

***Phoebe-Devitt Homes and Affiliated Organizations***

Consolidated Financial Report

June 30, 2009

# *Phoebe-Devitt Homes and Affiliated Organizations*

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**June 30, 2009 and 2008**

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## Independent Auditor's Report

To the Board of Directors  
Phoebe-Devitt Homes and Affiliated Organizations

We have audited the accompanying consolidated statements of financial position of Phoebe-Devitt Homes and Affiliated Organizations (a not-for-profit corporation) as of June 30, 2009 and 2008 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management of Phoebe-Devitt Homes and Affiliated Organizations. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements, referred to above, present fairly in all material respects, the financial position of Phoebe-Devitt Homes and Affiliated Organizations as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Beard Miller Company LLP*

Beard Miller Company LLP  
Lancaster, Pennsylvania  
September 21, 2009

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Consolidated Statements of Financial Position

June 30, 2009 and 2008

(In Thousands)

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 19,597	\$ 20,627
Resident and patient funds	491	379
Accounts receivable (less allowance for doubtful accounts of \$3,536 in 2009 and \$2,681 in 2008)	10,245	9,391
Estate receivables	851	669
Prepaid expenses and other	1,982	1,817
<b>Total Current Assets</b>	<u>33,166</u>	<u>32,883</u>
<b>Assets Whose Use is Limited</b>	<u>27,412</u>	<u>50,574</u>
<b>Investments</b>	<u>35,229</u>	<u>38,051</u>
<b>Property and Equipment, at Cost, Less Accumulated Depreciation of \$72,312 in 2009 and \$67,594 in 2008</b>	<u>92,109</u>	<u>67,407</u>
<b>Other Assets</b>		
Investment in limited partnership	1,899	1,782
Intangible assets, net	1,945	2,117
Interest rate swap	-	20
Other assets	219	181
<b>Total Other Assets</b>	<u>4,063</u>	<u>4,100</u>
<b>Total Assets</b>	<u><u>\$191,979</u></u>	<u><u>\$193,015</u></u>

*See notes to consolidated financial statements.*

	<u>2009</u>	<u>2008</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,127	\$ 3,584
Accrued expenses	9,132	7,560
Resident and patient private funds	468	362
Current portion of long-term debt	<u>3,052</u>	<u>2,239</u>
<b>Total Current Liabilities</b>	<u>15,779</u>	<u>13,745</u>
<b>Other Liabilities</b>		
Long-term debt - excluding current portion	83,413	86,265
Deferred revenue - entrance fees	29,026	25,645
Estimated obligation to provide future services	334	334
Accrued pension liability	2,331	823
Charitable gift annuities	947	1,097
Workers' compensation reserve	646	840
Interest rate swap	2,376	-
Other	<u>2,342</u>	<u>2,206</u>
<b>Total Other Liabilities</b>	<u>121,415</u>	<u>117,210</u>
<b>Total Liabilities</b>	<u>137,194</u>	<u>130,955</u>
<b>Net Assets</b>		
Unrestricted:		
Controlling interest	42,523	50,578
Minority interest	<u>2,117</u>	<u>1,692</u>
<b>Total Unrestricted</b>	44,640	52,270
Temporarily restricted	3,266	2,918
Permanently restricted	<u>6,879</u>	<u>6,872</u>
<b>Total Net Assets</b>	<u>54,785</u>	<u>62,060</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$191,979</u></u>	<u><u>\$193,015</u></u>

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Consolidated Statements of Activities**

**Years Ended June 30, 2009 and 2008**

(In Thousands)

	<u>2009</u>	<u>2008</u>
<b>Operating Revenues</b>		
Net patient and resident services revenue	\$90,475	\$88,161
Amortization of entrance fees	1,448	1,100
Contributions	1,035	1,409
Change in value-charitable gift annuities	(64)	15
Investment income	2,154	2,439
Realized gains (losses) on investments	(1,050)	3,436
Other revenue	998	1,020
	<u>94,996</u>	<u>97,580</u>
<b>Operating Expenses</b>		
Salaries and wages	40,765	38,351
Employee benefits and other staff costs	11,125	10,758
Other expenses	32,635	31,204
Interest	2,697	2,833
Depreciation	4,717	4,565
Amortization	239	199
	<u>92,178</u>	<u>87,910</u>
	<b>2,818</b>	<b>9,670</b>
<b>Increase (Decrease) in Fair Value of Interest Rate Swap</b>	<u>(2,396)</u>	<u>20</u>
	<u>422</u>	<u>9,690</u>
<b>Other Changes</b>		
Pension related changes other than net period pension cost	(1,808)	(1,489)
Net unrealized losses on investments	(7,212)	(8,544)
Gain on sale of property and equipment	-	206
Net assets released from restrictions	968	703
	<u>(8,052)</u>	<u>(9,124)</u>
	<u>\$(7,630)</u>	<u>\$ 566</u>

*See notes to consolidated financial statements.*

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Consolidated Statements of Activities**

**Years Ended June 30, 2009 and 2008**

(In Thousands)

	<u>2009</u>	<u>2008</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	\$ 1,450	\$ 1,748
Investment income	128	74
Net unrealized losses on investments	(136)	(70)
Net realized gains (losses) on investments	(126)	30
Net assets released from restrictions	<u>(968)</u>	<u>(703)</u>
<b>Increase in Temporarily Restricted Net Assets</b>	<u>348</u>	<u>1,079</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions	1,033	366
Change in value of funds held in trust by others	<u>(1,026)</u>	<u>(283)</u>
<b>Increase in Permanently Restricted Net Assets</b>	<u>7</u>	<u>83</u>
<b>Increase (Decrease) in Net Assets</b>	<b>(7,275)</b>	<b>1,728</b>
<b>Net Assets - Beginning of Year</b>	<u>62,060</u>	<u>60,332</u>
<b>Net Assets - End of Year</b>	<u><u>\$54,785</u></u>	<u><u>\$62,060</u></u>

*See notes to consolidated financial statements.*

## *Phoebe-Devitt Homes and Affiliated Organizations*

### **Consolidated Statements of Changes in Net Assets**

**Years Ended June 30, 2009 and 2008**

(In Thousands)

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Controlling Interest	Minority Interest			
<b>June 30, 2007</b>	\$49,669	\$2,035	\$1,839	\$6,789	\$60,332
Increase (decrease) in net assets	909	(343)	1,079	83	1,728
<b>June 30, 2008</b>	50,578	1,692	2,918	6,872	62,060
Increase (decrease) in net assets	(8,055)	425	348	7	(7,275)
<b>June 30, 2009</b>	<u>\$42,523</u>	<u>\$2,117</u>	<u>\$3,266</u>	<u>\$6,879</u>	<u>\$54,785</u>

*See notes to consolidated financial statements.*

# *Phoebe-Devitt Homes and Affiliated Organizations*

## **Consolidated Statements of Cash Flows**

**Years Ended June 30, 2009 and 2008**

(In Thousands)

	<u>2009</u>	<u>2008</u>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ (7,275)	\$ 1,728
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,956	4,764
Bad debt	1,116	377
Amortization of entrance fees	(1,448)	(1,100)
Proceeds from entrance fees	7,052	6,349
Restricted contributions	(2,483)	(2,114)
Net realized and unrealized losses	9,550	5,431
Gain on sale of property and equipment	-	(206)
Decrease (increase) in fair value of swap agreement	2,396	(20)
Changes in assets and liabilities:		
Net change in receivables, prepaid, accruals, and other assets and liabilities	54	(339)
<b>Net Cash Provided by Operating Activities</b>	<u>13,918</u>	<u>14,870</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments and assets whose use is limited	(14,016)	(42,860)
Proceeds from sale of investments and assets whose use is limited	30,449	13,216
Proceeds from sale of property and equipment	-	206
Purchases of property and equipment	(29,419)	(11,113)
Investment in affiliates and limited partnership	(117)	(124)
<b>Net Cash Used in Investing Activities</b>	<u>(13,103)</u>	<u>(40,675)</u>
<b>Cash Flows from Financing Activities</b>		
Refunds of entrance fees	(2,221)	(2,752)
Borrowings of long-term debt	-	36,825
Payment of long-term debt	(2,107)	(1,936)
Restricted contributions	2,483	2,114
Deferred financing costs incurred	-	(1,004)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(1,845)</u>	<u>33,247</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(1,030)</u>	<u>7,442</u>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>20,627</u>	<u>13,185</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$19,597</u></u>	<u><u>\$20,627</u></u>
<b>Supplementary Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest, excluding capitalized interest	<u>\$ 2,796</u>	<u>\$ 2,744</u>

*See notes to consolidated financial statements.*

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 1 - Organization**

Phoebe-Devitt Homes, Inc. (the Organization) is the sole member of the following affiliates (all are not-for-profit organizations except for PRRRG):

Phoebe-Devitt Homes, Inc. is located in Allentown, Pennsylvania, which exists to provide a continuum of residential, health, and community support programs designed to meet the needs of seniors through the Berks, Bucks, Lehigh, Montgomery, and Northampton Counties in Pennsylvania. Phoebe-Devitt Homes, Inc. does business as Phoebe Ministries.

Phoebe Home, Inc. is a continuing care retirement community located in Allentown, Pennsylvania, which provides services through independent living, assisted living, and skilled nursing services.

Phoebe Services, Inc. is located in Allentown, Pennsylvania, and provides management services to related organizations including pharmacy, communications, and pastoral care.

Phoebe Berks Health Care Center, Inc. is a continuing care retirement community located in Wernersville, Pennsylvania, which provides services through independent living, assisted living, and skilled nursing services.

Phoebe Apartments is located in Allentown, Pennsylvania, and provides low income housing to seniors.

Phoebe Housing, Inc. provides management support services to affiliated organizations.

Phoebe Richland Health Care Center is located in Richlandtown, Pennsylvania, and provides skilled nursing and rehabilitation services.

Phoebe Reciprocal Risk Retention Group (PRRRG) is a for-profit corporation located in Charleston, South Carolina, which provides insurance coverage of Phoebe-Devitt Homes and related affiliates.

Wyncote Church Home is a continuing care retirement community located in Wyncote, Pennsylvania, which provides services through independent living, residential, and skilled nursing care services.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 1 - Organization (Continued)**

Phoebe Housing, Inc. holds the following interests in several senior housing partnerships in which it serves as general partner and/or manager (Affordable Housing):

	<b><u>% of Ownership</u></b>
Franklin & Noble Manor Associates, LP	1%
John F. Lutz Associates, LP	1%
Furnace Creek Associates, LP	1%
Weidner Manor Associates, LP	1%
Senior Apartments at the Wyomissing Club Associates, LP	1%
Wind Gap Manor Associates, LP	1%
Devitt House, Inc. (a not-for-profit corporation)	0%

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies**

#### **Consolidation of Limited Partnerships**

The Emerging Issues Task Force (EITF) issued EITF No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF 04-5 presumes that a general partner controls a limited partnership and therefore should consolidate the partnership. This presumption can be overcome if the limited partners have kick-out or substantive participating rights. Management determined that the seven senior housing partnerships listed above (Affordable Housing) should be consolidated in accordance with EITF No. 04-5.

#### **Principles of Consolidation**

The consolidated financial statements have been prepared to focus on Phoebe-Devitt Homes and all controlled affiliated organizations as a whole. All material intercompany balances and transactions have been eliminated.

#### **Use of Estimates**

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

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)**

#### **Cash and Cash Equivalents**

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, the Organization and its affiliates operating cash accounts, certificates of deposit, and investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts classified as assets whose use is limited and investments not classified as highly liquid.

#### **Accounts Receivable**

Accounts receivable consists of Medicare, Medicaid, Private Pay and other commercial third-party payers. Accounts receivable are recorded net of contractual adjustments and are subject to audit and retroactive adjustment. Provision for these adjustments has been made as considered necessary. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for uncollectible accounts (in thousands) of \$3,536 and \$2,681 at June 30, 2009 and 2008, respectively, is based on management's assessment of the collectibility of customer accounts and the aging of the accounts receivable.

#### **Estate Receivables**

Estate receivables represent money left to the Organization through various individual wills that are expected to be collected within the next year.

#### **Inventories**

Pharmaceutical, medical, and other supplies are stated at the lower of cost or market on the first-in, first-out basis. Inventories are included with prepaid expenses and other on the consolidated statements of financial position.

#### **Assets Whose Use is Limited and Investments**

Assets designated by the Board of Directors, assets whose use is restricted by donor stipulation, assets of residents and patients required to be deposited in escrow, assets deposited with a trustee under terms of the bond indenture, and other reserves are classified as assets whose use is limited. Investments are presented at market value which is determined using quoted market prices of a national exchange. Contributed investments are initially valued at the quoted fair value on the date received, which is then treated as cost.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)**

#### **Funds Held in Trust by Others**

The Organization has been named as a beneficiary of a number of trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the beneficiaries are notified of the trust's existence. The beneficiaries receive the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trusts are recorded as investment income.

Funds held in trust by others are valued at the fair value of the underlying investments. The change in the fair value of funds held in trust by others is reported as a change in permanently restricted net assets.

#### **Investment in Limited Partnership**

The Organization owns a 1.1% limited partnership interest in Health Network Laboratories, LLP. The investment is valued at cost plus allocated earnings. The value is \$1,899 and \$1,782 (in thousands) at June 30, 2009 and 2008, respectively.

#### **Property and Equipment**

Property and equipment are recorded at cost. The Organization's policy is to capitalize all property and equipment at cost in excess of \$500. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs of property and equipment are charged to operations and major renewals are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statements of activities.

#### **Intangible Assets**

Deferred financing costs are being amortized using the straight-line method over the term of the bonds and mortgages. Pre-opening costs are amortized using the straight-line method over a period of thirteen years. Goodwill is being amortized over fifteen years.

#### **Net Patient and Resident Service Revenue**

Net patient and resident service revenue is reported at the estimated net realizable amount to be received from patients, residents, and others including Medicare, Medicaid, and other third-party payors for services rendered. The Organization derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)**

#### **Net Patient and Resident Service Revenue (Continued)**

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

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnostic and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Organization'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 51% of patient and resident service revenue, net of contractual allowances for the years ended June 30, 2009 and 2008, respectively.

#### **Resident and Patient Funds**

Security deposits paid in advance to cover possible costs when residents vacate their living units are accounted for as deferred revenue and taken into income only if earned upon termination of an agreement. This liability also includes nursing home patients' funds held in the safekeeping of the Organization for the patients' personal use.

#### **Entrance Agreement Contracts**

Entrance fees paid by residents of the Organization's independent living units, including certain cottages and apartments, are recorded as deferred revenue. A resident, upon termination of occupancy, may be entitled to receive a refund of a portion of the entrance fee pursuant to the terms of the contract which is required to be paid only upon the subsequent receipt of an entrance fee from a new resident for that independent living unit.

The nonrefundable portion of entrance fees as stated in each contract is deferred and amortized to revenue over the estimated life expectancy of each resident whereas the portion of entrance fees refundable only upon reoccupancy is amortized to revenue on a straight-line basis over the remaining useful life of the facility.

The amount of entrance fees which is refundable to residents at June 30, 2009 and 2008 under contractual refund provisions was approximately (in thousands) \$30,696 and \$26,871, respectively.

# *Phoebe-Devitt Homes and Affiliated Organizations*

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## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)

#### **Estimated Obligation to Provide Future Services**

The Organization annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 6.00%. The estimated obligation totaled \$334 (in thousands) at both June 30, 2009 and 2008.

#### **Donor-Restricted Gifts**

The Organization 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

There are three classes of net assets - permanently restricted, temporarily restricted, and unrestricted.

*Permanently restricted net assets* have been restricted by donors to be maintained permanently by the Organization or designated trustee in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

*Temporarily restricted net assets* are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as increases in temporarily restricted net assets and reclassified to unrestricted net assets as net assets released from restrictions.

*Unrestricted net assets* are net assets not subject to donor-imposed stipulations.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets are to 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 Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)**

#### **Charitable Gift Annuities**

The Organization has charitable gift annuities with donors whereby the donor has contributed assets in exchange for a promise to pay a stated amount of interest for life. The liability is recognized at the present value of future cash flows relevant to the donor's age and applicable discount rate which ranges from 2.00% to 10.00%.

#### **Donated Materials and Services**

Donated materials and equipment are reflected as contributions in the accompanying consolidated statements at their estimated values at the date of receipt. Donated services of a specialized skill that would be purchased in the absence of this donation are recorded at estimated market rate for the corresponding hours spent.

#### **Advertising**

Advertising costs are expensed as incurred and included in operating expenses. Advertising expenses amounted to (in thousands) \$306 and \$263 in 2009 and 2008, respectively.

#### **Statutory Reserve Requirements**

The Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of 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 facility exclusive of depreciation and amortization. The reserve is computed on only the proportional share of financing or operating expenses that are applicable to residence and care agreements. This statutory reserve requirement is considered to be fulfilled by the Organization's assets whose use is limited and investments.

#### **Derivatives**

The Organization utilizes Statement of Financial Accounting Standards No. 133 (as amended by Statements No 137 and 138), *Accounting for Derivative Instruments and Hedging Activities*. The Organization also follows Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Organizations, and Clarification of the Performance Indicator*. The Organization chose not to elect hedge accounting for its derivative instruments and, therefore, variations in fair value are marked-to-market within the performance indicator.

#### **Operating Income**

The consolidated statements of activities include an intermediate measure of operations labeled "operating income". Changes in unrestricted net assets which are excluded from this intermediate measure is the increase (decrease) in fair value of interest rate swap.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 2 - Principles of Consolidation and Summary of Significant Accounting Policies (Continued)**

#### **Performance Indicator**

The consolidated statements of activities include a performance indicator of operations labeled "excess of operating revenues over expenses". Changes in unrestricted net assets which are excluded from this measure include net unrealized gains and losses on investments, pension changes, gain on sale of property and equipment, and net assets released from restrictions.

#### **Uncompensated Care**

The Organization and its affiliates provided charity care, subsidies, and other support of those in need to many of the programs and individuals it serves. Uncompensated care totaled (in thousands) \$7,183 and \$5,223 in 2009 and 2008, respectively, including services provided to Medicaid residents whose costs exceeded Medicaid reimbursement.

#### **Income Taxes**

The Organization and its affiliates, exclusive of PRRRG and the LP's listed on page 9, have been recognized by the Internal Revenue Service as not-for-profit corporations as described in Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 509(a) of the IRC.

The Organization follows the provisions of Financial Accounting Standard Board (FASB) *Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. FIN 48 also provides guidance on de-recognition, classification, interest, and penalties, and disclosure. Management has determined that FIN 48 does not have a material impact on the financial statements.

#### **Subsequent Event**

The Organization has evaluated subsequent events through September 21, 2009 which is the date the consolidated financial statements were available to be issued.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 3 - Assets Whose Use Is Limited and Investments

The composition of assets whose use is limited and investments at June 30, 2009 and 2008 is set forth in the following table (in thousands). Investments are stated at fair value as determined by a national exchange.

	<u>2009</u>	<u>2008</u>
By Board for continuing operations:		
Cash/money market accounts	\$ 1,627	\$ 3,060
Equity securities	16,353	23,186
Fixed income	9,313	2,287
	<u>\$27,293</u>	<u>\$28,533</u>
By Board for charitable gift annuity program:		
Cash/money market accounts	\$ 10	\$ 94
Equity securities	992	1,254
Fixed income	652	826
	<u>\$ 1,654</u>	<u>\$ 2,174</u>
By Board for charitable care:		
Cash/money market accounts	\$ 436	\$ 477
Equity securities	1,623	2,322
Fixed income	105	79
	<u>\$ 2,164</u>	<u>\$ 2,878</u>
By Board for endowment purposes:		
Cash/money market accounts	\$ 200	\$ 50
Equity securities	907	712
Fixed income	252	294
	<u>\$ 1,359</u>	<u>\$ 1,056</u>
Workers compensation reserve collateral:		
Cash/money market accounts	\$ -	\$ 68
Equity securities	-	451
Fixed income	-	1,703
	<u>\$ -</u>	<u>\$ 2,222</u>

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 3 - Assets Whose Use Is Limited and Investments (Continued)

	<u>2009</u>	<u>2008</u>
Assets held in trust for residents and patients:		
Cash/money market accounts	\$ 756	\$ 888
Equity securities	590	807
Fixed income	552	522
	<u>\$ 1,898</u>	<u>\$ 2,217</u>
Self-insured reserves:		
Cash/money market accounts	\$ 1,328	\$ 1,554
Equity securities	576	1
Fixed income	1,741	1,660
	<u>\$ 3,645</u>	<u>\$ 3,215</u>
By HUD/Affordable Housing:		
Cash/money market accounts	\$ 924	\$ 976
Fixed income	471	455
	<u>\$ 1,395</u>	<u>\$ 1,431</u>
Assets held by trustees - under bond indenture:		
Cash/money market accounts	\$ 7,338	\$ 6,178
Fixed income	5,531	29,128
	<u>\$12,869</u>	<u>\$35,306</u>
By donors for restricted purposes:		
Cash/money market accounts	\$ 2,091	\$ 1,774
Equity securities	1,508	1,040
Fixed income	1,845	1,488
Contributions receivable	158	209
Funds held in trust by others	3,856	4,882
CSV - life insurance	7	7
Other receivables	152	193
	<u>\$ 9,617</u>	<u>\$ 9,593</u>
Interest rate swap reserve -		
Cash/money market accounts	\$ 747	\$ -
	<u>\$ 747</u>	<u>\$ -</u>
<b>Total Assets Whose Use is Limited and Investments</b>	<u><u>\$62,641</u></u>	<u><u>\$88,625</u></u>

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 3 - Assets Whose Use Is Limited and Investments (Continued)

A summary of investments at market value at June 30, 2009 and 2008 follows (in thousands):

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Cash/money market accounts	\$15,457	\$15,120
Equity securities	22,549	29,773
Fixed income	20,462	38,441
Contributions receivable	158	209
Funds held in trust by others	3,856	4,882
CSV - life insurance	7	7
Other receivables	152	193
	<u>\$62,641</u>	<u>\$88,625</u>

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 losses and a new cost basis for the investment is established. For the years ended June 30, 2009 and 2008, no amounts were charged to realized losses, as management believes the decline in market value is temporary as they reflect general market conditions instead of a permanent decline in value.

The Organization invests in a variety of individual fixed income and equity investments including common stocks, corporate bonds, and bonds issued by the U.S. Government and its agencies. Approximately 554 and 386 individual securities have a market value below cost at June 30, 2009 and 2008. The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous loss position at June 30, 2009 and 2008.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 3 - Assets Whose Use Is Limited and Investments (Continued)

A summary of investments with fair values below cost as of June 30, 2009 follows (in thousands):

	Held		Held		Total	
	Less than Twelve Months		Twelve Months or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other	\$ -	\$ (2)	\$1,107	\$ (36)	\$ 1,107	\$ (38)
Equity securities	11,025	(3,792)	5,895	(3,156)	16,920	(6,948)
Fixed income securities	1,430	(20)	506	(107)	1,936	(127)
<b>Total</b>	<b>\$12,455</b>	<b>\$(3,814)</b>	<b>\$7,508</b>	<b>\$(3,299)</b>	<b>\$19,963</b>	<b>\$(7,113)</b>

A summary of investments with fair values below cost as of June 30, 2008 follows (in thousands):

	Held		Held		Total	
	Less than Twelve Months		Twelve Months or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other	\$ -	\$ (2)	\$ -	\$ -	\$ -	\$ (2)
Equity securities	10,742	(2,335)	3,430	(1,823)	14,172	(4,158)
Fixed income securities	27,994	(363)	2,011	(303)	30,005	(666)
<b>Total</b>	<b>\$38,736</b>	<b>\$(2,700)</b>	<b>\$5,441</b>	<b>\$(2,126)</b>	<b>\$44,177</b>	<b>\$(4,826)</b>

Investment income and losses on assets whose use is limited and investments are comprised of the following for the years ending June 30 (in thousands):

	2009	2008
Interest and dividends, net of investment fees of \$298 and \$351 for 2009 and 2008, respectively	\$ 2,282	\$ 2,513
Net realized gains (losses) on investments	(1,176)	3,466
Net unrealized losses on investments	(7,348)	(8,614)
Change in value of funds held in trust by others	(1,026)	(283)
	<b>\$(7,268)</b>	<b>\$(2,918)</b>

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 4 - Contributions Receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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 contributions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions receivable, net of unamortized discount and allowance, are summarized as follows, and are recorded as an asset whose use is limited and investments:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Less than one year	\$152	\$134
One year to five years	<u>58</u>	<u>131</u>
<b>Total</b>	210	265
Less: unamortized discount, at 6.5%	(16)	(16)
Less: allowance for uncollectibles	<u>(36)</u>	<u>(40)</u>
	<u>\$158</u>	<u>\$209</u>

### Note 5 - Property and Equipment

Property and equipment, and accumulated depreciation at June 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>Depreciable Lives</u>
	<u>(In Thousands)</u>		
Land and improvements	\$ 5,910	\$ 5,880	0-10 years
Buildings and improvements	100,679	99,601	27.5 - 40 years
Furniture and equipment	22,775	21,026	5 - 10 years
Construction in progress	<u>35,057</u>	<u>8,494</u>	
	164,421	135,001	
Less: accumulated depreciation	<u>(72,312)</u>	<u>(67,594)</u>	
	<u>\$ 92,109</u>	<u>\$ 67,407</u>	

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 5 - Property and Equipment (Continued)

Depreciation expense (in thousands) totaled \$4,717 and \$4,565 for the years ended June 30, 2009 and 2008, respectively.

Construction in progress at June 30, 2009 consists primarily of a major construction and repositioning project at the Phoebe Berks campus. The project began during February 2008 and is expected to take approximately 24 months to complete. The total construction commitment is approximately \$36,825 (in thousands), of which \$32,177 (in thousands) has been expended. Interest on the 2008 bonds of \$1,518 and \$577 (in thousands) has been capitalized on the project during the years ended June 30, 2009 and 2008, respectively.

### Note 6 - Intangible Assets

Intangible assets at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Pre-opening costs	\$ 19	\$ 19
Monitoring fees	3	3
Goodwill	1,255	1,255
Deferred financing costs	<u>1,801</u>	<u>1,801</u>
	3,078	3,078
Less: accumulated depreciation	<u>(1,133)</u>	<u>(961)</u>
	<u>\$1,945</u>	<u>\$2,117</u>

Amortization expense (in thousands) totaled \$239 and \$199 (including bond discount) for the years ended June 30, 2009 and 2008, respectively. Amortization expense (in thousands) is estimated to be approximately \$234 for the next five years.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 7 - Other Assets

Other assets at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Various developer notes receivable due 2016 through 2021 relating to Phoebe Housing's interest in development of affordable housing projects	\$168	\$168
Deferred tax asset related to PRRRG	<u>51</u>	<u>13</u>
	<u>\$219</u>	<u>\$181</u>

### Note 8 - Long-Term Debt

Long-term debt at June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing:</b>		
<b>Senior Apartments at the Wyomissing Club Associates, LP</b>		
Citizens Bank Mortgage payable, due in monthly installments of \$3,178, including interest at 8.00% to December 2014, with all remaining principal due at that time.	\$277	\$ 292
Fulton Bank mortgage payable, due in monthly installments of \$3,177, including interest at 8.00% to December 2014, with all remaining principal due at that time.	271	286
City of Reading mortgage note payable, due in semi-annual installments of \$14,607, including interest at 5.886% to November 2022. The note is due earlier than November 2022 if the project is sold.	276	300

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>Senior Apartments at the Wyomissing Club Associates, LP (Continued)</b>		
City of Reading mortgage note payable to Community Development Block Grant (CDBG), interest accrued and capitalized at 5.3% per annum through July 2028, with all principal and accrued interest due July 2028. The note is due earlier than July 2028 if the project is sold.	\$ 828	\$ 786
City of Reading mortgage note payable (Rehab Program), interest accrued and capitalized at 6.00% per annum through July 2028, with all principal and accrued interest due July 2028. The note is due earlier than July 2028 if the project is sold.	246	232
City of Reading mortgage note payable to HOME Investment Partnership Program (HOME), interest accrued and capitalized at 6.00% per annum. Annual payments of \$5,000 are due through July 2028. The note is due earlier than July 2028 if the project is sold.	708	678
<b>Furnace Creek Associates, LP</b>		
6.75% mortgage payable to Rural Development (RD) in monthly installments of \$6,890, including interest, through February 2046. The monthly payments include an interest subsidy of \$4,382 that effectively reduces the interest rate to 1%.	1,120	1,127
1.00% second mortgage payable to Berks Housing Opportunities One, Inc. Interest accrues annually, payments of principal and interest deferred until December 31, 2015.	163	161
1.00% third mortgage payable to Berks County. Interest accrues annually, payments of principal and interest deferred until December 31, 2015.	57	57

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>Furnace Creek Associates, LP (Continued)</b>		
1.00% fourth mortgage payable to Berks Community Action Program. Interest accrues annually, payments of principal and interest deferred until December 31, 2025.	\$ 115	\$ 114
0.00% developer fee note. Required payment of principal deferred until December 31, 2015.	115	115
<b>Weidner Manor Associates, LP</b>		
Fulton Bank development note payable, due in monthly installments of \$3,170, interest rate is 1% above the bank's prime rate, which was 3.25% and 6.00% at June 30, 2009 and 2008, respectively.	273	297
Fulton Bank mortgage note payable to Federal Home Loan Bank Affordable Housing Program (FHLB AHP), noninterest-bearing, due upon any default on development note above.	85	85
Berks Community Action Program mortgage note payable to Neighborhood Assistance Program (NAP), interest accrued and capitalized at 1% through October 2013; thereafter monthly payments of \$2,457, including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	269	266
Amity-Berks Development Company mortgage note payable, interest accrued and capitalized at 1% through October 2013; thereafter monthly payments of \$1,547, including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	169	167

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>Weidner Manor Associates, LP (Continued)</b>		
Berks County mortgage note payable to Pennsylvania Housing Finance Agency (PHFA), interest accrued and capitalized at 1% through October 2013; thereafter monthly payments of \$2,077, including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	\$ 227	\$ 225
Berks County mortgage note payable to HOME Investment Partnership Program (HOME), interest accrued and capitalized at 1% through October 2013; thereafter monthly payments of \$3,204, including interest at 1.00% through October 2023. The note is due earlier than October 2023 if the project is sold.	350	347
<b>Wind Gap Manor Associates, LP</b>		
First mortgage payable to the Pennsylvania Housing Finance Agency (PHFA). The mortgage is non-interest bearing. Payment of principal is deferred during the initial 30 years of project operation. However, principal payments shall be due and payable from excess of revenues over expenses during any calendar year. Fifty percent of excess revenue shall be used to repay principal and 50% shall be used as return on equity as limited by agency guidelines. In the event the project is sold or refinanced by the partnership, the note becomes due. Any unpaid principal is due November 2029.	957	957
Second mortgage payable to Lafayette Bank, using funds from the Federal Home Loan Bank Affordable Housing Program (FHLB AHP). This mortgage is non-interest bearing. Principal payments will never be due unless the partnership defaults on leasing units to low income senior citizens.	104	104

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>Franklin &amp; Noble Manor Associates, LP</b>		
7.00% mortgage payable to Citizen's Bank, in monthly installments of \$147, including interest, through July 2017.	\$ 11	\$ 12
1.00% second mortgage payable to Berks County, interest accrues annually, payments of principal and interest deferred until December 31, 2016.	522	516
1.00% third mortgage payable to Berks Housing Opportunities, interest accrues annually, payments of principal and interest deferred until December 31, 2016.	82	81
0.00% mortgage payable to the County of Berks, payments of principal deferred until 2034.	250	250
Fourth mortgage payable to Berks Community Action Program, Inc., no interest shall accrue or be payable. Payment of principal deferred until January 2028.	54	54
<b>Devitt House, Inc.</b>		
8.75% mortgage payable to Rural Development (RD) in monthly installments of \$10,586, including interest, through August 2041. The monthly payments include an interest subsidy of \$7,550 that effectively reduces the interest rate to 1%.	1,359	1,367
<b>John F. Lutz Associates, LP</b>		
Note payable to the Pennsylvania Housing Finance Agency (PHFA) payable in monthly payments of \$999, including interest at 5.90%, secured by a primary mortgage, a security agreement on other assets, and an assignment on all income under leases of the property. The note is scheduled to mature January 2022.	106	112

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>John F. Lutz Associates, LP (Continued)</b>		
Note payable to the Pennsylvania Housing Finance Agency (PHFA) with no interest. Principal payments shall be due and payable from excess of revenues over expenses during any calendar year. 50% of excess revenue shall be used to repay principal and 50% shall be used as return on equity as limited by agency guidelines. In the event the project is sold or refinanced by the partnership, the note becomes due. The note is secured by a secondary position mortgage, a security agreement on other assets, and an assignment of all income under leases of the property.	\$ 373	\$ 398
Note payable to Berks Housing Opportunities, Inc. with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and be added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	222	220

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Affordable Housing (Continued):</b>		
<b>John F. Lutz Associates, LP (Continued)</b>		
Note payable to Berks Community Action Program with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and be added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	\$ 449	\$ 445
Note payable to the County of Berks with no interest or principal payments due through June 2021, at which time all amounts owing are due in equal monthly payments of principal plus interest at 1% to June 2036. During the period from June 1995 to June 2021, 1.00% interest will accrue and is added to the principal balance of the note on the anniversary date of the funding date. In the event that this project is sold or refinanced by the partnership, the note becomes due. The note is secured by a subordinate mortgage on the property, a security agreement on other assets, and an assignment of all income under leases of the property.	208	206
<b>Obligated Group</b>		
Berks County Municipal Authority Revenue Refunding Bonds, Series A1 of 1998. The Series A1 of 1998 bonds outstanding are due in varying annual installments through May 2022. The bonds bear a fixed interest, payable semiannually, at rates ranging from 4.10% to 5.75%.	23,555	24,840

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Obligated Group (Continued)</b>		
Lehigh County General Purpose Authority Revenue Refunding Bonds, Series A2 of 1998. The Series A2 of 1998 bonds outstanding are due in varying annual installments through May 2022. The bonds bear fixed interest, payable semiannually, at rates ranging from 4.10% to 5.75%.	\$ 6,390	\$ 6,730
Lehigh County General Purpose Authority Variable Rate Demand Revenue Refunding Bonds, Series B of 1998. The Series B of 1998 bonds outstanding are due in varying annual installments through May 2021. The bonds are secured by an irrevocable letter of credit issued by Sovereign Bank. The bonds bear interest at a weekly rate, subject to conversion to a monthly rate or a term rate, defined as the variable rate of interest equal to the minimum rate of interest necessary to sell the Series B of 1998 bonds as determined by the remarketing agent (0.30% and 1.50% at June 30, 2009 and 2008, respectively).	3,075	3,270
Berks County Municipal Authority Federally-Taxable Variable Rate Demand Revenue Refunding Bonds, Series C of 1998. The Series C of 1998 bonds outstanding are due in varying annual installments through May 2022. The bonds are secured by an irrevocable letter of credit issued by Sovereign Bank. The bonds bear interest at a weekly rate, subject to conversion to a monthly rate or a term rate, defined as the variable rate of interest equal to the minimum rate of interest necessary to sell the Series C of 1998 bonds as determined by the remarketing agent (0.60% and 2.53% at June 30, 2009 and 2008, respectively).	2,710	2,770

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
<b>Obligated Group (Continued)</b>		
Berks County Municipal Authority Revenue Bonds, Series 2008. The 2008 bonds outstanding are due in varying installments through May 2038. The bonds are secured by an irrevocable letter of credit issued by Sovereign Bank. The bonds bear a variable interest rate (0.30 and 1.50% at June 30, 2009 and 2008, respectively) which was swapped to a fixed rate of 3.29% through May 2028, payable annually.	\$36,825	\$36,825
<b>Phoebe Housing</b>		
0.0% note payable to a not-for-profit corporation, collateralized by real estate; note matures January 2046.	80	80
<b>Richland</b>		
Phoebe Richland Health Care Center Revenue Note Series 2004. Monthly payments are due based on a 15-year amortization. The note bears interest at 4.8% through November 2013 at which point it will revert to a variable rate set at 80% of bank prime, adjusted quarterly. This obligation is guaranteed by the Obligated Group.	3,445	3,603
<b>Apartments</b>		
Phoebe Apartments, Inc., 3% mortgage payable to HUD, collateralized by property, plant, and equipment, due in monthly installments of \$6,266 including interest through January 2024.	887	935
	<u>87,213</u>	<u>89,310</u>
Less: unamortized bond discount	(748)	(806)
Less: current portion	<u>(3,052)</u>	<u>(2,239)</u>
	<u>\$83,413</u>	<u>\$86,265</u>

As security for the payment of the bonds payable, the Obligated Group and any future members of the Obligated Group will grant a security interest in the pledged assets to the Master Trustee. Pledged assets include gross revenue of the Obligated Group and any subsequent members of the Obligated Group and proceeds thereof.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 8 - Long-Term Debt (Continued)

As additional security for bond payments, the Obligated Group has granted to the Master Trustee a mortgage on certain facilities consisting of real estate, improvements, personal property, building, equipment, and other property interests.

The Series 1998 and 2008 Bonds are backed by a letter of credit and subject to remarketing agreements. In the event that any or all of the Bonds are tendered by the bondholder and are unable to be remarketed, the letter of credit would be drawn upon to repay the tendered Bonds. Any drawings under the letter of credit are repayable on or before the first to occur of the following: the date on which the Bonds purchased with the proceeds from a draw on the letter of credit are successfully remarketed by the remarketing agent, the date on which the Bonds purchased with the proceeds from a draw on the letter of credit are redeemed or otherwise paid in full, the occurrence of an event of default, or the date the letter of credit expires. The letter of credit for the Series 1998 Bonds will expire in October 2010 and the letter of credit for the 2008 Bond will expire in February 2018.

The Obligated Group consists of Phoebe Home, Inc., Phoebe Services, Inc., Phoebe-Devitt Homes, Inc., and Phoebe Berks Health Care Center, Inc.

The Obligated Group has agreed to comply with the terms of the Master Indenture. Under the terms of the Master Indenture, the Obligated Group, among other things, must meet the covenants to establish and collect rates and charges for services which will be sufficient to provide Income Available for Debt Service of at least 120% of maximum annual debt service. The Obligated Group shall also maintain a minimum of 90 days Cash-on-Hand. The Master Indenture also places limits on the incurrence of additional borrowings as long as the Bonds are outstanding. At June 30, 2009 and 2008, all financial covenants have been met.

The Organization paid interest expense, of \$2,697 and \$2,833 (in thousands) (including letter of credit fees) for the years ended June 30, 2009 and 2008, respectively. Additionally, \$1,518 and \$577 (in thousands) was capitalized during 2009 and 2008, respectively.

The aggregate maturities of long-term debt at June 30, 2009 are as follows (in thousands):

2010	\$ 3,052
2011	3,194
2012	3,366
2013	3,540
2014	3,720
Thereafter	<u>70,341</u>
	<u>\$87,213</u>

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 8 - Long-Term Debt (Continued)**

The Obligated Group entered into an interest rate swap agreement, with Lehman Brothers Special Financing, Inc. (LBSFI), on the Series 2008 Bonds until May 2028. This agreement is a weekly measurement process comparing the swap rate of 3.29% with an index rate based on 70% of LIBOR (London Inter Bank Offered Rate). When the index rate exceeds the swap rate, the Obligated Group is paid the difference, and when the index rate is less than the swap rate, the Obligated Group pays the difference. At June 30, 2009 and 2008, the interest rate swap is recorded as a liability of \$(2,376) and an asset of \$20 (in thousands), respectively.

LBSFI filed for bankruptcy on October 3, 2008. The LBSFI bankruptcy filing constituted a default on the part of LBSFI under the interest rate swap agreement. As a result, the Obligated Group is entitled to exercise certain specified remedies under the interest rate swap agreement, including early termination of the interest rate swap. The Obligated Group attempted to secure an acceptable replacement for LBSFI in anticipation of terminating the interest rate swap agreement but to date has not been able to do so. The interest rate swap remains outstanding and the Obligated Group is continuing to perform its obligations thereunder.

On December 16, 2008, the Bankruptcy Court entered an order establishing procedures for the assumption and assignment of LBSFI derivatives contracts, including the interest rate swap agreement. This order has the effect of enabling LBSFI to assign the interest rate swap agreement to a third party without the consent of and without any continuing liability or obligation to the Obligated Group. To date the Obligated Group (i) has not been notified by LBSFI of any proposed assignee of the interest rate swap agreement pursuant to the bankruptcy court order; and (ii) has not been able to secure a counterparty to replace LBSFI.

### **Note 9 - Liability Under Charitable Gift Annuities**

A charitable gift annuity is an arrangement between a donor and Phoebe-Devitt Homes, Inc. in which the donor has contributed assets to the Organization in exchange for a promise to pay a fixed amount of interest for life. The liability is recognized at the present value of future cash flows using the relevant donor's age and the applicable federal discount rate. The cash related to the charitable gift annuity is included in Assets Whose Use is Limited and Investments.

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Liability under charitable gift annuities	<u>\$947</u>	<u>\$1,097</u>

### **Note 10 - Employee Benefit Plans**

The Organization maintains a 401(k) plan where eligible participants may contribute a portion of pretax annual compensation subject to IRS limits. In addition to participant contributions, the Organization's Board of Trustees may make discretionary contributions. Discretionary contributions in 2009 and 2008 were 3.00% and 3.50% of base eligible participant compensation, amounting to (in thousands) \$981 and \$1,053, respectively.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 10 - Employee Benefit Plans (Continued)

Effective June 30, 2007, the Obligated Group adopted the recognition and disclosure provisions of FASB Statement 158, *Employers' Accounting for Defined Benefit Plans and Other Postretirement Plans* (Statement 158), which requires organizations to recognize the funded status of defined benefit plans and other postretirement plans as a net asset or liability and to recognize changes in that funding status in the year in which the changes occur through other changes in unrestricted net assets to the extent those changes are not included in periodic pension costs.

The defined benefit plan is a noncontributory defined benefit plan covering union employees at three affiliates. The benefits are based on a flat dollar amount based on years of service as specified by the plan. The plan has a projected benefit obligation and accumulated benefit obligation of (in thousands) \$9,730 and \$9,529 as of June 30, 2009 and 2008, respectively. The projected benefit obligation and the accumulated benefit obligation are the same amount since there are no future compensation levels to factor into the obligations. The benefits under this plan were frozen effective June 30, 2006. The plan will continue to make benefit payments for all vested accrued benefits as of June 30, 2006.

The following table sets forth the pension benefit obligation, fair value of plan assets, and funded status at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Benefit obligation at June 30	\$ 9,730	\$ 9,529
Fair value of plan assets	<u>(7,399)</u>	<u>(8,706)</u>
<b>Funded Status at End of the Year</b>	<u>\$ 2,331</u>	<u>\$ 823</u>
Amounts recognized in the balance sheet consist of pension liability	<u>\$ 2,331</u>	<u>\$ 823</u>
Amounts recognized in unrestricted net assets consist of net actuarial loss	<u>\$(4,552)</u>	<u>\$(2,745)</u>

The net loss for the defined benefit plan that will be amortized from unrestricted net assets into net periodic pension cost for the next fiscal year is \$298 (in thousands).

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 10 - Employee Benefit Plans (Continued)

The following summarizes the benefit cost, employer contribution and benefits paid by the pension plan for the years ended June 30:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Pension cost	\$ 1	\$(238)
Employer contributions	300	279
Benefits paid	(335)	(298)

Net pension cost under the defined benefit plan for the years ended June 30, 2009 and 2008 included the following components:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Interest cost on projected benefit obligation	\$ 581	\$ 568
Expected return on plan assets	(725)	(832)
Net amortization and deferral	<u>145</u>	<u>26</u>
<b>Net Period Pension Costs</b>	<u><u>\$ 1</u></u>	<u><u>\$(238)</u></u>

Assumptions used in the actuarial computation that derived the benefit obligation and net periodic pension cost were as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Discount rate	6.25%	6.25%
Expected long-term rate of return on assets	8.50%	8.50%

The Organization invests in a diversified portfolio consisting of an array of asset classes in an attempt to emphasize long-term growth of principal while avoiding excessive risk and minimizing volatility. The Organization's investment policy targets a diversified mix of equities and fixed income securities that has been determined to be appropriate in terms of risk/reward trade-off taking into account the expected funded status of the plan, cash contributions, and expense. Professional investment firms manage the plan assets. The overall investment policy is reviewed semi-annually to assure the continued relevance of the goals, objectives, strategies, and investment manager performance.

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 10 - Employee Benefit Plans (Continued)

The Plan's weighted average asset allocation as of June 30, 2009 and 2008 by asset category was as follows:

	<u>2009</u>	<u>2008</u>
Asset Category		
Cash and money market	4.73%	3.65%
U.S. Government Securities	29.04%	4.11%
Corporate bonds	13.07%	12.95%
Common stocks	40.34%	38.17%
Municipal bonds	0.00%	16.25%
Equity mutual funds	12.82%	24.87%
	<u>100.00%</u>	<u>100.00%</u>

The Organization's funding policy is to contribute annually the maximum actuarially computed amount. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future.

Projected benefit payments from the Plan as of June 30, 2009 are estimated as follows (in thousands):

2010	\$ 344
2011	366
2012	395
2013	439
2014	470
2015 - 2019	2,757

### Note 11 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Charitable care/pastoral care	\$ 786	\$ 89
Building and equipment purchases	1,701	1,735
Information technology/staff skills	242	75
Operations/resident quality of life	537	1,019
	<u>\$3,266</u>	<u>\$2,918</u>

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 11 - Temporarily and Permanently Restricted Net Assets (Continued)**

Permanently restricted net assets consist of the following. They are invested in perpetuity, the income from which is expendable to support:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Charitable care/pastoral care	\$1,389	\$1,251
Building and equipment purchases	40	37
Information technology/staff skills	380	380
Operations/resident quality of life	<u>5,070</u>	<u>5,204</u>
	<u>\$6,879</u>	<u>\$6,872</u>

### **Note 12 - Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. The amounts released during the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Charitable care	\$421	\$ 83
Building and equipment purchases	220	227
Information technology/staff skills	263	237
Operations/resident quality of life	<u>64</u>	<u>156</u>
	<u>\$968</u>	<u>\$703</u>

### **Note 13 - Endowment Funds**

The Organization's endowments consist of funds established for a variety of reasons and purposes. Its endowments include donor restricted and board designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 13 - Endowment Funds (Continued)**

#### **Interpretation of Relevant Law**

The Board of Directors of the Organization 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 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. Unless specifically defined, the Organization considers the following factors to determine when a donor-restricted endowment fund is required by donor stipulation to accumulate or appropriate endowment funds:

- (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

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 13 - Endowment Funds (Continued)

	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	(In Thousands)			
Donor restricted endowment funds	\$ -	\$ -	\$2,861	\$2,861
Board designated endowment funds	1,813	-	-	1,813
	<u>\$1,813</u>	<u>\$ -</u>	<u>\$2,861</u>	<u>\$4,674</u>
	2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	(In Thousands)			
Donor restricted endowment funds	\$ -	\$121	\$1,903	\$2,024
Board designated endowment funds	2,041	-	-	2,041
	<u>\$2,041</u>	<u>\$121</u>	<u>\$1,903</u>	<u>\$4,065</u>

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 13 - Endowment Funds (Continued)

The following schedule represents the changes in endowment net assets for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>(In Thousands)</u>			
<b>Endowment Net Assets, Beginning of Year</b>	\$2,041	\$121	\$1,903	\$4,065
Investment return:				
Investment income (loss)	(219)	(114)	-	(333)
Contributions	-	-	958	958
Appropriation of endowment assets for expenditure	<u>(9)</u>	<u>(7)</u>	<u>-</u>	<u>(16)</u>
<b>Endowment Net Assets, End of Year</b>	<u>\$1,813</u>	<u>\$ -</u>	<u>\$2,861</u>	<u>\$4,674</u>

The following schedule represents the changes in endowment net assets for the year ended June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>(In Thousands)</u>			
<b>Endowment Net Assets, Beginning of Year</b>	\$2,112	\$168	\$1,577	\$3,857
Investment return:				
Investment income (loss)	(28)	(9)	-	(37)
Contributions	-	-	326	326
Appropriation of endowment assets for expenditure	<u>(43)</u>	<u>(38)</u>	<u>-</u>	<u>(81)</u>
<b>Endowment Net Assets, End of Year</b>	<u>\$2,041</u>	<u>\$121</u>	<u>\$1,903</u>	<u>\$4,065</u>

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 13 - Endowment Funds (Continued)**

#### **Funds with Deficiencies**

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Organization to retain as a fund of perpetual duration. These deficiencies are reported as a component of unrestricted net assets. There were no deficiencies reported at either June 30, 2009 or 2008.

#### **Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of 7.25% annually. Actual returns in any given year may vary from this amount.

#### **Strategies Employed for Achieving Objectives**

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that 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 Organization has a policy of appropriating restricted net assets for distribution on an as needed basis. The amount needed to fund distributions will first be taken from any accumulated excess earnings from prior years, then from current year investment earnings. Any undistributed income is added back to the Temporarily Restricted Fund balance. Over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3.1% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets to be held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# *Phoebe-Devitt Homes and Affiliated Organizations*

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## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 14 - Self-Insured Reserves and Claims

The Organization purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. The Organization believes it has adequate insurance coverage for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverage.

The Organization capitalized Phoebe Reciprocal Risk Retention Group (PRRRG), a wholly-owned, captive insurance subsidiary, to underwrite the primary layer of professional and general liability insurance on a claims-made basis.

Professional (\$500,000 per claim) and general (\$1 million per claim) liability coverage is provided by PRRRG on a directly written basis. Reserve requirements on reported and incurred but not reported claims are established based on actuarial projections of ultimate losses and total (in thousands) \$1,566 and \$1,479, as of June 30, 2009 and 2008, respectively. In addition, the Organization purchases excess insurance of \$5 million per claim and in the aggregate for professional and general liability risks from a commercial carrier. Restricted cash held by PRRRG was (in thousands) \$3,622 and \$3,466 as of June 30, 2009 and 2008 respectively. Premiums incurred by the Affiliated Organizations to PRRRG were (in thousands) \$540 in 2009 and \$619 in 2008.

The Organization participates in a self-insured program for workers' compensation insurance. In the case of catastrophes or other events that would cause excessive worker's compensation claims, the Organization is reinsured for losses in excess of \$400,000 per occurrence.

Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported which approximates (in thousands) \$646 and \$840 as of June 30, 2009 and 2008, respectively. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-based valuations, statistical analyses, and the expertise of an independent actuary. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserve for unpaid losses and loss adjustment expenses is adequate. The estimates are reviewed annually. As adjustments to the liability reserves become necessary, they are reflected in current operations.

To qualify for workers' compensation self-insurance, the Organization has fulfilled certain collateral requirements of the Commonwealth of Pennsylvania. The Organization maintains a \$1.5 million irrevocable stand-by letter of credit to secure future obligations under the terms of the self-insurance program.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 15 - Classification of Expenses**

Expenses by functional classifications for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In Thousands)</u>	
Program activities	\$83,496	\$78,599
General and administrative	8,096	8,848
Fundraising	586	463
	<u>\$92,178</u>	<u>\$87,910</u>

### **Note 16 - Concentration of Credit Risk**

The Organization maintains cash and cash equivalents in local branches. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and \$100,000 for 2009 and 2008, respectively. As of June 30, 2009 and 2008, bank balances exceeded FDIC coverage by \$2,446 and \$14,784 (in thousands). Due to cash management structure, beginning in October 2008, these amounts are in non-interest bearing accounts during business hours and are not at risk at that time. The risk only exists in non business hours when funds are automatically swept into an investment account.

Phoebe Apartments, Inc.'s sole asset is a 131-unit apartment project. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The nursing care facilities primarily derive their revenues 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. Legislation dealing with nursing home revenues could be introduced, and if enacted, such legislation may have an impact upon the nursing care facilities.

# *Phoebe-Devitt Homes and Affiliated Organizations*

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## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 17 - 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.

Assets whose use is limited and investments: The fair values are based primarily on quoted market prices for these or similar investments as determined by a valued exclusion.

Long-term debt: The carrying amount included in long-term debt approximates fair value (excluding Affordable Seven) based on quoted market prices for the same or similar issues.

Interest rate swap: The fair value is based on the net present value of expected future cash flows and is heavily dependent on interest rate assumptions for the remaining term of the swap.

The Organization has a number of other financial instruments, none of which are held for investment purposes. The Organization estimates that the fair value of all financial instruments at June 30, 2009 and 2008 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.

SFAS 157 establishes 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).

# *Phoebe-Devitt Homes and Affiliated Organizations*

## Notes to Consolidated Financial Statements

June 30, 2009 and 2008

### Note 17 - Fair Values of Financial Instruments (Continued)

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 measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2009 are as follows:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>(In Thousands)</u>			
<b>Assets:</b>				
Cash/money market accounts	\$15,457	\$15,457	\$ -	\$ -
Equity securities	22,549	22,549	-	-
Fixed income	20,462	20,462	-	-
Funds held in trust by others	<u>3,856</u>	<u>-</u>	<u>-</u>	<u>3,856</u>
<b>Total Assets</b>	<u>\$62,324</u>	<u>\$58,468</u>	<u>\$ -</u>	<u>\$3,856</u>
<b>Liabilities -</b>				
Interest rate swap	<u>\$(2,376)</u>	<u>\$ -</u>	<u>\$(2,376)</u>	<u>\$ -</u>

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the year ended June 30, 2009 is as follows:

<u>Description</u>	<u>Funds Held in Trust by Others</u>
	<u>(In Thousands)</u>
<b>Balance at June 30, 2008</b>	\$4,882
Unrealized losses	<u>(1,026)</u>
<b>Balance at June 30, 2009</b>	<u>\$3,856</u>

At June 30, 2009, \$1,026 (in thousands) of unrealized losses is included in the decrease in permanently restricted net assets.

# ***Phoebe-Devitt Homes and Affiliated Organizations***

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## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

### **Note 18 - Leases**

Phoebe Services, Inc. has entered into a long-term commercial space lease for its pharmacy operations. The annual rent totaled (in thousands) \$50 and \$46 for the years ended June 30, 2009 and 2008, respectively. Annual rent increases 2% per lease year. Phoebe Services, Inc. is also responsible for their share of operating expenses as described in the lease agreement.

The Organization also has various operating leases for office equipment, etc. through the year ended June 30, 2015.

During the years ended June 30, 2009 and 2008, the Organization earned (in thousands) \$150 and \$124, respectively, from various subleases at different locations.

Rent expense (in thousands) totaled \$226 and \$248 for the years ended June 30, 2009 and 2008, respectively.

The minimum future rentals for the next five years are as follows (in thousands):

2010	\$167
2011	109
2012	94
2013	94
2014	51

### **Note 19 - Commitments and Contingencies**

#### **Legal Actions**

From time to time, The Organization is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on The Organization's financial position or the results of operations.

#### **Guarantees**

Phoebe-Devitt Homes, Inc. has guaranteed Phoebe Housing's obligation as general partner for Furnace Creek Manor, Senior Apartments at the Wyomissing Club and Wind Gap Manor Associates.

Phoebe-Devitt Homes Obligated Group had guaranteed the payment of the Revenue Note Series 2004 issued by Phoebe Richland Health Care Center for the purpose of refinancing the mortgage.

### **Note 20 - Reclassifications**

Certain items in the 2008 financial statements have been reclassified to conform to the 2009 financial statement presentation. The reclassification had no effect on changes in net assets.



## **Independent Auditor's Report on Supplementary Information**

To the Board of Directors  
Phoebe-Devitt Homes and Affiliated Organizations

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

*Beard Miller Company LLP*

Beard Miller Company LLP  
Lancaster, Pennsylvania  
September 21, 2009

# Phoebe-Devitt Homes and Affiliated Organizations

## Consolidating Schedule of Financial Position

June 30, 2009

(In Thousands)

	Phoebe- Devitt Homes	Phoebe Home	Phoebe Berks Health Care Center	Phoebe Services	Phoebe Housing	Phoebe Richland Health Care	Phoebe Apart- ments	Wyncote Church Home	PRRRG	Affordable Housing	Elimi- nations	Total
<b>Assets</b>												
<b>Current Assets</b>												
Cash and cash equivalents	\$ -	\$23,961	\$8,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ 957	\$(13,580)	\$19,597
Resident and patient funds	-	307	19	-	-	71	-	94	-	-	-	491
Accounts receivable	59	5,477	1,390	1,005	-	1,616	30	810	15	4	(161)	10,245
Estate receivables	592	89	170	-	-	-	-	-	-	-	-	851
Due from related parties	541	58	2,646	82	273	-	18	-	-	-	(3,618)	-
Prepaid expense and other	4	361	245	1,323	-	89	2	64	5	95	(206)	1,982
<b>Total Current Assets</b>	<b>1,196</b>	<b>30,253</b>	<b>12,679</b>	<b>2,410</b>	<b>273</b>	<b>1,776</b>	<b>50</b>	<b>968</b>	<b>70</b>	<b>1,056</b>	<b>(17,565)</b>	<b>33,166</b>
<b>Assets Whose Use is Limited</b>	<b>7,931</b>	<b>976</b>	<b>8,315</b>	<b>5,148</b>	<b>16</b>	<b>27</b>	<b>682</b>	<b>594</b>	<b>3,571</b>	<b>152</b>	<b>-</b>	<b>27,412</b>
<b>Investments</b>	<b>18,699</b>	<b>96</b>	<b>1,847</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>13,958</b>	<b>-</b>	<b>617</b>	<b>-</b>	<b>35,229</b>
<b>Property and Equipment, Net</b>	<b>-</b>	<b>11,079</b>	<b>56,829</b>	<b>3,222</b>	<b>-</b>	<b>5,167</b>	<b>770</b>	<b>2,924</b>	<b>-</b>	<b>12,118</b>	<b>-</b>	<b>92,109</b>
<b>Due From Related Parties - 1998</b>												
<b>Refinancing</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,903</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,903)</b>	<b>-</b>
<b>Other Assets</b>												
Investment in affiliates	1,376	971	410	2,878	-	320	-	-	-	-	(5,955)	-
Investments in limited partnerships	1,899	-	-	-	-	-	-	-	-	-	-	1,899
Investments in affiliated partnerships	-	-	-	-	401	-	-	-	-	-	(401)	-
Notes receivable - related parties	109	-	-	469	196	142	-	-	-	-	(916)	-
Intangible assets, net	-	-	887	464	-	580	-	-	-	14	-	1,945
Interest rate swap	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	447	-	-	-	51	-	(279)	219
<b>Total Other Assets</b>	<b>3,384</b>	<b>971</b>	<b>1,297</b>	<b>3,811</b>	<b>1,044</b>	<b>1,042</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>14</b>	<b>(7,551)</b>	<b>4,063</b>
<b>Total Assets</b>	<b>\$31,210</b>	<b>\$43,375</b>	<b>\$80,967</b>	<b>\$43,501</b>	<b>\$1,333</b>	<b>\$8,012</b>	<b>\$1,507</b>	<b>\$18,444</b>	<b>\$3,692</b>	<b>\$13,957</b>	<b>\$(54,019)</b>	<b>\$191,979</b>

See independent auditor's report on supplementary information.

# Phoebe-Devitt Homes and Affiliated Organizations

## Consolidating Schedule of Financial Position

June 30, 2009

(In Thousands)

	Phoebe- Devitt Homes	Phoebe Home	Phoebe Berks Health Care Center	Phoebe Services	Phoebe Housing	Phoebe Richland Health Care	Phoebe Apart- ments	Wyncote Church Home	PRRRG	Affordable Housing	Elimi- nations	Total
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities</b>												
Accounts payable	\$ -	\$ 1,250	\$ 875	\$ 375	\$ -	\$ 421	\$ 31	\$ 267	\$ 19	\$ 238	\$ (349)	\$ 3,127
Accrued expenses	-	3,355	1,753	2,776	7	769	32	410	11	19	-	9,132
Resident and patient funds	-	297	19	-	-	61	-	91	-	-	-	468
Due to related parties	678	-	2,784	8,079	261	4,525	7	331	-	539	(17,204)	-
Current portion of long-term debt	-	-	710	2,024	-	169	49	-	-	100	-	3,052
Due to related party	-	-	109	142	-	-	-	-	-	120	(371)	-
<b>Total Current Liabilities</b>	<b>678</b>	<b>4,902</b>	<b>6,250</b>	<b>13,396</b>	<b>268</b>	<b>5,945</b>	<b>119</b>	<b>1,099</b>	<b>30</b>	<b>1,016</b>	<b>(17,924)</b>	<b>15,779</b>
<b>Other Liabilities</b>												
Long-term debt - excluding current portion	-	-	36,115	32,959	80	3,276	838	-	-	10,775	(630)	83,413
Due to Phoebe Services - 1998 refinancing	2,118	8,013	18,772	-	-	-	-	-	-	-	(28,903)	-
Deferred revenue - entrance fees	-	5,544	23,242	1	-	1	23	122	-	93	-	29,026
Estimated obligation to provide future services	-	-	-	-	-	-	-	334	-	-	-	334
Accrued pension liability	-	2,217	114	-	-	-	-	-	-	-	-	2,331
Charitable gift annuities	698	39	210	-	-	-	-	-	-	-	-	947
Phoebe-Devitt Homes Equity	-	-	1,278	-	-	2,582	-	-	-	-	(3,860)	-
Workers compensation reserve	-	153	147	86	-	209	-	51	-	-	-	646
Interest rate swap	-	-	2,376	-	-	-	-	-	-	-	-	2,376
Other	-	15	-	521	447	-	-	-	1,566	-	(207)	2,342
<b>Total Other Liabilities</b>	<b>2,816</b>	<b>15,981</b>	<b>82,254</b>	<b>33,567</b>	<b>527</b>	<b>6,068</b>	<b>861</b>	<b>507</b>	<b>1,566</b>	<b>10,868</b>	<b>(33,600)</b>	<b>121,415</b>
<b>Total Liabilities</b>	<b>3,494</b>	<b>20,883</b>	<b>88,504</b>	<b>46,963</b>	<b>795</b>	<b>12,013</b>	<b>980</b>	<b>1,606</b>	<b>1,596</b>	<b>11,884</b>	<b>(51,524)</b>	<b>137,194</b>

<b>Net Assets</b>												
Unrestricted	21,276	21,699	(9,205)	(3,805)	522	(4,013)	513	16,023	2,096	2,029	(2,495)	44,640
Temporarily restricted	888	337	1,628	335	16	12	14	36	-	-	-	3,266
Permanently restricted	5,552	456	40	8	-	-	-	779	-	44	-	6,879
<b>Total Net Assets</b>	<u>27,716</u>	<u>22,492</u>	<u>(7,537)</u>	<u>(3,462)</u>	<u>538</u>	<u>(4,001)</u>	<u>527</u>	<u>16,838</u>	<u>2,096</u>	<u>2,073</u>	<u>(2,495)</u>	<u>54,785</u>
<b>Total Liabilities and Net Assets</b>												
<b>Assets</b>	<u>\$31,210</u>	<u>\$43,375</u>	<u>\$80,967</u>	<u>\$43,501</u>	<u>\$1,333</u>	<u>\$8,012</u>	<u>\$1,507</u>	<u>\$18,444</u>	<u>\$3,692</u>	<u>\$13,957</u>	<u>\$(54,019)</u>	<u>\$191,979</u>

*See independent auditor's report on supplementary information.*

# Phoebe-Devitt Homes and Affiliated Organizations

## Consolidating Schedule of Activities

Year Ended June 30, 2009

(In Thousands)

	Phoebe- Devitt Homes	Phoebe Home	Phoebe Berks Health Care Center	Phoebe Services	Phoebe Housing	Phoebe Richland Health Care	Phoebe Apart- ments	Wyncote Church Home	PRRRG	Affordable Housing	Elimi- nations	Total
<b>Operating Revenues</b>												
Net patient and resident service revenue	\$ -	\$44,909	\$17,389	\$9,805	\$ -	\$12,370	\$710	\$5,508	\$ -	\$1,608	\$(1,824)	\$90,475
Amortization of entrance fees	-	557	877	-	-	-	-	14	-	-	-	1,448
Contributions	467	71	473	-	-	12	-	12	-	-	-	1,035
Change in value-charitable gift annuities	(81)	27	(10)	-	-	-	-	-	-	-	-	(64)
Investment income	804	87	629	125	8	2	23	368	100	16	(8)	2,154
Realized gains (losses) on investments	(2,205)	-	(258)	(22)	-	-	-	1,468	(33)	-	-	(1,050)
Other revenue	-	471	224	6,211	127	34	50	33	540	280	(6,972)	998
<b>Total Operating Revenue</b>	<b>(1,015)</b>	<b>46,122</b>	<b>19,324</b>	<b>16,119</b>	<b>135</b>	<b>12,418</b>	<b>783</b>	<b>7,403</b>	<b>607</b>	<b>1,904</b>	<b>(8,804)</b>	<b>94,996</b>
<b>Operating Expenses</b>												
Salaries and wages	-	21,040	5,635	5,840	-	5,176	146	2,750	-	178	-	40,765
Employee benefits and other staff costs	-	5,866	1,563	1,521	-	1,281	29	833	-	32	-	11,125
Other expenses	679	14,180	8,178	9,216	108	4,633	399	2,526	355	1,065	(8,704)	32,635
Interest	-	476	1,578	11	-	180	27	-	-	425	-	2,697
Depreciation	-	1,200	1,787	381	-	456	92	171	-	630	-	4,717
Amortization	-	-	51	94	-	89	-	-	4	1	-	239
<b>Total Operating Expenses</b>	<b>679</b>	<b>42,762</b>	<b>18,792</b>	<b>17,063</b>	<b>108</b>	<b>11,815</b>	<b>693</b>	<b>6,280</b>	<b>359</b>	<b>2,331</b>	<b>(8,704)</b>	<b>92,178</b>
<b>Operating Income (Loss)</b>	<b>(1,694)</b>	<b>3,360</b>	<b>532</b>	<b>(944)</b>	<b>27</b>	<b>603</b>	<b>90</b>	<b>1,123</b>	<b>248</b>	<b>(427)</b>	<b>(100)</b>	<b>2,818</b>
<b>Decrease in Fair Value of Interest Rate Swap</b>	<b>-</b>	<b>-</b>	<b>(2,396)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,396)</b>
<b>Excess (Deficiency) of Operating Revenues over Expenses</b>	<b>(1,694)</b>	<b>3,360</b>	<b>(1,864)</b>	<b>(944)</b>	<b>27</b>	<b>603</b>	<b>90</b>	<b>1,123</b>	<b>248</b>	<b>(427)</b>	<b>(100)</b>	<b>422</b>

<b>Other Changes</b>												
Pension related changes	-	(1,717)	(91)	-	-	-	-	-	-	-	-	(1,808)
Net unrealized gains (losses) on investments	(2,089)	-	182	13	-	-	-	(5,174)	(144)	-	-	(7,212)
Net assets released from restrictions	97	400	204	198	-	22	5	40	-	2	-	968
<b>Total Other Changes</b>	<b>(1,992)</b>	<b>(1,317)</b>	<b>295</b>	<b>211</b>	<b>-</b>	<b>22</b>	<b>5</b>	<b>(5,134)</b>	<b>(144)</b>	<b>2</b>	<b>-</b>	<b>(8,052)</b>
<b>Increase (Decrease) in</b>												
<b>Unrestricted Net Assets</b>	<b>(3,686)</b>	<b>2,043</b>	<b>(1,569)</b>	<b>(733)</b>	<b>27</b>	<b>625</b>	<b>95</b>	<b>(4,011)</b>	<b>104</b>	<b>(425)</b>	<b>(100)</b>	<b>(7,630)</b>
<b>Changes in Temporarily</b>												
<b>Restricted Net Assets</b>												
Contributions	512	353	406	117	11	34	-	17	-	-	-	1,450
Investment income	92	18	2	-	-	-	-	14	-	2	-	128
Net unrealized losses on investments	(59)	(36)	(4)	-	-	-	-	(37)	-	-	-	(136)
Net realized losses on investments	(60)	(31)	(3)	-	-	-	-	(32)	-	-	-	(126)
Net assets released from restrictions	(97)	(400)	(204)	(198)	-	(22)	(5)	(40)	-	(2)	-	(968)
<b>Increase (Decrease) in</b> <b>Temporarily Restricted</b> <b>Net Assets</b>	<b>388</b>	<b>(96)</b>	<b>197</b>	<b>(81)</b>	<b>11</b>	<b>12</b>	<b>(5)</b>	<b>(78)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>348</b>
<b>Changes in Permanently</b>												
<b>Restricted Net Assets</b>												
Contributions	35	398	-	-	-	-	-	600	-	-	-	1,033
Change in value of funds held in trust by others	(1,025)	-	-	-	-	-	-	-	-	(1)	-	(1,026)
<b>Increase (Decrease) in</b> <b>Permanently Restricted</b> <b>Net Assets</b>	<b>(990)</b>	<b>398</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>600</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>7</b>
<b>Change in Net Assets</b>	<b>(4,288)</b>	<b>2,345</b>	<b>(1,372)</b>	<b>(814)</b>	<b>38</b>	<b>637</b>	<b>90</b>	<b>(3,489)</b>	<b>104</b>	<b>(426)</b>	<b>(100)</b>	<b>(7,275)</b>
<b>Net Assets - Beginning of Year</b>	<b>32,004</b>	<b>20,147</b>	<b>(6,165)</b>	<b>(2,648)</b>	<b>500</b>	<b>(4,638)</b>	<b>437</b>	<b>20,327</b>	<b>1,992</b>	<b>2,499</b>	<b>(2,395)</b>	<b>62,060</b>
<b>Net Assets - End of Year</b>	<b>\$27,716</b>	<b>\$22,492</b>	<b>\$(7,537)</b>	<b>\$(3,462)</b>	<b>\$ 538</b>	<b>\$(4,001)</b>	<b>\$527</b>	<b>\$16,838</b>	<b>\$2,096</b>	<b>\$2,073</b>	<b>\$(2,495)</b>	<b>\$54,785</b>

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