

(Exhibit A)

**North Carolina Medicare Care Commission  
Execute Summary of the CCRC's Community Improvement Relationships  
Continuing Care Retirement Community (CCRC)**

**Organization:** United Church Homes & Services      **Date:** 1/20/2010

1. Statement of the CCRC's mission and commitment to charity care/community benefit.

See Statement 1

2. Describe geographic service area and target populations for community benefit.

See Statement 1

3. Describe the relationships with agencies and organization with in the community.

See Statement 1

4. List current community benefit programs.

See Statement 1

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FEB - 2 2010

NC MEDICAL  
CARE COMMISSION

**Application for Property Tax Exemption Under G.S. 105-278.6A**

**Instructions** (Return to the County Tax Office No Later Than January 31<sup>st</sup> of the year of this application.)

A facility may be granted a total exclusion under Section 1, G.S. 105-278.6A, (c), provided that conditions (1) through (5) are met **AND** condition (6) a.

If the facility qualifies under (6) a. **AND** meets conditions (1) through (5), check this box and do not complete the rest of the form to obtain a total exemption.

If the facility qualifies under (6) b. **AND** meets conditions (1) through (5), complete the rest of the form below.

Provide all relevant attachments as noted under each category.

**REVENUE**

**Total Resident Revenue - As Disclosed in Most Recent Audited Financial Statement**

(Includes all monthly service fees, fee for service charges, **amortized entry fee income** for the year, and any fees collected that would not otherwise be amortized into income for the year associated with living in the facility. **Excludes investment income, contributions and income from non-resident sources.**) Attach Relevant Sections of Most Recent Audited Financial Statements

(1) 36,272,986

**CHARITY CARE**

**(A) Unreimbursed Health Care**

(From Medicare/Medicaid or Third Party cost reports, internal resident assistance data **certified by the facility** or audited financial statements which show amount of unreimbursed costs) Attach Applicable Pages of Cost Reports

**(B) Unreimbursed Housing and Services**

(From internal assistance reports (Lyons software or spreadsheet) **certified by the facility** and/or audited statements which show amount of unreimbursed costs and/or as disclosed in most recent audited financial statement)

5,696,094

**Total Charity Care**

(2) 5,696,094

**COMMUNITY BENEFITS**

(Amounts claimed are to be taken from audited financial statements which either footnote the amount or disclose the amount in the statement of operations as a line item and/or can be taken from documented receipt letters from entities receiving the service, donation or volunteer service, and/or as documented in the Lyons Software or **similar spreadsheet program certified by the facility**. The amounts are limited to actual expenses incurred by the facility to perform the service or provide the donation.)

**(A) Services**

(Verifiable unreimbursed expenses incurred by the facility to provide health, recreation, community research, and education activities to the community at large, including the elderly – DOES NOT include resident volunteer time.)

**(B) Charitable Donations**

(Actual cash outlay or equivalent dollar amount of donated items originally acquired by the facility and documented in facility community benefit report (Lyons software or spreadsheet) noted in audited financial statements.)

and/or

**Application for Property Tax Exemption Under G.S. 105-278.6A**

**(C) Donated Volunteer Services**

(Cost to the facility for allowing employees to volunteer in community service projects or organizations and/or actual unreimbursed facility material, space and volunteer time as documented based on wages paid by the facility for the volunteer during the service period/project)

6,351

**(D) Donations and Voluntary Payments to Government Agencies**

(Amounts to be taken from Receipted donations/payments from government agency receiving donation/payment when the facility would otherwise not have to pay the agency – goodwill.)

\_\_\_\_\_

**Total Community Benefits**

(3) 6,351

**Total Community Benefits and Charity Care**

(2) + (3)

(4) 5,702,445

**Percentage of Resident Revenue**

Total Community Benefits and Charity Care Divided by  
Total Resident Revenue

(4) 5,702,445

(1) 36,272,986

Percentage of Resident Revenue (4) divided by (1)

15.72 %

**Exclusion Percentage Based on Percent of Resident Revenue Above**

% of Revenue	Exclusion %
5%	100%
4%	80%
3%	60%
2%	40%
1%	20%

**Exclusion %** 100 %

Facility Name United Church Homes & Services County Various

Facility Address 100 Leonard Avenue, Newton, NC 28658

*Under penalties prescribed by law, I hereby affirm that to the best of my knowledge and belief this listing, including any accompanying statements, inventories, schedules, and other information, is true and complete. The information contained on this form is supported by our Financial and Facility Records:*

*Henry W. Skell*  
\_\_\_\_\_  
Officer's Signature

Date 1-28-10

United Church Homes and Services

Executive Summary of the CCRCs Community Improvement Relationships

1. The mission of United Church Homes and Services is to carry on Christian ministry in the Southern Conference of the United Church of Christ that adds life to the years of those we serve by providing senior living and health related communities, benevolence assistance, and service programs of outreach into the wider community.
2. Please see the attached schedule which highlights all our communities/programs.
3. United Church Homes and Services is professionally affiliated with the following Agencies: Council for Health and Human Service Ministries (CHHSM), American Association of Homes and Services for the Aged (AAHSA), the North Carolina Health Care Facilities Association, and the North Carolina Association of Nonprofit Homes for the Aging (NCANPHA). We are members of the Catawba County Chamber of Commerce and actively support the United Way, the Alzheimer's Association, local Meals on Wheels, Adult Life Programs, Cooperative Christian Ministries and local church and civic organizations.
4. United Church Homes and Services encourages volunteer service and community commitment. Employees regularly volunteer their time helping to organize events such as the Alzheimer's Memory Walk, the March of Dimes Walk, building Habitat Houses, and delivering meals for the local Meals on Wheels program, etc. Many professional staff serve as board members of local non-profit organizations. Teams of staff commit time and energy to Make a Difference Day, choosing projects that contribute in a positive way. Community groups use space in our facilities to hold meetings and educational programs for their members and the public.

# United Church Homes and Services

Abernethy Laurels  
100 Leonard Avenue  
Newton, NC

Piedmont Crossing  
100 Hendrick Drive  
Thomasville, NC

Lake Prince Woods  
100 Anna Goode Way  
Suffolk, VA

St. Joseph's Place  
506 Hope Ave.  
Durham, NC

Centerclair  
185 Yountz Road  
Lexington, NC

Emmanuel's Place  
700 Wil's Way  
Statesville, NC

Mathew's Place  
411 South Fourth Street  
Albemarle, NC

Covenant Place  
103 Culbreth Road  
Chapel Hill, NC

NOAH (New Bern Older Adult Housing)  
3800 Lofland Way  
New Bern, NC

The Willows  
124 Tarpley Street  
Burlington, NC

United Church Homes and Services, Inc.  
 NC Medicare Care Commission - Reporting for Community Improvement  
 and Charity Care/Community Benefit by a CCRC Form  
 For the Year Ending September 30, 2009

Statement 2 - Total Resident Revenue Computation

	<del>Laurel</del> Abernethy Center	Piedmont <del>Crossing</del> Center	Centerclair	Total
Resident Services Revenue	18,558,992	8,461,548	3,789,860	30,810,400
Add Back Contractural Adj. and Benevolent Support	3,483,548	1,253,299	725,739	5,462,586
Total Resident Revenue	22,042,540	9,714,847	4,515,599	36,272,986

Statement 3 - Total Charity Care Computation

	Abernethy Center	Piedmont Center	Centerclair	Total
Contractural Adjustments and Benevolent Support	3,483,548	1,253,299	725,739	5,462,586
Bad Debt	104,504	91,004	38,000	233,508
Total Charity Care	3,588,052	1,344,303	763,739	5,696,094

Statement 4 - Total Community Benefit

Donated Volunteer Services

United Church Homes and Services incurred costs totaling \$6,351 for allowing 7 employees to volunteer 234 hours in community service projects on company time.

**United Church Homes and Services, Inc.  
NC Medicare Care Commission - Reporting for Community Improvement  
and Charity Care/Community Benefit by a CCRC Form  
For the Year Ending September 30, 2009**

**Note pertaining to Statement 2 and 3**

Following this page we have provided the relevant pages of United Church Homes and Services (formerly United Church Retirement Homes) audited financial statements that pertain to both statements.

UNITED CHURCH HOMES AND  
SERVICES AND AFFILIATES

COMBINED FINANCIAL REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008





# UNITED CHURCH HOMES AND SERVICES AND AFFILIATES

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## **Independent Auditor's Report**

To the Board of Directors  
United Church Homes and Services  
Newton, North Carolina

We have audited the accompanying combined balance sheets of United Church Homes and Services and Affiliates (the "Organization") as of September 30, 2009 and 2008, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Church Homes and Services and Affiliates as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Bernard Robinson & Company, L.L.P.*

Greensboro, North Carolina  
January 15, 2010

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Combined Balance Sheets**  
**September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 2,651,014	\$ 2,442,120
Accounts receivable, net of allowance for doubtful accounts 2009 - \$428,154; 2008 - \$231,011	2,645,013	1,977,781
Other receivables	487,677	396,466
Due from related parties, current	311,965	488,583
Inventories	117,387	128,525
Prepaid expenses	281,959	342,750
Total current assets	<u>6,495,015</u>	<u>5,776,225</u>
Due from related parties, less current portion	133,047	133,047
Other assets	45,000	45,000
Assets limited as to use	44,859,647	47,116,799
Property and equipment, net	70,193,564	70,934,081
Deferred costs, net	2,785,551	3,036,590
	<u>118,016,809</u>	<u>121,265,517</u>
Total assets	<u>\$ 124,511,824</u>	<u>\$ 127,041,742</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Lines of credit	\$ 3,697,101	\$ -
Current portion of long-term debt	1,450,000	1,395,000
Accounts payable	2,524,477	1,772,321
Accrued salaries and related benefits	2,295,281	2,344,461
Other payables	122,124	124,662
Residents' personal funds liabilities	54,200	36,984
Resident escrows	1,206,365	1,331,357
Refunds payable	118,461	118,461
Advance deposits	426,884	376,591
Total current liabilities	<u>11,894,893</u>	<u>7,499,837</u>
Long-Term Liabilities:		
Lines of credit	-	3,161,297
Long-term debt, less current portion	56,511,541	57,917,039
Deferred revenue from advance fees	33,021,557	33,689,562
	<u>89,533,098</u>	<u>94,767,898</u>
Total liabilities	<u>101,427,991</u>	<u>102,267,735</u>
Net Assets:		
Unrestricted	18,246,726	19,953,591
Temporarily restricted	4,837,107	4,820,416
Total net assets	<u>23,083,833</u>	<u>24,774,007</u>
Total liabilities and net assets	<u>\$ 124,511,824</u>	<u>\$ 127,041,742</u>

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Combined Statements of Operations and Changes in Net Assets**  
**Years Ended September 30, 2009 and 2008**

	2009	2008
Operating revenues:		
Health care	\$ 25,131,980	\$ 23,000,135
Pavilion/assisted living	5,513,569	5,680,060
Residential living	7,081,313	6,552,539
Amortization of advance fees	3,222,508	3,573,964
Management fee income	118,141	120,091
Other operating revenue	645,401	714,023
Total operating revenues	<u>41,712,912</u>	<u>39,640,812</u>
Operating expenses:		
Health care	11,745,754	11,022,737
Medical records	150,011	132,879
Personnel	6,969,978	6,533,395
Laundry	335,498	336,015
Social services	205,740	188,079
Activities	285,559	287,718
Spiritual life	136,078	156,317
Housekeeping	878,981	875,321
Plant maintenance	3,728,023	3,775,100
Staff development	124,962	124,492
Independent living	90,648	53,058
Pavilion/assisted living	1,226,764	983,494
Clinic	162,764	98,599
Resident services	194,259	174,977
Transportation	90,513	84,461
Administrative	3,658,336	3,343,330
Marketing	984,120	926,856
Dietary	3,606,955	3,514,982
Wellness center	94,184	48,213
Beauty shop	117,109	115,014
Day care	140,631	143,926
Depreciation	4,754,830	4,023,120
Amortization	287,639	286,564
Real estate taxes	360,589	308,795
Interest expense	2,361,638	2,310,979
Insurance	597,988	623,642
Bad debts	280,512	190,996
Other operating expenses	328,280	213,447
Total operating expenses	<u>43,898,343</u>	<u>40,876,506</u>
Operating loss	<u>(2,185,431)</u>	<u>(1,235,694)</u>

*See Notes to Combined Financial Statements*

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Combined Statements of Operations and Changes in Net Assets (Continued)**  
**Years Ended September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Nonoperating income (loss):		
Contribution expense	\$ (197,197)	\$ (403,344)
Interest income	11,472	47,880
Net realized gain (loss) on investments	(616,519)	4,335,147
Net unrealized gain (loss) on investments	1,260,834	(10,363,005)
Other nonoperating income (expense)	19,976	(20,378)
Net nonoperating income (loss)	<u>478,566</u>	<u>(6,403,700)</u>
 Change in unrestricted net assets	 <u>(1,706,865)</u>	 <u>(7,639,394)</u>
Temporarily restricted net assets:		
Contributions	366,628	388,825
Change in value of gift annuities	(349,937)	(270,759)
Change in temporarily restricted net assets	<u>16,691</u>	<u>118,066</u>
 Change in net assets	 <u>(1,690,174)</u>	 <u>(7,521,328)</u>
Net assets, beginning	<u>24,774,007</u>	<u>32,295,335</u>
Net assets, ending	<u>\$ 23,083,833</u>	<u>\$ 24,774,007</u>

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Combined Statements of Cash Flows**  
**Years Ended September 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,690,174)	\$ (7,521,328)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(644,315)	6,027,858
Change in allowance for doubtful accounts	197,143	44,728
Depreciation	4,754,830	4,023,120
Amortization of deferred costs	243,137	251,270
Amortization of bond discount	44,502	35,294
Amortization of advance fees	(3,222,508)	(3,573,964)
Advance fees received	5,587,994	6,942,614
Advance fees refunded	(2,512,600)	(1,420,188)
Advance fees escrowed	(520,891)	(395,684)
Change in value of gift annuities	(349,937)	(270,759)
(Increase) decrease in:		
Accounts receivable	(864,375)	392,096
Other receivables	(91,211)	(65,663)
Inventories	11,138	(42,903)
Prepaid expenses	60,791	(27,758)
Increase (decrease) in:		
Accounts payable	752,156	(740,349)
Accrued salaries and related benefits	(49,180)	(485,969)
Other payables	(2,538)	2,539
Residents' personal funds liabilities	17,216	7,058
Resident escrows	(124,992)	(275,433)
Refunds payable	-	4,107
Net cash provided by operating activities	<u>1,596,186</u>	<u>2,910,686</u>
Cash flows from investing activities:		
Change in assets limited as to use	3,251,404	8,491,222
Purchases of property and equipment	(4,014,313)	(14,471,095)
Deferred costs	7,902	(30,389)
(Repayments) advances from related parties, net	176,618	(73,095)
Net cash used in investing activities	<u>(578,389)</u>	<u>(6,083,357)</u>
Cash flows from financing activities:		
Deposits on advanced fees	50,293	159,234
Borrowings on lines of credit, net	535,804	2,944,994
Principal payments of long-term debt	(1,395,000)	(1,340,000)
Net cash provided by (used in) financing activities	<u>(808,903)</u>	<u>1,764,228</u>
Net increase (decrease) in cash and cash equivalents	208,894	(1,408,443)
Cash and cash equivalents, beginning	2,442,120	3,850,563
Cash and cash equivalents, ending	<u>\$ 2,651,014</u>	<u>\$ 2,442,120</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest, including capitalized interest and related costs	<u>\$ 2,364,176</u>	<u>\$ 2,308,441</u>

See Notes to Combined Financial Statements

## UNITED CHURCH HOMES AND SERVICES AND AFFILIATES

### Notes to Combined Financial Statements

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#### NOTE 1 - NATURE OF BUSINESS

United Church Homes and Services ("UCHS") is a not-for-profit organization that owns and operates continuing care retirement communities in Newton ("Abernethy Laurels") and Thomasville ("Piedmont Crossing"), North Carolina, consisting of residential living units, assisted living units and nursing facilities providing adult care and intermediate and skilled nursing care, and a skilled nursing facility in Lexington, North Carolina ("Centerclair"). UCHS was incorporated in North Carolina in 1961. UCHS's corporate office is located in Newton, North Carolina.

Lake Prince Center, Inc. ("Lake Prince") is a not-for-profit continuing care retirement community in Suffolk, Virginia. The facility consists of independent living units and nursing facilities providing adult care and intermediate and skilled nursing care for Lake Prince residents. Lake Prince was incorporated under the laws of North Carolina in July 1999 and has obtained a certificate to transact business in Virginia where the facility is located.

The United Church Homes and Services Foundation (the "Foundation") is a not-for-profit organization which was established to raise endowment funds for the residential facilities operated by UCHS, to support benevolent care for those residents who are unable to pay for continuing care at the residential facilities operated by UCHS. The Foundation was incorporated under the laws of the State of North Carolina in 2000.

UCHS, Lake Prince and the Foundation are collectively referred to as the "Organization".

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Principles of Combination**

The combined financial statements include the financial statements of UCHS, Lake Prince and the Foundation. All material intercompany accounts and transactions have been eliminated in the combination.

##### **Accounting Standards Codification**

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance related to U.S. generally accepted accounting principles ("GAAP") effective for financial statements issued for periods ending after September 15, 2009. The guidance established the FASB Accounting Standards Codification ("FASB ASC") as the sole source of authoritative guidance for GAAP. Adoption of this guidance did not have a material impact on the Organization's financial statements.

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

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization excludes assets limited as to use from cash and cash equivalents.

# UNITED CHURCH HOMES AND SERVICES AND AFFILIATES

## Notes to Combined Financial Statements

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, to the extent funds are available, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and the operating reserve required by State statute. Amounts required to meet current liabilities of the Organization have been classified as current assets in the combined balance sheets.

#### **Investments (included in Assets Limited as to Use)**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income. Donated investments are stated at fair value at the date of the gift. Investment expenses and fees for the years ended September 30, 2009 and 2008 are approximately \$131,000 and \$156,000, respectively, and are netted with net realized gains on investments in the combined statements of operations and changes in net assets.

#### **Accounts Receivable**

The Organization records accounts receivable at the total unpaid balance less an allowance for doubtful accounts. The Organization determines past-due status based on the billing dates and does not charge interest on overdue accounts. The Organization writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense.

#### **Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value).

#### **Property and Equipment**

Property and equipment are recorded at cost, net of accumulated depreciation. Donated property and equipment are recorded at their estimated fair value on the date of receipt. Interest costs incurred on borrowed funds during the period of construction are capitalized as a component of the cost of acquiring those assets. The Organization capitalizes property and equipment with an estimated useful life of greater than one year and a cost of more than \$5,000.

Depreciation is computed using the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Land improvement	10 - 20
Buildings and improvements	30 - 40
Furniture, fixtures and equipment	5 - 15
Vehicles	5



**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property and Equipment (Continued)**

The Organization periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held and used, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. For assets to be disposed of, impairment is determined to exist if the estimated net realizable value is less than the carrying amount.

The Organization reports contributions of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted net assets. Absent explicit donor stipulations, about how long these assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Deferred Costs**

Deferred financing costs relating to the permanent financing of the facilities have been deferred and are being amortized over the life of the bonds.

Costs associated with the initial marketing of the Organization's facilities have been capitalized and will be amortized over 10 to 29 years, the average life expectancy of the initial occupants of the facility. The annual amortization for these deferred costs will be approximately \$214,000 for each of the next five years.

**Resident Escrows**

If a resident should move into a health care unit and vacate a residential living unit, the amount of any refund to which the resident would be entitled is set aside and held by UCHS for use by the resident to pay for necessary health care expenses. Once a permanent move is made and the residential living unit is available for remarketing, the resident may draw against the remaining residency refund to pay health care costs. A resident who does not live in a residential living unit for a period of 180 days or more shall be deemed to have made a

A resident drawing from the residency refund to pay for health care costs shall, in agreement with the center executive, determine the withdrawal amount. This amount shall not exceed \$1,500 per month.

In case of financial hardship, withdrawal of more than \$1,500 per month may be requested by the resident. The resident must submit financial information sufficient to prove financial need. Such withdrawals will be allowed upon approval by senior management of UCHS.

**Advance Deposits**

The Organization may collect up to 10% of the advance fees described below as a deposit on unoccupied units. Once the unit becomes occupied, these fees are transferred to deferred revenue.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Deferred Revenue from Advance Fees**

Deferred revenue from advance fees represents payments made by a resident in exchange for the use and privileges of the community for life or until termination of the residency agreement. Contracts currently offered to UCHS and Lake Prince residents are a fully declining refund contract, a 50% refundable contract, and a 90% refundable contract.

The nonrefundable portion of these fees is amortized into income on a straight-line basis over the estimated remaining life, actuarially adjusted annually, of each resident. The refundable portion of these fees is amortized into income on a straight-line basis over the estimated remaining life of the building unit associated with the contract.

Refunds are made to residents upon re-occupancy of the unit unless the resident has chosen to transfer their remaining balance into escrow as described above. Any unrecognized deferred revenue, less any related refund, at the date of termination of the contract is recorded as income in the period the termination of the contract occurs.

**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. At September 30, 2009 and 2008, the Organization had no future service obligation.

**Classification of Net Assets**

The following classification of net assets is presented in the accompanying combined financial statements:

Unrestricted net assets: All revenue not restricted by donors, unrestricted contributions designated by the board and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in unrestricted net assets.

Temporarily restricted net assets: Temporarily restricted net assets account for the receipt of donor contributions that are restricted as to either timing or purpose of the related expenditures if the purpose is not met in the same period during which the contribution is received. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets: Permanently restricted net assets account for the Organization's endowment funds that are maintained for contributions stipulated by the donor to be held in perpetuity as a source of investment income. The investment income arising from the endowment funds is accounted for in accordance with donor stipulations. The Organization did not have any permanently restricted net assets at September 30, 2009 or 2008.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Operating Reserves**

In accordance with the requirements of North Carolina General Statute 58, Article 64-33, management computes an annual operating reserve for its continuing care retirement communities licensed in North Carolina. The operating reserve must be an amount at least equal to 25% to 50% of operating expenses (net of depreciation and amortization) plus debt service for the year ending September 30, 2009 for those facilities depending on occupancy levels of each facility.

**Changes in Unrestricted Net Assets**

The combined statements of operations and changes in net assets reflect operating losses. Changes in unrestricted net assets that are excluded from operating loss, consistent with industry practice, include realized gains and losses on investments, changes in unrealized gains and losses on investments, investment income, income from estates, wills, trusts and bequests, and contributions.

**Income Tax Status**

The Organization is a not-for-profit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the affiliated Foundation is exempt from income taxes pursuant to Internal Revenue Code Section 501(a).

It is the Organization's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs.

**Resident Services**

Two major types of revenue are recognized in resident services as follows:

Health care revenue: Health care revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered while in the health care unit, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Historically such adjustments for the Organization have been immaterial in relation to the combined financial statements as a whole.

Revenues under third-party payor agreements are subject to examination and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period in which the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in operations in the year of settlement.

Residential/assisted living revenue: Residents that reside in residential and assisted living units are subject to a continuing monthly support service fee, which varies based on each resident's contract. The monthly fee can be adjusted from time to time by the Organization according to changes in costs.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Benevolent Assistance**

The Organization has a policy of providing benevolent assistance to qualified residents who are unable to pay. Such residents are identified based on financial information obtained from the resident and subsequent review and analysis. The normal charges for services provided are included in revenue and paid through a transfer of assets from the Benevolent Trust Fund.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2009 and 2008 was approximately \$984,000 and \$927,000, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

**Subsequent Events**

The Organization has performed an evaluation of subsequent events through January 15, 2010, which is the date the financial statements were available to be issued.

NOTE 3 - FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and cash equivalents and other receivables:* The carrying amounts reported in the balance sheets approximate fair value due to the short maturity of these instruments.

*Assets limited to use:* See Note 4 for discussion of fair value measurements related to assets limited to use.

*Accrued expenses and resident escrows and refunds:* The carrying amounts reported in the balance sheets approximate fair value due to the expected maturity of these instruments.

*Long-term debt:* The carrying amounts reported in the balance sheets approximate fair value based on the borrowing rates currently available to the Organization for long-term debt with similar terms and average maturities.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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**NOTE 4 - FAIR VALUE MEASUREMENTS - ASSETS LIMITED TO USE**

During the year ended, September 30, 2009, the Organization adopted FASB ASC 820 Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets limited to use measured at fair value. There have been no changes in the methodologies used at September 30, 2009 and 2008.

*Common stocks, U.S. government securities, and municipal bonds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Money market funds, mutual funds, and closed end funds:* Valued at the net asset value of shares held by the Organization at year end.

*Charitable gift annuities:* Valued at the net present value of the anticipated residual value of the original charitable gift.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

**NOTE 4 - FAIR VALUE MEASUREMENTS - ASSETS LIMITED TO USE (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets limited to use at fair value as of September 30, 2009 and 2008:

	Fair Value as of September 30, 2009			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 23,424,908	\$ -	\$ -	\$ 23,424,908
U.S. government securities	10,700,056	-	-	10,700,056
Municipal bonds	-	6,719,907	-	6,719,907
Cash and money market funds	2,394,445	-	-	2,394,445
Charitable gift annuities	-	926,012	-	926,012
Closed end funds	405,311	-	-	405,311
Common stocks	289,008	-	-	289,008
<b>Total assets at fair value</b>	<b>\$ 37,213,728</b>	<b>\$ 7,645,919</b>	<b>\$ -</b>	<b>\$ 44,859,647</b>

	Fair Value as of September 30, 2008			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 21,550,005	\$ -	\$ -	\$ 21,550,005
U.S. government securities	12,656,053	-	-	12,656,053
Municipal bonds	-	9,037,106	-	9,037,106
Cash and money market funds	2,128,111	-	-	2,128,111
Charitable gift annuities	-	1,051,205	-	1,051,205
Closed end funds	405,311	-	-	405,311
Common stocks	289,008	-	-	289,008
<b>Total assets at fair value</b>	<b>\$ 37,028,488</b>	<b>\$ 10,088,311</b>	<b>\$ -</b>	<b>\$ 47,116,799</b>

Assets limited as to use are allocated as follows at September 30, 2009 and 2008:

	2009	2008
Board designated	\$ 31,589,648	\$ 33,757,519
Operating reserve for Department of Insurance	12,242,183	12,227,067
Beneficial interest in charitable gift annuities	926,012	1,051,205
Residents' funds	54,822	36,996
Self-insured health plan	46,982	44,012
	<b>\$ 44,859,647</b>	<b>\$ 47,116,799</b>

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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**NOTE 4 - FAIR VALUE MEASUREMENTS - ASSETS LIMITED TO USE (Continued)**

The Organization's investments potentially subject it to concentrations of credit risk. The Organization maintains various types of investments that encompass many different companies with varied industrial and geographical characteristics designed to limit exposure to any one industry, company or geographical location. However, as most of the Organization's investments are traded in public markets, they are subject to general fluctuations in the market's overall performance. The Organization retains investment managers who perform periodic evaluations of the relative credit standing of the companies and financial institutions in which the Organization invests.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 12,937,315	\$ 11,193,916
Buildings and improvements	93,654,051	78,801,525
Furniture, fixtures and equipment	11,525,370	10,068,814
Vehicles	930,309	930,309
	<u>119,047,045</u>	<u>100,994,564</u>
Less accumulated amortization	48,925,583	44,170,753
	<u>70,121,462</u>	<u>56,823,811</u>
Construction in progress	72,102	13,897,105
Capitalized interest	-	213,165
	<u>\$ 70,193,564</u>	<u>\$ 70,934,081</u>

**NOTE 6 - DEFERRED COSTS**

Deferred costs consist of the following at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Deferred financing costs	\$ 3,069,175	\$ 3,077,077
Deferred contract acquisition costs	1,260,874	1,260,874
	<u>4,330,049</u>	<u>4,337,951</u>
Less accumulated amortization	1,544,498	1,301,361
	<u>\$ 2,785,551</u>	<u>\$ 3,036,590</u>

**NOTE 7 - LINES OF CREDIT**

The Organization had available a \$2,500,000 unsecured revolving line of credit due in full January 10, 2010. Amounts drawn against the line bore interest at the LIBOR rate plus 2.25% (3.514% at September 30, 2009). Interest was payable monthly. At September 30, 2009, the outstanding borrowings against this line was \$561,101. Subsequent to year end, the outstanding balance was paid in full and the line of credit was not renewed.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 7 - LINES OF CREDIT (Continued)

The Organization has available a \$5,000,000 unsecured revolving line of credit due in full July 24, 2010. Amounts drawn against the line will bear interest at the LIBOR rate plus 2.00% (3.264% at September 30, 2009). Interest is payable monthly. As of September 30, 2009, the outstanding borrowings against this line was \$3,136,000.

The Organization had available a \$2,500,000 unsecured revolving line of credit due in full October 31, 2009. Amounts drawn against the line bore interest at the prime rate minus 0.25% (3.0% at September 30, 2009). Interest is payable monthly. As of September 30, 2009, the Organization had no borrowings outstanding against this line.

NOTE 8 - LONG-TERM DEBT

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

	<u>2009</u>	<u>2008</u>
Industrial Development Authority of the City of Suffolk:		
Variable Rate Demand Residential Care Facility		
Revenue Bonds (Lake Prince Center, Inc.), Series		
2006:		
Serial bonds due 2005 - 2021 yielding		
4.50% to 5.37%	\$ 4,675,000	\$ 5,340,000
Term bonds due 2024, yielding 5.15%	10,150,000	10,150,000
Term bonds due 2031, yielding 5.3%	12,265,000	12,265,000
North Carolina Medical Care Commission:		
Retirement Facilities First Mortgage Revenue		
Refunding Bonds (United Church Retirement		
Homes), Series 2005:		
Serial bonds due 2007 - 2021 yielding 3.0% to		
5.25%	10,885,000	11,615,000
Term bonds due 2024, yielding 5.5%	5,000,000	5,000,000
Retirement Facilities First Mortgage Revenue Bonds		
(United Church Homes and Services), Series 2007:		
Serial Bonds due 2028 - 2037 yielding interest at a		
weekly rate determined by the Bank (0.34% at		
September 30, 2009)	15,780,000	15,780,000
	<u>58,755,000</u>	<u>60,150,000</u>
Less bond discount, net of accumulated amortization		
of \$306,659 and \$262,157 in 2009 and 2008,		
respectively	793,459	837,961
	<u>57,961,541</u>	<u>59,312,039</u>
Less current portion	1,450,000	1,395,000
Long-term portion	<u>\$ 56,511,541</u>	<u>\$ 57,917,039</u>



**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal repayments on long-term debt, excluding the discount on the Series 2005 and Series 2006 bonds, for the next five years and thereafter, are summarized as follows:

Fiscal Year Ending:	Series 2005	Series 2006	Series 2007	Total
2010	\$ 760,000	\$ 690,000	\$ -	\$ 1,450,000
2011	785,000	725,000	-	1,510,000
2012	820,000	755,000	-	1,575,000
2013	850,000	800,000	-	1,650,000
2014	890,000	830,000	-	1,720,000
Thereafter	11,780,000	23,290,000	15,780,000	50,850,000
	<u>\$ 15,885,000</u>	<u>\$ 27,090,000</u>	<u>\$ 15,780,000</u>	<u>\$ 58,755,000</u>

In 2005, UCHS entered into a financing agreement with the North Carolina Medical Care Commission (the "Commission"), under which the Commission issued tax-exempt, Series 2005 revenue bonds of \$18,755,000. The bonds were issued to refund existing bonds at UCHS's Piedmont Crossing. Proceeds from this offering were placed in trust, and the trustee paid off the existing bonds on March 18, 2005. The Series 2005 bonds are collateralized by a deed of trust on the land and buildings at Piedmont Center as well as the pledge of an assignment of interest in use-for-life contracts for the Piedmont Center.

In 2006, UCHS entered into a financing agreement with the Industrial Development Authority of the City of Suffolk (the "Authority"), under which the Authority issued tax-exempt, Series 2006 revenue bonds of \$29,115,000. The bonds were issued to refund existing bonds for the Lake Prince Center and to finance expansion projects at that facility. The Series 2006 bonds are collateralized by a deed of trust on the land and buildings at Lake Prince Center as well as a security interest in pledged assets and equipment.

Simultaneous with the issuance of the Series 2005 bonds, UCHS executed a Master Trust Indenture that appointed all UCHS divisions, including Lake Prince Center, Inc., as members of the obligated group.

In 2007, UCHS entered into a financing agreement with the Commission, under which the Commission issued tax-exempt, Series 2007 revenue bonds of \$15,780,000. The bonds were issued to finance renovations and additions at UCHS's Abernethy Laurels. Proceeds from this offering were placed in trust and used as renovations and additions are paid for by UCHS. The Series 2007 bonds are collateralized by a deed of trust on the land and buildings at Abernethy Center as well as the pledge of an assignment of interest in use-for-life contracts for the Abernethy Center.

The bonds are also collateralized by an assignment of the Commission and Authority's rights in the Loan Agreement to the bond trustee.

Under the terms of the bonds, the obligated group is required to maintain certain deposits with the trustee. Such deposits are included with assets limited as to use of the Organization. The Master Trust Indenture and Loan Agreements for these bonds include certain covenants and restrictions. As of September 30, 2009, the Organization is in compliance with all covenants and restrictions.

## UNITED CHURCH HOMES AND SERVICES AND AFFILIATES

### Notes to Combined Financial Statements

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#### NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets that are restricted due to time and/or purpose by donors consist of the following at September 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Benevolent trust	\$ 1,980,888	\$ 1,849,486
Capital expansion	1,930,207	1,919,725
Beneficial interest in charitable gift annuities	<u>926,012</u>	<u>1,051,205</u>
	<u>\$ 4,837,107</u>	<u>\$ 4,820,416</u>

#### NOTE 10 - PROFESSIONAL AND GENERAL LIABILITY

In the summer of 2002, the management of UCHS evaluated the best means of assuring UCHS's continued access to affordable liability and excess insurance coverage, including the possibility of obtaining such coverage from conventional and alternative insurance providers. After performing a diligent search, UCHS was not able to procure professional and general liability coverage from any insurance company licensed to do business in the state of North Carolina, and, therefore, obtained liability coverage from Caring Communities Insurance Company ("CCIC"). CCIC was an insured owned insurance company incorporated in and regulated by the Superintendent of Insurance of the Cayman Islands. In addition to UCHS, CCIC was owned by and insured approximately 25 other long-term care organizations that operate across the United States. As an insurance company that is not authorized to conduct business in North Carolina, CCIC was not subject to regulation by the North Carolina Department of Insurance nor covered under the North Carolina Guaranty Association. UCHS independently procured this liability coverage pursuant to the North Carolina General Statutes, which permit persons to obtain insurance from an insurer not authorized to do business in the state of North Carolina in the event that the full amount or kind of insurance necessary to protect the risks cannot be obtained from insurance companies authorized to do business in North Carolina. The policy was renewed November 30, 2004. Effective January 1, 2006, the insurance previously written by CCIC was written by Diapason Casualty Risk Retention Group, Inc. a District of Columbia corporation ("DCRRG") regulated by the District of Columbia Department of Insurance. DCRRG was a wholly owned subsidiary of Diapason Shared services a District of Columbia not-for-profit corporation ("DSS".) The four members of DSS, who were also owners of CCIC, were the insurers of DCRRG. DCRRG has given intent to offer insurance in North Carolina as required by federal law. DCRRG is substantially reinsured by CCIC.

As a risk retention group DCRRG is not covered under the North Carolina Guaranty Association. Effective January 1, 2008, CCIC and Diapason completed a corporate restructuring. As a result of the restructuring, Diapason changed its name to Caring Communities, a reciprocal Risk Retention Group ("CCrRRG") and became a reciprocal insurer. UCHS, along with all other shareholders of CCIC, exchanged its shares of CCIC for a Charter Capital Account of CCrRRG. CCIC is now a wholly owned subsidiary of CCrRRG. Members of CCrRRG are required to pay assessed premiums and are subject to a per claim self-insurance retention. Insurance premiums under this program amounted to approximately \$388,000 and \$424,000 for the years ended September 30, 2009 and 2008, respectively.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 10 - PROFESSIONAL AND GENERAL LIABILITY (Continued)

UCHS made an initial capital contribution to CCIC of \$187,855 in November of 2002 and an additional capital contribution of \$72,252 on January 1, 2004. UCHS made a capital contribution to CCIC of \$28,901 on January 1, 2005. These capital contributions, totaling are \$289,008, are represented by UCHS's Charter Capital Account of CCRRG and are included in assets limited as to use in its combined balance sheet. Such contributions are accounted for using the cost method.

NOTE 11 - EMPLOYEE GROUP HEALTH PLAN

The Organization maintains a self-insured employee group health plan. The plan is administered by a third party and individual stop-loss coverage has been obtained at \$65,000, with a maximum aggregate limit of loss that fluctuates based on enrollment. The total plan expense incurred by the Organization was approximately \$2,669,000 and \$2,538,000 for the years ended September 30, 2009 and 2008, respectively.

NOTE 12 - RETIREMENT PLANS

The Organization has a 403(b) plan that covers substantially all employees who meet eligibility requirements. The Organization contributes to the plan based on a percentage of gross wages paid. The expenses related to the plan were approximately \$388,000 and \$269,000, for the years ended September 30, 2009 and 2008, respectively.

The Organization has a nonqualified retirement plan that covers key management employees. The Organization contributes to the plan based on a percentage of the employee's salary. The Organization contributed approximately \$165,000 and \$139,000 for the years ended September 30, 2009 and 2008, respectively.

The Organization also has a retirement annuity plan that covers ordained United Church of Christ ministers employed by the Organization. The Organization contributes 11% of the ministers' salaries to the plan. The Organization contributed approximately \$8,000 and \$12,000 for the years ended September 30, 2009 and 2008, respectively.

NOTE 13 - RELATED PARTIES

The following organizations are considered related parties of UCHS due to management and administrative services provided to them by UCHS:

- New Bern Older Adult Housing, Inc. ("NOAH"), a HUD 202 facility in New Bern, North Carolina.
- Statesville Elderly Housing, Inc. ("Emmanuel's Place"), a HUD 202 facility in Statesville, North Carolina.
- UDI/St. Joseph's, Inc. ("St. Joseph's Place"), a HUD 202 facility in Durham, North Carolina.

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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NOTE 13 - RELATED PARTIES (Continued)

- Albemarle Older Adult Housing, Inc. ("Matthew's Place"), a HUD 202 facility in Albemarle, North Carolina.
- UCC Living Center, Inc. ("Covenant Place"), a HUD 202 project in Chapel Hill, North Carolina.
- The Willows, a HUD 202 facility in Burlington, North Carolina.

The Organization provides management and administrative services to the above organizations. Management fee income was approximately \$118,000 and \$120,000 for years ended September 30, 2009 and 2008.

The Organization pays salaries and employee benefit expense on behalf of its related parties, charging for expenses paid on a reimbursement basis. The Organization, as the sponsoring organization of these related parties, also advanced these entities funding for initial development costs.

At September 30, 2009 and 2008, the Organization was owed the following:

	<u>2009</u>	<u>2008</u>
NOAH	\$ 164,796	\$ 172,182
Covenant Place	33,368	55,181
Emmanuel's Place	60,092	120,408
St. Joseph's Place	156,274	152,697
Albemarle	22,928	92,356
Willows	7,554	28,806
	<u>\$ 445,012</u>	<u>\$ 621,630</u>

NOTE 14 - FUNCTIONAL EXPENSES

The Organization provides housing and health care services to residents including residential living, assisted living, and nursing facilities. Operating expenses related to providing housing and health care services are as follows:

	<u>2009</u>	<u>2008</u>
Residential living	\$ 2,466,949	\$ 2,122,846
Assisted living	4,702,083	3,684,269
Nursing facilities	22,974,748	22,497,193
General and administrative	13,754,563	12,572,198
	<u>\$ 43,898,343</u>	<u>\$ 40,876,506</u>

**UNITED CHURCH HOMES AND SERVICES AND AFFILIATES**  
**Notes to Combined Financial Statements**

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**NOTE 15 - CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (the "FDIC"). In May 2009, the FDIC temporarily increased coverage to \$250,000, for substantially all depository accounts. The increased coverage is scheduled to expire December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. Deposit accounts, at times, may exceed federally insured limits.

The Organization grants credit without collateral to its residents and is insured under third-party payor agreements. The mix of receivables from residents and third-party payors at September 30, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	73%	71%
Medicaid	20%	19%
Private and other insurances	7%	10%
	<u>100%</u>	<u>100%</u>

**NOTE 16 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Measuring Liabilities at Fair Value**

In August 2009, the FASB issued guidance clarifying the measurement of liabilities at fair value. Among other things, the guidance clarifies how the price of a traded debt security (an asset value) should be considered in estimating the fair value of the issuer's liability. The guidance is effective for the first reporting period beginning after issuance.

The Organization has not determined the effect that the adoption of this newly issued guidance will have on its financial statements.

**SUPPLEMENTARY INFORMATION**

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

To the Board of Directors  
United Church Homes and Services  
Newton, North Carolina

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining supplementary information as of and for the year ended September 30, 2009 is presented for additional analysis of the basic combined financial statements rather than to present the financial position and the results of operations and changes in net assets of the individual entities. The combining supplementary information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respect in relation to the basic combined financial statements taken as a whole.

*Bernard Robinson & Company, LLP*

Greensboro, North Carolina  
January 15, 2010

UNITED CHURCH HOMES AND SERVICES AND AFFILIATES

Combining Balance Sheet

September 30, 2009

	Corporate Office	Abernetty Laurels	Piedmont Crossing	Centerclair	UCHS Subtotal	Lake Prince Center, Inc.	Total Obligated Group	Foundation	Total	Inter-Company Eliminations	Combined Total
<b>Assets</b>											
Current Assets:											
Cash and cash equivalents	\$ 1,105,611	\$ 4,151	\$ 1,700	\$ 1,000	\$ 1,112,462	\$ 1,000	\$ 1,113,462	\$ 1,537,552	\$ 2,651,014	\$ -	\$ 2,651,014
Accounts receivable, net	-	996,780	673,323	419,656	2,089,759	555,254	2,645,013	-	2,645,013	-	2,645,013
Other receivables	9,404	334,413	49,094	15,040	407,951	24,714	432,665	55,012	487,677	-	487,677
Due from related parties, current	405,982	(170,119)	(5,285)	-	230,578	-	311,965	81,387	311,965	-	311,965
Inventories	-	52,442	25,175	15,707	93,324	24,063	117,387	-	117,387	-	117,387
Prepaid expenses	118,355	104,762	17,665	8,029	248,811	30,350	279,161	2,798	281,959	-	281,959
Total current assets	1,639,352	1,322,429	761,672	459,432	4,182,885	635,381	4,818,266	1,676,749	6,495,015	-	6,495,015
Due from related parties, less current portion	133,047	-	-	-	133,047	-	133,047	-	133,047	-	133,047
Other assets	45,000	-	-	-	45,000	-	45,000	-	45,000	-	45,000
Assets limited as to use	35,518,715	2,562,664	1,639,690	16,579	39,737,648	2,605,601	42,343,249	2,516,398	44,859,647	-	44,859,647
Property and equipment, net	341,123	27,348,281	12,422,621	1,912,755	42,024,780	28,168,784	70,193,564	-	70,193,564	-	70,193,564
Deferred costs, net	-	309,174	669,404	-	978,578	1,806,973	2,785,551	-	2,785,551	-	2,785,551
Total assets	\$ 37,677,237	\$ 31,542,548	\$ 15,493,387	\$ 2,388,766	\$ 87,101,938	\$ 33,216,739	\$ 120,318,677	\$ 4,193,147	\$ 124,511,824	\$ -	\$ 124,511,824

**Liabilities and Net Assets**

	Corporate Office	Abernetty Laurels	Piedmont Crossing	Centerclair	UCHS Subtotal	Lake Prince Center, Inc.	Total Obligated Group	Foundation	Total	Inter-Company Eliminations	Combined Total
<b>Liabilities and Net Assets</b>											
Current Liabilities:											
Lines of credit	\$ 3,136,000	\$ -	\$ -	\$ -	\$ 3,136,000	\$ 561,101	\$ 3,697,101	\$ -	\$ 3,697,101	\$ -	\$ 3,697,101
Current portion of long-term debt	-	-	760,000	-	760,000	690,000	1,450,000	-	1,450,000	-	1,450,000
Accounts payable	195,542	1,349,854	310,937	157,302	2,013,635	507,000	2,520,635	3,842	2,524,477	-	2,524,477
Accrued salaries and related benefits	491,239	918,637	333,447	187,892	1,931,215	324,824	2,256,039	39,242	2,295,281	-	2,295,281
Other payables	-	-	-	-	-	122,124	122,124	-	122,124	-	122,124
Residents' personal funds liabilities	-	29,651	5,399	16,579	51,629	2,571	54,200	-	54,200	-	54,200
Resident escrows	-	553,637	174,862	-	728,499	477,866	1,206,365	-	1,206,365	-	1,206,365
Refunds payable	-	114,714	3,747	-	118,461	-	118,461	-	118,461	-	118,461
Advance deposits	-	198,329	133,553	-	331,882	95,002	426,884	-	426,884	-	426,884
Due to (from) affiliates	6,518,255	(10,318,060)	1,473,867	1,884,969	(440,969)	(1,096,979)	(1,537,948)	1,537,948	-	-	-
Total current liabilities	10,341,036	(7,153,238)	3,195,812	2,246,742	8,630,352	1,683,509	10,313,861	1,581,032	11,894,893	-	11,894,893
Long-term Liabilities:											
Long-term debt, less current portion	-	15,780,000	14,747,371	-	30,527,371	25,984,170	56,511,541	-	56,511,541	-	56,511,541
Deferred revenue from advance fees	-	9,147,340	7,073,273	-	16,220,613	16,800,944	33,021,557	-	33,021,557	-	33,021,557
Total liabilities	10,341,036	17,774,102	25,016,456	2,246,742	55,378,336	44,468,623	99,846,959	1,581,032	101,427,991	-	101,427,991
Net Assets:											
Unrestricted (deficit)	26,538,329	13,768,446	(9,523,069)	142,024	30,925,730	(11,251,884)	19,673,846	(1,427,120)	18,246,726	-	18,246,726
Temporarily restricted	797,872	-	-	-	797,872	-	797,872	4,039,235	4,837,107	-	4,837,107
Total net assets	27,336,201	13,768,446	(9,523,069)	142,024	31,723,602	(11,251,884)	20,471,718	2,612,115	23,083,833	-	23,083,833
Total liabilities and net assets	\$ 37,677,237	\$ 31,542,548	\$ 15,493,387	\$ 2,388,766	\$ 87,101,938	\$ 33,216,739	\$ 120,318,677	\$ 4,193,147	\$ 124,511,824	\$ -	\$ 124,511,824



UNITED CHURCH HOMES AND SERVICES AND AFFILIATES  
 Combining Statement of Operations and Changes in Unrestricted Net Assets  
 Year Ended September 30, 2009

	Corporate Office	Abernethy Laurels	Piedmont Crossing	Centerclair	UCHS Subtotal	Lake Prince Center, Inc.	Total Obligated Group	Foundation	Total	Inter-Company Eliminations	Combined Total
Operating revenues:											
Health care	\$ -	\$ 13,461,576	\$ 4,358,863	\$ 3,758,911	\$ 21,579,350	\$ 3,552,630	\$ 25,131,980	\$ -	\$ 25,131,980	\$ -	\$ 25,131,980
Pavilion/assisted living	-	1,689,437	1,411,974	30,949	3,132,360	2,381,209	5,513,569	-	5,513,569	-	5,513,569
Residential living	-	2,497,944	1,865,296	-	4,363,240	2,718,073	7,081,313	-	7,081,313	-	7,081,313
Amortization of advance fees	-	910,035	825,415	-	1,735,450	1,487,058	3,222,508	-	3,222,508	-	3,222,508
Management fee income	118,141	-	-	-	118,141	-	118,141	-	118,141	-	118,141
Other operating revenue	3,702	280,797	93,392	172,627	550,518	94,883	645,401	-	645,401	-	645,401
Total operating revenues	121,843	18,839,789	8,554,940	3,962,487	31,479,059	10,233,853	41,712,912	-	41,712,912	-	41,712,912
Operating expenses:											
Health care	-	6,067,468	2,007,125	1,884,924	9,959,517	1,786,237	11,745,754	-	11,745,754	-	11,745,754
Medical records	-	52,427	29,843	35,790	118,060	31,951	150,011	-	150,011	-	150,011
Personnel	834,432	3,116,824	1,170,405	767,086	5,888,747	1,034,301	6,923,048	46,930	6,969,978	-	6,969,978
Laundry	-	132,649	90,703	73,003	296,355	39,143	335,498	-	335,498	-	335,498
Social services	-	72,908	39,038	51,402	163,348	42,392	205,740	-	205,740	-	205,740
Activities	-	128,537	44,172	37,323	210,032	75,527	285,559	-	285,559	-	285,559
Spiritual life	-	59,758	25,877	-	85,635	50,443	136,078	-	136,078	-	136,078
Housekeeping	-	408,313	237,932	109,498	755,743	123,238	878,981	-	878,981	-	878,981
Plant maintenance	-	1,576,514	958,842	219,324	2,754,680	973,343	3,728,023	-	3,728,023	-	3,728,023
Staff development	-	50,163	28,249	-	78,412	46,550	124,962	-	124,962	-	124,962
Independent living	-	61,349	29,299	-	90,648	542,817	90,648	-	90,648	-	90,648
Pavilion/assisted living	-	654,215	29,732	-	683,947	1,226,764	1,226,764	-	1,226,764	-	1,226,764
Clinic	-	16,319	146,445	-	162,764	-	162,764	-	162,764	-	162,764
Resident services	-	62,004	58,417	-	120,421	73,838	194,259	-	194,259	-	194,259
Transportation	-	51,028	21,971	56	73,055	15,639	88,694	1,819	90,513	-	90,513
Administrative	2,054,926	398,499	285,111	379,884	3,118,420	302,246	3,420,666	237,670	3,658,336	-	3,658,336
Marketing	-	379,922	300,287	-	680,209	303,911	984,120	-	984,120	-	984,120
Dietary	-	1,913,847	758,917	284,382	2,957,146	649,809	3,606,955	-	3,606,955	-	3,606,955
Wellness center	-	94,184	-	-	94,184	-	94,184	-	94,184	-	94,184
Beauty shop	-	-	38,852	10,882	49,734	67,375	117,109	-	117,109	-	117,109
Day care	-	-	-	140,631	140,631	-	140,631	-	140,631	-	140,631
Management fees	(2,531,132)	1,121,449	535,415	247,497	(626,771)	626,771	-	-	-	-	-
Depreciation	102,442	1,404,489	875,245	108,051	2,490,227	2,264,603	4,754,830	-	4,754,830	-	4,754,830
Amortization	-	9,938	71,949	-	81,887	205,752	287,639	-	287,639	-	287,639
Real estate taxes	11,369	-	-	-	11,369	349,220	360,589	-	360,589	-	360,589
Interest expense	78,334	23,717	833,799	-	935,850	1,425,788	2,361,638	-	2,361,638	-	2,361,638
Insurance	44,136	240,939	141,707	58,748	485,530	112,458	597,988	-	597,988	-	597,988
Bad debts	-	104,504	91,004	38,000	233,508	47,004	280,512	-	280,512	-	280,512
Other operating expenses	49,303	129,471	40,259	13,881	232,914	94,444	327,358	922	328,280	-	328,280
Total operating expense	643,810	18,331,435	8,890,595	4,460,362	32,326,202	11,284,800	43,611,002	287,341	43,898,343	-	43,898,343
Operating income (loss)	(521,967)	508,354	(335,655)	(497,875)	(847,143)	(1,050,947)	(1,898,090)	(287,341)	(2,185,431)	-	(2,185,431)
Nonoperating income (loss):											
Contribution expense	(196,871)	(326)	-	-	(197,197)	-	(197,197)	-	(197,197)	-	(197,197)
Interest income	1,847	1,448	66	-	3,361	67	3,428	8,044	11,472	-	11,472
Net realized gain (loss) on investments	(612,453)	(2,715)	(4,772)	-	(619,940)	39,759	(580,181)	(36,338)	(616,519)	-	(616,519)
Net unrealized loss on investments	1,085,466	-	1,085,466	-	2,170,932	-	2,170,932	175,368	1,995,564	-	1,995,564
Other nonoperating income (expense)	(40,590)	39,557	9,054	-	8,021	11,955	19,976	-	19,976	-	19,976
Total nonoperating income	237,399	37,964	4,348	-	279,711	51,781	331,492	147,074	478,566	-	478,566
Change in unrestricted net assets	(284,568)	546,318	(331,307)	(497,875)	(567,432)	(993,166)	(1,566,598)	(140,267)	(1,706,865)	-	(1,706,865)

Statement 2 - Total Resident Revenue Computation

	<del>Laurel</del> Abernethy Center	<del>Crossville</del> Piedmont Center	Centerclair	Total
Resident Services Revenue	18,558,992	8,461,548	3,789,860	30,810,400
Add Back Contractural Adj. and Benevolent Support	3,352,653	1,295,768	980,943	5,629,364
Total Resident Revenue	21,911,645	9,757,316	4,770,803	36,439,764

Per Financial Statements

Health care	13,461,576	4,358,863	3,758,911
Pavilion/assisted living	1,689,437	1,411,974	30,949
Residential living service	2,497,944	1,865,296	-
Amortization of advance fees	910,035	825,415	-
Total Resident Services Revenue	18,558,992	8,461,548	3,789,860

Detail of Contractural Adj and Benevolent Support

200-4901-750 Contractual Allowance-Medicare A	657,553		
200-4902-750 Contractual Allowance-Medicaid	2,274,010		
200-4903-750 Contractual Allowance Medicare B	30,099		
200-4906-750 Contractual Allowance-Managed Care	-		
200-4907-750 Cont Allow-Med B Physical Therapy	215,670		
200-4908-750 Cont Allow-Med B Occupational Therapy	186,664		
200-4909-750 Cont Allow-Med B Speech Therapy	42,593		
200-4910-750 Contractual Allowance-Hospice Care Acute	(9,303)		
200-4914-750 Contractual Allowance-Hospice	54,528		
200-4930-750 Contractual Allowance-Other Insuran	-		
200-4999-700 Contractual Allowance-ILU PR Room Adjustment	1,857		
200-4999-730 Contractual Allowance-AL PR Room Ad	29,877		
200-4999-750 Contractual Allow HC PR Rate Adj	-		
300-4901-750 Contractual Allowance-Medicare A		112,181	
300-4902-730 Contractual Allowance-Medicaid		618,891	
300-4902-750 Contractual Allowance-Medicaid		245,821	
300-4903-750 Contractual Allowance Med B		10,922	
300-4906-750 Contractual Allowance-Managed Care		-	
300-4907-700 Cont Allow-Med B Physical Therapy		31,208	
300-4907-730 Cont Allow-Med B Physical Therapy		17,914	
300-4907-750 Cont Allow-Med B Physical Therapy		27,700	
300-4908-700 Cont Allow-Med B Occupational Therapy		9,533	
300-4908-730 Cont Allow-Med B Occupational Therapy		18,793	
300-4908-750 Cont Allow-Med B Occupational Therapy		90,281	
300-4909-700 Cont Allow-Med B Speech Therapy		953	
300-4909-730 Cont Allow-Med B Speech Therapy		4,777	
300-4909-750 Cont Allow-Med B Speech Therapy		14,799	
300-4910-750 Contractual Allowance-Hospice Care		-	
300-4914-750 Contractual Allowance-Hospice		11,240	
300-4930-750 Contractual Allowance-Other Insurance		6,950	
300-4950-750 Contractual-Partners		-	
300-4999-700 Contractual Allowance-ILU PR Room Adjustment		6,031	
300-4999-730 AL Contractual Allowance		11,782	
300-4999-750 Contractual Allow HC PR Rate Adj		13,523	
360-4901-750 Contractual Allowance-Medicare A			25,725
360-4902-750 Contractual Allowance-Medicaid			505,245
360-4903-750 Contractual Allowance Med B			41,018
360-4906-750 Contractual Allowance-Managed Care			-
360-4907-730 Cont Allow-Med B Physical Therapy			124
360-4907-750 Cont Allow-Physical Therapy			53,490
360-4908-750 Cont Allow-Med B Occupational Therapy			43,144
360-4909-750 Cont Allow-Med B Speech Therapy			24,376
360-4914-750 Contractual Allowance-Hospice			6,921
360-4930-750 Contractual Allowance-Other Insurance			-
360-4950-750 Contractual Allowance-Partners			19,246
360-4999-750 Contractual Allow HC PR Rate Adj			6,450
TOTAL CONTRACTURAL ADJ AND BENEVOLENT SUPPORT	3,483,548	1,253,299	725,739