

BETHANY HEALTH CARE CENTER, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2009 AND 2008

BETHANY HEALTH CARE CENTER, INC.
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YEARS ENDED DECEMBER 31, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Bethany Health Care Center, Inc.
Framingham, Massachusetts

We have audited the accompanying statements of financial position of Bethany Health Care Center, Inc. as of December 31, 2009 and 2008, and the related statements of activities, changes of net assets, and cash flows for the years then ended. These financial statements are the responsibility of Bethany'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 Bethany Health Care Center, Inc. as of December 31, 2009 and 2008, and the results of its operations, its changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP
LarsonAllen LLP

Quincy, Massachusetts
June 9, 2010



(1)
LarsonAllen LLP is a member of Nexia International, a worldwide network of independent accounting and consulting firms.

**BETHANY HEALTH CARE CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,476,113	\$ 630,077
Investments	90,615	79,608
Accounts Receivable - Patients (Net of Estimated Uncollectibles)	605,619	465,715
Prepaid Expense	88,010	92,385
Pledges Receivable	10,000	10,000
Other Current Assets	29,171	55,484
Total Current Assets	2,299,528	1,333,269
PROPERTY AND EQUIPMENT		
Leasehold Improvements	10,323,433	10,305,661
Equipment	2,752,107	2,624,336
Motor Vehicles	93,806	93,806
Total	13,169,346	13,023,803
Less - Accumulated Depreciation Property and Equipment, Net	7,029,760	6,367,029
	6,139,586	6,656,774
OTHER ASSETS		
Pledge Receivable	20,000	30,000
Total Assets	\$ 8,459,114	\$ 8,020,043
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 428,402	\$ 254,464
Accrued Expenses	722,384	581,028
Deferred Revenue	170,022	153,422
Due to Third Party Payors	608,592	574,987
Other Current Liabilities	11,957	8,474
Current Maturities of Long-Term Debt	4,869,156	5,004,749
Total Current Liabilities	6,810,513	6,577,124
Long-Term Debt, Net of Current Maturities	541,190	845,073
Total Liabilities	7,351,703	7,422,197
NET ASSETS		
Unrestricted	1,107,411	597,846
Total Liabilities and Net Assets	\$ 8,459,114	\$ 8,020,043

See accompanying Notes to Financial Statements.

BETHANY HEALTH CARE CENTER, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
UNRESTRICTED NET ASSETS		
REVENUE		
Net Patient Service Revenue	\$ 10,023,216	\$ 10,327,087
Prior Years' Items	(2,532)	(8,312)
Other Operating Revenue	325,829	391,015
CSJ In-Kind Contributions	80,603	80,603
Other Contributions and Grants	834,112	421,351
Bad Debt Recovery	30,000	100,742
Total Operating Revenue	11,291,228	11,312,486
OPERATING EXPENSES		
Salaries and Wages	6,697,245	6,507,950
Fringe Benefits	1,446,541	1,321,351
Medical Supplies and Drugs	233,002	221,978
Insurance and Other	2,405,618	2,320,361
Depreciation and Amortization	662,731	614,977
Real Estate Lease and Interest	194,679	325,890
Utilities	413,429	533,823
Total Operating Expenses	12,053,245	11,846,330
LOSS FROM OPERATIONS	(762,017)	(533,844)
NONOPERATING REVENUE		
Interest Income	574	8,476
Investment Income	3,600	3,397
Realized Gains (Losses) on Sales of Investments	7,565	(766)
Total Nonoperating Revenue	11,739	11,107
DEFICIENCY OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	(750,278)	(522,737)
Change in Net Unrealized Gains and Losses on Investments	(157)	(15,312)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	-	7,500
CSJ Subsidy	1,260,000	445,000
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 509,565	\$ (85,549)

See accompanying Notes to Financial Statements.

**BETHANY HEALTH CARE CENTER, INC.
STATEMENTS CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS		
Loss from Operations	\$ (762,017)	\$ (533,844)
Nonoperating Revenues	11,739	11,107
Change in net Unrealized Gains and Losses on Investments	(157)	(15,312)
Net Assets Released from Restrictions Used for		
Purchase of Property and Equipment	-	7,500
CSJ Subsidy	<u>1,260,000</u>	<u>445,000</u>
Increase (Decrease) in Unrestricted Net Assets	509,565	(85,549)
TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restrictions	<u>-</u>	<u>(7,500)</u>
Decrease in Temporarily Restricted Net Assets	<u>-</u>	<u>(7,500)</u>
 CHANGE IN NET ASSETS	 509,565	 (93,049)
Net Assets - Beginning of Year	<u>597,846</u>	<u>690,895</u>
 NET ASSETS - END OF YEAR	 <u>\$ 1,107,411</u>	 <u>\$ 597,846</u>

See accompanying Notes to Financial Statements.

BETHANY HEALTH CARE CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 509,565	\$ (93,049)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operations:		
Depreciation and Amortization	662,731	614,977
Provision for Estimated Uncollectibles	(30,000)	(100,742)
Net (Gain) Loss on Investments	(7,408)	16,078
CSJ Subsidy	(1,260,000)	(445,000)
(Increase) Decrease in:		
Accounts Receivable	(109,904)	383,414
Prepaid Expenses	4,375	(13,800)
Assets Limited as to Use	-	7,500
Pledge Receivable	10,000	7,457
Other Current Assets	26,313	59,912
Increase (Decrease) in:		
Accounts Payable	173,938	(81,737)
Accrued Expenses	141,356	(170,627)
Other Current Liabilities	3,483	1,806
Realized Gain on Interest Rate Swap	-	(5,984)
Deferred Revenue	16,600	(10,853)
Due to Third Party Payors	33,605	(217)
Net Cash Provided by Operating Activities	174,654	169,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(145,543)	(217,459)
Purchases of Investments	(3,599)	(3,397)
Net Cash Used by Investing Activities	(149,142)	(220,856)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of Long-Term Debt	(439,476)	(363,441)
CSJ Subsidy	1,260,000	445,000
Net Cash Provided by Financing Activities	820,524	81,559
NET INCREASE IN CASH	846,036	29,838
Cash at Beginning of Year	630,077	600,239
CASH AT END OF YEAR	\$ 1,476,113	\$ 630,077

See accompanying Notes to Financial Statements.

BETHANY HEALTH CARE CENTER, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
SUPPLEMENTAL DISCLOSURE		
Interest Paid (Net of Amount Capitalized)	\$ 141,971	\$ 287,827
Non-Cash Investing and Financing Activities:		
Property and Equipment Acquired	\$ 145,543	\$ 553,673
Capital Lease Obligation Incurred for Use of Equipment	-	(336,214)
Cash Paid for Property and Equipment	\$ 145,543	\$ 217,459

See accompanying Notes to Financial Statements.

**BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Bethany Health Care Center, Inc. (Bethany) is a not-for-profit organization, which operates: a 101-bed skilled nursing facility; a 68-bed residential care facility; and an outpatient clinic, located in Framingham, Massachusetts. Bethany is sponsored and operated by The Congregation of the Sisters of Saint Joseph of Boston (the Congregation or CSJ). Bethany receives support from the Congregation to offset budgeted excess of expenses over revenues from operations. The Congregation intends to continue this support as long as it is necessary to sustain the operations of Bethany for its own members.

A summary of Bethany's significant accounting policies follows:

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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets of Bethany are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of Bethany and/or the passage of time.

Permanently Restricted Net Assets

Include contributions, which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Patient Service Revenue

Private patient service revenue is reported at the estimated net realizable amounts. Third-party payor revenues are recorded as indicated in Note 2.

Cash and Cash Equivalents

Bethany considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statement of cash flows.

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. Donated property is recorded at its estimated fair value at the date of receipt. Gifts of long-lived assets are reported as unrestricted support unless explicit donor stipulations specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

Income Taxes

Bethany is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to section 501(a) of the code. The Organization files as a tax-exempt entity. Should that status be challenged in the future, the Organization's 2006 through 2009 tax years are open for examination by federal and state taxing authorities.

Accounts Receivable

Accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projections of trends. Credit is extended to customers and collateral is not required. Bethany determines delinquent accounts based on individual facts and circumstances. Historically, Bethany has not charged interest on accounts that are deemed to be delinquent.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Statement of Activities

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of nursing home services are reported as revenues and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Excess (Deficiency) of Revenues and Gains Over Expenses and Losses

The statement of activities include excess (deficiency) of revenue and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue and gains over expenses and losses, consistent with industry practice, include the changes in unrealized gains and losses on investments, transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

Prior Years' Items

Prior years' items is comprised of retroactive third party payor settlements and adjustments of prior year patient revenue not previously reflected.

Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Promotional Advertising

Promotional advertising costs are expensed as incurred. Promotional advertising costs charged to operations amounted to \$3,418 and \$2,249 for 2009 and 2008, respectively.

Investments

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at their fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues over expenses.

Deferred Financing Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method. Amortization charged to operations amounted to \$8,405 for 2008.

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. Conditional promises are not included as revenue until such times as the conditions are substantially met.

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. Bethany emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. The Organization has delayed applying the above policies for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to the fiscal year beginning January 1, 2009. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair, however may elect to measure newly acquired financial instruments at fair value in the future.

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reclassifications

Certain reclassifications have been made to prior year's amounts to confirm to current year presentation.

Subsequent Events

In preparing these financial statements, the Bethany has evaluated events and transactions for potential recognition or disclosure through June 9, 2010, the date the financial statements were available to be issued.

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS

Summary of the Payment Arrangements with Third Party Payors:

Medicaid - Standard Payments to Nursing Facilities

Bethany receives reimbursement from the Commonwealth of Massachusetts under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients pursuant to regulations promulgated by the Division of Health Care Finance and Policy. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and could result in a retroactive rate adjustment for the current year.

Bethany has received amended rates related to its renovation project. Management has estimated that Bethany is being over reimbursed for fixed costs for a portion of the 2003 through 2005 rate years. Consequently, Bethany has recorded a liability in the amount of \$574,987 to the Commonwealth. A provision for this estimated settlement has been included in the accompanying financial statements under the caption "Due to Third-Party Payors" on the statement of financial position. Also, Bethany's accounts receivable were audited by the Commonwealth relating to credit balances, as a result, it was determined that Bethany is liable to the Commonwealth for \$33,605. A provision for this liability has been included under the captions "Due to Third Party Payors" on the Statement of Financial Position and "Prior Years' Items" on the Statement of Activities.

Medicare - Prospective Payment System

Bethany receives reimbursement for the care of certain patients under the federally sponsored Medicare prospective payment system (PPS) through an insurance intermediary. The federal rates utilize facility case-mix resident assessment data, completed by the skilled nursing facility (SNF), to assign patients into one of 53 Resource Utilization Groups (RUGS). SNF's must complete the resident assessments according to a specific time schedule designed for Medicare payment. SNF's that do not comply with this requirement will be paid at a default payment (the lowest of the 53 federal rates) for the days of a patient's care for which the SNF is not in compliance.

**BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS (CONTINUED)

Medicare - Prospective Payment System (Continued)

The PPS program mandates the implementation of fee schedules for SNF therapy services to residents not in a covered Part A stay and to non-residents who receive outpatient rehabilitation services from the SNF. The Centers for Medicare and Medicaid Services imposed a limit for physical therapy (including speech therapy) and occupational therapy services. A waiver from the limit may be granted upon request.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable – patients at December 31, 2009 and 2008 is comprised of the following:

	<u>2009</u>	<u>2008</u>
Private and Managed Care Patients	\$ 303,818	\$ 252,967
Medicare Patients	90,733	50,717
Publicly-Aided Patients	378,287	362,031
Allowance for Uncollectibles	(167,219)	(200,000)
Accounts Receivable, Net	<u>\$ 605,619</u>	<u>\$ 465,715</u>

NOTE 4 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Bethany to concentrations of credit risk consist principally of the following:

Cash and Cash Equivalents

Bethany maintains a cash balance in a non-federally insured institution. Cash subject to risk totaled \$1,383,604 at December 31, 2009. There may be times during the year when uninsured cash is significantly higher.

Accounts Receivable – Patients

Bethany extends unsecured credit to its private patients and patients covered under third-party payor arrangements. Accounts receivable from private patients and third-party payors totaled \$605,619 at December 31, 2009. See Note 2 and Note 3 for details of third-party payor arrangements and receivable balances, respectively.

Patient Service Revenue

Bethany derives approximately 85% of its patient service revenue from the Medicaid and Managed Medicaid programs and 6% from the Medicare program.

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 5 RELATED PARTY TRANSACTIONS

Bethany has entered into the following transactions with related parties:

Rents

Bethany leases land and building from the Congregation under a lease agreement classified as an operating lease. The lease agreement is for a 30-year term expiring December 31, 2020. Rental expense charged to operations amounted to \$42,000 for each of 2009 and 2008. The Congregation contributed the rent payment to Bethany and this amount is reflected under the caption "CSJ In-Kind Contributions" on the Statement of Activities.

Future minimum lease payments for the next five years and through the end of the lease term are estimated as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 42,000
2011	42,000
2012	42,000
2013	42,000
2014	42,000
Thereafter	252,000
Total	<u>\$ 462,000</u>

Donated Services

Bethany records time donated by the Congregation for general and administrative services at the estimated fair market value of the services. Donated services amounted to \$38,603 for each of 2009 and 2008, and are reflected under the caption "CSJ In-Kind Contributions" on the statement of activities.

Patient Service Revenue

Bethany charges the Congregation for the care of members of the order who do not qualify for other payment sources. Bethany recorded patient service revenue from The Congregation amounting to \$173,204 and \$304,142 for 2009 and 2008, respectively.

CSJ Subsidy

The Congregation transferred \$1,260,000 and \$445,000 to Bethany during 2009 and 2008, respectively. Since the Congregation has no expectation of repayment, nor did they receive anything of economic value, the transaction was recorded as an equity transfer and is reflected on the statement of activities.

**BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)

Various Services

The Congregation and its members provide various services, as part of normal operations, to Bethany. Salaries and fringe benefits for members of the Congregation amounted to \$351,100 and \$333,284 for 2009 and 2008, respectively. Various other services provided by or expenses reimbursed to the Congregation amounted to \$1,108,143 and \$1,019,302 for 2009 and 2008, respectively. The unpaid balance for of the above salaries and other services are included under the captions "Accounts Payable" and "Accrued Expenses" on the statement of financial position and amounted to \$246,081 and \$48,829 at December 31, 2009 and 2008, respectively.

NOTE 6 PROPERTY AND EQUIPMENT

The useful lives of property and equipment for purposes of computing depreciation are:

Leasehold Improvements	13 - 20 years
Equipment	3 - 10 years
Motor Vehicle	4 years

Depreciation expense charged to operations was \$662,731 and \$606,572 for 2009 and 2008, respectively.

NOTE 7 PENSION PLANS

Defined Account Balance Plan

Bethany sponsors a defined account balance plan covering substantially all of its non-religious qualified employees. Pension costs are determined as a percent of each covered employee's salary and totaled \$189,523 and \$147,491 for 2009 and 2008, respectively.

NOTE 8 LONG-TERM DEBT

Bethany is obligated under long-term debt at December 31, 2009 and 2008 as follows:

	2009	2008
7.5% mortgage to Medaille Corporation, a related party, secured by property and equipment, due December 31, 2011, payable in monthly installments of \$24,605 including interest.	\$ 588,763	\$ 810,538

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 8 LONG-TERM DEBT (CONTINUED)

	2009	2008
Construction/Term note payable to Allied Irish Bank, due December 16, 2010, secured and guaranteed by a related party, interest payable at the Bank's Prime Rate plus the Applicable Margin (4.25% and 4.25% at December 31, 2009 and 2008, respectively), payable in monthly installments of principal, based on a thirty year amortization, plus interest.	4,523,531	4,704,470
Capital Lease, payable to Leaf Funding, Inc., secured by equipment, due 2015, payable in monthly installments of \$5,453, including interest.	285,966	320,000
Capital Lease, payable to Advantage Leasing Corporation, secured by equipment, due July 2013, payable in monthly installments of \$344 including interest.	12,086	14,814
Total Long-Term Debt	5,410,346	5,849,822
Less: Current Portion	4,869,156	5,004,749
Long-Term Debt, Net	\$ 541,190	\$ 845,073

Interest incurred on the above long-term debt amounted to \$152,679 and \$289,874 for 2009 and 2008, respectively.

Following are maturities of long-term debt for the next five years:

Year Ending December 31,	Amount
2010	\$ 4,869,156
2011	328,716
2012	49,983
2013	53,635
2014	56,852
Thereafter	52,004
Total	\$ 5,410,346

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 9 INTEREST RATE SWAP

The Allied Irish Bank debt (AIB debt) bears interest at a variable rate (see Note 8). However, Bethany entered into an interest rate swap contract with Allied Irish Bank (AIB), which effectively converts the interest rate on the AIB debt to 4.0%. Under the interest rate swap contract, Bethany pays AIB at 4.0% and receives interest at the variable rate. The notional amount under the interest rate swap decreases as principal payments are made on the AIB debt so the notional amount equals the principal outstanding under the AIB debt. The carrying amount of the interest rate swap has been adjusted to its fair value at the statement of financial position date and matured on December 16, 2008.

The differential paid (received) under the swap is recognized over the life of the agreement as interest expense in the statement of activities. The differential amounted to \$44,284 for 2008, and is included in under the caption "Real Estate Lease and Interest" on the statement of activities.

NOTE 10 INVESTMENTS

Bethany participates with affiliated organizations in an investment pool. Ownership interests are initially assigned based on the market value of the assets placed into the pool by each participant. Current market value is used to determine the number of units allocated to additional assets placed into the pool and to value withdrawals from the pool. Investment income and realized and unrealized gains and losses are allocated equitably based on the number of units assigned to each participant. At December 31, 2009 and 2008, the fair value of Bethany's share in the investment pool amounted to:

	2009	2008
Pooled Investments	<u>\$ 90,615</u>	<u>\$ 79,608</u>

NOTE 11 FUNCTIONAL EXPENSES

Bethany provides skilled nursing, residential, and assisted living care as well as clinic services to patients within its geographic area. All operating expenses are considered to relate, either directly or indirectly, to providing these services.

The following is a breakdown of the functional expenses for the years ended December 31, 2009 and 2008:

	2009	2008
Program Services	\$ 11,025,858	\$ 10,887,025
Fundraising	210,771	202,629
Administrative and General	816,616	756,676
Total	<u>\$ 12,053,245</u>	<u>\$ 11,846,330</u>

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 12 CONTINGENCIES

A significant portion of Bethany's net revenues and accounts receivable are derived from services reimbursable under the Medicaid and the Medicare programs. There are numerous healthcare reform proposals being considered on the federal and state levels. Bethany cannot predict at this time whether any of these proposals will be adopted or, if adopted and implemented, what effect such proposals would have on Bethany.

A portion of Bethany's revenues are derived from services under the Medicare program (see Note 2). Under the program, cost reports are subject to audit for a period of three years from the date of issuance of a Notification of Provider Reimbursement by the fiscal intermediary. It is not possible at this time to determine whether Bethany will be audited or if a retroactive rate adjustment would result.

A significant portion of Bethany's revenues are derived from services reimbursable under the Medicaid program (See Note 2). The base year costs utilized in calculating the Medicaid prospective rates are subject to audit which could result in a retroactive rate adjustment for all years in which that base year's costs are utilized in calculating the prospective rate. It is not possible at this time to determine whether Bethany will be audited or if a retroactive rate adjustment would result.

NOTE 13 FAIR VALUE MEASUREMENT

Bethany uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how Bethany measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

The following table presents Bethany's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2009 and 2008:

	2009			
Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Pooled Investments	\$ 90,615	\$ -	\$ -	\$ 90,615
Total	<u>\$ 90,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,615</u>

BETHANY HEALTH CARE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 13 FAIR VALUE MEASUREMENT (CONTINUED)

	2008			
Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Pooled Investments	\$ 79,608	\$ -	\$ -	\$ 79,608
Total	\$ 79,608	\$ -	\$ -	\$ 79,608

The following table provides a summary of changes in fair value of Bethany's Level 3 financial assets and liabilities for the year ended December 31, 2009 and 2008:

	2009 Pooled Investments	2008 Pooled Investments
Beginning Balance as of January 1	\$ 79,608	\$ 92,289
Pledge Payments	-	-
New Pledges	-	-
Net Gains on Investments	11,007	(12,681)
Ending Balance as of December 31	\$ 90,615	\$ 79,608

NOTE 14 PLEDGES RECEIVABLE

Pledges receivable at December 31, 2009 and 2008 is summarized as follows:

	2009	2008
Unrestricted pledge receivable	\$ 30,000	\$ 40,000
Pledges are collectible as follows:		
In one year	\$ 10,000	\$ 10,000
In two to five years	20,000	30,000
Total Unrestricted Pledges	\$ 30,000	\$ 40,000

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees
Bethany Health Care Center, Inc.
Framingham, Massachusetts

Our report on our audits of the basic financial statements of Bethany Health Care Center, Inc. for the years ended December 31, 2009 and 2008 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 20 through 21 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 audits of the basic financial statements, and, accordingly, we express no opinion on it.

LarsonAllen LLP
LarsonAllen LLP

Quincy, Massachusetts
June 9, 2010

BETHANY HEALTH CARE CENTER, INC.
COMBINING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
 (UNAUDITED)

	Total	Eliminations	Subtotal	Skilled Nursing Facility	Resident Care	Clinic
UNRESTRICTED NET ASSETS REVENUE						
Net Patient Service Revenue	\$ 10,023,216	\$ -	\$ 10,023,216	\$ 8,080,637	\$ 1,898,266	\$ 44,313
Prior Years' Items	(2,532)	-	(2,532)	(2,532)	-	-
Other Operating Revenue	325,829	-	325,829	325,829	-	-
CSJ In-Kind Contributions	80,603	-	80,603	80,603	-	-
Other Contributions and Grants	834,112	-	834,112	834,112	-	-
Bad Debt Recovery	30,000	-	30,000	30,000	-	-
Total Revenue	11,291,228	-	11,291,228	9,348,649	1,898,266	44,313
OPERATING EXPENSES						
Salaries and Wages	6,697,245	2,611,977	4,085,268	3,366,362	641,670	77,236
Fringe Benefits	1,446,541	1,446,541	-	-	-	-
Allocation of Salaries and Benefits	-	(4,058,518)	4,058,518	3,357,131	643,681	57,706
Medical Supplies and Drugs	233,002	-	233,002	188,897	40,004	4,101
Insurance and Other	2,405,618	-	2,405,618	1,926,419	456,105	23,094
Depreciation	662,731	-	662,731	417,521	231,956	13,255
Real Estate Lease and Interest	194,679	-	194,679	122,648	68,138	3,894
Utilities	413,429	-	413,429	289,400	115,760	8,269
Total Operating Expenses	12,053,245	-	12,053,245	9,668,377	2,197,314	187,554
INCOME (LOSS) FROM OPERATIONS	(762,017)	-	(762,017)	(319,728)	(299,048)	(143,241)
NONOPERATING REVENUE						
Interest Income	574	-	574	574	-	-
Investment Income	3,600	-	3,600	3,600	-	-
Realized Gains (Losses) on Sales of Investments	7,565	-	7,565	7,565	-	-
Total Nonoperating Revenue	11,739	-	11,739	11,739	-	-
DEFICIENCY OF REVENUES AND GAINS	(750,278)	-	(750,278)	(307,989)	(299,048)	(143,241)
Change in Unrealized Gains and Losses	(157)	-	(157)	(157)	-	-
Release from Restrictions	-	-	-	-	-	-
CSJ Subsidy	1,260,000	-	1,260,000	1,260,000	-	-
NET CHANGE IN UNRESTRICTED NET ASSETS	\$ 509,565	\$ -	\$ 509,565	\$ 951,854	\$ (299,048)	\$ (143,241)

BETHANY HEALTH CARE CENTER, INC.
COMBINING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
 (UNAUDITED)

	Total	Eliminations	Subtotal	Nursing Facility	Resident Care	Clinic
UNRESTRICTED NET ASSETS						
REVENUE						
Net Patient Service Revenue	\$ 10,327,087	-	\$ 10,327,087	7,900,496	2,368,154	58,437
Prior Years' Items	(8,312)	-	(8,312)	(8,312)	-	-
Other Operating Revenue	391,015	-	391,015	391,015	-	-
CSJ In-Kind Contributions	80,603	-	80,603	80,603	-	-
Other Contributions and Grants	421,351	-	421,351	421,351	-	-
Bad Debt Recovery	100,742	-	100,742	100,742	-	-
Total Revenue	11,312,486	-	11,312,486	8,885,895	2,368,154	58,437
OPERATING EXPENSES						
Salaries and Wages	6,507,950	2,505,743	4,002,207	3,264,012	680,111	58,084
Fringe Benefits	1,321,351	1,321,351	-	-	-	-
Allocation of Salaries and Benefits	-	(3,827,094)	3,827,094	3,121,378	650,223	55,493
Medical Supplies and Drugs	221,978	-	221,978	184,101	36,131	1,746
Insurance and Other	2,320,361	-	2,320,361	1,858,146	439,940	22,275
Depreciation	614,977	-	614,977	387,435	215,242	12,300
Real Estate Lease and Interest	325,890	-	325,890	205,310	114,062	6,518
Utilities	533,823	-	533,823	373,677	149,470	10,676
Total Operating Expenses	11,846,330	-	11,846,330	9,394,059	2,285,179	167,092
INCOME (LOSS) FROM OPERATIONS	(533,844)	-	(533,844)	(508,164)	82,975	(108,655)
NONOPERATING REVENUE						
Interest Income	8,476	-	8,476	8,476	-	-
Investment Income	3,397	-	3,397	3,397	-	-
Realized Gains (Losses) on Sales of Investments	(766)	-	(766)	(766)	-	-
Total Nonoperating Revenue	11,107	-	11,107	11,107	-	-
DEFICIENCY OF REVENUES AND GAINS	(522,737)	-	(522,737)	(497,057)	82,975	(108,655)
Change in Unrealized Gains and Losses	(15,312)	-	(15,312)	(15,312)	-	-
Release from Restrictions	7,500	-	7,500	7,500	-	-
CSJ Subsidy	445,000	-	445,000	445,000	-	-
NET CHANGE IN UNRESTRICTED NET ASSETS	\$ (85,549)	\$ -	\$ (85,549)	\$ (59,869)	\$ 82,975	\$ (108,655)



