PHI (D.B.A. PRESBYTERIAN SENIOR LIVING)

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

ParenteBeard

CONFIDENCE THROUGH CLARITY

PRESBYTERIAN SENIOR LIVING

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements and supporting information of Presbyterian Senior Living, as of December 31, 2009 and 2008, and attest that they are accurate, complete and fairly presented.

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

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

Financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of a combined ministry that has served older persons in the name of Christ for the more than 103 years.

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

Stephen Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

ParenteBeard

Independent Auditors' Report

The Board of Trustees
Presbyterian Senior Living

We have audited the accompanying consolidated statements of financial position of PHI, doing business as Presbyterian Senior Living, and affiliates (collectively the Corporation), as of December 31, 2009 and 2008, 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 Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Geneva House, Inc., Westminster Place at Parkesburg, L.P., Westminster Place at Windy Hill, L.P., Westminster Place at Carroll Village, L.P., Schartner House Associates, L.P. and Presbyterian Apartments, Inc., affiliates of Presbyterian Senior Living. The financial statements of Geneva House, Inc., Westminster Place at Parkesburg, L.P., Schartner House Associates, L.P. and Presbyterian Apartments, Inc. were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those financial statements is based solely on the reports of the other auditors. The financial statements for these entities reflect total assets constituting 7.47 and 5.17 percent and total operating revenues, gains and support constituting 1.12 and 1.04 percent of the related 2009 and 2008 consolidated totals, respectively. The financial statements of Westminster Place at Windy Hill, L.P. and Westminster Place at Carroll Village, L.P. were unaudited. The reports for these entities have been furnished to us by other accountants, and our opinion, insofar as it relates to the amounts included for these financial statements is based solely on the reports of the other accountants. The financial statements for these entities reflect total assets constituting 1.48 and 0.00 percent and equity received from tax credit limited partner constituting 27.98 and 0.00 percent of the related 2009 and 2008 consolidated totals, respectively.

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 consolidated financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living and affiliates as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Lancaster, Pennsylvania
April 8, 2010

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2009 and 2008

Assets		**2009**	**2008**
Cash and cash equivalents	$	2,756,290	3,064,042
Investments		68,470,797	58,563,705
Accounts receivable, net		15,491,709	14,691,998
Interest receivable		11,812	209,900
Inventory		366,540	524,887
Prepaid expenses and other current assets		1,348,300	2,708,881
Assets whose use is limited		19,066,437	15,259,435
Assets whose use is limited, construction funds held by trustee		977,004	12,214,554
Pledges receivable		794,555	979,164
Property and equipment (net of accumulated depreciation of $192,137,608 and $180,250,915, respectively)		253,360,162	231,560,117
Assets under capital leases (net of accumulated depreciation of $758,842 and $405,847, respectively)		3,861,076	4,166,400
Funds held in trust by others		13,808,806	12,433,305
Deferred financing costs (net of accumulated amortization of $1,317,789 and $1,027,285, respectively)		3,294,664	3,492,709
Other assets		443,491	262,375
Total assets	$	384,051,643	360,131,472

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Financial Position

December 31, 2009 and 2008

Liabilities and Net Assets		**2009**	**2008**
Accounts payable	$	12,916,880	12,507,423
Accrued expenses		11,895,540	15,788,669
Notes payable		18,209,068	15,267,906
Accrued interest		1,091,958	1,072,849
Resident deposits		1,387,309	2,051,728
Deferred revenue - entrance fees		76,246,838	77,141,685
Deferred rent		163,136	–
Fair value of interest rate swaps		2,402,989	3,456,708
Annuities payable		1,237,580	1,286,116
Accrued pension		194,967	651,586
Obligations under capital leases		4,099,555	4,225,297
Long-term debt		173,101,107	170,844,046
Total liabilities		302,946,927	304,294,013
Net assets:			
Unrestricted (including tax credit equity of $13,899,216 and $9,308,234, respectively)		57,771,263	34,362,302
Temporarily restricted		4,054,287	3,772,168
Permanently restricted		19,279,166	17,702,989
Total net assets		81,104,716	55,837,459
Total liabilities and net assets	$	384,051,643	360,131,472

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

		2009	2008
Operating revenues, gains, and other support:			
Resident services, including amortization of			
entrance fees of $9,472,595 and $9,485,770	$	166,466,687	162,041,432
Sales of other services and materials		244,958	218,936
Net rental income and developers' fees		3,555,471	2,127,682
Interest and dividend income		2,982,583	3,151,433
Realized losses on investments		(1,520,716)	(39,566)
(Loss) gain on sale of property and equipment		(192,566)	628,509
Contributions, gifts, grants and bequests		4,151,404	1,588,076
Contribution from The Long Home		–	7,302,090
Net assets released from restrictions		2,431,063	603,933
Total operating revenues, gains, and other support		178,118,884	177,622,525
Expenses:			
Nursing services		50,216,172	49,652,655
Rehabilitation		7,510,743	6,535,311
Recreation and special services		5,490,313	5,267,727
Pharmacy		3,620,489	3,365,219
Social services		808,405	759,653
Physician services		510,454	420,087
Food services		18,417,885	17,728,842
Building operations and maintenance		19,358,126	18,560,722
Housekeeping		4,142,457	4,269,201
Laundry and linen		1,560,358	1,732,623
General and administrative		25,798,254	25,374,720
Employee benefits		15,129,991	13,525,744
Interest		6,846,715	7,201,252
Depreciation		13,880,914	13,170,078
Amortization		198,250	243,297
Total expenses		173,489,526	167,807,131
Operating income		4,629,358	9,815,394

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

		2009	2008
Equity received from tax credit limited partner		5,458,246	3,653,144
Change in fair value of interest rate swaps		1,053,719	(3,490,989)
Entrance fees - effect of change in contract terms		(967,483)	–
Gain (loss) on early extinguishment of debt		49,295	(1,331,704)
Loss on abandoned project		(273,694)	–
Excess of operating revenues, gains and other support over expenses		9,949,441	8,645,845
Other changes:			
Pension-related changes other than net periodic pension costs		396,432	(309,830)
Unrealized gain (loss) on investments		13,063,088	(22,326,706)
Total other changes		13,459,520	(22,636,536)
Increase (decrease) in unrestricted net assets		23,408,961	(13,990,691)
Temporarily restricted net assets:			
Contributions, gifts, grants and bequests		2,207,324	140,680
Interest and dividend income		185,181	136,353
Unrealized gain on investments		320,677	241,643
Net assets released from restrictions		(2,431,063)	(603,933)
Change in temporarily restricted net assets		282,119	(85,257)
Permanently restricted net assets:			
Contributions, gifts, grants and bequests		113,570	138,344
Contribution from The Long Home		–	728,086
Change in fair value of funds held in trust by others		1,462,607	(3,840,937)
Change in permanently restricted net assets		1,576,177	(2,974,507)
Change in net assets		25,267,257	(17,050,455)
Net assets, beginning of year		55,837,459	72,887,914
Net assets, end of year	$	81,104,716	55,837,459

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	25,267,257	(17,050,455)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		13,880,914	13,170,078
Bad debt write-offs		608,705	705,773
Proceeds from entrance fees and deposits		13,036,514	12,712,860
Amortization of entrance fees		(9,472,595)	(9,485,770)
(Gain) loss on early extinguishment of debt		(49,295)	1,331,704
Change in fair value of interest rate swaps		(1,053,719)	3,490,989
Unrealized (gains) loss on investments and change in fair value of funds held in trust by others		(14,846,372)	25,926,000
Realized losses on investments		1,520,716	39,566
Realized loss (gain) on sale of property and equipment		192,566	(628,509)
Contributions restricted for long-term purposes		(113,570)	(138,344)
Non-cash contributions from Grace Manor and Long Home		–	(8,241,862)
Amortization of deferred costs		201,595	251,080
Amortization of bond premium		(3,345)	(7,783)
Loss on abandoned projects		273,694	–
Entrance fees - effect of change in contract terms		967,483	–
Changes in assets and liabilities:			
Increase in accounts receivable		(1,408,416)	(2,507,209)
Decrease in pledges receivable		184,609	366,764
Decrease (increase) in other assets		1,532,350	(1,740,819)
Increase in accounts payable		409,457	5,302,076
Increase in deferred rent		163,136	–
(Decrease) increase in accrued expenses		(4,330,639)	3,159,917
Net cash provided by operating activities		26,961,045	26,656,056
Cash flows from investing activities:			
Acquisition of property and equipment, net of disposals		(35,841,895)	(32,973,685)
Net proceeds from sale of property and equipment		–	1,123,281
Purchases of investments		(46,431,990)	(113,511,708)
Proceeds from sale of investments		55,905,601	96,637,556
Net cash used in investing activities		(26,368,284)	(48,724,556)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(6,090,668)	(4,633,584)
Principal payments on and redemptions of long-term debt		(6,304,910)	(61,891,429)
Proceeds from issuance of long-term debt		8,614,611	79,049,681
Financing costs incurred		–	(875,596)
Net borrowings of notes payable		2,941,162	5,394,325
Borrowings through capital leases		81,242	4,185,114
Repayments on capital leases		(206,984)	(202,135)
Contributions restricted for long-term purposes		113,570	138,344
(Decrease) increase in annuities payable		(48,536)	85,778
Net cash (used in) provided by financing activities		(900,513)	21,250,498
Net decrease in cash and cash equivalents		(307,752)	(818,002)
Cash and cash equivalents, beginning of year		3,064,042	3,882,044
Cash and cash equivalents, end of year	$	2,756,290	3,064,042

See accompanying notes to consolidated financial statements.

(1) General Information

PHI (d.b.a. Presbyterian Senior Living) (the Corporation), a not-for-profit corporation, is the parent corporation of Presbyterian Homes, Inc. (Pres Homes), Presbyterian Homes in the Presbytery of Huntingdon (PHPH), Presbyterian Senior Living Services, Inc. (PSLSI), Quincy United Methodist Home, doing business as Quincy Retirement Community (QRC), The Long Community (TLC), PHI Investment Management Services Corporation (PIMSI), Presbyterian Apartments, Inc. (PAI), Schartner House Apartments (SHA), Westminster Place at Parkesburg (WPP), Westminster Place at Windy Hill (WPWH), Westminster Place at Carroll Village (WPCV), Westminster Place at Stewartstown (WPS), PHI Bloomsburg Senior Care (BSC) and Geneva House, Inc. (GHI), which are controlled affiliates of Presbyterian Senior Living. The Corporation also owns 46 percent of Prelude Systems, Inc., a technical services organization, 6 percent of CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, a pharmaceutical company.

In 2008, the Corporation formed a new corporation, PHI Investment Management Services Corporation (PIMSI). This corporation manages and maintains all of the investments of Presbyterian Senior Living for the benefit of the corporations.

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

In 2008, the Corporation also formed the Presbyterian Homes Obligated Group (the Group). The Group consisted of Pres Homes, PHPH, QRC and PIMSI. On September 30, 2009, the Long Community joined the Obligated Group. Under this arrangement all of the members of the Group are jointly and severally liable for all the debt of each obligated group member. In June 2008, the Group participated in the issuance of the Cumberland County Series 2008 A and B bonds. In November 2008, the Group participated in the issuance of the Cumberland County Series 2008 C bonds. In connection with the amendment to the master indenture agreement dated February 1, 2010 the Group has guaranteed the debt of PSLSI.

(1) General Information (continued)

On December 31, 2008, the corporation affiliated with the Long Home (LH) to create the Long Community. The Long Community consists of a 50 bed personal care facility located in the City of Lancaster which serves indigent individuals of Lancaster County, Pennsylvania who are over the age of sixty-five years. The home was created from testamentary gifts from the estates of Judge Henry G. Long and his daughter, Catherine H. Long. As directed under the Last Wills and testaments of Judge Long and Ms. Long, four trustees were appointed to run the Corporation and they used the testamentary gifts to build the facility in 1902 and have used the remaining funds to run the facility to this day. The affiliation was recorded as a contribution of $8,030,176.

In 2009, the Corporation was awarded tax credits for three affordable senior living projects. The first, Westminster Place at Windy Hill, Inc. is located in Phillipsburg, PA. The other two, Westminster Place at Carroll Village, Inc. and Westminster Place at Stewartstown are both in York county, Pennsylvania. Construction commenced at all locations in October 2009.

In March 2009, the Corporation and Bloomsburg Health Ventures (BHV), the controlling affiliate for Bloomsburg Hospital agreed to form a new not-for-profit corporation, PHI Bloomsburg Senior Care, for the purpose of developing approximately sixty acres of land adjacent to the hospital into a senior living community. Bloomsburg Health Systems contributed land, subject to a 15% land take back, to the project with a fair value of approximately $3.2 million in exchange for a minority interest. The Corporation will be responsible for the majority of the future development thereon. This exchange is recorded as a $2.765 million contribution on the Corporation's Statements of Operations and Changes in Net Assets.

The Corporation serves as a management company for the above affiliates and is governed by a Board of Trustees. Some of the members of the Board of Trustees are also members of the Board of Directors of certain affiliated corporations. The Corporation's affiliates do business primarily in Pennsylvania, but also in Maryland, Ohio and Delaware.

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

	Total	Nursing beds	Assisted Living	Independent living	HUD/ Tax credit
Pres Homes	1,697	712	307	678	—
PSLSI	270	31	37	202	—
PHPH	571	376	95	100	—
QRC	350	134	32	184	—
SHA	50	—	—	—	50
PAI	165	—	—	—	165
WPP	72	—	—	—	72
GHI	62	—	—	—	62
TLC	43	—	43	—	—
Total	3,280	1,253	514	1,164	349

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

(b) Income Taxes

The Corporation and most of its affiliates are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

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

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

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statements of cash flows. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation for up to $250,000 per bank. At December 31, 2009 the Corporation's cash balances exceeded the FDIC coverage by $269,765. At December 31, 2008 the Corporation's cash balances exceeded the FDIC coverage by $270,285.

(e) Investments

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by a national exchange, in the statements of financial position. Alternative investments are not readily marketable and are presented at estimated fair value as determined by the investment managers. Management reviews, evaluates and monitors the values provided and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2009 and 2008, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

		2009	2008
Interest and dividends	$	3,167,764	3,287,786
Realized losses on investments		(1,520,716)	(39,566)
Unrealized gains (losses) on investments and funds held in trust by others		14,846,372	(25,926,000)
	$	16,493,420	(22,677,780)

Investment expenses of $230,710 and $239,784 as of December 31, 2009 and 2008, respectively have been included in general and administrative expenses.

(f) Accounts Receivable

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

		2009	2008
Total accounts receivable	$	17,298,790	16,843,279
Less: allowance for doubtful accounts		(1,807,081)	(2,151,281)
Net accounts receivable	$	15,491,709	14,691,998

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

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

(g) Assets Whose Use is Limited

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

(h) Pledges Receivable

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

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

(h) Pledges Receivable (continued)

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

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

(i) Inventories

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

(j) Property and Equipment

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

Depreciable lives are determined as follows:

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

(k) Costs of Borrowing

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

(l) Funds Held in Trust by Others

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

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

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

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

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

(m) Derivatives and Hedging Activities

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

The Corporation's interest rate swaps are carried as a liability as determined by a third party. Changes in fair value are reported in the statement of operations and changes in net assets as a component of the excess of operating revenues, gains and other support over expenses. For 2009, an adjustment to the liability was recorded causing a gain of $1,053,719. This adjustment represents the decrease in the liability of the swaps. For 2008, an adjustment to the liability was recorded causing a loss of $3,490,989. This adjustment represents the increase in the liability of the swaps.

The terms of the various interest rate swaps are described in Note 7.

(n) Deferred Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of its long-term debt arrangements. These costs are being amortized over the term of the related financings using the straight-line method which approximates the effective interest method. Amortization expense is expected to be approximately $198,044 for each of the next five years.

(o) Workers' Compensation

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

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

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

(q) Resident Deposits

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

(r) Deferred Revenue – Entrance Fees

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

The amount of entrance fees refundable to residents at December 31, 2009 and 2008 under contractual refund provisions was approximately $50,194,000 and $52,799,000, respectively.

(Continued)

(s) Statutory Liquid Reserves

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

(t) Temporarily and Permanently Restricted Net Assets

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

(u) Donor Restrictions

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

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

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

(v) Resident Services Revenue and Business Concentration

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

(Continued)

(v) Resident Services Revenue and Business Concentration (continued)

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

PACE programs are funded by Medicare and Medicaid. Payments are received prospectively on a PMPM (per member per month) basis. Medicare payments are adjusted for each member's HCC (Hierarchical Condition Categories) score. Medicaid payments are a flat monthly rate with no adjustment for HCC scores.

The HUD (Department of Housing and Urban Development)/tax credit entities' operations are concentrated in the multifamily real estate market. In addition these entities operate in a heavily regulated environment. The operations of these entities are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the Internal Revenue Service, PHFA and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by a regulatory agency. Such changes may occur with little notice or inadequate funding to pay for the related cost to comply with a change, including the additional administrative burden.

Revenues from Medicare and Medicaid represent approximately 42% and 43% of revenues for 2009 and 2008. Medicare and Medicaid receivables represent approximately 38% and 56% of accounts receivable at December 31, 2009 and 2008, respectively.

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

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's current concentration of skilled nursing facilities in Pennsylvania and Maryland exposes it to the risk of changes in Medicaid reimbursement in the respective state. Rates, in Pennsylvania, are calculated by DPW on a quarterly basis. They are published in the Pennsylvania Bulletin prior to being finalized. As of December 31, 2009, the rates for July 1, 2009 through December 31, 2009, have not been finalized. Revenues have been accrued based on estimated rates for this period.

(v) Resident Services Revenue and Business Concentration (continued)

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

(w) Health care service cost recognition

The Corporation contracts with various health care providers for the provision of certain medical care services to its members. The Corporation compensates these providers on a fee for service basis. Operating expenses include all amounts incurred by the Corporation under the aforementioned contracts.

The cost of other health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to the Corporation.

(x) Charity Care

The Corporation provides care to residents who meet certain criteria under its charity care policy at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Corporation considers contractual allowances charity care. The total amount of charity care provided under these policies was approximately $17.5 million and $12.7 million for the years ended December 31, 2009 and 2008, respectively, of which the amount of charges foregone for services and supplies was approximately $3.3 million and $2.6 million, respectively.

(y) Contributed Services

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

(z) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2009 and 2008, was $486,034 and $673,294, respectively.

(Continued)

(aa) Classification of Expenses

		2009	2008
Program activities	$	147,691,272	142,432,411
General and administrative		25,045,256	24,605,891
Fundraising		752,998	768,829
	$	173,489,526	167,807,131

(ab) Fundraising Expenses

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statement of operations and changes in net assets.

(ac) Operating Income

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled as “operating income.” Changes in the performance indicator which are excluded from this measure include changes in the fair value of swap agreements, equity received from tax credit limited partner, loss on early extinguishment of debt, loss on abandoned project and entrance fees – effect of change in contract terms.

(ad) Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets, which includes a performance indicator of operations labeled as “excess of operating revenues, gains, and other support over expenses.” Changes in unrestricted net assets which are excluded from this measure are pension-related changes other than net periodic pension costs and unrealized gains (losses) on investments”.

(ae) Statements of Cash Flows

Interest paid during the years ended December 31, 2009 and 2008 was $6,827,606 and $7,120,546, respectively. In 2008, the Corporation recognized non-cash contributions from Long Home and Grace Manor of $8,241,862, consisting of property and equipment of $3,569,619, investments and funds held in trust by others of $5,348,975, less a mortgage of $566,764 and accrued liabilities of $109,969. In 2009, Presbyterian Homes Inc. sold bonds at a discount of $180,548.

(af) Reclassification

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

(ag) Subsequent Events

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

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

(3) Investments

The cost and market value of investments at December 31 are as follows:

		2009			2008	
		Market	**Cost**		**Market**	**Cost**
Certificates of deposit	$	—	—		20,789,366	20,789,366
Money market funds		15,841,829	15,841,829		13,059,340	13,059,340
Equity securities		45,703,512	50,490,341		33,412,321	20,956,925
Fixed income securities		18,344,703	18,015,725		12,742,259	14,044,578
Alternate investments		8,624,194	8,115,777		6,034,408	6,678,261
Totals	$	88,514,238	92,463,672		86,037,694	75,528,470
Less assets whose use is limited (note 4)		(20,043,441)			(27,473,989)	
Total investments	$	68,470,797		$	58,563,705	

In December 2008, Pres Homes, PHPH, QRC and Presbyterian Senior Living transferred a total of $38,318,407 of their investments to PHI Investment Management Services Corporation, where they are held for the exclusive benefit of the corporations. During 2009, an additional $1,728,102 was transferred to PHI Investment Management Services Corporation.

The Corporation invests in a variety of equity and fixed income mutual funds, other equity and fixed income securities, alternative investments, and certificates of deposit and money market funds.

As of December 31, 2009, two mutual funds had a market value that had been below cost for less than a year. In total, its market value was less than four percent below cost. As of December 31, 2008, forty four mutual funds and three alternative investments had a market value that had been below cost for less than a year. In total, their market value was twenty-seven percent below cost.

(3) Investments (continued)

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

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mutual funds	$ 2,044,838	(76,234)	36,422,650	(5,655,264)	38,467,488	(5,731,498)
Alternate investments	—	—	2,613,155	(361,936)	2,613,155	(361,936)
Total temporarily impaired investments	$ 2,044,838	(76,234)	39,035,805	(6,017,200)	41,080,643	(6,093,434)

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mutual funds	$ 35,470,526	(14,015,290)	5,086,504	(3,061,011)	40,557,030	(17,076,301)
Alternate investments	4,684,142	(542,979)	—	—	4,684,142	(542,979)
Total temporarily impaired investments	$ 40,154,668	(14,558,269)	5,086,504	(3,061,011)	45,241,172	(17,619,280)

(Continued)

(4) Assets Whose Use is Limited

At December 31 assets whose use is limited which are carried at market value consisted of the following:

		2009	2008
Permanently restricted investments	$	5,060,750	4,531,423
QRC - unrestricted benevolent care		1,347,567	840,118
Debt service reserve funds		5,884,302	5,731,836
Held by trustee - for future projects		977,004	12,214,554
Operating reserve fund		2,083,190	1,508,055
Bond funds		1,621,399	1,297,343
Assets designated for renovation and charity care		631,572	509,017
Other reserves required by financing arrangements		2,437,657	841,643
	$	20,043,441	27,473,989

(5) Related Party Transactions

Prelude Systems, Inc. (Prelude), is a joint venture between the Corporation and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. Presbyterian Senior Living's investment in Prelude is 46% and is accounted for under the equity method. It is included in investments in marketable equity securities and totaled $748,215 and $648,504 as of December 31, 2009 and 2008, respectively. During 2009 and 2008, respectively, Presbyterian Senior Living paid Prelude approximately $2,324,000 and $1,892,000 for information services provided by Prelude, of which $580,128 and $331,792 was included in accounts payable as of December 31, 2009 and 2008, respectively.

Following is summarized financial information of Prelude as of December 31:

		2009	2008
Assets	$	3,741,055	3,159,090
Liablities		2,114,503	1,727,431
Equity		1,626,552	1,431,659
Sales		9,113,837	8,046,879
Net Income		198,082	23,964

(Continued)

(5) Related Party Transactions (continued)

In addition, the Corporation's affiliates purchased medications from Continuing Care Rx, Inc. During 2008, these contracts were terminated. Total purchases by affiliates from Continuing Care Rx, Inc. for 2009 and 2008 were approximately $2,700 and $1,400,400, respectively, of which $0 and $617 was included in accounts payable as of December 31, 2009 and 2008, respectively. The Corporation is a minority shareholder in CCRx Holdings, Inc, the parent corporation of Continuing Care Rx, Inc.

(6) Property and Equipment

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

		2009	2008
Land	$	38,170,154	35,455,259
Land improvements		21,276,373	20,728,711
Buildings and improvements		306,316,724	285,492,295
Departmental equipment, furniture and fixtures		45,051,195	42,007,706
Furniture		3,936,496	3,879,301
Vehicles		2,873,834	2,860,576
Construction-in-progress		27,872,994	21,387,184
		445,497,770	411,811,032
Accumulated depreciation		(192,137,608)	(180,250,915)
	$	253,360,162	231,560,117

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

Construction-in-progress consists of construction costs incurred for various renovation and expansion projects at the Corporation's existing facilities.

As of December 31, 2009, commitments for future construction totaled approximately $10,410,000.

(6) Property and Equipment (continued)

In October 2005, Presbyterian Senior Living received an allocation from the Pennsylvania Housing Finance Agency of approximately $6.4 million in tax credits payable over ten years. The credits were used for the construction of a fifty unit senior apartment building at a total cost of approximately $8 million which will be rent and income restricted for lower income seniors for a period of 30 years. Schartner House Inc. was organized by the Corporation to be a general partner for this project. The partnership, Schartner House Associates, L.P. (the Partnership) has a general partner, Schartner House Inc, a special limited partner, MMA Special Limited Partner, Inc. and an investor limited partner, MMA Financial Institutional Tax Credits XXI. The amount of equity provided by MMA during 2009 and 2008 is included in unrestricted net assets as a minority interest (labeled as tax credit equity) of $5,614,677 and $5,950,663, respectively.

In November 2007, Presbyterian Senior Living received an allocation from the Pennsylvania Housing Finance Agency of approximately $13.9 million in tax credits payable over ten years. The credits were used for the construction of a seventy three unit senior apartment building at a total cost of approximately $13 million which will be rent and income restricted for lower income seniors for a period of 30 years. Westminster Place at Parkesburg, Inc was formed by the Corporation to be the general partner in Westminster Place at Parkesburg, L.P. In September 2009, construction was completed and the first resident moved in on October 8, 2009. The partnership, Westminster Place at Parkesburg, L.P. (the Partnership) has a general partner, Westminster Place at Parkesburg Inc, and two investor limited partners, Enterprise RB Fund I, L.P. and Community Housing Alliance II, L.P. The amount of equity provided by the investor limited partners during 2009 and 2008 is included in unrestricted net assets as a minority interest (labeled as tax credit equity) of $8,284,539 and $3,357,571, respectively.

On October 1, 2008, the Corporation sold the administrative office and all the assets to Christ Community Church for approximately $1,069,000, and recognized a gain of $587,727. Additional (losses) gains on fixed assets totaled ($192,566) and $40,782 during 2009 and 2008, respectively.

In 2009, the Corporation was awarded tax credits for two affordable senior living projects. The first, Westminster Place at Windy Hill, Inc. is located in Phillipsburg, PA. The other, Westminster Place at Carroll Village, Inc., is in York county, Pennsylvania. Construction commenced at both locations in October 2009.

In March 2009, the Corporation and Bloomsburg Health Ventures (BHV), the controlling affiliate for Bloomsburg Hospital agreed to form a new not-for-profit corporation, PHI Bloomsburg Senior Care, for the purpose of developing approximately sixty acres of land adjacent to the hospital into a senior living community. Bloomsburg Health Systems contributed land, subject to a 15% land take back, to the project with a fair value of approximately $3.2 million in exchange for a minority interest. The Corporation will be responsible for the majority of the future development thereon.

During 2009, it was determined that planned construction projects at Saint Andrew’s Village, Green Ridge Village and Sycamore Manor were not moving forward and $273,694 of assets were considered impaired.

(7) Long-term Debt

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

		2009	2008
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 0.4% and 1.15% at December 31, 2009 and 2008, respectively, secured by irrevocable letter of credit and by property and equipment and gross revenues of the Obligated Group.	$	6,000,000	6,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2003A, tax exempt bonds, principal due in varying annual amounts from 2005 to 2026, interest rates ranging from 2.15% to 5%, insured by municipal bond insurance and property and equipment and gross revenues of the Obligated Group.		12,530,000	10,575,000
Cumberland County Municipal Authority Revenue Bonds Series 2003B, tax exempt variable rate bonds, principal maturities in varying amounts from 2004 to 2032, interest adjusted weekly, 0.21% and 1.33% at December 31, 2009 and 2008, respectively, collateralized by letter of credit		8,250,000	8,405,000
Kent County Delaware Economic Development Revenue Bond Series 2003B, principal and interest payable monthly on a 15-year amortization period, final principal payment due October 31, 2018, variable interest of 0.994% and 1.80% at December 31, 2009 and 2008, respectively, collateralized by property and equipment and gross revenues of the Obligated Group		6,556,577	7,170,358
Cumberland County Municipal Authority Revenue Bonds Series 2005A, tax exempt bonds, principal due in varying annual amounts from 2013 to 2020, interest rates ranging from 4% to 5%, insured by municipal bond insurance and collateralized by property and equipment and gross revenues of the Obligated Group		16,800,000	16,800,000
Fannie Mae mortgage payable executed on March 29, 1973, amortization of principal from May 1, 1973 through September 2013, interest rate of 7% effective rate of 0% beginning in 2003 due to FHA subsidy		401,371	504,672
HUD Flexible Subsidy Loans payable, principal balance due upon sale of the project building or upon full payment of the HUD mortgage, simple interest of 1% payable at time of principal payments		1,671,580	1,672,491
Mortgage payable for building loan provided by HUD, monthly installments of principal and interest, interest rate of 3%		781,895	854,454
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.34% and 2.05% at December 31, 2009 and 2008, respectively, collateralized by letter of credit		3,340,000	3,340,000

(7) Long-term Debt

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

	2009	2008
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.24% and 2.50% at December 31, 2009 and 2008, respectively, collateralized by letter of credit	14,280,000	14,685,000
1995 Series A revenue note to First National Bank, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to July 10, 2026. The note bears a floating rate which was 3.16% and 3.95% at December 31, 2009 and 2008, repsectively. This note is collateralized by property and equipment and gross revenues of the Obligated Group	2,712,141	2,847,828
1997 Series A Montgomery County Higher Education and Health Authority Demand Revenue Bonds, payable in monthly installments of principal and interest sufficient to amortize the principal balances to April 2017. The bonds bear a floating interest rate, which was 0.30% and 0.95% at December 31, 2009 and 2008, respectively. These bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group.	6,235,000	6,855,000
Series 2002 Huntingdon County Industrial Development Authority, Mortgage Revenue Note, payable in equal monthly installments of principal and interest sufficient to amortize the principal balance to April 2023. The note bears a floating interest rate, which adjusts every five years and was 5.295% at both December 31, 2009 and 2008. The note is collateralized by property and equipment and gross revenues of the Obligated Group	752,020	789,852
Series 2005 College Township Revenue Bonds, payable in equal installments of $25,248 per month to include principal and interest beginning October 2006 through September 2026. The bonds bear a floating interest rate, which adjusts every 5 years and was 5.01% at both December 31, 2009 and 2008. The bonds are collateralized by property and equipment and gross revenues of the Obligated Group	3,412,285	3,538,228
Cumberland County Municipal Authority Revenue Bonds Series 2008A, tax exempt bonds, principal due in varying annual amounts from 2009 to 2021, interest rates ranging from 4% to 5.45%, collateralized by property and equipment and gross revenues of the Obligated Group.	16,880,000	17,415,000

(7) Long-term Debt (continued)

	2009	2008
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 0.22% and 1.75% at December 31, 2009 and 2008, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group.	45,000,000	45,000,000
Cumberland County Municipal Authority Revenue Bonds Series 2008C, taxable variable rate bonds, principal maturities in varying amounts from 2013 to 2026, interest adjusted weekly, 0.3% and 1.30% at December 31, 2009 and 2008, respectively, collateralized by a letter of credit and by property and equipment and gross revenues of the Obligated Group.	15,685,000	15,685,000
Mortgage note payable,Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due August 2027. The note bears an interest rate of 4.51%. The note is collateralized by property and equipment and gross revenues of the Obligated Group.	7,421,852	7,683,836
Mortgage note payable, Pennsylvania Housing Finance Agency, non-interest bearing with principal payments being rquired annually after the project is cost certified by the agency and is placed in service under Section 42 of the Internal Revenue Code.	525,201	—
Mortgage note payable, Chester County Department of Community Development, non interest bearing with principal payments being deferred until September 21, 2039	641,500	601,941
Mortgage note payable, Chester County Department of Community Development, interest accrues at 1.0% per annum, compounding annually, interest of $7,474 and $278 have been added to the principal balance as of December 31, 2009 and 2008, respectivley. Principal and accrued interest are to be paid from excess revenue generated by the Westminster Place at Parkesburg project, commencing with the first full calendar year following construction completion. Principal and interest will be due the earlier of September 21, 2039, termination of the partnership, refiancing of the project, sale of the project or upon default.	871,474	234,790
Mortgage payable, County of York - Housing and Community Development Division, interest accrues at 1.0% with no principal payment required until 2039, as long as affordability is maintained	2,356,508	—
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000	5,000	10,000

(Continued)

(7) Long-term Debt (continued)

	2009	2008
Note payable, to secure a subsidy from the Department of Housing and Urban Development, non-compounding interest of 1% per annum has been accruing since the note's inception.	117,250	117,250
	173,226,654	170,785,700
Less: Unamortized discount	(463,649)	(309,729)
Plus: Unamortized premium	338,102	368,075
	$ 173,101,107	170,844,046

All of the obligations above are collateralized by either property, plant and equipment and gross revenues of the Corporation's consolidated affiliates, or by a letter of credit.

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

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

Under the terms of the bond indentures, the Corporations are required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indentures also place limits on additional borrowings and require the Corporations to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants have been met at December 31, 2009 and 2008 for all the corporations.

(7) Long-term Debt (continued)

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

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

Years ended December 31,		**Aggregate maturities**
2010	$	5,014,774
2011		5,211,443
2012		5,459,083
2013		4,688,322
2014		4,776,547
Thereafter		148,076,485
	$	173,226,654

In July 2008, GMRC entered into a swap agreement on the Series 1999B bonds for a notational amount of $14,685,000 at 3.702%, which expires on July 1, 2010.

(7) Long-term Debt (continued)

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

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

(7) Long-term Debt (continued)

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

Counterparty	Fair Value 12/31/2009	Fair Value 12/31/2008
M&T	$ 316,700	$ 342,100
Wachovia	451,565	515,018
Wachovia	478,323	679,561
Morgan Stanley	511,297	687,188
M&T	143,530	139,636
Bank of America	258,964	519,618
Wachovia	242,610	573,587
Total	$ 2,402,989	$ 3,456,708

Pursuant to all these agreements the intermediary assumes the risk of varying interest rates, with the difference between the weekly variable rates and the fixed rates above being either paid by, or reimbursed to, the Corporation. As discussed in Note 2, swap agreements are reported at fair value.

(8) Notes Payable

The Corporation has available various lines of credit with financial institutions. Interest rates on these lines of credit are variable based on the prime rate of the various financial institutions or the LIBOR rate. As of December 31, 2009 and 2008, under the line of credit agreements, the Corporation had available a maximum of $25,950,000 and $29,950,000, respectively, from the financial institutions. As of December 31, 2009 and 2008, the Corporation had amounts totaling $18,209,068 and $15,267,906 outstanding under these agreements at interest rates ranging from 0.25% to 3.375%.

(Continued)

(9) Leases

The Corporation is obligated under various capital leases for equipment and its corporate office that expire at various dates. The gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows at December 31:

	2009	2008
Building and improvements	$ 3,765,000	3,765,000
Medical and office equipment	854,918	807,247
Accumulated amortization	(758,842)	(405,847)
	$ 3,861,076	4,166,400

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2009 follows:

2010	$ 699,491
2011	638,172
2012	499,208
2013	510,730
2014	539,331
Thereafter	11,822,273
	14,709,205
Amounts representing interest	(10,609,650)
	$ 4,099,555

The Corporation leases several offices, certain equipment and automobiles under operating leases, which expire at various dates through 2028. The future minimum lease payments under these operating leases are as follows:

2010	$ 363,526
2011	305,393
2012	413,848
2013	397,977
2014	393,922
Thereafter	5,547,734
	$ 7,422,400

(9) Leases (continued)

Rental expense under operating leases was $631,008 and $266,747 for the years ended December 31, 2009 and 2008, respectively.

Deferred rent as shown on the statement of financial position represents the difference between the rents actually paid and the amount recognized as expense in accordance with generally accepted accounting principles.

(10) Stop-loss Insurance

The Corporation's LIFE program operates as both the insurer and provider of services. The Corporation is liable for all healthcare costs incurred for its members. The Corporation entered into a stop-loss contract with an insurance company to limit its losses on individual claims. Under the terms of this agreement, the insurance company will reimburse the Corporation approximately 90% of the excess costs for certain services in excess of $50,000, with a maximum benefit of $1,000,000. In the event the Corporation ceases operations, the Corporation is required to assist the participants to obtain reinstatement of conventional Medicare and Medicaid benefits and transition participants' care to other providers. There are approximately 16 members covered by the plan.

Stop-loss insurance premiums of approximately $7,000 are included in general and administrative expense in 2009.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary. Total annuities payable were $1,237,580 and $1,286,116 at December 31, 2009 and 2008, respectively. The Corporation uses published mortality rate tables adopted by the Internal Revenue Service and an assumed discount rate of approximately 4% to 6% to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $1,717,820 and $1,777,849 as of December 31, 2009 and 2008, respectively to satisfy annuities.

(Continued)

(12) Workers' Compensation Insurance

The Corporation has a self-insured Workers' Compensation program as allowed by the Commonwealth of Pennsylvania Bureau of Workers' Compensation. This program provides for self payment of work related injuries and illnesses as opposed to utilizing an insurance carrier. The Corporation has contracted with major insurance carriers for excess insurance coverage, loss control services and administration. The Corporation maintains a letter of credit for $4.3 million in connection with this self-insurance program At December 31, 2009 and 2008, the Corporation has recorded an accrued expense of approximately $4.99 million and $5.53 million, respectively for workers' compensation claims which includes known case reserves and an estimate of the Corporation's liability for incurred but not reported claims.

(13) Medical Malpractice Claims Coverage

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

(14) Temporarily Restricted Net Assets

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

		2009	2008
Trust assets held for the benefit of The Easton Home	$	1,097,794	678,524
Charity care and/or equipment, including pledges receivable			
Endowment		341,377	332,691
Other		2,287,293	2,333,278
Contributions receivable from remainder trusts		327,823	427,675
	$	4,054,287	3,772,168

Net assets of $2,431,063 and $603,933 were released from restriction during 2008 and 2007 respectively in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets are allocated to the following purposes at December 31:

		2009	2008
Investments to be held in perpetuity, the income from which is expendable to support :			
Operations	$	1,919,504	1,884,624
Charity care and/or equipment		3,048,551	2,982,649
Trust assets held for the benefit of The Easton Home		830,086	830,086
Contributions receivable from remainder trusts		1,480,159	1,376,229
Beneficial interest in assets of foundation		47,320	121,241
Gift annuities		43,620	54,847
Beneficial interest in perpetual trusts		11,909,926	10,453,313
	$	19,279,166	17,702,989

(16) Endowment

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

(16) Endowment (continued)

Interpretation of relevant law

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

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

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	332,691	4,867,273	5,199,964
Investment return:				
Investment income		108,121	–	108,121
Contributions		–	100,782	100,782
Appropriation of endowment assets for expenditures		(99,435)	–	(99,435)
Endowment net assets, end of year	$	341,377	4,968,055	5,309,432

(16) Endowment (continued)

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

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	217,516	4,728,929	4,946,445
Investment return:				
Investment income		156,911	–	156,911
Contributions		50,832	138,344	189,176
Appropriation of endowment assets for expenditures		(92,568)	–	(92,568)
Endowment net assets, end of year	$	332,691	4,867,273	5,199,964

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2009 or 2008.

Return Objectives and Risk Parameters

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

(16) Endowment (continued)

Strategies Employed for Achieving Objectives

The Corporation 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 Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2009 and 2008. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2009 and 2008 an allocation of four percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Retirement Plan

The Corporation has a defined-contribution retirement plan covering all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2009 and 2008, retirement plan expense totaled approximately $1,552,000 and $1,186,000, respectively.

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

(17) Retirement Plan (continued)

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

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

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

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

(Continued)

(17) Retirement Plan (continued)

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

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

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

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

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

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

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

(17) Retirement Plan (continued)

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

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

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

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 19, at December 31, 2009, by asset category are as follows:

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

The fair values of QRC's pension plan assets, based on the fair value hierarchy as discussed in Note 19, at December 31, 2008, by asset category are as follows:

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

(Continued)

(17) Retirement Plan (continued)

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

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

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

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

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

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

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

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

(18) Commitments and Contingencies

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

(18) Commitments and Contingencies (continued)

The low-income housing credits are contingent on the ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

From time to time, the Corporation receives grant revenues for its low-income housing projects. These grant awards may require the projects to be maintained for a specified period of time. If the projects are not maintained for the required time period, a portion of the grant may be required to be repaid. Management recognizes these revenues as revenue when received as it is expected that all of the grant award terms will be met.

(19) Financial Instruments

(a) Fair Values of Financial Instruments

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

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

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

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

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

Long-term debt: Long-term debt is carried at cost in the statements of financial position for bonds payable and mortgages payable at December 31, 2009 and 2008. Fair value is based on quoted market prices for the same or similar issues The total outstanding was $173,101,107 and $170,844,046 at December 31, 2009 and 2008, respectively, and its fair values at December 31, 2009 and 2008 approximates $144,845,431 and $135,495,615, respectively.

(19) Financial Instruments (continued)

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

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2009 and 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

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

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

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

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

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

(Continued)

(19) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2009 are as follows:

Description	Total	Level 1	Level 2	Level 3
Certificates of deposit				
and money market funds	$ 15,841,829	15,841,829	–	–
Equity securities	45,703,512	45,703,512	–	–
Fixed income securities	18,344,703	18,344,703	–	–
Alternate investments	8,624,194	–	–	8,624,194
Total investments	88,514,238	79,890,044	–	8,624,194
Beneficial interest in				
perpetual trusts	11,909,926	–	–	11,909,926
Beneficial interest in				
assets of foundation	47,320	47,320	–	–
Gift annuities	43,620	–	–	43,620
Contributions receivable				
from remainder trusts	1,807,940	–	–	1,807,940
Total assets	$ 102,323,044	79,937,364	–	22,385,680
Interest rate swap	$ (2,402,989)	–	(2,402,989)	–

(19) Financial Instruments (continued)

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

Description		Total	Level 1	Level 2	Level 3
Certificates of deposit					
and money market funds	$	33,848,706	33,848,706	–	–
Equity securities		33,412,321	33,412,321	–	–
Fixed income securities		12,742,259	12,742,259	–	–
Alternate investments		6,034,408	–	–	6,034,408
Total investments		86,037,694	80,003,286	–	6,034,408
Beneficial interest in					
perpetual trusts		10,453,313	–	–	10,453,313
Beneficial interest in					
assets of foundation		121,241	121,241	–	–
Gift annuities		54,847	–	–	54,847
Contributions receivable					
from remainder trusts		1,803,904	–	–	1,803,904
Total assets	$	98,470,999	80,124,527	–	18,346,472
Interest rate swap	$	(3,456,708)	–	(3,456,708)	–

(19) Financial Instruments (continued)

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

Description		Altermative Investments	Contributions Receivable from Remainder Trusts	Gift Annuities	Beneficial Interest in Perpetual Trusts
Balance at December 31, 2007	$	5,855,296	2,076,872	139,044	13,332,463
Unrealized losses		(1,867,867)	(272,968)	(84,197)	(2,879,150)
Proceeds received		2,054,485			
Realized losses		(7,506)	–	–	–
Balance at December 31, 2008	$	6,034,408	1,803,904	54,847	10,453,313
Unrealized losses		1,049,023	4,036	(11,227)	1,456,613
Distributions		(53,469)	–	–	–
Contributions		1,552,448	–	–	–
Realized losses		41,784	–	–	–
Balance at December 31, 2009	$	8,624,194	1,807,940	43,620	11,909,926

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

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

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