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

**CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
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YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of South Cove Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Cove Manor Nursing and Rehabilitation Center Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



CliftonLarsonAllen LLP

Quincy, Massachusetts  
June 7, 2013

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	2012	2011
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,508,736	\$ 3,100,192
Certificates of Deposit	5,129	127,889
Marketable Securities	2,558,957	7,928,254
Accounts Receivable - Residents (Net of Estimated Uncollectible Accounts)	601,455	388,620
Assets Limited as to Use, Promises to Give Receivable - Other	86,750	-
Prepaid Expenses	1,569	15,152
Deferred Income Taxes	64,932	111,075
Assets Held for Sale	325,000	325,000
Total Current Assets	2,768,868	-
	9,921,396	11,996,182
<b>ASSETS LIMITED AS TO USE</b>		
By Donor Restriction:		
Cash	56,821	664
Marketable Securities	24,009	24,362
Promises to Give	168,750	-
By Loan Agreement:		
Cash	24,026,891	-
By HUD Regulatory Agreement:		
Mortgage Escrows	67,288	76,085
Reserve for Replacement	185,476	150,676
Total Assets Limited as to Use	24,529,235	251,787
<b>PROPERTY AND EQUIPMENT</b>		
Land	2,435,667	66,000
Building	-	4,621,158
Building Improvements	-	1,550,501
Equipment	-	929,348
Total	2,435,667	7,167,007
Less: Accumulated Depreciation	-	4,348,379
Net	2,435,667	2,818,628
Construction in Progress	5,073,038	832,584
Property and Equipment, Net	7,508,705	3,651,212
<b>OTHER ASSETS</b>		
Due from Related Party	8,633	11,228
Deferred Financing Costs, Net	191,832	50,877
Leverage Loan Receivable	13,910,000	-
Other Intangible Assets	54,675	54,675
Total Other Assets	14,165,140	116,780
Total Assets	\$ 56,124,476	\$ 16,015,961

See accompanying Notes to Consolidated Financial Statements.



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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED NET ASSETS</b>		
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Net Patient Service Revenue	\$ 9,227,651	\$ 8,797,966
Contributions and Grants	48,709	28,042
Investment Income	136,729	292,225
Realized Gain on Marketable Securities - Net	590,052	10,847
Other Revenue	89,859	47,241
Total Unrestricted Revenues and Gains	<u>10,093,000</u>	<u>9,176,321</u>
Net Assets Released from Restrictions	3,326	3,580
Total Unrestricted Revenues, Gains, and Other Support	<u>10,096,326</u>	<u>9,179,901</u>
<b>EXPENSES</b>		
Salaries and Benefits	6,170,749	5,868,495
Medical Supplies and Drugs	265,331	290,745
Insurance and Other	2,455,718	2,475,595
Provision for Bad Debts	16,570	26,077
Depreciation and Amortization	61,273	232,342
Interest	247,454	149,194
Total Expenses	<u>9,217,095</u>	<u>9,042,448</u>
<b>OPERATING INCOME BEFORE OTHER ITEMS</b>	879,231	137,453
<b>OTHER ITEMS</b>		
Abandonment Costs	-	(78,651)
Federal Income Tax Benefit	47,780	14,080
State Income Tax Benefit (Expense)	(47,780)	(14,080)
Total Other Items	<u>-</u>	<u>(78,651)</u>
<b>EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES</b>	879,231	58,802
Unrealized Loss on Marketable Securities	<u>(125,923)</u>	<u>(359,453)</u>
<b>NET INCREASE IN UNRESTRICTED NET ASSETS</b>	753,308	(300,651)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Unrealized Gain (Loss) on Marketable Securities	1,969	(607)
Realized Gain on Marketable Securities	558	249
Investment Income	603	571
Temporarily Restricted Contributions	311,500	10,000
Net Assets Released from Restrictions	<u>(3,326)</u>	<u>(3,580)</u>
<b>NET INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>311,304</u>	<u>6,633</u>
<b>CHANGE IN NET ASSETS</b>	1,064,612	(294,018)
Net Assets - Beginning of Year	<u>12,538,338</u>	<u>12,832,356</u>
<b>NET ASSETS - END OF THE YEAR</b>	<u>\$ 13,602,950</u>	<u>\$ 12,538,338</u>

See accompanying Notes to Consolidated Financial Statements.  
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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,064,612	\$ (294,018)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operations:		
Unrealized Loss on Marketable Securities, Net	123,954	360,060
Realized Gain on Sales of Marketable Securities, Net	(590,610)	(11,096)
Restricted Contributions and Investment Income Received	(312,103)	(10,571)
Depreciation and Amortization	61,273	232,342
Restricted Promises to Give	(255,500)	-
Provision for Losses on Accounts Receivable	16,570	26,077
Abandonment Costs	-	78,651
(Increase) Decrease in:		
Accounts Receivable	(229,405)	91,618
Other Receivables	13,583	41,675
Prepaid Expenses	46,143	20,145
Increase (Decrease) in:		
Accounts Payable	29,544	(31,018)
Accrued Expenses and Payroll Taxes Payable	76,063	66,853
Net Cash Provided by Operating Activities	44,124	570,718
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(2,440,895)	(17,555)
Additions to Construction in Progress	(3,729,668)	(802,490)
Deposits to Reserve for Replacement	(34,800)	(34,800)
Net Withdrawals from Escrows Accounts	8,797	16,968
Certificates of Deposit Matured	122,760	127,698
Purchases of Certificates of Deposit	-	(128,160)
Proceeds from Sales/Maturities of Marketable Securities	12,629,573	5,167,484
Purchases of Marketable Securities	(6,849,424)	(4,762,137)
Net Cash Used by Investing Activities	(293,657)	(432,992)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from Related Parties	2,595	8,162
Restricted Contributions and Investment Income Received	312,103	10,571
Increase in Cash Restricted by Loan Agreement	465,869	-
Repayment of Long-Term Debt	(122,490)	(115,648)
Net Cash Provided (Used) by Financing Activities	658,077	(96,915)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	408,544	40,811
Cash and Cash Equivalents at Beginning of Year	3,100,192	3,059,381
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 3,508,736	\$ 3,100,192

See accompanying Notes to Consolidated Financial Statements.



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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	<u>\$ 247,978</u>	<u>\$ 149,718</u>
 Non-Cash Investing and Financing Transactions:		
Proceeds from Bond Payable	\$ 19,000,000	\$ -
Proceeds from Long-Term Debt	19,550,000	-
Less: Note Receivable Leverage Loan	(13,910,000)	-
Less: Deferred Financing Costs	(147,240)	-
Less: Bond Fund Escrow	(252,483)	-
Less: Cash Restricted by Loan Agreement Received	(24,240,277)	-
Net Proceeds from Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>
 Additions to Construction in Progress	 \$ (4,240,454)	 \$ -
Increase in Construction Accrued Expense	510,786	-
Cash Paid for Construction in Progress	<u>\$ (3,729,668)</u>	<u>\$ -</u>

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2012

FUNCTIONAL EXPENSES	Program Services			Supporting Services		Total
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund-Raising	
Salaries and Benefits	\$ 6,170,748	\$ -	\$ -	\$ -	\$ -	\$ 6,170,748
Office Supplies and Services	62,213	500	-	3,202	-	65,915
Payroll/Bookkeeping Services	39,940	-	-	-	-	39,940
Scholarship	-	-	3,424	-	-	3,424
Donations	6,000	-	11,100	-	-	17,100
Meetings	-	-	-	10,975	-	10,975
Professional Services	246,982	-	-	29,002	-	275,984
Telephone	27,605	-	-	-	-	27,605
Advertising	6,143	24,090	-	-	-	30,233
Licenses and Dues	9,665	-	-	-	-	9,665
Accounting	40,534	10,300	-	9,300	-	60,134
Legal	1,000	-	-	-	-	1,000
Insurance	75,577	63,282	-	-	-	138,859
User Fee Assessment	585,806	-	-	-	-	585,806
Provision for Bad Debts	16,570	-	-	-	-	16,570
Tuition and Education	6,056	-	-	-	-	6,056
Miscellaneous	14,160	-	-	295	-	14,455
Real Estate Tax	-	141,245	-	-	-	141,245
Interest	105,133	142,321	-	-	-	247,454
Plant	110,144	-	-	-	-	110,144
Utilities	189,590	-	-	-	-	189,590
Dietary	378,109	-	-	-	-	378,109
Laundry	12,902	-	-	-	-	12,902
Housekeeping	45,417	-	-	-	-	45,417
Medical	265,331	-	-	-	-	265,331
Social Service	-	-	-	-	-	-
Recreation	11,878	-	-	-	-	11,878
Therapy	211,444	-	-	-	-	211,444
Quality Assurance	50,400	-	-	-	-	50,400
Other Consultants	17,439	-	-	-	-	17,439
Depreciation and Amortization	-	61,273	-	-	-	61,273
Total Functional Expenses	<u>\$ 8,706,786</u>	<u>\$ 443,011</u>	<u>\$ 14,524</u>	<u>\$ 52,774</u>	<u>\$ -</u>	<u>\$ 9,217,095</u>

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, 2011

FUNCTIONAL EXPENSES	Program Services			Supporting Services		Total
	Nursing Home	Nursing Home (Realty)	Learning Center	Management and General	Fund-Raising	
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
<b>Total Functional Expenses</b>	<b>\$ 8,201,246</b>	<b>\$ 589,068</b>	<b>\$ 11,912</b>	<b>\$ 240,222</b>	<b>\$ -</b>	<b>\$ 9,042,448</b>

See accompanying Notes to Consolidated Financial Statements.

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

South Cove Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries (the Organization) are comprised of the following entities: South Cove Manor Nursing and Rehabilitation Center, Inc. (the Parent), a not-for-profit corporation formed to operate a replacement facility for the facility currently being operated by South Cove Manor, Inc.; South Cove Manor Nursing and Rehabilitation Center QALICB, Inc. (the QALICB), a not-for-profit corporation formed for the development of 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 Asian 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. The QALICB is a not-for-profit entity whose sole corporate member is the parent 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.

**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.

**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.

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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.

**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.

**Promises to Give**

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. This value is determined to be fair value and is calculated using an income approach of applying a discount rate technique in the year in which the pledge is received. Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are recognized when supported by signed pledge agreements.

**Assets Held for Sale**

In March 2012, the Realty committed to a plan to sell the property and equipment. Consequently, the Realty discontinued the recording of depreciation and amortization and reclassified its net property and equipment under the caption "Assets Held for Sale" on the statement of financial position.

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

**Assets Held for Sale (Continued)**

Assets held for sale are reported in the statement of financial position at the lower of its carrying amount or fair value, less cost to sell. Assets held for sale are assessed for impairment when management believes events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on this assessment, assets held for sale that are considered impaired are written down to their fair value. Management has determined the carrying value of the assets held for sale do not exceed their current fair value, therefore an impairment loss was not recognized.

**Assets Limited as to Use**

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

**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.

**Loans Receivable**

The Organization's loan portfolio is comprised of secured leverage loan receivable as detailed in Note 8, and is 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 the leveraged loan receivable is fully collectible as of December 31, 2012.

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.

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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

**Deferred Financing Costs**

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method. Amortization charged to operations was \$6,285 and \$6,586 for 2012 and 2011, respectively.

**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, 2012 and 2011 and has determined that an impairment adjustment is not required.

**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.

**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).

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

**Income Taxes**

The Foundation, Parent and QALICB 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 2009 through 2012 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 through 2012 tax years are open for examination by federal and state taxing authorities. Should the status of the QALICB be challenged in the future, its 2012 tax year is open for examination by federal and state taxing authorities.

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 2009 through 2012 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 2009 through 2012 tax years are open for examination by federal and state taxing authorities.



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

**Promotional Advertising**

Promotional advertising costs are expensed as incurred. Promotional advertising costs charged to operations amounted to \$33,233 and \$5,849 for 2012 and 2011, respectively.

**Reclassifications**

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

**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 Organization 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.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 7, 2013, the date the financial statements were available to be issued.

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
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**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 Center for Health Information and Analysis (formerly 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.

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, 2012 and 2011:

	2012	2011
Private Residents	\$ 120,017	\$ 64,645
Medicare Residents	246,319	116,835
Publicly-Aided Residents	285,370	267,140
Allowance for Uncollectibles	(50,251)	(60,000)
Accounts Receivable, Net	\$ 601,455	\$ 388,620

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
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**NOTE 3 RECEIVABLES (CONTINUED)**

**Receivables - Other**

Receivables - Other are comprised of the following at December 31, 2012 and 2011:

	2012	2011
Due from Employees	\$ -	\$ 1,461
Interest Receivable	1,569	13,691
Total	\$ 1,569	\$ 15,152

**NOTE 4 PROMISES TO GIVE**

Promises to give at December 31, 2012 are summarized as follows:

Temporarily Restricted Promises to Give	\$ 255,500
Total Promises	255,500

Promises are Collectible as Follows:

In One Year	\$ 86,750
In Two to Five Years	168,750
Total Promises to Give, Net	\$ 255,500

The present value of the promises to give approximates current value and therefore no valuation adjustment has been recorded. Promises to give at December 31, 2012 include pledges that have been made towards the relocation of the existing nursing facility. As of December 31, 2012, \$311,500 has been raised with overall collections of \$56,000 thereon.

**NOTE 5 ASSETS HELD FOR SALE**

Assets held for sale at December 31, 2012 consist of the following:

Land	\$ 66,000
Building and Improvements	6,171,659
Equipment	934,576
	7,172,235
Accumulated Depreciation through March 31, 2012	(4,403,367)
Assets Held for Sale	\$ 2,768,868

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
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**NOTE 6 ASSET LIMITED AS TO USE**

**Donor Restriction**

The Organization has received donor-restricted contributions. Cash and marketable securities 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 12 for details).

**Loan Agreement**

The QALICB has received cash from the issuance of various mortgage notes payable that has been set aside per the loan agreement for development of the replacement facility.

**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 7 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

Depreciation charged to operations amounted to \$54,988 and \$224,045 for 2012 and 2011, respectively.

**Construction in Progress**

At December 31, 2012, the Organization has incurred and capitalized \$5,073,038 of development costs related to the relocation of the existing nursing facility. Construction costs are estimated to amount to approximately \$31 million and are to be financed through private donations, capital contributed through the New Market Tax Credit Program (NMTC) and bank financing. It is expected that construction will be completed in 2014.

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**NOTE 8 LEVERAGE LOAN RECEIVABLE**

Under the NMTC structure, the Parent entered into a leveraged loan agreement with South Cove Investment Fund, LLC (Investment Fund) on October 30, 2012, utilizing proceeds from the bond issue (see Note 10), in the amount of \$13,910,000 and is considered fully collectable at December 31, 2012, secured by an interest in a limited liability company. The Investment Fund used the funds to make equity contributions to tax credit investors who in combination with investor equity provided NMTC loans to QALICB (see Note 10). The leverage loan receivable is payable in monthly installments of interest only at a rate of 2.55% through October 2019 and thereafter in monthly installments of principal and interest of \$77,061 through October 2038.

**NOTE 9 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,	
	2012	2011
Due from Related Parties:		
Mei Wah Village, Inc.	\$ 8,633	\$ 11,228

**NOTE 10 LONG-TERM DEBT**

The Organization is obligated under long-term debt at December 31, 2012 and 2011, as follows:

Description	2012	2011
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.	\$ 2,414,120	\$ 2,536,610
Massachusetts Development Finance Agency Revenue Bonds South Cove Manor Issue, Series 2012, due October 30, 2042. (see Bond Issuance below)	19,000,000	-

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**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
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**NOTE 10 LONG-TERM DEBT (CONTINUED)**

<u>Description</u>	<u>2012</u>	<u>2011</u>
MHIC NE CDE II Subsidiary 13 LLC note payable issued on October 30, 2012 and secured by property, plant and equipment of QALICB. The note payable has an interest rate of 2.25% and matures on November 2044. Monthly payments of interest only through November 2019, with monthly installments of principal and interest thereafter. During the first seven years, the note payable may not be repaid in whole or in part.	14,550,000	-
USBCDE Sub-CDE, LLC note payable issued on October 30, 2012 and secured by property, plant and equipment of QALICB. The note payable has an interest rate of 2.25% and matures on November 2044. Monthly payments of interest only through November 2019, with monthly installments of principal and interest thereafter. During the first seven years, the note payable may not be repaid in whole or in part.	5,000,000	-
Total	40,964,120	2,536,610
Less: Current Maturities	129,733	122,489
Long-Term Debt, Net	<u>\$ 40,834,387</u>	<u>\$ 2,414,121</u>

Interest incurred on the above long-term debt amounted to \$54,988 and \$149,194 for 2012 and 2011, respectively.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 129,733
2014	137,406
2015	182,316
2016	603,550
2017	627,817

**Bond Issuance**

The Parent entered into an agreement in October 2012 with the Massachusetts Development Finance Agency for the issuance of \$19,000,000 of tax-exempt revenue bonds, Series 2012 (the Bonds). The Bonds consist of \$19,000,000 of term bonds with fixed interest of 3.32% through November 15, 2027, at which time the rate will be reset at a rate of 0.68 times the sum of Federal Home Loan Bank Rate plus the greater of 1.60% or 2.55% with the approval of all bondholders.

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**NOTE 10 LONG-TERM DEBT (CONTINUED)**

**Bond Issuance (Continued)**

The Bonds are secured by a mortgage on the real property of QALICB, a security interest in certain real and personal property, and gross revenues. Commencing December 15, 2012, payments of interest only are due monthly through December 15, 2015, thereafter, principal and interest payments of \$89,349 are due monthly through November 15, 2027 at which time the monthly amount will be reset using a twenty-seven year amortization schedule with the remaining balance due at maturity on October 30, 2042.

The Bonds require the Parent and QALICB to maintain certain financial covenants: a debt service coverage ratio, as defined in the bond agreement, of 1.20, commencing on December 31, 2015; and a loan to value ratio of at least 80%, as defined in the bond agreement. Management believes the Parent is in compliance with the financial covenants as of December 31, 2012.

**NOTE 11 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, 2012 and 2011.

	2012			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Marketable Securities:</b>				
Equities	\$ 646,342	\$ 646,342	\$ -	\$ -
International Equities	107,472	107,472	-	-
Taxable Bonds	1,340,935	1,340,935	-	-
Hedge Funds	193,183	-	-	193,183
Real Estate Fund	171,042	85,336	-	85,706
Commodities	99,983	99,983	-	-
Total	<u>\$ 2,558,957</u>	<u>\$ 2,280,068</u>	<u>\$ -</u>	<u>\$ 278,889</u>
<b>Marketable Securities (Restricted):</b>				
Equities	\$ 12,219	\$ 12,219	\$ -	\$ -
International Equities	2,230	2,230	-	-
Taxable Bonds	9,560	9,560	-	-
Total	<u>\$ 24,009</u>	<u>\$ 24,009</u>	<u>\$ -</u>	<u>\$ -</u>

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**NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)**

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Marketable Securities:</b>				
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	<u>\$ 7,928,254</u>	<u>\$ 6,520,217</u>	<u>\$ 490,201</u>	<u>\$ 917,836</u>
<b>Marketable Securities (Restricted):</b>				
Equities	\$ 11,075	\$ 11,075	\$ -	\$ -
International Equities	2,731	2,731	-	-
Taxable Bonds	10,556	10,556	-	-
Total	<u>\$ 24,362</u>	<u>\$ 24,362</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2012 and 2011:

	Total	Hedge Funds	Real Estate Funds
Beginning Balance as of January 1, 2011	\$ 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
Sales	(772,547)	(772,547)	-
Purchases	165,000	165,000	-
Unrealized Gain (Loss)	(31,400)	(784)	(30,616)
Balance as of December 31, 2012	<u>\$ 278,889</u>	<u>\$ 193,183</u>	<u>\$ 85,706</u>

The fair values of mutual funds, hedge funds and real estate funds are valued at the net asset value (NAV) per share for 2012 and 2011.



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**NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a nonrecurring basis as of 2012:

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Pledges Receivable	\$ -	\$ -	\$ -	\$ 255,500
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,500</u>

The following table presents changes in assets and liabilities measured at fair value using Level 3 inputs on a nonrecurring basis for the year ended December 31, 2012:

Pledge Receivable, Beginning Balance	\$ -
New Pledges	311,500
Pledge Payments	(56,000)
Pledge Receivable, Ending Balance	<u>\$ 255,500</u>

Change in Endowment Net Assets for the years ended December 31, 2012 and 2011 are:

	Temporarily Restricted	Permanently Restricted
<b>Restricted Assets - January 1, 2011</b>	<u>\$ 8,393</u>	<u>\$ 20,000</u>
Contributions	10,000	
Investment Income	571	-
Realized Loss on Marketable Securities	249	-
Unrealized Gain on Marketable Securities	(607)	-
Net Assets Released from Restrictions	<u>(3,580)</u>	<u>-</u>
<b>Restricted Assets - December 31, 2011</b>	15,026	20,000
Contributions	311,500	-
Investment Income	603	-
Realized Gain on Marketable Securities	558	-
Unrealized Gain on Marketable Securities	1,969	-
Net Assets Released from Restrictions	<u>(3,326)</u>	<u>-</u>
<b>Restricted Assets - December 31, 2012</b>	<u>\$ 326,330</u>	<u>\$ 20,000</u>

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**NOTE 12 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 11 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.

**NOTE 13 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 each of 2012 and 2011. The deferred state liability and asset was calculated using a tax rate of 9.5% for each of 2012 and 2011.

Provision for income tax benefit, has been included in the caption "Other Items" on statement of activities, consists of the following components:

	<u>2012</u>	<u>2011</u>
Due Currently:		
Federal	\$ 47,780	\$ 14,080
State	(47,780)	(14,080)
Total	<u>\$ -</u>	<u>\$ -</u>

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**NOTE 13 INCOME TAXES (CONTINUED)**

Total deferred tax assets are calculated to affect 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, 2012 and 2011 are as follows:

	2012	2011
Deferred Tax Assets	\$ 647,000	\$ 761,000
Deferred Tax Liabilities	-	-
Valuation Allowance Adjustments	(322,000)	(436,000)
Net Deferred Tax Assets	\$ 325,000	\$ 325,000

As of December 31, 2012, a loss carryforward of approximately \$1,957,000 is available to offset future taxable income and will begin to expire in 2013. At December 31, 2012, management estimates that a portion of the deferred tax asset is likely to be recognized during 2013, 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 14 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 limits.

**Marketable Securities**

Marketable securities in the amount of \$2,582,966 at December 31, 2012.

**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 \$601,455 at December 31, 2012. See Note 2 and Note 3 for details of third-party payor arrangements and receivable balances, respectively.

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**NOTE 15 CERTIFICATES OF DEPOSIT**

At December 31, 2012 and 2011, 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 16 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 \$99,803 and \$95,006 for 2012 and 2011, respectively. Pension costs are being funded on a current basis.

**NOTE 17 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 18 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.

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CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

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

We have audited the consolidated financial statements of South Cove Manor Nursing and Rehabilitation Center, Inc. and Subsidiaries as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated June 7, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements of financial position and the consolidating statements of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The consolidating schedules of expenses on pages 36 to 43 have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion or provide assurance on it.

**CliftonLarsonAllen LLP**

Quincy, Massachusetts  
June 7, 2013



An independent member of Nexia International

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>CURRENT ASSETS</b>								
Cash and Cash Equivalents	\$ 3,508,738	\$ -	\$ 3,508,738	\$ 823,314	\$ -	\$ 294,299	\$ 2,321,459	\$ 69,884
Certificates of Deposit	5,129	-	5,129	-	-	-	5,129	-
Marketable Securities	2,558,957	-	2,558,957	-	-	2,558,957	-	-
Accounts Receivable Patients - (Net of Estimated Uncollectible Accounts)	601,455	-	601,455	-	-	-	601,455	-
Assets Limited as to Use, Promises to Give	86,750	-	86,750	86,750	-	-	-	-
Receivable - Other	1,569	(200,154)	201,723	-	-	1,569	-	200,154
Prepaid Expenses	64,932	-	64,932	-	-	-	22,207	42,725
Deferred Income Taxes	325,000	-	325,000	-	-	-	325,000	-
Assets Held for Sale	2,768,888	-	2,768,888	-	-	-	-	2,768,888
<b>Total Current Assets</b>	<b>9,921,398</b>	<b>(200,154)</b>	<b>10,121,550</b>	<b>910,084</b>	<b>-</b>	<b>2,854,825</b>	<b>3,275,250</b>	<b>3,081,411</b>
<b>ASSETS LIMITED AS TO USE</b>								
By Donor for Restriction:								
Cash	58,821	-	58,821	56,002	-	819	-	-
Marketable Securities	24,009	-	24,009	-	-	24,009	-	-
Promises to Give, Net of Current Portion	168,750	-	168,750	168,750	-	-	-	-
By Loan Agreement:								
Cash	24,026,891	-	24,026,891	254,425	19,498,726	4,275,740	-	-
By HUD Regulatory Agreement:								
Mortgage Escrows	67,288	-	67,288	-	-	-	-	67,288
Reserve for Replacement	185,476	-	185,476	-	-	-	-	185,476
<b>Total Assets Limited as to Use</b>	<b>24,529,235</b>	<b>-</b>	<b>24,529,235</b>	<b>479,177</b>	<b>19,498,726</b>	<b>4,300,588</b>	<b>-</b>	<b>252,784</b>
<b>PROPERTY AND EQUIPMENT</b>								
Land	2,435,687	-	2,435,687	-	2,435,687	-	-	-
Building	-	-	-	-	-	-	-	-
Building Improvements	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,435,687</b>	<b>-</b>	<b>2,435,687</b>	<b>-</b>	<b>2,435,687</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
<b>Net</b>	<b>2,435,687</b>	<b>-</b>	<b>2,435,687</b>	<b>-</b>	<b>2,435,687</b>	<b>-</b>	<b>-</b>	<b>-</b>
Construction in Progress	5,073,038	(17,882)	5,090,920	-	5,090,920	-	-	-
Property and Equipment, Net	7,508,705	(17,882)	7,526,587	-	7,526,587	-	-	-
<b>OTHER ASSETS</b>								
Investment in Subsidiaries	-	(3,127,966)	3,127,966	-	-	3,117,049	10,917	-
Due from Related Parties	8,633	2,507	6,126	-	-	8,126	-	-
Deferred Financing Costs, Net	191,832	-	191,832	147,240	-	-	-	44,592
Notes Receivables	13,910,000	(4,890,277)	18,800,277	18,800,277	-	-	-	-
Other Intangible Assets	54,875	-	54,875	-	-	-	54,875	-
<b>Total Other Assets</b>	<b>14,185,140</b>	<b>(7,815,736)</b>	<b>21,980,876</b>	<b>18,747,517</b>	<b>-</b>	<b>3,123,175</b>	<b>85,592</b>	<b>44,592</b>
<b>Total Assets</b>	<b>\$ 56,124,476</b>	<b>\$ (8,033,772)</b>	<b>\$ 64,158,248</b>	<b>\$ 20,138,758</b>	<b>\$ 27,023,313</b>	<b>\$ 10,278,588</b>	<b>\$ 3,340,842</b>	<b>\$ 3,378,787</b>

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	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Current Maturities of Long-Term Debt	\$ 129,733	\$ -	\$ 129,733	\$ -	\$ -	\$ -	\$ -	\$ 129,733
Accounts Payable	135,846	-	135,846	-	-	-	135,846	-
Accrued Expenses	1,358,669	-	1,358,669	66,745	510,786	-	766,020	15,118
Payroll Taxes Payable	62,891	-	62,891	-	-	-	62,891	-
Total Current Liabilities	1,687,139	-	1,687,139	66,745	510,786	-	964,757	144,851
<b>LONG-TERM DEBT</b>								
Bonds Payable	19,000,000	-	19,000,000	19,000,000	-	-	-	-
Mortgage Notes Payable, Net of Current Maturities	21,834,387	(4,690,277)	26,524,664	-	24,240,277	-	-	2,284,387
Total Long Term Debt	40,834,387	(4,690,277)	45,524,664	19,000,000	24,240,277	-	-	2,284,387
<b>DUE TO RELATED PARTIES</b>								
	-	(197,647)	197,647	-	-	-	189,846	27,801
Total Liabilities	42,521,526	(4,887,924)	47,409,450	19,066,745	24,751,063	-	1,134,603	2,457,039
<b>NET ASSETS</b>								
Unrestricted/Retained Earnings/Partners' Capital	13,256,620	(3,145,848)	16,402,468	758,511	2,272,250	10,243,740	2,206,239	921,728
Temporarily Restricted	326,330	-	326,330	311,502	-	14,828	-	-
Permanently Restricted	20,000	-	20,000	-	-	20,000	-	-
Total Net Assets	13,602,950	(3,145,848)	16,748,798	1,070,013	2,272,250	10,278,568	2,206,239	921,728
Total Liabilities and Net Assets	\$ 56,124,476	\$ (8,033,772)	\$ 64,158,246	\$ 20,136,758	\$ 27,023,313	\$ 10,278,568	\$ 3,340,842	\$ 3,378,767

SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.  
AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2011  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>CURRENT ASSETS</b>							
Cash and Cash Equivalents	\$ 3,100,192	\$ -	\$ 3,100,192	\$ 51,884	\$ 862,827	\$ 2,066,356	\$ 89,125
Certificates of Deposit	127,889	-	127,889	-	-	127,889	-
Marketable Securities	7,928,254	-	7,928,254	-	7,928,254	-	-
Accounts Receivable Patients - (Net of Estimated Uncollectible Accounts)	388,820	-	388,820	-	-	388,820	-
Receivable - Other	15,152	(205,394)	220,548	-	13,691	1,473	205,382
Prepaid Expenses	111,075	-	111,075	-	-	69,154	41,921
Deferred Income Taxes	325,000	-	325,000	-	-	325,000	-
<b>Total Current Assets</b>	<b>11,998,182</b>	<b>(205,394)</b>	<b>12,201,578</b>	<b>51,884</b>	<b>8,804,772</b>	<b>3,008,492</b>	<b>338,428</b>
<b>ASSETS LIMITED AS TO USE</b>							
By Donor Restriction:							
Cash	664	-	664	-	664	-	-
Marketable Securities	24,362	-	24,362	-	24,362	-	-
By HUD Regulatory Agreement:							
Mortgage Escrow's	76,085	-	76,085	-	-	-	76,085
Reserve for Replacement	150,878	-	150,878	-	-	-	150,878
<b>Total Assets Limited as to Use</b>	<b>251,787</b>	<b>-</b>	<b>251,787</b>	<b>-</b>	<b>25,026</b>	<b>-</b>	<b>228,761</b>
<b>PROPERTY AND EQUIPMENT</b>							
Land	88,000	-	88,000	-	-	-	88,000
Building	4,821,158	-	4,821,158	-	-	-	4,821,158
Building Improvements	1,550,501	-	1,550,501	-	-	-	1,550,501
Equipment	929,348	-	929,348	-	-	-	929,348
<b>Total</b>	<b>7,167,007</b>	<b>-</b>	<b>7,167,007</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,167,007</b>
Less: Accumulated Depreciation	4,348,379	-	4,348,379	-	-	-	4,348,379
<b>Net</b>	<b>2,818,628</b>	<b>-</b>	<b>2,818,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,818,628</b>
Construction in Progress	832,584	-	832,584	832,584	-	-	-
<b>Property and Equipment, Net</b>	<b>3,651,212</b>	<b>-</b>	<b>3,651,212</b>	<b>832,584</b>	<b>-</b>	<b>-</b>	<b>2,818,628</b>
<b>OTHER ASSETS</b>							
Investment in Subsidiaries	-	(3,113,311)	3,113,311	-	3,103,170	10,141	-
Due from Related Parties	11,228	9,802	1,626	-	1,626	-	-
Deferred Financing Costs, Net	50,877	-	50,877	-	-	-	50,877
Other Intangible Assets	54,875	-	54,875	-	-	54,875	-
<b>Total Other Assets</b>	<b>116,780</b>	<b>(3,103,709)</b>	<b>3,220,480</b>	<b>-</b>	<b>3,104,796</b>	<b>64,816</b>	<b>50,877</b>
<b>Total Assets</b>	<b>\$ 16,015,961</b>	<b>\$ (3,309,103)</b>	<b>\$ 19,325,064</b>	<b>\$ 884,488</b>	<b>\$ 11,934,564</b>	<b>\$ 3,073,308</b>	<b>\$ 3,432,604</b>



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LIABILITIES AND NET ASSETS	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>CURRENT LIABILITIES</b>							
Current Maturities of Long-Term Debt	\$ 122,489	\$ -	\$ 122,489	\$ -	\$ -	\$ -	\$ 122,489
Accounts Payable	108,302	-	108,302	-	-	108,302	-
Accrued Expenses	777,540	-	777,540	22,313	-	731,053	24,174
Payroll Taxes Payable	57,171	-	57,171	-	-	57,171	-
Total Current Liabilities	<u>1,063,502</u>	<u>-</u>	<u>1,063,502</u>	<u>22,313</u>	<u>-</u>	<u>894,526</u>	<u>146,663</u>
<b>LONG-TERM DEBT, Net of Current Maturities</b>	2,414,121	-	2,414,121	-	-	-	2,414,121
<b>DUE TO RELATED PARTIES</b>	-	(185,792)	185,792	-	-	187,991	27,801
Total Liabilities	3,477,823	(185,792)	3,873,415	22,313	-	1,062,517	2,568,585
<b>NET ASSETS</b>							
Unrestricted/Retained Earnings/Partners' Capital	12,503,312	(3,113,311)	15,816,823	862,155	11,899,588	2,010,791	844,109
Temporarily Restricted	15,026	-	15,026	-	15,026	-	-
Permanently Restricted	20,000	-	20,000	-	20,000	-	-
Total Net Assets	<u>12,538,338</u>	<u>(3,113,311)</u>	<u>15,651,649</u>	<u>862,155</u>	<u>11,934,594</u>	<u>2,010,791</u>	<u>844,109</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 16,015,961</u>	<u>\$ (3,309,103)</u>	<u>\$ 19,325,064</u>	<u>\$ 884,468</u>	<u>\$ 11,934,594</u>	<u>\$ 3,073,308</u>	<u>\$ 3,432,694</u>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>UNRESTRICTED NET ASSETS</b>								
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>								
Net Patient Service Revenue	\$ 9,227,851	\$ -	\$ 9,227,851	\$ -	\$ -	\$ -	\$ 9,227,851	\$ -
Contributions and Grants	48,709	(4,546,340)	4,595,049	2,250,000	2,296,340	48,673	36	-
Investment Income	136,729	-	136,729	-	-	131,228	5,501	-
Realized Gain on Marketable Securities-Net	590,052	-	590,052	-	-	590,052	-	-
Other Revenue	89,859	(514,422)	604,281	50,404	-	-	57,337	496,540
Total Unrestricted Revenues and Gains	10,093,000	(5,060,762)	15,153,762	2,300,404	2,296,340	769,953	9,290,525	496,540
Net Assets Released from Restrictions	3,326	-	3,326	-	-	3,326	-	-
Total Unrestricted Revenues, Gains, and Other Support	10,096,326	(5,060,762)	15,157,088	2,300,404	2,296,340	773,279	9,290,525	496,540
<b>EXPENSES</b>								
Salaries and Benefits	6,170,749	-	6,170,749	-	-	-	6,170,749	-
Medical Supplies and Drugs	265,331	-	265,331	-	-	-	265,331	-
Insurance and Other	2,455,718	(5,042,860)	7,498,598	2,298,915	24,090	2,317,063	2,643,203	215,327
Provision for Bad Debts	18,570	-	18,570	-	-	-	18,570	-
Depreciation and Amortization	81,273	-	81,273	-	-	-	-	61,273
Interest	247,454	-	247,454	105,133	-	-	-	142,321
Total Expenses	9,217,095	(5,042,860)	14,259,975	2,404,048	24,090	2,317,063	9,095,653	418,921
<b>OPERATING INCOME (LOSS) BEFORE OTHER ITEMS</b>	879,231	(17,882)	897,113	(103,644)	2,272,250	(1,543,784)	194,872	77,619
<b>OTHER ITEMS</b>								
Investment Income-Subsidiaries	-	(14,655)	14,655	-	-	13,879	776	-
Federal Income Tax Benefit	47,780	-	47,780	-	-	-	47,780	-
State Income Tax Benefit (Expense)	(47,780)	-	(47,780)	-	-	-	(47,780)	-
Total Other Items	-	(14,655)	14,655	-	-	13,879	776	-
<b>EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES</b>	879,231	(32,537)	911,768	(103,644)	2,272,250	(1,529,905)	195,448	77,619
<b>UNREALIZED LOSS ON MARKETABLE SECURITIES</b>	(125,923)	-	(125,923)	-	-	(125,923)	-	-
<b>NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	753,308	(32,537)	785,845	(103,644)	2,272,250	(1,655,828)	195,448	77,619

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>TEMPORARILY RESTRICTED NET ASSETS</b>								
Unrealized Gain on Marketable Securities	1,969	-	1,969	-	-	1,969	-	-
Realized Gain on Marketable Securities	558	-	558	-	-	558	-	-
Investment Income	603	-	603	2	-	601	-	-
Temporarily Restricted Contributions	311,500	-	311,500	311,500	-	-	-	-
Net Assets Released from Restrictions	(3,326)	-	(3,326)	-	-	(3,326)	-	-
<b>NET INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>311,304</b>	<b>-</b>	<b>311,304</b>	<b>311,502</b>	<b>-</b>	<b>(198)</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,064,612</b>	<b>(32,537)</b>	<b>1,097,149</b>	<b>207,858</b>	<b>2,272,250</b>	<b>(1,656,026)</b>	<b>195,448</b>	<b>77,619</b>
Net Assets - Beginning of Year	12,538,338	(3,113,311)	15,851,649	862,155	-	11,934,594	2,010,791	844,109
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 13,602,950</b>	<b>\$ (3,145,848)</b>	<b>\$ 16,748,798</b>	<b>\$ 1,070,013</b>	<b>\$ 2,272,250</b>	<b>\$ 10,278,568</b>	<b>\$ 2,206,239</b>	<b>\$ 921,728</b>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>UNRESTRICTED NET ASSETS</b>							
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>							
Net Patient Service Revenue	\$ 8,797,966	\$ -	\$ 8,797,966	\$ -	\$ -	\$ 8,797,966	\$ -
Contributions and Grants	28,042	(915,836)	943,878	915,836	27,367	675	-
Investment Income	292,225	(900)	293,125	-	280,951	11,274	900
Realized Gain on Marketable Securities-Net	10,847	-	10,847	-	10,847	-	-
Other Revenue	47,241	(483,127)	530,368	-	-	47,241	483,127
Total Unrestricted Revenues and Gains	9,176,321	(1,399,863)	10,576,184	915,836	319,165	8,857,156	484,027
Net Assets Released from Restrictions	3,580	-	3,580	-	3,580	-	-
Total Unrestricted Revenues, Gains, and Other Support	9,179,901	(1,399,863)	10,579,764	915,836	322,745	8,857,156	484,027
<b>EXPENSES</b>							
Salaries and Benefits	5,868,495	-	5,868,495	-	65,595	5,802,900	-
Medical Supplies and Drugs	290,745	-	290,745	-	-	290,745	-
Insurance and Other	2,475,595	(1,398,963)	3,874,558	53,881	1,048,693	2,582,841	209,243
Provision for Bad Debts	26,077	-	26,077	-	-	26,077	-
Depreciation and Amortization	232,342	-	232,342	-	-	1,711	230,631
Interest	149,194	(900)	150,094	-	-	900	149,194
Total Expenses	9,042,448	(1,399,863)	10,442,311	53,881	1,114,288	8,685,274	589,068
<b>OPERATING INCOME (LOSS) BEFORE OTHER ITEMS</b>	137,453	-	137,453	862,155	(791,543)	171,882	(105,041)
<b>OTHER ITEMS</b>							
Investment Income-Subsidiaries	-	(49,527)	49,527	-	51,134	(1,607)	-
Abandonment Costs	(78,651)	-	(78,651)	-	(23,148)	-	(55,503)
Federal Income Tax Benefit	14,080	-	14,080	-	-	14,080	-
State Income Tax Benefit (Expense)	(14,080)	-	(14,080)	-	-	(14,080)	-
Total Other Items	(78,651)	(49,527)	(29,124)	-	27,986	(1,607)	(55,503)
<b>EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES</b>	58,802	(49,527)	108,329	862,155	(763,557)	170,275	(160,544)
<b>UNREALIZED LOSS ON MARKETABLE SECURITIES</b>	(359,453)	-	(359,453)	-	(359,453)	-	-
<b>NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	(300,651)	(49,527)	(251,124)	862,155	(1,123,010)	170,275	(160,544)

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>TEMPORARILY RESTRICTED NET ASSETS</b>							
Unrealized Loss on Marketable Securities	(607)	-	(607)	-	(607)	-	-
Realized Gain on Marketable Securities	249	-	249	-	249	-	-
Investment Income	571	-	571	-	571	-	-
Temporarily Restricted Contributions	10,000	-	10,000	-	10,000	-	-
Net Assets Released from Restrictions	(3,580)	-	(3,580)	-	(3,580)	-	-
<b>NET INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>6,633</b>	<b>-</b>	<b>6,633</b>	<b>-</b>	<b>6,633</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(294,018)</b>	<b>(49,527)</b>	<b>(244,491)</b>	<b>862,155</b>	<b>(1,116,377)</b>	<b>170,275</b>	<b>(160,544)</b>
Net Assets - Beginning of Year	12,832,356	(3,083,784)	15,898,140	-	13,050,971	1,840,518	1,004,653
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 12,538,338</b>	<b>\$ (3,113,311)</b>	<b>\$ 15,651,849</b>	<b>\$ 862,155</b>	<b>\$ 11,934,594</b>	<b>\$ 2,010,791</b>	<b>\$ 844,109</b>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>ADMINISTRATIVE AND GENERAL</b>								
Salaries - Administrator	\$ 317,245	\$ -	\$ 317,245	\$ -	\$ -	\$ -	\$ 317,245	\$ -
Management Fee	218,400	-	218,400	-	-	-	218,400	-
Salaries - Clerical	294,048	-	294,048	-	-	-	294,048	-
Salaries - Foundation	-	-	-	-	-	-	-	-
Pension	99,803	-	99,803	-	-	-	99,803	-
Office Supplies and Expense	85,782	-	85,782	75	-	2,967	82,220	500
Tuition and Education	9,480	-	9,480	-	-	3,424	6,056	-
Salaries - Staff Development	89,687	-	89,687	-	-	-	89,687	-
Late Charges	-	-	-	-	-	-	-	-
Telephone	27,605	-	27,605	-	-	-	27,605	-
Advertising	30,233	-	30,233	-	24,090	-	6,143	-
Travel and Meetings	11,128	-	11,128	-	-	10,975	153	-
Licenses and Dues	9,960	-	9,960	-	-	295	9,665	-
Employee Benefits	76,967	-	76,967	-	-	-	76,967	-
General Expenses	14,160	-	14,160	-	-	-	14,160	-
Accounting	60,134	-	60,134	-	-	9,300	40,534	10,300
Professional Fees Other	28,582	-	28,582	-	-	-	28,582	-
Bookkeeping and Payroll Services	39,940	-	39,940	-	-	-	39,940	-
Legal	1,000	-	1,000	-	-	-	1,000	-
Payroll Taxes	426,815	-	426,815	-	-	-	426,815	-
Health Insurance	421,062	-	421,062	-	-	-	421,062	-
Insurance - Other	87,926	-	87,926	-	-	-	75,577	12,349
User Fee Assessment	585,806	-	585,806	-	-	-	585,806	-
Donations	17,100	(4,546,340)	4,563,440	2,288,840	-	2,281,100	3,500	-
Investment Fees	25,397	-	25,397	-	-	25,397	-	-
Anniversary Celebration Expenses	3,605	-	3,605	-	-	3,605	-	-
Bad Debts	16,570	-	16,570	-	-	-	16,570	-
<b>Total</b>	<b>2,978,415</b>	<b>(4,546,340)</b>	<b>7,524,755</b>	<b>2,298,915</b>	<b>24,090</b>	<b>2,317,063</b>	<b>2,861,538</b>	<b>23,149</b>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>PROPERTY EXPENSES</b>								
Rent - Real Estate	-	(496,540)	496,540	-	-	-	496,540	-
Property Insurance	50,933	-	50,933	-	-	-	-	50,933
Real Estate Taxes	141,245	-	141,245	-	-	-	-	141,245
Interest	247,454	-	247,454	105,133	-	-	-	142,321
Depreciation	54,988	-	54,988	-	-	-	-	54,988
Amortization	6,285	-	6,285	-	-	-	-	6,285
<b>Total</b>	<b>500,905</b>	<b>(496,540)</b>	<b>997,445</b>	<b>105,133</b>	<b>-</b>	<b>-</b>	<b>496,540</b>	<b>395,772</b>
<b>PLANT OPERATIONS</b>								
Salaries	205,256	-	205,256	-	-	-	205,256	-
Purchased Services	88,327	-	88,327	-	-	-	88,327	-
Supplies and Expense	21,817	-	21,817	-	-	-	21,817	-
Utilities	189,590	-	189,590	-	-	-	189,590	-
<b>Total</b>	<b>504,990</b>	<b>-</b>	<b>504,990</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>504,990</b>	<b>-</b>
<b>DIETARY</b>								
Salaries	422,709	-	422,709	-	-	-	422,709	-
Food	331,912	-	331,912	-	-	-	331,912	-
Purchased Services	22,403	-	22,403	-	-	-	22,403	-
Supplies and Expenses	23,794	-	23,794	-	-	-	23,794	-
<b>Total</b>	<b>800,818</b>	<b>-</b>	<b>800,818</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>800,818</b>	<b>-</b>
<b>LAUNDRY AND LINEN</b>								
Salaries	86,853	-	86,853	-	-	-	86,853	-
Purchased services	3,166	-	3,166	-	-	-	3,166	-
Supplies and Expenses	7,355	-	7,355	-	-	-	7,355	-
Linen and Bedding	2,381	-	2,381	-	-	-	2,381	-
<b>Total</b>	<b>99,755</b>	<b>-</b>	<b>99,755</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>99,755</b>	<b>-</b>
<b>HOUSEKEEPING</b>								
Salaries	215,892	-	215,892	-	-	-	215,892	-
Supplies and Expenses	45,417	-	45,417	-	-	-	45,417	-
<b>Total</b>	<b>261,309</b>	<b>-</b>	<b>261,309</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>261,309</b>	<b>-</b>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>NURSING</b>								
Salary - Director	109,875	-	109,875	-	-	-	109,875	-
Salaries - R.N.	958,224	-	958,224	-	-	-	958,224	-
Salaries - L.P.N.	454,507	-	454,507	-	-	-	454,507	-
Salaries - Nurses Aides	1,673,955	-	1,673,955	-	-	-	1,673,955	-
Salaries - Orientation	8,692	-	8,692	-	-	-	8,692	-
Supplies and Expense	127,440	-	127,440	-	-	-	127,440	-
Total	3,330,693	-	3,330,693	-	-	-	3,330,693	-
<b>MEDICAL SERVICES</b>								
MMQ Nurse	78,840	-	78,840	-	-	-	78,840	-
MDS Coordinator	26,255	-	26,255	-	-	-	26,255	-
Medical Records Consultant	2,439	-	2,439	-	-	-	2,439	-
Quality Assurance Nurse	50,400	-	50,400	-	-	-	50,400	-
Total	157,934	-	157,934	-	-	-	157,934	-
<b>SOCIAL SERVICE</b>								
Salaries	67,876	-	67,876	-	-	-	67,876	-
Consultant	6,000	-	6,000	-	-	-	6,000	-
Supplies and Expense	-	-	-	-	-	-	-	-
Total	73,876	-	73,876	-	-	-	73,876	-
<b>RECREATION</b>								
Salaries	138,186	-	138,186	-	-	-	138,186	-
Supplies and Expense	11,878	-	11,878	-	-	-	11,878	-
Total	150,064	-	150,064	-	-	-	150,064	-
<b>CONSULTANTS</b>								
Medical Director	9,000	-	9,000	-	-	-	9,000	-
Pharmacy Consultant	2,439	-	2,439	-	-	-	2,439	-
Physical Therapy	37,991	-	37,991	-	-	-	37,991	-
Speech Therapy	1,334	-	1,334	-	-	-	1,334	-
Occupational Therapy	5,434	-	5,434	-	-	-	5,434	-
Total	56,198	-	56,198	-	-	-	56,198	-



**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2012**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Manor Nursing and Rehab Center QALICB, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>ANCILLARIES</b>								
Pharmacy	55,700	-	55,700	-	-	-	55,700	-
Physical Therapy	128,699	-	128,699	-	-	-	128,699	-
Occupational Therapy	79,188	-	79,188	-	-	-	79,188	-
Speech Therapy	3,557	-	3,557	-	-	-	3,557	-
Radiology	11,882	-	11,882	-	-	-	11,882	-
Laboratory	18,033	-	18,033	-	-	-	18,033	-
Other	5,079	-	5,079	-	-	-	5,079	-
Total	<u>302,138</u>	<u>-</u>	<u>302,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>302,138</u>	<u>-</u>
<b>Total Expenses</b>	<b><u>\$ 9,217,095</u></b>	<b><u>\$ (5,042,880)</u></b>	<b><u>\$ 14,259,975</u></b>	<b><u>\$ 2,404,048</u></b>	<b><u>\$ 24,090</u></b>	<b><u>\$ 2,317,083</u></b>	<b><u>\$ 9,085,853</u></b>	<b><u>\$ 418,921</u></b>

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>ADMINISTRATIVE AND GENERAL</b>							
Salaries - Administrator	\$ 173,752	\$ -	\$ 173,752	\$ -	\$ -	\$ 173,752	\$ -
Management Fee	207,600	-	207,600	-	-	207,600	-
Salaries - Clerical	260,053	-	260,053	-	-	260,053	-
Salaries - Foundation	60,860	-	60,860	-	60,860	-	-
Pension	95,006	-	95,006	-	-	95,006	-
Office Supplies and Expense	53,787	-	53,787	13	481	53,293	-
Tuition and Education	16,605	-	16,605	-	10,874	5,731	-
Salaries - Staff Development	85,717	-	85,717	-	-	85,717	-
Late Charges	-	-	-	-	-	-	-
Telephone	22,316	-	22,316	-	-	22,316	-
Advertising	5,849	-	5,849	-	200	5,649	-
Travel and Meetings	9,781	-	9,781	-	9,781	-	-
Licenses and Dues	9,908	-	9,908	-	1,115	8,793	-
Employee Benefits	48,709	-	48,709	-	-	48,709	-
General Expenses	7,074	-	7,074	-	-	7,074	-
Accounting	57,800	-	57,800	-	5,100	42,600	10,100
Professional Fees	-	-	-	-	-	-	-
Bookkeeping and Payroll Services	56,954	-	56,954	-	14,431	42,523	-
Legal	80,979	-	80,979	53,668	25,591	1,720	-
Payroll Taxes	419,059	-	419,059	-	4,496	414,563	-
Health Insurance	403,244	-	403,244	-	-	403,244	-
Insurance - Other	100,269	-	100,269	-	238	87,085	12,946
User Fee Assessment	616,029	-	616,029	-	-	616,029	-
Interest on Working Capital	-	(900)	900	-	-	900	-
Amortization of Software	1,711	-	1,711	-	-	1,711	-
Donations	3,918	(915,836)	919,752	-	916,874	2,878	-
Investment Fees	60,907	-	60,907	-	60,907	-	-
Anniversary Celebration Expenses	3,340	-	3,340	-	3,340	-	-
Bad Debts	26,077	-	26,077	-	-	26,077	-
Total	2,887,302	(916,736)	3,804,038	53,681	1,114,288	2,613,023	23,046

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>PROPERTY EXPENSES</b>							
Rent - Real Estate	-	(483,127)	483,127	-	-	483,127	-
Property Insurance	50,377	-	50,377	-	-	-	50,377
Real Estate Taxes	135,820	-	135,820	-	-	-	135,820
Interest	149,194	-	149,194	-	-	-	149,194
Depreciation	224,045	-	224,045	-	-	-	224,045
Amortization	6,586	-	6,586	-	-	-	6,586
Total	566,022	(483,127)	1,049,149	-	-	483,127	566,022
<b>PLANT OPERATIONS</b>							
Salaries	197,126	-	197,126	-	-	197,126	-
Purchased Services	107,978	-	107,978	-	-	107,978	-
Supplies and Expense	-	-	-	-	-	-	-
Utilities	207,415	-	207,415	-	-	207,415	-
Total	512,519	-	512,519	-	-	512,519	-
<b>DIETARY</b>							
Salaries	413,914	-	413,914	-	-	413,914	-
Food	343,220	-	343,220	-	-	343,220	-
Purchased Services	21,420	-	21,420	-	-	21,420	-
Supplies and Expenses	24,194	-	24,194	-	-	24,194	-
Total	802,748	-	802,748	-	-	802,748	-
<b>LAUNDRY AND LINEN</b>							
Salaries	81,691	-	81,691	-	-	81,691	-
Purchased services	2,607	-	2,607	-	-	2,607	-
Supplies and Expenses	7,714	-	7,714	-	-	7,714	-
Linen and Bedding	4,161	-	4,161	-	-	4,161	-
Total	96,173	-	96,173	-	-	96,173	-
<b>HOUSEKEEPING</b>							
Salaries	206,102	-	206,102	-	-	206,102	-
Supplies and Expenses	43,393	-	43,393	-	-	43,393	-
Total	249,495	-	249,495	-	-	249,495	-

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>NURSING</b>							
Salary - Director	104,485	-	104,485	-	-	104,485	-
Salaries - R.N.	950,799	-	950,799	-	-	950,799	-
Salaries - L.P.N.	434,207	-	434,207	-	-	434,207	-
Salaries - Nurses Aides	1,592,544	-	1,592,544	-	-	1,592,544	-
Salaries - Orientation	11,954	-	11,954	-	-	11,954	-
Supplies and Expense	177,189	-	177,189	-	-	177,189	-
Total	3,271,178	-	3,271,178	-	-	3,271,178	-
<b>MEDICAL SERVICES</b>							
MMQ Nurse	80,240	-	80,240	-	-	80,240	-
MDS Coordinator	24,362	-	24,362	-	-	24,362	-
Medical Records Consultant	2,505	-	2,505	-	-	2,505	-
Quality assurance nurse	24,192	-	24,192	-	-	24,192	-
Total	131,299	-	131,299	-	-	131,299	-
<b>SOCIAL SERVICE</b>							
Salaries	62,747	-	62,747	-	-	62,747	-
Consultant	9,180	-	9,180	-	-	9,180	-
Consultant	165	-	165	-	-	165	-
Total	72,092	-	72,092	-	-	72,092	-
<b>RECREATION</b>							
Salaries	161,685	-	161,685	-	-	161,685	-
Supplies and Expense	8,261	-	8,261	-	-	8,261	-
Total	169,946	-	169,946	-	-	169,946	-
<b>CONSULTANTS</b>							
Medical Director	9,000	-	9,000	-	-	9,000	-
Pharmacy Consultant	2,505	-	2,505	-	-	2,505	-
Physical Therapy	26,791	-	26,791	-	-	26,791	-
Speech Therapy	547	-	547	-	-	547	-
Occupational Therapy	3,348	-	3,348	-	-	3,348	-
Total	42,191	-	42,191	-	-	42,191	-

**SOUTH COVE MANOR NURSING AND REHABILITATION CENTER, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATING SCHEDULES OF EXPENSES (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2011**  
 (SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)  
 (UNAUDITED)

	Consolidated Total	Eliminations	Subtotal	South Cove Manor Nursing and Rehab Center, Inc.	South Cove Nursing Facilities Foundation, Inc.	South Cove Manor, Inc.	South Cove Realty Ltd Partnership
<b>ANCILLARIES</b>							
Pharmacy	47,068	-	47,068	-	-	47,068	-
Physical Therapy	78,373	-	78,373	-	-	78,373	-
Occupational Therapy	79,188	-	79,188	-	-	79,188	-
Speech Therapy	3,557	-	3,557	-	-	3,557	-
Radiology	8,053	-	8,053	-	-	8,053	-
Laboratory	9,332	-	9,332	-	-	9,332	-
Other	15,912	-	15,912	-	-	15,912	-
Total	<u>241,483</u>	<u>-</u>	<u>241,483</u>	<u>-</u>	<u>-</u>	<u>241,483</u>	<u>-</u>
<b>Total Expenses</b>	<b><u>\$ 9,042,448</u></b>	<b><u>\$ (1,399,863)</u></b>	<b><u>\$ 10,442,311</u></b>	<b><u>\$ 53,681</u></b>	<b><u>\$ 1,114,288</u></b>	<b><u>\$ 8,685,274</u></b>	<b><u>\$ 589,068</u></b>