PRICEWATERHOUSECOOPERS

Northern California Presbyterian Homes and Services, Inc.

Report on Audits of Consolidated Financial Statements
Years Ended December 31, 2008 and 2007

Northern California Presbyterian Homes and Services, Inc.
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December 31, 2008 and 2007

PricewaterhouseCoopers LLP
400 Capitol Mall, Suite 600
Sacramento CA 95814-4602
Telephone (916) 930 8100
Facsimile (916) 930 8450
www.pwc.com

Report of Independent Auditors

To the Board of Directors
Northern California Presbyterian Homes
and Services, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows, present fairly, in all material respects, the financial position of Northern California Presbyterian Homes and Services, Inc. ("NCPHS") and related entities as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of NCPHS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from NCPHS' December 31, 2007 financial statements, and in our report dated April 28, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, 10 and 11 to the consolidated financial statements, NCPHS adopted new fair value measurement and disclosure accounting principles during the year ended December 31, 2008 and changed its method of accounting for its defined benefit pension plan as of December 31, 2007.

PricewaterhouseCoopers LLP

May 14, 2009

Northern California Presbyterian Homes and Services, Inc.
Consolidated Balance Sheets
December 31, 2008 and 2007
(dollars in thousands)

	2008 NCPHS	2008 Foundation	2008 Total	2007 Total
Assets				
Current assets				
Cash and cash equivalents	$ 6,198	$ 923	$ 7,121	$ 4,311
Marketable securities	35,810	11,135	46,945	68,627
Accounts, notes and interest receivable	3,151	1	3,152	1,697
Pledges receivable, current portion net of allowance	-	1,282	1,282	614
Limited use assets, current portion	2,173	-	2,173	1,917
Prepaid expenses and other assets	831	-	831	865
	48,163	13,341	61,504	78,031
Other assets				
Investments contractually limited for replacement reserves on properties financed by the U.S. Department of Housing and Urban Development	2,845	-	2,845	2,846
Investments held in trust	-	9,749	9,749	10,511
Trust contributions receivable	-	1,051	1,051	2,100
Pledges receivable, net of allowance, less current portion	-	1,047	1,047	1,071
Limited use assets, non-current	-	-	-	9,880
Deferred charges and other assets	989	-	989	1,031
Facilities, net of accumulated depreciation	118,187	-	118,187	110,866
	122,021	11,847	133,868	138,305
Total assets	170,184	25,188	195,372	216,336
Liabilities				
Current liabilities				
Accounts payable	5,120	79	5,199	7,158
Payroll and related taxes payable	4,431	-	4,431	3,567
Line of credit - unsecured	2,000	-	2,000	1,000
Current portion of long term debt	41,276	-	41,276	42,097
Accrued interest payable	574	-	574	665
Refundable deposits	751	-	751	789
Entrance fees paid in advance	714	-	714	670
	54,866	79	54,945	55,946
Other liabilities				
Long term debt, less current portion	27,114	-	27,114	28,481
Liability for payments to trust beneficiaries	-	4,720	4,720	4,330
Pension liability	16,810	-	16,810	4,466
Unamortized entrance fees	89,833	-	89,833	85,298
Other long-term liabilities	7,276	651	7,927	5,592
	141,033	5,371	146,404	128,167
Total liabilities	195,899	5,450	201,349	184,113
Net assets				
Unrestricted net assets	(25,715)	4,280	(21,435)	9,582
Temporarily restricted net assets	-	9,211	9,211	16,779
Permanently restricted net assets	-	6,247	6,247	5,862
Total net assets	(25,715)	19,738	(5,977)	32,223
Total liabilities and net assets	$ 170,184	$ 25,188	$ 195,372	$ 216,336

The accompanying notes are an integral part of these consolidated financial statements.

Northern California Presbyterian Homes and Services, Inc.
Consolidated Statements of Revenues, Expenses and Other Changes in Unrestricted Net Assets
Years Ended December 31, 2008 and 2007
(dollars in thousands)

	2008			2007
	NCPHS	**Foundation**	**Total**	**Total**
Operating revenues and support				
Revenues				
Resident fees	$ 44,766	$ -	$ 44,766	$ 42,971
Amortization of entrance fees	11,484	-	11,484	10,513
Fees for services and other income	6,604	-	6,604	5,914
Investment income including realized gains and losses on investments	(1,729)	(642)	(2,371)	3,519
Gain (loss) on interest rate swap	(1,960)	-	(1,960)	(437)
	59,165	(642)	58,523	62,480
Support				
Contributions	-	130	130	564
Net assets released from restrictions	-	5,884	5,884	2,761
Total operating revenues and support	59,165	5,372	64,537	65,805
Expenses				
Program expenses				
Housing				
Program	16,001	-	16,001	14,453
Interest expense	2,593	-	2,593	2,194
Depreciation	7,072	-	7,072	6,320
Food service	11,781	-	11,781	10,942
Health care	15,181	-	15,181	14,024
Other program services	11,567	-	11,567	10,824
	64,195	-	64,195	58,757
Program support expense				
Administration	7,389	-	7,389	6,388
Depreciation	556	-	556	599
	7,945	-	7,945	6,987
Total expenses	72,140	-	72,140	65,744
Change in unrestricted net assets from operations	(12,975)	5,372	(7,603)	61
Other changes				
Unrealized gains (losses) on investments	(9,781)	(792)	(10,573)	506
Grants used for programs and facilities	7,416	(7,444)	(28)	(113)
Change in additional minimum pension liability	(12,813)	-	(12,813)	-
Implementation of SFAS No 158 (Note 11)	-	-	-	(2,734)
Increase (decrease) in unrestricted net assets	(28,153)	(2,864)	(31,017)	(2,280)
Unrestricted net assets at beginning of year	2,438	7,144	9,582	11,862
Unrestricted net assets at end of year	$ (25,715)	$ 4,280	$ (21,435)	$ 9,582

The accompanying notes are an integral part of these consolidated financial statements.

Northern California Presbyterian Homes and Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2008 and 2007
(dollars in thousands)

	2008			2007
	NCPHS	Foundation	Total	Total
Unrestricted net assets				
Change in unrestricted net assets from operations	$ (12,975)	$ 5,372	$ (7,603)	$ 61
Unrealized gains (losses) on investments	(9,780)	(792)	(10,572)	506
Grants used for programs and facilities	7,415	(7,444)	(29)	(113)
Change in minimum pension liability	(12,813)	-	(12,813)	-
Implementation of SFAS No 158	-	-	-	(2,734)
Increase (decrease) in unrestricted net assets	(28,153)	(2,864)	(31,017)	(2,280)
Temporarily restricted net assets				
Contributions	-	2,330	2,330	1,609
Investment income	-	(61)	(61)	623
Recovery of losses on pledges receivable	-	9	9	81
Change in value of split-interest agreements	-	(3,085)	(3,085)	91
Unrealized gain (losses) from investments	-	(850)	(850)	11
Net assets released from restrictions	-	(5,885)	(5,885)	(2,761)
Implementation of SFAS No. 157 (Note 2)	-	(27)	(27)	-
Increase (decrease) in temporarily restricted net assets	-	(7,569)	(7,569)	(346)
Permanently restricted assets				
Contributions	-	1,112	1,112	222
Change in value of split-interest agreements	-	(696)	(696)	48
Implementation of SFAS No. 157 (Note 2)	-	(30)	(30)	-
Increase in permanently restricted net assets	-	386	386	270
Increase (decrease) in net assets	(28,153)	(10,047)	(38,200)	(2,356)
Net assets at beginning of year	2,438	29,785	32,223	34,579
Net assets at end of year	$ (25,715)	$ 19,738	$ (5,977)	$ 32,223

The accompanying notes are an integral part of these consolidated financial statements.

Northern California Presbyterian Homes and Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007
(dollars in thousands)

	2008			2007
	NCPHS	**Foundation**	**Total**	**Total**
Cash flows from operating activities				
Cash received from entrance fees	$ 14,645	$ -	$ 14,645	$ 14,676
Cash received from resident fees	44,711	-	44,711	42,140
Cash received from services and other income	5,825	-	5,825	5,347
Cash received from community service fees	779	-	779	567
Cash received from contributions	7,415	4,179	11,594	6,787
Cash paid for grants and support	-	(7,405)	(7,405)	(3,419)
Investment income	2,088	(315)	1,773	4,185
Interest paid	(2,642)	-	(2,642)	(2,183)
Cash paid to employees and suppliers	(63,463)	-	(63,463)	(54,507)
Cash provided by operating activities	9,358	(3,541)	5,817	13,593
Cash flows from investing activities				
Proceeds from sale of investments	36,306	17,667	53,973	44,723
Purchase of investments	(27,093)	(15,096)	(42,189)	(38,179)
Purchase of property and equipment	(14,640)	-	(14,640)	(19,066)
Cash used in investing activities	(5,427)	2,571	(2,856)	(12,522)
Cash flows from financing activities				
Payment of long term debt	(2,187)	-	(2,187)	(2,008)
Proceeds from line of credit	1,000	-	1,000	1,000
Proceeds from endowment contributions	-	1,120	1,120	280
Proceeds contributed in trust	-	141	141	62
Proceeds from contributions held in trust	-	142	142	106
Payments to trust beneficiaries	-	(730)	(730)	(680)
Refunds of entrance fees paid	(37)	-	(37)	(21)
Investment income from marketable securities held in trust	-	400	400	895
Cash (used in) provided by financing activities	(1,224)	1,073	(151)	(366)
Net increase (decrease) in cash	2,707	103	2,810	705
Cash and cash equivalents				
Beginning of year	3,491	820	4,311	3,606
End of year	$ 6,198	$ 923	$ 7,121	$ 4,311

The accompanying notes are an integral part of these consolidated financial statements.

Northern California Presbyterian Homes and Services, Inc.
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2008 and 2007
(dollars in thousands)

	2008			2007
	NCPHS	Foundation	Total	Total
Reconciliation of change in net assets to cash from operating activities				
Change in net assets	$ (28,153)	$ (10,047)	$ (38,200)	$ (2,356)
Adjustments to reconcile change in net assets to cash provided by operating activities				
Amortization of entrance fees	(11,484)	-	(11,484)	(10,513)
Depreciation	7,628	-	7,628	6,919
Gain (loss) on interest rate swap	1,960	-	1,960	437
Realized and unrealized loss (gain) from investments	13,598	2,030	15,628	(517)
Implementation of SFAS No. 158	-	-	-	2,734
Change in additional minimum pension liability	12,813	-	12,813	-
Contribution revenue from trust gifts	-	2,517	2,517	236
Contribution revenue from endowment gifts	-	(1,110)	(1,110)	(222)
Change in liability to trust beneficiaries	-	3,838	3,838	(139)
Accretion of conditional asset retirement obligation	341		341	237
Contribution of securities	-	(164)	(164)	(182)
Change in operating assets and liabilities				
Changes in receivables, other assets, payables and other accruals	(3,405)	38	(3,367)	1,072
Change in trust contributions and pledges receivable	-	(643)	(643)	1,211
Entrance fees received	16,060		16,060	14,676
Cash provided by operating activities	$ 9,358	$ (3,541)	$ 5,817	$ 13,593
Non cash transactions				
Contribution of securities	$ -	$ 164	$ 164	$ 182
Fixed asset additions included in accounts payable	307	-	307	1,014

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate Purpose and Structure

Corporate Purpose

Northern California Presbyterian Homes and Services, Inc. ("NCPHS"), based on our historic mission, provides for the well-being of older persons who are in need of housing, healthcare, food, wellness and other related programs and services through the following communities:

- Three Continuing Care Retirement Communities which provide housing, health care, and other services to approximately 1,000 residents. Confidential financial support is also provided to residents who outlive their financial resources.
- Three residential housing communities which receive federal support, provide to approximately 600 residents with low and moderate income affordable housing, food and a wellness program for those who elect to be covered.
- An assisted living community providing comprehensive personal and domestic care with 24-hour supervision to 24 residents in an underserved area.

Corporate Structure

NCPHS is a nonprofit corporation principally organized to provide facilities and other means of care for elderly persons. Board membership consists only of those elected as Directors and only during their period of service as such Directors. The Board of Directors governs the operations of NCPHS.

NCPHS presently operates continuing care facilities for the care of elderly persons at three locations: the Sequoias-San Francisco ("Sequoias-SF"), the Sequoias-Portola Valley ("Sequoias-PV") and the Tamalpais-Ross Valley Homes ("RVH"). It also operates residential housing facilities for elderly persons at five locations: Western Park Apartments ("WPA"), Eastern Park Apartments ("EPA"), Town Park Towers ("TPT"), Park Sunset Apartments ("PSA") and the Woods. All facilities are located in Northern California.

NCPHS owns and operates Sequoias-SF and Sequoias-PV. During 1984, NCPHS signed a memorandum of understanding with RVH in Greenbrae, Marin County, California, to affiliate with NCPHS whereby NCPHS became the sole corporate member of RVH. For financial reporting purposes, RVH's balance sheet, operations and cash flows are consolidated with NCPHS.

NCPHS owns and operates EPA, WPA, and TPT, which are low-to-moderate income rental housing facilities operated in accordance with the provisions of Sections 236 and 202 of the National Housing Act. During 2008, these facilities received approximately 68.0% (EPA), 43.0% (WPA), and 60.0% (TPT) of their rental revenue from the U.S. Department of Housing and Urban Development ("HUD"). During 2007, these facilities received approximately 69.0% (EPA), 40.0% (WPA), and 57.0% (TPT) of their rental revenue from HUD.

NCPHS also owns the Woods, a manufactured home park for seniors located on 37 acres near Mendocino, California. The Woods has 109 home sites and a 24 unit Assisted Living facility.

The NCPHS Foundation (the "Foundation") was established in 1987 by the Board of Directors of NCPHS as a supporting organization of NCPHS and received its tax-exempt status as a charitable organization in 1989. The Trustees of the Foundation are charged with receiving, disbursing and accounting for all current gifts, deferred gift-investments and bequests of money and property given for the benefit of NCPHS, its programs, facilities, managed properties, and community outreach.

NCPHS is exempt from income and franchise taxes under Sections 501(c)(3) and 23701(d) of the respective federal and state revenue codes.

In January 2008, NCPHS formed a for profit company, NCP Senior Ventures, LLC, a California limited liability company ("NSV"). NCPHS, as its sole member, signed an operating agreement with NSV on the same date. The purpose of NSV is to engage in the business of the acquisition, investment, development, ownership, management, operation and sale of real estate. For financial reporting purposes, NSV's balance sheet, operations and cash flows are consolidated with NCPHS.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include NCPHS, RVH, NSV and the Foundation. All significant inter-entity amounts have been eliminated in consolidation. The Foundation prepares separate stand-alone financial statements in conformity with accounting principles generally accepted in the United States of America. For purposes of presentation of the Foundation's balance sheet, statements of revenues, expenses and other changes in unrestricted net assets and changes in net assets, and statement of cash flows in these consolidated financial statements, conforming reclassifications have been made to the Foundation's revenue and expenses and inter-entity receivables and payables consistent with categories in the consolidated financial statements.

All operating, administrative and fund raising expenses including employees assigned to Foundation activities are incurred by NCPHS on behalf of the Foundation. NCPHS estimates that the cost of the services provided to the Foundation was approximately $673 and $580 in 2008 and 2007, respectively.

These consolidated financial statements reflect accounting principles prescribed for not-for-profit organizations. Under these principles, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets
Net assets that are not subject to donor-imposed restrictions are classified as unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with outside parties.

Temporarily Restricted Net Assets
Net assets that are subject to donor-imposed restrictions which can be fulfilled either by actions of the Foundation pursuant to those restrictions and/or that expire by the passage of time. The majority of the Foundation's temporarily restricted net assets consist of charitable remainder trusts and other life income funds.

Permanently restricted Net Assets
Net assets that are subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. Such assets consist primarily of the Foundation's permanent endowment funds and its interest in perpetual trusts held by others.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled, and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Fair Value of Financial Instruments
On January 1, 2008, NCPHS adopted Financial Accounting Standards Board ("FASB") Statement No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in conformity with generally accepted accounting principles and expands disclosures about fair value measurements. FASB Statement No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, FASB Statement No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Observable inputs such as quoted prices in active markets;
- *Level 2* – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3* – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in FASB Statement No. 157. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The carrying values reported on the balance sheet for current assets and liabilities approximate fair value. Investments, investments held in trust, trust contribution receivables, and interest rate swaps are carried at fair value. See Note 10 for fair value of the Company's financial assets and liabilities.

Cash and Cash Equivalents
Cash equivalents include money market funds purchased with a maturity, at purchase date, of three months or less, with the exception of cash and cash equivalents held as investments or whose use is limited or designated.

Marketable Securities and Investments Held in Trust
Equity and debt securities are carried at fair value with realized and unrealized gains and losses included in the statement of revenues, expenses and other changes in unrestricted net assets and the statement of changes in net assets. Realized gains or losses represent the difference between cost, on a first-in first-out basis, and the related market price at the sale date. A decline in the fair value of an investment in equity and debt securities that is other than temporary is accounted for as a realized loss, whereby the cost basis of the security is written down to fair value. Cash and cash equivalents, which consist of deposits and money market funds are carried at cost, which approximates fair value because of the short-term nature of these investments.

(dollars in thousands)

Facilities
Property and equipment are recorded at cost. Depreciation is computed on the straight-line method using the following composite rates:

Buildings	2 %
Building equipment	5 %
Equipment, furniture and furnishings	10 %
Building and land improvement	10 %
Motor vehicles	25 %
Office equipment	20 %
Computer equipment	20 %

NCPHS capitalizes interest costs of the 2004 Revenue Bonds (Note 9), net of interest earned on temporary investment of the proceeds from such bonds, from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. Such capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

Expenses related to the payment of costs to issue the bonds have been deferred, and will be capitalized as construction in progress during the construction period and amortized to interest expense subsequent to the construction period and through the remaining life of the bonds under the effective interest method.

Several of the buildings owned and operated by NCPHS contain asbestos for which NCPHS will incur additional expense to remove when those buildings are retired or when major renovations are undertaken in an area of the buildings that contains the material. Certain of these costs are not expected to be incurred until the building itself is retired as the material is in areas that will not be impacted by renovation activity. The cost to remove materials in areas of the buildings that will be impacted by renovation activity is estimated to be incurred over a period of the next 10 to 40 years.

Investments Held in Trust and Liability for Payments to Trust Beneficiaries
Investments held in trust represent charitable remainder trusts and other deferred funds in which the donor, or stated beneficiary, has a life interest in the trust income and for which the Foundation is trustee and remainderman. Trust assets are carried at fair value remeasured on a recurring basis and the related liability for beneficiary payments is estimated based on fair value on a nonrecurring basis. See footnote 10 for the basis of fair value.

Pledges Receivable
Pledges receivable include unconditional promises to give. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at fair value. See footnote 10 for the basis of fair value. Conditional promises to give are not included as support until the conditions are substantially met.

(dollars in thousands)

Trust Contributions Receivable
Trust contributions receivable consist of gifts made to the Foundation through split-interest agreements in which the Foundation is a remainderman or has a perpetual income interest as beneficiary and for which there is an external trustee. These assets are carried at fair value based upon the present value of amounts anticipated to be received, using discount rates commensurate with the expected term to receipt of the assets using a discount rate of 4.5% at December 31, 2008 and a range of discount rates between 4.0% and 4.5% at December 31, 2007.

Continuing Care Contracts
NCPHS has entered into continuing care contracts with the residents of its continuing care facilities. Under the provision of these contracts, residents are required to pay an entrance fee and periodic monthly fees (resident fees) for services and the use of facilities. The resident fees are subject to adjustment for changes in operating costs or other economic reasons. NCPHS is obligated to provide long-term care.

Entrance fees are one-time payments made by residents of the continuing care facilities that, in addition to monthly care fees, provide for living accommodations and are recorded as deferred revenue when received and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. The period of amortization is adjusted annually using the 1979 Teknekron life table for single residents and an actuarially-prepared joint life expectancy table for married residents.

NCPHS is contractually obligated to refund to a resident the entrance fee received less an amount equal to 1.5% of the entrance fee for each month of residency. No refund is made after 5-1/2 years of occupancy. In the event of death or involuntary termination, NCPHS is obligated to refund a portion of the entrance fee determined as follows:

Less than 90 days	90%
More than 90, less than one year	75%
More than one year, less than two years	50%
More than two years, less than three years	25%
More than three years	0%

At December 31, 2008 and 2007, NCPHS was contractually obligated to refund $40,571 and $38,880 in entrance fees, respectively.

NCPHS annually evaluates the need to accrue a liability for losses related to the obligation to provide future services under continuing care contracts. A loss must be accrued if the amount of the obligation exceeds the amount of unamortized entrance fees. The obligation is equal to the present value of the estimated cash cost of providing care in excess of estimated periodic fees to be received from residents over the residents' life expectancies plus depreciation of the facilities used by residents. The obligation assumes that the cost of care will increase by 6.5% and 6.8% and that monthly care fees will increase by 5.4% and 5.3% as of December 31, 2008 and 2007, respectively. For 2008 and 2007, an interest rate of 6.0% has been used to discount the cost of providing lifetime care in excess of resident fees, to $68,690 and $66,423 at December 31, 2008 and 2007, respectively. The carrying amount of the obligation, if not discounted, would be $77,039 and $77,903 at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the unamortized entrance fee exceeds the obligation and therefore no liability is shown in the financial statements.

Contributions
Contributions, which may include unconditional promises to give (pledges), are recognized as revenues in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as temporarily restricted contribution revenues and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Donated securities, real property and contributions in kind are recorded at fair value at the date of contribution. Contributions are derived primarily from donors in Northern California.

Contributions of trust interests in which the Foundation serves as the trustee are recognized at fair value in the period of receipt. Fair value is determined based upon the difference between the fair value of the assets received and the fair value of the estimated liability to beneficiaries. Contributions of trust interests in which the assets are invested and administered by outside trustees are recorded at fair value when notice of the interest is received.

Investment Income
Investment income includes interest and dividend income earned on investments, net realized gains and losses on sales of investments, and other than temporary realized losses on investments.

Limited Use Assets
Limited use assets include bond proceeds held for capital projects and debt service reserve funds held with a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects.

Change in Value of Split-Interest Agreements
Changes in the value of split-interest agreements are the results of the following transactions and events related to the Foundation’s deferred gifts:

- Accretion of the discounts on previously received deferred gifts.
- Re-evaluations of expected future benefits to be received, net of income earned and market changes on deferred gift assets.
- Re-evaluations of expected future payments to beneficiaries, net of payments made, based on changes in life expectancy and other actuarial assumptions.

Performance Indicator
The performance indicator reported in the consolidated statement of revenues, expenses and other changes in unrestricted net assets is captioned "change in unrestricted net assets from operations." Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include unrealized gains and losses from investments, permanent transfers of assets from the Foundation to support programs and facilities, and the change in additional minimum pension liability.

Interest Rate Swap
NCPHS utilizes an interest rate swap, also known as a risk management or derivative instrument, to effectively create a fixed rate of interest on a portion of its 2004 Tax-exempt Variable Rate Demand Revenue Bonds. NCPHS has elected not to apply hedge accounting related to the interest rate swap and accordingly changes in the fair market value of the interest rate swap are recorded as a separate line item in the statement of operations and changes in unrestricted net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include unamortized entrance fees, pension liability, pledges and contributions receivable and the liability for payments to trust beneficiaries. Actual results may differ from those estimates.

Comparative Information

In connection with the preparation of the December 31, 2008 balance sheet, management concluded that the 2004 Tax-exempt Variable Rate Demand Revenue Bonds (Note 9) should be classified as current rather than long-term. The effect on prior period financial statements was not material. However, management elected to make the revisions to reclassify $39,900 of long-term liabilities to current liabilities for the 2007 presentation to conform to the 2008 presentation. These revisions in classification to the 2007 financial statements had no effect on previously reported total assets, liabilities and net assets, or increases or decreases in net assets, or net increases or decreases in cash.

Risks and Uncertainties

NCPHS has executed a letter of credit with a bank to support repayment of the 2004 Tax-exempt Variable Rate Demand Revenue Bonds (Note 9). The terms of the letter of credit allow the bank to accelerate the repayment of the bonds in the event of any breach of material terms, covenants or agreements, any impairment of the collateral or proceeds or any material adverse change that the bank believes impairs or is substantially likely to impair repayment or performance by NCPHS. If NCPHS is required to make principal payments on the 2004 Tax-exempt Variable Rate Demand Revenue Bonds, the Company would be required to liquidate marketable securities, increase resident fees, reduce program expenses and/or to seek additional financing to raise sufficient cash to repay the bonds. Although management expects the Company would not be required to repay the bonds, no assurance can be given that the risk of demand for early repayment of the bonds will not result in material adverse effects on the Company's financial position, results of operations and or net assets.

California Laws and Regulations

In July 2006, the Uniform Law Commission approved Uniform Prudent Management of Institutional Funds Act (UPMIFA), as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the model act on which 46 states and the District of Columbia have based their primary laws governing the investment and management of donor-restricted endowment funds by not-for-profit organizations. UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations, and UPMIFA imposes additional duties on those who manage and invest charitable funds. These duties provide additional protections for charities and also protect the interests of donors who want to see their contributions used wisely. Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). UPMIFA eliminates UMIFA’s historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. Currently the State of California's Assembly and Senate have passed SB 1329, a version of UPMIFA and signed into law by the Governor of the State of California effective January 1, 2009.

(dollars in thousands)

New Accounting Pronouncements
In August 2008, the FASB issued FSP Financial Accounting Standards No. 117 (FSP 117-1), which adopts the changes brought about by UPMIFA as adopted by the State of California. FSP 117-1 is effective for financial statements issued for fiscal years ending after December 15, 2008.

In December 2008, the FASB issued Staff Position SFAS No. 132(R)-1 (SFAS 132(R)-1), *Employee Disclosures about Postretirement Benefit Plan Assets,* which provides guidance on disclosures about plan assets of a defined benefit pension or other postretirement plan. SFAS 132(R)-1 will become effective for the Company at December 31, 2009. The Company does not expect that the adoption of SFAS 132(R)-1 will have a material impact on its financial position or results of operations.

3. Marketable Securities

Marketable securities, as of December 31, 2008 and 2007 at fair value are summarized below. The majority of these securities are held with four investment firms:

	2008	2007
Cash equivalents	$ 1,685	$ 7,681
U.S. Government securities	3,660	5,113
Common stocks	11,080	17,660
Equity mutual funds	10,590	17,258
Fixed income mutual funds	19,930	20,915
	$ 46,945	$ 68,627

Investment income is comprised of the following for the years ended December 31:

	2008	2007
Interest income	$ 1,897	$ 2,022
Net realized (losses) gains on sales of investments	(63)	2,000
Other than temporary impairment on investments	(4,205)	(503)
	$ (2,371)	$ 3,519

(dollars in thousands)

4. Facilities

Facilities at December 31, 2008 and 2007 comprise the following:

	2008	2007
Continuing Care Facilities		
Sequoias - SF		
Land	$ 661	$ 661
Building and building equipment	64,598	62,362
Equipment and furniture	4,628	3,824
Less: Accumulated depreciation	(32,347)	(29,803)
	37,540	37,044
Sequoias - PV		
Land	303	303
Building and building equipment	57,423	51,322
Equipment and furniture	4,860	4,893
Less: Accumulated depreciation	(20,038)	(18,452)
	42,548	38,066
Tamalpais - RVH		
Land	850	850
Building and building equipment	36,948	33,113
Equipment and furniture	5,311	4,423
Less: Accumulated depreciation	(22,582)	(20,578)
	20,527	17,808
Continuing care facilities, net	100,615	92,918

(dollars in thousands)

	2008	2007
Residential housing		
Western Park Apartments		
Land	153	153
Building and building equipment	5,451	5,357
Equipment and furniture	478	374
Less: Accumulated depreciation	(3,915)	(3,748)
	2,167	2,136
Eastern Park Apartments		
Land	451	451
Building and building equipment	9,630	9,618
Equipment and furniture	712	658
Less: Accumulated depreciation	(5,509)	(5,246)
	5,284	5,481
Town Park Towers		
Land	1,400	1,400
Building and building equipment	9,565	9,497
Equipment and furniture	871	822
Less: Accumulated depreciation	(6,312)	(5,993)
	5,524	5,726
Residential housing, net	12,975	13,343
Other facilities		
The Woods		
Land	735	735
Building and building equipment	4,567	4,379
Equipment and furniture	300	260
Less: Accumulated depreciation	(2,623)	(2,433)
	2,979	2,941
Corporate Office		
Building and building equipment	352	302
Equipment and furniture	5,932	5,472
Less: Accumulated depreciation	(4,666)	(4,110)
	1,618	1,664
Other facilities, net	4,597	4,605
Total facilities, net	$ 118,187	$ 110,866

Construction-in-progress of $2,573 is included in building and building equipment, and equipment and furniture above. Depreciation on these amounts will commence at the time that the related assets are put into service.

(dollars in thousands)

A summary of the asset retirement obligations for the period ended December 31, 2008 is as follows:

	2008	2007
Beginning balance	$ 4,538	$ 4,301
Accretion expense	341	237
Ending balance	$ 4,879	$ 4,538

5. Investments Held in Trust

Investments held in trust as of December 31, 2008 and 2007 are summarized below. The majority of these investments are held with one investment firm:

	2008	2007
Cash equivalents	$ 1,334	$ 597
Fixed income mutual funds	3,410	3,435
Equity mutual funds	4,937	6,400
Corporate and government bonds	68	79
	$ 9,749	$ 10,511

6. Pledges Receivable

Pledges receivable were due as follows as of December 31:

	2008	2007
Current portion	$ 1,349	$ 646
Less: allowance	(67)	(32)
Total current portion	$ 1,282	$ 614
Two to five years	$ 791	$ 837
Six to twenty years	590	595
	1,381	1,432
Less: allowance	(69)	(72)
Less: unamortized discount at 0.6% to 6.8%	(265)	(289)
Total non-current portion	$ 1,047	$ 1,071

Pledges receivable include promises to give end-of-life gifts from donors with life expectancies ranging between zero and 11 years.

(dollars in thousands)

7. Investments Contractually Limited for Replacement

In connection with long-term debt agreements for NCPHS' three residential housing facilities, HUD requires a monthly deposit to a replacement account. Replacement accounts are held by an outside trustee for WPA and TPT.

The investments for replacement are spent on improvements or repairs of structural elements and mechanical equipment of the facilities. Disbursements from the replacement accounts may be made upon receiving consent in writing from the U.S. Department of Housing and Urban Development.

Earnings attributable to these investments accrue to the facility. As of December 31, 2008 and 2007, the investments consisted of the following at fair value:

	2008	2007
Cash and certificates of deposits	$ 2,205	$ 1,943
United States Treasury securities	640	903
	$ 2,845	$ 2,846

8. Limited Use Assets

Limited use assets at December 31 are held with one institution and to be used as follows:

	2008	2007
California Health Facilities Financing Authority		
Revenue Bond Series 1998		
Principal and interest fund	$ 888	$ 900
Revenue Bond Series 2004		
Principal and interest fund	1,285	1,017
Project fund	-	9,880
	1,285	10,897
	2,173	11,797
Less current portion	(2,173)	(1,917)
	$ -	$ 9,880

The composition of limited use assets at December 31 2008 and 2007 consisted solely of cash and cash equivalents.

(dollars in thousands)

9. Long-Term Debt and Line of Credit

Long-term debt comprises the following at December 31:

	2008	2007
Continuing care facilities		
California Health Facilities Financing Authority Revenue Bond Series 2004 Tax-exempt Variable Rate Demand Revenue Bonds. Payable through 2030, collateralized by Allied Irish Bank of New York Letter of Credit; interest at 1.0% at December 31, 2008	$ 39,900	$ 40,800
California Health Facilities Financing Authority Revenue Bond Series 1998, Serial Bonds payable through year 2010 at 4.9% to 5.0%, totaling $1,255; Term Bonds due 2018, interest at 5.1% totaling $6,450; and term bonds due 2028, interest at 5.4% totaling $12,865, principal and interest paid semi-annually, collateralized by a pledge of gross revenues of NCPHS's operations.	20,570	21,155
Continuing care facilities	60,470	61,955
Residential housing		
Western Park Apartments		
Federal National Mortgage Association, payable through 2012 in monthly installments of $9, including net interest at 1.0% (7.5% FHA interest rate subsidy), collateralized by a first deed of trust on WPA real estate.	$ 873	$ 1,110
Eastern Park Apartments		
HUD payable though 2020 in monthly installments of $51 including net interest at 6.9%, collateralized by a first deed of trust on EPA real estate.	4,795	5,073
Town Park Towers		
HUD payable through 2013 in monthly installments of $10, including net interest at 1.0% (6.0% FHA interest rate subsidy), collateralized by a first deed of trust on TPT real estate.	1,153	1,351

(dollars in thousands)

	2008	**2007**
HUD Flexible Subsidy Residual Receipts Note, principal and accumulated interest at 1.0% due 2013, collateralized by a first deed of trust on TPT real estate.	1,099	1,089
Residential housing	7,920	8,623
Total debt	68,390	70,578
Less: current portion	41,276	42,097
Total long-term debt	$ 27,114	$ 28,481

Future payments required on long-term debt are as follows:

2009	2,276
2010	2,371
2011	2,559
2012	2,357
2013	3,542
Thereafter	55,285
	$ 68,390

NCPHS' most restrictive loan covenants are those associated with the mortgages collateralized by its residential facilities which require these facilities to be operated in accordance with regulations established by HUD. HUD requires that NCPHS establish replacement accounts for the facilities subject to HUD loans (Note 7), sets upper limits on residents' income levels, requires that NCPHS submit annual budgets for approval, and approves the annual rent increases in addition to setting other residential guidelines to which NCPHS must adhere.

The 2004 bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on at least seven days notice and delivery to the remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. With the consent of the credit enhancement provider, NCPHS can direct California Health Facilities Financing Authority ("CHFFA") to convert the bonds to accrue interest at an auction rate or a fixed rate.

In the event the remarketing agent is not able to sell the repurchased 2004 bonds, NCPHS has obtained a bank letter of credit, issued currently by Allied Irish Bank of New York ("Allied"). The letter of credit was issued to ensure payments of the bonds to the holders and to enhance the credit rating and marketability of the bonds. The letter of credit is valid through September 15, 2012 and bears interest at 0.9%. The terms of the letter of credit required NCPHS to redeem, within 365 days, any bonds that were purchased by Allied Irish Bank of New York if the remarketing agent was not able to sell the bonds.

NCPHS paid $2,552 and $3,197 in interest during 2008 and 2007, respectively, of which $218 and $529 was capitalized to construction in progress.

Under the terms of the various agreements entered into in connection with the issuance of the 1998 and 2004 bonds, NCPHS must comply with certain covenants including maintenance of corporate existence; maintenance of records and filing of financial statements; payment of taxes, utilities and other charges; maintenance of tax-exempt status of interest on the bonds. In addition, Allied can accelerate the 2004 debt in the event of any breach of material terms, covenants or agreements, any impairment of the collateral or proceeds or any material adverse change that Allied believes impairs or is substantially likely to impair repayment or performance by NCPHS. Management believes such an event is remote as of December 31, 2008.

Under the provisions of SFAS No. 6, *Classification of Short Term Obligations Expected to be Refinanced*, and Emerging Issues Task Force D-23, *Subjective Acceleration Clauses*, NCPHS is required to present the 2004 bonds as a current liability, due to the inclusion of subjective acceleration clauses within the debt agreements outside the control of NCPHS.

As of December 31, 2008, there were no unspent bond proceeds.

Interest Rate Swap

NCPHS entered into an interest rate swap agreement on September 7, 2007, with a financial institution that involves the exchange of fixed interest rate payments at the rate of 3.2% on an amount equal to $19,950 as of December 31, 2008 in exchange for floating interest rate payments that equal 65% of USD-LIBOR-BBA. During 2008, NCPHS made net payments of $296 under the interest rate swap agreement. NCPHS did not make net payments under the agreement during 2007. During the term of the agreement, NCPHS can terminate the agreement at any time prior to its expiration in 2017. The financial institution can terminate the agreement if specified adverse events occur.

The fair value of the interest rate swap is the estimated amount that NCPHS would currently pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparty. The estimated fair value of the interest rate swap was a liability of $2,397 and $437 as of December 31, 2008 and 2007, respectively, which is presented in other long-term liabilities in the balance sheet.

Line of Credit

NCPHS has a collateralized line of credit in the amount of $4,000 in 2008 and 2007 with a bank. This line of credit is collateralized by a gross revenues pledge. There were no amounts outstanding as of December 31, 2008 and 2007. The line of credit renews annually on June 30.

NCPHS has an additional uncollateralized line of credit with a bank of $2,000. At December 31, 2008 and 2007, NCPHS had a balance of $2,000 and $1,000, respectively.

NCPHS pays monthly interest payments on the uncollateralized line of credit based on terms of 2.8% in excess of one-year LIBOR (3.3% at December 31, 2008) with the balance outstanding due in full on June 30, 2009. The uncollateralized line of credit renews annually on June 30. NCPHS has issued stand-by letters of credit totaling approximately $2.3 million to collateralize its obligations under a high deductible workers compensation program. No amounts were outstanding as of December 31, 2008 and 2007.

In addition, NCPHS is required to provide written notification to the bank of any material adverse change in its financial condition or operation.

(dollars in thousands)

10. Fair Value of Financial Instruments

The fair values of our financial assets and liabilities that are measured on a recurring basis are as follows as of December 31, 2008:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-observable Inputs (Level 3)
Assets Measured at Fair Value on a Recurring Basis (1)				
Marketable Securities (2)				
Unrestricted	$ 46,945	$ 46,945		
Investments Contractually Limited for Replacement	2,845	2,845		
Investments held in trust	9,749	9,749		
Trust Contributions Receivable (3)	1,051			1,051
	$ 60,590	$ 59,539	$ -	$ 1,051
Liabilities Measured at Fair Value on a Recurring Basis				
Interest rate swap (4)	$ 2,397		$ 2,397	

(1) For cash and cash equivalents, the net carrying value approximates fair value at period end. The fair value of the Company's debt facilities are not recorded at fair value on the Statement of Net Assets and thus excluded from the fair value table above.

(2) The fair values of our marketable securities are determined based on quoted market prices in active markets.

(3) The fair value of our trust contributions receivable is determined using a present value calculation of expected future cash flows with assumptions for the risk-free interest rate, inherent risk, mortality risk, and the expected term of cash flows using the discount rate adjustment technique.

(4) The fair value of our interest rate swap is determined using mid-market interest rates and/or securities prices based on readily observable market parameters for all substantial terms of the derivative contract and, therefore, is classified as Level 2.

(dollars in thousands)

The change in the fair value of our trust contributions receivable are reflected in the change in value of split-interest agreements for temporarily and permanently restricted net assets in the consolidated statements of changes in net assets. The change in value of the trust contributions receivable valued using significant unobservable inputs (Level 3) is shown below:

Fair value at December 31, 2007	$	2,100
Implementation of SFAS No 157		(57)
New contributions and maturities		477
Total gains or losses (realized/unrealized) included in changes in net assets		(1,469)
Fair value at December 31, 2008	$	1,051
Total gains (losses) for the year included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2008	$	(1,591)

On a nonrecurring basis, we are required to measure unconditional promises to give (pledges), the liability for payments to trust beneficiaries, and liabilities associated with asset retirement obligations. None of the above fair value instruments were remeasured during the year. Pledges are estimated at fair value during the period received based on the present value of expected future cash flows using the discount rate adjustment technique. Liabilities for payments to trust beneficiaries are estimated at fair value at the time the related trust assets are received based on the present value of estimated future payments over the expected life of income beneficiaries using the discount rate adjustment technique. The discount rates utilized range from 0.6% to 6.8% at December 31, 2008 and 2007, and published actuarial life expectancy tables. Asset retirement obligations are estimated at fair value based upon discounted cash flows using the probability weighted future cash flows for the associated retirement costs and a credit adjusted risk free discount rate. Asset retirement obligations recorded are subject to various assumptions and determinations, such as determining whether an obligation exists to remove assets, estimating the fair value of the costs of removal and estimating when final removal will occur. Changes that may arise over time with regard to these assumptions and determinations will change such amounts recorded for asset retirement obligations.

Fair Value of Debt Instruments
For the 2004 bonds, NCPHS's variable rate debt, the fair value approximates the carrying value as the interest rates are adjusted on a weekly basis and fluctuate with changes in market rates. The fair value of the 1998 bonds, the Company's fixed rate debt facilities, is based on quoted market prices (Level 1). The fair value of the 1998 bonds is $16,670 and $21,842 at December 31, 2008 and 2007, respectively.

The determination of the fair value of all other debt instruments, which are comprised of federally-sponsored subsidized loans with mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

11. Pension Plan

NCPHS sponsors a non-contributory defined benefit pension plan covering employees who work 1,000 hours or more. The benefits are generally based on an employee's average salary in the last five years of employment and years of service. NCPHS funds the pension plan in accordance with the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Contributions to the Plan are determined under the projected unit credit cost method and are made each year in an amount at least equal to the minimum requirements of ERISA.

(dollars in thousands)

In 2007, NCPHS adopted FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which requires unrecognized amounts (e.g., net actuarial gains or losses and prior service cost or credits) to be recognized as changes to unrestricted net assets and that those amounts be adjusted as they are subsequently recognized as components of net periodic pension cost. FAS 158 resulted in the recognition of a $2.7 million increase in the pension liability and decrease in net assets reported as other changes in unrestricted net assets, and represents amounts not previously recognized in periodic benefit costs as follows:

Prior service cost	$	76
Net actuarial loss		2,658
	$	2,734

The incremental effect of applying the provisions of FAS 158 on individual line items on the Statement of Financial Position was:

	Before Application of FAS 158		Incremental Effect of FAS 158		After Application of FAS 158	
Pension liability	$	(1,732)	$	(2,734)	$	(4,466)
Unrestricted net assets, operations	$	(5,172)	$	2,734	$	(2,438)

Plan assets less than the projected benefit obligations were as follows:

	2008		2007	
Projected benefit obligation at December 31	$	(37,247)	$	(31,660)
Fair value of plan assets at December 31		20,437		27,194
Funded status	$	(16,810)	$	(4,466)

Amounts recognized in the statement of financial position at December 31 consist of:

	2008		2007	
Pension liability		16,810		4,466
Noncurrent liability	$	16,810	$	4,466

(dollars in thousands)

The accumulated benefit obligation is $31,992 and $27,424 as of December 31, 2008 and 2007, respectively.

The assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	2008	2007
Weighted-average assumptions used to determine benefit obligations		
Discount rate	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended		
Discount rate	6.00%	6.00%
Expected long-term return on plan assets	7.75%	8.00%
Rate of compensation increase	4.00%	4.00%

Net periodic pension cost for 2008 and 2007 was determined by an independent actuary and is calculated using a prescribed attribution method, based on acceptable actuarial assumptions, which are adjusted periodically to reflect actual experience. NCPHS uses a December 31 measurement date for the above defined plans. Pension cost is summarized as follows:

	2008	2007
Benefits cost	$ 1,676	$ 1,431
Employer contributions	2,150	1,980
Benefits paid	(1,324)	1,233

Components of Net Periodic Benefit Cost at December 31 were as follows:

	2008	2007
Service cost	$ 1,878	$ 1,678
Interest cost	1,910	1,728
Expected return on plan assets	(2,144)	(1,991)
Amortization of prior service cost	16	16
Amortization of net loss	16	-
Net periodic benefit cost	$ 1,676	$ 1,431

The amounts that have not yet been recognized as components of net periodic benefit cost as of December 31 were as follows:

	2008	2007
Net actuarial loss	$ 15,487	$ 2,658
Prior service cost	60	76
	$ 15,547	$ 2,734

The net actuarial losses and prior service costs recognized as other changes in unrestricted net assets and represent amounts not previously recognized in net periodic benefit costs for the year then ended December 31 are as follows:

	2008	2007
Net actuarial losses	$ 12,845	$ 2,658
Prior service costs	-	76
Amortization of actuarial losses	(16)	-
Amortization of prior service costs	(16)	-
	$ 12,813	$ 2,734

Projected benefits payments for the plan are as follows:

2009	$ 1,467
2010	1,493
2011	1,563
2012	1,736
2013	1,895
2014 - 2018	12,697

NCPHS expects to contribute $3,500,000 to its pension plan in 2009.

Plan assets are invested with the objective of achieving a long-term rate of return of 7.75%. This is achieved through investment in a mix of equity and fixed income investments, with targeted allocations of 70% equity instruments and 30% fixed income instruments. Over time, equity investments are expected to return 8.5%, while fixed income investments are expected to return 6.0%. This produces an expected composite long term return on investment of 7.75%. Plan assets as of December 31, 2008, were invested as follows (in thousands):

	2008	2007
Cash and cash equivalents	$ 737	$ 1,733
Common stocks	4,972	7,519
Equity mutual funds	7,143	10,518
Fixed income mutual funds	7,585	7,423
	$ 20,437	$ 27,193

NCPHS also sponsors a defined contribution tax-sheltered annuity plan for substantially all of its full-time employees. The plan permits contributions which are matched by NCPHS to a maximum of 4.0% of eligible compensation. Contribution expense for the tax-sheltered annuity plan was $573 and $502 for 2008 and 2007, respectively.

(dollars in thousands)

12. Endowments

NCPHS's endowment consists of seven individual donor-restricted funds established for a variety of purposes. The purpose restrictions consist of financial assistance to continuing care retirement community residents, meal subsidies, improvements to the quality of life of Sequoias-PV residents, and maintenance of the resident garden at Sequoias-PV. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law
The Board of Trustees of the NCPHS Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NCPHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The organization appropriates all investment income on the endowment funds for expenditure through temporarily restricted net assets.

The net asset composition for donor restricted endowment funds by type of fund as of December 31 is as follows:

Donor-restricted endowment funds	**2008**	**2007**
Temporarily restricted	$ 1,115	$ 1,509
Permanently restricted	4,726	3,667
	$ 5,841	$ 5,176

Changes in endowment net assets for the fiscal year ended December 31 are as follows;

	Temporary Restricted	**Permanently Restricted**	**Total**
Endowment net assets, December 31, 2007	$ 1,509	$ 3,667	$ 5,176
Investment return:			
Investment income (loss)	160	-	160
Net depreciation (realized and unrealized)	(500)	-	(500)
Total investment return	(340)	-	(340)
Contributions		1,109	1,109
Appropriation of endowment assets for expenditure	(54)		(54)
Other changes:			
Provision for bad debt on planned gifts		(50)	(50)
Endowment net assets, December 31, 2008	$ 1,115	$ 4,726	$ 5,841

(dollars in thousands)

	Temporary Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2006	$ 1,321	$ 3,533	$ 4,854
Investment return:			
Investment income (loss)	228	-	228
Net depreciation (realized and unrealized)	(35)	-	(35)
Total investment return	193	-	193
Contributions	-	134	134
Appropriation of endowment assets for expenditure	(5)	-	(5)
Endowment net assets, December 31, 2007	$ 1,509	$ 3,667	$ 5,176

The entire balance of NCPHS's endowment funds are required to be retained permanently either by explicit donor stipulation or by UPMIFA. NCPHS does not hold term endowment funds or perpetual endowment funds subject to time restrictions under UPMIFA.

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires NCPHS to retain as a fund of perpetual duration. The organization had total deficiencies of $234,000 of this nature in some of its endowment funds, which are reported in temporarily restricted net assets as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. As of December 31, 2007, there were total deficiencies of $239,000 in all of its endowment funds.

Return Objectives and Risk Parameters
NCPHS has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original gift value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the Consumer Price Index by 3.25% annually, on average, while assuming a moderate level of investment risk. NCPHS expects its endowment funds, over time, to provide an average rate of return of at least 6.25% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, NCPHS 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 fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
NCPHS has a policy of appropriating the endowment fund's investment income for expenditure as the income is earned. In establishing this policy, the organization considered the long-term expected return on its endowment. This is consistent with the organization's objective to maintain the original gift value of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

13. Commitments and Contingencies

NCPHS is involved in certain routine matters of litigation related to their operations. Management does not expect any material impact on the financial position or changes in net assets from any such matters; however, due to the inherent uncertainties in litigation, it is possible that amounts ultimately paid, if any, may exceed management's expectations.

As at December 31, 2008, NCPHS had a number of capital projects ongoing. NCPHS has entered into various contracts in relation to these capital projects. The total commitment as of December 31, 2008 is $2,023.

NCPHS is a recipient of federal awards. These awards are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantors, if any, cannot be determined at this time, although NCPHS expects such amounts, if any, to be immaterial.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
400 Capitol Mall, Suite 600
Sacramento CA 95814-4602
Telephone (916) 930 8100
Facsimile (916) 930 8450
www.pwc.com

Report of Independent Auditors
on Community Service Information

To the Board of Directors
Northern California Presbyterian Homes
and Services, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Community Service Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

May 14, 2009

Northern California Presbyterian Homes and Services, Inc.
Community Service Information
December 31, 2008 and 2007
(dollars in thousands) ***(Unaudited)***

The following reflects the expenditures made by Northern California Presbyterian Homes and Services, Inc. ("NCPHS") net of amounts funded by grants and other donation support for the years ended December 31, 2008 and 2007:

	Program Expense	User Fees & Government Grants	Unsponsored Cost	Donation Support	Net Community Benefit 2008
Residential Financial Support	$ 252	$ -	$ 252	$ (252)	$ -
Meals Program	56	(15)	41	(6)	34
Living at Home Program	699	(594)	105	(81)	25
RSVP	482	(287)	196	(56)	140
FGP/SCP	86	(56)	30	(10)	20
Experience Corp Marin	119	(2)	117	(14)	103
Training for Disabled	33	-	33	-	33
Well Elder	13	-	13	-	13
ROSS Grant	85	(85)	-	(11)	(11)
Learnings Labs	4	-	4	(1)	4
Peninsula volunteers	14	-	14	(2)	12
	$ 1,843	$ (1,039)	$ 805	$ (433)	$ 373

	Program Expense	User Fees & Government Grants	Unsponsored Cost	Donation Support	Net Community Benefit 2007
Residential Financial Support	$ 247	$ -	$ 247	$ (247)	$ -
Meals Program	75	(27)	48	(8)	40
Living at Home Program	570	(489)	81	(64)	17
RSVP	483	(298)	185	(60)	125
FGP/SCP	100	(37)	63	(11)	52
Experience Corp Marin	97	-	97	(11)	86
Training for Disabled	32	-	32	-	32
Well Elder	13	-	13	-	13
	$ 1,617	$ (851)	$ 766	$ (401)	$ 365

The following is a summary of NCPHS' Community Services:

- A meals program, which serves meals in congregate settings and shelters.
- A Living at Home Program, which includes the Resident Opportunities for Self-Sufficiency (ROSS) program, whose social workers assist over 2,000 persons annually in primarily low-income settings in San Francisco and Santa Clara counties.
- Corporate sponsorship of RSVP (formerly Retired & Senior Volunteer Program) whose 1,200 volunteers provide over 198,000 hours of volunteer service annually to community organizations and agencies in San Francisco and Alameda counties.
- Corporate sponsorship of the Senior Companion Program whose 20 volunteers provide services to 180 homebound or isolated elders in Marin County.
- Experience Corps Marin, which taps the skills of 30 older adults to provide academic support to 240 students in San Rafael elementary schools.
- In collaboration with the ARC (formerly Aid to Retarded Citizens) of San Francisco, work and training opportunities for developmentally disabled persons in San Francisco.
- Well Elder, a demonstration project to provide health and social services in a cost-effective and humane manner for seniors, which assists 600 persons in three of our residential housing communities through direct service and education/health screening programs.
- The Learning Labs, workshops for nonprofits that seek to enhance their capacity to capture the energy and expertise of volunteers ages 50 and over.
- In partnership with Peninsula Volunteers, a service coordinator who supplements the Meals on Wheels program to support the psychosocial, health, financial, recreational and legal needs of 250 senior meal recipients in San Mateo County.