QUINCY RETIREMENT COMMUNITY

Financial Statements
and Schedule

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

QUINCY RETIREMENT COMMUNITY

Table of Contents

PRESBYTERIAN
SENIOR LIVING

Certification of Chief Executive and Chief Financial Officers

We are responsible for the financial statements and supporting information of Quincy Retirement Community, as of December 31, 2008 and 2007, 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 105 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

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Independent Auditor's Report

The Board of Directors
Quincy Retirement Community:

We have audited the accompanying statements of financial position of Quincy Retirement Community (an affiliate of PHI, doing business as Presbyterian Senior Living) as of December 31, 2008 and 2007, and the related statements of operations and changes in net assets, 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 financial statements referred to above present fairly, in all material respects, the financial position of Quincy Retirement Community as of December 31, 2008 and 2007, 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.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, Pennsylvania
March 20, 2009

QUINCY RETIREMENT COMMUNITY

Statements of Financial Position

December 31, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	507,771	964,465
Investments		—	701,912
Accounts receivable, net		1,712,489	1,416,587
Pledges receivable		—	17,441
Inventory		39,863	30,870
Prepaid expenses and other current assets		165,254	177,514
Total current assets		2,425,377	3,308,789
Assets whose use is limited		1,440,274	1,821,010
Assets whose use is limited, capital assets held by trustee		2,956,599	2,874,501
Property and equipment (net of accumulated depreciation of $25,886,218 and $24,838,049, respectively)		14,279,243	14,931,191
Assets under capital leases (net of accumulated depreciation of $17,364 and $7,037, respectively)		41,131	14,074
Funds held in trust by others		3,958,494	5,789,413
Deferred financing costs (net of accumulated amortization of $7,117 and $2,093, respectively)		93,352	98,375
Total assets	$	25,194,470	28,837,353

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Financial Position

December 31, 2008 and 2007

Liabilities and Net Assets		2008	2007
Current liabilities:			
Accounts payable	$	781,581	596,883
Accrued expenses		990,756	850,543
Current portion:			
Annuities payable		850	—
Obligations under capital leases		19,275	7,071
Long-term debt		262,014	256,641
Total current liabilities		2,054,476	1,711,138
Resident deposits		72,725	39,100
Deferred revenue – entrance fees		6,946,992	7,649,865
Due to affiliates		902,886	729,335
Accrued pension		651,586	360,758
Annuties payable		3,976	—
Long-term debt, net of current portion:			
Obligations under capital leases		20,945	7,080
Long-term debt		7,421,822	7,683,869
Total liabilities		18,075,408	18,181,145
Net assets:			
Unrestricted		2,500,358	4,400,518
Temporarily restricted		60,054	48,447
Permanently restricted		4,558,650	6,207,243
Total net assets		7,119,062	10,656,208
Total liabilities and net assets	$	25,194,470	28,837,353

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

		2008	2007
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $993,633 and $800,412	$	15,072,422	13,943,416
Interest and dividend income		337,030	376,123
Realized (losses) gains on investments		(15,374)	92,425
Loss on disposal of property and equipment		(25,701)	–
Contributions, gifts and bequests		8,817	764,926
Net assets released from restrictions		9,726	26,042
Total operating revenues, gains, and other support		15,386,920	15,202,932
Expenses:			
Nursing services		5,146,098	5,116,379
Rehabilitation		757,944	756,101
Recreation and special services		428,063	309,805
Pharmacy		452,413	427,657
Social services		74,311	75,885
Physician services		58,851	30,319
Food services		1,503,048	1,395,390
Building operations and maintenance		2,269,083	2,056,325
Housekeeping		333,198	320,274
Laundry and linen		186,329	167,114
General and administrative		2,122,565	1,512,721
Employee benefits		1,316,517	1,132,856
Interest		226,124	281,949
Depreciation		1,232,847	1,207,428
Amortization		5,023	4,572
Total expenses		16,112,414	14,794,775
Operating (loss) income		(725,494)	408,157
Loss on early extinguishment of debt		–	(74,066)
(Deficit) excess of operating revenues, gains and other support over expenses		(725,494)	334,091
Other changes:			
Pension-related changes other than net periodic pension costs		(309,830)	–
Unrealized losses on investments		(864,836)	(461,048)
Total other changes		(1,174,666)	(461,048)
Decrease in unrestricted net assets		(1,900,160)	(126,957)

See accompanying notes to consolidated financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Operations and Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
Temporarily restricted net assets:		
Contributions, gifts and bequests	21,333	40,042
Net assets released from restrictions	(9,726)	(26,042)
Change in temporarily restricted net assets	11,607	14,000
Permanently restricted net assets:		
Contributions, gifts and bequests	88,715	183,430
Change in fair value of assets held in trust by others	(1,737,308)	425,641
Change in permanently restricted net assets	(1,648,593)	609,071
Change in net assets	(3,537,146)	496,114
Net assets, beginning of year	10,656,208	10,160,094
Net assets, end of year	$ 7,119,062	10,656,208

See accompanying notes to consolidated financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Cash Flows

Years ended December 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(3,537,146)	496,114
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		1,232,847	1,207,428
Proceeds from entrance fees and deposits		686,085	1,299,225
Amortization of entrance fees		(993,633)	(800,412)
Loss on early extinguishment of debt		—	74,066
Unrealized losses on investments and assets held in trust by others		2,602,144	35,407
Realized loss (gain) on investments		15,374	(92,425)
Loss on disposal of property and equipment		25,701	—
Contributions restricted for long-term purposes		(82,458)	(183,430)
Change in funds held in trust by others		—	(139,045)
Amortization		5,023	4,572
Change in assets and liabilities:			
Accounts receivable		(295,902)	320,257
Pledges receivable		17,441	(10,046)
Other current assets		3,267	35,982
Accounts payable		184,698	(226,410)
Accrued pension		290,828	58,082
Accrued expenses and deferred revenue other		140,213	355,056
Net cash provided by operating activities		294,482	2,434,421
Cash flows used in investing activities:			
Acquisition of property and equipment		(633,657)	(260,724)
Proceeds from sale of investments		3,048,383	1,981,115
Purchases of investments		(2,834,432)	(6,041,921)
Net cash used in investing activities		(419,706)	(4,321,530)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(361,700)	(237,527)
Principal payments on long-term debt		(256,674)	(5,855,389)
Proceeds on the issuance of long-term debt		—	8,000,000
Financing costs incurred		—	(100,468)
Borrowings through capital leases		37,385	—
Repayments on capital lease obligations		(11,316)	(6,449)
Contributions restricted for long-term purposes		82,458	183,430
Change in annuities payable		4,826	—
Net increase in due to affiliate		173,551	279,316
Net cash (used in) provided by financing activities		(331,470)	2,262,913
Net (decrease) increase in cash and cash equivalents		(456,694)	375,804
Cash and cash equivalents, beginning of year		964,465	588,661
Cash and cash equivalents, end of year	$	507,771	964,465

See accompanying notes to financial statements.

(1) General Information

Quincy Retirement Community (the Corporation) is a not-for-profit corporation, which provides services in the south central region of Pennsylvania. The Corporation owns, operates and manages a continuing care retirement community and a personal care home. In total, the Corporation includes 184 independent living units, 32 assisted living units, 134 nursing beds.

The Corporation is governed by a Board of Directors, all of whom are elected by the board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization.

The Corporation has received a Certificate of Authority from the Pennsylvania Insurance Department as required by the Continuing Care Provider Registration and Disclosure Act of 1984, (the Act).

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

These 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.

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 its subsidiaries are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The FSP defers the effective date of FASB Interpretation No 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluation uncertain tax positions for each set of financial statements where the deferral applies.

The Corporation has elected to defer the application of FIN 48. For the years ended December 31, 2008 and 2007, the Corporation has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

(continued)

(c) 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.

(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 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 and $100,000 per bank as of December 31, 2008 and 2007, respectively. At December 31, 2008 the Corporation's cash balances exceeded the FDIC coverage by $203,107. At December 31, 2007, the Corporation's cash balances exceeded the FDIC coverage by $802,073.

(e) Investments

Investments in marketable equity securities 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, 2008 and 2007, no amounts were charged to realized loss as management believes the decline in value is temporary due to the general economic conditions and not a permanent decline in value.

Investment income consisted of the following:

		2008	2007
Interest and dividends	$	337,030	376,123
Realized (losses) gains on investments		(15,374)	92,425
Unrealized losses on investments and assets held in trust by others		(2,602,144)	(35,407)
	$	(2,280,488)	433,141

Investment expenses of $14,612 and $6,774 as of December 31, 2008 and 2007, respectively have been included in general and administrative expenses.

(continued)

(f) ***Accounts Receivable***

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

		2008	2007
Total accounts receivable	$	1,868,898	1,492,724
Less: allowance for doubtful accounts		(156,409)	(76,137)
Net accounts receivable	$	1,712,489	1,416,587

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific resident accounts and the aging of the accounts receivable.

(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 and permanently restricted investments. Amounts required to meet current obligations of the Corporation have been reclassified in the statement of financial position as current assets. No amounts have been classified as current at December 31, 2008 or 2007.

(h) ***Pledges Receivable***

In 2007, a pledge was received for $17,441. As of December 31, 2008, the organization has received full payment of this gift.

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

(continued)

(k) 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 at 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 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:

		2008	2007
Other endowment	$	–	93,611
Beneficial interest in perpetual trusts		3,903,647	5,596,647
Gift annuities		54,847	99,155
	$	3,958,494	5,789,413

(l) Deferred Financing 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 $5,023 for each of the next five years.

(m) 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.

(continued)

(n) Deferred Revenue – Entrance Fees

Entrance fees are collected from residents at move-in pursuant to a Residence and Care Agreement. Under the full payment lease, only 10% is refundable after the fifth year and under the partial payment lease no amount is refundable after the third year. The entrance fee is amortized to income over the estimated remaining life expectancy of each resident. 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. In 2008, the Corporation began offering 50% nonrefundable entrance fee contracts. 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 unit.

The amount of entrance fees refundable to residents at December 31, 2008 and 2007 under contractual refund provisions was approximately $1,708,228 and $1,660,448 respectively.

(o) Statutory Liquid Reserve

The Continuing Care Provider Registration and Disclosure Act 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.

(p) 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 these restricted assets is used for the charitable purpose.

(q) 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.

(continued)

(q) Donor Restrictions (continued)

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 on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

(r) Resident Service Revenue and Business Concentration

Resident service revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Pennsylvania 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 Medicaid. The Corporation is certified to receive benefits under Medicare and Medicaid.

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

Nursing services provided to 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 exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 54% and 53% of revenues for 2008 and 2007, respectively. Medicare and Medicaid receivables represent approximately 59% and 63% of accounts receivable at December 31, 2008 and 2007, respectively.

The Corporation's nursing care facility primarily derives its revenue from private-pay, Medicare and Medicaid patients. 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.

(continued)

(r) ***Resident Service 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 the Department of Public Welfare (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 7/1-12/31/08. For the years ended December 31, 2008 and 2007, the Corporation received or will receive approximately $254,151 and $237,474, respectively, in additional revenue for the net effect of this assessment and supplement.

(s) ***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 $1,548,812 and $1,348,153 for the years ended December 31, 2008 and 2007, respectively, of which the amount of charges foregone for services and supplies was approximately $146,540 and $165,645, respectively.

(t) ***Donated Services***

Donated services are reflected in the financial statements at the fair value of the service donated. The Corporation pays for most services requiring specific expertise.

(u) ***Advertising***

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2008 and 2007 were $95,765 and $53,888, respectively.

(v) ***Classification of expenses***

	2008	2007
Program activities	$ 13,852,295	13,102,217
General and administrative	2,085,550	1,666,698
Fundraising	37,015	25,860
	$ 15,974,860	14,794,775

(continued)

(w) Fundraising Expense

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

(x) Operating Income (Loss)

The statements of operations and changes in net assets include an intermediate measure of operations labeled as "operating income (loss)." Changes in the performance indicator which are excluded from this measure include loss on the early extinguishment of debt.

(y) Performance Indicator

The Corporation measures the performance of its operations using the statements of operations and changes in net assets, which includes a performance indicator of operations labeled as "(deficit) 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 (losses) gains on investments.

(z) Statement of Cash Flows

Interest paid during the years ended December 31, 2008 and 2007 was $226,124 and $281,949, respectively.

(aa) Reclassifications

Certain items in the 2007 financial statements have been reclassified to conform with the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

(continued)

(3) Investments

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

	2008		2007	
	Cost	Fair value	Cost	Fair value
Money market funds	$ 2,977,293	2,977,293	2,905,686	2,905,686
Equity securities	1,611,528	1,060,893	1,666,835	1,689,972
Fixed income securities	411,478	358,687	799,393	801,765
Totals	$ 5,000,299	4,396,873	5,371,914	5,397,423
Less assets whose use is limited (note 5)		(4,396,873)		(4,695,511)
Total investments		$ –		$ 701,912

The Corporation invests in a diversified portfolio of mutual funds. The Corporation has sixteen mutual funds as of December 31, 2008. The Corporation had seventeen mutual funds as of December 31, 2007.

As of December 31, 2008, ten mutual funds had a market value that had been below cost for less than a year. In total, their market value was twenty eight percent below cost. As of December 31, 2007, eight mutual funds had a market value that had been below cost for less than a year. In total, their market value was less than five percent below cost.

Six mutual funds had a market value that had been below cost for more than a year as of December 31, 2008. In total, their market value was forty four percent below cost. No individual holdings had a market value that had been below cost for more than a year as of December 31, 2007.

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
Mututal funds	$ 1,246,074	(470,552)	173,506	(132,874)	1,419,580	(603,426)
Total temporarily impaired securities	$ 1,246,074	(470,552)	173,506	(132,874)	1,419,580	(603,426)

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2007 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 594,866	(26,519)	—	—	594,866	(26,519)
Total temporarily impaired securities	$ 594,866	(26,519)	—	—	594,866	(26,519)

(4) Related Party Transactions

The Corporation has a Development, Marketing and Management Agreement (Management Agreement) with its parent organization. Under the Management Agreement, Presbyterian Senior Living provides the Corporation with various management and administrative services. For the years ended December 31, 2008 and 2007, the Corporation incurred fees under the management agreement of $673,000 and $431,000, respectively.

Amounts payable to Presbyterian Senior Living, as of December 31, 2008 and 2007 under the Management Agreement are included in due to affiliated entities. During 2008 and 2007, the Corporation paid the net amount of $1,224,209 and $1,290,529, respectively, to satisfy amounts owed under the Management Agreement. Amounts due to affiliates for various expenses as of December 31, 2008 and 2007 were $902,886 and $729,335, respectively.

As noted in Note 7, the Corporation became a part of the Presbyterian Homes Obligated Group (the Group) in 2008. Under this arrangement all of the members of the Group are jointly and severally liable for all the debt of each obligated group member.

The Corporation purchased medications from Continuing Care Rx, Inc., until June 2008. Total purchases from Continuing Care Rx, Inc. for 2008 and 2007 were approximately $170,371 and $442,645, respectively, of which $0 and $65,075 is included in accounts payable as of December 31, 2008 and 2007, respectively. Presbyterian Senior Living, is a minority shareholder of CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, Inc.

(4) Related Party Transactions (continued)

Prelude Systems, Inc. (Prelude), is a joint venture between PHI, doing business a 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 2008 and 2007, the Corporation paid Prelude approximately $149,737 and $145,550, respectively, for information services provided by Prelude, of which $15,708 and $26,246 is included in accounts payable as of December 31, 2008 and 2007, respectively.

(5) Assets Whose Use is Limited

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

		2008	2007
Benevolent care:			
Permanently restricted	$	600,156	511,441
Unrestricted		840,118	1,309,569
Held by trustee - for future projects		2,956,599	2,874,501
	$	4,396,873	4,695,511

(6) Property and Equipment

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

		2008			2007		
		Cost	Accumulated depreciation		Cost		Accumulated depreciation
Land	$	1,586,989	–		1,586,989		–
Land improvements		6,038,989	4,732,736		6,036,505		4,540,718
Buildings and improvements		18,605,809	10,272,088		18,511,562		9,740,694
Departmental equipment, furniture and fixtures		13,108,099	10,389,085		13,126,343		10,068,518
Furniture		136,693	123,932		134,114		119,742
Vehicles		368,377	368,377		368,377		368,377
Construction-in-progress		320,505	–		5,350		–
	$	40,165,461	25,886,218		39,769,240		24,838,049
Net book value			14,279,243	$		$	14,931,191

(6) Property and Equipment (continued)

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

As of December 31, 2008 there was approximately $1,298,000 committed for future health center renovations.

(7) Long-term Debt

In 2008, the Corporation participated in the issuance of the Cumberland County Series 2008 A, B and C bonds, for which an obligated group (the Group) consisting of the Corporation, Presbyterian Homes, Inc., Presbyterian Homes in the Presbytery of Huntingdon, Grace Senior Community Living Corporation, and PHI Investment Management Services are members. 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. 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 $9,238,833 as of December 31, 2008.

Long-term debt of the group and of the amounts payable by the Corporation as of December 31, 2008 consisted of the following:

	The Group	The Corporation
Cumberland County Municipal Authority Bonds Series 1993A, principal due in 2018, variable interest rate, 1.15% at December 31, 2008, collateralized by irrevocable letter of credit and by property and equipment and gross revenues of the Group.	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 collateralized by property and equipment and gross revenues of the Group	10,575,000	—

(continued)

(7) Long-term Debt (continued)

	The Group	The Corporation
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, 1.33% at December 31, 2008, collateralized by letter of credit	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 1.8% at December 31, 2008, collateralized by property and equipment and gross revenues of the Group	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 Group	16,800,000	—
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 Group	17,415,000	—
Cumberland County Municipal Authority Revenue Bonds Series 2008B, tax exempt bonds, principal due in varying annual amounts from 2013 to 2038, interest adjusted weekly, 1.75% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group	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, 1.30% at December 31, 2008, collateralized by a letter of credit and by property and equipment and gross revenues of the Group	15,685,000	—
1995 Series A revenue note to Omega Financial, 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% at December 31, 2008. The note is collateralized by a letter of credit and by property and equipment and gross revenues of the Group	2,847,828	—

(7) Long-term Debt (continued)

		The Group	The Corporation
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 0.95% at December 31, 2008. The bonds are collateralized by a letter of credit and by property and equipment and gross revenues of the Group		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 was 5.295% at December 31, 2008. The note is collateralized by a letter of credit and property and equipment and gross revenues of the Group		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 rate of 5.01% as of December 31, 2008 The bonds are collateralized by property and equipment and gross revenues of the Group.		3,538,228	—
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% at December 31, 2008. The note is collateralized by property and equipment and gross revenues of the Group.		7,683,836	7,683,836
Presbytery of Huntingdon revolving loan with no interest payable in annual installments of $5,000		10,000	—
		148,775,102	7,683,836
Less: Current portion		(3,838,138)	(262,014)
Unamortized discount		368,075	—
Plus: Unamortized premium		(309,729)	—
	$	144,995,310	7,421,822

(7) Long-term Debt (continued)

Long-term debt of the Corporation as of December 31, 2007 consisted of the following:

		The Group	The Corporation
Mortgage note payable, Waynesboro Borough Authority, principal and interest payable monthly on a 20-year amortization period, due October 2027. The note bears an interest rate of 4.51% at December 31, 2007. The note is collateralized by all ILU assets and a second lien on all other property, plant and equipment of QRC.		—	7,933,209
Note payable, John Deere Credit, payable in monthly installments of $374. The note bears an interest rate of 3.80%. The note is collateralized by equipment.		—	7,301
		—	7,940,510
Less: Current portion		—	(256,641)
	$	—	7,683,869

During November and December 2008, Presbyterian Homes, Inc. repurchased $3,170,000 of the Cumberland County 2003A Series Bonds. These are being held with the option to remarket at a future date. A gain was recorded on the transactions of $386,451.

On August 16, 2007, the Corporation consolidated its outstanding mortgages into one mortgage revenue note totaling $8,000,000. The funds were used to refund all of the outstanding mortgage notes and provide approximately $2.8 million for capital improvements and to pay for issuance costs. The project funds are being held at M&T Bank.

Under the terms of the Corporation's debt, the Corporation is required to maintain certain measures of financial performance as long as the notes are outstanding. These covenants have been met as of December 31, 2008 and 2007.

(continued)

(7) Long-term Debt (continued)

Maturities for the five years subsequent to December 31, 2008 are as follows:

Years ended December 31,		The Group's Aggregate maturities	The Corporation's Aggregate maturities
2009	$	3,838,138	262,014
2010		4,373,371	274,250
2011		4,529,765	287,056
2012		4,731,482	299,571
2013		4,006,213	314,450
Thereafter		127,296,133	6,246,495
	$	148,775,102	7,683,836

(7) Long-term Debt (continued)

During 2008, the obligated group entered into five 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:

Notional Amount	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
$29,540,000	SIFMA MSI	Morgan Stanley	10/09/08	10/01/10	2.552%	Cumberland County 2008 B, Cumberland County 1993 A, Cumberland County 2003 B
$6,855,000	SIFMA MSI	M&T	10/02/08	09/30/10	2.84%	Montgomery County 1997
$7,170,358	LIBOR	Bank of America	11/28/08	10/31/18	3.73%	Kent County 2003B

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 Corporations. As discussed in Note 2, swap agreements are reported at fair value.

(continued)

(8) Leases

The Corporation is obligated under capital leases for equipment that expire in 2011. At December 31, 2008 and 2007, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

		2008	2007
Office equipment	$	58,495	21,111
Accumulated amortization		(17,364)	(7,037)
	$	41,131	14,074

A schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2008 follows:

2009	$	20,567
2010		13,156
2011		8,408
		42,131
Amounts representing interest		(1,911)
	$	40,220

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:

2009	$	18,111
2010		13,495
2011		2,549
	$	34,155

Rental expense under operating leases was $19,475 and $12,265 for the years ended December 31, 2008 and 2007, respectively.

(9) Annuities

In 2008, the Corporation began 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 $4,826 at December 31, 2008. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 4% to 6% percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $105,000 as of December 31, 2008 to satisfy annuities.

(10) Temporarily Restricted Net Assets

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

	2008	2007
Project funds	$ 60,054	48,447

Net assets of $9,726 and $26,042 were released from restriction during 2008 and 2007, respectively in satisfaction of the above restrictions.

(11) Permanently Restricted Net Assets

Income from the following permanently restricted net assets as of December 31 is restricted for:

	2008	2007
Beneficial interest in perpetual trusts	$ 3,903,647	5,596,647
Gift annuities	54,847	99,155
Endowment - Benevolent Care	600,156	511,441
	$ 4,558,650	6,207,243

(continued)

(12) 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

(12) 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	$	–	511,441	511,441
Investment return:				
Investment income		22,363	–	22,363
Contributions		–	88,715	88,715
Appropriation of endowment assets for expenditures		(22,363)	–	(22,363)
Endowment net assets, end of year	$	–	600,156	600,156

The following schedule represents the changes in endowment net asset for the year ended December 31, 2007:

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	–	395,808	395,808
Investment return:				
Investment income		14,915	–	14,915
Contributions		–	115,633	115,633
Appropriation of endowment assets for expenditures		(14,915)	–	(14,915)
Endowment net assets, end of year	$	–	511,441	511,441

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, 2008 or 2007.

(continued)

(12) Endowment (continued)

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.

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 a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 4.0% for 2008 and 2007. 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 2008 and 2007 an allocation of five 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.

(continued)

(13) Retirement Plan

The Corporation 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. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). Effective for the fiscal year ended December 31, 2007, the Corporation adopted the provisions of this standard and recognized the funded status of the plan that it sponsors.

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

		2008	2007
Projected benefit obligation for service rendered to date	$	(2,933,492)	(2,732,684)
Plan assets at fair value		2,281,906	2,371,926
Accrued pension liability, net	$	(651,586)	(360,758)
Change in Benefit Obligation:			
Project benefit obligation - beginning of year	$	(2,732,684)	(2,588,542)
Interest cost		(163,420)	(158,130)
Distributions		101,545	71,384
Change due to assumptions as of end of year		(127,193)	122,702
Experience loss as of beginning of year		(11,740)	(180,098)
Projected benefit obligation - end of year	$	(2,933,492)	(2,732,684)
Change in Plan Assets:			
Fair value of plan assets - beginning of year	$	2,371,926	2,285,866
Actual return on plan assets		(154,332)	182,824
Contributions		170,097	–
Benefits Paid		(105,785)	(96,764)
Fair value of plan assets - end of year	$	2,281,906	2,371,926

The accumulated benefit obligation amounted to $2,933,492 and $2,732,684 as of December 31, 2008 and 2007, respectively.

(13) Retirement Plan (continued)

Items not recognized as a component of net period pension cost amounted to $825,075 and $345,148 at December 31, 2008 and 2007, respectively.

Net periodic pension expense included in following components for the years ended December 31, 2008 and 2007:

		2008	2007
Service cost	$	4,240	25,380
Interest cost		163,420	158,130
Expected return on plan assets		(194,157)	(183,998)
Amortiztion of unrecognized net loss		7,495	17,802
Net Periodic Pension Expense	$	(19,002)	17,314

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, 2008 and 2007:

	2008	2007
Discount rate	5.75%	6.00%
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 the Home'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.

(continued)

(13) Retirement Plan (continued)

The pension plan assets were invested and allocated in the following manner as of December 31, 2008 and 2007:

	2008	2007
Equity securities	16.2%	47.8%
Debt securities	83.8%	43.6%
Other	0.0%	8.6%

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

2009	47,284
2010	57,503
2011	71,325
2012	79,052
2013	90,676
2014-2017	659,962

The Corporation is not required and therefore, does not expect to contribute to the pension plan during the year ending December 31, 2009.

In 2007, the Corporation began participating in a retirement plan through Presbyterian Senior Living. This plan is 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 five years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living. For the years ended December 31, 2008 and 2007, retirement expenses under this plan totaled approximately $110,552 and $219,022, respectively.

(14) 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.

(15) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of assets and liabilities in the table on page 34 on a recurring basis as of December 31, 2008:

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

Beneficial interest in perpetual trusts: Fair value of the beneficial interest in perpetual trusts was based on the Corporation's percent ownership of the trust assets. The trust assets were valued based on quoted market prices for identical securities.

Gift annuities: Fair value of gift annuities was based on the present value of future cash inflows. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value of measurement.

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, 2008 and 2007. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $7,683,836 and $7,933,209 at December 31, 2008 and 2007, respectively, and its fair values at December 31, 2008 and 2007 approximates $6,346,980 and $7,848,708, respectively.

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, 2008 and 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007.

The primary effect of SFAS 157 on the Organization was to expand the required disclosures pertaining to the methods used to determine fair values.

(continued)

(15) Financial Instruments (continued)

SFAS 157 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 SFAS 157 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, 2008 are as follows:

Description		Total	Level 1	Level 2	Level 3
Money market funds	$	2,977,293	2,977,293	–	–
Equity securities		1,060,893	1,060,893	–	–
Fixed income securities		358,687	358,687	–	–
Total investments		4,396,873	4,396,873	–	–
Beneficial interest in perpetual trusts		3,903,647	3,903,647	–	–
Gift annuities		54,847	–	–	54,847

(15) 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, 2008 as follows:

Description		Gift Annuities
Balance at December 31, 2007	$	139,044
Unrealized losses		(84,197)
Balance at December 31, 2008	$	54,847

Unrealized losses on gift annuities are permanently restricted in the statement of operations and changes in nets 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.

bmc

Independent Auditor's Report on Supplementary Information

To the Board of Directors
Quincy Retirement Community:

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplementary information accompanying the financial statements is presented for purposes of additional analysis and is not required part of the basic financials statements. The supplementary information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on such information.

Beard Miller Company LLP

Beard Miller Company LLP
Lancaster, Pennsylvania
March 20, 2009

QUINCY RETIREMENT COMMUNITY

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

As of December 31, 2008

2009 Budgeted Operating Expenses	$ 16,524,874	
Less: depreciation expense	(1,268,234)	
Expenses subject to minimum liquid assets requirement	15,256,640	
Percentage of continuing care residents at December 31, 2008	59%	
	9,001,418	
Statutory requirement	10%	
Statutory minimum liquid reserve requirement	$ 900,142	(a)
Next 12 months debt service payments:		
Principal payments on debt assuming no demand is made	$ 262,014	
Interest payments	257,154	
Total debt service for next 12 months	519,168	
Percentage of continuing care residents at December 31, 2008	59%	
Statutory minimum liquid reserve requirement	$ 306,309	(b)
Assets satisfying statutory minimum liquid reserve requirement		
Unrestricted cash and investments	$ 1,206,889	
Greater of (a) or (b)	900,142	
Assets in excess of statutory minimum liquid reserve requirement	$ 306,747	