

**SOUTH COVE NURSING
FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2008 AND 2007

**SOUTH COVE NURSING
FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	2
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - 2008	7
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - 2007	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	22
SUPPLEMENTARY INFORMATION	
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - 2008	23
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - 2007	25
CONSOLIDATING STATEMENT OF ACTIVITIES - 2008	27
CONSOLIDATING STATEMENT OF ACTIVITIES - 2007	29
SCHEDULES OF EXPENSES - 2008	31
SCHEDULES OF EXPENSES - 2007	35

LarsonAllen[®] LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
South Cove Nursing Facilities Foundation, Inc.
and Subsidiaries
Boston, Massachusetts

We have audited the accompanying consolidated statements of financial position of South Cove Nursing Facilities Foundation, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Cove Nursing Facilities Foundation, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the consolidated changes in its net assets, cash flows, and functional expenses for the years then ended in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP
LarsonAllen LLP

Randolph, Massachusetts
June 19, 2009



**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007**

ASSETS	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,320,106	\$ 2,948,086
Marketable Securities	6,295,581	8,434,578
Accounts Receivable - Residents (Net of Estimated Uncollectible Accounts)	606,088	781,688
Receivable - Other	50,565	80,467
Prepaid Expenses	131,015	144,062
Total Current Assets	10,403,355	12,388,881
ASSETS LIMITED AS TO USE		
By Donor Restriction:		
Cash	276	3,738
Marketable Securities	23,783	32,318
By HUD Regulatory Agreement:		
Mortgage Escrows	88,162	61,898
Reserve for Replacement	386,628	443,035
Total Assets Limited as to Use	498,849	540,989
PROPERTY, PLANT AND EQUIPMENT		
Land	66,000	66,000
Building	4,621,158	4,621,158
Building Improvements	1,057,211	881,475
Equipment	892,160	874,214
Total	6,636,529	6,442,847
Less - Accumulated Depreciation	3,689,751	3,492,699
Net	2,946,778	2,950,148
Construction in Progress	78,651	78,651
Property, Plant and Equipment, Net	3,025,429	3,028,799
OTHER ASSETS		
Due from Related Party	18,898	16,755
Deferred Financing Costs, Net	71,471	78,862
Other Intangible Assets	54,675	54,675
Total Other Assets	145,044	150,292
Total Assets	\$ 14,072,677	\$ 16,108,961

See accompanying Notes to Consolidated Financial Statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 103,093	\$ 97,336
Accounts Payable	127,112	119,123
Accrued Expenses	392,854	452,606
Payroll Taxes Payable	<u>22,702</u>	<u>32,018</u>
Total Current Liabilities	645,761	701,083
LONG-TERM DEBT, Net of Current Maturities	<u>2,761,449</u>	<u>2,864,542</u>
Total Liabilities	3,407,210	3,565,625
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	10,639,868	12,506,640
Temporarily Restricted	5,599	16,696
Permanently Restricted	<u>20,000</u>	<u>20,000</u>
Total Net Assets	<u>10,665,467</u>	<u>12,543,336</u>
Total Liabilities and Net Assets	<u>\$ 14,072,677</u>	<u>\$ 16,108,961</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 8,318,871	\$ 7,997,544
Contributions and Grants	37,399	81,625
Investment Income	264,060	547,844
Realized Gain (Loss) on Investments - Net Other Than Temporary Decline in Investments	(451,539)	260,345
Other Revenue	(1,209,510)	-
	44,010	47,391
Total Unrestricted Revenues and Gains	<u>7,003,291</u>	<u>8,934,749</u>
Net Assets Released from Restrictions Used for Operations	3,414	3,468
Total Unrestricted Revenues, Gains, and Other Support	<u>7,006,705</u>	<u>8,938,217</u>
EXPENSES		
Salaries and Benefits	5,385,912	5,289,469
Medical Supplies and Drugs	179,314	164,212
Insurance and Other	2,079,252	1,973,025
Provision for Bad Debts	100,420	40,556
Depreciation and Amortization	204,443	192,479
Interest	167,594	241,125
Total Expenses	<u>8,116,935</u>	<u>7,900,866</u>
INCOME BEFORE OTHER ITEMS	(1,110,230)	1,037,351
OTHER ITEMS		
Loss on Extinguishment of Debt	-	(64,671)
Total Other Items	<u>-</u>	<u>(64,671)</u>
EXCESS (DEFICIT) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES	(1,110,230)	972,680
Change in Net Unrealized Gains and Losses on Investments	<u>(756,542)</u>	<u>27,174</u>
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(1,866,772)	999,854
TEMPORARILY RESTRICTED NET ASSETS		
Change in Unrealized (Loss) Gain on Marketable Securities	(8,761)	(1,076)
Realized Gains on Marketable Securities	209	829
Investment Income	869	3,075
Satisfaction of Restriction	(3,414)	(3,468)
NET DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(11,097)</u>	<u>(640)</u>
CHANGE IN NET ASSETS	(1,877,869)	999,214
Net Assets - Beginning of Year	<u>12,543,336</u>	<u>11,544,122</u>
NET ASSETS - END OF THE YEAR	<u>\$ 10,665,467</u>	<u>\$ 12,543,336</u>

See accompanying Notes to Consolidated Financial Statements.

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,877,869)	\$ 999,214
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operations:		
Unrealized (Gains) Losses on Marketable Securities, Net Other Than Temporary Decline in Investments	765,303 1,209,510	(26,098) -
Realized (Gains) Losses on Sales of Marketable Securities, Net	451,330	(261,174)
Restricted Investment Income Received	(869)	(3,075)
Depreciation and Amortization	204,443	192,479
Provision for Losses on Accounts Receivable	100,420	40,556
Loss on Early Extinguishment of Debt	-	64,671
(Increase) Decrease in:		
Accounts Receivable	105,081	81,333
Prepaid Expenses	13,047	(57,195)
Interest Receivable	-	(4,999)
Other Intangible Assets	-	131
Increase (Decrease) in:		
Accounts Payable	7,988	42,490
Accrued Expenses and Payroll Taxes Payable	(69,067)	7,686
Deferred Revenue	-	(9,863)
Net Cash Provided by Operating Activities	909,317	1,066,156
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	(193,682)	(172,872)
Deposits to Reserve for Replacement	(41,528)	(31,000)
Withdrawals from Reserve for Replacement	97,935	-
Deposits to Sinking Fund Escrow	-	(12,494)
Net Deposits to Escrows	(26,264)	162,573
Proceeds from Sales/Maturities of Marketable Securities	4,293,773	3,423,739
Purchases of Marketable Securities	(4,568,921)	(3,992,838)
Net Cash Used by Investing Activities	(438,687)	(622,892)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances to Related Parties	(2,143)	(2,181)
Proceeds from Restricted Investment Income	869	3,075
Deferred Financing Costs	-	(45,197)
Repayment of Long-Term Debt	(97,336)	(115,683)
Net Cash Used by Financing Activities	(98,610)	(159,986)
NET INCREASE IN CASH AND CASH EQUIVALENTS	372,020	283,278
Cash and Cash Equivalents at Beginning of Year	2,948,086	2,664,808
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,320,106	\$ 2,948,086

See accompanying Notes to Consolidated Financial Statements.

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

SUPPLEMENTAL DISCLOSURES

Interest	<u>\$ 167,594</u>	<u>\$ 241,125</u>
----------	-------------------	-------------------

NON-CASH INVESTING AND FINANCING ACTIVITIES

Loan Proceeds at Refinancing	\$ -	\$ 2,993,100
Withdrawal from Sinking Fund	-	470,491
Mortgage Pay Off	-	(3,318,672)
Deferred Financing Costs	-	(36,348)
Deposit to Escrows	-	(108,571)
Net Cash	<u>\$ -</u>	<u>\$ -</u>
Withdraw Replacement Reserve - Prudential	\$ -	\$ 426,767
Deposit Replacement Reserve - Wells Fargo	-	(426,767)
Net Cash	<u>\$ -</u>	<u>\$ -</u>
Additions to Reserve for Replacement	\$ -	\$ 35,668
Less: Accrued Interest Receivable	-	(4,668)
Deposits to Reserve for Replacement	<u>\$ -</u>	<u>\$ 31,000</u>

See accompanying Notes to Consolidated Financial Statements.

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008**

	Program Services			Supporting Services		Total
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund- Raising	
FUNCTIONAL EXPENSES						
Salaries and Benefits	\$ 5,313,595	\$ -	\$ -	\$ 72,317	\$ -	\$ 5,385,912
Office Supplies and Services	44,977	499	-	1,265	-	46,741
Payroll/Bookkeeping Services	28,852	-	-	-	-	28,852
Scholarship	-	-	11,737	-	-	11,737
Special Events	-	-	4,314	-	-	4,314
Donations	-	-	-	-	-	-
Grant Expenses-Other	-	-	199	-	-	199
Meetings	-	-	-	4,920	-	4,920
Professional Services	192,147	-	-	24,417	-	216,564
Telephone	22,063	-	-	-	-	22,063
Advertising	6,723	-	-	-	-	6,723
Licenses and Dues	12,452	-	-	-	-	12,452
Accounting	38,600	10,000	-	6,107	-	54,707
Legal	1,261	-	-	5,000	-	6,261
Insurance	76,662	94,345	-	-	-	171,007
User Fee Assessment	388,422	-	-	-	-	388,422
Provision for Bad Debts	100,420	-	-	-	-	100,420
Tuition and Education	4,703	-	-	-	-	4,703
Late Charges	88	-	-	-	-	88
Miscellaneous	10,443	-	5,454	265	-	16,162
Real Estate Tax	-	106,575	-	-	-	106,575
Interest	-	167,594	-	-	-	167,594
Plant	170,093	-	-	-	-	170,093
Utilities	216,928	-	-	-	-	216,928
Dietary	360,524	-	6,250	-	-	366,774
Laundry	68,853	-	-	-	-	68,853
Housekeeping	47,549	-	-	-	-	47,549
Medical	179,314	-	-	-	-	179,314
Recreation	13,718	-	-	-	-	13,718
Therapy	44,367	-	-	-	-	44,367
Quality Assurance	34,520	-	-	-	-	34,520
Other Consultants	13,960	-	-	-	-	13,960
Depreciation and Amortization	-	204,443	-	-	-	204,443
Total Functional Expenses	\$ 7,391,234	\$ 583,456	\$ 27,954	\$ 114,291	\$ -	\$ 8,116,935

See accompanying Notes to Consolidated Financial Statements.

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007**

	Program Services			Supporting Services		Total
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund-Raising	
FUNCTIONAL EXPENSES						
Salaries and Benefits	\$ 5,192,349	\$ -	\$ 20,176	\$ 76,944	\$ -	\$ 5,289,469
Office Supplies and Services	57,164	749	-	1,492	-	59,405
Payroll/Bookkeeping Services	18,464	-	-	-	-	18,464
Scholarship	-	-	23,447	-	-	23,447
Special Events	-	-	3,468	-	-	3,468
Donations	-	-	750	-	-	750
Meetings	-	-	8,350	12,129	-	20,479
Professional Services	178,200	-	-	27,244	-	205,444
Telephone	21,718	-	-	-	-	21,718
Advertising	5,994	-	3,232	-	-	9,226
Licenses and Dues	8,520	-	-	-	-	8,520
Accounting	42,700	-	-	1,393	-	44,093
Legal	4,719	-	-	4,500	-	9,219
Insurance	99,216	102,372	-	-	-	201,588
User Fee Assessment	387,488	-	-	-	-	387,488
Provision for Bad Debts	40,556	-	-	-	-	40,556
Tuition and Education	192	-	-	-	-	192
Miscellaneous	5,358	-	-	311	-	5,669
Real Estate Tax	-	106,108	-	-	-	106,108
Interest	-	241,125	-	-	-	241,125
Plant	116,769	-	-	-	-	116,769
Utilities	195,307	-	-	-	-	195,307
Dietary	329,362	-	6,250	-	-	335,612
Laundry	65,633	-	-	-	-	65,633
Housekeeping	37,725	-	-	-	-	37,725
Medical	164,212	-	-	-	-	164,212
Recreation	21,059	-	-	-	-	21,059
Therapy	26,022	-	-	-	-	26,022
Quality Assurance	35,820	-	-	-	-	35,820
Other Consultants	13,800	-	-	-	-	13,800
Depreciation and Amortization	-	192,479	-	-	-	192,479
Total Functional Expenses	<u>\$ 7,068,347</u>	<u>\$ 642,833</u>	<u>\$ 65,673</u>	<u>\$ 124,013</u>	<u>\$ -</u>	<u>\$ 7,900,866</u>

See accompanying Notes to Consolidated Financial Statements.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

South Cove Nursing Facilities Foundation, Inc., (the Foundation) is a non-profit corporation formed for the purpose of creating a long-term care facility to serve the South Cove Community. The Organization formed South Cove Realty Company Limited Partnership (the Realty) for the purpose of constructing and holding the property and equipment (land, building and equipment) of the 100-bed long-term care facility and South Cove Manor, Inc. (the Operating Company) to carry out nursing home operations. South Cove Manor, Inc. is a 100% owned subsidiary of the South Cove Nursing Facilities Foundation, Inc. The Partnership is 100% owned by South Cove Manor, Inc. and South Cove Nursing Facilities Foundation, Inc. Effective control and policy functions of the organizations are embodied in the Foundation.

A summary of the Organization's significant accounting policies follows:

Basis of Consolidation

The consolidated financial statements include all the accounts of the above-named entities (the Organization). All significant inter-company balances and transactions have been eliminated.

Net Assets

Net assets of the Organization 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 the Organization 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.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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

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

The Organization 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 are not considered cash and cash equivalents for purposes of the Statement of Cash Flows.

Property, Plant and Equipment

Property, plant 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 recorded at their fair market value at the date of donation and 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. Assets with an estimated useful life of more than one-year and a historical cost or donated value of at least \$1,000 are capitalized.

Income Taxes

South Cove Nursing Facilities Foundation, Inc. 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 Internal Revenue Code.

No income taxes are payable by or provided for South Cove Realty Company Limited Partnership. The partners are liable for federal and state income taxes on their respective share of the Realty's taxable income.

Provisions for income taxes for South Cove Manor, Inc. (a C Corporation) are based on net income reported for financial reporting purposes. Deferred income taxes arise from differences in financial and income tax accounting methods, principally arising from depreciation accounting. Tax credits are treated as a reduction of the provision for income taxes in the year in which the credits arise.

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. The Organization determines delinquent accounts based on individual facts and circumstances. Historically, the Organization has not charged interest on accounts that are deemed to be delinquent.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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

Excess (Deficit) of Revenues, Gains and other Support over Expenses and Losses

The statement of activities include excess (deficit) of revenues, gains and other support over expenses and losses. Changes in unrestricted net assets which are excluded from excess of revenues, gains and other support over expenses and losses, consistent with industry practice, include the changes in net 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).

Deferred Finance Costs

Deferred finance costs are amortized over the period the obligation is outstanding using the effective interest method. Amortization charged to operations was \$7,391 and \$2,683 for 2008 and 2007, 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 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 of revenues over expenses. The fair value of investments has been determined primarily by quoted market prices at the statement of financial position date.

Assets Limited as to Use

Assets limited as to use include assets set aside by donors for restricted purposes; and assets held in trust under a U.S. Department of Housing and Urban Development (HUD) Regulatory Agreement.

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.

Promotional Advertising

Promotional advertising costs are expensed as incurred. Promotional advertising costs charged to operations amounted to \$6,723 and \$5,994 for 2008 and 2007, respectively.

Software

Software with a historical cost of \$4,942 at December 31, 2008 and 2007, are amortized over a three-year period using the straight-line method. Accumulated amortization amounted to \$4,942 as of December 31, 2008 and 2007, respectively. Amortization charged to operations amounted to \$-0- and \$131 for 2008 and 2007.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Other Intangible Assets

Other intangible assets include license costs of \$54,675. Intangible assets with infinite lives are reviewed for impairment using various methods annually, and impairments, if any, are charged to operations. There were no asset impairment charges for 2008 and 2007.

Fair Value of Financial Instruments

On January 1, 2008, the Organization adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 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.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 2 PATIENT SERVICE REVENUES FROM THIRD PARTY PAYORS

Summary of the Payment Arrangements with Third Party Payors

Medicaid - Standard Payments to Nursing Facilities

The Organization 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 may result in a retroactive rate adjustment for the current year.

Medicare - Prospective Payment System

The Organization 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.

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 (CMS) lifted the moratorium on Part B therapy and imposed a limit for both physical therapy (including speech therapy) and occupational therapy.

NOTE 3 RECEIVABLES

Accounts Receivable

Accounts receivable is comprised of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Private Patient Revenue	\$ 101,889	\$ 102,337
Medicare Patients	117,256	178,696
Publicly-Aided Patients	500,943	614,655
Allowance for Uncollectibles	(114,000)	(114,000)
Accounts Receivable, Net	<u>\$ 606,088</u>	<u>\$ 781,688</u>

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 3 RECEIVABLES (CONTINUED)

Receivables - Other

Receivables - other is comprised of the following at December 31, 2008 and 2007:

	2008	2007
Estimated Due from Medicaid	\$ 665	\$ 44,881
Due from Employees	19,000	-
Interest Receivable	30,900	35,586
	<u>\$ 50,565</u>	<u>\$ 80,467</u>

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

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

Building	40 years
Building Improvements	20 years
Equipment	10 years

Depreciation charged to operations amounted to \$197,052 and \$189,665 for 2008 and 2007, respectively. Property, plant and equipment with a total cost of \$6,636,529 are pledged as collateral for long-term debt.

At December 31, 2008, the Organization has incurred and capitalized \$78,651 of development costs related to the expansion or relocation of the existing nursing home facility. The project is in the development and feasibility stage. No decisions have been made as to the final course of action.

NOTE 5 RELATED PARTY TRANSACTIONS

The Organization has entered into the following transactions with related parties:

Related Party Loans

Related party loans, which bear no interest and have no fixed repayment terms and the Organization has agreed not to demand payment from the entity noted below for at least 12 months from the date of the financial statements are as follows:

	Balance at December 31,	
	2008	2007
Due from Related Parties:		
Mei Wah Village, Inc.	<u>\$18,898</u>	<u>\$16,755</u>

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 6 LONG-TERM DEBT

The Organization is obligated under long-term debt at December 31, 2008 and 2007, as follows:

	2008	2007
5.76% HUD insured mortgage to Wells Fargo Bank National Association, due November 1, 2025, secured by substantially all assets, payable in monthly installments of \$22,116 including interest.	\$ 2,864,542	\$ 2,961,878
Less: Current Maturities	103,093	97,336
Long-Term Debt, Net	\$ 2,761,449	\$ 2,864,542

Interest incurred on the above long-term debt amounted to \$167,594 and \$241,125 for 2008 and 2007, respectively.

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

	Amount
2009	\$ 103,093
2010	109,191
2011	115,649
2012	122,489
2013	129,733

NOTE 7 FAIR VALUE MEASUREMENTS

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

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 and 2007.

	2008			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Fixed Income	\$ 2,132,668	\$ 2,132,668	\$ -	\$ -
Common Stock	1,854,786	1,854,786	-	-
Mutual Funds	1,377,031	1,377,031	-	-
Hedge Funds	673,693	-	-	673,693
Real Estate Fund	257,403	-	-	257,403
Total	<u>\$ 6,295,581</u>	<u>\$ 5,364,485</u>	<u>\$ -</u>	<u>\$ 931,096</u>

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

	Total	Hedge Funds	Real Estate Funds
Beginning Balance as of January 1,	\$ 843,648	\$ 843,648	\$ -
Purchases	500,000	-	500,000
Sales	(250,000)	-	(250,000)
Dividends Received	3,598	-	3,598
Unrealized Gain (Loss)	(166,150)	(169,955)	3,805
Balance as of December 31,	<u>\$ 931,096</u>	<u>\$ 673,693</u>	<u>\$ 257,403</u>

	2007			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Corporate Bonds	\$ 1,999,777	\$ 1,999,777	\$ -	\$ -
Common Stock	3,139,337	3,139,337	-	-
Mutual Funds	2,451,816	-	2,451,816	-
Hedge Funds	843,648	-	-	843,648
Total	<u>\$ 8,434,578</u>	<u>\$ 5,139,114</u>	<u>\$ 2,451,816</u>	<u>\$ 843,648</u>

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table provides a summary of changes in fair value of the Organization's Level 3 financial assets for the year ended December 31, 2007:

	<u>Total</u>	<u>Hedge Funds</u>
Beginning Balance as of January 1,	\$ 385,806	\$ 385,806
Purchases	400,000	400,000
Sales	-	-
Dividends Received	-	-
Unrealized Gain (Loss)	57,842	57,842
Balance as of December 31,	<u>\$ 843,648</u>	<u>\$ 843,648</u>

At December 31, 2008, certain securities classified as available for sale were written down by \$1,209,510 to their estimated realizable value, because, in the opinion of management, the decline in market value of those securities is considered to be other than temporary.

NOTE 8 DONOR RESTRICTED FUNDS

The Organization has received donor-restricted contributions, which have been accounted for as temporarily and permanently restricted net assets, depending on the existence of and/or nature of any donor restrictions. The principal was placed in permanent endowment funds, with income only used to satisfy the donor requirements. Donor-restricted funds include cash and marketable securities that are carried at quoted market value at the statement of financial position date (see Note 7 for details).

The Board of Directors has classified the endowment and related appreciation/ depreciation in accordance with Massachusetts general law under G.L.c. 180A. The original value of the permanent endowment is classified as permanently restricted. Under Massachusetts law, unless appreciation on investments of permanently restricted assets of Massachusetts public charities should, until appropriated pursuant to proper governing board action, be classified in the financial statements in one of the "restricted" net asset classifications. The Organization has therefore classified the realized and unrealized appreciation/ depreciation as permanently restricted net assets.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 8 DONOR RESTRICTED FUNDS (CONTINUED)

Change in Endowment Net Assets for the years ended December 31, 2008 and 2007 are:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Restricted Assets - January 1, 2007	\$ 17,336	\$ 20,000
Investment Income	3,075	-
Unrealized Losses on Marketable Securities	(1,076)	-
Realized Gains on Marketable Securities	829	-
Net Assets Released from Restrictions	<u>(3,468)</u>	<u>-</u>
Restricted Assets - December 31, 2007	16,696	20,000
Investment Income	869	-
Realized Gains on Marketable Securities	209	-
Unrealized Loss on Marketable Securities	(8,761)	-
Net Assets Released from Restrictions	<u>(3,414)</u>	<u>-</u>
Restricted Assets - December 31, 2008	<u>\$ 5,599</u>	<u>\$ 20,000</u>

NOTE 9 ASSET LIMITED AS TO USE

- a.) The Organization has received donor-restricted contributions that have been accounted for as temporarily and permanently restricted net assets, depending on the existence of and/or nature of any donor restrictions. (See Note 8 for details).
- b.) Under the terms of the Department of Housing and Urban Development (HUD) regulatory agreement, the Organization is required to make monthly payments to an escrow account to cover FHA mortgage insurance, property insurance and real estate taxes. In addition, the Organization must make monthly payments of \$2,900 to a reserve for replacements which may be used for capital expenditures and major repairs. Withdrawals from the reserve for replacements are subject to approval by HUD. The escrow balances are invested in cash and cash equivalents.
- c.) As a requirement of the original HUD insured mortgage, the Organization established a sinking fund to insure principal payments in later years of the mortgage. Under the terms of the refinanced mortgage, the Organization is no longer required to maintain a sinking fund. The balance of the fund at July 24, 2007 was applied to reduce the balance of the refinanced mortgage.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 10 INCOME TAXES

Under the provision of Statement of Financial Accounting Standards No. 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have already been recognized in the Organization's financial statements or tax returns. Valuation allowances are established, if necessary, to reduce deferred tax asset accounts to the amounts that will more than likely be realized. The provision for income tax expense is the current tax payable to the period, plus or minus the net change in the deferred tax assets or liability accounts. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law, the effects of future changes in tax laws or rates are not anticipated. Computation of the deferred federal tax liability and asset was done by using an average graduated tax rate of 25% for 2008 and 2007. The deferred state liability and asset was calculated using a tax rate of 9.5% for 2008 and 2007.

Provision for income tax benefit, which has been included in the caption "Insurance and other" on Exhibit B, consists of the following components:

	<u>2008</u>	<u>2007</u>
Due Currently:		
Federal	\$ -	\$ -
State	456	456
Total	<u>\$ 456</u>	<u>\$ 456</u>

Total deferred tax assets is calculated to effect future deductible temporary differences caused by allowance for uncollectibles, vacation wage and payroll tax accruals, and a net operating loss carryforward.

The Organization's total deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Deferred Tax Assets	\$ 848,000	\$ 651,000
Deferred Tax Liabilities	-	-
Valuation Allowance Adjustments	(848,000)	(651,000)
Net Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2008, a loss carryforward of approximately \$2,187,000 is available to offset future taxable income and will begin to expire in 2009. Management estimates that the deferred tax asset is unlikely to be recognized, consequently, a valuation allowance has been setup for the entire amount.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 11 CONCENTRATION OF CREDIT RISK

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

Cash and Cash Equivalents

The Organization maintains cash and cash equivalents balances in several federally insured financial institutions in the same geographic area. The cash and cash equivalents exceeding federally insured limits totaled approximately \$1,670,637 at December 31, 2008.

Marketable Securities

Marketable securities in the amount of \$6,295,581 at December 31, 2008.

Accounts Receivable - Patients

The Organization extends unsecured credit to their private patients and patients covered under third-party payor arrangements. Accounts receivable from private patients and third-party payors totaled \$606,088 at December 31, 2008. See Note 2 and Note 3 for details of third-party payor arrangements and receivable balances, respectively.

Due from Related Parties

The Organization extends unsecured credit to their affiliate. The balance due from related parties totaled \$18,898 at December 31, 2008. See Note 5 for further details.

NOTE 12 PENSION PLAN

Defined Contribution Plan

The Organization sponsors a defined contribution pension plan covering substantially all of its employees. Pension costs are determined as 3 percent of each covered employee's salary and totaled \$101,573 and \$81,686 for 2008 and 2007, respectively. Pension costs are being funded on a current basis.

NOTE 13 COMMITMENTS

The Organization entered into a Purchase Option and Right of Refusal Agreement, expiring in March 2030, to acquire and renovate an existing property in the City of Boston. The purchase price will be determined by the amount of outstanding debt at the date of transfer from the seller, if the Organization exercises its option.

NOTE 14 CONTINGENCIES

- a) A significant portion of the Organization'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. The Organization 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 the Organization.

SOUTH COVE NURSING FACILITIES FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 14 CONTINGENCIES (CONTINUED)

- b) A significant portion of the Organization's revenues is 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 the Organization will be audited or if a retroactive rate adjustment would result.

- c) A portion of the Organization's revenues are derived from services under the Medicare program, (see Note 2). Under the program, some cost report cost centers are subject to potential for an audit for a period of three years from the date of issuance of a Notification of Provider Reimbursement by the fiscal intermediary (FI). It is not possible at this time to determine whether the Organization's filed cost reports will be audited. The Organization's Medicare Claims are also subject to audit or medical review by the FI. It is not possible at this time to determine whether the Organization's claims will be subjected to post payment review by the FI or if a retroactive rate adjustment would result.

NOTE 15 LOSS ON REFINANCING OF HUD DEBT

On July 24, 2007, the Organization refinanced its first mortgage with Prudential Huntoon Paige Associates, Ltd. As a result of the refinancing, the Organization incurred a loss on refinancing in the amount of \$64,671. The loss consisted of the write off of unamortized deferred financing costs.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
South Cove Nursing Facilities Foundation, Inc.
and Subsidiaries
Boston, Massachusetts

Our report on our audits of the basic consolidated financial statements of South Cove Nursing Facilities Foundation, Inc. and Subsidiaries for the years ended December 31, 2008 and 2007 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on pages 23 through 38 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The supplementary information on pages 23 through 30 has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The additional information presented on pages 31 to 34 has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

LarsonAllen LLP
LarsonAllen LLP

Randolph, Massachusetts
June 19, 2009

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 3,320,106	\$ -	\$ 3,320,106	\$ 1,025,889	\$ 1,482,879	\$ 811,338
Marketable Securities	6,295,581	-	6,295,581	6,295,581	-	-
Accounts Receivable Patients - (Net of Estimated Uncollectible Accounts)	606,088	-	606,088	-	606,088	-
Receivable - Other	50,565	(567,953)	618,518	30,900	19,665	567,953
Prepaid Expenses	131,015	-	131,015	-	70,595	60,420
Total Current Assets	<u>10,403,355</u>	<u>(567,953)</u>	<u>10,971,308</u>	<u>7,352,370</u>	<u>2,179,227</u>	<u>1,439,711</u>
ASSETS LIMITED AS TO USE						
By Donor for Permanent Endowment:						
Cash	276	-	276	276	-	-
Marketable Securities	23,783	-	23,783	23,783	-	-
By HUD Regulatory Agreement:						
Mortgagee Escrow's	88,162	-	88,162	-	-	88,162
Reserve for Replacement	386,628	-	386,628	-	-	386,628
Total Assets Limited as to Use	<u>498,849</u>	<u>-</u>	<u>498,849</u>	<u>24,059</u>	<u>-</u>	<u>474,790</u>
PROPERTY, PLANT AND EQUIPMENT						
Land	66,000	-	66,000	-	-	66,000
Building	4,621,158	-	4,621,158	-	-	4,621,158
Building Improvements	1,057,211	-	1,057,211	-	-	1,057,211
Equipment	892,160	-	892,160	-	-	892,160
Total	6,636,529	-	6,636,529	-	-	6,636,529
Less - Accumulated Depreciation	3,689,751	-	3,689,751	-	-	3,689,751
Net	2,946,778	-	2,946,778	-	-	2,946,778
Construction in Progress	78,651	-	78,651	-	23,148	55,503
Property, Plant and Equipment, Net	<u>3,025,429</u>	<u>-</u>	<u>3,025,429</u>	<u>-</u>	<u>23,148</u>	<u>3,002,281</u>
OTHER ASSETS						
Investment in Subsidiaries	-	(3,292,136)	3,292,136	3,269,738	22,398	-
Due from Related Parties	18,898	18,898	-	-	-	-
Deferred Financing Costs, Net	71,471	-	71,471	-	-	71,471
Other Intangible Assets	54,675	-	54,675	-	54,675	-
Imputed Interest Receivable	-	-	-	-	-	-
Total Other Assets	<u>145,044</u>	<u>(3,273,238)</u>	<u>3,418,282</u>	<u>3,269,738</u>	<u>77,073</u>	<u>71,471</u>
Total Assets	<u>\$ 14,072,677</u>	<u>\$ (3,841,191)</u>	<u>\$ 17,913,868</u>	<u>\$ 10,646,167</u>	<u>\$ 2,279,448</u>	<u>\$ 4,988,253</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

LIABILITIES AND NET ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
CURRENT LIABILITIES						
Current Maturities of Long-Term Debt	\$ 103,093	\$ -	\$ 103,093	\$ -	\$ -	\$ 103,093
Accounts Payable	127,112	-	127,112	-	127,112	-
Accrued Expenses	392,854	-	392,854	8,502	358,227	26,125
Payroll Taxes Payable	<u>22,702</u>	-	<u>22,702</u>	-	<u>22,702</u>	-
Total Current Liabilities	645,761	-	645,761	8,502	508,041	129,218
 LONG-TERM DEBT, Net of Current Maturities	 2,761,449	 -	 2,761,449	 -	 -	 2,761,449
 DUE TO RELATED PARTIES	 <u>-</u>	 <u>(549,056)</u>	 <u>549,056</u>	 <u>(27,801)</u>	 <u>549,056</u>	 <u>27,801</u>
 Total Liabilities	 3,407,210	 (549,056)	 3,956,266	 (19,299)	 1,057,097	 2,918,468
 NET ASSETS						
Unrestricted/Retained Earnings/Partners' Capital	10,639,868	(3,292,135)	13,932,003	10,639,867	1,222,351	2,069,785
Temporarily Restricted	5,599	-	5,599	5,599	-	-
Permanently Restricted	<u>20,000</u>	-	<u>20,000</u>	<u>20,000</u>	-	-
Total Net Assets	<u>10,665,467</u>	<u>(3,292,135)</u>	<u>13,957,602</u>	<u>10,665,466</u>	<u>1,222,351</u>	<u>2,069,785</u>
 Total Liabilities and Net Assets	 <u>\$ 14,072,677</u>	 <u>\$ (3,841,191)</u>	 <u>\$ 17,913,868</u>	 <u>\$ 10,646,167</u>	 <u>\$ 2,279,448</u>	 <u>\$ 4,988,253</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	<u>Consolidated Total</u>	<u>Eliminations</u>	<u>Subtotal</u>	<u>South Cove Nursing Facilities Foundation, Inc.</u>	<u>South Cove Manor, Inc.</u>	<u>South Cove Realty Ltd Partnership</u>
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 2,948,086	\$ -	\$ 2,948,086	\$ 723,922	\$ 608,312	\$ 1,615,852
Marketable Securities	8,434,578	-	8,434,578	8,434,578	-	-
Accounts Receivable Patients - (Net of Estimated Uncollectible Accounts)	781,688	-	781,688	-	781,688	-
Receivable - Other	80,467	(117,000)	197,467	35,586	44,881	117,000
Prepaid Expenses	144,062	-	144,062	-	77,266	66,796
Total Current Assets	<u>12,388,881</u>	<u>(117,000)</u>	<u>12,505,881</u>	<u>9,194,086</u>	<u>1,512,147</u>	<u>1,799,648</u>
ASSETS LIMITED AS TO USE						
By Donor for Permanent Endowment:						
Cash	3,738	-	3,738	3,738	-	-
Marketable Securities	32,318	-	32,318	32,318	-	-
By HUD Regulatory Agreement:						
Mortgagee Escrow's	61,898	-	61,898	-	-	61,898
Reserve for Replacement	443,035	-	443,035	-	-	443,035
Total Assets Limited as to Use	<u>540,989</u>	<u>-</u>	<u>540,989</u>	<u>36,056</u>	<u>-</u>	<u>504,933</u>
PROPERTY, PLANT AND EQUIPMENT						
Land	66,000	-	66,000	-	-	66,000
Building	4,621,158	-	4,621,158	-	-	4,621,158
Building Improvements	881,475	-	881,475	-	-	881,475
Equipment	874,214	-	874,214	-	-	874,214
Total	<u>6,442,847</u>	<u>-</u>	<u>6,442,847</u>	<u>-</u>	<u>-</u>	<u>6,442,847</u>
Less - Accumulated Depreciation	3,492,699	-	3,492,699	-	-	3,492,699
Net	<u>2,950,148</u>	<u>-</u>	<u>2,950,148</u>	<u>-</u>	<u>-</u>	<u>2,950,148</u>
Construction in Progress	78,651	-	78,651	-	23,148	55,503
Property, Plant and Equipment, Net	<u>3,028,799</u>	<u>-</u>	<u>3,028,799</u>	<u>-</u>	<u>23,148</u>	<u>3,005,651</u>
OTHER ASSETS						
Investment in Subsidiaries	-	(1,422,631)	1,422,631	1,422,631	-	-
Due from Related Parties	16,755	16,755	-	-	-	-
Deferred Financing Costs, Net	78,862	-	78,862	-	-	78,862
Other Intangible Assets	54,675	-	54,675	-	54,675	-
Imputed Interest Receivable	-	(1,135,701)	1,135,701	-	-	1,135,701
Total Other Assets	<u>150,292</u>	<u>(2,541,577)</u>	<u>2,691,869</u>	<u>1,422,631</u>	<u>54,675</u>	<u>1,214,563</u>
Total Assets	<u>\$ 16,108,961</u>	<u>\$ (2,658,577)</u>	<u>\$ 18,767,538</u>	<u>\$ 10,652,773</u>	<u>\$ 1,589,970</u>	<u>\$ 6,524,795</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

LIABILITIES AND NET ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
CURRENT LIABILITIES						
Current Maturities of Long-Term Debt	\$ 97,336	\$ -	\$ 97,336	\$ -	\$ -	\$ 97,336
Accounts Payable	119,123	-	119,123	-	119,123	-
Payroll Taxes Payable	32,018	-	32,018	-	32,018	-
Accrued Expenses	452,606	-	452,606	8,507	429,882	14,217
Deferred Grant Revenue	-	-	-	-	-	-
Total Current Liabilities	<u>701,083</u>	<u>-</u>	<u>701,083</u>	<u>8,507</u>	<u>581,023</u>	<u>111,553</u>
 LONG-TERM DEBT, Net of Current Maturities	 2,864,542	 -	 2,864,542	 -	 -	 2,864,542
 DUE TO RELATED PARTIES	 <u>-</u>	 <u>(1,235,946)</u>	 <u>1,235,946</u>	 <u>(1,919,067)</u>	 <u>3,127,213</u>	 <u>27,800</u>
 Total Liabilities	 3,565,625	 (1,235,946)	 4,801,571	 (1,910,560)	 3,708,236	 3,003,895
 NET ASSETS						
Unrestricted/Retained Earnings/Partners' Capital	12,506,640	(1,422,631)	13,929,271	12,526,637	(2,118,266)	3,520,900
Temporarily Restricted	16,696	-	16,696	16,696	-	-
Permanently Restricted	20,000	-	20,000	20,000	-	-
Total Net Assets	<u>12,543,336</u>	<u>(1,422,631)</u>	<u>13,965,967</u>	<u>12,563,333</u>	<u>(2,118,266)</u>	<u>3,520,900</u>
 Total Liabilities and Net Assets	 <u>\$ 16,108,961</u>	 <u>\$ (2,658,577)</u>	 <u>\$ 18,767,538</u>	 <u>\$ 10,652,773</u>	 <u>\$ 1,589,970</u>	 <u>\$ 6,524,795</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
UNRESTRICTED NET ASSETS						
REVENUES, GAINS, AND OTHER SUPPORT						
Net Patient Service Revenue	\$ 8,318,871	\$ -	\$ 8,318,871	\$ -	\$ 8,318,871	\$ -
Contributions and Grants	37,399	-	37,399	28,879	8,520	-
Investment Income	264,060	(31,000)	295,060	239,226	17,606	38,228
Realized Gain (Loss) on Investments-Net	(451,539)	-	(451,539)	(451,539)	-	-
Other Than Temporary Decline in Investments	(1,209,510)	-	(1,209,510)	(1,209,510)	-	-
Other Revenue	44,010	(1,594,114)	1,638,124	-	44,010	1,594,114
Total Unrestricted Revenues and Gains	<u>7,003,291</u>	<u>(1,625,114)</u>	<u>8,628,405</u>	<u>(1,392,944)</u>	<u>8,389,007</u>	<u>1,632,342</u>
Net Assets Released from Restrictions	3,414	-	3,414	3,414	-	-
Total Unrestricted Revenues, Gains, and Other Support	7,006,705	(1,625,114)	8,631,819	(1,389,530)	8,389,007	1,632,342
EXPENSES						
Salaries and Benefits	5,385,912	-	5,385,912	72,317	5,313,595	-
Medical Supplies and Drugs	179,314	-	179,314	-	179,314	-
Insurance and Other	2,079,252	(1,594,114)	3,673,366	58,224	3,403,722	211,420
Provision for Bad Debts	100,420	-	100,420	-	100,420	-
Depreciation and Amortization	204,443	-	204,443	-	-	204,443
Interest	167,594	(31,000)	198,594	-	31,000	167,594
Total Expenses	<u>8,116,935</u>	<u>(1,625,114)</u>	<u>9,742,049</u>	<u>130,541</u>	<u>9,028,051</u>	<u>583,457</u>
INCOME (LOSS) BEFORE OTHER ITEMS	(1,110,230)	-	(1,110,230)	(1,520,071)	(639,044)	1,048,885

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
OTHER ITEMS						
Investment Income-Subsidiaries	-	(436,241)	436,241	389,843	46,398	-
Total Other Items	-	(436,241)	436,241	389,843	46,398	-
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES	(1,110,230)	(436,241)	(673,989)	(1,130,228)	(592,646)	1,048,885
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	(756,542)	-	(756,542)	(756,542)	-	-
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(1,866,772)	(436,241)	(1,430,531)	(1,886,770)	(592,646)	1,048,885
TEMPORARILY RESTRICTED NET ASSETS						
Unrealized (Loss) Gain on Marketable Securities	(8,761)	-	(8,761)	(8,761)	-	-
Realized Gains on Marketable Securities	209	-	209	209	-	-
Investment Income	869	-	869	869	-	-
Satisfaction of Restriction	(3,414)	-	(3,414)	(3,414)	-	-
Decrease in Temporarily Restricted Net Assets	(11,097)	-	(11,097)	(11,097)	-	-
INCREASE (DECREASE) IN NET ASSETS	(1,877,869)	(436,241)	(1,441,628)	(1,897,867)	(592,646)	1,048,885
Net Assets - Beginning of Year	12,543,336	(1,422,631)	13,965,967	12,563,333	(2,118,266)	3,520,900
Additional Paid-In Capital	-	(3,933,263)	3,933,263	-	3,933,263	-
Distributions	-	2,500,000	(2,500,000)	-	-	(2,500,000)
NET ASSETS - END OF YEAR	<u>\$ 10,665,467</u>	<u>\$ (3,292,135)</u>	<u>\$ 13,957,602</u>	<u>\$ 10,665,466</u>	<u>\$ 1,222,351</u>	<u>\$ 2,069,785</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
UNRESTRICTED NET ASSETS						
REVENUES, GAINS, AND OTHER SUPPORT						
Net Patient Service Revenue	\$ 7,997,544	\$ -	\$ 7,997,544	\$ -	\$ 7,997,544	\$ -
Contributions and Grants	81,625	-	81,625	71,762	9,863	-
Investment Income	547,844	(119,000)	666,844	473,675	65,415	127,754
Realized Gain (Loss) on Investments-Net	260,345	-	260,345	260,345	-	-
Other Revenue	47,391	(1,210,426)	1,257,817	-	93,817	1,164,000
Total Unrestricted Revenues and Gains	8,934,749	(1,329,426)	10,264,175	805,782	8,166,639	1,291,754
Net Assets Released from Restrictions	3,468	-	3,468	3,468	-	-
Total Unrestricted Revenues, Gains, and Other Support	8,938,217	(1,329,426)	10,267,643	809,250	8,166,639	1,291,754
EXPENSES						
Salaries and Benefits	5,289,469	-	5,289,469	76,944	5,212,525	-
Medical Supplies and Drugs	164,212	-	164,212	-	164,212	-
Insurance and Other	1,973,025	(1,210,426)	3,183,451	132,742	2,841,480	209,229
Provision for Bad Debts	40,556	-	40,556	-	40,556	-
Depreciation and Amortization	192,479	-	192,479	-	-	192,479
Interest	241,125	(119,000)	360,125	-	119,000	241,125
Total Expenses	7,900,866	(1,329,426)	9,230,292	209,686	8,377,773	642,833
INCOME (LOSS) BEFORE OTHER ITEMS	1,037,351	-	1,037,351	599,564	(211,134)	648,921

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
OTHER ITEMS						
Investment Income-Subsidiaries	-	(413,113)	413,113	393,113	20,000	-
Loss from Extinguishment of Debt	(64,671)	-	(64,671)	-	-	(64,671)
Total Other Items	(64,671)	(413,113)	348,442	393,113	20,000	(64,671)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES	972,680	(413,113)	1,385,793	992,677	(191,134)	584,250
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	27,174	-	27,174	27,174	-	-
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	999,854	(413,113)	1,412,967	1,019,851	(191,134)	584,250
TEMPORARILY RESTRICTED NET ASSETS						
Unrealized (Loss) Gain on Marketable Securities	(1,076)	-	(1,076)	(1,076)	-	-
Realized Gains on Marketable Securities	829	-	829	829	-	-
Investment Income	3,075	-	3,075	3,075	-	-
Satisfaction of Restriction	(3,468)	-	(3,468)	(3,468)	-	-
Increase in Temporarily Restricted Net Assets	(640)	-	(640)	(640)	-	-
INCREASE (DECREASE) IN NET ASSETS	999,214	(413,113)	1,412,327	1,019,211	(191,134)	584,250
Net Assets - Beginning of Year	11,544,122	(3,009,518)	14,553,640	11,544,122	(1,927,132)	4,936,650
Distributions/Additional Paid-In Capital	-	2,000,000	(2,000,000)	-	-	(2,000,000)
NET ASSETS - END OF YEAR	<u>\$ 12,543,336</u>	<u>\$ (1,422,631)</u>	<u>\$ 13,965,967</u>	<u>\$ 12,563,333</u>	<u>\$ (2,118,266)</u>	<u>\$ 3,520,900</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
ADMINISTRATIVE AND GENERAL						
Salaries - Administrator	\$ 108,050	\$ -	\$ 108,050	\$ -	\$ 108,050	\$ -
Management Fee	183,960	-	183,960	-	183,960	-
Salaries - Clerical	262,285	-	262,285	-	262,285	-
Salaries - Foundation	66,882	-	66,882	66,882	-	-
Pension	101,573	-	101,573	-	101,573	-
Office Supplies and Expense	46,742	-	46,742	1,265	44,977	500
Tuition and Education	16,440	-	16,440	11,737	4,703	-
Salaries - Staff Development	86,785	-	86,785	-	86,785	-
Late Charges	88	-	88	-	88	-
Telephone	22,063	-	22,063	-	22,063	-
Advertising	6,723	-	6,723	-	6,723	-
Travel and Meetings	4,920	-	4,920	4,920	-	-
Licenses and Dues	12,717	-	12,717	265	12,452	-
Employee Benefits	67,146	-	67,146	-	67,146	-
General Expenses	15,895	-	15,895	-	15,895	-
Accounting	53,600	-	53,600	5,000	38,600	10,000
Professional Fees Other	8,187	-	8,187	-	8,187	-
Bookkeeping and Payroll Services	28,852	-	28,852	-	28,852	-
Legal	7,368	-	7,368	6,107	1,261	-
Payroll Taxes	374,720	-	374,720	5,356	369,364	-
Health Insurance	316,469	-	316,469	-	316,469	-
Insurance - Other	91,457	-	91,457	79	76,662	14,716
User Fee Assessment	388,422	-	388,422	-	388,422	-
Interest on Working Capital	-	(31,000)	31,000	-	31,000	-
Amortization of Software	-	-	-	-	-	-
Donations	-	-	-	-	-	-
Fines and Penalties	-	-	-	-	-	-
Investment Fees	24,417	-	24,417	24,417	-	-
Kellogg Grant Expenses	199	-	199	199	-	-
Breakfast Grant Expenses	-	-	-	-	-	-
Recognition - Restricted Funds	4,314	-	4,314	4,314	-	-
Bad Debts	100,420	-	100,420	-	100,420	-
Total	<u>\$ 2,400,694</u>	<u>\$ (31,000)</u>	<u>\$ 2,431,694</u>	<u>\$ 130,541</u>	<u>\$ 2,275,937</u>	<u>\$ 25,216</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
PROPERTY EXPENSES						
Rent - Real Estate	\$ -	\$ (1,594,114)	\$ 1,594,114	\$ -	\$ 1,594,114	\$ -
Property Insurance	79,629	-	79,629	-	-	79,629
Real Estate Taxes	106,575	-	106,575	-	-	106,575
Interest	167,594	-	167,594	-	-	167,594
Depreciation	197,052	-	197,052	-	-	197,052
Amortization	7,391	-	7,391	-	-	7,391
Total	<u>\$ 558,241</u>	<u>\$ (1,594,114)</u>	<u>\$ 2,152,355</u>	<u>\$ -</u>	<u>\$ 1,594,114</u>	<u>\$ 558,241</u>
PLANT OPERATIONS						
Salaries	\$ 212,263	\$ -	\$ 212,263	\$ -	\$ 212,263	\$ -
Purchased Services	138,782	-	138,782	-	138,782	-
Supplies and Expense	31,311	-	31,311	-	31,311	-
Utilities	216,928	-	216,928	-	216,928	-
Total	<u>\$ 599,284</u>	<u>\$ -</u>	<u>\$ 599,284</u>	<u>\$ -</u>	<u>\$ 599,284</u>	<u>\$ -</u>
DIETARY						
Salaries	\$ 378,045	\$ -	\$ 378,045	\$ -	\$ 378,045	\$ -
Food	325,863	-	325,863	-	325,863	-
Purchased Services	20,847	-	20,847	-	20,847	-
Supplies and Expenses	20,064	-	20,064	-	20,064	-
Total	<u>\$ 744,819</u>	<u>\$ -</u>	<u>\$ 744,819</u>	<u>\$ -</u>	<u>\$ 744,819</u>	<u>\$ -</u>
LAUNDRY AND LINEN						
Salaries	\$ 82,139	\$ -	\$ 82,139	\$ -	\$ 82,139	\$ -
Purchased services	51,587	-	51,587	-	51,587	-
Supplies and Expenses	11,343	-	11,343	-	11,343	-
Linen and Bedding	5,923	-	5,923	-	5,923	-
Total	<u>\$ 150,992</u>	<u>\$ -</u>	<u>\$ 150,992</u>	<u>\$ -</u>	<u>\$ 150,992</u>	<u>\$ -</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
HOUSEKEEPING						
Salaries	\$ 194,449	\$ -	\$ 194,449	\$ -	\$ 194,449	\$ -
Supplies and Expenses	47,549	-	47,549	-	47,549	-
Total	<u>\$ 241,998</u>	<u>\$ -</u>	<u>\$ 241,998</u>	<u>\$ -</u>	<u>\$ 241,998</u>	<u>\$ -</u>
NURSING						
Salary - Director	\$ 90,238	\$ -	\$ 90,238	\$ -	\$ 90,238	\$ -
Salaries - R.N.	738,512	-	738,512	-	738,512	-
Salaries - L.P.N.	433,359	-	433,359	-	433,359	-
Salaries - Nurses Aides	1,563,246	-	1,563,246	-	1,563,246	-
Salaries - Orientation	10,487	-	10,487	-	10,487	-
Supplies and Expense	108,366	-	108,366	-	108,366	-
Total	<u>\$ 2,944,208</u>	<u>\$ -</u>	<u>\$ 2,944,208</u>	<u>\$ -</u>	<u>\$ 2,944,208</u>	<u>\$ -</u>
MEDICAL SERVICES						
MMQ Nurse	\$ 63,323	\$ -	\$ 63,323	\$ -	\$ 63,323	\$ -
MDS Coordinator	-	-	-	-	-	-
Quality assurance nurse	34,520	-	34,520	-	34,520	-
Total	<u>\$ 97,843</u>	<u>\$ -</u>	<u>\$ 97,843</u>	<u>\$ -</u>	<u>\$ 97,843</u>	<u>\$ -</u>
SOCIAL SERVICE						
Salaries	\$ 57,986	\$ -	\$ 57,986	\$ -	\$ 57,986	\$ -
Consultant	4,960	-	4,960	-	4,960	-
Total	<u>\$ 62,946</u>	<u>\$ -</u>	<u>\$ 62,946</u>	<u>\$ -</u>	<u>\$ 62,946</u>	<u>\$ -</u>
RECREATION						
Salaries	\$ 177,877	\$ -	\$ 177,877	\$ -	\$ 177,877	\$ -
Supplies and Expense	13,718	-	13,718	-	13,718	-
Total	<u>\$ 191,595</u>	<u>\$ -</u>	<u>\$ 191,595</u>	<u>\$ -</u>	<u>\$ 191,595</u>	<u>\$ -</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
CONSULTANTS						
Medical Director	\$ 9,000	\$ -	\$ 9,000	\$ -	\$ 9,000	\$ -
Physical Therapy	34,475	-	34,475	-	34,475	-
Speech Therapy	2,905	-	2,905	-	2,905	-
Occupational Therapy	7,219	-	7,219	-	7,219	-
Total	<u>\$ 53,599</u>	<u>\$ -</u>	<u>\$ 53,599</u>	<u>\$ -</u>	<u>\$ 53,599</u>	<u>\$ -</u>
ANCILLARIES						
Pharmacy	\$ 14,155	\$ -	\$ 14,155	\$ -	\$ 14,155	\$ -
Physical Therapy	34,360	-	34,360	-	34,360	-
Occupational Therapy	6,777	-	6,777	-	6,777	-
Speech Therapy	3,230	-	3,230	-	3,230	-
Radiology	5,709	-	5,709	-	5,709	-
Laboratory	6,173	-	6,173	-	6,173	-
Other	312	-	312	-	312	-
Total	<u>\$ 70,716</u>	<u>\$ -</u>	<u>\$ 70,716</u>	<u>\$ -</u>	<u>\$ 70,716</u>	<u>\$ -</u>
 Total Expenses	 <u>\$ 8,116,935</u>	 <u>\$ (1,625,114)</u>	 <u>\$ 9,742,049</u>	 <u>\$ 130,541</u>	 <u>\$ 9,028,051</u>	 <u>\$ 583,457</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
ADMINISTRATIVE AND GENERAL						
Salaries - Administrator	\$ 124,572	\$ -	\$ 124,572	\$ -	\$ 124,572	\$ -
Management Fee	175,200	-	175,200	-	175,200	-
Salaries - Clerical	256,893	-	256,893	-	256,893	-
Salaries - Foundation	71,019	-	71,019	71,019	-	-
Pension	81,686	-	81,686	-	81,686	-
Office Supplies and Expense	59,406	-	59,406	1,492	57,164	750
Tuition and Education	3,639	-	3,639	3,447	192	-
Salaries - Staff Development	80,308	-	80,308	-	80,308	-
Taxes	856	-	856	-	856	-
Telephone	21,718	-	21,718	-	21,718	-
Advertising	5,994	-	5,994	-	5,994	-
Travel and Meetings	12,129	-	12,129	12,129	-	-
Licenses and Dues	8,830	-	8,830	310	8,520	-
Employee Benefits	52,835	-	52,835	-	52,835	-
General Expenses	4,503	-	4,503	-	4,503	-
Accounting	47,200	-	47,200	4,500	42,700	-
Professional Fees	3,000	-	3,000	-	3,000	-
Bookkeeping and Payroll Services	20,864	-	20,864	2,400	18,464	-
Legal	6,112	-	6,112	1,393	4,719	-
Payroll Taxes	375,957	-	375,957	5,830	370,127	-
Health Insurance	318,163	-	318,163	-	318,163	-
Insurance - Other	115,553	-	115,553	95	99,216	16,242
User Fee Assessment	387,488	-	387,488	-	387,488	-
Interest on Working Capital	-	(119,000)	119,000	-	119,000	-
Amortization of Software	131	-	131	-	-	131
Donations	750	-	750	750	-	-
Investment Fees	24,845	-	24,845	24,845	-	-
Restricted Funds	35,050	(46,426)	81,476	81,476	-	-
Bad Debts	40,556	-	40,556	-	40,556	-
Total	<u>\$ 2,335,257</u>	<u>\$ (165,426)</u>	<u>\$ 2,500,683</u>	<u>\$ 209,686</u>	<u>\$ 2,273,874</u>	<u>\$ 17,123</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
PROPERTY EXPENSES						
Rent - Real Estate	\$ -	\$ (1,164,000)	\$ 1,164,000	\$ -	\$ 1,164,000	\$ -
Property Insurance	86,129	-	86,129	-	-	86,129
Real Estate Taxes	106,108	-	106,108	-	-	106,108
Interest	241,125	-	241,125	-	-	241,125
Depreciation	189,665	-	189,665	-	-	189,665
Amortization	2,683	-	2,683	-	-	2,683
Total	<u>\$ 625,710</u>	<u>\$ (1,164,000)</u>	<u>\$ 1,789,710</u>	<u>\$ -</u>	<u>\$ 1,164,000</u>	<u>\$ 625,710</u>
PLANT OPERATIONS						
Salaries	\$ 201,376	\$ -	\$ 201,376	\$ -	\$ 201,376	\$ -
Purchased Services	81,494	-	81,494	-	81,494	-
Supplies and Expense	35,275	-	35,275	-	35,275	-
Utilities	195,307	-	195,307	-	195,307	-
Total	<u>\$ 513,452</u>	<u>\$ -</u>	<u>\$ 513,452</u>	<u>\$ -</u>	<u>\$ 513,452</u>	<u>\$ -</u>
DIETARY						
Salaries	\$ 377,707	\$ -	\$ 377,707	\$ -	\$ 377,707	\$ -
Food	291,094	-	291,094	-	291,094	-
Purchased Services	18,763	-	18,763	-	18,763	-
Supplies and Expenses	25,755	-	25,755	-	25,755	-
Total	<u>\$ 713,319</u>	<u>\$ -</u>	<u>\$ 713,319</u>	<u>\$ -</u>	<u>\$ 713,319</u>	<u>\$ -</u>
LAUNDRY AND LINEN						
Salaries	\$ 82,229	\$ -	\$ 82,229	\$ -	\$ 82,229	\$ -
Purchased services	53,580	-	53,580	-	53,580	-
Supplies and Expenses	6,272	-	6,272	-	6,272	-
Linen and Bedding	5,782	-	5,782	-	5,782	-
Total	<u>\$ 147,863</u>	<u>\$ -</u>	<u>\$ 147,863</u>	<u>\$ -</u>	<u>\$ 147,863</u>	<u>\$ -</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
HOUSEKEEPING						
Salaries	\$ 187,602	\$ -	\$ 187,602	\$ -	\$ 187,602	\$ -
Supplies and Expenses	37,725	-	37,725	-	37,725	-
Total	<u>\$ 225,327</u>	<u>\$ -</u>	<u>\$ 225,327</u>	<u>\$ -</u>	<u>\$ 225,327</u>	<u>\$ -</u>
NURSING						
Salary - Director	\$ 94,659	\$ -	\$ 94,659	\$ -	\$ 94,659	\$ -
Salaries - R.N.	804,430	-	804,430	-	804,430	-
Salaries - L.P.N.	406,098	-	406,098	-	406,098	-
Salaries - Nurses Aides	1,473,193	-	1,473,193	-	1,473,193	-
Salaries - Orientation	14,536	-	14,536	-	14,536	-
Supplies and Expense	82,559	-	82,559	-	82,559	-
Total	<u>\$ 2,875,475</u>	<u>\$ -</u>	<u>\$ 2,875,475</u>	<u>\$ -</u>	<u>\$ 2,875,475</u>	<u>\$ -</u>
MEDICAL SERVICES						
MMQ Nurse	\$ 70,396	\$ -	\$ 70,396	\$ -	\$ 70,396	\$ -
MDS Coordinator	1,414	-	1,414	-	1,414	-
Utilization Review	-	-	-	-	-	-
Quality assurance nurse	35,820	-	35,820	-	35,820	-
Total	<u>\$ 107,630</u>	<u>\$ -</u>	<u>\$ 107,630</u>	<u>\$ -</u>	<u>\$ 107,630</u>	<u>\$ -</u>
SOCIAL SERVICE						
Salaries	\$ 59,639	\$ -	\$ 59,639	\$ -	\$ 59,639	\$ -
Consultant	4,800	-	4,800	-	4,800	-
Total	<u>\$ 64,439</u>	<u>\$ -</u>	<u>\$ 64,439</u>	<u>\$ -</u>	<u>\$ 64,439</u>	<u>\$ -</u>
RECREATION						
Salaries	\$ 154,660	\$ -	\$ 154,660	\$ -	\$ 154,660	\$ -
Supplies and Expense	21,059	-	21,059	-	21,059	-
Total	<u>\$ 175,719</u>	<u>\$ -</u>	<u>\$ 175,719</u>	<u>\$ -</u>	<u>\$ 175,719</u>	<u>\$ -</u>

**SOUTH COVE NURSING FACILITIES FOUNDATION, INC.
AND SUBSIDIARIES
SCHEDULES OF EXPENSES
YEAR ENDED DECEMBER 31, 2007
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)
(UNAUDITED)**

	Consolidated Total	Eliminations	Subtotal	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
CONSULTANTS						
Medical Director	\$ 9,000	\$ -	\$ 9,000	\$ -	\$ 9,000	\$ -
Physical Therapy	32,681	-	32,681	-	32,681	-
Speech Therapy	453	-	453	-	453	-
Occupational Therapy	7,473	-	7,473	-	7,473	-
Total	<u>\$ 49,607</u>	<u>\$ -</u>	<u>\$ 49,607</u>	<u>\$ -</u>	<u>\$ 49,607</u>	<u>\$ -</u>
ANCILLARIES						
Pharmacy	\$ 24,805	\$ -	\$ 24,805	\$ -	\$ 24,805	\$ -
Oxygen	-	-	-	-	-	-
Physical Therapy	20,146	-	20,146	-	20,146	-
Occupational Therapy	5,339	-	5,339	-	5,339	-
Speech Therapy	537	-	537	-	537	-
Radiology	4,865	-	4,865	-	4,865	-
Laboratory	8,399	-	8,399	-	8,399	-
Other	2,977	-	2,977	-	2,977	-
Total	<u>\$ 67,068</u>	<u>\$ -</u>	<u>\$ 67,068</u>	<u>\$ -</u>	<u>\$ 67,068</u>	<u>\$ -</u>
Total Expenses	<u>\$ 7,900,866</u>	<u>\$ (1,329,426)</u>	<u>\$ 9,230,292</u>	<u>\$ 209,686</u>	<u>\$ 8,377,773</u>	<u>\$ 642,833</u>