

Masonicare

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2010 and 2009

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and Supplemental Information
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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, 2010 and 2009, 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, 2010 and 2009, 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.

December 1, 2010

Masonicare
Consolidated Balance Sheets
September 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 3,638,988	\$ 10,753,489
Restricted cash	2,339,907	1,415,994
Patient accounts receivable, net of allowance for doubtful accounts of \$3,077,275 and \$3,591,176, respectively	18,078,688	21,263,436
Other receivables	2,636,120	1,780,179
Inventories	251,671	259,376
Prepaid expenses and other current assets	1,114,128	939,016
Assets whose use is limited or restricted - required for current liabilities and operating purposes	<u>13,702,805</u>	<u>12,759,745</u>
 Total current assets	 41,762,307	 49,171,235
Assets whose use is limited or restricted:		
By Board of Trustees	77,431,690	62,420,932
Under patient asset management, trust agreements and patient escrow accounts	572,990	459,865
Under indenture agreement - held by trustees	801,972	794,826
Under trust for estimated self-insurance liabilities	8,892,340	8,001,665
Under trust for interest rate swap obligation	5,900,000	9,391,269
By donors for specific purposes	3,091,049	2,800,601
By donors for permanent endowment funds	<u>63,150,538</u>	<u>61,070,014</u>
 Total assets whose use is limited or restricted	 159,840,579	 144,939,172
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	<u>(13,702,805)</u>	<u>(12,759,745)</u>
 Non-current assets whose use is limited or restricted	 146,137,774	 132,179,427
Property and equipment, net	152,157,373	158,063,061
Unamortized financing costs	<u>1,939,142</u>	<u>2,020,727</u>
 Total assets	 <u>\$ 341,996,596</u>	 <u>\$ 341,434,450</u>

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

Masonicare
Consolidated Balance Sheets (continued)
September 30, 2010 and 2009

	2010	2009
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ -	\$ 8,000,000
Current maturities of long-term debt	2,240,000	2,145,000
Accounts payable and accrued expenses	9,471,629	12,573,936
Accrued salaries and related expenses	5,181,500	6,482,823
Accrued pension and postretirement benefits, current portion	2,287,520	2,335,596
Estimated self-insurance liabilities, current portion	2,172,640	2,574,946
Estimated settlements due to third-party payers	5,355,384	3,695,826
Annuities payable, current portion	392,805	390,248
Refundable entry fees, current portion	1,121,981	925,459
Deferred patient service and other revenues	2,841,796	2,686,267
Deposits	1,507,505	1,279,750
Total current liabilities	32,572,760	43,089,851
Accrued pension and postretirement benefits, net of current portion	14,982,830	14,344,030
Interest rate swap liability	17,596,118	11,891,269
Annuities payable, net of current portion	1,984,721	2,102,759
Refundable entry fees, net of current portion	33,015,651	34,544,014
Deferred entry fee revenues	10,308,918	10,460,783
Assets held for patient asset management, trust agreements and patient escrow accounts	554,914	470,151
Asset retirement obligation	679,592	653,453
Estimated self-insurance liabilities, net of current portion	10,313,732	9,363,449
Minority interest in consolidated subsidiary	(558,607)	(712,297)
Long-term debt, net of current maturities	108,430,000	110,670,000
Total liabilities	229,880,629	236,877,462
Net assets:		
Unrestricted	35,301,504	30,203,810
Temporarily restricted	2,330,714	2,078,496
Permanently restricted	74,483,749	72,274,682
Total net assets	112,115,967	104,556,988
Total liabilities and net assets	\$ 341,996,596	\$ 341,434,450

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

Masonicare
Consolidated Statements of Operations
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service revenues	\$ 134,009,652	\$ 137,530,300
Resident fees	17,436,424	15,403,737
Other revenues	13,304,911	12,213,405
Total operating revenues	164,750,987	165,147,442
Operating expenses:		
Salaries and wages	87,465,073	92,154,917
Employee benefits	24,379,617	28,078,520
Supplies and other services	24,390,631	23,237,249
Professional fees	15,767,154	18,264,815
Depreciation and amortization	10,369,498	10,547,738
Interest	3,154,510	3,455,157
Provision for bad debts	599,496	405,856
Total operating expenses	166,125,979	176,144,252
Loss from operations before restructuring	(1,374,992)	(10,996,810)
Restructuring expenses	168,555	813,540
Loss from operations after restructuring	(1,543,547)	(11,810,350)
Non-operating income (expense):		
Contributions	3,231,306	3,514,110
Investment income	9,488,131	2,143,482
Change in fair value of interest rate swap agreement	(5,704,849)	(5,846,186)
Minority interest in consolidated subsidiary	(153,690)	160,016
Total non-operating income (expense)	6,860,898	(28,578)
Excess of revenues over (under) expenses	5,317,351	(11,838,928)
Other changes in unrestricted net assets:		
Change in unrealized depreciation on investments	1,695,787	(1,493,392)
Pension changes other than net periodic benefit costs	(1,903,276)	(4,065,233)
Cumulative effect of change in accounting principle for investments in limited partnerships (See Note 2)	-	(12,494,692)
Transfer from permanently restricted net assets	17,735	6,984,408
Net assets released for capital acquisitions	-	461,641
Other changes	(29,903)	(5,457)
Change in unrestricted net assets	5,097,694	(22,451,653)
Unrestricted net assets, beginning of year	30,203,810	52,655,463
Unrestricted net assets, end of year	\$ 35,301,504	\$ 30,203,810

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, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Excess of revenues over (under) expenses	\$ 5,317,351	\$ (11,838,928)
Change in unrealized appreciation (depreciation) on investments	1,695,787	(1,493,392)
Pension changes other than net periodic benefit costs	(1,903,276)	(4,065,233)
Cumulative effect of change in accounting principle for investments in limited partnerships	-	(12,494,692)
Transfer from permanently restricted net assets	17,735	6,984,408
Net assets released for capital acquisitions	-	461,641
Other changes	(29,903)	(5,457)
	5,097,694	(22,451,653)
Temporarily restricted net assets:		
Bequests, contributions, pledges and changes in value of residual trusts	226,254	282,873
Investment income	82,589	105,714
Realized gains (losses) on sales of investments	117,132	(76,174)
Change in unrealized appreciation on investments	145,185	189,744
Change in annuity obligations	(156,298)	109,595
Net assets released for capital acquisitions	(162,644)	(461,641)
Other changes	-	(40,989)
	252,218	109,122
Permanently restricted net assets:		
Bequests, contributions and pledges	1,645,926	4,106,016
Investment income	116,638	174,442
Realized gains (losses) on sales of investments	55,722	(199,078)
Change in annuity obligations	9,134	(216,540)
Change in fair value of perpetual trusts	267,465	(320,897)
Change in unrealized appreciation on investments	102,015	116,100
Other changes	(5,568)	5,568
Transfer to unrestricted net assets	17,735	(6,984,408)
	2,209,067	(3,318,797)
Change in net assets	7,558,979	(25,661,328)
Net assets, beginning of year	104,556,988	130,218,316
Net assets, end of year	\$ 112,115,967	\$ 104,556,988

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

Masonicare
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 7,558,979	\$ (25,661,328)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,369,498	10,547,738
Pension liability adjustment to equity	1,903,276	4,065,233
Cumulative effect of change in accounting principle for investments in limited partnerships	-	12,494,692
Provision for bad debts	599,496	405,856
Restricted contributions, investment income and other	(1,784,627)	(4,538,471)
Realized and unrealized (gains) losses on investments	(8,588,354)	1,783,697
Amortization of deferred entry fee revenues	(5,771,060)	(5,476,374)
Changes in fair value of interest rate swap agreement	5,704,849	5,846,186
Minority interest in consolidated subsidiary	153,690	(160,016)
Changes in operating assets and liabilities:		
Patient accounts receivable	2,585,252	2,332,925
Other receivables	(855,941)	1,960,260
Inventories	7,705	10,581
Prepaid expenses and other current assets	(175,112)	183,151
Accounts payable and accrued expenses	(3,102,307)	75,426
Accrued salaries and related expenses	(1,301,323)	(791,905)
Accrued pension and postretirement benefits	(1,312,552)	4,415,278
Estimated self-insurance liabilities	547,977	693,339
Estimated settlements due to third-party payers	1,659,558	(417,391)
Deferred patient service and other revenues	155,529	930,601
Deposits	227,755	104,962
Assets held for patient asset management, trust agreements and patient escrow accounts	84,763	(53,096)
Asset retirement obligation	26,139	25,132
	8,693,190	8,776,476
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	89,677,825	63,388,450
Purchases of investments	(96,190,390)	(59,749,162)
Change in restricted cash	(923,913)	474,807
Purchases of property and equipment, net	(4,298,195)	(19,132,491)
	(11,734,673)	(15,018,396)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from entrance fees	6,994,500	15,824,063
Refunds of entrance fees	(2,707,145)	(2,028,373)
Proceeds from line of credit	-	1,000,000
Payments on line of credit	(8,000,000)	(2,000,000)
Payments on long-term debt	(2,145,000)	(3,060,000)
Restricted contributions, investment income and other	1,784,627	4,538,471
	(4,073,018)	14,274,161
Net cash (used in) provided by financing activities		
Net change in cash and cash equivalents	(7,114,501)	8,032,241
Cash and cash equivalents at beginning of year	10,753,489	2,721,248
Cash and cash equivalents at end of year	\$ 3,638,988	\$ 10,753,489

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

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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).

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 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 \$558,607 and \$712,297 on the consolidated balance sheets at September 30, 2010 and 2009, respectively.

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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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.

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 2010 and 2009, Masonicare recognized no expense or revenue related to settlements for prior years. Net patient service revenue from Medicare and Medicaid accounted for approximately 67.7% and 66.6% of total net patient service revenue for each of the years ended September 30, 2010 and 2009, respectively.

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 until December 31, 2013. 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 advanced resident deposits at MAV.

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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

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. 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 as 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 \$22,302,302 and \$23,157,477 as of September 30, 2010 and 2009, 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. As of September 30, 2010 and 2009, Masonicare did not have any unfunded commitments owed to the Investment Companies.

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.

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. There were no impairment losses recorded during the year ended September 30, 2010 and 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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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 appreciation (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 annuities 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.

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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

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 2009 consolidated financial statements have been made in order to conform with the 2010 presentation. These reclassifications are not material to the audited consolidated financial statements.

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 Over (Under) Expenses - The consolidated statement of operations includes excess of revenues over (under) expenses. Changes in unrestricted net assets which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized appreciation (depreciation) 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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Non-operating income included in excess of revenues over (under) expenses consists of unrestricted contributions, minority interest in consolidated subsidiary 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 \$599,496 and \$405,856 for the years ended September 30, 2010 and 2009, 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.

New Accounting Pronouncements - In January 2010, the FASB issued FASB ASU 2010-06, which clarifies certain existing fair value measurement disclosure requirements of FASB ASC 820-10 and also requires additional fair value measurement disclosures. The new disclosures relate to transfers in and out of Level 1 and 2 investments, and disclosures about inputs and valuation techniques. The disclosures regarding transfers in and out of Level 1 and 2 investments, and clarifications to existing disclosures are effective for interim and annual periods beginning after December 15, 2009. The disclosures of Level 3 investment roll forward of activity on a gross basis are effective for fiscal years beginning after December 15, 2010.

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Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

In March 2010, Masonicare adopted FASB ASU 2010-11, which expands the disclosure requirements for derivative instruments and hedging activities to include an explanation of the entity's reason for using derivative instruments, the risks involved, and how these instruments and related hedge items affect an entity's financial position, financial performance, and cash flow. To meet these objectives, FASB ASU 2010-11 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The enhanced disclosures about derivative instruments and hedging activities are included in Note 22.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in FASB ASC 715 (formerly FASB Staff Position FAS 132(R) - 1, *Employers' Disclosures about Postretirement Benefit Plan Assets*). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 11 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on Masonicare's consolidated financial statements for the year ended September 30, 2010.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*). The pronouncement, found under ASC Topic 958, establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, *Goodwill and Other Intangible Assets*, found under ASC Topic 350, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, found under ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements will be effective for Masonicare on October 1, 2010.

In August 2010, the FASB issued ASU 2010-23, which is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for Masonicare on October 1, 2011.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 3 - 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, 2010 and 2009:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
By Board of Trustees:				
Cash and cash equivalents	\$ 7,144,904	\$ 7,144,904	\$ 6,174,135	\$ 6,174,135
Marketable equity securities	48,541,250	51,539,517	52,399,841	56,105,768
Fixed income securities	15,741,757	17,408,640	90,928	63,435
Other investments	1,289,829	1,289,829	16,794	16,794
Other assets	48,800	48,800	60,800	60,800
	<u>72,766,540</u>	<u>77,431,690</u>	<u>58,742,498</u>	<u>62,420,932</u>
Under patient asset management and trust agreements and patient escrow accounts:				
Cash and cash equivalents	267,274	267,274	185,652	185,652
Other investments	272,396	272,396	258,323	258,323
Other assets	33,320	33,320	15,890	15,890
	<u>572,990</u>	<u>572,990</u>	<u>459,865</u>	<u>459,865</u>
Under indenture agreement - held by trustees:				
Cash and cash equivalents	2,307	2,307	19,843	19,843
Fixed income securities	792,509	799,665	769,248	774,983
	<u>794,816</u>	<u>801,972</u>	<u>789,091</u>	<u>794,826</u>
Under trust for estimated self-insurance liabilities:				
Cash and cash equivalents	47,817	47,817	200,965	200,965
Marketable equity securities	4,213,177	4,669,314	3,681,329	3,433,908
Fixed income securities	2,512,504	2,718,517	1,996,010	2,109,058
Other investments	1,460,000	1,456,692	2,264,514	2,257,734
	<u>8,233,498</u>	<u>8,892,340</u>	<u>8,142,818</u>	<u>8,001,665</u>
Under trust for interest rate swap obligation:				
Cash and cash equivalents	5,900,000	5,900,000	9,391,269	9,391,269
	<u>5,900,000</u>	<u>5,900,000</u>	<u>9,391,269</u>	<u>9,391,269</u>
By donors for specific purposes:				
Cash, cash equivalents and interest receivable	535,338	535,338	9,680	9,680
Marketable equity securities	533,226	559,487	774,809	748,090
Fixed income securities	711,284	867,699	893,155	921,661
Residual interest trusts	1,076,986	1,127,425	1,076,986	1,120,070
Other investments	1,100	1,100	1,100	1,100
	<u>2,857,934</u>	<u>3,091,049</u>	<u>2,755,730</u>	<u>2,800,601</u>
By donor for permanent endowment funds:				
Cash, cash equivalents and interest receivable	139,121	139,121	2,528,612	2,528,612
Marketable equity securities	29,299,606	29,497,040	31,042,198	31,142,871
Fixed income securities	10,474,969	10,532,025	1,941,585	1,993,388
Perpetual interest trusts	8,530,137	10,672,815	8,240,737	10,115,870
Residual interest trusts	440,159	488,889	732,424	926,685
Other investments	11,865,648	11,820,648	14,002,590	14,362,588
	<u>60,749,640</u>	<u>63,150,538</u>	<u>58,488,146</u>	<u>61,070,014</u>
	<u>\$ 151,875,418</u>	<u>\$ 159,840,579</u>	<u>\$ 138,769,417</u>	<u>\$ 144,939,172</u>

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 3 - Assets Whose Use is Limited or Restricted (continued)

Investment income is comprised of the following for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 3,726,369	\$ 5,554,569
Realized gains (losses) on sales of investments	6,377,902	(2,906,826)
Less: management fees	<u>(616,140)</u>	<u>(504,261)</u>
	<u>\$ 9,488,131</u>	<u>\$ 2,143,482</u>

Note 4 - Property and Equipment

Property and equipment, consists of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 419,334	\$ 419,334
Land improvements	13,616,902	13,353,561
Buildings	215,898,189	212,111,035
Furniture and equipment	<u>50,120,834</u>	<u>48,840,879</u>
	280,055,259	274,724,809
Less: accumulated depreciation	<u>(130,775,351)</u>	<u>(120,572,972)</u>
	149,279,908	154,151,837
Construction in progress	<u>2,877,465</u>	<u>3,911,224</u>
	<u>\$ 152,157,373</u>	<u>\$ 158,063,061</u>

Depreciation expense was \$10,230,022 and \$10,466,461 for the years ended September 30, 2010 and 2009, respectively. Included in property and equipment as of September 30, 2010 and 2009, are capitalized leased assets for computer equipment with a cost of \$377,822 for both 2010 and 2009 and related accumulated amortization of \$376,611 and \$360,341, respectively.

For the year ended September 30, 2010 and 2009, \$3,281,706 and \$3,259,393 of interest has been capitalized and included within property and equipment, respectively.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 5 - Unamortized Financing Costs

Unamortized financing costs consist of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Deferred financing costs	\$ 2,177,227	\$ 2,177,227
Less: accumulated amortization	<u>(238,085)</u>	<u>(156,500)</u>
	<u>\$ 1,939,142</u>	<u>\$ 2,020,727</u>

Amortization expense was \$81,585 and \$81,582, for the years ended September 30, 2010 and 2009, respectively.

Note 6 - 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 the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, formerly the Bond Market Association Municipal Swap Index. 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 relating to the aggregate principal amount of the Series C bonds as more fully described in Note 22.

Long-term debt consists of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
2007 CHEFA Revenue Bonds:		
Series C - 3.06% to 7.96% term bonds due 2037	\$ 76,905,000	\$ 78,420,000
Series D - 3.06% to 7.96% term bonds due 2037	<u>33,765,000</u>	<u>34,395,000</u>
	110,670,000	112,815,000
Less: current maturities	<u>(2,240,000)</u>	<u>(2,145,000)</u>
	<u>\$ 108,430,000</u>	<u>\$ 110,670,000</u>

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 6 - Long-Term Debt (continued)

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, 2010 and 2009.

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

2011	\$ 2,240,000
2012	2,335,000
2013	2,440,000
2014	2,545,000
2015	2,655,000
Thereafter	<u>98,455,000</u>
	<u>\$ 110,670,000</u>

Funds held by trustees under the indenture agreement are as follows at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets held in escrow for equipment	\$ 238,104	\$ 237,961
Principal and interest funds, held by State Street Bank	<u>563,868</u>	<u>556,865</u>
	<u>\$ 801,972</u>	<u>\$ 794,826</u>

Note 7 - Line of Credit

During 2010 and 2009, Masonicare entered into a revolving line of credit agreement with Wells Fargo Bank, National Association (formerly Wachovia Bank, National Association) for \$8,000,000. Advances under the line of credit bear interest at the LIBOR Market Index Rate plus 2.25%. The line of credit expired on May 15, 2010 and any outstanding amounts were paid in full by Masonicare. The line of credit agreement required the guarantors to maintain certain financial ratios, including a debt service coverage ratio. Masonicare was in compliance with these covenants for the year ending September 30, 2009. Effective March 5, 2010, Masonicare entered into a revolving line of credit agreement with Webster Bank, National Association for \$10,000,000. Advances under the line of credit bear interest at the higher of a 4% interest rate or the Eurodollar rate plus 175 basis points. The agreement expires upon mutual consent of both parties. As of September 30, 2010, Masonicare did not have any outstanding amounts drawn against this line of credit.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 8 - 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 \$5,317,256 and \$4,690,568 at September 30, 2010 and 2009, respectively. Accrued professional and general liability reserves are discounted at a rate of 1% and 3% as of September 30, 2010 and 2009, respectively, and in management's opinion provide an adequate reserve for loss contingencies.

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 \$2,719,945 and \$3,503,815 at September 30, 2010 and 2009, respectively. Accrued workers compensation reserves have been discounted at a rate of 3% at September 30, 2010 and 2009 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 \$960,000 and \$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, 2010 and 2009, respectively. In addition, Masonicare is required to pre-fund a loss escrow account with the commercial carrier for the large deductible policy. Amounts held in escrow by the commercial carrier total \$1,257,855 as of September 30, 2010 and are carried within other receivables on the consolidated balance sheet.

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 as of September 30, 2010 and 2009. Masonicare paid claims and administrative fees related to this program of \$12,897,079 and \$12,266,612 for the years ended September 30, 2010 and 2009, respectively.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 9 - 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, 2010:

2011	\$	661,737
2012	\$	573,452
2013	\$	424,964
2014	\$	107,057
2015	\$	109,749

Total rent expense under all operating leases was approximately \$955,810 and \$1,512,498 for the years ended September 30, 2010 and 2009, respectively.

Note 10 - 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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Pension and Other Postretirement Benefits (continued)

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.

The valuation dates are September 30, 2010 and 2009, respectively, and pertinent information relating to these plans is as follows:

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 29,389,328	\$ 26,223,704	\$ 4,052,678	\$ 6,426,144
Effect of eliminating early measurement date	-	244,433	-	81,058
Plan amendments	-	-	-	(4,537,298)
Participant contributions	-	-	54,566	44,989
Service cost	170,339	217,186	27,423	233,394
Interest cost	1,506,571	1,564,324	215,723	407,981
Actuarial (gain) loss	1,626,493	2,751,609	335,378	1,682,162
Benefits paid	<u>(1,906,342)</u>	<u>(1,611,928)</u>	<u>(344,731)</u>	<u>(285,752)</u>
Benefit obligation at end of year	<u>\$ 30,786,389</u>	<u>\$ 29,389,328</u>	<u>\$ 4,341,037</u>	<u>\$ 4,052,678</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 16,788,091	\$ 20,167,952	\$ -	\$ -
Effect of eliminating early measurement date	-	324,295	-	-
Actual return on plan assets	929,262	(2,553,847)	-	-
Employer contribution	2,058,777	461,619	290,165	240,763
Participant contribution	-	-	54,566	44,989
Benefits paid	<u>(1,906,342)</u>	<u>(1,611,928)</u>	<u>(344,731)</u>	<u>(285,752)</u>
Fair value of plan assets at end of year	<u>\$ 17,869,788</u>	<u>\$ 16,788,091</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued liability	<u>\$ (12,916,601)</u>	<u>\$ (12,601,237)</u>	<u>\$ (4,341,037)</u>	<u>\$ (4,052,678)</u>

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Pension and Other Postretirement Benefits (continued)

Significant assumptions are as follows as of September 30, 2010 and 2009:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Weighted average assumptions:				
Discount rate on Qualified Plan	5.50%	6.50%	5.50%	6.50%
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	8.00%	9.00%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Number of years to ultimate rate	N/A	N/A	2 years	2 years

* Relates to Supplemental Executive Retirement Plan only.

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	\$ 17,508	\$ (16,371)
Effect on postretirement benefit obligation	\$ 293,000	\$ (268,000)

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Pension and Other Postretirement Benefits (continued)

Components of net periodic benefit costs are as follows for the years ended September 30, 2010 and 2009:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 170,339	\$ 217,186	\$ 27,423	\$ 233,394
Interest cost	1,506,571	1,564,324	215,723	407,981
Expected return on plan assets	(1,204,015)	(1,474,733)	-	-
Amortization of prior service cost	29,984	36,341	(436,572)	-
Actuarial loss recognized	647,290	132,609	134,968	-
	\$ 1,150,169	\$ 475,727	\$ (58,458)	\$ 641,375

Amounts recorded in unrestricted net assets as of September 30, 2010, not yet amortized as components of net periodic benefit costs are as follows:

Unamortized prior service credit	\$ (4,100,726)
Unamortized actuarial loss	14,712,427
Amount recognized as a reduction in unrestricted net assets	\$ 10,611,701

The amortization of the above items expected to be recognized in net periodic costs for the year ended September 30, 2011 is \$505,591.

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

2010	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash, cash equivalents and interest receivable	\$ 645,239	\$ 645,239	\$ -	\$ -
Equity securities	8,456,238	8,456,238	-	-
Fixed income securities	17,296	-	17,296	-
Mutual funds	8,751,015	8,751,015	-	-
	\$ 17,869,788	\$ 17,852,492	\$ 17,296	\$ -

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 10 - Pension and Other Postretirement Benefits (continued)

<u>2009</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	-	-
	<u>\$ 16,788,091</u>	<u>\$ 16,769,870</u>	<u>\$ 18,221</u>	<u>\$ -</u>

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 \$1,665,483 to its pension plan, \$372,325 to its postretirement plan and \$237,000 to its supplemental executive retirement plan in fiscal year 2011. 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:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2011	\$ 2,026,000	\$ 307,542
2012	\$ 2,493,000	\$ 334,160
2013	\$ 2,957,000	\$ 358,984
2014	\$ 2,980,000	\$ 386,575
2015	\$ 2,711,000	\$ 419,049
Thereafter	\$ 11,086,000	\$ 1,995,871

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 \$1,091,710 and \$1,119,335 for the years ended September 30, 2010 and 2009, respectively.

MHC also offers a non-qualified pension plan with accrued benefit costs of \$12,712 and \$25,710 for 2010 and 2009, respectively. These costs and related obligations are not included in the tables set forth above.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 11 - 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 12 - 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.

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 2010 and 2009, 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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Third-Party Payer Reimbursement (continued)

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.

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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 12 - Third-Party Payer Reimbursement (continued)

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 13 - Endowments

Masonicare'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
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 13 – Endowments (continued)

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.

Temporarily restricted net assets are available for the following purposes at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Residual interest trusts not available for Masonicare's purposes until the expiration of the trusts	\$ 1,127,425	\$ 1,120,070
Investments held to support annuity contractual obligations that are not available for Masonicare's purposes until the expiration of income interest	46,858	34,484
Support of MAV residents	902,364	714,395
Support for scholarship activities	254,067	209,547
	<u>\$ 2,330,714</u>	<u>\$ 2,078,496</u>

Permanently restricted net assets consist of the following at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investments held in perpetuity, the income from which is dedicated to support Masonicare's activities	\$ 60,846,137	\$ 59,431,621
Investments held in perpetuity, the income from which is dedicated to support annuity contractual obligations	1,787,515	1,549,909
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	10,672,815	10,115,870
	<u>\$ 74,483,749</u>	<u>\$ 72,274,682</u>

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 13 - Endowments (continued)

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, 2010 and 2009, 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.

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, 2010 and 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, 2010 and 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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 13 - Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2009	\$ 62,420,932	\$ 2,078,496	\$ 72,274,682	\$ 136,774,110
Investment return:				
Investment income	8,622,396	199,721	172,360	8,994,477
Net change in market value	986,716	145,185	369,480	1,501,381
Change in annuity obligations	-	(156,298)	9,134	(147,164)
Contributions	3,231,306	226,254	1,645,926	5,103,486
Released for capital acquisitions	-	(162,644)	-	(162,644)
Net settlements on swap collateral and line of credit	1,819,000	-	-	1,819,000
Other changes	351,340	-	12,167	363,507
Balance at September 30, 2010	<u>\$ 77,431,690</u>	<u>\$ 2,330,714</u>	<u>\$ 74,483,749</u>	<u>\$ 154,246,153</u>

Note 14 - 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Medicare	31 %	32 %
Medicaid	19	24
Private pay and other	50	44
	<u>100 %</u>	<u>100 %</u>

Note 15 - 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. Income tax expense was immaterial for the years ended September 30, 2010 and 2009.

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.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 15 - Income Taxes (continued)

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, 2010 and 2009. 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 general and administrative expenses. As of September 30, 2010 and 2009 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 16 - 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, 2010 and 2009 are as follows:

	2010	2009
Program services	\$ 75,046,088	\$ 80,373,590
Support services	29,248,089	29,313,443
General and administrative	61,831,802	66,457,219
	\$ 166,125,979	\$ 176,144,252

Note 17 - 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 its various facilities. An ARO liability of \$679,592 and \$653,453 has been established as of September 30, 2010 and 2009, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 18 - 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).

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:

<u>2010</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash, cash equivalents and interest receivable	\$ 14,036,761	\$ 14,036,761	\$ -	\$ -
Equity securities	91,544,836	91,544,836	-	-
Fixed income securities	27,047,068	27,047,068	-	-
Perpetual interest trusts	10,672,815	10,672,815	-	-
Residual interest trusts	1,616,314	-	1,616,314	-
Other invested assets	1,421,381	272,396	1,115,185	33,800
Total	\$ 146,339,175	\$ 143,573,876	\$ 2,731,499	\$ 33,800

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 18 - Fair Values (continued)

<u>2009</u>	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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 \$13,501,404 and \$14,936,327 as of September 30, 2010 and 2009, respectively.

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Beginning balance at October 1,	\$ 11,891,269	\$ 6,050,280
Total realized and unrealized (gains) losses		
Included in earnings	5,704,849	5,846,186
Other	-	(5,197)
Ending balance at September 30,	<u>\$ 17,596,118</u>	<u>\$ 11,891,269</u>

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.

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, 2010 and 2009.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 18 - Fair Values (continued)

Receivables and Payables - The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2010 and 2009.

Note 19 - Supplemental Cash Flow Information

	2010	2009
Cash paid during the year for interest	\$ 3,164,946	\$ 3,627,800

Note 20 - Subsequent Events

Subsequent events have been evaluated through December 1, 2010, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

Note 21 - Derivatives

Masonicare uses derivative instruments, specifically an interest rate swap, to manage its exposure to changes in the interest rate on its CHEFA Series C variable rate bond as further described in Note 7. The use of derivative instruments exposes Masonicare to additional risks related to this derivative instrument, including market risk, credit risk and termination risk as described below. Masonicare has defined risk management practices to mitigate these risks, as appropriate.

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that Masonicare will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counter party owes Masonicare, which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that Masonicare may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to Masonicare's ability to meet its debts or liquidity covenants.

Masonicare
Notes to Consolidated Financial Statements
For the Years Ended September 30, 2010 and 2009

Note 21 - Derivatives (continued)

In connection with the issuance of the CHEFA Series C bonds, Masonicare entered into an interest rate swap agreement (swap agreement) with Merrill Lynch to synthetically fix the interest payment. Under the swap agreement, Masonicare makes fixed payments equal to 3.673% to the counterparty to the swap agreement and receives variable rate payments equal to 67% of the monthly LIBOR rate, which was approximately .17% as of September 30, 2010 and 2009. The difference between the actual variable rate on the debt and the rate of 67% of LIBOR is recorded by Masonicare as an increase or decrease of interest expense depending on the relationship of the rate of 67% of LIBOR to the actual variable rate on the debt. The fair value of the interest rate swap (a liability of \$17,596,118 and \$11,891,269 as of September 30, 2010 and 2009, respectively) has been recorded in the accompanying consolidated balance sheets as a long-term liability. The counterparty to the swap agreement is Merrill Lynch. The swap agreement expires on July 1, 2037 and is secured by \$5,900,000 and \$9,391,269 of assets as of September 30, 2010 and 2009, respectively, under trust with Merrill Lynch. Effective May 7, 2010, Masonicare renegotiated the collateral requirements for its swap agreement with Merrill Lynch. As a result of this renegotiation, an initial collateral requirement of \$5.5 million must be posted by Masonicare. However, the threshold amount to post additional collateral beyond the \$5.5 million increased from a swap agreement value of approximately \$2.5 million to a swap agreement value of approximately \$15.5 million for a cost of 7.9 basis points resulting in an upward adjustment in the fixed interest rate on the swap agreement to 3.76%.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap agreement of \$5,704,849 and \$5,846,186 for the years ended September 30, 2010 and 2009, respectively, is recorded in the consolidated statements of operations as a component of non-operating income.

Masonicare
Supplemental Consolidating Balance Sheet
September 30, 2010

	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	\$ 3,555,116	\$ 2,070	\$ 74,269	\$ 2,683	\$ 1,800	\$ 2,950	\$ -	\$ 3,638,888	\$ 100	\$ -	\$ 3,638,988
Restricted cash	1,000,554	-	-	-	1,339,353	-	-	2,339,907	-	-	2,339,907
Patient and accounts receivable, net	-	8,064,456	-	2,294,472	1,489,628	6,034,867	-	17,883,423	195,265	-	18,078,688
Other receivables	1,629,801	12,528	24,788	10,000	903,773	28,987	-	2,609,877	26,243	-	2,636,120
Inventories	-	152,569	-	78,146	20,956	-	-	251,671	-	-	251,671
Prepaid expenses and other current assets	356,887	240,805	(786)	92,512	82,811	298,849	-	1,071,078	43,050	-	1,114,128
Assets whose use is limited or restricted - required for current liabilities and operating purposes	3,280,000	-	10,422,805	-	-	-	-	13,702,805	-	-	13,702,805
Total current assets	9,822,358	8,472,428	10,521,076	2,477,813	3,838,321	6,365,653	-	41,497,649	264,658	-	41,762,307
Assets whose use is limited or restricted:											
By Board of Trustees	-	-	77,431,690	-	-	2,273,057	(2,273,057)	77,431,690	-	-	77,431,690
Under patient asset management, trust agreements and patient escrow accounts	2,898	524,148	-	45,944	-	-	-	572,990	-	-	572,990
Under indenture agreement - held by trustees	801,972	-	-	-	-	-	-	801,972	-	-	801,972
Under trust for estimated self-insurance liabilities	8,892,340	-	-	-	-	-	-	8,892,340	-	-	8,892,340
Under trust for interest rate swap obligation	5,900,000	-	-	-	-	-	-	5,900,000	-	-	5,900,000
By donors for specific purposes	-	-	3,091,049	-	-	-	-	3,091,049	-	-	3,091,049
By donors for permanent endowment funds	-	-	63,150,538	-	-	-	-	63,150,538	-	-	63,150,538
Total assets whose use is limited or restricted	15,597,210	524,148	143,673,277	45,944	-	2,273,057	(2,273,057)	159,840,579	-	-	159,840,579
Less: Assets whose use is limited or restricted - required for current liabilities and operating purposes	(3,280,000)	-	(10,422,805)	-	-	-	-	(13,702,805)	-	-	(13,702,805)
Non-current assets whose use is limited or restricted	12,317,210	524,148	133,250,472	45,944	-	2,273,057	(2,273,057)	146,137,774	-	-	146,137,774
Property and equipment, net	13,876,227	34,015,694	135,288	9,717,917	92,872,660	1,418,043	-	152,035,829	121,544	-	152,157,373
Unamortized financing costs	1,809,545	14,861	14,619	10,934	89,183	-	-	1,939,142	-	-	1,939,142
Investment in subsidiaries	26,582,018	-	-	-	-	-	(26,581,018)	1,000	-	(1,000)	-
Total assets	\$ 64,407,358	\$ 43,027,131	\$ 143,921,455	\$ 12,252,608	\$ 96,800,164	\$ 10,056,753	\$ (28,854,075)	\$ 341,611,394	\$ 386,202	\$ (1,000)	\$ 341,996,596

* 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, 2010

	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:											
Current maturities of long-term debt	\$ 2,240,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,240,000	\$ -	\$ -	\$ 2,240,000
Accounts payable and accrued expenses	1,549,963	2,301,982	132,752	1,184,649	1,022,592	3,186,896	-	9,378,834	92,795	-	9,471,629
Accrued salaries and related expenses	703,915	1,434,791	46,463	477,290	291,861	1,936,556	-	4,890,876	290,624	-	5,181,500
Accrued pension and postretirement benefits, current portion	2,274,809	12,711	-	-	-	-	-	2,287,520	-	-	2,287,520
Estimated self-insurance liabilities, current portion	2,172,640	-	-	-	-	-	-	2,172,640	-	-	2,172,640
Estimated settlements due to third-party payers	1,645,859	1,514,456	-	-	-	2,195,069	-	5,355,384	-	-	5,355,384
Annuities payable, current portion	-	-	392,805	-	-	-	-	392,805	-	-	392,805
Refundable entry fees, current portion	-	-	-	-	1,121,981	-	-	1,121,981	-	-	1,121,981
Deferred patient service and other revenues	-	67,810	-	8,929	1,427,561	1,337,496	-	2,841,796	-	-	2,841,796
Deposits	186	167,943	-	207,333	1,132,043	-	-	1,507,505	-	-	1,507,505
Total current liabilities	10,587,372	5,499,693	572,020	1,878,201	4,996,038	8,656,017	-	32,189,341	383,419	-	32,572,760
Accrued pension and postretirement benefits, net of current portion	14,982,830	-	-	-	-	-	-	14,982,830	-	-	14,982,830
Interest rate swap liability	17,596,118	-	-	-	-	-	-	17,596,118	-	-	17,596,118
Annuities payable, net of current portion	-	-	1,984,721	-	-	-	-	1,984,721	-	-	1,984,721
Refundable entry fees, net of current portion	-	-	-	-	33,015,651	-	-	33,015,651	-	-	33,015,651
Deferred entry fee revenues	-	-	-	-	10,308,918	-	-	10,308,918	-	-	10,308,918
Assets held for patient asset management, trust agreements and patient escrow accounts	-	532,051	-	22,863	-	-	-	554,914	-	-	554,914
Asset retirement obligation	-	607,427	-	72,165	-	-	-	679,592	-	-	679,592
Estimated self-insurance liabilities	10,313,732	-	-	-	-	-	-	10,313,732	-	-	10,313,732
Minority interest in consolidated subsidiary	-	-	-	-	-	(558,607)	-	(558,607)	-	-	(558,607)
Long-term debt, net of current maturities	108,430,000	-	-	-	-	-	-	108,430,000	-	-	108,430,000
Total liabilities	161,910,052	6,639,171	2,556,741	1,973,229	48,320,607	8,097,410	-	229,497,210	383,419	-	229,880,629
Net assets:											
Unrestricted	(97,502,694)	36,387,960	64,550,251	10,279,379	48,479,557	1,959,343	(28,854,075)	35,299,721	2,783	(1,000)	35,301,504
Temporarily restricted	-	-	2,330,714	-	-	-	-	2,330,714	-	-	2,330,714
Permanently restricted	-	-	74,483,749	-	-	-	-	74,483,749	-	-	74,483,749
Total net assets	(97,502,694)	36,387,960	141,364,714	10,279,379	48,479,557	1,959,343	(28,854,075)	112,114,184	2,783	(1,000)	112,115,967
Total liabilities and net assets	\$ 64,407,358	\$ 43,027,131	\$ 143,921,455	\$ 12,252,608	\$ 96,800,164	\$ 10,056,753	\$ (28,854,075)	\$ 341,611,394	\$ 386,202	\$ (1,000)	\$ 341,996,596

* 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, 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	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	\$ 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 Statement of Operations
For the Year Ended September 30, 2010

	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	\$ -	\$ 60,296,788	\$ -	\$ 15,549,799	\$ -	\$ 54,578,313	\$ (456,281)	\$ 129,968,619	\$ 4,041,033	\$ -	\$ 134,009,652
Resident fees	-	1,849,171	-	-	15,587,253	-	-	17,436,424	-	-	17,436,424
Other revenues	7,744,139	1,490,212	109,555	3,601,854	7,699,444	704,082	(7,662,074)	13,687,212	726,712	(1,109,013)	13,304,911
Total operating revenues	7,744,139	63,636,171	109,555	19,151,653	23,286,697	55,282,395	(8,118,355)	161,092,255	4,767,745	(1,109,013)	164,750,987
Operating expenses:											
Salaries and wages	6,320,451	29,818,899	422,908	9,408,908	4,718,009	32,749,561	-	83,438,736	4,026,337	-	87,465,073
Employee benefits	1,635,015	9,227,826	94,714	2,930,960	1,181,991	8,610,525	-	23,681,031	698,586	-	24,379,617
Supplies and other services	4,806,806	8,783,475	1,416,303	2,549,184	2,698,134	4,717,722	(997,473)	23,974,151	347,963	68,517	24,390,631
Professional fees	1,243,244	5,149,480	208,846	2,713,882	3,210,437	5,080,944	(1,789,222)	15,817,611	851,661	(902,118)	15,767,154
Depreciation and amortization	1,424,222	2,955,769	24,024	1,123,078	4,344,039	486,627	-	10,357,759	11,739	-	10,369,498
Interest	149,768	607,278	176,489	209,773	1,939,444	21,587,000	-	3,104,339	50,171	-	3,154,510
Provision for bad debts	-	232,950	-	73,733	-	174,372	-	481,055	118,441	-	599,496
MIS fee	-	444,828	49,980	126,948	49,980	-	(671,736)	-	70,572	(70,572)	-
Management fee	-	3,298,680	249,900	359,856	309,876	441,612	(4,659,924)	-	204,840	(204,840)	-
Total operating expenses	15,579,506	60,519,185	2,643,164	19,496,322	18,451,910	52,282,950	(8,118,355)	160,854,682	6,380,310	(1,109,013)	166,125,979
(Loss) gain from operations before restructuring	(7,835,367)	3,116,986	(2,533,609)	(344,669)	4,834,787	2,999,445	-	237,573	(1,612,565)	-	(1,374,992)
Restructuring expenses	27,555	-	-	-	-	115,229	-	142,784	25,771	-	168,555
(Loss) gain from operations after restructuring	(7,862,922)	3,116,986	(2,533,609)	(344,669)	4,834,787	2,884,216	-	94,789	(1,638,336)	-	(1,543,547)
Non-operating income (expense):											
Contributions	-	-	3,231,306	-	-	-	-	3,231,306	-	-	3,231,306
Investment income	(113,061)	23,911	8,622,396	-	954,885	-	-	9,488,131	-	-	9,488,131
Changes in fair value of interest rate swap agreement	(5,704,849)	-	-	-	-	-	-	(5,704,849)	-	-	(5,704,849)
Minority interest in consolidated subsidiary	-	-	-	-	-	(153,690)	-	(153,690)	-	-	(153,690)
Total non-operating income	(5,817,910)	23,911	11,853,702	-	954,885	(153,690)	-	6,860,898	-	-	6,860,898
Excess of revenues over (under) expenses	\$ (13,680,832)	\$ 3,140,897	\$ 9,320,093	\$ (344,669)	\$ 5,789,672	\$ 2,730,526	\$ -	\$ 6,955,687	\$ (1,638,336)	\$ -	\$ 5,317,351

* 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
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 over (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.