2011
AUDIT
053350

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

2011

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
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2011
AUDIT
053350

INDEPENDENT AUDITORS' REPORT

Board of Directors
South Cove Manor Nursing and Rehabilitation Center, Inc.
and Subsidiaries
Boston, Massachusetts

We have audited the accompanying consolidated statements of financial position of South Cove Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries as of December 31, 2011 and 2010, 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 Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries as of December 31, 2011 and 2010, and its consolidated changes in net assets, cash flows, and functional expenses for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Quincy, Massachusetts
March 27, 2012

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,100,192	$ 3,059,381
Certificates of Deposit	127,889	127,427
Marketable Securities	7,928,254	8,679,198
Accounts Receivable - Residents (Net of Estimated Uncollectible Accounts)	388,620	506,315
Receivable - Other	15,152	56,827
Prepaid Expenses	111,075	131,220
Deferred Income Taxes	325,000	325,000
Total Current Assets	11;996,182	12,885,368
ASSETS LIMITED AS TO USE		
By Donor Restriction:		
Cash	664	370
Marketable Securities	24,362	28,023
By HUD Regulatory Agreement:		
Mortgage Escrows	76,085	93,053
Reserve for Replacement	150,676	115,876
Total Assets Limited as to Use	251,787	237,322
PROPERTY AND EQUIPMENT		
Land	66,000	66,000
Building	4,621,158	4,621,159
Building Improvements	1,550,501	1,538,063
Equipment	929,348	924,230
Total	7,167,007	7,149,452
Less: Accumulated Depreciation	4,348,379	4,124,334
Net	2,818,628	3,025,118
Construction in Progress	832,584	108,745
Property and Equipment, Net	3,651,212	3,133,863
OTHER ASSETS		
Due from Related Party	11,228	19,390
Deferred Financing Costs, Net	50,877	57,463
Software, Net	-	1,711
Other Intangible Assets	54,675	54,675
Total Other Assets	116,780	133,239
Total Assets	$ 16,015,961	$ 16,389,792

See accompanying Notes to Consolidated Financial Statements.

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 122,489	$ 115,649
Accounts Payable	106,302	137,320
Accrued Expenses	777,540	714,924
Payroll Taxes Payable	57,171	52,934
Total Current Liabilities	1,063,502	1,020,827
LONG-TERM DEBT, Net of Current Maturities	2,414,121	2,536,609
Total Liabilities	3,477,623	3,557,436
NET ASSETS		
Unrestricted	12,503,312	12,803,963
Temporarily Restricted	15,026	8,393
Permanently Restricted	20,000	20,000
Total Net Assets	12,538,338	12,832,356
Total Liabilities and Net Assets	$ 16,015,961	$ 16,389,792

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORT		
Net Patient Service Revenue	$ 8,797,966	$ 8,658,852
Contributions and Grants	28,117	34,029
Investment Income	292,225	234,923
Realized Gain on Marketable Securities - Net	10,847	1,267,305
Other Than Temporary Decline in Marketable Securities	-	(150,377)
Other Revenue	47,166	32,781
Total Unrestricted Revenues and Gains	9,176,321	10,077,513
Net Assets Released from Restrictions	3,580	4,124
Total Unrestricted Revenues, Gains, and Other Support	9,179,901	10,081,637
EXPENSES		
Salaries and Benefits	5,868,495	5,999,991
Medical Supplies and Drugs	290,745	253,070
Insurance and Other	2,475,595	2,296,091
Provision for Bad Debts	26,077	15,464
Depreciation and Amortization	232,342	228,417
Interest	149,194	155,683
Total Expenses	9,042,448	8,948,716
OPERATING INCOME BEFORE OTHER ITEMS	137,453	1,132,921
OTHER ITEMS		
Abandonment Costs	(78,651)	-
Federal Income Tax Benefit	14,080	252,750
State Income Tax Benefit (Expense)	(14,080)	72,250
Total Other Items	(78,651)	325,000
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES	58,802	1,457,921
Unrealized Loss on Marketable Securities	(359,453)	(434,608)
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(300,651)	1,023,313
TEMPORARILY RESTRICTED NET ASSETS		
Unrealized Gain (Loss) on Marketable Securities	(607)	3,003
Realized Gain on Marketable Securities	249	53
Investment Income	571	567
Temporarily Restricted Contributions	10,000	-
Net Assets Released from Restrictions	(3,580)	(4,124)
NET INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	6,633	(501)
CHANGE IN NET ASSETS	(294,018)	1,022,812
Net Assets - Beginning of Year	12,832,356	11,809,544
NET ASSETS - END OF THE YEAR	$ 12,538,338	$ 12,832,356

See accompanying Notes to Consolidated Financial Statements.

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (294,018)	$ 1,022,812
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operations:		
Unrealized Loss on Marketable Securities, Net	360,060	431,605
Other Than Temporary Decline in Marketable Securities	-	150,377
Realized Gain on Sales of Marketable Securities, Net	(11,096)	(1,267,358)
Restricted Investment Income Received	(10,571)	(567)
Depreciation and Amortization	232,342	228,417
Provision for Losses on Accounts Receivable	26,077	15,464
Deferred Income Taxes	-	(325,000)
Abandonment Costs	78,651	-
(Increase) Decrease in:		
Accounts Receivable	91,618	15,564
Other Receivables	41,675	80,440
Prepaid Expenses	20,145	(8,706)
Increase (Decrease) in:		
Accounts Payable	(31,018)	27,221
Accrued Expenses and Payroll Taxes Payable	66,853	87,425
Net Cash Provided by Operating Activities	570,718	457,694
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(17,555)	(228,698)
Additions to Construction in Progress	(802,490)	(30,094)
Deposits to Reserve for Replacement	(34,800)	(34,800)
Withdrawals from Reserve for Replacement	-	167,399
Net Deposits from Escrows Accounts	16,968	19,414
Certificates of Deposit Matured	127,698	126,857
Purchases of Certificates of Deposit	(128,160)	(127,450)
Proceeds from Sales/Maturities of Marketable Securities	5,167,484	12,668,745
Purchases of Marketable Securities	(4,762,137)	(13,164,919)
Net Cash Used by Investing Activities	(432,992)	(603,546)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from Related Parties	8,162	2,341
Proceeds from Restricted Investment Income	10,571	567
Repayment of Long-Term Debt	(115,648)	(109,191)
Net Cash Used by Financing Activities	(96,915)	(106,283)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	40,811	(252,135)
Cash and Cash Equivalents at Beginning of Year	3,059,381	3,311,516
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,100,192	$ 3,059,381
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 149,718	$ 156,207

See accompanying Notes to Consolidated Financial Statements.

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	Program Services			Supporting Services		
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund-Raising	Total
FUNCTIONAL EXPENSES						
Salaries and Benefits	$ 5,802,906	$ -	$ -	$ 65,595	$ -	$ 5,868,501
Office Supplies and Services	53,286	-	-	494	-	53,780
Payroll/Bookkeeping Services	42,523	-	-	-	-	42,523
Scholarship	-	-	10,874	-	-	10,874
Donations	2,878	-	1,038	-	-	3,916
Meetings	-	-	-	9,781	-	9,781
Professional Services	207,600	-	-	78,678	-	286,278
Telephone	22,316	-	-	-	-	22,316
Advertising	5,649	-	-	200	-	5,849
Licenses and Dues	8,793	-	-	-	-	8,793
Accounting	42,600	10,100	-	5,100	-	57,800
Legal	1,720	-	-	79,259	-	80,979
Insurance	87,085	63,323	-	-	-	150,408
User Fee Assessment	616,029	-	-	-	-	616,029
Provision for Bad Debts	26,077	-	-	-	-	26,077
Tuition and Education	5,731	-	-	-	-	5,731
Miscellaneous	7,074	-	-	1,115	-	8,189
Real Estate Tax	-	135,820	-	-	-	135,820
Interest	-	149,194	-	-	-	149,194
Plant	107,978	-	-	-	-	107,978
Utilities	207,415	-	-	-	-	207,415
Dietary	388,834	-	-	-	-	388,834
Laundry	14,482	-	-	-	-	14,482
Housekeeping	43,393	-	-	-	-	43,393
Medical	290,745	-	-	-	-	290,745
Social Service	165	-	-	-	-	165
Recreation	8,261	-	-	-	-	8,261
Therapy	161,118	-	-	-	-	161,118
Quality Assurance	24,192	-	-	-	-	24,192
Other Consultants	20,685	-	-	-	-	20,685
Depreciation and Amortization	1,711	230,631	-	-	-	232,342
Total Functional Expenses	$ 8,201,246	$ 589,068	$ 11,912	$ 240,222	$ -	$ 9,042,448

See accompanying Notes to Consolidated Financial Statements.

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2010

	Program Services			Supporting Services		
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund-Raising	Total
FUNCTIONAL EXPENSES						
Salaries and Benefits	$ 5,898,021	$ -	$ -	$ 101,970	$ -	$ 5,999,991
Office Supplies and Services	48,879	-	-	12,276	-	61,155
Payroll/Bookkeeping Services	43,061	-	-	-	-	43,061
Scholarship	-	-	8,963	-	-	8,963
Grant Expenses	-	-	8,333	-	-	8,333
Meetings	-	-	-	15,741	-	15,741
Professional Services	205,500	-	-	39,042	-	244,542
Telephone	26,024	-	-	-	-	26,024
Advertising	8,537	-	-	800	-	9,337
Licenses and Dues	10,137	-	-	-	-	10,137
Accounting	7,520	10,100	-	5,100	-	22,720
Legal	2,848	-	-	33,461	-	36,309
Insurance	67,495	64,302	-	-	-	131,797
User Fee Assessment	636,990	-	-	-	-	636,990
Provision for Bad Debts	15,464	-	-	-	-	15,464
Tuition and Education	6,555	-	-	-	-	6,555
Miscellaneous	10,800	-	-	280	-	11,080
Real Estate Tax	-	131,303	-	-	-	131,303
Interest	-	155,683	-	-	-	155,683
Plant	114,678	-	-	-	-	114,678
Utilities	216,041	-	-	-	-	216,041
Dietary	352,448	-	-	-	-	352,448
Laundry	20,464	-	-	-	-	20,464
Housekeeping	44,741	-	-	-	-	44,741
Medical	253,070	-	-	-	-	253,070
Recreation	6,587	-	-	-	-	6,587
Therapy	90,873	-	-	-	-	90,873
Quality Assurance	24,192	-	-	-	-	24,192
Other Consultants	22,020	-	-	-	-	22,020
Depreciation and Amortization	1,711	226,706	-	-	-	228,417
Total Functional Expenses	$ 8,134,656	$ 588,094	$ 17,296	$ 208,670	$ -	$ 8,948,716

See accompanying Notes to Consolidated Financial Statements.

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

South Cove Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries (the Organization) presents the consolidated financial statements of the following entities: South Cove Manor Nursing and Rehabilitation Center, Inc. (the Parent), a not-for-profit corporation formed to develop a replacement facility for the facility currently being operated by South Cove Manor, Inc.; South Cove Nursing Facilities Foundation, Inc. (the Foundation), a not-for-profit corporation formed for the purpose of supporting a long-term care facility to serve the South Cove Community; South Cove Realty Company Limited Partnership (the Realty), a limited partnership formed for the purpose of constructing and holding the land, building and equipment of the 100-bed long-term care facility; and South Cove Manor, Inc. (the Nursing Home), a C-Corporation formed to carry out the nursing home operations.

The Nursing Home is a 100% owned subsidiary of the Foundation. The Realty is 100% owned by the Nursing Home and Foundation. Consequently, effective controls and policy functions of the Nursing are embodied in the Foundation.

During 2011, South Cove Manor Nursing and Rehabilitation Center, Inc. was created and became the sole corporate member of the Foundation. Consequently, the accompanying financial statements have been presented to reflect South Cove Manor Nursing and Rehabilitation Center, Inc. as the Parent Organization and the Foundation has become a supporting organization.

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

Basis of Consolidation

The consolidated financial statements include all the accounts of the above entities. 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.

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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.

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 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 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

The Foundation and Parent are not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to section 501(a) of the code. Should the status of the Foundation be challenged in the future, its 2008 through 2011 tax years are open for examination by federal and state taxing authorities. Should the status of the Parent be challenged in the future, its 2011 tax year is open for examination by federal and state taxing authorities.

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

Income Taxes (Continued)

The Realty is a limited partnership and does not incur federal or state income taxes. Instead, the earnings and losses are included in the partners' respective non-profit and corporate income tax returns and are taxed based on their particular tax situations. The Realty's 2008 through 2011 tax years are open for examination by federal and state taxing authorities.

The Nursing Home is a C corporation whose provisions for income taxes 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. The Nursing Home's 2008 through 2011 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. 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.

Excess of Revenues, Gains and Other Support Over Expenses and Losses

The statement of activities includes excess 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 $6,586 and $6,870 for 2011 and 2010, respectively.

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

Marketable Securities

Investments in money market and 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 and gains over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues and gains over expenses and losses. The fair value of investments has been determined primarily by quoted market prices at the statement of financial position date.

Declines in fair market values below original cost of individual securities are evaluated to determine if the declines are other-than-temporary impairments. Changes in the economic environment, earnings performance, general market conditions and the investor's ability to hold a security until the market recovers are indicators that are used. If the impairment is determined to be other-than-temporary, an impairment loss is recognized and the fair value of the investment becomes the new cost basis.

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 $5,849 and $9,337 for 2011 and 2010, respectively.

Software

Software with a historical cost of $10,075 both at December 31, 2011 and 2010, are amortized over a three-year period using the straight-line method. Accumulated amortization amounted to $10,075 and $8,364 as of December 31, 2011 and 2010, respectively. Amortization charged to operations amounted to $1,711 for each of 2011 and 2010.

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

The Organization owns a 29-bed nursing home license with an acquired cost of $54,675 and has reflected the license on the statement of financial position as an "Intangible Asset". Intangible assets, with indefinite lives, are required to be reviewed for impairment on an annual basis. The Organization has reviewed the carrying value of the intangible asset at December 31, 2011 and 2010 and has determined that an impairment adjustment is not required.

Fair Value Measurement

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques 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.

Subsequent to initial recognition, the Organizations may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

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

Related Party Loans Receivable

The Organization's loan portfolio is comprised of unsecured related party loans receivable from affiliates that bear no interest and have no fixed repayment terms, as detailed in Note 5, and are considered a single portfolio class. Loans receivable are recorded net of an allowance for expected loan losses (allowance). The Organization establishes an allowance as an estimate of inherent risk in the Organization's loan portfolio. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The allowance is established through a provision for loan losses that is charged to expense. Loan losses are charged off against the allowance when of the Organization determines the loan balance to be uncollectible. Proceeds received on previously charged off amounts are recorded as a recovery in the year of receipt. The Organization determined that all related party loans receivable are fully collectible as of December 31, 2011.

The Organization reviews the adequacy of the allowance, including consideration of the relevant risks in the loan portfolio, current economic conditions and other factors periodically. The Organization internally monitors related party borrowers to assess the risk of nonperformance. If the Organization determines that changes are warranted based on those reviews, the allowance is adjusted.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 27, 2012, 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

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 the Resource Utilization Groups (RUGS). SNF's must complete the resident assessments according to a specific time schedule designed for Medicare payment.

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

Summary of the Payment Arrangements with Third Party Payors (Continued)

Medicare - Prospective Payment System (Continued)

SNF's that do not comply with this requirement will be paid at a default payment (the lowest of the 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 imposed a limit for both physical therapy (including speech therapy) and occupational therapy, however an exception may be granted if the patient meets certain criteria.

NOTE 3 RECEIVABLES

Accounts Receivable

Accounts receivable are comprised of the following at December 31, 2011 and 2010:

	2011	2010
Private Residents	$ 64,645	$ 94,303
Medicare Residents	116,835	227,605
Publicly-Aided Residents	267,140	274,407
Allowance for Uncollectibles	(60,000)	(90,000)
Accounts Receivable, Net	$ 388,620	$ 506,315

Receivables - Other

Receivables - Other are comprised of the following at December 31, 2011 and 2010:

	2011	2010
Estimated Due from Medicaid	$ -	$ 665
Due from Employees	1,461	28,000
Interest Receivable	13,691	19,730
Payroll Tax Refund	-	8,432
Total	$ 15,152	$ 56,827

NOTE 4 PROPERTY AND EQUIPMENT

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

Building	40 years
Building Improvements	20 years
Equipment	10 years

NOTE 4 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation charged to operations amounted to $224,045 and $219,836 for 2011 and 2010, respectively. Property and equipment with a total cost of $7,167,007 are pledged as collateral for long-term debt.

At December 31, 2011, the Organization has incurred and capitalized $832,584 of development costs related to the relocation of the existing nursing facility. The Organization has entered into a purchase agreement to acquire land in Quincy, Massachusetts for $1,975,000, of which $54,000 is being held on deposit and subject to forfeiture. The project is in the planning, design and financing stages, with an estimated total cost of $32,100,000 when completed. It is contemplated that financing and permits will be in place, and construction will commence during 2012 with completion in 2014. No decisions have been made as to the final course of action and will be based on financing and approvals.

Subsequently, on February 23, 2012, the Organization entered into an additional purchase agreement to acquire additional land in Quincy, Massachusetts for $410,000, of which $15,500 is being held on deposit and subject to forfeiture.

NOTE 5 RELATED PARTY TRANSACTIONS

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

<u>Related Party Loans</u>

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,	
	2011	2010
Due from Related Parties:		
Mei Wah Village, Inc.	$ 11,228	$ 19,390

NOTE 6 LONG-TERM DEBT

The Organization is obligated under long-term debt at December 31, 2011 and 2010, as follows:

Description	2011	2010
5.76% HUD insured mortgage to Wells Fargo Bank National Association, due November 1, 2025, secured by substantially all assets of the Realty, payable in monthly installments of $22,116 including interest.	$ 2,536,610	$ 2,652,258
Less: Current Maturities	122,489	115,649
Long-Term Debt, Net	$ 2,414,121	$ 2,536,609

NOTE 6 LONG-TERM DEBT (CONTINUED)

Interest incurred on the above long-term debt amounted to $149,194 and $155,683 for 2011 and 2010, respectively.

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

Year Ending December 31,		Amount
2012	$	122,489
2013		129,733
2014		137,406
2015		145,533
2016		154,141

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.

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, 2011 and 2010.

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Marketable Securities:				
Equities	$ 3,228,652	$ 3,228,652	$ -	$ -
International Equities	792,709	792,709	-	-
Taxable Bonds	1,838,678	1,838,678	-	-
International Bonds	193,446	193,446	-	-
Mutual Funds	490,201	-	490,201	-
Hedge Funds	801,514	-	-	801,514
Real Estate Fund	409,202	292,880	-	116,322
Commodities	173,852	173,852	-	-
Total	$ 7,928,254	$ 6,520,217	$ 490,201	$ 917,836
Marketable Securities (Restricted):				
Equities	$ 11,075	$ 11,075	$ -	$ -
International Equities	2,731	2,731	-	-
Taxable Bonds	10,556	10,556	-	-
Total	$ 24,362	$ 24,362	$ -	$ -

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

	2010			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Marketable Securities:				
Equities	$ 3,533,846	$ 3,533,846	$ -	$ -
International Equities	911,955	911,955	-	-
Taxable Bonds	2,071,485	2,071,485	-	-
International Bonds	217,596	217,596	-	-
Mutual Funds	471,451	-	471,451	-
Hedge Funds	811,455	-	-	811,455
Real Estate Fund	414,455	307,907	-	106,548
Commodities	246,955	246,955	-	-
Total	$ 8,679,198	$ 7,289,744	$ 471,451	$ 918,003
Marketable Securities (Restricted):				
Equities	$ 14,472	$ 14,472	$ -	$ -
International Equities	3,257	3,257	-	-
Taxable Bonds	10,294	10,294	-	-
Total	$ 28,023	$ 28,023	$ -	$ -

The following table provides a summary of changes in fair value of the Organization's Level 3 financial assets for the years ended December 31, 2011 and 201 0:

	Total	Hedge Funds	Real Estate Funds
Beginning Balance as of January 1, 2010	$ 893,325	$ 752,493	$ 140,832
Other Than Temporary Decline in Investment	(143,452)	-	(143,452)
Unrealized Gain (Loss)	168,130	58,962	109,168
Balance as of December 31, 2010	918,003	811,455	106,548
Unrealized Gain (Loss)	(167)	(9,941)	9,774
Balance as of December 31, 2011	$ 917,836	$ 801,514	$ 116,322

At December 31, 2010, certain securities classified as available for sale were written down by $150,377 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.

The fair values of mutual funds, hedge funds and real estate funds are valued at the net asset value (NAV) per share for 2011 and 2010.

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 explicitly stated otherwise by the donor, the appreciation and depreciation on investments are classified as temporarily restricted.

Change in Endowment Net Assets for the years ended December 31, 2011 and 2010 are:

	Temporarily Restricted	Permanently Restricted
Restricted Assets - January 1, 2010	$ 8,894	$ 20,000
Investment Income	567	-
Realized Loss on Marketable Securities	53	-
Unrealized Gain on Marketable Securities	3,003	-
Net Assets Released from Restrictions	(4,124)	-
Restricted Assets - December 31, 2010	8,393	20,000
Contributions	10,000	-
Investment Income	571	-
Realized Gain on Marketable Securities	249	-
Unrealized Gain on Marketable Securities	(607)	-
Net Assets Released from Restrictions	(3,580)	-
Restricted Assets - December 31, 2011	$ 15,026	$ 20,000

NOTE 9 ASSET LIMITED AS TO USE

Donor Restriction

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).

NOTE 9 ASSET LIMITED AS TO USE (CONTINUED)

HUD Regulatory Agreement

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.

NOTE 10 INCOME TAXES

The Nursing Home 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 2011 and 2010. The deferred state liability and asset was calculated using a tax rate of 9.5% for 2011 and 2010.

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

	2011	2010
Due Currently:		
Federal	$ -	$ -
State	5,500	3,900
Total	$ 5,500	$ 3,900

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

The Organization's total deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred Tax Assets	$ 761,000	$ 765,000
Deferred Tax Liabilities	-	-
Valuation Allowance Adjustments	(436,000)	(440,000)
Net Deferred Tax Assets	$ 325,000	$ 325,000

NOTE 10 INCOME TAXES (CONTINUED)

As of December 31, 2011, a loss carryforward of approximately $1,928,000 is available to offset future taxable income and will begin to expire in 2011. At December 31, 2011, management estimates that a portion of the deferred tax asset is likely to be recognized during 2012, consequently, the valuation allowance was reduced accordingly and the asset is being recognized as current on the statement of financial position. Management believes that the remaining deferred tax asset is unlikely to be recognized.

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. During the year there may be times when cash may have exceeded FDIC units.

Certificates of Deposit

Certificates of deposit in the amount of $127,889 at December 31, 2011.

Marketable Securities

Marketable securities in the amount of $7,952,616 at December 31, 2011.

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 $388,620 at December 31, 2011. 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 $11,228 at December 31, 2011. See Note 5 for further details.

NOTE 12 CERTIFICATES OF DEPOSIT

At December 31, 2011 and 2010, the certificates of deposit are classified as held to maturity, which are being carried at cost. All certificates of deposit are due within one year or less and have been classified at current.

NOTE 13 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 $95,006 and $107,205 for 2011 and 2010, respectively. Pension costs are being funded on a current basis.

NOTE 14 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 to acquire the property.

NOTE 15 CONTINGENCIES

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.

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.

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.