-	-
Fundraising Expenses	-	-	-	-	-	-	-	-
Other Nonoperating Expenses	-	-	-	-	(2)	(3)	-	-
Total Nonoperating Gains (Losses) and Other Support	-	-	300	-	(2)	561	-	-
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(443)	(155)	845	(182)	(190)	2,148	219	(150)
OTHER CHANGES IN UNRESTRICTED NET ASSETS								
Transfers (to) from Affiliates	168	-	9	21	43	3	-	-
Distributions	-	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	999	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	(275)	(155)	854	838	(147)	2,151	219	(150)
TEMPORARILY RESTRICTED NET ASSETS								
Temporarily Restricted Contributions	-	-	-	-	-	-	-	-
Released from Restriction	-	-	-	(999)	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	(999)	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS								
Permanently Restricted Contributions	-	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ (275)	$ (155)	$ 854	$ (161)	$ (147)	$ 2,151	$ 219	$ (150)

Maranatha Conservative Baptist Home, Inc. and Center Park Senior Apartments, Inc.	Presbyterian Homes Foundation	Presbyterian Homes of Wisconsin, Inc.		Gideon Pond West, Inc.	Gideon Pond Housing Corporation	PHS/Inver Grove, Inc.	Presbyterian Homes Mill Pond Apartments, Inc.	Presbyterian Homes Mill Pond Care Center, Inc.	PHS Monticello, Inc.	Noah's Ark Affordable Housing, Inc.
		PHW/	Avalon	Ridgeview		Timber	Mill Pond		Mississippi	
Maranatha	Foundation	Helpmates	Square	Terrace	Newton Manor	Hills	Apartments	Mill Pond	Shores	Oakcrest
$ 8,494	$ -	$ 209	$ 5,234	$ 456	$ 453	$ 8,086	$ 742	$ 5,856	$ 578	$ 1,294
51	-	179	147	4	3	49	13	21	2	19
8,545	-	388	5,381	460	456	8,135	755	5,877	580	1,313
7,769	384	201	2,650	144	117	3,573	257	4,276	188	479
1,120	3	32	787	142	152	974	83	743	136	210
266	-	-	1,083	85	56	1,542	134	238	116	134
451	-	1	903	73	103	1,272	143	374	195	447
9,606	387	234	5,423	444	428	7,361	617	5,631	635	1,270
(1,061)	(387)	154	(42)	16	28	774	138	246	(55)	43
-	1,116	-	-	-	-	-	-	-	-	-
-	2	114	-	-	-	-	-	-	-	-
-	2,961	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(131)	-	-	(897)	-	-	-	-	-	-	-
(2,327)	(640)	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(2)	(3)	(88)	(17)	-	-	(3)	-	(5)	-	-
(2,460)	3,436	26	(914)	-	-	(3)	-	(5)	-	-
(3,521)	3,049	180	(956)	16	28	771	138	241	(55)	43
402	(5,172)	121	252	-	-	43	-	10	-	2
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	5,209	-	-	-	-	-	-	-	-	-
(3,119)	3,086	301	(704)	16	28	814	138	251	(55)	45
-	799	-	-	-	-	-	-	-	-	-
-	(5,209)	-	-	-	-	-	-	-	-	-
-	(4,410)	-	-	-	-	-	-	-	-	-
-	601	-	-	-	-	-	-	-	-	-
-	3,809	277	-	-	-	-	-	-	-	-
-	4,410	277	-	-	-	-	-	-	-	-
$ (3,119)	$ 3,086	$ 578	$ (704)	$ 16	$ 28	$ 814	$ 138	$ 251	$ (55)	$ 45

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Presbyterian Homes Housing & Assisted Living, Inc.										
	PHS Lake Minnetonka										
	Lake Minnetonka Shores	PHHAL	PHS Management LLC	Summerwood of Plymouth	Senior Housing Partners	Senior Lifestyle Design	1221 Nicollet	GracePointe Gables East	Mayfield	Mission Development	Valley Ridge
OPERATING REVENUE											
Net Services to Residents	$ 19,441	$ 19	$ -	$ 5,245	$ -	$ -	$ -	$ 5,962	$ 1,112	$ -	$ -
Other Operating Revenues	534	269	12,249	25	3,670	6,768	1,340	40	22	4,104	-
OPERATING REVENUE	19,975	288	12,249	5,270	3,670	6,768	1,340	6,002	1,134	4,104	-
OPERATING EXPENSE											
Services to Residents	15,024	61	-	2,497	-	-	681	4,960	368	-	15
General and Administrative	2,341	173	9,426	680	1,907	6,541	225	753	179	(750)	23
Interest	1,202	46	208	782	-	-	358	472	288	2	-
Depreciation and Amortization	1,566	54	621	661	10	1	364	373	247	-	-
Total Operating Expense	20,133	334	10,255	4,620	1,917	6,542	1,628	6,558	1,082	(748)	38
OPERATING INCOME (LOSS)	(158)	(46)	1,994	650	1,753	226	(288)	(556)	52	4,852	(38)
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT											
Unrestricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Income From Endowment Investments	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fair Value of Investments	-	-	-	-	-	-	-	-	-	-	-
Interest Rate Swap Market Adjustment	-	-	-	-	-	-	-	-	-	-	-
(Gain) Loss on Refinancing	-	-	-	(1,410)	-	-	-	-	-	-	-
Loss on Asset Disposal	-	925	-	-	-	-	(2,695)	-	-	-	-
Fundraising Expenses	-	-	(1,585)	-	-	-	-	-	-	-	-
Other Nonoperating Expenses	(7)	-	-	(2)	-	-	-	-	-	-	-
Total Nonoperating Gains (Losses) and Other Support	(7)	925	(1,585)	(1,412)	-	-	(2,695)	-	-	-	-
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	(165)	879	409	(762)	1,753	226	(2,983)	(556)	52	4,852	(38)
OTHER CHANGES IN UNRESTRICTED NET ASSETS											
Transfers (to) from Affiliates	14	(3,260)	1,701	14	-	-	3,380	325	1	(600)	-
Distributions	-	-	-	-	-	-	-	-	-	-	-
Unrestricted Capital Contributions	-	-	-	-	-	-	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-	-	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	(151)	(2,381)	2,110	(748)	1,753	226	397	(231)	53	4,252	(38)
TEMPORARILY RESTRICTED NET ASSETS											
Temporarily Restricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Released from Restriction	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-	-	-	-
PERMANENTLY RESTRICTED NET ASSETS											
Permanently Restricted Contributions	-	-	-	-	-	-	-	-	-	-	-
Gain From Endowment Investments	-	-	-	-	-	-	-	-	-	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	$ (151)	$ (2,381)	$ 2,110	$ (748)	$ 1,753	$ 226	$ 397	$ (231)	$ 53	$ 4,252	$ (38)

PHS/ Oakdale, Inc. Echo Ridge	Presbyterian Homes of North Oaks, Inc. Waverly Gardens	Kirkland Crossings, Inc. Kirkland Crossings	Wayzata Bay Senior Housing, Inc. Folkestone	Wayzata Bay Commercial	Shepherd's Path Senior Housing, Inc. Mckenna Crossing	PHS/ Shoreview, Inc. Summerhouse of Shoreview	Valley Senior Service Alliance Boutwells Landing	PHS/Beacon Hill, Inc. Beacon Hill	Williamsburg Retirement Community, Inc. Highland Ridge	PHS/ Woodbury, Inc. Stonecrest
$ 1,357	$ 17,705	$ 5,204	$ -	$ -	$ 6,798	$ 1,114	$ 25,846	$ 4,181	$ 6,018	$ 5,872
14	430	87	-	-	117	13	303	16	36	82
1,371	18,135	5,291	-	-	6,915	1,127	26,149	4,197	6,054	5,954
445	9,586	2,557	-	-	4,044	337	15,486	1,803	4,003	2,639
227	1,726	633	54	-	954	187	3,088	611	733	708
413	4,995	960	-	-	1,643	357	2,798	510	222	1,192
348	2,720	582	-	-	1,482	270	4,581	551	1,279	836
1,433	19,027	4,732	54	-	8,123	1,151	25,953	3,475	6,237	5,375
(62)	(892)	559	(54)	-	(1,208)	(24)	196	722	(183)	579
-	-	-	-	-	-	-	24	-	9	-
-	-	-	-	-	-	-	-	-	106	-
-	-	-	-	-	-	-	-	-	430	-
-	1,812	-	-	-	-	-	566	-	-	-
-	-	-	-	-	-	-	-	-	-	(172)
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	(25)	(1)	-	-	(2)	-	(7)	(2)	-	(10)
-	1,787	(1)	-	-	(2)	-	583	(2)	545	(182)
(62)	895	558	(54)	-	(1,210)	(24)	779	720	362	397
-	42	8	3	-	282	-	(559)	4	10	10
-	-	-	-	-	-	-	(200)	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
(62)	937	566	(51)	-	(928)	(24)	20	724	372	407
-	-	-	-	-	-	-	-	-	74	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	74	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
$ (62)	$ 937	$ 566	$ (51)	$ -	$ (928)	$ (24)	$ 20	$ 724	$ 446	$ 407

PRESBYTERIAN HOMES AND SERVICES AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2012
(DOLLAR AMOUNTS IN THOUSANDS)

	Grandview Christian Homes GracePointe Gables West	Mill Ridge Commons GracePointe Terrace	Grandview West, Inc. GracePointe Commons	Eliminations	Consolidated
OPERATING REVENUE					
Net Services to Residents	$ 10,135	$ 799	$ 3,226	$ -	$ 263,036
Other Operating Revenues	103	2	22	(20,748)	16,111
OPERATING REVENUE	10,238	801	3,248	(20,748)	279,147
OPERATING EXPENSE					
Services to Residents	8,564	290	1,664	-	177,196
General and Administrative	929	154	413	(16,008)	35,601
Interest	95	85	582	(3,929)	27,065
Depreciation and Amortization	391	153	437	(12)	31,321
Total Operating Expense	9,979	682	3,096	(19,949)	271,183
OPERATING INCOME (LOSS)	259	119	152	(799)	7,964
NONOPERATING GAINS (LOSSES) AND OTHER SUPPORT					
Unrestricted Contributions	-	-	-	-	1,198
Income From Endowment Investments	-	-	-	-	522
Net Change in Fair Value of Investments	-	-	-	-	3,391
Interest Rate Swap Market Adjustment	-	-	-	-	2,117
(Gain) Loss on Refinancing	-	-	-	-	(2,610)
Loss on Asset Disposal	-	-	-	-	(5,275)
Fundraising Expenses	-	-	-	-	(1,585)
Other Nonoperating Expenses	(2)	-	-	-	(212)
Total Nonoperating Gains (Losses) and Other Support	(2)	-	-	-	(2,454)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	257	119	152	(799)	5,510
OTHER CHANGES IN UNRESTRICTED NET ASSETS					
Transfers (to) from Affiliates	15	-	-	-	-
Distributions	-	-	-	-	(200)
Unrestricted Capital Contributions	-	-	-	-	-
Minority Interest in Expenses Over Revenues	-	-	-	-	-
Net Assets Released From Restriction	-	-	-	-	6,208
CHANGE IN UNRESTRICTED NET ASSETS	272	119	152	(799)	11,518
TEMPORARILY RESTRICTED NET ASSETS					
Temporarily Restricted Contributions	-	-	-	-	873
Released from Restriction	-	-	-	-	(6,208)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	(5,335)
PERMANENTLY RESTRICTED NET ASSETS					
Permanently Restricted Contributions	-	-	-	-	601
Gain From Endowment Investments	-	-	-		4,086
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	4,687
TOTAL CHANGE IN NET ASSETS	$ 272	$ 119	$ 152	$ (799)	$ 10,870