



COMBINED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

Christian Health Care Center and Affiliates
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Christian Health Care Center and Affiliates

Combined Financial Statements and Additional Information

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Trustees
Christian Health Care Center

We have audited the accompanying combined balance sheets of Christian Health Care Center and Affiliates (the “Center”) as of December 31, 2010 and 2009, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Center’s internal control over financial reporting. Our audits included 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 the Center’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 financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Christian Health Care Center and Affiliates at December 31, 2010 and 2009, and the combined results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 16, 2011

Christian Health Care Center and Affiliates

Combined Balance Sheets

	December 31	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,527,597	\$ 3,261,777
Short-term investments	5,908,495	5,354,365
Assets limited to use, current portion	1,262,598	2,629,249
Accounts receivable, less allowances for uncollectibles of approximately \$40,000 in 2010 and 2009	7,289,097	6,900,863
Prepaid expenses and other current assets	801,661	724,113
Total current assets	17,789,448	18,870,367
Assets limited to use, less current portion	727,981	727,981
Other assets	1,330,759	1,327,479
Deferred financing costs, net of accumulated amortization of approximately \$307,000 in 2010 and \$229,000 in 2009	775,006	853,536
Property, plant and equipment, net	50,939,872	49,135,089
Total assets	\$ 71,563,066	\$ 70,914,452
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 1,295,689	\$ 1,348,661
Accounts payable and accrued expenses	2,498,646	2,336,258
Accrued payroll	2,252,108	2,356,382
Accrued interest	9,670	6,977
Estimated amounts due to third-party payers, net	563,770	597,715
Total current liabilities	6,619,883	6,645,993
Benefits payable	1,453,400	1,487,400
Pension obligation and other liabilities	8,434,827	7,439,541
Long-term debt, less current portion	32,467,803	33,763,492
Total liabilities	48,975,913	49,336,426
Commitments and contingencies		
Net assets:		
Unrestricted	21,643,954	20,634,827
Temporarily restricted	215,218	215,218
Permanently restricted	727,981	727,981
Total net assets	22,587,153	21,578,026
Total liabilities and net assets	\$ 71,563,066	\$ 70,914,452

See accompanying notes.

Christian Health Care Center and Affiliates

Combined Statements of Operations

	Year Ended December 31	
	2010	2009
Revenue:		
Net patient service revenue	\$ 64,973,021	\$ 61,493,850
Investment income on debt service funds	15,447	25,340
Other revenue	661,420	771,270
Net assets released from restrictions used for operating purposes	–	754
Total revenue	65,649,888	62,291,214
Expenses:		
Salaries and wages	39,232,429	38,113,025
Employee benefits	8,938,135	8,226,123
Supplies and other	13,440,516	12,065,491
Interest and amortization	495,488	463,110
Provision for bad debts	57,632	59,900
Depreciation	3,277,148	3,071,461
Total expenses	65,441,348	61,999,110
Income from operations	208,540	292,104
Investment income and net realized gains and losses	109,786	(293,708)
Estate bequests	21,204	34,970
Foundation fundraising and contributions (net of related expenses of approximately \$450,000 in 2010 and \$428,000 in 2009) and assets released from restrictions of approximately \$240,000 in 2010 and 264,000 in 2009	88,568	255,014
Net change in unrealized gains and losses on investments	557,405	1,436,965
Extinguishment loss on refinancing of long-term debt	–	(255,302)
Excess of revenue over expenses from continuing operations	985,503	1,470,043
Grant proceeds for capital expenditures	221,610	271,890
Change in pension liability to be recognized in future periods	(197,986)	355,851
Increase in unrestricted net assets	\$ 1,009,127	\$ 2,097,784

See accompanying notes.

Christian Health Care Center and Affiliates
 Combined Statements of Changes in Net Assets

Years Ended December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at January 1, 2009	\$ 18,537,043	\$ 215,892	\$ 727,981	\$ 19,480,916
Excess of revenue over expenses from continuing operations	1,470,043	-	-	1,470,043
Contributions	-	80	-	80
Net assets released from restrictions for operating purposes	-	(754)	-	(754)
Grant proceeds for capital expenditures	271,890	-	-	271,890
Change in pension liability to be recognized in future periods	355,851	-	-	355,851
Increase (decrease) in net assets	<u>2,097,784</u>	<u>(674)</u>	<u>-</u>	<u>2,097,110</u>
Balance at December 31, 2009	20,634,827	215,218	727,981	21,578,026
Excess of revenue over expenses from continuing operations	985,503	-	-	985,503
Grant proceeds for capital expenditures	221,610	-	-	221,610
Change in pension liability to be recognized in future periods	(197,986)	-	-	(197,986)
Increase in net assets	<u>1,009,127</u>	<u>-</u>	<u>-</u>	<u>1,009,127</u>
Balance at December 31, 2010	<u>\$ 21,643,954</u>	<u>\$ 215,218</u>	<u>\$ 727,981</u>	<u>\$ 22,587,153</u>

See accompanying notes.

Christian Health Care Center and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31	
	2010	2009
Operating activities		
Change in net assets	\$ 1,009,127	\$ 2,097,110
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,277,148	3,071,461
Amortization of financing costs and original issue discount and write-down from loss on extinguishment	78,530	211,742
Net change in unrealized gains and losses on investments	(557,405)	(1,436,965)
Changes in operating assets and liabilities:		
Accounts receivable, net	(388,234)	(998,153)
Prepaid expenses and other current assets	(77,548)	178,123
Other assets	(3,280)	26,712
Accounts payable and accrued expenses, accrued payroll and accrued interest	60,807	194,107
Estimated amounts due to third-party payers, net	(33,945)	181,780
Benefits payable and pension obligation and other liabilities	961,286	434,329
Net cash provided by operating activities	4,326,486	3,960,246
Investing activities		
Purchases of property, plant and equipment, net	(5,081,931)	(6,016,866)
Redemption of short-term investments	3,275	11,421
Net sales of assets limited to use	1,366,651	1,491,727
Net cash used in investing activities	(3,712,005)	(4,513,718)
Financing activities		
Payments of long-term debt	(1,348,661)	(13,341,067)
Payment of deferred financing costs	-	(480,558)
Proceeds from issuance of long-term debt	-	14,970,000
Net cash (used in) provided by financing activities	(1,348,661)	1,148,375
(Decrease) increase in cash and cash equivalents	(734,180)	594,903
Cash and cash equivalents at beginning of year	3,261,777	2,666,874
Cash and cash equivalents at end of year	\$ 2,527,597	\$ 3,261,777
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 414,265	\$ 848,608

See accompanying notes.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements

December 31, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

Christian Health Care Center (the “Center”) consists of 292 skilled nursing beds (Heritage Manor), a 95-bed assisted living residence (Longview), a 39-bed congregate residence (Hillcrest), 40 senior residential housing units (Evergreen Court), a 40-bed long-term care behavioral management facility (Southgate), a 58-bed mental health facility (Ramapo Ridge) and several geriatric and mental health outpatient programs. Individuals associated with churches from the Reformed tradition founded the Center in 1911.

The accompanying combined financial statements include the Center, Holland Mutual Charitable Health Corporation (“Holland Mutual”), and the Christian Health Care Center Foundation, Inc. (the “Foundation”). Holland Mutual was established to operate for the advancement of charitable health care issues and care as well as other charitable, religious, educational and scientific purposes. The Center is the sole member of the Foundation, which was established to assist the Center in furtherance of its charitable mission. The Center and Holland Mutual are governed by boards which share several members. Due to the existence of common control through common board members, the financial statements of these entities have been combined.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients, and liabilities, such as estimated settlements with third-party payers, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash Equivalents

The Center considers all highly liquid financial instruments with a maturity of three months or less when purchased to be cash equivalents, except for amounts included in short-term investments and assets limited to use. Included in cash and cash equivalents are amounts on deposit at financial institutions which exceed Federal Deposit Insurance Company limits. Management believes that the institutions are viable entities and minimal risk of loss exists.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Receivables for Patient Care

Patient accounts receivable for which the Center receives payment under cost reimbursement, prospective payment formula or negotiated rates, which cover the majority of patient services at the Center, are stated at the estimated net realizable amounts from their respective payers, which are generally less than the established billing rates of the Center. Patient accounts receivable is net of credits for advance payments received of approximately \$668,000 and \$934,000 at December 31, 2010 and 2009, respectively.

The amount of the allowance for uncollectibles is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators and/or anticipated collection amounts. Additions to the allowance for uncollectibles result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for uncollectibles.

Investments and Investment Income

Investments included in short-term investments and assets limited to use consist of cash and cash equivalents, certificates of deposit, equity securities, mutual funds, fixed income securities (government and corporate debt obligations) and an interest in a hedge fund. Investments in marketable securities are reported at fair value in the accompanying combined balance sheets. The fair value of investments is determined by reference to quoted market prices. The Center's interest in a hedge fund limited partnership is reported based on the fund's net asset value derived from the application of the equity method of accounting. The Center's risk with respect to the hedge fund's investment activities, which may include securities lending, short sales, and trading in futures or other derivative products, is limited to the Center's capital balance with the fund. Donated investments are recorded at their fair value at the date of gift. All investments are classified as trading securities.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Investment income (including realized gains and losses on investments, interest, and dividends) and net change in unrealized gains and losses are included in the excess of revenue over expenses from continuing operations unless the income is restricted by donor or law. Investment income related to assets held by trustees under debt financing agreements is included in revenues.

Assets Limited to Use

Assets limited to use include assets held by trustees under debt financing agreements, designated assets set aside by the Board of Trustees for other purposes and assets designated for specific purposes by donors.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain financing and are amortized over the term of the related debt using the effective interest method. During 2009, the Center wrote off approximately \$104,000 of unamortized deferred financing costs in connection with refinancing certain long-term debt (see Note 6). Financing costs of approximately \$481,000 were paid in 2009 for the issuance of long-term debt.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for donated property, plant and equipment, which are recorded at fair market value at the date of donation. Annual provisions for depreciation of property, plant and equipment are computed using the straight-line method over the estimated useful lives of the assets.

Malpractice

The Center maintains claims-made professional liability coverage through a commercial insurance carrier. Estimated incurred but not reported claims costs at December 31, 2010 and 2009 are immaterial to the combined financial statements.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use is temporarily limited by the donors for a specific time period or purpose. Assets are released from restrictions when the funds have been used for the intended purpose.

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2010	2009
Patient and resident activities	\$ 8,350	\$ 8,350
Residents assistance	204,622	204,622
Employee Fund	2,246	2,246
	<u>\$ 215,218</u>	<u>\$ 215,218</u>

Permanently Restricted Net Assets

The Center follows the requirements of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as it relates to its permanently restricted contributions and net assets, as enacted by the State of New Jersey in 2009. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Center expends the income distributed from the related assets on an annual basis in support of benevolent purposes (2010 and 2009 distributions totaled approximately \$7,000 and \$28,000, respectively).

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for service rendered and includes estimated retroactive adjustments for future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related service is rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews and investigations.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

The Center provides care to patients under Medicare, Medicaid and other third-party contractual arrangements. Medicare and Medicaid regulations require annual retroactive settlements for certain payment components through cost reports filed by the Center. These retroactive settlements are estimated and recorded in the financial statements in the year in which they occur or can be estimated. The estimated settlements recorded at December 31, 2010 and 2009 could differ from actual settlements based on the results of cost report audits. Cost reports filed with Medicare and Medicaid for all years through 2007 have been audited and settled as of December 31, 2010. During 2010 and 2009, the Center recorded net patient service revenue of approximately \$349,000 and \$350,000, respectively, for positive settlements related to prior years.

Revenue from the Medicare and Medicaid programs accounted for approximately 66% and 61% of the Center's net patient service revenue for the years ended December 31, 2010 and 2009, respectively. There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Center. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential non compliance that could have a material adverse effect on the combined financial statements.

Performance Indicator

The combined statements of operations include excess of revenue over expenses from continuing operations as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include grant proceeds for capital expenditures and change in pension liability to be recognized in future periods. Transactions deemed by management to be ongoing and central to the provision of the Center's services are reported as revenue and expenses from operations.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Tax Status

The Center, Holland Mutual and the Foundation are not-for-profit corporations, as described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The entities are also exempt from state and local income taxes.

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-23, *Measuring Charity Care for Disclosure*. ASU No. 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU No. 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU No. 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Center is evaluating the impact of ASU No. 2010-23 on its financial statement disclosures.

In August 2010, the FASB also issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU No. 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Center is evaluating the impact of ASU No. 2010-24 on its financial statements.

2. Charity Care

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided during the years ended December 31, 2010 and 2009 was approximately \$583,000 and \$916,000, respectively, based on charges forgone. In addition, the Center provides several other charitable programs and activities, such as educational and health monitoring programs, that are primarily offered for the benefit of the local communities that the Center serves.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

3. Short-Term Investments and Assets Limited to Use

Short-term investments consist of the following:

	December 31	
	2010	2009
Certificates of deposit	\$ 309,803	\$ 406,498
Equity securities	1,114,652	627,042
Mutual funds	3,961,387	3,347,635
Fixed income securities	357,533	973,190
Alternative investment – hedge fund	165,120	–
	\$ 5,908,495	\$ 5,354,365

Assets limited to use consist of cash and cash equivalents maintained for the following purposes:

	December 31	
	2010	2009
Under debt financing arrangements	\$ 151,522	\$ 1,518,173
By Board of Trustees	1,111,076	1,111,076
Permanently restricted by donor	727,981	727,981
Total assets limited to use	1,990,579	3,357,230
Less current portion	1,262,598	2,629,249
Assets limited to use, less current portion	\$ 727,981	\$ 727,981

A summary of the assets limited to use under debt financing arrangements is as follows:

	December 31	
	2010	2009
Debt service project fund	\$ 62,048	\$ 1,373,951
Debt service interest fund	88,444	112,076
Debt service cost of issuance fund and other	1,030	32,146
	\$ 151,522	\$ 1,518,173

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

3. Short-Term Investments and Assets Limited to Use (continued)

Investment return is as follows:

	Year Ended December 31	
	2010	2009
Interest income – debt service funds	\$ 15,447	\$ 25,340
Interest and dividend income – other holdings	94,263	103,043
Net realized gains and losses	15,523	(396,751)
Net change in unrealized gains and losses	557,405	1,436,965
	<u>\$ 682,638</u>	<u>\$ 1,168,597</u>

4. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31	
	2010	2009
Land and land improvements	\$ 2,007,298	\$ 1,593,272
Buildings and improvements	61,802,984	59,166,962
Major movable equipment	9,500,565	8,480,918
Fixed and other equipment	10,335,069	9,772,588
Transportation vehicles	1,708,993	1,635,203
	<u>85,354,909</u>	80,648,943
Accumulated depreciation	<u>(40,273,935)</u>	(36,996,787)
	45,080,974	43,652,156
Construction in progress	5,858,898	5,482,933
	<u>\$ 50,939,872</u>	<u>\$ 49,135,089</u>

Substantially all property, plant and equipment have been collateralized under debt agreements.

Construction in progress includes approximately \$4.6 million expended for a proposed retirement community. Currently, the planned project is subject to approvals and also would be contingent on the Center's ability to obtain sufficient financing. The Center capitalized interest of approximately \$21,000 and \$88,000 during 2010 and 2009, respectively, related to construction projects.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

5. Benefits Payable

During 1996, the Holland Mutual Burying Fund, then an unrelated not-for-profit organization that provided death benefits to its subscribers, transferred its assets and obligations to Holland Mutual. Benefits payable represent certificates held by subscribers for the payment of a death benefit for funeral expenses and is calculated based on the dollar value of the certificate purchased by the individual. As of December 31, 2010, there were approximately 2,780 certificates outstanding.

6. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2010	2009
New Jersey Health Care Facilities Financing Authority (“NJHCFFA”) Variable Rate Revenue Bonds, Series 2009 (a)	\$ 14,490,000	\$ 14,970,000
NJHCFFA Revenue and Refunding Bonds, Series 1997 B (b)	8,000,000	8,300,000
NJHCFFA Variable Rate Series 2005 (c)	6,325,000	6,465,000
NJHCFFA Variable Rate Composite Program (d)	400,000	500,000
NJHCFFA Tax Exempt Equipment Note 2009 (e)	2,573,492	2,902,153
Revolving construction loan (f)	1,975,000	1,975,000
	33,763,492	35,112,153
Less:		
Current portion	1,295,689	1,348,661
	\$ 32,467,803	\$ 33,763,492

(a) On February 19, 2009, the NJHCFFA issued \$14,970,000 of Series 2009 Variable Rate Revenue Bonds (“Series 2009 Bonds”), on behalf of the Center. The proceeds were used for the refunding of the Series A Bonds, as described below, and the construction of a Great Room in the nursing home, along with additional renovation projects. The Series 2009 Bonds are payable in annual installments of principal through July 2038 with interest at a variable rate (not to exceed 12%). The average interest rate during 2010 and 2009 was 0.34% and 0.32%, respectively. The Series 2009 Bonds are secured by a letter of credit with a bank with an available amount of approximately \$14,695,000 and which expires February 18, 2016.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

6. Long-Term Debt (continued)

(b) On January 7, 1998, the NJHCFFA issued \$19,460,000 of Revenue and Refunding Bonds Series 1997 A (“Series A Bonds”). The Series A Bonds were advance refunded in February 2009 through the issuance of the Series 2009 Bonds. The Series A Bonds were fully redeemed. The loss on extinguishment totaled \$255,302 in 2009.

Concurrently with the issuance of the Series A Bonds, the NJHCFFA issued \$10,500,000 of Revenue and Refunding Bonds Series 1997 B (“Series B Bonds”). The Series B bonds are at a variable interest rate with maturities through 2028. The average interest rate during 2010 and 2009 was 0.27% and 0.32%, respectively. The proceeds of Series B Bonds were used for the construction of an 80-unit, 92-bed assisted living facility which was completed in 1999. The Series B Bonds are secured by substantially all the Center’s assets and gross receipts and a letter of credit with a bank. The letter of credit is for approximately \$8,131,500 and expires December 15, 2015.

(c) In December 2005, the Center financed \$6,600,000 through the NJHCFFA Variable Rate Composite Program (“COMP Program Series 2005”). The bond proceeds were used for: the construction and equipping of a two-story addition at the inpatient mental health facility; the construction and equipping of renovations, a new Great Room and nurses station; and the acquisition of property situated adjacent to the facility. The bonds are payable in annual installments of principal through July 2035 and are at variable interest rates (not to exceed 12%) that averaged 0.35% and 0.38% during 2010 and 2009, respectively. The bonds are secured by a letter of credit with a bank. The letter of credit is for approximately \$6,437,000 and expires December 15, 2015.

(d) In September 1998, the Center financed \$1,000,000 through the NJHCFFA Variable Rate Composite Program (“COMP Program”). The bond proceeds were used to refinance its previously outstanding bank loan that was used to renovate its 40-bed senior housing residence. The bonds are payable in equal biannual installments of principal through July 2018 and are at a variable rate of interest (not to exceed 12%) that averaged 0.35% and 0.38% during 2010 and 2009, respectively. The bonds are secured by a letter of credit with a bank. The letter of credit is for approximately \$407,000 and expires December 15, 2015.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

6. Long-Term Debt (continued)

- (e) In January 2008, the Center financed \$3,500,000 through a NJHCFFA Tax Exempt Equipment Note. The proceeds were used for washers/dryers, furniture, IT equipment and new energy-related equipment such as chillers. Payments of principal and interest are due through January 2018 and are at a fixed interest rate of 3.60%.
- (f) In December 2004, the Center entered into a \$5,000,000 revolving construction loan (“Construction Loan”) with a bank for future expansion projects. Advances under the loan bear interest at an annual variable rate equal to 0.8% in excess of LIBOR (1.05% and 1.04% at December 31, 2010 and 2009, respectively). The outstanding balance of the loan is due upon termination of the loan in 2012. At December 31, 2010, there was \$3,025,000 available under this revolving construction loan.

The holders of the Series 2009 Bonds, the Series B Bonds, the COMP Program Series 2005 bonds, and the COMP Program bonds have the right to tender their bonds for purchase on a weekly basis. The reimbursement terms of the letters of credit securing these debt issuances are such that in the event that a bondholder demanded repayment on the bonds, and adequate funds are not available from the remarketing of such bonds, the Center would reimburse the letter of credit bank over a long-term period.

Under the terms of the various loan documents for its outstanding debt instruments, the Center is required to maintain certain financial ratios and comply with other restrictive financial covenants as described in the respective agreements. The Center was in compliance with the financial covenants at December 31, 2010 and 2009.

Scheduled debt maturities are as follows:

	Series 2009 Bonds	Series B Bonds	COMP Program Series 2005	COMP Program	Tax Exempt Equipment Note	Construction Loan	Total
2011	\$ 510,000	\$ 300,000	\$ 145,000	\$ –	\$ 340,689	\$ –	\$ 1,295,689
2012	545,000	300,000	150,000	100,000	353,159	1,975,000	3,423,159
2013	585,000	300,000	155,000	–	344,702	–	1,384,702
2014	620,000	300,000	165,000	100,000	355,339	–	1,540,339
2015	560,000	400,000	170,000	–	368,345	–	1,498,345
Thereafter	11,670,000	6,400,000	5,540,000	200,000	811,258	–	24,621,258
	<u>\$ 14,490,000</u>	<u>\$ 8,000,000</u>	<u>\$ 6,325,000</u>	<u>\$ 400,000</u>	<u>\$ 2,573,492</u>	<u>\$ 1,975,000</u>	<u>\$ 33,763,492</u>

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

7. Line of Credit

The Center has a \$1,000,000 revolving line of credit (the “line”) with a bank which expires June 25, 2011. The line is secured by the Center’s accounts receivable. Advances under the line bear interest at an annual variable rate equal to the prime rate or an annual fixed rate equal to 1% in excess of LIBOR. At December 31, 2010 and 2009, there were no outstanding amounts under the line.

8. Pension Plans

Defined Benefit Plan

On January 1, 2000, the Center’s Board of Trustees adopted a resolution to curtail the Center’s defined benefit pension plan (the “Plan”) effective December 31, 1999. All participants in the Plan, as of 2005, are fully vested; however, no benefits will accrue for any service after December 31, 1999.

The funded status of the Plan as recognized in the Center’s combined balance sheets is as follows:

	December 31	
	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,344,128	\$ 9,641,032
Interest cost	611,242	611,838
Actuarial losses	759,091	611,676
Benefits paid	(539,558)	(520,418)
Benefit obligation at end of year	11,174,903	10,344,128
Change in plan assets:		
Fair value of plan assets at beginning of year	5,379,474	5,013,741
Actual return on plan assets	535,596	886,151
Benefits paid	(539,558)	(520,418)
Fair value of plan assets at end of year	5,375,512	5,379,474
Funded status of plan	\$ (5,799,391)	\$ (4,964,654)

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

The funded status of the pension plan is included in pension obligation and other liabilities in the combined balance sheets. The accumulated benefit obligation for the Center's pension plan totaled approximately \$11,175,000 and \$10,344,000 at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, there are approximately \$5,526,000 and \$5,328,000, respectively, of actuarial losses that have not yet been recognized in net periodic pension cost, but have been cumulatively recorded in unrestricted net assets. Approximately \$473,000 of unrecognized actuarial loss is expected to be recognized in net periodic pension cost during the year ending December 31, 2011.

The Center recorded net periodic pension cost as follows:

	Year Ended December 31	
	2010	2009
Interest cost on the projected benefit obligation	\$ 611,242	\$ 611,838
Expected return on plan assets	(446,482)	(416,673)
Net amortization and deferrals	471,991	498,049
Net periodic pension benefit cost	<u>\$ 636,751</u>	<u>\$ 693,214</u>

The following assumptions were used in determining the benefit obligations and net periodic benefit costs:

	2010	2009
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	5.50%	6.00%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	8.75%	8.75%
Rate of compensation increase	N/A	N/A

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

The expected long-term rate of return on plan assets was selected by applying historical yields to the asset allocation of the Plan's portfolio. The table below provides the basis for the selection of the 8.75% expected long-term return on plan assets based on the investment policy and asset allocation in effect as of the beginning of the fiscal year:

Asset Category	Expected Net Rate of Return	Asset Allocation	Expected Net Rate of Return
Equities	10.65%	65%	6.93%
Debt securities	5.20	35	1.82
Other	3.00	—	—
		<u>100%</u>	<u>8.75%</u>

The Plan's investment policy is designed to achieve the following long-term investment objectives:

- To maintain or exceed a target funding level of 100% of the Plan's liabilities, defined as the market value of the portfolio assets as a percentage of the accumulated benefit obligation, and
- To achieve a long-term rate of return of 8.75%, as established by the Plan's actuarial consultant.

Recognizing that the pension liabilities are of a long-term nature, the objective is to achieve these goals over a three to five year timeframe.

The asset allocation guidelines and permissible ranges by asset category are as follows:

Asset Category	Guideline Allocation	Permissible Range
Equities	65%	Up to 65%
Debt securities	35	Not less than 30%
Other	—	Up to 10%

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

The Plan’s asset allocations by asset category are as follows:

	December 31	
	2010	2009
Equities	67%	65%
Corporate bonds	25	35
Other	8	–
	100%	100%

The Plan has received a favorable ruling from the Internal Revenue Service to operate as a church plan. Under church plan status, the Plan is not subject to many of the compliance provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”), such as minimum funding levels. The Center makes contributions to the Plan based on the recommendations of its consulting actuary and subject to available cash resources. The Center expects to contribute \$100,000 to the Plan in 2011. Also, benefits under the Plan are not covered by the Pension Benefit Guaranty Corporation.

The measurement date used to determine the pension amounts is December 31.

The benefit payments under the Plan are expected to be paid as follows:

2011	\$ 586,095
2012	606,361
2013	623,031
2014	641,589
2015	646,969
2016-2020	3,655,581

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

8. Pension Plans (continued)

Defined Contribution Plan

Effective January 1, 2000, the Center adopted a defined contribution 401(k) plan (the “401(k) Plan”). The 401(k) Plan provides for employer and employee contributions. Employees can make elective contributions to the 401(k) Plan of up to 17% of compensation. Employer contributions to the Plan consist of a regular contribution and a matching contribution. The regular employer contribution is equal to 2% of all eligible participants’ total compensation. The matching employer contribution is equal to 50% of the employees’ elective contribution up to a maximum of 2% of a participant’s compensation. Pension expense under the 401(k) Plan was approximately \$858,000 and \$797,000 for the years ended December 31, 2010 and 2009, respectively.

9. Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or on appeal against the Center. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management that litigation will not result in losses in excess of insurance coverage and will not materially affect the combined financial position or results of operations of the Center. No provision has been made in the accompanying financial statements for any deductibles or claims that have been incurred but not reported.

10. Concentrations of Credit Risk

The Center grants credit, under contractual arrangements, without collateral to its residents and patients, many of whom are from the northern New Jersey area and are insured under third-party payer agreements. Concentrations of gross accounts receivable from patients and third-party payers were as follows:

	December 31	
	2010	2009
Medicare	46%	50%
Medicaid	21	21
Self-pay patients and residents	12	7
Commercial and other insurance	21	22
	<u>100%</u>	<u>100%</u>

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

11. Functional Expenses

The Center provides general health care services to residents within its geographic area. Expenses related to providing these services are as follows:

	Year Ended December 31	
	2010	2009
Health care services	\$ 45,661,790	\$ 42,247,148
General and administrative	19,779,558	19,751,962
	<u>\$ 65,441,348</u>	<u>\$ 61,999,110</u>

12. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Center measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

The Center follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

12. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial instruments (included in cash and cash equivalents, short-term investments (excluding amounts accounted for using the equity method of accounting) and assets limited to use) carried at fair value in the accompanying combined balance sheets are classified in the tables below in one of the three categories described above as of December 31, 2010 and 2009:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,518,176	\$ –	\$ –	\$ 4,518,176
Certificate of deposit	309,803	–	–	309,803
Equity securities:				
U.S. large cap	964,125	–	–	964,125
U.S. mid cap	150,527	–	–	150,527
Fixed income:				
Corporate bonds	132,045	–	–	132,045
Government bonds and GSE bonds	225,488	–	–	225,488
Mutual funds – equity:				
U.S. large cap	781,611	–	–	781,611
U.S. mid cap	250,880	–	–	250,880
U.S. small cap	109,121	–	–	109,121
International developed equity	346,723	–	–	346,723
International emerging equity	330,998	–	–	330,998
Mutual funds – fixed income:				
Government bonds	203,567	–	–	203,567
Corporate bonds	913,437	–	–	913,437
High yield bonds	298,559	–	–	298,559
International developed/emerging market bonds	270,533	–	–	270,533
Mutual funds – other:				
Global public REITS	140,835	–	–	140,835
Commodities	226,903	–	–	226,903
Hedge strategies – diversified	88,220	–	–	88,220
	\$ 10,261,551	\$ –	\$ –	\$ 10,261,551

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 7,025,505	\$ –	\$ –	\$ 7,025,505
Equity securities	627,042	–	–	627,042
Mutual funds	3,347,635	–	–	3,347,635
Fixed income securities	973,190	–	–	973,190
	\$ 11,973,372	\$ –	\$ –	\$ 11,973,372

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

12. Fair Value Measurements (continued)

Assets invested in the Center's defined benefit pension plan, at fair value as of December 31, 2010, are classified in the tables below in one of the three categories described above:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 117,224	\$ –	\$ –	\$ 117,224
Equity securities:				
U.S. large cap	711,328	–	–	711,328
U.S. mid cap	145,015	–	–	145,015
Foreign equities	89,392	–	–	89,392
Fixed income:				
Corporate bonds	288,028	–	–	288,028
Government bonds	185,844	–	–	185,844
Mutual funds – equity:				
U.S. large cap	1,249,004	–	–	1,249,004
U.S. mid cap	166,786	–	–	166,786
U.S. small cap	268,982	–	–	268,982
International developed equity	298,447	–	–	298,447
International emerging equity	511,680	–	–	511,680
High yield equity	123,854	–	–	123,854
Mutual funds – fixed income:				
Corporate bonds	501,056	–	–	501,056
High yield bonds	123,811	–	–	123,811
International developed/emerging market bonds	169,095	–	–	169,095
Mutual funds – other:				
Global fixed	135,684	–	–	135,684
Alternative investments:				
Managed futures	–	–	290,282	290,282
	\$ 5,085,230	\$ –	\$ 290,282	\$ 5,375,512

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 536,793	\$ –	\$ –	\$ 536,793
Equity securities	1,086,227	–	–	1,086,227
Mutual funds	2,985,915	–	–	2,985,915
Fixed income securities	770,539	–	–	770,539
	\$ 5,379,474	\$ –	\$ –	\$ 5,379,474

Christian Health Care Center and Affiliates

Notes to Combined Financial Statements (continued)

12. Fair Value Measurements (continued)

Fair value for Level 1 is based on quoted market prices.

Following is a rollforward of the amounts for financial instruments classified by the Center in Level 3 of the valuation hierarchy defined above (in thousands):

	<u>Pension Plan</u>
Fair value at January 1, 2010	\$ -
Purchases, sales, issuances and settlements, net	275,000
Total realized and unrealized gains or losses	<u>15,282</u>
Fair value at December 31, 2010	<u><u>\$ 290,282</u></u>
Change in unrealized gains related to financial instruments held at December, 31, 2010	 <u><u>\$ 15,282</u></u>

The approximate fair value of the Center's long-term debt (not reported at fair value in the accompanying combined balance sheets) was \$33,763,000 and \$35,112,000 at December 31, 2010 and 2009, respectively. The fair value of the Center's long-term debt is based upon quoted market prices, when available, and other valuation considerations. The carrying value of long-term debt is \$33,763,492 and \$35,112,153 at December 31, 2010 and 2009, respectively.

13. Subsequent Events

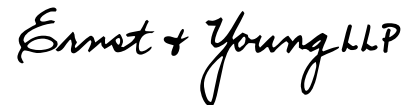
Subsequent events have been evaluated through May 16, 2011, which is the date the combined financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the combined financial statements.

Additional Information

Report of Independent Auditors on Additional Information

The Board of Trustees
Christian Health Care Center

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining balance sheet at December 31, 2010 and the combining statement of operations and change in net assets for the year then ended are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects, in relation to the combined financial statements taken as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

May 16, 2011

Christian Health Care Center and Affiliates

Combining Balance Sheet

December 31, 2010

	Christian Health Care Center	Christian Health Care Center Foundation	Eliminations/ Reclassifications	Christian Health Care Center Consolidated	Holland Mutual	Combined Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,715,494	\$ 517,305	\$ -	\$ 2,232,799	\$ 294,798	\$ 2,527,597
Short-term investments	2,470,095	-	-	2,470,095	3,438,400	5,908,495
Assets limited to use, current portion	1,262,598	-	-	1,262,598	-	1,262,598
Accounts receivable, net	7,289,097	-	-	7,289,097	-	7,289,097
Prepaid expenses and other current assets	758,161	43,500	-	801,661	-	801,661
Total current assets	13,495,445	560,805	-	14,056,250	3,733,198	17,789,448
Assets limited to use, less current portion	727,981	-	-	727,981	-	727,981
Other assets	1,330,759	-	-	1,330,759	-	1,330,759
Interest in net assets of the Foundation	560,805	-	(560,805)	-	-	-
Deferred financing costs, net	775,006	-	-	775,006	-	775,006
Property, plant and equipment, net	50,939,872	-	-	50,939,872	-	50,939,872
Total assets	\$ 67,829,868	\$ 560,805	\$ (560,805)	\$ 67,829,868	\$ 3,733,198	\$ 71,563,066
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 1,295,689	\$ -	\$ -	\$ 1,295,689	\$ -	\$ 1,295,689
Accounts payable and accrued expenses	2,448,646	-	-	2,448,646	50,000	2,498,646
Accrued payroll	2,252,108	-	-	2,252,108	-	2,252,108
Accrued interest	9,670	-	-	9,670	-	9,670
Estimated amounts due to third-party payers, net	563,770	-	-	563,770	-	563,770
Total current liabilities	6,569,883	-	-	6,569,883	50,000	6,619,883
Benefits payable	-	-	-	-	1,453,400	1,453,400
Pension obligation and other liabilities	8,434,827	-	-	8,434,827	-	8,434,827
Long-term debt, less current portion	32,467,803	-	-	32,467,803	-	32,467,803
Total liabilities	47,472,513	-	-	47,472,513	1,503,400	48,975,913
Net assets:						
Unrestricted	19,414,156	560,805	(560,805)	19,414,156	2,229,798	21,643,954
Temporarily restricted	215,218	-	-	215,218	-	215,218
Permanently restricted	727,981	-	-	727,981	-	727,981
Total net assets	20,357,355	560,805	(560,805)	20,357,355	2,229,798	22,587,153
Total liabilities and net assets	\$ 67,829,868	\$ 560,805	\$ (560,805)	\$ 67,829,868	\$ 3,733,198	\$ 71,563,066

Christian Health Care Center and Affiliates

Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2010

	Christian Health Christian Health Care Center	Christian Health Care Center Foundation	Eliminations/ Reclassifications	Christian Health Care Center Consolidated	Holland Mutual	Eliminations/ Reclassifications	Combined Total
Revenue:							
Net patient service revenue	\$ 64,973,021	\$ –	\$ –	\$ 64,973,021	\$ –	\$ –	\$ 64,973,021
Investment income on debt service funds	101,857	4,831	(91,241)	15,447	39,732	(39,732)	15,447
Fundraising activities, net	–	155,489	(155,489)	–	–	–	–
Estate bequests	7,640	13,564	(21,204)	–	–	–	–
Unrestricted gifts and contributions	–	315,794	(315,794)	–	–	–	–
Other revenue	661,420	–	–	661,420	–	–	661,420
Total revenue	65,743,938	489,678	(583,728)	65,649,888	39,732	(39,732)	65,649,888
Expenses:							
Salaries and wages	39,232,429	260,884	(260,884)	39,232,429	–	–	39,232,429
Employee benefits	8,938,135	51,600	(51,600)	8,938,135	–	–	8,938,135
Supplies and other	13,440,516	70,231	(70,231)	13,440,516	21,187	(21,187)	13,440,516
Interest and amortization	495,488	–	–	495,488	–	–	495,488
Provision for bad debts	57,632	–	–	57,632	–	–	57,632
Depreciation	3,277,148	–	–	3,277,148	–	–	3,277,148
Total expenses	65,441,348	382,715	(382,715)	65,441,348	21,187	(21,187)	65,441,348
Income (loss) from operations	302,590	106,963	(201,013)	208,540	18,545	(18,545)	208,540
Investment income and net realized gains and losses	–	–	91,241	91,241	–	18,545	109,786
Estate bequests	–	–	21,204	21,204	–	–	21,204
Foundation fundraising and contributions, net	–	–	88,568	88,568	–	–	88,568
Net change in unrealized gains and losses on investments	227,497	(3,605)	–	223,892	333,513	–	557,405
Excess of revenues over expenses from continuing operations	530,087	103,358	–	633,445	352,058	–	985,503
Grant proceeds for capital expenditures	221,610	–	–	221,610	–	–	221,610
Change in pension liability to be recognized in future periods	(197,986)	–	–	(197,986)	–	–	(197,986)
Net change in interest in Foundation assets	560,805	–	(560,805)	–	–	–	–
Increase (decrease) unrestricted net assets	1,114,516	103,358	(560,805)	657,069	352,058	–	1,009,127
Change in temporarily and permanently restricted net assets	–	–	–	–	–	–	–
Change in net assets	1,114,516	103,358	(560,805)	657,069	352,058	–	1,009,127
Net assets at beginning of year	19,242,839	457,447	–	19,700,286	1,877,740	–	21,578,026
Net assets at end of year	\$ 20,357,355	\$ 560,805	\$ (560,805)	\$ 20,357,355	\$ 2,229,798	\$ –	\$ 22,587,153

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