Masonicare

Independent Auditors' Report, Consolidated Financial Statements, and Supplemental Information

As of and for the Years Ended September 30, 2009 and 2008

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Saslow
Lufkin &
Buggy, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditors' Report

To the Board of Trustees of Masonicare:

We have audited the consolidated balance sheets of Masonicare and its subsidiaries (Masonicare) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Masonicare's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Masonicare's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Masonicare as of September 30, 2009 and 2008, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective October 1, 2008, Masonicare adopted the provisions of the Financial Accounting Standards Board (FASB) Staff Position SOP 94-3-1 and AAG HCO-1, *"Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations"* which is codified at FASB Accounting Standards Codification 958-810 *"Consolidation"*. Masonicare has adjusted the carrying values of its investments in limited partnerships to cost in accordance with this guidance.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Saslow Lufkin & Buggy, LLP

December 2, 2009

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Masonicare
Consolidated Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,753,489**	$ 2,721,248
Restricted cash	**1,415,994**	1,890,801
Patient accounts receivable, net of allowance for doubtful accounts of $3,591,176 and $3,848,715, respectively	**21,263,436**	23,190,505
Other receivables	**1,780,179**	3,740,439
Inventories	**259,376**	269,957
Prepaid expenses and other current assets	**939,016**	1,122,167
Assets whose use is limited or restricted - required for current liabilities and operating purposes	**12,759,745**	12,736,680
Total current assets	**49,171,235**	45,671,797
Assets whose use is limited or restricted:		
By Board of Trustees	**62,420,932**	67,087,240
Under patient asset management, trust agreements and patient escrow accounts	**459,865**	551,737
Under indenture agreement - held by trustees	**794,826**	11,639,185
Under trust for estimated self-insurance liabilities	**8,001,665**	9,890,931
Under trust for interest rate swap obligation	**9,391,269**	-
By donors for specific purposes	**2,800,601**	2,585,426
By donors for permanent endowment funds	**61,070,014**	77,655,183
Total assets whose use is limited or restricted	**144,939,172**	169,409,702
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	**(12,759,745)**	(12,736,680)
Non-current assets whose use is limited or restricted	**132,179,427**	156,673,022
Property and equipment, net	**158,063,061**	149,347,734
Unamortized financing costs	**2,020,727**	2,102,309
Total assets	**$ 341,434,450**	$ 353,794,862

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

Masonicare
Consolidated Balance Sheets (continued)
September 30, 2009 and 2008

	2009	2008
Liabilities and Net Assets		
Current liabilities:		
Line of credit	**$ 8,000,000**	$ 9,000,000
Current maturities of long-term debt	**2,145,000**	3,060,000
Accounts payable and accrued expenses	**12,573,936**	12,498,510
Accrued salaries and related expenses	**6,482,823**	7,274,728
Accrued pension and postretirement benefits, current portion	**2,335,596**	785,931
Estimated self-insurance liabilities, current portion	**2,574,946**	2,278,817
Estimated settlements due to third-party payers	**3,695,826**	4,113,217
Annuities payable, current portion	**390,248**	456,680
Refundable entry fees, current portion	**925,459**	1,107,807
Deferred patient service and other revenues	**2,686,267**	1,755,666
Deposits	**1,279,750**	1,174,788
Total current liabilities	**43,089,851**	43,506,144
Accrued pension and postretirement benefits, net of current portion	**14,344,030**	11,478,417
Interest rate swap liability	**11,891,269**	6,050,280
Annuities payable, net of current portion	**2,102,759**	2,187,889
Refundable entry fees, net of current portion	**34,544,014**	30,435,483
Deferred entry fee revenues	**10,460,783**	7,537,807
Assets held for patient asset management, trust agreements and patient escrow accounts	**470,151**	523,247
Asset retirement obligation	**653,453**	628,321
Estimated self-insurance liabilities, net of current portion	**9,363,449**	8,966,239
Minority interest in consolidated subsidiary	**(712,297)**	(552,281)
Long-term debt, net of current maturities	**110,670,000**	112,815,000
Total liabilities	**236,877,462**	223,576,546
Net assets:		
Unrestricted	**30,203,810**	52,655,463
Temporarily restricted	**2,078,496**	1,969,374
Permanently restricted	**72,274,682**	75,593,479
Total net assets	**104,556,988**	130,218,316
Total liabilities and net assets	**$ 341,434,450**	$ 353,794,862

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

Masonicare
Consolidated Statements of Operations
For the Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Net patient service revenues	$ **137,530,300**	$ 127,934,131
Resident fees	**15,403,737**	11,826,982
Other revenues	**12,213,405**	9,143,947
Net assets released from restrictions used for operations	**-**	124,441
Total operating revenues	**165,147,442**	149,029,501
Operating expenses:		
Salaries and wages	**92,154,917**	90,148,589
Employee benefits	**28,078,520**	22,917,496
Supplies and other services	**23,237,249**	22,989,517
Professional fees	**18,264,815**	16,541,721
Depreciation and amortization	**10,547,738**	8,712,977
Interest	**3,455,157**	2,265,736
Provision for bad debts	**405,856**	1,683,098
Total operating expenses	**176,144,252**	165,259,134
Loss from operations before restructuring	**(10,996,810)**	(16,229,633)
Restructuring expenses	**813,540**	-
Loss from operations after restructuring	**(11,810,350)**	(16,229,633)
Non-operating (expense) income:		
Contributions	**3,514,110**	2,950,580
Investment income	**2,143,482**	8,481,059
Other than temporary impairment on investments	**-**	(4,012,132)
Loss on early extinguishment of debt	**-**	(1,508,679)
Change in fair value of interest rate swap agreement	**(5,846,186)**	(6,050,280)
Minority interest in consolidated subsidiary	**160,016**	552,281
Total non-operating (expense) income	**(28,578)**	412,829
Excess of revenues under expenses	**(11,838,928)**	(15,816,804)
Other changes in unrestricted net assets:		
Change in unrealized depreciation on investments	**(1,493,392)**	(32,954,833)
Pension changes other than net periodic benefit costs	**(4,065,233)**	(614,261)
Cumulative effect of change in accounting principle for investments in limited partnerships (See Note 2)	**(12,494,692)**	-
Transfer from permanently restricted net assets	**6,984,408**	-
Net assets released for capital acquisitions	**461,641**	-
Other changes	**(5,457)**	-
Equity distribution to CT VNA SE members	**-**	(64,010)
Change in unrestricted net assets	**(22,451,653)**	(49,449,908)
Unrestricted net assets, beginning of year	**52,655,463**	102,105,371
Unrestricted net assets, end of year	$ **30,203,810**	$ 52,655,463

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

Masonicare
Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted net assets:		
Excess of revenues over (under) expenses	**$ (11,838,928)**	$ (15,816,804)
Change in unrealized depreciation on investments	**(1,493,392)**	(32,954,833)
Pension changes other than net periodic benefit costs	**(4,065,233)**	(614,261)
Cumulative effect of change in accounting principle for investments in limited partnerships	**(12,494,692)**	-
Transfer from permanently restricted net assets	**6,984,408**	-
Net assets released for capital acquisitions	**461,641**	-
Other changes	**(5,457)**	-
Equity distribution to CT VNA SE members	**-**	(64,010)
Change in unrestricted net assets	**(22,451,653)**	(49,449,908)
Temporarily restricted net assets:		
Bequests, contributions, pledges and changes in value of residual trusts	**282,873**	60,949
Investment income	**105,714**	114,877
Realized losses on sale of investments	**(76,174)**	(14,854)
Change in unrealized appreciation (depreciation) on investments	**189,744**	(461,831)
Change in annuity obligations	**109,595**	17,276
Net assets released for capital acquisitions	**(461,641)**	-
Other changes	**(40,989)**	-
Net assets released from restrictions used for operations	**-**	(124,441)
Change in temporarily restricted net assets	**109,122**	(408,024)
Permanently restricted net assets:		
Bequests, contributions and pledges	**4,106,016**	1,620,380
Investment income	**174,442**	182,187
Realized (losses) gains on sale of investments	**(199,078)**	39,121
Change in annuity obligations	**(216,540)**	141,949
Change in fair value of perpetual trusts	**(320,897)**	(2,331,633)
Change in unrealized appreciation (depreciation) on investments	**116,100**	(833,122)
Other changes	**5,568**	
Transfer to unrestricted net assets	**(6,984,408)**	-
Change in permanently restricted net assets	**(3,318,797)**	(1,181,118)
Change in net assets	**(25,661,328)**	(51,039,050)
Net assets, beginning of year	**130,218,316**	181,257,366
Net assets, end of year	**$ 104,556,988**	$ 130,218,316

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

Masonicare
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	**$ (25,661,328)**	$ (51,039,050)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**10,547,738**	8,712,977
Pension liability adjustment to equity	**4,065,233**	614,261
Cumulative effect of change in accounting principle for investments in limited partnerships	**12,494,692**	-
Provision for bad debts	**405,856**	1,683,098
Restricted contributions, investment income and other	**(4,538,471)**	(1,978,393)
Realized and unrealized depreciation on investments	**1,783,697**	36,557,152
Other than temporary impairment on investments	-	4,012,132
Amortization of deferred entry fee revenues	**(5,476,374)**	(3,956,232)
Loss on early extinguishment of debt	-	1,508,679
Changes in fair value of interest rate swap agreement	**5,846,186**	6,050,280
Minority interest in consolidated subsidiary	**(160,016)**	(340,705)
Changes in operating assets and liabilities:		
Patient accounts receivable	**2,332,925**	(6,609,260)
Other receivables	**1,960,260**	(2,201,546)
Inventories	**10,581**	4,868
Prepaid expenses and other current assets	**183,151**	(62,495)
Accounts payable and accrued expenses	**75,426**	1,223,904
Accrued salaries and related expenses	**(791,905)**	1,105,436
Accrued pension and postretirement benefits	**4,415,278**	696,485
Estimated self-insurance liabilities	**693,339**	2,825,122
Estimated settlements due to third-party payers	**(417,391)**	(295,102)
Deferred patient service and other revenues	**930,601**	(377,849)
Deposits	**104,962**	(744,289)
Assets held for patient asset management, trust agreements and patient escrow accounts	**(53,096)**	(19,359)
Asset retirement obligation	**25,132**	24,166
Net cash provided by (used in) operating activities	**8,776,476**	(2,605,720)
Cash flows from investing activities:		
Proceeds from sales of investments	**63,388,450**	89,151,841
Purchases of investments	**(59,749,162)**	(98,127,315)
Change in restricted cash	**474,807**	(1,535,437)
Purchases of property and equipment, net	**(19,132,491)**	(49,622,058)
Investment in unconsolidated affiliate	-	1,931,441
Net cash used in investing activities	**(15,018,396)**	(58,201,528)
Cash flows from financing activities:		
Proceeds from entrance fees	**15,824,063**	13,931,970
Refunds of entrance fees	**(2,028,373)**	(1,596,480)
Proceeds from bond offering	-	116,065,000
Proceeds from line of credit	**1,000,000**	19,708,701
Payments on line of credit	**(2,000,000)**	(40,000,000)
Payments on long-term debt	**(3,060,000)**	(47,865,000)
Restricted contributions, investment income and other	**4,538,471**	1,978,393
Net cash provided by financing activities	**14,274,161**	62,222,584
Net change in cash and cash equivalents	**8,032,241**	1,415,336
Cash and cash equivalents at beginning of year	**2,721,248**	1,305,912
Cash and cash equivalents at end of year	**$ 10,753,489**	$ 2,721,248

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

Note 1 - General

Organization - Masonicare is a not-for-profit Connecticut corporation and a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code. Masonicare is a parent holding company and support organization for its affiliate corporations (collectively referred to as Masonicare or the System). Masonicare was organized in 1995 for the benefit of providing long-range strategic and financial planning, policy development and support services for its affiliates, which provide continuing care retirement services and other housing, health care and related services to older adults. Tracing itself to its predecessor, The Masonic Charity Foundation of Connecticut, the principal purposes of the corporate system are to aid, assist or support the aged, sick or infirm Connecticut A.F.&A.M., Connecticut members of Order of Eastern Star, Prince Hall Affiliates and Connecticut members of Order of Amaranth and their families; and otherwise provide for the needs of an aging population. In furtherance of its traditional values, the mission of Masonicare is to enhance the quality of life by providing health, social and spiritual care throughout an individual's lifetime with emphasis on the needs of older persons. Effective January 2009, certain affiliate corporations names were changed. The affiliate corporations in the System are Masonicare Health Center (MHC) (formerly Masonic Healthcare Center), Keystone Indemnity Company (Keystone), The Masonic Charity Foundation of Connecticut, Inc (MCF), Masonicare at Ashlar Village (MAV) (formerly Ashlar Village), Masonicare at Newtown (MAN) (formerly Ashlar of Newtown), Masonic Management Services, Inc. (MMS) and Masonicare Home Health and Hospice (MHH&H) (formerly Connecticut VNA).

Masonicare had a 50% ownership interest in Connecticut Health Care Partners Reciprocal Risk Retention Group (CHCP) and retained a 51% ownership interest in Connecticut VNA SE (CT VNA SE). Both companies were dissolved during fiscal year 2008.

Effective December 1, 2007, MHH&H formed a strategic partnership with the two homecare branches operated by Saint Francis Hospital and Medical Center. The partnership, Masonicare Partners Home Health & Hospice (formerly known as Connecticut VNA Partners through January 30, 2009), includes the Greater Hartford Branch of MHH&H and the Hartford and Suffield branches of Saint Francis Homecare. MHH&H owns a 65% share of Masonicare Partners Home Health & Hospice with the remaining 35% owned by Saint Francis Hospital and Medical Center. MHH&H records a 65% interest in this company with the remaining 35% recorded as a minority interest. Masonicare recorded the minority interest in Masonicare Partners Home Health & Hospice of $712,297 and $552,281 on the consolidated balance sheets at September 30, 2009 and 2008, respectively.

Note 1 - General (continued)

Principles of Consolidation - The consolidated financial statements include the accounts of Masonicare (the parent, including Keystone), MHC, MCF, MAN, MAV, MMS (including Masonicare Primary Care Physicians; formerly known as Pyramid Primary Care Physicians, P.C. and Masonicare Behavioral Health; formerly known as Trilogy Psychiatric Services LLP) and MHH&H (including Masonicare Partners Home Health & Hospice). Intercompany accounts and transactions have been eliminated in consolidation.

Note 2 - Summary of Significant Accounting Policies

Accounting Standards Codification - In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *"FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162"*. This guidance establishes the FASB Accounting Standards Codification (FASB ASC) as the source of authoritative accounting principles generally accepted in the United States of America (GAAP) for nongovernmental entities. The FASB ASC supersedes all existing accounting and reporting standards for non-public entities. This guidance is effective for financial statements issued for periods ending after September 15, 2009. As the FASB ASC did not change existing GAAP, the adoption of this guidance did not have an impact on Masonicare's consolidated financial condition or results of operations.

Investment in Unconsolidated Affiliate - Masonicare's investment in CHCP in 2007 was accounted for under the equity method of accounting and was included in "investment in unconsolidated affiliate" on the consolidated balance sheet as of September 30, 2007. As discussed in Note 1, CHCP was dissolved during 2008.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2009 and 2008, Masonicare recognized no expense or revenue related to settlements for prior years. Net patient service revenue from Medicare and Medicaid accounted for approximately 81% and 78% of total net patient service revenue for each of the years ended September 30, 2009 and 2008, respectively.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value in the consolidated balance sheets. Assets received as donations or bequests are recorded as contributions on the date received at the estimated fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over (under) expenses. The average cost method is used to determine realized gains or losses on sales of marketable equity securities.

Note 2 - Summary of Significant Accounting Policies (continued)

Masonicare invests in several limited partnerships (the Investment Companies). Some of these investments are in the form of both a master and feeder fund structure. The Investment Companies invest primarily in securities of publicly traded companies, securities of privately held distressed companies, real estate ventures and other financial instruments including a variety of derivative products such as call and put options, warrants and convertible securities. As of September 30, 2008, Masonicare's investment in the Investment Companies is recorded at fair value based upon each Investment Companies' net asset value with the unrealized gains or losses incurred reported in net assets. These Investment Companies are not traded on an exchange and do not provide Masonicare with the ability to redeem shares on a daily basis. There is generally no secondary market for trading interests in the Investment Companies. Instead, the net asset value serves as the basis for the investor's periodic (i.e. monthly or quarterly) subscription and redemption activity pursuant to the terms of each Investment Companies' governing documents. During May 2008, the FASB issued Staff Position (FSP) SOP 94-3-1 and AAG HCO-1, "*Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*" which is codified at FASB ASC 958-810 "*Consolidation*". This FSP is effective for fiscal year 2009 and changes the guidance on consolidation and the equity method of accounting in SOP 94-3, "*Reporting of Related Entities by Not-for-Profit Organizations*" and the AICPA Audit and Accounting Guide for Health Care Entities. The FSP requires that not-for profit entities apply the guidance in EITF Issue No. 03-16, "*Accounting for Investments in Limited Liability Companies (LLCs),*" to determine whether an LLC should be viewed as similar to a partnership, as opposed to a corporation, for purposes of determining whether noncontrolling interests in an LLC or a similar entity should be accounted for in accordance with SOP 78-9 "*Accounting for Investments in Real Estate Ventures*" and related guidance. During 2009, Masonicare has adjusted the carrying values of the Investment Companies to cost in accordance with this guidance. The adjustment of $12,494,692 has been recorded as a cumulative effect of a change in accounting principle and is reported within unrestricted net assets within the 2009 consolidated statement of changes in net assets. The fair values of these securities amounted to $23,157,477 and $29,023,699 as of September 30, 2009 and 2008, respectively. Because of the inherent uncertainty of the fair value of securities measured in good faith by the general partner, the estimated fair values of those securities may be materially higher or lower than the values that would have been used had a ready market for these securities existed.

Other Than Temporary Impairments on Investments - When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to non-operating income, included in other than temporary impairments on investments, and the cost basis of that investment is reduced.

Note 2 - Summary of Significant Accounting Policies (continued)

For equity securities, Masonicare's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and Masonicare's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. An impairment loss was recognized for the year ended September 30, 2008, which is further described in Note 4. There were no impairment losses recorded during the year ended September 30, 2009.

The Company adopted FASB ASC 320-10, *"Investments - Debt and Equity Securities"* (which encompassed FSP FAS115-2 and FAS 124-2, *"Recognition and Presentation of Other-Than-Temporary Impairments"* (FSP FAS 115-2/124-2)), which relates to fixed income securities.

This guidance requires Masonicare to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income security's amortized cost and its fair value is recognized in earnings.

For impaired fixed income securities that do not meet these criteria, Masonicare determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the amortized cost of a security and its projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized as a component of changes in net assets within unrealized depreciation on investments.

***Restricted Assets* -** Assets whose use is limited or restricted include assets set aside by the Board of Trustees (the Board) for future capital purposes, over which the Board retains control and may at its discretion subsequently use for other purposes; assets temporarily restricted by donors; assets permanently restricted by donors; patient assets and patient escrow accounts; assets held in trust for estimated self-insurance liabilities; and assets held by trustees under a State Connecticut Health and Educational Facilities Authority (CHEFA) Indenture Agreement.

Temporarily restricted net assets include specific purpose and unrestricted residual interest trusts. Specific purpose funds may be utilized only in accordance with the purposes established by the donor. Unrestricted residual interest trusts may not be used by Masonicare until the passage of time.

Note 2 - Summary of Significant Accounting Policies (continued)

Permanently restricted funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. Annuity funds are included in permanently restricted funds. Annuity funds are held conditional upon Masonicare paying stipulated amounts or the income earned on contributed amounts to designated individuals. A liability has been determined based on the present value of future payments for the expected lives of each annuitant. Such payments terminate upon death of the beneficiary. Upon termination, the remaining principal becomes part of the permanent endowment funds of Masonicare.

The income earned on restricted funds is generally available for operations of Masonicare and is recorded as revenue in unrestricted net assets, unless restricted by the donor or to pay future annuity obligations at which time the income is added to the appropriate restricted net asset balance. Administration of Masonicare's restricted funds is subject to the general provisions of the Uniform Management of Institutional Funds Act (UMIFA) as updated by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under the provisions of this law, a governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established, so much of the net appreciation as is deemed prudent based on standards established by UMIFA and UPMIFA. While a governing board must exercise ordinary business care in the appropriation of such appreciation, the general provisions of UMIFA and UPMIFA do not mandate that institutions retain endowment gains permanently. Accordingly, institutions that are subject to general UMIFA and UPMIFA provisions report gains on endowment assets as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees. However, if a specific gift instrument explicitly requires the reinvestment of appreciation, or a portion thereof, such reinvested amounts shall be classified within permanently restricted net assets.

Patient assets and escrow accounts are managed by Masonicare through asset management agreements and are utilized to pay for care and other services rendered by Masonicare. Patient assets are pooled together and each patient is credited with income earned monthly based on a percentage of patient assets to total assets in the pool.

Assets whose use is limited or restricted, with the exception of patient assets, are pooled for investment purposes. Each participating fund's equity in the pool is represented by pool units based on fair value. Investment income and gains and losses from sales of pooled investments are apportioned among the invested funds based on earnings per pool unit.

Reclassifications - Certain reclassifications to the 2008 consolidated financial statements have been made in order to conform with the 2009 presentation. These reclassifications are not material to the audited consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less from the date of acquisition, excluding amounts whose use is limited or restricted. The Federal Depository Insurance Corporation (FDIC) insures cash balances up to $250,000 per customer, per bank. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. Amounts in excess of the FDIC limits are uninsured. Most of Masonicare's banking activity, including cash and cash equivalents, is maintained with several regional banks and, from time-to-time, exceeds FDIC limits. It is Masonicare's policy to monitor these banks' financial strength on an ongoing basis.

Restricted Cash - Restricted cash consists of resident deposits for the construction of units at MAV.

Inventories - Inventories are stated at the lower of cost or fair market value, using the first-in, first-out method.

Property and Equipment, Net - Property and equipment are stated at cost or, in the case of donated property, at the fair value at the date of the gift, less accumulated depreciation. Major improvements and betterments to existing plant and equipment are capitalized. Expenditures for maintenance and repairs, which do not extend the lives of the applicable assets, are charged to expense as incurred. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and resulting gains and losses are included in the results of operations.

Depreciation expense is computed on a straight-line basis over the asset's estimated useful life, using a full month convention beginning in the month the asset is placed in service. Useful lives assigned to assets range from 5 to 40 years.

Deferred Financing Costs - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreement.

Excess of Revenues Under Expenses - The consolidated statement of operations includes excess of revenues under expenses. Changes in unrestricted net assets which are excluded from excess of revenues under expenses, consistent with industry practice, include unrealized appreciation on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and certain adjustments to the pension liability.

Note 2 - Summary of Significant Accounting Policies (continued)

Non-operating income included in excess of revenues over (under) expenses consists of other than temporary impairment on investments, unrestricted contributions and investment income, including realized gains and losses and investment management fees and the change in fair value of the interest rate swap agreement.

Deferred Patient Service and Other Revenue - Deferred patient service revenue represents the amount of unamortized Medicare billings for home care services under the prospective payment methodology. Deferred patient service revenue is amortized to income on a straight-line basis over an expected 60-day treatment period. Deferred other revenue represents pre-billing of certain fees associated with MAV that are not earned until the subsequent month.

Use of Estimates - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the estimated net realizable value of receivables from patients and third-party payers, settlement of third-party reimbursement cost reports with Medicare and Medicaid, valuation of investments, useful lives of buildings and equipment and other estimates included in actuarial calculations for deferred entry fee revenue, pension expense, postretirement healthcare costs and estimated self-insurance liabilities. Actual results could differ from those estimates.

Bad Debts - Masonicare uses the indirect method to record bad debts. Masonicare records an allowance for doubtful accounts, which is based on its estimation of bad debts, against its outstanding patient accounts receivable. This estimate is based on Masonicare’s past experience with collecting its receivables and an analysis of current accounts receivable. Bad debt expense was $405,856 and $1,683,098 for the years ended September 30, 2009 and 2008, respectively.

Charity Care - Masonicare provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. Masonicare does not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues.

Note 3 - Current Economic Conditions

The current economic environment presents health care entities with unprecedented circumstances and challenges, which, in some cases, have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to Masonicare.

Note 4 - Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted and classified as current assets consist of funds required for interest payable on bonds, annuities payable recorded as current liabilities and amounts approved by the Board of Trustees for operating purposes in the following year.

Assets whose use is limited or restricted are comprised as follows at September 30, 2009 and 2008:

	2009		2008	
	Cost	**Fair Value**	**Cost**	**Fair Value**
By Board of Trustees:				
Cash and cash equivalents	**$ 6,174,135**	**$ 6,174,135**	$ 675,424	$ 675,424
Marketable equity securities	**52,399,841**	**56,105,768**	43,363,573	49,091,356
Fixed income securities	**90,928**	**63,435**	91,043	28,452
Other investments	**16,794**	**16,794**	16,887,990	17,203,521
Other assets	**60,800**	**60,800**	88,487	88,487
	58,742,498	**62,420,932**	61,106,517	67,087,240
Under patient asset management and trust agreements and patient escrow accounts:				
Cash and cash equivalents	**185,652**	**185,652**	222,160	222,160
Other investments	**258,323**	**258,323**	287,153	287,153
Other assets	**15,890**	**15,890**	42,424	42,424
	459,865	**459,865**	551,737	551,737
Under indenture agreement - held by trustees:				
Cash and cash equivalents	**19,843**	**19,843**	11,639,185	11,639,185
Fixed income securities	**769,248**	**774,983**	-	-
	789,091	**794,826**	11,639,185	11,639,185
Under trust for estimated self-insurance liabilities:				
Cash and cash equivalents	**200,965**	**200,965**	2,481,726	2,481,726
Marketable equity securities	**3,681,329**	**3,433,908**	4,317,046	3,758,673
Fixed income securities	**1,996,010**	**2,109,058**	3,644,879	3,650,532
Other investments	**2,264,514**	**2,257,734**	-	-
	8,142,818	**8,001,665**	10,443,651	9,890,931
Under trust for interest rate swap obligation:				
Cash and cash equivalents	**9,391,269**	**9,391,269**		
	9,391,269	**9,391,269**	-	-
By donors for specific purposes:				
Cash, cash equivalents and interest receivable	**9,680**	**9,680**	31,067	31,067
Marketable equity securities	**774,809**	**748,090**	531,676	373,029
Fixed income securities	**893,155**	**921,661**	701,380	674,831
Residual interest trusts	**1,076,986**	**1,120,070**	1,505,399	1,505,399
Other investments	**1,100**	**1,100**	1,100	1,100
	2,755,730	**2,800,601**	2,770,622	2,585,426
By donor for permanent endowment funds:				
Cash, cash equivalents and interest receivable	**2,528,612**	**2,528,612**	1,789,437	1,789,436
Marketable equity securities	**31,042,198**	**31,142,871**	49,592,425	49,645,999
Fixed income securities	**1,941,585**	**1,993,388**	2,087,490	2,070,332
Perpetual interest trusts	**8,240,737**	**10,115,870**	8,240,737	10,436,767
Residual interest trusts	**732,424**	**926,685**	732,424	923,337
Other investments	**14,002,590**	**14,362,588**	10,641,547	12,789,312
	58,488,146	**61,070,014**	73,084,060	77,655,183
	$ 138,769,417	**$ 144,939,172**	$ 159,595,772	$ 169,409,702

Note 4 - Assets Whose Use is Limited or Restricted (continued)

During 2008, Masonicare recognized an impairment loss of $4,012,132 resulting from certain unrealized losses, which were deemed to be other than temporary. The investments that were deemed to be other than temporarily impaired had a market value of $6,494,628 as of September 30, 2008. This impairment loss is included within the consolidated statement of operations and has reduced Masonicare's cost basis for these investments to their market values as of September 30, 2008. No impairment losses were recognized during fiscal year 2009.

Investment income is comprised of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Interest and dividends	**$ 5,554,569**	$ 8,134,692
Realized (losses) gains on sale of investments	**(2,906,826)**	867,012
Less: management fees	**(504,261)**	(520,645)
	$ 2,143,482	$ 8,481,059

Note 5 - Property and Equipment

Property and equipment, consists of the following at September 30, 2009 and 2008:

	2009	2008
Land	**$ 419,334**	$ 419,334
Land improvements	**13,353,561**	11,377,842
Buildings	**212,111,035**	189,596,314
Furniture and equipment	**48,840,879**	46,055,472
	274,724,809	247,448,962
Less: accumulated depreciation	**(120,572,972)**	(110,522,644)
	154,151,837	136,926,318
Construction in progress	**3,911,224**	12,421,416
	$ 158,063,061	$ 149,347,734

Depreciation expense was $10,417,164 and $8,674,856 for the years ended September 30, 2009 and 2008, respectively. Included in property and equipment as of September 30, 2009 and 2008, are capitalized leased assets for computer equipment with a cost of $377,822 and $440,673 and related accumulated amortization of $360,341 and $385,070, respectively.

For the year ended September 30, 2009 and 2008, $391,331 and $2,111,262 of interest has been capitalized and included within property and equipment, respectively.

Note 5 - Property and Equipment (continued)

Estimated costs to complete construction in progress total $1,034,000 as of September 30, 2009.

Note 6 - Unamortized Financing Costs

Unamortized financing costs consist of the following at September 30, 2009 and 2008:

	2009	2008
Deferred financing costs	**$ 2,177,227**	$ 2,177,227
Less: accumulated amortization	**(156,500)**	(74,918)
	$ 2,020,727	$ 2,102,309

Amortization expense was $81,582 and $74,918, for the years ended September 30, 2009 and 2008, respectively.

Note 7 - Long-Term Debt

On October 23, 2007 and pursuant to a loan agreement dated as of October 1, 2007, Masonicare issued to CHEFA bonds in the amount of $116,065,000 for the purpose of financing the expansion of and renovations to the facilities at MAV and MHC. This bond issuance also constitutes a refinancing of the CHEFA 1998 Revenue Bonds (Series A and Series B) issued debt. The bond issuance is in the form of Masonicare Issue, Series C and Masonicare Issue, Series D financing. Masonicare Issue, Series C and Series D are variable rate demand revenue bonds in the amounts of $81,065,000 and $35,000,000, respectively, with both series bonds maturing on July 1, 2037. The variable interest rates on the bonds are based upon a daily remarketing rate, which typically is equivalent to the daily municipal swap index rate. The bonds have been secured by an irrevocable letter of credit expiring on, October 31, 2012, issued by Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association).

On October 16, 2007, Masonicare entered into an interest rate swap agreement with Merrill Lynch relating to the aggregate principal amount of the Series C bonds. The swap agreement has a term equal to the term of the Series C bonds. Under the swap agreement, Masonicare will make interest payments to Merrill Lynch based upon a fixed interest rate of 3.673% and collect interest payments from Merrill Lynch based upon a variable interest rate equal to 67% of the monthly LIBOR rate, which was equivalent to .17% and 1.67% as of September 30, 2009 and 2008 respectively. The swap agreement had an unfavorable value of $11,891,269 and $6,050,280 as of September 30, 2009 and 2008, respectively. As of September 30, 2009 Masonicare maintains $9,391,269 under trust with Merrill Lynch to collateralize its obligations under the swap agreement. No amounts were held under trust as of September 30, 2008.

Note 7 - Long-Term Debt (continued)

Long-term debt consists of the following at September 30, 2009 and 2008:

	2009	2008
2007 CHEFA Revenue Bonds:		
Series C - 3.06% to 7.96% term bonds due 2037	**$ 78,420,000**	$ 79,875,000
Series D - 3.06% to 7.96% term bonds due 2037	**34,395,000**	35,000,000
Notes payable to former owners of acquired companies Rate of interest set annually each January for four years, due 2005 to 2009	**-**	1,000,000
	112,815,000	115,875,000
Less: current maturities	**(2,145,000)**	(3,060,000)
	$ 110,670,000	$ 112,815,000

Under the indenture agreements, the Obligated Group is required to make monthly deposits with the trustee to fund future principal and interest payments. The agreements also place limits on additional borrowings and further require the Obligated Group to maintain a specified debt service coverage ratio. The Obligated Group was in compliance with these covenants for the years ended September 30, 2009 and 2008.

The annual maturities of long-term debt in each of the succeeding five years and thereafter are as follows:

2010	$ 2,145,000
2011	2,240,000
2012	2,335,000
2013	2,440,000
2014	2,655,000
Thereafter	101,000,000
	$ 112,815,000

Note 7 - Long-Term Debt (continued)

Funds held by trustees under the indenture agreement are as follows at September 30, 2009 and 2008:

	2009	2008
Assets whose use is limited for construction	**$ -**	$ 9,995,703
Assets held in escrow for equipment	**237,961**	230,000
Principal and interest funds, held by State Street Bank	**556,865**	1,413,482
	$ 794,826	$ 11,639,185

Note 8 - Line of Credit

During 2007, Masonicare entered into a revolving line of credit agreement with Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association) for $30,000,000, which is guaranteed by MCF, MHC, MAV, MAN and MHH&H. Upon consummation of permanent financing for the MAV construction project the line of credit was restated to $10,000,000. Amounts outstanding on the line of credit as of September 30, 2008 was $9,000,000. Amounts available under the line of credit as September 30, 2008 are $1,000,000 and are subject to an unused commitment fee of .1%. Advances under the line of credit bear interest at the LIBOR rate plus .50%. During July 2009, the line of credit was amended and reduced to $8,000,000 and bears interest at the LIBOR Market Index Rate plus 2.25%. The amended line of credit expires on May 15, 2010 and is reduced each month by $1,000,000 through the maturity date. The line of credit agreement requires the guarantors to maintain certain financial ratios, including a debt service coverage ratio. Masonicare was in compliance with these covenants for the years ending September 30, 2009 and 2008.

Note 9 - Self-Insurance Liabilities

Masonicare is self-insured for its long-term care professional and general liability exposure through Keystone, a wholly-owned subsidiary domiciled in Vermont. Effective January 1, 2008, Keystone provides claims-made coverage of $13,000,000 per claim and $12,000,000 per claim for professional and general liability insurance, respectively, without any reinsurance. Masonicare has employed independent actuaries to estimate the ultimate costs of the settlement of claims under the program, which approximate $4,690,568 and $4,834,228 at September 30, 2009 and 2008, respectively. Accrued professional and general liability reserves are discounted at a rate of 3% and 5% as of September 30, 2009 and 2008, respectively, and in management's opinion provide an adequate reserve for loss contingencies.

Note 9 - Self-Insurance Liabilities (continued)

Masonicare also self-insures the deductible portion of workers compensation claims. The self-insured deductible amount is $250,000 from January 1, 2001 through February 28, 2009. Effective March 1, 2009, Masonicare has purchased a pre-funded large deductible policy from a commercial carrier with a deductible limit of $350,000 per claim with a $4,200,000 aggregate limit. Masonicare has established an irrevocable trust to hold assets, accumulate income and pay settled claims and expenses related to the workers' compensation program for the self-insured deductibles. Masonicare has employed independent actuaries to estimate the ultimate costs of the deductible portion of workers compensation claims, which approximate $3,503,815 and $4,634,188 at September 30, 2009 and 2008, respectively. Accrued workers compensation reserves have been discounted at a rate of 3% and 5% at September 30, 2009 and 2008 and in management's opinion provide an adequate reserve for loss contingencies. Effective February 24, 2009, Masonicare obtained a surety bond to secure its future obligations of the self-insured deductible program. To effectuate the surety bond agreement Masonicare has provided $1,600,000 in collateral, which is held in trust at J.P Morgan Chase Bank N.A. and is included within assets under trust for self-insurance liabilities within the consolidated balance sheet as of September 30, 2009.

Effective January 1, 2007, Masonicare self-insured liabilities related to medical coverage on its employees and dependents (covered members) up to $100,000 per covered member. Masonicare procured a stop loss policy with CIGNA Healthcare for coverage in excess of $100,000 per covered member. Masonicare recorded liabilities in accordance with the program of $2,172,640 and $1,776,640 as of September 30, 2009 and 2008, respectively. Masonicare paid claims and administrative fees related to this program of $12,266,612 and $8,433,041 for the years ended September 30, 2009 and 2008, respectively.

Note 10 - Lease Commitments

Masonicare leases certain real estate and equipment under several non-cancelable operating leases. Future minimum rental payments under non-cancelable operating leases with initial terms in excess of one year are as follows at September 30, 2009:

2010	$	1,083,254
2011	$	597,990
2012	$	471,722
2013	$	320,396
2014	$	-

Total rent expense under all operating leases was approximately $1,512,498 and $1,428,219 for the years ended September 30, 2009 and 2008, respectively.

Note 11 - Pension and Other Postretirement Benefits

Masonicare has a defined benefit pension plan that provides retirement benefits for all eligible employees. To be eligible for the plan, the employee must work for a participating affiliate as defined in the plan agreement, be at least 21 years of age, and have completed a full year of service with at least 1,000 hours worked in that year. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

In July 2002, the Board of Trustees voted to freeze the defined benefit pension plan effective December 31, 2002. Upon freezing of the plan, all participants became 100% vested in their account balances. Benefits will be fully payable upon retirement or termination.

Masonicare also provides other postretirement health care benefits for retired employees. Employees may become eligible for health care benefits if they retire after attaining specified age and service requirements while they worked for Masonicare. The cost of such benefits is accrued during an employee's years of service. Generally, Masonicare pays a portion (or all) of the plan costs and the retirees pay premiums based on age and services at retirement. Employees hired after December 31, 1999 are not eligible for postretirement health benefits. During September 2009, the Board of Trustees voted to amend the medical plan. As part of the amendment to the medical plan certain retiree contributions will increase and the medical plan will no longer be available to future retirees hired prior to January 1, 2000. As a result of this amendment the benefit obligation has been reduced in the amount of $4,537,298 as of September 30, 2009 with a corresponding increase to net assets, which has been included within pension changes other than net periodic benefit costs within the 2009 consolidated statement of changes in net assets.

FASB Codification 715-60, "*Defined Benefit Plans—Other Postretirement*" required Masonicare to recognize the over or under funded status of a defined benefit retirement plan as an asset or liability in its consolidated balance sheets and to recognize changes in that funded status in unrestricted net assets in the year in which the change occurs. This provision of FASB Codification 715-60 was adopted in the year ending September 30, 2007. In addition, FASB Codification 715-60 requires Masonicare to measure the funded status of the plan as of the date of its year-end consolidated balance sheets. Masonicare adopted the measurement provision of the standard during the fiscal year ending September 30, 2009. Prior to the adoption of the measurement provision, Masonicare had measured its year-end liability as of June 30, which was allowed under FASB Codification 715-20, "*Compensation-Retirement Benefits*". The adoption of the measurement provision caused Masonicare to recognize an increase to the pension liability of $325,491 and a corresponding decrease to unrestricted net assets of $325,491. This adjustment represented the three-month adjustment to bring the valuation date to September 30, 2009 as has been reported within pension changes other than net periodic benefit costs within the 2009 consolidated statement of changes in net assets.

Note 11 - Pension and Other Postretirement Benefits (continued)

The valuation dates are September 30, 2009 and June 30, 2008, respectively, and pertinent information relating to these plans is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 26,223,704**	$ 29,333,663	**$ 6,426,144**	$ 6,352,858
Effect of eliminating early measurement date	**244,433**	-	**81,058**	-
Plan amendments	**-**	-	**(4,537,298)**	
Service cost	**217,186**	330,748	**233,394**	220,120
Interest cost	**1,564,324**	1,730,014	**407,981**	402,312
Actuarial (gain) loss	**2,751,609**	(3,314,125)	**1,682,162**	(248,513)
Benefits paid	**(1,611,928)**	(1,856,596)	**(240,763)**	(300,633)
Benefit obligation at end of year	**$ 29,389,328**	$ 26,223,704	**$ 4,052,678**	$ 6,426,144
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 20,167,952**	$ 23,404,525	**$ -**	$ -
Effect of eliminating early measurement date	**324,295**	-	**-**	-
Actual return on plan assets	**(2,553,847)**	(2,595,099)	**-**	-
Employer contribution	**461,619**	1,215,122	**285,752**	357,583
Participant contribution	**-**	-	**(44,989)**	(56,950)
Benefits paid	**(1,611,928)**	(1,856,596)	**(240,763)**	(300,633)
Fair value of plan assets at end of year	**$ 16,788,091**	$ 20,167,952	**$ -**	$ -
Funded status:	**$ (12,601,237)**	$ (6,055,752)	**$ (4,052,678)**	$ (6,426,144)
Contributions between measurement date and fiscal year end	**-**	176,972	**-**	79,285
Accrued liability	**$ (12,601,237)**	$ (5,878,780)	**$ (4,052,678)**	$ (6,346,859)

Significant assumptions are as follows as of September 30, 2009 and June 30, 2008:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Weighted average assumptions:				
Discount rate on Qualified Plan	**5.50%**	6.25%	**5.50%**	6.25%
Discount rate on Supplemental Executive Retirement Plan	**3.00%**	3.75%	**N/A**	N/A
Expected return on plan assets	**7.70%**	7.70%	**N/A**	N/A
Rate of compensation increase	**5.00%***	5.00%*	**N/A**	N/A
Health care cost trend rate:				
Initial health care cost trend rate	**N/A**	N/A	**9.00%**	10.00%
Ultimate health care cost trend rate	**N/A**	N/A	**5.00%**	5.00%
Number of years to ultimate rate	**N/A**	N/A	**4 years**	4 years

* Relates to Supplemental Executive Retirement Plan only.

Note 11 - Pension and Other Postretirement Benefits (continued)

The discount rate is the rate at which obligations could be effectively settled and is based on high-grade bond yields after allowing for call and default risk. The expected rate of return on assets for the defined benefit pension plan is determined by adding expected inflation to expected long-term returns. The salary increase rate is a long-term rate based on current expectations of future pay increases.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 17,293	$ (12,852)
Effect on postretirement benefit obligation	$ 274,000	$ (250,000)

Components of net periodic benefit costs are as follows for the years ended September 30, 2009 and 2008:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Service cost	**$ 217,186**	$ 330,748	**$ 233,394**	$ 220,120
Interest cost	**1,564,324**	1,730,014	**407,981**	402,312
Expected return on plan assets	**(1,474,733)**	(1,779,480)	**-**	-
Amortization of prior service cost	**36,341**	36,341	**-**	-
Actuarial loss recognized	**132,609**	159,663	**-**	1,679
	$ 475,727	$ 477,286	**$ 641,375**	$ 624,111

Amounts recorded in unrestricted net assets as of September 30, 2009, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service credit	$ (4,507,314)
Unamortized actuarial loss	13,192,153
Amount recognized as a reduction in unrestricted net assets	$ 8,684,839

The amortization of the above items expected to be recognized in net periodic costs for the year ended September 30, 2010 is $375,670.

Note 11 - Pension and Other Postretirement Benefits (continued)

The fair values of Masonicare's pension plan assets as of September 30, 2009 by asset category classified as Level 1, 2 and 3 as defined in Note 19 are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash, cash equivalents and interest receivable	$ 450,619	$ 450,619	$ -	$ -
Equity securities	8,392,997	8,392,997	-	-
Fixed income securities	18,221	-	18,221	-
Mutual funds	7,926,254	7,926,254	-	-
	$ 16,788,091	$ 16,769,870	$ 18,221	$ -

The investment objectives for the defined benefit pension plan is to obtain a favorable relative return for the entire fund, consistent with preservation of capital emphasizing some income generation and long-term growth. While some risk is warranted pursuing long-term growth of capital, consistent annual returns with low volatility in investment performance are desirable.

Masonicare expects to contribute approximately $1,777,125 to its pension plan, $319,472 to its postretirement plan and $226,000 to its supplemental executive retirement plan in fiscal year 2010. The costs and related obligations of the supplemental executive retirement plan are included within the pension benefit tables set forth above.

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

	Pension Benefits	Other Postretirement Benefits
2010	$ 1,925,000	$ 264,412
2011	$ 2,030,000	$ 304,497
2012	$ 2,346,000	$ 325,962
2013	$ 2,823,000	$ 343,311
2014	$ 3,051,000	$ 364,233
Thereafter	$ 19,450,000	$ 1,852,641

Note 11 - Pension and Other Postretirement Benefits (continued)

Masonicare offers to substantially all of its employees a defined contribution plan with various investment options. To be eligible, an employee must have completed 90 days of service and be at least 21 years old. Total defined contribution pension expense was $2,718,457 and $2,578,121 for the years ended September 30, 2009 and 2008, respectively.

MHC also offers a non-qualified pension plan with accrued benefit costs of $25,710 and $38,709 for 2009 and 2008, respectively. These costs and related obligations are not included in the tables set forth above.

Note 12 - Entrance Fees

MAV residents are provided living accommodations, other facilities and services and certain medical care in exchange for payment of entrance fees and monthly service charges. Deferred entry fee revenue represents the amount of unamortized initial entry fees paid by residents of MAV. Deferred entry fee revenue amounts are amortized to income on a straight-line basis over the shorter of the estimated remaining residential life expectancies of the individual residents or the maximum refund period.

Refundable entry fees are refundable in the event of termination of the Residency Agreement or upon the resident's death (up to 96 months) at a declining rate based on length of stay as provided by the Residency Agreements. Residential life expectancies are determined annually by reference to appropriate actuarial tables.

Based upon MAV's existing fee structure and management's expectation that future monthly service charges will be reflective of related operating costs, MAV is not required to record a liability for its obligation to provide future services and facilities to current residents.

Note 13 - Third-Party Payer Reimbursement

Masonicare has agreements with third-party payers that provide for payments to MHC, MAN, MHH&H and Masonicare Partners Home Health & Hospice at amounts different from their established rates.

Note 13 - Third-Party Payer Reimbursement (continued)

A summary of the payment arrangements with major third-party payers follows:

Medicare - Services rendered to Medicare program beneficiaries are reimbursed under a variety of reimbursement methodologies. The acute care beds of MHC are reimbursed on a Diagnostic Related Group (DRG) Prospective Payment System (PPS) methodology. Reimbursement amounts differ based on diagnosis and acuity level. The geriatric medical psychiatric beds of MHC began being paid on the Inpatient Psychiatric Facility Prospective Payment System effective October 1, 2005. This new payment system is being phased in over four years. For fiscal year 2009 and 2008, the per discharge payment is based upon a federal and hospital specific blended rate. Services are reimbursed based on patient diagnosis along with other factors. The long-term care beds in MHC and MAN are reimbursed using the Resource Utilization Groups (RUGS) PPS methodology. This PPS method reimburses services rendered to Medicare program beneficiaries based on a diagnosis determined through the minimum data set (MDS) evaluation.

Medicare reimburses for outpatient services (non-home health) on either a cost basis or a blend of cost and fee schedules, and to a much larger extent, on a rate per case outpatient prospective payment Ambulatory Payment Classification (APC) system.

Medicare reimburses home health services on a home health PPS methodology. Under home health PPS, an agency receives a fixed amount of reimbursement which covers all services (with a limited number of exceptions) provided to a patient for a specific treatment episode of 60 days. The reimbursement rate is developed based on the clinical, functional, and service needs specific to the individual patient. The prospective rate is wage-adjusted based on where the service is provided as opposed to where the agency is located, and is subject to a variety of final claim adjustments, which modify the payment based on actual utilization and level of clinical and functional severity reported at the end of the episode.

Medicaid - The Department of Social Services of the State of Connecticut (DSS), the State agency responsible for the administration of the State Medicaid program, is currently applying a prospective rate system in establishing Medicaid rates for its state-aided patients in long-term care facilities. The system categorizes costs into five major groupings and the facilities' actual costs are compared to state maximums and the lower amounts determine reimbursement. The base period used to compute the rates is to be updated every two to four years. The Connecticut legislature has overridden this rebasing and rates continue to be based on 1996 costs, updated by a defined percentage as established by the legislature. This update has consistently been less than the level of inflation. The State of Connecticut is currently reimbursing home health providers for services rendered to Medicaid home health beneficiaries based on fixed fee for service rates.

Note 13 - Third-Party Payer Reimbursement (continued)

DSS had instituted a user fee, which requires all long term care facilities to pay an amount per non-Medicare patient day back to the State. Rates paid to these facilities were adjusted through a formula that was compared to the costs for fiscal year 2003 but capped with a maximum amount of increase. MAN received this maximum amount. MHC was being paid through an interim rate agreed between MHC and the State. Interim rate facilities had rate increases calculated based upon a formula. MHC received the maximum this formula allowed. MAN and MHC were granted special interim rates by the State effective July 1, 2007. These rates are subject to review and adjustment if actual allowable costs are less than the rates paid.

***Filing Requirements* -** Each entity must file annual Medicare and Medicaid cost reports. Masonicare as the corporate parent, files a home office cost report with Medicare in order to define the cost of services to each of the other cost reporting entities. Although there is no direct reimbursement for the home office, the allocated costs to the other cost reporting entities are incorporated into their respective Medicare cost reports.

As a result of audits by the Medicare and Medicaid intermediaries, the cost reports may be subject to audit adjustments and retroactive settlements. Masonicare has recorded provisions for future audits and related estimated settlement amounts. In the opinion of management, no material adjustments are expected to result from future audit settlements.

Medicare cost reports for MHC have been settled through September 30, 2006 and Medicare cost reports for MAN, MHH&H and CT VNA SE have been settled through September 30, 2008. The Medicaid cost reports for MHC and MAN have been reviewed by DSS through September 30, 2008. During 2009, DSS initiated a routine full field audit of MHC's 2003 Medicaid cost report. The final results are expected to have insignificant adjustments.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Masonicare is in compliance with fraud and abuse regulations as well as other applicable governmental laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note 14 - Endowments

Masonciare's endowment consists of funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

Effective October 1, 2008, Masonicare adopted Financial Accounting Standards Board Staff Position No. 117-1 (FSP 117-1) *"Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"*, which was superseded by FASB Codification 958-205 *"Presentation of Financial Statement"*. The standards provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to UPMIFA and requires additional disclosures for all assets whose use is limited.

During 2009, in conjunction with the adoption of FASB Codification 958-205, Masonicare and legal counsel performed a review of gift instruments of previous contributions from 1986 through the current period to assess proper classification based on donor restrictions. This review identified contributions in the amount of $6,984,408 that were previously classified as permanently restricted that legal counsel has determined are unrestricted. As a result this amount has been transferred to the appropriate classification within the 2009 consolidated statement of changes in net assets. This reclassification had no impact on the consolidated financial position or results of operations as previously reported.

Masonicare has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees. Masonicare considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of Masonicare and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of Masonicare; and (7) the investment policies of Masonicare.

Note 14 - Endowments (continued)

Temporarily restricted net assets are available for the following purposes at September 30, 2009 and 2008:

	2009	2008
Residual interest trusts not available for Masonicare's purposes until the expiration of the trusts	**$ 1,120,070**	$ 1,397,116
Investments held to support annuity contractual obligations that are not available for Masonicare's purposes until the expiration of income interest	**34,484**	-
Support of MAV residents	**714,395**	485,786
Support for scholarship activities	**209,547**	86,472
	$ 2,078,496	$ 1,969,374

Permanently restricted net assets consist of the following at September 30, 2009 and 2008:

	2009	2008
Investments held in perpetuity, the income from which is dedicated to support Masonicare's activities	**$ 59,431,621**	$ 62,093,241
Investments held in perpetuity, the income from which is dedicated to support annuity contractual obligations	**1,549,909**	1,886,189
Investments held in perpetuity, the income from which is dedicated to support MHH&H activities	**1,177,282**	1,177,282
Fair value of perpetual trusts	**10,115,870**	10,436,767
	$ 72,274,682	$ 75,593,479

Funds with Deficiencies **-** From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires Masonicare to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2009 and 2008, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters **-** Masonicare’s investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Note 14 - Endowments (continued)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, Masonicare's investment and spending policies for endowment assets attempts to provide preservation of capital, growth after inflation, capital appreciation and compliance with bond covenants. In addition, the objectives include adequate liquidity with limited volatility.

Spending Policy - Prior to September 2009 MCF's investment portfolio allocation policy for long-term returns (Spending Policy) provided that the appropriation of funds from principal and or earnings to support annual operational losses of Masonicare. Due to unfavorable investment returns within the global equity markets during 2008 and 2009 MCF's Board of Directors and Masonicare's Board of Trustees approved the expenditure of up to $20 million of invested assets to ensure compliance with Masonicare's bond covenants. As of September 30, 2009, $13,015,592 is due to the permanent endowment assets for this appropriation. None of the $20 million appropriated has been expended as of September 30, 2009.

For fiscal periods beginning October 1, 2009 Masonicare's Spending Policy is to support Masonicare's strategic plan initiatives and operational objectives by making available a minimum of 0% up to maximum of up to 23.5% annually of the 3 year rolling average of the unrestricted portfolio's market value measured as of May 31st. The annual percentage allocation may only exceed 0% in years that the unrestricted investment portfolio's market value has not incurred a decline from the prior year market value as measured as of May 31st. To comply with this Spending Policy the Investment Committee provides recommendations of the annual percentage allocation to the Board of Trustees based on its evaluation of management's proposal for how the appropriated funds will be utilized including consideration of the projected impact on the investment portfolio. Management presents its proposals at the beginning of each year's internal budget process. Additional requests may be submitted by management to the Investment Committee for evaluation at other times during the year due to timing or extraordinary circumstances for recommendation to the Board of Trustees. The Board of Trustees also approves additional amounts to be withdrawn from funds which are restricted to certain uses pursuant to donor stipulation that are subject to appropriation and expenditure for the relevant specified uses.

Note 14 - Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2008	$ 67,087,240	$ 1,969,374	$ 75,593,479	$ 144,650,093
Reclassifications	6,984,408	-	(6,984,408)	-
Reduction of fair value of limited partnerships to cost	(12,494,692)	-	-	(12,494,692)
Investment return:				
Investment income	(824,029)	29,540	(24,636)	(819,125)
Net change in market value	(2,302,289)	189,744	(204,797)	(2,317,342)
Change in annuity obligations	-	109,595	(216,540)	(106,945)
Contributions	3,514,110	282,873	4,106,016	7,902,999
Released for capital acquisitions	461,641	(461,641)	-	-
Other changes	(5,457)	(40,989)	5,568	(40,878)
Balance at September 30, 2009	$ 62,420,932	$ 2,078,496	$ 72,274,682	$ 136,774,110

Note 15 - Concentrations of Credit Risk

MHC, MAN, MHH&H and CT VNA SE grant credit without collateral to certain patients, most of whom are insured under third-party payer agreements. The composition of patient and resident receivables before allowances for doubtful accounts consists of the following at September 30, 2009 and 2008:

	2009	2008
Medicare	**32 %**	31 %
Medicaid	**24**	27
Private pay and other	**44**	42
	100 %	100 %

Note 16 - Income Taxes

Masonicare, MHC, Keystone, MCF, MAN, MAV and MHH&H qualify as tax-exempt corporations under Section 501(c)(3) of the Internal Revenue Code. MMS is a taxable corporation as was CT VNA SE. Income tax expense was immaterial for the years ended September 30, 2009 and 2008.

Note 16 - Income Taxes (continued)

On October 1, 2007, Masonicare adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48), "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*" which has been superseded by FASB Codification 740-10, "*Income Taxes*". FASB Codification 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. FASB Codification 740-10 also addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements and permits the recognition of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position.

The adoption of this standard did not have any impact on the accompanying consolidated financial statements. Furthermore, Masonicare did not record any unrecognized tax benefits for the years ended September 30, 2009 and 2008. Masonicare anticipates that it will not have a change in unrecognized tax benefits during the next twelve months that would have a material impact on the consolidated financial statements.

Masonicare's policy is to recognize interest and penalties related to income taxes as a component of the provision for income taxes. As of September 30, 2009 and 2008 and for the years then ended, Masonicare did not record any penalties or interest associated with unrecognized tax benefits.

All U.S. federal tax years from 2006 onwards are eligible for audit by the IRS.

Note 17 - Functional Expenses

Masonicare provides health and social care services to the aging population, primarily residents of Connecticut. Expenses related to providing these services for the years ended September 30, 2009 and 2008 are as follows:

	2009	**2008**
Program services	**$ 80,373,590**	$ 78,050,351
Support services	**29,313,443**	26,350,018
General and administrative	**66,457,219**	60,858,765
	$ 176,144,252	$ 165,259,134

Note 18 - Commitments, Contingencies and Other Obligations

Masonicare is involved in various legal actions arising in the normal course of business. Although the ultimate outcome is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of these pending matters will not have a material adverse effect, individually or in the aggregate, upon the consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows.

During March 2005, the FASB issued Interpretation No. 47 which clarifies the term "conditional asset retirement obligation" as used in FASB Codification 410-20, "*Asset Retirement Obligations*". FASB Codification 410-20 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as facilities containing asbestos, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to it various facilities. An ARO liability of $653,453 and $628,321 has been established as of September 30, 2009 and 2008, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

Note 19 - Fair Values

Effective October 1, 2008 Masonicare adopted FASB Codification 820-10 "*Fair Value Measurements and Disclosures,*" which defines fair value, establishes framework for measuring fair value in accounting principles generally accepted in the United States and expands disclosures about fair value measurements. FASB Codification 820 does not require any new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability, which is referred to as the exit price. The standards provide guidance on how to measure fair value, when required, under existing accounting standards and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2 and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that Masonicare has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3 - Unobservable inputs reflecting Masonicare's estimates of the assumptions that market participants could use in pricing the asset or liability (including assumptions about risk).

Note 19 - Fair Values (continued)

Management determines the appropriate classification of its investments in all securities at the time of purchase and re-evaluates such determination at each balance sheet date. Masonicare has classified its investments in available for sale securities as Level 1, 2 and 3 as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash, cash equivalents and interest receivable	$ 18,510,156	$ 18,510,156	$ -	$ -
Equity securities	91,430,637	91,430,637	-	-
Fixed income securities	5,862,525	5,862,525	-	-
Perpetual interest trusts	10,115,870	10,115,870	-	-
Residual interest trusts	2,046,755	-	2,046,755	-
Other invested assets	2,036,902	258,323	1,732,779	45,800
Total	$ 130,002,845	$ 126,177,511	$ 3,779,534	$ 45,800

Investment in Investment Companies, carried at cost, are excluded from the above and amount to $14,936,327 as of September 30, 2009.

The following table provides a summary of changes in the fair value of Masonicare's interest rate swap liability, classified as Level 3, for the year ended September 30, 2009:

Beginning balance at October 1, 2008	$ 6,050,280
Total realized and unrealized (gains) losses	
Included in earnings	5,846,186
Other	(5,197)
Ending balance at September 30, 2009	$ 11,891,269

The fair value of the interest rate swap liability is based on information provided by Merrill Lynch. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by Masonicare and Merrill Lynch under the swap contract.

The following methods and assumptions were used by Masonicare in estimating the fair value of its other financial instruments:

Cash and Cash Equivalents - The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates its fair value.

Note 19 - Fair Values (continued)

Long-Term Debt - Fair values of Masonicare's long-term debt are based on current traded value. The fair value of the long-term debt approximates the carrying amount reported in the consolidated balances sheets as of September 30, 2009 and 2008.

Receivables and Payables - The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2009 and 2008.

Note 20 - Supplemental Cash Flow Information

	2009	**2008**
Cash paid during the year for interest	**$ 3,627,800**	$ 2,106,295

Note 21 - Subsequent Events

Subsequent events have been evaluated through December 2, 2009, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

Masonicare
Supplemental Consolidating Balance Sheet
September 30, 2009

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Assets											
Current assets:											
Cash and cash equivalents	$ 10,728,515	$ 2,070	$ 15,135	$ 2,683	$ 1,800	$ 3,186	$ -	$ 10,753,389	$ 100	$ -	$ 10,753,489
Restricted cash	-	-	-	-	1,415,994	-	-	1,415,994	-	-	1,415,994
Patient and accounts receivable, net	-	9,593,446	-	2,957,968	1,427,366	6,860,943	-	20,839,723	423,713	-	21,263,436
Other receivables	399,379	9,745	45,945	4,392	1,131,650	167,950	-	1,759,061	21,118	-	1,780,179
Inventories	-	165,989	-	72,431	20,956	-	-	259,376	-	-	259,376
Prepaid expenses and other current assets	300,749	228,708	887	74,813	76,041	252,679	-	933,877	5,139	-	939,016
Assets whose use is limited or restricted - required for current liabilities and operating purposes	2,250,000	-	10,509,745	-	-	-	-	12,759,745	-	-	12,759,745
Total current assets	13,678,643	9,999,958	10,571,712	3,112,287	4,073,807	7,284,758	-	48,721,165	450,070	-	49,171,235
Assets whose use is limited or restricted:											
By Board of Trustees	-	-	62,420,932	-	-	2,273,057	(2,273,057)	62,420,932	-	-	62,420,932
Under patient asset management, trust agreements and patient escrow accounts	13	429,804	-	30,048	-	-	-	459,865	-	-	459,865
Under indenture agreement - held by trustees	794,826	-	-	-	-	-	-	794,826	-	-	794,826
Under trust for estimated self-insurance liabilities	8,001,665	-	-	-	-	-	-	8,001,665	-	-	8,001,665
Under trust for interest rate swap obligation	9,391,269	-	-	-	-	-	-	9,391,269	-	-	9,391,269
By donors for specific purposes	-	-	2,800,601	-	-	-	-	2,800,601	-	-	2,800,601
By donors for permanent endowment funds	-	-	61,070,014	-	-	-	-	61,070,014	-	-	61,070,014
Total assets whose use is limited or restricted	18,187,773	429,804	126,291,547	30,048	-	2,273,057	(2,273,057)	144,939,172	-	-	144,939,172
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	(2,250,000)	-	(10,509,745)	-	-	-	-	(12,759,745)	-	-	(12,759,745)
Non-current assets whose use is limited or restricted	15,937,773	429,804	115,781,802	30,048	-	2,273,057	(2,273,057)	132,179,427	-	-	132,179,427
Property and equipment, net	14,357,411	35,356,329	125,533	10,045,482	96,281,423	1,831,737	-	157,997,915	65,146	-	158,063,061
Unamortized financing costs	1,876,359	16,821	16,154	12,032	99,361	-	-	2,020,727	-	-	2,020,727
Investment in subsidiaries	25,582,018	-	-	-	-	-	(25,581,018)	1,000	-	(1,000)	-
Total assets	$ 71,432,204	$ 45,802,912	$ 126,495,201	$ 13,199,849	$ 100,454,591	$ 11,389,552	$ (27,854,075)	$ 340,920,234	$ 515,216	$ (1,000)	$ 341,434,450

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

Masonicare
Supplemental Consolidating Balance Sheet (continued)
September 30, 2009

	Masonicare	Masonicare Health Center	Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Liabilities and Net Assets											
Current liabilities:											
Line of credit	$ 8,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,000,000	$ -	$ -	$ 8,000,000
Current maturities of long-term debt	2,145,000	-	-	-	-	-	-	2,145,000	-	-	2,145,000
Accounts payable and accrued expenses	2,193,833	3,509,433	310,414	1,456,590	1,671,204	3,369,678	-	12,511,152	62,784	-	12,573,936
Accrued salaries and related expenses	879,729	1,938,026	61,114	652,513	390,040	2,113,409	-	6,034,831	447,992	-	6,482,823
Accrued pension and postretirement benefits, current portion	2,322,597	12,999	-	-	-	-	-	2,335,596	-	-	2,335,596
Estimated self-insurance liabilities, current portion	2,574,946	-	-	-	-	-	-	2,574,946	-	-	2,574,946
Estimated settlements due to third-party payers	-	1,514,519	-	-	-	2,181,307	-	3,695,826	-	-	3,695,826
Annuities payable, current portion	-	-	390,248	-	-	-	-	390,248	-	-	390,248
Refundable entry fees, current portion	-	-	-	-	925,459	-	-	925,459	-	-	925,459
Deferred patient service and other revenues	-	64,295	-	-	1,318,146	1,303,826	-	2,686,267	-	-	2,686,267
Deposits	743	158,160	-	196,544	924,303	-	-	1,279,750	-	-	1,279,750
Total current liabilities	18,116,848	7,197,432	761,776	2,305,647	5,229,152	8,968,220	-	42,579,075	510,776	-	43,089,851
Accrued pension and postretirement benefits, net of current portion	14,331,319	12,711	-	-	-	-	-	14,344,030	-	-	14,344,030
Interest rate swap liability	11,891,269	-	-	-	-	-	-	11,891,269	-	-	11,891,269
Annuities payable, net of current portion	-	-	2,102,759	-	-	-	-	2,102,759	-	-	2,102,759
Refundable entry fees, net of current portion	-	-	-	-	34,544,014	-	-	34,544,014	-	-	34,544,014
Deferred entry fee revenues	-	-	-	-	10,460,783	-	-	10,460,783	-	-	10,460,783
Assets held for patient asset management, trust agreements and patient escrow accounts	-	440,103	-	30,048	-	-	-	470,151	-	-	470,151
Asset retirement obligation	-	584,064	-	69,389	-	-	-	653,453	-	-	653,453
Estimated self-insurance liabilities	9,363,449	-	-	-	-	-	-	9,363,449	-	-	9,363,449
Minority interest in consolidated subsidiary	-	-	-	-	-	(712,297)	-	(712,297)	-	-	(712,297)
Long-term debt, net of current maturities	110,670,000	-	-	-	-	-	-	110,670,000	-	-	110,670,000
Total liabilities	164,372,885	8,234,310	2,864,535	2,405,084	50,233,949	8,255,923	-	236,366,686	510,776	-	236,877,462
Net assets:											
Unrestricted	(92,940,681)	37,568,602	49,277,488	10,794,765	50,220,642	3,133,629	(27,854,075)	30,200,370	4,440	(1,000)	30,203,810
Temporarily restricted	-	-	2,078,496	-	-	-	-	2,078,496	-	-	2,078,496
Permanently restricted	-	-	72,274,682	-	-	-	-	72,274,682	-	-	72,274,682
Total net assets	(92,940,681)	37,568,602	123,630,666	10,794,765	50,220,642	3,133,629	(27,854,075)	104,553,548	4,440	(1,000)	104,556,988
Total liabilities and net assets	$ 71,432,204	$ 45,802,912	$ 126,495,201	$ 13,199,849	$ 100,454,591	$ 11,389,552	$ (27,854,075)	$ 340,920,234	$ 515,216	$ (1,000)	$ 341,434,450

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

Masonicare
Supplemental Consolidating Balance Sheet
September 30, 2008

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Assets											
Current assets:											
Cash and cash equivalents	$ 2,561,582	$ 2,070	$ 149,439	$ 2,683	$ 1,404	$ 3,970	$ -	$ 2,721,148	$ 100	$ -	$ 2,721,248
Restricted cash	-	-	-	-	1,890,801	-	-	1,890,801	-	-	1,890,801
Patient and accounts receivable, net	-	8,882,967	-	3,441,180	1,191,232	9,244,385	-	22,759,764	430,741	-	23,190,505
Other receivables	796,123	1,850	27,422	-	2,594,627	219,319	-	3,639,341	101,098	-	3,740,439
Inventories	-	171,720	-	77,281	20,956	-	-	269,957	-	-	269,957
Prepaid expenses and other current assets	454,000	208,733	7,930	74,715	73,674	246,359	-	1,065,411	56,756	-	1,122,167
Assets whose use is limited or restricted - required for current liabilities and operating purposes	2,250,000	-	10,486,680	-	-	-	-	12,736,680	-	-	12,736,680
Total current assets	6,061,705	9,267,340	10,671,471	3,595,859	5,772,694	9,714,033	-	45,083,102	588,695	-	45,671,797
Assets whose use is limited or restricted:											
By Board of Trustees	-	63,867	67,023,373	-	-	-	-	67,087,240	-	-	67,087,240
Under patient asset management, trust agreements and patient escrow accounts	-	475,693	-	82,481	-	(6,437)	-	551,737	-	-	551,737
Under indenture agreement - held by trustees	11,639,185	-	-	-	-	-	-	11,639,185	-	-	11,639,185
Under trust for estimated self-insurance liabilities	9,890,931	-	-	-	-	-	-	9,890,931	-	-	9,890,931
By donors for specific purposes	-	-	2,585,426	-	-	-	-	2,585,426	-	-	2,585,426
By donors for permanent endowment funds	-	-	77,655,183	-	-	-	-	77,655,183	-	-	77,655,183
Total assets whose use is limited or restricted	21,530,116	539,560	147,263,982	82,481	-	(6,437)	-	169,409,702	-	-	169,409,702
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	(2,250,000)	-	(10,486,680)	-	-	-	-	(12,736,680)	-	-	(12,736,680)
Non-current assets whose use is limited or restricted	19,280,116	539,560	136,777,302	82,481	-	(6,437)	-	156,673,022	-	-	156,673,022
Property and equipment, net	13,324,667	25,511,047	143,781	11,017,290	96,897,248	2,380,651	-	149,274,684	73,050	-	149,347,734
Unamortized financing costs	1,943,172	18,781	17,688	13,130	109,538	-	-	2,102,309	-	-	2,102,309
Investment in subsidiaries	26,582,018	-	-	-	-	2,273,057	(28,854,075)	1,000	-	(1,000)	-
Total assets	$ 67,191,678	$ 35,336,728	$ 147,610,242	$ 14,708,760	$ 102,779,480	$ 14,361,304	$ (28,854,075)	$ 353,134,117	$ 661,745	$ (1,000)	$ 353,794,862

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

Masonicare
Supplemental Consolidating Balance Sheet (continued)
September 30, 2008

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Liabilities and Net Assets											
Current liabilities:											
Line of credit	$ 9,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,000,000	$ -	$ -	$ 9,000,000
Current maturities of long-term debt	3,060,000	-	-	-	-	-	-	3,060,000	-	-	3,060,000
Accounts payable and accrued expenses	1,769,368	2,555,972	176,482	1,134,854	3,068,503	3,763,557	-	12,468,736	29,774	-	12,498,510
Accrued salaries and related expenses	1,651,841	1,884,750	55,269	622,337	335,719	2,049,147	-	6,599,063	675,665	-	7,274,728
Accrued pension and postretirement benefits, current portion	772,932	12,999	-	-	-	-	-	785,931	-	-	785,931
Estimated self-insurance liabilities, current portion	2,278,817	-	-	-	-	-	-	2,278,817	-	-	2,278,817
Estimated settlements due to third-party payers	-	1,538,416	-	-	-	2,574,801	-	4,113,217	-	-	4,113,217
Annuities payable, current portion	-	-	456,680	-	-	-	-	456,680	-	-	456,680
Refundable entry fees, current portion	-	-	-	-	1,107,807	-	-	1,107,807	-	-	1,107,807
Deferred patient service and other revenues	-	-	-	-	708,569	1,047,097	-	1,755,666	-	-	1,755,666
Deposits	1,454	89,365	-	289,997	793,972	-	-	1,174,788	-	-	1,174,788
Total current liabilities	18,534,412	6,081,502	688,431	2,047,188	6,014,570	9,434,602	-	42,800,705	705,439	-	43,506,144
Accrued pension and postretirement benefits, net of current portion	11,452,707	25,710	-	-	-	-	-	11,478,417	-	-	11,478,417
Interest rate swap liability	6,050,280	-	-	-	-	-	-	6,050,280	-	-	6,050,280
Annuities payable, net of current portion	-	-	2,187,889	-	-	-	-	2,187,889	-	-	2,187,889
Refundable entry fees, net of current portion	-	-	-	-	30,435,483	-	-	30,435,483	-	-	30,435,483
Deferred entry fee revenues	-	-	-	-	7,537,807	-	-	7,537,807	-	-	7,537,807
Assets held for patient asset management, trust agreements and patient escrow accounts	-	483,776	-	39,471	-	-	-	523,247	-	-	523,247
Asset retirement obligation (See Note 18)	-	564,166	-	64,155	-	-	-	628,321	-	-	628,321
Estimated self-insurance liabilities	8,966,239	-	-	-	-	-	-	8,966,239	-	-	8,966,239
Minority interest in consolidated subsidiary	-	-	-	-	-	(552,281)	-	(552,281)	-	-	(552,281)
Long-term debt, net of current maturities	112,815,000	-	-	-	-	-	-	112,815,000	-	-	112,815,000
Total liabilities	157,818,638	7,155,154	2,876,320	2,150,814	43,987,860	8,882,321	-	222,871,107	705,439	-	223,576,546
Net assets:											
Unrestricted	(90,626,960)	28,181,574	67,171,069	12,557,946	58,791,620	5,478,983	(28,854,075)	52,700,157	(43,694)	(1,000)	52,655,463
Temporarily restricted	-	-	1,969,374	-	-	-	-	1,969,374	-	-	1,969,374
Permanently restricted	-	-	75,593,479	-	-	-	-	75,593,479	-	-	75,593,479
Total net assets	(90,626,960)	28,181,574	144,733,922	12,557,946	58,791,620	5,478,983	(28,854,075)	130,263,010	(43,694)	(1,000)	130,218,316
Total liabilities and net assets	$ 67,191,678	$ 35,336,728	$ 147,610,242	$ 14,708,760	$ 102,779,480	$ 14,361,304	$ (28,854,075)	$ 353,134,117	$ 661,745	$ (1,000)	$ 353,794,862

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

Masonicare
Supplemental Consolidating Statement of Operations
For the Year Ended September 30, 2009

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Operating revenues:											
Net patient service revenue	$ -	$ 59,918,036	$ -	$ 16,237,433	$ 12	$ 58,149,501	$ (493,008)	$ 133,811,974	$ 3,718,326	$ -	$ 137,530,300
Resident fees	-	1,177,737	-	52,381	14,173,619	-	-	15,403,737	-	-	15,403,737
Other revenues	7,829,707	1,433,378	54,618	3,274,404	6,951,470	902,963	(7,838,230)	12,608,310	620,170	(1,015,075)	12,213,405
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	-	-	-
Total operating revenues	7,829,707	62,529,151	54,618	19,564,218	21,125,101	59,052,464	(8,331,238)	161,824,021	4,338,496	(1,015,075)	165,147,442
Operating expenses:											
Salaries and wages	6,945,228	29,993,705	407,170	9,811,493	4,709,616	36,026,090	-	87,893,302	4,261,615	-	92,154,917
Employee benefits	1,844,196	11,202,214	97,807	3,509,678	1,302,784	9,318,922	-	27,275,601	802,919	-	28,078,520
Supplies and other services	3,520,453	8,327,230	1,530,362	2,645,859	2,492,557	5,430,701	(1,200,302)	22,746,860	431,216	59,173	23,237,249
Professional fees	2,593,319	5,006,589	228,524	3,099,848	2,972,953	6,316,350	(1,893,125)	18,324,458	739,073	(798,716)	18,264,815
Depreciation and amortization	1,466,618	2,878,270	25,605	1,214,565	4,291,529	659,948	-	10,536,535	11,203	-	10,547,738
Interest	135,867	478,439	209,053	240,864	2,384,816	-	-	3,449,039	6,118	-	3,455,157
Provision for bad debts	-	245,640	-	(43,714)	-	42,651	-	244,577	161,279	-	405,856
MIS fee	-	444,828	49,980	126,948	49,980	-	(671,736)	-	70,608	(70,608)	-
Management fee	-	3,298,680	249,900	359,856	309,876	441,612	(4,659,924)	-	204,924	(204,924)	-
Total operating expenses	16,505,681	61,875,595	2,798,401	20,965,397	18,514,111	58,236,274	(8,425,087)	170,470,372	6,688,955	(1,015,075)	176,144,252
(Loss) gain from operations before restructuring	(8,675,974)	653,556	(2,743,783)	(1,401,179)	2,610,990	816,190	93,849	(8,646,351)	(2,350,459)	-	(10,996,810)
Restructuring expenses	411,904	62,895	-	31,007	-	285,669	-	791,475	22,065	-	813,540
(Loss) gain from operations after restructuring	(9,087,878)	590,661	(2,743,783)	(1,432,186)	2,610,990	530,521	93,849	(9,437,826)	(2,372,524)	-	(11,810,350)
Non-operating income (expense):											
Contributions	-	-	3,607,959	-	-	-	(93,849)	3,514,110	-	-	3,514,110
Investment income	(141,030)	(63,867)	845,041	-	1,503,338	-	-	2,143,482	-	-	2,143,482
Changes in fair value of interest rate swap agreement	(5,846,186)	-	-	-	-	-	-	(5,846,186)	-	-	(5,846,186)
Minority interest in consolidated subsidiary	-	-	-	-	-	160,016	-	160,016	-	-	160,016
Total non-operating income	(5,987,216)	(63,867)	4,453,000	-	1,503,338	160,016	(93,849)	(28,578)	-	-	(28,578)
Excess of revenues under expenses	$ (15,075,094)	$ 526,794	$ 1,709,217	$ (1,432,186)	$ 4,114,328	$ 690,537	$ -	$ (9,466,404)	$ (2,372,524)	$ -	$ (11,838,928)

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

See accompanying Independent Auditors' Report.

Masonicare
Supplemental Consolidating Statement of Operations
For the Year Ended September 30, 2008

	Masonicare	Masonicare Health Center	The Masonic Charity Foundation of Connecticut, Inc.	Masonicare at Newtown, Inc.	Masonicare at Ashlar Village, Inc.	Home Health Care Services*	Eliminations	Subtotal Obligated Group	Masonic Management Services, Inc.	Eliminations	Total
Operating revenues:											
Net patient service revenue	$ -	$ 55,964,909	$ -	$ 15,674,338	$ (60,235)	$ 54,156,765	$ (361,875)	$ 125,373,902	$ 2,560,229	$ -	$ 127,934,131
Resident fees	-	983,787	-	-	10,843,195	-	-	11,826,982	-	-	11,826,982
Other revenues	7,408,147	1,184,854	78,144	3,151,608	4,313,643	951,954	(7,862,956)	9,225,394	566,037	(647,484)	9,143,947
Net assets released from restrictions used for operations	124,441	-	-	-	-	-	-	124,441	-	-	124,441
Total operating revenues	7,532,588	58,133,550	78,144	18,825,946	15,096,603	55,108,719	(8,224,831)	146,550,719	3,126,266	(647,484)	149,029,501
Operating expenses:											
Salaries and wages	7,861,300	28,664,292	387,350	10,029,104	3,780,362	35,662,474	-	86,384,882	3,763,707	-	90,148,589
Employee benefits	1,607,024	8,790,809	80,035	2,706,700	1,004,055	8,151,600	-	22,340,223	577,273	-	22,917,496
Supplies and other services	3,122,776	8,569,102	1,674,699	2,887,639	2,138,518	6,277,138	(1,984,235)	22,685,637	275,197	28,683	22,989,517
Professional fees	1,536,352	4,233,286	194,634	2,984,150	1,990,961	6,119,975	(1,018,179)	16,041,179	891,101	(390,559)	16,541,721
Depreciation and amortization	946,726	2,888,496	28,313	1,208,890	3,002,442	624,699	-	8,699,566	13,411	-	8,712,977
Interest	60,734	464,295	285,857	322,458	1,142,992	-	-	2,276,336	(10,600)	-	2,265,736
Provision for bad debts	-	604,515	-	300,734	-	688,435	-	1,593,684	89,414	-	1,683,098
MIS fee	-	444,828	49,980	126,948	49,980	-	(671,736)	-	80,604	(80,604)	-
Management fee	-	3,300,000	249,996	360,000	309,972	441,792	(4,661,760)	-	205,004	(205,004)	-
Total operating expenses	15,134,912	57,959,623	2,950,864	20,926,623	13,419,282	57,966,113	(8,335,910)	160,021,507	5,885,111	(647,484)	165,259,134
(Loss) gain from operations	(7,602,324)	173,927	(2,872,720)	(2,100,677)	1,677,321	(2,857,394)	111,079	(13,470,788)	(2,758,845)	-	(16,229,633)
Non-operating income (expense):											
Contributions	-	-	3,061,659	-	-	-	(111,079)	2,950,580	-	-	2,950,580
Investment income	121,736	24,125	7,135,102	-	1,200,096	-	-	8,481,059	-	-	8,481,059
Other than temporary impairment on investments	-	-	(4,012,132)	-	-	-	-	(4,012,132)	-	-	(4,012,132)
Early extinguishment of debt	(1,508,679)	-	-	-	-	-	-	(1,508,679)	-	-	(1,508,679)
Changes in fair value of interest rate swap agreement	(6,050,280)	-	-	-	-	-	-	(6,050,280)	-	-	(6,050,280)
Minority interest in consolidated subsidiary	-	-	-	-	-	552,281	-	552,281	-	-	552,281
Total non-operating income	(7,437,223)	24,125	6,184,629	-	1,200,096	552,281	(111,079)	412,829	-	-	412,829
Excess of revenues under expenses	$ (15,039,547)	$ 198,052	$ 3,311,909	$ (2,100,677)	$ 2,877,417	$ (2,305,113)	$ -	$ (13,057,959)	$ (2,758,845)	$ -	$ (15,816,804)

* Home Health Care Services include the accounts of Masonicare Home Health & Hospice and Masonicare Partners Home Health & Hospice.

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