

**PRESBYTERIAN SENIOR LIVING  
SERVICES, INC.**

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

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## Certification of Chief Executive and Chief Financial Officers

We are responsible for the financial statements and supporting information of Presbyterian Senior Living Services, Inc., 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 ministry that has served older persons in the name of Christ for the past 83 years.

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



Stephen E. Proctor  
Chief Executive Officer  
Presbyterian Senior Living



Jeffrey J. Davis  
Chief Financial Officer  
Presbyterian Senior Living

## Independent Auditors' Report

The Board of Directors  
Presbyterian Senior Living Services, Inc.

We have audited the accompanying consolidated statements of financial position of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in Note 2(m) to the financial statements, the Corporation changed its assisted living unit contracts in 2009. The effect of this change resulted in an increase in the associated liability of \$967,483 and a like charge as reflected in the Consolidated Statements of Operations and Changes in Net Assets.

The accompanying consolidated financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18, Presbyterian Senior Living Services, Inc.'s continued operations are dependent upon the continued support of Presbyterian Senior Living. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

*ParenteBeard LLC*

Lancaster, Pennsylvania  
April 8, 2010

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Consolidated Statements of Financial Position

December 31, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 48,190	12,430
Investments	139,000	233,000
Accounts receivable, net	799,917	508,756
Prepaid expenses and other current assets	166,184	149,393
Assets whose use is limited	2,946,961	2,233,595
Property and equipment (net of accumulated depreciation of \$20,686,810 and \$19,023,884, respectively)	32,233,246	32,580,950
Assets under capital leases (net of accumulated depreciation of \$30,008 and \$15,718, respectively)	24,899	39,189
Deferred financing costs (net of accumulated amortization of \$167,259 and \$151,030, respectively)	<u>297,411</u>	<u>313,640</u>
Total assets	<u>\$ 36,655,808</u>	<u>36,070,953</u>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Consolidated Statements of Financial Position

December 31, 2009 and 2008

<b>Liabilities and Net Liabilities</b>	<b>2009</b>	<b>2008</b>
Accounts payable	\$ 679,807	477,755
Accrued expenses	364,926	530,372
Note payable	1,108,666	153,463
Resident deposits	89,200	71,105
Deferred revenue – entrance fees	14,972,408	15,762,997
Fair value of interest rate swaps	242,610	573,587
Annuities payable	27,351	71,821
Obligations under capital leases	25,275	39,118
Bonds payable	17,620,000	18,025,000
Due to affiliates	12,329,269	11,432,160
Total liabilities	<u>47,459,512</u>	<u>47,137,378</u>
Net (liabilities) assets:		
Unrestricted	(11,291,899)	(11,534,440)
Temporarily restricted	150,345	132,165
Permanently restricted	337,850	335,850
Total net liabilities	<u>(10,803,704)</u>	<u>(11,066,425)</u>
Total liabilities and net liabilities	<u>\$ 36,655,808</u>	<u>36,070,953</u>

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues, gains, and other support:		
Resident services, including amortization of entrance fees of \$1,203,499 and \$1,553,692	\$ 11,887,431	11,871,237
Interest and dividend income	88,526	72,009
Realized losses on investments	(64,658)	(8,868)
Gifts and bequests	5,673	-
Net assets released from restrictions	13,721	16,078
	<u>11,930,693</u>	<u>11,950,456</u>
Total operating revenues, gains, and other support		
Expenses:		
Nursing services	2,268,694	2,255,428
Rehabilitation	295,681	267,310
Recreation and special services	342,899	362,815
Pharmacy	84,877	69,813
Social services	56,132	59,169
Physician services	28,146	33,324
Food services	1,687,075	1,679,225
Building operations and maintenance	2,107,351	2,148,711
Housekeeping	336,166	394,375
Laundry and linen	50,984	48,229
General and administrative	1,224,161	1,268,302
Employee benefits	603,989	479,787
Interest	886,767	987,132
Depreciation	1,677,217	1,608,207
Amortization	16,229	16,229
	<u>11,666,368</u>	<u>11,678,056</u>
Total expenses		
Operating income	264,325	272,400
Increase (decrease) in fair value of interest rate swaps	330,977	(573,587)
Entrance fees - effect of change in contract terms	(967,483)	-
	<u>(372,181)</u>	<u>(301,187)</u>
Deficit of operating revenues, gains and other support over expenses		
Other changes:		
Unrealized gains (loss) on investments	614,722	(832,023)
	<u>242,541</u>	<u>(1,133,210)</u>
Increase (decrease) in unrestricted net liabilities		

See accompanying notes to consolidated financial statements.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Temporarily restricted net assets:		
Contributions, gifts and bequests	13,034	14,881
Interest and dividend income	18,867	21,593
Net assets released from restrictions	<u>(13,721)</u>	<u>(16,078)</u>
Change in temporarily restricted net assets	<u>18,180</u>	<u>20,396</u>
Permanently restricted net assets:		
Contributions	<u>2,000</u>	<u>-</u>
Change in permanently restricted net assets	<u>2,000</u>	<u>-</u>
Change in net (liabilities) assets	262,721	(1,112,814)
Net (liabilities) assets, beginning of year	<u>(11,066,425)</u>	<u>(9,953,611)</u>
Net (liabilities) assets, end of year	<u>\$ (10,803,704)</u>	<u>(11,066,425)</u>

See accompanying notes to consolidated financial statements.



**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net liabilities	\$ 262,721	(1,112,814)
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:		
Depreciation	1,677,217	1,608,207
Bad debt write-offs	17,993	1,193
Proceeds from entrance fees and deposits	3,466,133	3,133,704
Amortization of entrance fees	(1,203,499)	(1,553,692)
Change in fair value of interest rate swaps	(330,977)	573,587
Unrealized (gains) losses on investments	(614,722)	832,023
Realized losses on investments	64,658	8,868
Contributions restricted for long-term purposes	(2,000)	—
Amortization	16,229	16,229
Entrance fee - effect of change in contract terms	967,483	—
Change in assets and liabilities:		
Accounts receivable	(309,154)	189,348
Prepaid expenses and other current assets	(16,791)	9,830
Accounts payable	202,052	(504,902)
Accrued expenses	(165,446)	58,544
Net cash provided by operating activities	<u>4,031,897</u>	<u>3,260,125</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(1,315,223)	(1,297,191)
Purchases of investments	(1,059,052)	(1,731,165)
Proceeds from sale of investments	989,750	1,104,018
Net cash used in investing activities	<u>(1,384,525)</u>	<u>(1,924,338)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(4,002,611)	(3,198,842)
Principal payments and redemptions of bonds	(405,000)	(375,000)
Borrowings through note payable - net	955,203	153,463
Borrowings through capital lease obligations	—	42,872
Repayments on capital lease obligations	(13,843)	(7,988)
Contributions restricted for long-term purposes	2,000	—
Change in annuities payable	(44,470)	(4,270)
Change in due to affiliates	897,109	1,677,962
Net cash used in financing activities	<u>(2,611,612)</u>	<u>(1,711,803)</u>
Net increase (decrease) in cash and cash equivalents	35,760	(376,016)
Cash and cash equivalents, beginning of year	<u>12,430</u>	<u>388,446</u>
Cash and cash equivalents, end of year	\$ <u>48,190</u>	<u>12,430</u>

See accompanying notes to consolidated financial statements.

# PRESBYTERIAN SENIOR LIVING SERVICES, INC.

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### (1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 116 independent living cottages, 86 independent living apartments, 37 assisted living units and a 31-bed skilled nursing facility. The facility covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999 whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

### (2) Summary of Significant Accounting Policies

#### (a) *Basis of Consolidation*

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

#### (b) *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.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(b) *Basis of Accounting (continued)***

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

**(c) *Income Taxes***

The Corporation and its subsidiaries 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 for the years ended December 31, 2006, 2007 and 2008 remain subject to examination by the Internal Revenue Service.

**(d) *Use of Estimates***

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

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(e) *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 the purposes of the statements of financial position and cash flows, except for those included in investments or assets whose use is limited. 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 and 2008, the Corporation's cash balances did not exceed the FDIC coverage.

(f) *Investments*

Investments in marketable 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. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2009 and 2008, no amounts were charged to realized loss as management believes the decline in value is temporary due to general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 107,393	93,602
Realized losses on investments	(64,658)	(8,868)
Unrealized (losses) gains on investments	614,722	(832,023)
	<u>\$ 657,457</u>	<u>(747,289)</u>

Investment expenses of \$10,182 and \$8,357 as of December 31, 2009 and 2008, respectively have been included in general and administrative expenses.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(g) Accounts Receivable**

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

	<u>2009</u>	<u>2008</u>
Total accounts receivable	\$ 868,319	578,258
Less: allowance for doubtful accounts	<u>(68,402)</u>	<u>(69,502)</u>
Net accounts receivable	<u>\$ 799,917</u>	<u>508,756</u>

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.

**(h) Assets Whose Use is Limited**

Assets whose use is limited are measured at fair value in the statements of financial position and include money deposited with a trustee under a debt agreement, assets restricted by donors for capital improvements, and the Maryland Department of Aging Operating Reserve.

**(i) Property and Equipment**

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The 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.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-25 years
Departmental equipment, furniture and fixtures	10-25 years
Vehicles	5 years

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(j) *Derivatives and Hedging Activities***

The Corporation utilized an interest rate swap agreement to hedge variable interest rates but elected not to elect hedge accounting for this agreement.

The Corporation's interest rate swap is carried as a liability at fair value as determined by a third party. Changes in fair value were reported in the statement of operations and changes in net assets (liabilities) as a component of the change in net assets. For 2009, an adjustment to the liability was recorded causing a gain of \$330,977. This adjustment represented the decrease in the liability of the swap. For 2008, an adjustment to the liability was recorded causing a loss of \$537,587. This adjustment represented the increase in the liability of the swap.

**(k) *Deferred Financing Costs***

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be approximately \$16,229 for each of the next five years.

**(l) *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 consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

**(m) *Deferred Revenue – Entrance Fees***

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are amortized into revenue using the straight-line method over the remaining useful life of the facility. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(m) *Deferred Revenue – Entrance Fees (continued)***

The amount of entrance fees guaranteed to be refundable to residents at December 31, 2009 and 2008 under contractual refund provisions was approximately \$26,271,600 and \$28,899,000, respectively.

In 2009, the Corporation changed its assisted living contracts, reducing the entrance fee for assisted living units from \$55,000 to less than \$9,000 depending on contract type. The effect of this change resulted in a \$967,483 increase in the Deferred Revenue – entrance fees as reflected in the Consolidated Statements of Financial Position. A like amount is reflected as a component of the performance indicator in the Consolidated Statements of Operations and Changes in Net Assets (Liabilities).

**(n) *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. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

**(o) *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 consolidated statement of operations and changes in net assets (liabilities) 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 consolidated 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.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(p) Resident Services Revenue and Business Concentration**

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods. The Community is certified to receive benefits under Medicare and Medicaid.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system 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 existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 11% and 9% of consolidated revenues for 2009 and 2008, respectively. Medicare and Medicaid receivables represent approximately 29% and 25% of consolidated accounts receivable at December 31, 2009 and 2008, respectively.

**(q) Charity Care**

The Corporation provides services 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 \$57,369 and \$252,919 for the years ended December 31, 2009 and 2008, respectively, of which the amount of charges foregone for services and supplies was approximately \$20,612 and \$210,129, respectively.

**(r) Classification of Expenses**

	<u>2009</u>	<u>2008</u>
Program activities	\$ 10,442,207	10,409,754
General and administrative	1,224,161	1,268,302
	<u>\$ 11,666,368</u>	<u>11,678,056</u>



**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(s) ***Advertising***

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2009 and 2008, was \$56,121 and \$64,730, respectively.

(t) ***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.

(u) ***Operating Income***

The consolidated statements of operations and changes in net assets (liabilities) 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 interest rate swap agreements and entrance fees – effect of change in contract terms.

(v) ***Performance Indicator***

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

(w) ***Consolidated Statements of Cash Flows***

Interest paid during the years ended December 31, 2009 and 2008 was \$902,088 and \$993,047, respectively.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(x) 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 fair value of investments at December 31 are as follows:

	<b>2009</b>		<b>2008</b>	
	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>
Money market funds	\$ 259,972	259,972	707,631	707,631
Equity securities	2,147,731	2,215,426	1,318,701	1,935,111
Fixed income securities	678,258	697,120	440,263	499,774
Totals	\$ 3,085,961	3,172,518	2,466,595	3,142,516
Less assets whose use is limited (note 5)	\$ (2,946,961)		(2,233,595)	
Total investments	\$ 139,000		233,000	

In 2008, the Corporation moved its investments to the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had nineteen and sixteen mutual funds as of December 31, 2009 and 2008. As of December 31, 2009, fourteen mutual funds had a market value below cost. As of December 31, 2008, all sixteen mutual funds had a market value below cost.

Two mutual funds had market values that had been below cost for less than a year as of December 31, 2009. In total, the market value of the loss was less than four percent below cost for 2009. Eleven mutual funds had market values that had been below cost for less than a year as of December 31, 2008. In total, their market value was less than twenty-six percent below cost for 2008.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(3) Investments (continued)**

Twelve mutual funds had market values that had been below cost for more than one year as of December 31, 2009. In total, their market value was less than eight percent below cost for 2009. Five mutual funds had market values that had been below cost for more than one year as of December 31, 2008. In total, their market value was less than forty-four percent below cost for 2008.

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

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual funds	\$ 246,437	(8,847)	1,722,563	(146,347)	1,969,000	(155,194)
Total temporarily impaired investments	\$ <u>246,437</u>	<u>(8,847)</u>	<u>1,722,563</u>	<u>(146,347)</u>	<u>1,969,000</u>	<u>(155,194)</u>

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

	<u>Less than 12 Months</u>		<u>More than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mutual funds	\$ 1,601,726	(553,228)	157,238	(122,693)	1,758,964	(675,921)
Total temporarily impaired investments	\$ <u>1,601,726</u>	<u>(553,228)</u>	<u>157,238</u>	<u>(122,693)</u>	<u>1,758,964</u>	<u>(675,921)</u>

## PRESBYTERIAN SENIOR LIVING SERVICES, INC.

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the facility's operation, under the direction of Presbyterian Senior Living. For the years ended December 31, 2009 and 2008, Presbyterian Senior Living did not require the Corporation to pay the 2009 and 2008 fees under the agreement.

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 8.

At December 31, 2009 and 2008 the amounts payable to Presbyterian Senior Living, were \$12,329,269 and \$11,432,160, respectively. Under the Management Agreement, this is included in due to affiliated entity.

Prelude Systems, Inc. (Prelude), is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries. Prelude is a technical services organization with a wide range of programs designed to support the information systems needs of both Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2009 and 2008, respectively, the Corporation paid Prelude approximately \$115,574 and \$92,800 for information services provided by Prelude, of which \$8,946 and \$9,735 is included in accounts payable as of December 31, 2009 and 2008, respectively.

During 2009 and 2008, the Corporation purchased pharmaceuticals of \$1,717 and \$46,801, respectively from Continuing Care Rx, Inc., none of which is included in accounts payable as of December 31, 2009 and 2008. Presbyterian Senior Living is a minority shareholder of CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, Inc.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(5) Assets Whose Use is Limited**

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

	<u>2009</u>	<u>2008</u>
Operating reserve fund	\$ 2,083,190	1,508,055
Designated for renovation and charity care	631,572	509,017
Other reserves required by financing arrangement	<u>232,199</u>	<u>216,523</u>
Assets whose use is limited	<u>\$ 2,946,961</u>	<u>2,233,595</u>

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. For the year ended December 31, 2009 the fund balance was \$2,083,190, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2010 based on the following computation:

	<u>2009</u>
Total operating expenses:	\$ 11,666,368
Less: Depreciation	(1,677,217)
Amortization	<u>(16,229)</u>
Total expenses subject to operating reserve computation	(A) 9,972,922
Operating reserve requirement – 15% of (A)	1,495,938
Operating reserve fund, December 31, 2009	<u>(2,083,190)</u>
Contributions required for year ended December 31, 2010	<u>\$ (587,252)</u>

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(6) Commitments and Contingencies**

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the 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.

**(7) Property and Equipment**

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

	<b>2009</b>		<b>2008</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
Land	\$ 14,800,000	—	14,800,000	—
Land improvements	2,085,423	1,351,363	2,085,423	1,269,790
Buildings and improvements	32,786,239	17,313,316	31,964,776	15,843,739
Departmental equipment, furniture and fixtures	2,182,923	1,801,749	2,161,921	1,706,895
Vehicles	233,298	220,382	233,298	203,460
Construction-in-progress	832,173	—	359,416	—
	\$ 52,920,056	20,686,810	51,604,834	19,023,884
Net book value		\$ 32,233,246		\$ 32,580,950

Land consists of 483 acres, of which 60 acres are utilized for the facility. The remaining land is leased to independent parties and may be available for future expansion. Commitments for future constructions was approximately \$0 and \$557,000 as of December 31, 2009 and 2008, respectively.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(8) Bonds payable**

Bonds payable as of December 31 consisted of the following:

	<b>2009</b>	<b>2008</b>
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
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 2.5% at December 31, 2009 and 2008, respectively, collateralized by letter of credit	14,280,000	14,685,000
Total bonds payable	\$ 17,620,000	18,025,000

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2009 and 2008.

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

**Years ended December 31,**

2010	\$ 435,000
2011	465,000
2012	500,000
2013	535,000
2014	570,000
Thereafter	15,115,000
	\$ 17,620,000

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(8) Bonds payable (continued)**

The Corporation has an outstanding letter of credit of \$17,884,300 at December 31, 2009 and 2008 as required by the bonds. This letter of credit requires the Corporation to pay an annual fee approximating 1.15% of the principal balance of bonds outstanding. This letter of credit expires August 26, 2011 and is collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

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

Pursuant to this agreement 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.

**(9) Note Payable**

The Corporation has available a line of credit with a financial institution. Borrowings under this line of credit arrangement vary with the prime rate of 2.23% and 1.75% at December 31, 2009 and 2008. Under the line of credit agreement, the Corporation had available maximum borrowings of \$1,250,000. As of December 31, 2009 and 2008, the Corporation had outstanding borrowings under the line of credit agreement of \$1,108,666 and \$153,463, respectively. The line of credit expires on June 30, 2010.

**(10) Leases**

The Corporation is obligated under capital leases for computer equipment that expire in 2011. At December 31, 2009 and 2008, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 54,907	54,907
Accumulated amortization	<u>(30,008)</u>	<u>(15,718)</u>
	<u>\$ 24,899</u>	<u>39,189</u>



**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(10) Leases (continued)**

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	15,224
2011	<u>11,056</u>
	26,280
Amounts representing interest	<u>(1,005)</u>
Present value of minimum lease payments	<u><u>\$ 25,275</u></u>

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

The Corporation leases certain equipment under operating leases, which expire at various dates through 2011. The future minimum lease payments under these operating leases are as follows:

2010	10,651
2011	6,235
2012	<u>3,449</u>
	<u><u>\$ 20,335</u></u>

Rental expense under operating leases was \$32,039 and \$37,218 for the years ended December 31, 2009 and 2008, respectively.

**(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, which creates a liability of the Corporation. Total annuities payable were \$27,351 and \$71,821 at December 31, 2009 and 2008, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of \$139,000 and \$233,000 as of December 31, 2009 and 2008, respectively to satisfy annuities.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(12) Retirement Plan**

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers 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 \$89,300 and \$72,100, respectively.

**(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 combined financial statements.

**(14) Temporarily Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Endowment:		
Benevolent Care	\$ 108,323	91,318
Scholarships	4,314	3,801
	<u>112,637</u>	<u>95,119</u>
Scholarships	31,631	31,528
Other	6,077	5,518
	<u>\$ 150,345</u>	<u>132,165</u>

Net assets of \$13,721 and \$16,078 were released from restriction during 2009 and 2008, respectively in satisfaction of the above restrictions.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(15) Permanently Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Benevolent Care	\$ 326,253	326,253
Scholarship	<u>11,597</u>	<u>9,597</u>
	<u>\$ 337,850</u>	<u>335,850</u>

**(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.

**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 Organization 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

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(16) Endowment (continued)**

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 95,119	335,850	430,969
Investment return:			
Investment income	18,018	–	18,018
Contributions	–	2,000	2,000
Appropriation of endowment assets for expenditures	<u>(500)</u>	<u>–</u>	<u>(500)</u>
Endowment net assets, end of year	\$ <u>112,637</u>	<u>337,850</u>	<u>450,487</u>

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 76,756	335,850	412,606
Investment return:			
Investment income	19,363	–	19,363
Appropriation of endowment assets for expenditures	<u>(1,000)</u>	<u>–</u>	<u>(1,000)</u>
Endowment net assets, end of year	\$ <u>95,119</u>	<u>335,850</u>	<u>430,969</u>

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(16) Endowment (continued)**

**Funds with Deficiencies**

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the 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.

**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.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(16) Endowment (continued)**

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

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 \$17,620,000 and \$18,025,000 at December 31, 2009 and 2008, respectively, and its fair values at December 31, 2009 and 2008 approximates \$15,837,700 and \$14,363,900, respectively.

Interest rate swap: Fair value of the interest rate swap was 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 LIBOR curve. The forward LIBOR curve is readily available in public markets or can be derived from information available in publicly quoted markets.

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(17) Financial Instruments (continued)**

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 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 under these standards are as follows:

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

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

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

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

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

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 259,972	259,972	–
Equity securities	2,147,731	2,147,731	–
Fixed income securities	678,258	678,258	–
Total investments	<u>3,085,961</u>	<u>3,085,961</u>	<u>–</u>
Interest rate swap	<u>(242,610)</u>	<u>–</u>	<u>(242,610)</u>

**PRESBYTERIAN SENIOR LIVING SERVICES, INC.**

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(17) 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:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 707,631	707,631	–
Equity securities	1,318,701	1,318,701	–
Fixed income securities	440,263	440,263	–
Total investments	<u>2,466,595</u>	<u>2,466,595</u>	<u>–</u>
Interest rate swap	<u>(573,587)</u>	<u>–</u>	<u>(573,587)</u>

**(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.

**(18) Other Matters**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2009, the Corporation carried a negative unrestricted net liabilities balance of \$11,291,899. The unrestricted net liabilities are reflective of the amount due to affiliates of \$12,329,269.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.