

QUINCY RETIREMENT COMMUNITY

Financial Statements
and Schedule

December 31, 2007 and 2006

(With Independent Auditor's Report Thereon)

QUINCY RETIREMENT COMMUNITY

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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, 2007 and 2006, 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 PHI 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 104 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 PHI's mission.



Stephen E. Proctor
Chief Executive Officer
PHI



Jeffrey J. Davis
Chief Financial Officer
PHI

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) as of December 31, 2007 and 2006, and the related statements of activities 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, 2007 and 2006, 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, PA
March 10, 2008

QUINCY RETIREMENT COMMUNITY

Statements of Financial Position

December 31, 2007 and 2006

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 964,465	588,661
Investments	701,912	646,565
Accounts receivable, net	1,416,587	1,736,844
Assets whose use is limited – required for current liabilities	—	344,938
Pledges receivable	17,441	7,395
Interest receivable	—	16,290
Inventory	30,870	27,507
Prepaid expenses and other current assets	177,514	200,568
Total current assets	3,308,789	3,568,768
Assets whose use is limited, net of current portion	4,695,511	713,738
Property and equipment (net of accumulated depreciation of \$24,838,049 and \$23,637,657, respectively)	14,931,191	15,870,858
Assets under capital leases (net of accumulated depreciation of \$7,037 and \$0, respectively)	14,074	21,111
Funds held in trust by others	5,789,413	5,224,727
Other assets:		
Deferred financing costs (net of accumulated amortization of \$2,093 and \$370,393, respectively)	98,375	76,545
Total assets	\$ 28,837,353	25,475,747

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Financial Position

December 31, 2007 and 2006

Liabilities and Net Assets	2007	2006
Current liabilities:		
Accounts payable	\$ 596,883	823,293
Accrued expenses	850,543	473,404
Current portion:		
Obligations under capital leases	7,071	6,449
Long-term debt	256,641	2,011,047
Total current liabilities	1,711,138	3,314,193
Resident deposits	39,100	31,000
Deferred revenue – entrance fees	7,649,865	7,396,679
Deferred revenue – other	—	22,083
Due to affiliates	729,335	450,019
Accrued pension	360,758	302,676
Long-term debt, net of current portion:		
Obligations under capital leases	7,080	14,151
Long-term debt	7,683,869	3,784,852
Total liabilities	18,181,145	15,315,653
Net assets:		
Unrestricted	4,400,518	4,527,475
Temporarily restricted	48,447	34,447
Permanently restricted	6,207,243	5,598,172
Total net assets	10,656,208	10,160,094
Total liabilities and net assets	\$ 28,837,353	25,475,747

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Activities and Changes in Net Assets

Year ended December 31, 2007

(with comparative December 31, 2006 totals)

	2007			2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Resident services, including amortization of entrance fees of \$800,412 and \$762,065, respectively	\$ 13,943,416	—	—	13,943,416
Interest and dividend income	376,123	—	—	376,123
Realized gains on investments	92,425	—	—	92,425
Loss on disposal of assets	—	—	—	—
Gifts and bequests	764,926	40,042	183,430	988,398
Net assets released from restrictions	26,042	(26,042)	—	—
Total revenues, gains and other support	15,202,932	14,000	183,430	15,400,362
Expenses:				
Nursing services	5,116,379	—	—	5,116,379
Rehabilitation	756,101	—	—	756,101
Recreation and special services	309,805	—	—	309,805
Pharmacy	427,657	—	—	427,657
Social services	75,885	—	—	75,885
Physician services	30,319	—	—	30,319
Food services	1,395,390	—	—	1,395,390
Building operations and maintenance	2,056,325	—	—	2,056,325
Housekeeping	320,274	—	—	320,274
Laundry and linen	167,114	—	—	167,114
General and administrative	1,692,558	—	—	1,692,558
Employee benefits	953,019	—	—	953,019
Interest	281,949	—	—	281,949
Depreciation	1,207,428	—	—	1,207,428
Amortization	4,572	—	—	4,572
Loss on early extinguishment of debt	74,066	—	—	74,066
Total expenses	14,868,841	—	—	14,868,841
Change in net assets before loss on abandoned projects and unrealized (losses) gains on investments and assets held in trust by others	334,091	14,000	183,430	531,521
Loss on abandoned projects	—	—	—	—
Unrealized (losses) gains on investments and assets held in trust by others	(461,048)	—	425,641	(35,407)
Change in net assets	(126,957)	14,000	609,071	496,114
Net assets, beginning of year	4,527,475	34,447	5,598,172	10,160,094
Net assets, end of year	\$ 4,400,518	48,447	6,207,243	10,656,208

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statement of Activities and Changes in Net Assets

Year ended December 31, 2006

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Resident services, including amortization of entrance fees of \$762,065	\$ 12,753,343	—	—	12,753,343
Interest and dividend income	293,053	—	—	293,053
Realized gains on investments	17,957	—	—	17,957
Loss on disposal of assets	(7,151)	—	—	(7,151)
Gifts and bequests	295,433	7,395	136,194	439,022
Total revenues, gains and other support	13,352,635	7,395	136,194	13,496,224
Expenses:				
Nursing services	4,665,572	—	—	4,665,572
Rehabilitation	804,520	—	—	804,520
Recreation and special services	196,955	—	—	196,955
Pharmacy	421,211	—	—	421,211
Social services	71,255	—	—	71,255
Physician services	17,692	—	—	17,692
Food services	1,220,600	—	—	1,220,600
Building operations and maintenance	2,030,152	—	—	2,030,152
Housekeeping	337,619	—	—	337,619
Laundry and linen	162,839	—	—	162,839
General and administrative	1,697,096	—	—	1,697,096
Employee benefits	217,972	—	—	217,972
Interest	372,075	—	—	372,075
Depreciation	1,272,007	—	—	1,272,007
Amortization	7,750	—	—	7,750
Total expenses	13,495,315	—	—	13,495,315
Change in net assets before loss on abandoned projects and unrealized gains on investments and assets held in trust by others	(142,680)	7,395	136,194	909
Loss on abandoned projects	(924,050)	—	—	(924,050)
Unrealized gains on investments and assets held in trust by others	20,260	—	319,234	339,494
Change in net assets	(1,046,470)	7,395	455,428	(583,647)
Net assets, beginning of year	5,573,945	27,052	5,142,744	10,743,741
Net assets, end of year	\$ 4,527,475	34,447	5,598,172	10,160,094

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 496,114	(583,647)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,207,428	1,272,007
Proceeds from entrance fees and deposits	1,299,225	652,540
Amortization of entrance fees	(800,412)	(762,065)
Loss on early extinguishment of debt	74,066	—
Unrealized losses (gains) on investments and assets held in trust by others	35,407	(339,494)
Realized gain on investments	(92,425)	(17,957)
Loss on disposal of assets	—	7,151
Contributions restricted for long-term purposes	(183,430)	—
Change in funds held in trust by others	(139,045)	(277,192)
Amortization	4,572	7,750
Loss on abandoned projects	—	924,050
Change in assets and liabilities:		
Accounts receivable	320,257	(369,174)
Pledges receivable	(10,046)	(7,395)
Other assets	35,982	190,960
Accounts payable	(226,410)	1,979
Accrued pension	58,082	(327,868)
Accrued expenses and deferred revenue other	355,056	(502,624)
Net cash provided by (used in) operating activities	<u>2,434,421</u>	<u>(130,979)</u>
Cash flows used in investing activities:		
Acquisition of property and equipment	(260,724)	(270,749)
Proceeds from sale of investments	1,981,115	831,062
Purchases of investments	(6,041,921)	(727,537)
Net cash used in investing activities	<u>(4,321,530)</u>	<u>(167,224)</u>
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(237,527)	(57,861)
Principal payments on long-term debt	(5,855,389)	(384,524)
Proceeds on the issuance of long-term debt	8,000,000	—
Financing costs incurred	(100,468)	—
Borrowings through capital leases	—	20,600
Repayments on capital lease obligations	(6,449)	—
Contributions restricted for long-term purposes	183,430	—
Due from affiliated entity	279,316	450,019
Net cash provided by financing activities	<u>2,262,913</u>	<u>28,234</u>
Net increase (decrease) in cash and cash equivalents	<u>375,804</u>	<u>(269,969)</u>
Cash and cash equivalents, beginning of year	<u>588,661</u>	<u>858,630</u>
Cash and cash equivalents, end of year	<u>\$ 964,465</u>	<u>588,661</u>

See accompanying notes to financial statements.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(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, 31 assisted living units, 133 nursing beds.

As of October 1, 2006, the Corporation affiliated with PHI. The Corporation became a fully controlled affiliate of PHI. The Corporation is governed by a Board of Directors, all of whom are elected by the board of Trustees of PHI, 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) *Tax Status*

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

(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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(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. At times during the years ended December 31, 2007 and 2006, cash balances may have exceeded the federally insured limit of \$100,000.

(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, 2007 and 2006, 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:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 376,123	293,053
Realized gains on investments	92,425	17,957
Unrealized (losses) gains on investments and assets held in trust by others	<u>(35,407)</u>	<u>339,494</u>
	<u>\$ 433,141</u>	<u>650,504</u>

Investment expenses of \$6,774 and \$4,226 as of December 31, 2007 and 2006, respectively have been included in general and administrative expenses.

(f) Accounts Receivable

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

	<u>2007</u>	<u>2006</u>
Total accounts receivable	\$ 1,492,724	1,986,269
Less: allowance for doubtful accounts	<u>(76,137)</u>	<u>(249,425)</u>
Net accounts receivable	<u>\$ 1,416,587</u>	<u>1,736,844</u>

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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(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.

(h) *Pledges Receivable*

During 2006, a pledge was received for \$19,985. As of December 31, 2007, the organization has received full payment of the gift. In 2007, a pledge was received for \$17,441. The Corporation recorded both of these pledges at full value since they were due in within a year.

(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 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

(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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(k) Funds Held in Trust by Others (continued)

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:

	<u>2007</u>	<u>2006</u>
Assets held in trust by others	\$ 5,650,369	5,224,727
Gift annuities	<u>139,044</u>	<u>—</u>
	<u>\$ 5,789,413</u>	<u>5,224,727</u>

(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) Workers' Compensation

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

(n) 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, except in the case of lifetime lease contracts. The portion refundable on these contracts is kept in resident deposits.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(o) *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.

The amount of entrance fees refundable to residents at December 31, 2007 and 2006 under contractual refund provisions was approximately \$1,660,448 and \$1,641,918 respectively.

(p) *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.

(q) *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.

(r) *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 activities 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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(r) Donor Restrictions (continued)

The Corporation reports gifts of cash and other assets as restricted support if they are received. 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.

(s) 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.

Medicare reimbursement provided for a prospective payment system ("PPS") for skilled nursing services. Skilled nursing facilities are paid a federal per diem rate for covered services, which include routine and ancillary services and capital-related costs. In conjunction with PPS, billing for Medicare Part A services is required for skilled nursing facilities. Under billing for Medicare Part A services, facilities must bill Medicare for all of the services residents receive, with several exceptions, including all therapy services. The Corporation's skilled nursing facilities began utilizing this new rate methodology in January 1999.

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 53% and 56% of revenues for 2007 and 2006, respectively. Medicare and Medicaid receivables represent approximately 63% and 45% of accounts receivable at December 31, 2007 and 2006.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(s) Resident Service Revenue and Business Concentration (continued)

The Commonwealth of Pennsylvania (the State) received approval from the Federal Center for Medicare Services (CMS), to retroactively assess a nursing bed assessment. For the periods July 1, 2005 to June 30, 2006, the Nursing Facility Assessment Program provided for a \$1.54 assessment per day for continuing care retirement community non-Medicare occupied beds, and \$15.95 a day for stand alone nursing facility non-Medicare occupied beds. As a part of this, nursing home providers received an additional supplement of \$5.17 a day, based on a number of factors, including their Medicaid utilization.

July 1, 2006 to June 30, 2007 \$1.97 a day for continuing care retirement community non-Medicare occupied beds, and \$20.35 a day for stand alone nursing facility non-Medicare occupied beds. As a part of this, nursing home providers received an additional supplement of \$10.66 a day, based on a number of factors, including their Medicaid utilization.

The supplemental and assessment amounts per day have not yet been finalized for the period 7/1-12/31/07. The State has published proposed amounts but no amount has been included on the Corporation's financial statements for this period.

For the years ended December 31, 2007 and 2006, the Corporation received approximately \$107,483 and \$62,364, respectively, in additional revenue for the net effect of this assessment and supplement.

(t) Charity Care

The Corporation provides care to residents, who meet certain criteria under its charity care policy, at amounts less than its established rates. Charity care is recorded as a reduction of revenue.

(u) 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.

(v) Advertising

Advertising costs are expensed in the year incurred. Total advertising expense for the years ended December 31, 2007 and 2006 were \$53,888 and \$44,124, respectively.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(w) Classification of expenses

	<u>2007</u>	<u>2006</u>
Program activities	\$ 13,102,217	11,798,219
General and administrative	1,666,698	1,682,462
Fundraising	25,860	14,634
Loss on early extinguishment of debt	74,066	—
	<u>\$ 14,868,841</u>	<u>13,495,315</u>

(x) Fundraising Expense

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

(y) Performance Indicator

The Corporation measures the performance of its operations using the statement of activities, which includes a performance indicator of operations labeled as “changes in net assets before loss on abandoned projects and unrealized (losses) gains on investments and assets held in trust by others”. Changes in unrestricted net assets which are excluded from this measure are: loss on abandoned projects and unrealized (losses) gains on investments and assets held in trust by others, and other significant adjustments which do not directly indicate operational performance.

(z) Statement of Cash Flows

Interest paid during the years ended December 31, 2007 and 2006 was \$281,949 and \$405,726, respectively.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(3) Investments

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

	2007		2006	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 2,905,686	2,905,686	493,891	493,891
Certificates of deposit	—	—	681,331	685,232
Marketable equity securities	—	—	266,259	324,264
Mutual funds - equity	1,666,835	1,689,972	—	—
Mutual funds - fixed income	799,393	801,765	—	—
Municipal debt securities	—	—	108,133	98,149
Corporate debt securities	—	—	100,680	103,705
Totals	\$ <u>5,371,914</u>	5,397,423	<u>1,650,294</u>	1,705,241
Less assets whose use is limited (note 5)		<u>(4,695,511)</u>		<u>(1,058,676)</u>
Total investments		\$ <u>701,912</u>		<u>646,565</u>

During 2007, the Corporation moved its investments from individual fixed income and equity investments including bonds issued by the US Government and its agencies, corporate bonds, and common stocks to a diversified portfolio of mutual funds. The Corporation has seventeen mutual funds as of December 31, 2007. The Corporation had forty-one individual fixed income and equity investments including bonds issued by municipalities, corporate bonds, and common stock as of December 31, 2006.

As of December 31, 2007, eight individual holdings had a market value that had been below cost for less than a year. These are all mutual funds, and in total, their market value was less than five percent below cost. As of December 31, 2006, five individual holdings had a market value that had been below cost for less than a year. These were all common stocks, and in total, their market value was less than six 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. Five individual holdings had a market value that had been below cost for more than a year as of December 31, 2006. These were both municipal bonds and common stocks, and in total, their market value was less than twelve percent below cost.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2007 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>
Mututal funds	\$ 594,866	(26,519)	—	—	594,866	(26,519)
Total temporarily impaired securities	<u>\$ 594,866</u>	<u>(26,519)</u>	<u>—</u>	<u>—</u>	<u>594,866</u>	<u>(26,519)</u>

A summary of investments with fair values below cost as of December 31, 2006 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>
Municipal bonds	\$ —	—	98,149	(9,984)	98,149	(9,984)
Subtotal debt securities	<u>—</u>	<u>—</u>	<u>98,149</u>	<u>(9,984)</u>	<u>98,149</u>	<u>(9,984)</u>
Common stocks	<u>26,553</u>	<u>(1,514)</u>	<u>37,361</u>	<u>(7,342)</u>	<u>63,914</u>	<u>(8,856)</u>
Subtotal securities	<u>26,553</u>	<u>(1,514)</u>	<u>37,361</u>	<u>(7,342)</u>	<u>63,914</u>	<u>(8,856)</u>
Total temporarily impaired securities	<u>\$ 26,553</u>	<u>(1,514)</u>	<u>135,510</u>	<u>(17,326)</u>	<u>162,063</u>	<u>(18,840)</u>

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(4) Related Party Transactions

The Corporation has a Development, Marketing and Management Agreement (Management Agreement) with its parent organization. Under the Management Agreement, PHI provides the Corporation with various management and administrative services. For the year ended December 31, 2007, the Corporation incurred fees under the management agreement of \$431,000. In 2006, there were no fees incurred under this agreement.

Amounts due to affiliates for various expenses as of December 31, 2007 and 2006 are \$729,335 and \$450,019.

In addition, the Corporation purchases medications from Continuing Care Rx, Inc. Total purchases from Continuing Care Rx, Inc. for 2007 and 2006 were approximately \$442,645 and \$237,039, respectively, of which \$65,075 and \$113,724 is included in accounts payable as of December 31, 2007 and 2006, respectively. PHI is a minority shareholder of CCRx Holdings, Inc., the parent corporation of Continuing Care Rx, Inc.

Prelude Systems, Inc. (Prelude), is a joint venture between PHI 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 PHI and Diakon as well as other healthcare and community service organizations. During 2007 and 2006, respectively, the Corporation paid Prelude approximately \$145,550 and \$5,780 for information services provided by Prelude.

(5) Assets Whose Use is Limited

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

	<u>2007</u>	<u>2006</u>
Permanently restricted investments	\$ 1,821,010	373,444
Community home trust reserve fund	—	344,938
Debt service reserve fund	—	340,294
Held by trustee - for future projects	<u>2,874,501</u>	<u>—</u>
	4,695,511	1,058,676
Less current portion	<u>—</u>	<u>(344,938)</u>
	<u>\$ 4,695,511</u>	<u>713,738</u>

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(6) Property and Equipment

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

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 1,586,989	—	1,586,989	—
Land improvements	6,036,505	4,540,718	6,030,020	4,327,121
Buildings and improvements	18,511,562	9,740,694	18,346,740	9,210,420
Departmental equipment, furniture and fixtures	13,126,343	10,068,518	13,035,553	9,624,551
Furniture	134,114	119,742	131,282	114,008
Vehicles	368,377	368,377	368,377	361,557
Construction-in-progress	5,350	—	9,554	—
	<u>\$ 39,769,240</u>	<u>24,838,049</u>	<u>39,508,515</u>	<u>23,637,657</u>
Net book value		<u>\$ 14,931,191</u>		<u>15,870,858</u>

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, 2007 and 2006, there were no commitments for future construction.

During 2006, it was determined that a planned renovation and construction project was not moving forward and \$924,050 of assets were written off as costs associated with abandoned projects.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(7) Long-term Debt

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

	<u>2007</u>	<u>2006</u>
Mortgage note payable, Community Program Loan Trust, payable in monthly installments of \$28,126, due August 2014. The note bears an interest rate of 5%, and is collateralized by all property plant and equipment, except the ILU assets.	\$ —	1,393,746
Mortgage note payable, Waynesboro Borough Authority, payable in monthly installments of \$18,255, due January 2025. The note bears an interest rate of 5.36% and is collateralized by all ILU assets and a second lien on all other property plant and equipment.	—	2,733,897
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% and is collateralized by all ILU assets and a second lien on all other property, plant and equipment.	7,933,209	—
Mortgage note payable, M&T Bank, is payable on demand. If no demand is made, payable in monthly installments of \$9,090 and due July 2028. The note bears an interest rate of 7.50%. The note is collateralized by a second lien position on the ILU assets, and all other property, plant and equipment.	—	1,182,446
Note payable, M&T Bank, is payable on demand. Unless called, payable in monthly installments of principal of \$1,200 plus accrued interest, and due February 2039. The note bears a variable interest rate of prime plus one percent, 9.25% at December 31, 2006. The note is collateralized by all personal property, fixtures and receivables.	—	463,800

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(7) Long-term Debt (continued)

	<u>2007</u>	<u>2006</u>
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	22,010
	7,940,510	5,795,899
Less current portion	<u>(256,641)</u>	<u>(2,011,047)</u>
	\$ <u><u>7,683,869</u></u>	<u><u>3,784,852</u></u>

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 \$2.8 million is being held in a project fund 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, 2007. These covenants were not met as of December 31, 2006. The bank granted the Corporation a waiver for 2006.

Maturities for the five years subsequent to December 31, 2007 are as follows:

<u>Years ended December 31,</u>	<u>Aggregate maturities</u>
2008	\$ 256,641
2009	262,013
2010	274,248
2011	287,055
2012	299,569
Thereafter	<u>6,560,984</u>
	\$ <u><u>7,940,510</u></u>

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(8) Leases

The Corporation is obligated under a capital lease for equipment that expires in 2009. At December 31, 2007 and 2006, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	<u>2007</u>	<u>2006</u>
Office equipment	\$ 21,111	21,111
Accumulated amortization	<u>(7,037)</u>	<u>—</u>
	<u>\$ 14,074</u>	<u>21,111</u>

A schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2007 follows:

2008	\$ 8,085
2009	<u>7,412</u>
	15,497
Amounts representing interest	<u>(1,346)</u>
	<u>\$ 14,151</u>

The Corporation leases certain equipment under operating leases, which expire at various dates through 2010. The future minimum lease payments under these operating leases are as follows:

2008	\$ 7,913
2009	7,913
2010	<u>3,297</u>
	<u>\$ 19,123</u>

Rental expense under operating leases was \$12,265 and \$3,228 for the years ended December 31, 2007 and 2006, respectively.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(9) Temporarily Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Project funds, including pledges receivable	\$ 48,447	27,052
Contribution receivable	<u>—</u>	<u>7,395</u>
	<u>\$ 48,447</u>	<u>34,447</u>

Net assets of \$26,042 and \$0 were released from restriction during 2007 and 2006, respectively in satisfaction of the above restrictions.

(10) Permanently Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Investments to be held in perpetuity, the income from which is expendable to support the Corporation's operations	\$ 5,650,369	5,224,727
Gift annuities	99,155	—
Benevolent Care	<u>457,719</u>	<u>373,445</u>
	<u>\$ 6,207,243</u>	<u>5,598,172</u>

(11) 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 \$1,348,153 and \$1,154,089 for the years ended December 31, 2007 and 2006, respectively, of which the amount of charges foregone for services and supplies was approximately \$165,645 and \$192,741, respectively.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(12) 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:

	<u>2007</u>	<u>2006</u>
Projected benefit obligation for service rendered to date	\$ (2,732,684)	(2,588,542)
Plan assets at fair value	<u>2,371,926</u>	<u>2,285,866</u>
Accrued pension liability, net	<u>\$ (360,758)</u>	<u>(302,676)</u>
Change in Benefit Obligation:		
Project benefit obligation - beginning of year	\$ (2,588,542)	(2,914,615)
Interest cost	(158,130)	(159,230)
Distributions	71,384	368,669
Change due to assumptions as of end of year	122,702	126,003
Experience loss as of beginning of year	<u>(180,098)</u>	<u>(9,369)</u>
Projected benefit obligation - end of year	<u>\$ (2,732,684)</u>	<u>(2,588,542)</u>
Change in Plan Assets:		
Fair value of plan assets - beginning of year	\$ 2,285,866	2,275,816
Actual return on plan assets	182,824	249,414
Contributions	—	181,000
Benefits Paid	<u>(96,764)</u>	<u>(420,364)</u>
Fair value of plan assets - end of year	<u>\$ 2,371,926</u>	<u>2,285,866</u>

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(12) Retirement Plan (continued)

The accumulated benefit obligation amounted to \$2,732,684 and \$2,588,542 as of December 31, 2007 and 2006, respectively.

Items not recognized as a component of net period pension cost amounted to \$345,148 at December 31, 2007.

Net periodic pension expense included in following components for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 25,380	51,695
Interest cost	158,130	159,230
Expected return on plan assets	(183,998)	(186,993)
Amortization of unrecognized net loss	<u>17,802</u>	<u>21,857</u>
Net Periodic Pension Expense	\$ <u>17,314</u>	<u>45,789</u>

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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Discount rate	6.0%	5.8%
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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(12) Retirement Plan (continued)

The pension plan assets were invested and allocated in the following manner as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equity securities	47.8%	46.4%
Debt securities	43.6%	45.8%
Other	8.6%	7.8%

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

2008	41,208
2009	50,177
2010	60,916
2011	74,657
2012	83,302
2013-2017	606,579

The Corporation is not required and therefore, does not expect to contribute to the pension plan during the year ending December 31, 2007.

In 2007, the Corporation began participating in a retirement plan through PHI. 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 PHI. For the years ended December 31, 2007 and 2006, retirement expenses under this plan totaled approximately \$219,022 and \$0, respectively.

(13) 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.

QUINCY RETIREMENT COMMUNITY

Notes to Financial Statements

December 31, 2007 and 2006

(14) Financial Instruments

(a) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount approximates fair value because of the short term nature of those investments.

Investments: The fair values of municipal bonds, corporate bonds and equity securities are estimated based on quoted market prices for those or similar investments. Management has determined the fair value of other equity securities based on the stock prices and implied yields of similar publicly traded securities as of December 31, 2007 and 2006.

Long-term debt: The carrying amount included in long-term debt in the statement of financial position for bonds payable and mortgages payable approximate fair value based on quoted market prices for the same or similar issues.

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, 2007 and 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

(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.

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, PA
March 10, 2008

QUINCY RETIREMENT COMMUNITY

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

As of December 31, 2007

2008 Budgeted Operating Expenses	\$ 15,288,658
Less: depreciation expense	<u>(1,209,891)</u>
Expenses subject to minimum liquid assets requirement	14,078,767
Percentage of continuing care residents at December 31, 2007	<u>62%</u>
	8,728,836
Statutory requirement	<u>10%</u>
Statutory minimum liquid reserve requirement	\$ <u>872,884</u> (a)
Next 12 months debt service payments:	
Principal payments on debt assuming no demand is made	\$ 256,641
Interest payments	<u>240,143</u>
Total debt service for next 12 months	496,784
Percentage of continuing care residents at December 31, 2007	<u>62%</u>
Statutory minimum liquid reserve requirement	\$ <u>308,006</u> (b)
Assets satisfying statutory minimum liquid reserve requirement	
Unrestricted cash and investments	\$ 1,666,377
Greater of (a) or (b)	<u>872,884</u>
Assets in excess of statutory minimum liquid reserve requirement	\$ <u>793,493</u>