The Salem Lutheran Home Association of the Bay Cities, Inc.

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Accountants' Report and Continuing Care Contract Annual Report

Year Ended June 30, 2012

BKD LLP
CPAs & Advisors

910 E. St. Louis Street, Suite 200
P.O. Box 1190
Springfield, MO 65801-1190
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Independent Accountants' Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying Continuing Care Reserve Report of The Salem Lutheran Home Association of the Bay Cities, Inc. (the "Association") as of June 30, 2012, and for the year then ended, included in Part 5. The Continuing Care Reserve Report Part 5 is the responsibility of the Association's management. Our responsibility is to express an opinion on the Continuing Care Reserve Report Part 5 based on our audit.

We conducted our audit 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 Continuing Care Reserve Report Part 5 is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Continuing Care Reserve Report Part 5. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Continuing Care Reserve Report Part 5. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Continuing Care Reserve Report Part 5 was prepared for filing with the State of California, Department of Social Services, for the purpose of complying with the provisions of the California Health and Safety Code Section 1792, as described in *Note 1*, and is not intended to be a complete presentation of the assets, liabilities, revenues and expenses of the Association.

In our opinion, the Continuing Care Reserve Report Part 5, referred to above, presents fairly, in all material respects, the continuing care reserve requirements of the Association at June 30, 2012, in conformity with accounting principles generally accepted in the United States of America and the report preparation provisions of the California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the Board of Directors and management of the Association and for filing with the Department of Social Services and should not be used for any other purposes.

BKD, LLP

October 26, 2012

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ANNUAL REPORT CHECKLIST

for

FISCAL YEAR ENDED:
6/30/2012

PROVIDER: The Salem Lutheran Home Association of the Bay Cities, Inc.

FACILITY(IES): ______________________

CONTACT PERSON: Janice Washburn, CFO

TELEPHONE NO.: (510) 769-2722

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of <u>3 copies</u> of all of the following:

- ✓ **This cover sheet.**
- ✓ **Annual Provider Fee in the amount of: $** 1,390
  - ✓ **If applicable, late fee in the amount of: $** N/A
- ✓ **Certification by the provider's chief *executive* officer that:**
  - ✓ **The reports are correct to the best of his/her knowledge.**
  - ✓ **Each continuing care contract form in use or offered to new residents has been approved by the Department.**
  - ✓ **The provider is maintaining the required liquid reserve and refund reserve, if applicable.**
- ✓ **Evidence of the provider's fidelity bond.**
- ✓ **The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.**
- ✓ **The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.**
- ✓ **The provider's "Continuing Care Retirement Community Disclosure Statement" for each community. (total of four (4) copies to be included)**

Salem Lutheran Home
Affiliated with Elder Care Alliance

October 15, 2012

State of California, Health & Human Services Agency
Department of Social Services
Community Care Licensing Division
Statewide Adult & Senior Care Program Office
744 P Street, MS 8-3-90
Sacramento, CA 95814

To Whom It May Concern:

I, Jesse Jantzen, Chief Executive Officer of Salem Lutheran Home, certify that the enclosed continuing care reserve report is correct to the best of my knowledge;

1) that the annual reserve reports and amendments are fairly stated;
2) that each continuing care contract form in use for new residents has been approved by the Department of Social Services;
3) that Salem Lutheran Home maintains the required reserves for prepaid continuing care contracts, statutory reserves, and refund reserves as of the date of this letter.

Sincerely,

Jesse Jantzen
Chief Executive officer

A Continuing Care Retirement Community
(510) 534-3637 • FAX (510) 534-0851 • 2361 East 29th Street • Oakland, CA 94606

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

RECEIVED OCT 30 2012 CONTINUING CARE CONTRACTS BRANCH

DATE (MM/DD/YYYY) 09/26/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104 Attn: SanFrancisco.Certs@marsh.com 742600--CRIME-12-13	CONTACT NAME: PHONE (A/C, No, Ext): FAX (A/C, No): E-MAIL ADDRESS:
INSURED The Salem Lutheran Home Association 2361 E. 29th Street Oakland, CA 94606	

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : N/A	N/A
INSURER B : N/A	N/A
INSURER C : N/A	N/A
INSURER D : N/A	N/A
INSURER E : Travelers Casualty And Surety Company Of America	31194
INSURER F :	

COVERAGES **CERTIFICATE NUMBER:** SEA-002330809-03 **REVISION NUMBER:** 9

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	GENERAL LIABILITY COMMERCIAL GENERAL LIABILITY CLAIMS-MADE OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: POLICY PRO-JECT LOC						EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurrence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG	\$ \$ \$ \$ \$ \$ \$
	AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS HIRED AUTOS NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident)	\$ \$ \$ \$ \$
	UMBRELLA LIAB OCCUR EXCESS LIAB CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE AGGREGATE	\$ \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? N (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT	\$ \$ \$
E	Crime Includes Employee Dishonesty			105805916	06/30/2012	06/30/2013	Limit SIR Value	3,000,000 25,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Evidence of Insurance

CERTIFICATE HOLDER	CANCELLATION
State of California Health & Human Services Agency Department of Social Services 744 P. Street Sacramento, CA 95814	**SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.** AUTHORIZED REPRESENTATIVE of Marsh Risk & Insurance Services Deborah Forde Deborah Forde

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FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	23
[2]	Number at end of fiscal year	17
[3]	Total Lines 1 and 2	40
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	20
	All Residents	
[6]	Number at beginning of fiscal year	162
[7]	Number at end of fiscal year	173
[8]	Total Lines 6 and 7	335
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	167.50
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	.12

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service – interest only)		$12,640,341
[a]	Depreciation	$782,247	
[b]	Debt Service (Interest Only)	$272,262	
[2]	Subtotal (add Line 1a and 1b)		$1,054,509
[3]	Subtract Line 2 from Line 1 and enter result.		$11,585,832
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		12%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$1,390,300
			x .001
[6]	**Total Amount Due (multiply Line 5 by .001)**		$1,390

PROVIDER: The Salem Lutheran Home
COMMUNITY: Association of the Bay Cities, Inc.

FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1					$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$0	$0	$0

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: The Salem Lutheran Home

FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	6/11/2012	$0	$29,067	11	$319,737
2					
3					
4					
5					
6					
7					
8					
	TOTAL:	$0	$29,067	11	$319,737

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: The Salem Lutheran Home

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$0
2	Total from Form 5-2 bottom of Column (e)	$319,737
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	$0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$319,737

PROVIDER: The Salem Lutheran Home

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$12,640,341
2		Deductions		
	a	Interest paid on long-term debt (see instructions)	$272,262	
	b	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c	Depreciation	$782,247	
	d	Amortization	$0	
	e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$10,958,160	
	f	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$12,012,669
4		Net Operating Expenses		$627,672
5		Divide Line 4 by 365 and enter the result.		$1,720
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve mount.		$129,000

PROVIDER: The Salem Lutheran Home
COMMUNITY: Association of the Bay Cities, Inc.

Salem Home FY 12
CCRC Revenue Allocation
Attachment to form 5-5
Line 2e

FY 12 Revenue Audited F/ S		CCRC Amount	non-CCRC Amount	Total Amount
Residential & Assisted Living	3,924,254	596,845	3,327,409	3,924,254
Terrace & Bridgehaven (Dem)	2,114,221	141,764	1,972,457	2,114,221
Skilled Nursing	4,777,044	524,063	4,252,981	4,777,044
Entrance Fees	454,589	268,089	186,500	454,589
Charitable Adjustments	(91,978)	-	(91,978)	(91,978)
Contractual Allowances	(113,582)	-	(113,582)	(113,582)
Subtotal Room & Board	**11,064,548**	**1,530,761**	**9,533,787**	**11,064,548**
Gross Ancillary Revenue	1,239,833	13,922	1,225,911	1,239,833
Other Oper. Revenue**	215,653	17,191	198,462	215,653
total Room & BD Rev	**12,520,034**	**1,561,874**	**10,958,160**	**12,520,034**
		12.48%	**87.52%**	

**Note: Included in other operating revenue are reimbursements received for services provided to non-residents, such as guest accomodations and meals, and miscellaneous vendor refunds

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: The Salem Lutheran Home
Fiscal Year Ended: 6/30/2012

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 6/30/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

		Amount
[1]	Debt Service Reserve Amount	$319,737
[2]	Operating Expense Reserve Amount	$ 129,000
[3]	**Total Liquid Reserve Amount:**	$ 939,103

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description		**Amount (market value at end of quarter)** **Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents		$319,737		$257,801
[5]	Investment Securities		$0		$1,691,278
[6]	Equity Securities				
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve				(not applicable)
[10]	Other: ____________ (describe qualifying asset)				
	Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11]	$319,737	[12]	$1,949,079
	Total Amount Required:	[13]	$319,737	[14]	$ 129,000
	Surplus/(Deficiency):	[15]	$0	[16]	$1,820,079

Signature:

______________________________ Date: ____________________

(Authorized Representative)

____

(Title)

FORM 5-5

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5, has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that the Association should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, the Association has computed its liquid reserve requirement as of June 30, 2012, the Association's most recent fiscal year end, and the reserve is based on audited financial statements for that period.

SALEM LUTHERAN HOME ASSOCIATION OF THE BAY CITIES, INC.
YEAR ENDING JUNE 30, 2012
H&SC SECTION 1790(a)(2) and DISCLOSURE

Description of all Reserves Maintained

	June 30, 2012	June 30, 2011
Restricted Funds		
Charitable Care & Other	$1,540,568	$1,830,820
	$1,540,568	$1,830,820

Status: These Funds are fully funded

Funds Accumulated for Specific Projects or Purposes

Per Capita Cost of Operations

Total operating Expenses(Form 5-4, Line 1)	$12,640,341	To be filled in from Form 5-4
Mean number of all residents(Form 1-1, Line 10)	167.5	To be filled in from Form 1-1
	$75,465	

FORM 7-1

REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$2,240- $4,360	$1,995 - $5,615	$7,452 - $10,190
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	1.00% - 3.15%	0.00% - 3.19%	2.99% - 4.08%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: July 1, 2011
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☑ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☑ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☑ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☑ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☑ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☑ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: The Salem Lutheran Home
COMMUNITY: Association of the Bay Cities, Inc.

SALEM LUTHERAN HOME ASSOCIATION OF THE BAY CITIES, INC.
YEAR ENDING JUNE 30, 2012
FORM 7-1, ITEM 5 EXPLANATION FOR INCREASE IN MONTHLY SERVICES

Increase in	Percent	Explanation
Residential Living	1.00% - 3.15%	Due to labor cost increases of 3%, insurance increases of 7%, food cost increases of 3%. Exception was for Cottages where competitive pressures allowed only for an increase in the posted rates of 1%.
Assisted Living	0.00% - 3.19%	Due to labor cost increases of 3%, insurance increases of 7%, food cost increases of 3%.
Skilled Nursing	2.99% - 4.08%	Due to labor cost increases of 3%, insurance increases of 7%, food cost increases of 3%.

Continuing Care Retirement Community Disclosure Statement

10/31/2012

General Information

FACILITY NAME: Salem Lutheran Home

ADDRESS: 2361 East 29th Street, Oakland, CA ZIP CODE: 94606 PHONE: (510) 534-3637

PROVIDER NAME: The Salem Lutheran Home Assoc. FACILITY OPERATOR: Salem Lutheran Home

RELATED FACILITIES: Mercy Retirement & Care Ctr. RELIGIOUS AFFILIATION: Sponsored by Sierra Pacific Synod of the Lutheran Synod

YEAR OPENED: 1978 NO. OF ACRES: 5 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑

MILES TO SHOPPING CTR: ______ MILES TO HOSPITAL: 2 to 3 miles

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	13	ASSISTED LIVING	65
APARTMENTS – 1 BDRM	16	SKILLED NURSING	48
APARTMENTS – 2 BDRM	6	SPECIAL CARE	30
COTTAGES/HOUSES	4	DESCRIBE SPECIAL CARE:	Dementia
% OCCUPANCY AT YEAR END	91%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ☐ ACCREDITED: ☐ Y ☐ N BY: ______

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE ☐ ASSIGN ASSETS ☐ EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☑ OTHER: 0-3 months - 100%; 3-24 months - Pro Rata Portion; after 24 months - None

RANGE OF ENTRANCE FEES: $ 21,000 TO $ 135,000 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None.

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: None OTHER: None

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☐	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☐	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER ______	☐	☐

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	Weekly	Daily
NUMBER OF MEALS/DAY	1-3	
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☑
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☐
PERSONAL NURSING/HOME CARE	☑	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☐
OTHER Rehabilitation Therapies	☑	☑

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: The Salem Lutheran Home

CCRCs	LOCATION (City, State)	PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: The Salem Lutheran Home

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$10,380	$10,747	$11,497	$12,297
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$(9,732)	$(10,008)	$(10,752)	$(11,586)
NET INCOME FROM OPERATIONS	$648	$739	$745	$687
LESS INTEREST EXPENSE	$(325)	$(334)	$(302)	$(272)
PLUS CONTRIBUTIONS	$1,160	$301	$276	$155
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$(445)	$328	$688	$(99)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$1,038	$1,034	$1,407	$471
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$0	$213	$(41)	$0

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CNB	$4,360,000	3%-variable	06/11/12	07/01/17	5 years

FINANCIAL RATIOS (see next page for ratio formulas)

	2005 CCAC Medians 50th Percentile *(optional)*	2010	2011	2012
DEBT TO ASSET RATIO		33.2%	30.56%	28.70%
OPERATING RATIO		93.3%	95.52%	96.14%
DEBT SERVICE COVERAGE RATIO		224.6%	228.55%	169.49%
DAYS CASH-ON-HAND RATIO		50.75	75.45	69.85

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO	$2,501	7.6%	$2,692	-0.5%	$2,679	2.0%	$2,733
ONE BEDROOM	$3,137	6.7%	$3,347	1.3%	$3,389	2.6%	$3,477
TWO BEDROOM	$3,169	25.4%	$3,973	2.1%	$4,057	5.2%	$4,266
COTTAGE/HOUSE	$3,611	-2.8%	$3,510	-38.9%	$2,143	98.3%	$4,250
ASSISTED LIVING	$2,259	3.6%	$2,341	27.9%	$2,994	-15.7%	$2,524
SKILLED NURSING	$7,818	1.7%	$7,948	5.4%	$8,374	6.1%	$8,887
SPECIAL CARE	$5,294	0.1%	$5,301	1.4%	$5,374	1.0%	$5,427

COMMENTS FROM PROVIDER: Fees for studios and one bedroom units increased as Salem moved residents toward posted rates with a cap on increases. The two bedroom units increased due to the turnover of below posted rate residents. The Cottages increased due to the high number of larger cottages currently in service as well as turnover of below posted rate residents. Assisted Living decreased due to a larger percentage of occupied units having lower posted rates. Skilled Nursing increased due to occupancy mix. Special Care units increased, but not as much as the posted rate increase due to caps on increases for current residents.

PROVIDER NAME: The Salem Lutheran Home

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

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Elder Care Alliance and Subordinate Corporations

Accountants' Report and Consolidated Financial Statements

June 30, 2012 and 2011

Elder Care Alliance and Subordinate Corporations
June 30, 2012 and 2011

Contents

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Independent Accountants' Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying consolidated statements of financial position of Elder Care Alliance and Subordinate Corporations (ECA) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ECA'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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elder Care Alliance and Subordinate Corporations as of June 30, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

October 26, 2012

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Financial Position
June 30, 2012 and 2011
(In Thousands)

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 3,403	$ 6,325
Patient and resident accounts receivable, net of allowance; 2012 - $180, 2011 - $96	1,846	1,690
Assets limited as to use - current	635	627
Prepaid expenses and other	900	343
Other receivables	122	129
Total current assets	6,906	9,114
Investments and Interest in Investment Pool	18,758	20,824
Assets Limited As To Use		
Under indenture agreement, held by trustee		
Debt service reserve	1,110	1,050
Held by mortgagee under loan agreement with HUD		
Reserve for replacement	410	129
Escrow deposits	1,664	475
Externally restricted by donor - cash	678	678
Total assets limited as to use	3,862	2,332
Property and Equipment, Net	87,489	80,988
Deferred Financing Costs and Other	4,164	4,826
Total assets	$ 121,179	$ 118,084

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Current maturities of long-term debt	$ 2,692	$ 1,675
Current maturities of variable rate debt related to letter of credit	-	1,047
Accounts payable	1,802	1,094
Accrued expenses and other	3,750	3,239
Total current liabilities	8,244	7,055
Long-Term Debt	120,077	116,152
Asset Retirement Obligations	926	874
Interest Rate Swap Agreements	-	1,496
Other Long-Term Liabilities	-	20
Deferred Revenue - Unearned Entrance Fees	451	719
Total liabilities	129,698	126,316
Net Assets		
Unrestricted	(16,054)	(15,961)
Temporarily restricted	3,888	4,085
Permanently restricted	3,647	3,644
Total net assets	(8,519)	(8,232)
Total liabilities and net assets	$ 121,179	$ 118,084

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Activities
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Net patient and resident service revenue	$ 52,451	$ -	$ -	$ 52,451
Contributions	1,624	461	3	2,088
Other revenue, net	518	-	-	518
Net assets released from restrictions for				
Operations	217	(217)	-	-
Charity	272	(272)	-	-
Total revenues, gains and other support	55,082	(28)	3	55,057
Expenses and Losses				
Salaries and benefits	28,527	-	-	28,527
Purchased services and other	11,505	-	-	11,505
Supplies	3,912	-	-	3,912
Depreciation, amortization and other	4,158	-	-	4,158
Interest and fees	5,202	-	-	5,202
Provision for uncollectible accounts	144	-	-	144
Loss on disposal of property and equipment	42	-	-	42
Total expenses and losses	53,490	-	-	53,490
Operating Income (Loss)	1,592	(28)	3	1,567
Other Income (Expense)				
Interest and dividend income	233	(3)	-	230
Net realized and unrealized gain (loss) on interest rate swap agreements	73	-	-	73
Gains (losses) from investment pool	(6)	(102)	-	(108)
Loss on extinguishments of debt	(1,941)	-	-	(1,941)
Excess (Deficiency) of Revenues Over Expenses	(49)	(133)	3	(179)
Net assets released for purchase of property and equipment	21	(21)	-	-
Investment return - net change in unrealized losses on investments	(65)	(43)	-	(108)
Increase (Decrease) in Net Assets	(93)	(197)	3	(287)
Net Assets, Beginning of the Year	(15,961)	4,085	3,644	(8,232)
Net Assets, End of the Year	$ (16,054)	$ 3,888	$ 3,647	$ (8,519)

See Notes to Consolidated Financial Statements

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 50,334	$ -	$ -	$ 50,334
876	655	-	1,531
262	-	-	262
250	(250)	-	-
718	(718)	-	-
52,440	(313)	-	52,127
25,865	-	-	25,865
11,717	-	-	11,717
3,760	-	-	3,760
3,790	-	-	3,790
5,284	-	-	5,284
96	-	-	96
-	-	-	-
50,512	-	-	50,512
1,928	(313)	-	1,615
323	48	-	371
(445)	-	-	(445)
1,078	766	-	1,844
-	-	-	-
2,884	501	-	3,385
21	(21)	-	-
34	141	-	175
2,939	621	-	3,560
(18,900)	3,464	3,644	(11,792)
$ (15,961)	$ 4,085	$ 3,644	$ (8,232)

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Operating Activities		
Change in net assets	$ (287)	$ 3,560
Items not requiring (providing) operating cash flows		
Loss on extinguishments of debt	1,941	-
Loss on disposal of property and equipment	42	-
Depreciation and other	3,950	3,757
Amortization of deferred financing costs	158	86
Amortization of earned entrance fees	(268)	(63)
Accretion of asset retirement obligations	52	(53)
Provision for uncollectible accounts	144	96
Refunds of entrance fees	-	(41)
Unrealized (gains) losses on investments and investment pool, net	1,139	(1,395)
Change in fair value of interest rate swap agreements	(400)	(631)
Changes in		
Patient and resident accounts receivable	(300)	124
Prepaid expenses and other	(528)	228
Other receivables	7	(82)
Accounts payable	432	(6)
Accrued liabilities and other long-term liabilities	491	538
Net cash provided by operating activities	6,573	6,118
Investing Activities		
Purchases of investments, investment pool and assets limited as to use	(5,793)	(1,069)
Sales of investments, investment pool and assets limited as to use	5,183	1,304
Proceeds from sale of property and equipment	9	-
Purchases of property and equipment	(10,227)	(2,477)
Net cash used in investing activities	(10,828)	(2,242)
Financing Activities		
Proceeds from issuance of long-term debt	62,197	-
Principal payments of long-term debt	(58,302)	(1,753)
Payment of deferred financing costs	(1,466)	(432)
Payment for termination of swap agreement	(1,096)	-
Net cash provided by (used in) financing activities	1,333	(2,185)

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Increase (Decrease) in Cash and Cash Equivalents	$ (2,922)	$ 1,691
Cash and Cash Equivalents, Beginning of Year	7,003	5,312
Cash and Cash Equivalents, End of Year	$ 4,081	$ 7,003
Reconciliation of Cash and Cash Equivalents to Statements of Financial Position		
Cash	$ 3,403	$ 6,325
Cash in assets limited as to use	678	678
Total cash and cash equivalents	$ 4,081	$ 7,003
Supplemental Cash Flows Information		
Interest paid	$ 4,794	$ 4,836
Property and equipment acquisitions included in accounts payable and accrued liabilities	$ 315	$ 40

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements
June 30, 2012 and 2011
(In Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Elder Care Alliance (ECA-Corporate) is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Sisters of Mercy of the Americas – West Midwest Communities (the "Sisters of Mercy").

ECA-Corporate was established with the support and leadership of Dignity Health, formerly known as Catholic Healthcare West (CHW). The shared vision of Dignity Health, ECA-Corporate and its cosponsors, the Lutheran Synod and the Sisters of Mercy, was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of the burgeoning population of elderly people who seek support and assistance with activities of daily living in a non-institutional environment.

On May 15, 1997, two separate nonprofit corporations, Mercy Retirement and Care Center (MRCC) and Salem Lutheran Home Association of the Bay Cities, Inc. (SLH), entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of both MRCC and SLH. ECA-Corporate provides supportive housing, skilled nursing, rehabilitation and social services principally to the aged through these subordinate corporations. MRCC and SLH retain their individual identities, assets and liabilities and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

MRCC is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 106 units licensed as residential care and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life. Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

SLH is a California nonprofit public benefit corporation organized for the purpose of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 130 units licensed as residential care, including a 30-unit dementia care facility and 48 units licensed as skilled nursing. SLH offers a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of SLH for life. Residents are also entitled to certain healthcare services provided in the SLH assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in SLH. SLH generates its revenues primarily from residential care and skilled nursing fees.

The following entities are California nonprofit public benefit corporations organized for the purpose of developing residential care facilities for the elderly (RCFEs) to provide residences and assistance with daily living needs for elderly persons and generate its revenues primarily from residential care fees.

They are subordinate corporations to ECA-Corporate and operate under a common management team through ECA-Corporate:

Elder Care Alliance of Camarillo (AVC) doing business under the name of "AlmaVia of Camarillo" operates an 87-unit RCFE with 27-units designated for dementia care in Camarillo, California.

Elder Care Alliance of San Francisco (AVSF) doing business under the name of "AlmaVia of San Francisco" operates a 135-unit RCFE with 41-units designated for dementia care in San Francisco, California.

Elder Care Alliance of Union City (AVUC) doing business under the name "AlmaVia Assisted Living" operates a 97-unit RCFE with 24-units designated for dementia care in Union City, California.

Elder Care Alliance of San Rafael (AVSR) doing business under the name "AlmaVia of San Rafael" operates a 137-unit RCFE with 22-units designated for dementia care in San Rafael, California.

Hereinafter, ECA-Corporate and its subordinate corporations are referred to collectively as "ECA."

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ECA-Corporate and its subordinate corporations, MRCC, SLH, AVC, AVSF, AVUC and AVSR. All significant transactions and accounts between the entities have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less from the date acquired except for those held for long-term investment purposes or whose use is limited. The carrying amount approximates fair value because of the short-term maturity of these instruments.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. At June 30, 2012, $528 of ECA's interest-bearing cash accounts exceeded federally insured limits.

Investments, Interest in Investment Pool and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value and are classified as "available for sale" securities. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in investment pools are carried at fair value pursuant to the fair value option provisions of ASC Topic 825. ECA's interest in investment pool represents funds it has invested in a Dignity Health-managed investment pool. ECA may deposit or withdraw funds in the pool at its discretion; however, withdrawals require advance notice. Earnings (including distributions and increases or decreases in the value of ECA's share of the pool) are included in gains (losses) from investment pool.

Assets Limited As To Use

Assets limited as to use include (1) assets held by trustees under bond indenture agreements (2) assets held in escrow for payment of property taxes and insurance, occupancy stabilization, debt service and reserves for replacements pursuant to the loan agreement with HUD and (3) assets restricted by donors. The assets at June 30, 2012 and 2011, consist primarily of escrow deposits, cash and money market funds. Amounts required to meet current liabilities of ECA are included in current assets. The carrying amount for cash and money market funds approximate fair value due to the short-term nature of these instruments.

Patient and Resident Accounts Receivable

As part of its mission to serve the community, ECA provides care to residents even though they may participate in programs that do not pay full charges, or they may lack adequate insurance or private means. ECA manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are stated at net realizable value from third-party payers, residents and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5-25 years
Buildings and improvements	5-50 years
Furniture and equipment	3-15 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

ECA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2012 and 2011.

Deferred Financing Costs

Deferred financing costs represent bond and long-term debt issuance costs which are amortized on the effective interest method over the term of the respective debt agreements.

Deferred Revenue - Unearned Entrance Fees

Entrance fees received by SLH for continuing care residency are deferred and recognized as revenue over the life expectancy of the resident. Refunds may be made up to two years for certain fees after the date of occupancy. A separate refund liability has not been established as the amount is deemed immaterial based upon experience.

Obligation to Provide Future Services

SLH provides services primarily on a fee-for-service basis. SLH fees are not limited to stated or cost-of-living increases. SLH sets resident rates to fully absorb its ongoing operating costs. Accordingly the accompanying financial statements do not reflect a liability to provide future services and the use of facilities at June 30, 2012 and 2011.

Interest Rate Swaps

Interest rate swaps are recognized on the statements of financial position at fair value as estimated by a third party. ECA uses interest rate swaps, also known as risk management or derivative instruments, to effectively create a fixed rate of interest on certain floating rate debts. The swap counterparty will receive or make periodic payments to ECA equal to any net difference between the fixed and floating rate. The amounts received from or paid to the swap counterparty are included as realized gains or losses on interest rate swaps in the statements of activities. ECA has elected not to apply hedge accounting related to these swaps, and accordingly, changes in the underlying value of the swaps are recorded as unrealized gains or losses in excess (deficiency) of revenues over expenses.

Net Assets

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ECA and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Certain net assets have been designated by the Board for specific use in future periods. In addition, MRCC has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of property, plant and equipment or for repayment of long-term debt. The funds may be redesignated for other uses as appropriate.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those whose use by ECA has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets – Permanently restricted net assets have been restricted by donors to be maintained by ECA in perpetuity. Generally, the donors of these assets permit ECA to use all or part of the income earned on related investments for general or specific purposes.

Net Patient and Resident Service Revenue and Monthly Fees

ECA has agreements with third-party payers that provide for payments to the organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges and per diem payments. Net revenues from Medicare and Medi-Cal programs were approximately $4,252 and $2,042, respectively, for the year ended June 30, 2012, and approximately $3,398 and $2,320, respectively, for the year ended June 30, 2011. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable Care

ECA provides charitable care to residents who are unable to pay for services or monthly service fees. The amount of charitable care is included in net revenue.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. During the year ended June 30, 2011, an environmental study revealed that the asset retirement obligation recorded at AVSF was not necessary. Based upon this information the remaining liability associated with AVSF's asset retirement obligation of $102 was removed and is included in accretion expense for year ended June 30, 2011. As of June 30, 2012 and 2011, there was $926 and $874, respectively, of conditional asset retirement obligations included in the statements of financial position. Accretion expense totaled $52 and $(53) for the years ended June 30, 2012 and 2011, respectively.

Excess (Deficiency) of Revenues Over Expenses

The excess (deficiency) of revenues over expenses in unrestricted net assets is the operating measure for the organization. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

ECA-Corporate and its subordinate organizations are each exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the state in which they operate. However, ECA is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

(In Thousands)

Note 2: Concentration of Credit Risk

ECA grants credit without collateral to its patients and residents. The mix of receivables from patients, residents and third-party payers at June 30, 2012 and 2011, is:

	2012	2011
Medicare	51%	31%
Medi-Cal	14%	29%
Other third-party payers	13%	11%
Patient and residents	22%	29%
	100%	100%

Financial instruments which could potentially subject the organization to significant concentrations of credit risk consist primarily of interest rate swap agreements (see *Note 6*) and investments in marketable securities. ECA, primarily through external money managers, has significant investments in marketable securities which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Note 3: Investments and Investment Return

Composition of investments, interest in investment pool and assets limited as to use at June 30, 2012 and 2011, are summarized in the following table:

	2012			2011		
	Amortized Cost	Unrealized Gain (Loss)	Fair Value	Amortized Cost	Unrealized Gain (Loss)	Fair Value
Interest in investment pool	$ 11,061	$ 131	$ 11,192	$ 9,314	$ 1,163	$ 10,477
Fixed income securities						
U.S. Treasury securities	331	3	334	622	7	629
Government guaranteed bonds	156	-	156	574	6	580
U.S. agencies	2,098	22	2,120	2,634	4	2,638
U.S. government Remics/CMOs	363	2	365	80	-	80
Corporate debt securities	1,624	11	1,635	2,233	171	2,404
Foreign bonds	411	1	412	858	11	869
Municipal bonds	480	18	498	1,106	20	1,126
Equity securities	4		4	792	253	1,045
Cash and cash equivalents						
Money market mutual funds	2,048	30	2,078	2,384	-	2,384
Cash	712	-	712	684	-	684
Other investments	185	-	185	63	-	63
Certificates of deposit	1,490	-	1,490	-	-	-
Deposits held by mortgagee under loan agreement with HUD	2,074	-	2,074	804	-	804
	$ 23,037	$ 218	$ 23,255	$ 22,148	$ 1,635	$ 23,783

(In Thousands)

These investments are included on the statements of financial position as follows:

	2012	2011
Assets limited as to use - current	$ 635	$ 627
Investments and interest in investment pool	18,758	20,824
Assets limited as to use, under bond indenture agreements for		
Debt service reserve	1,110	1,050
Assets limited as to use, deposits held by mortgagee under loan agreement with HUD		
Reserve for replacements	410	129
Escrow deposits	1,664	475
Assets limited as to use, externally restricted by donor	678	678
	$ 23,255	$ 23,783

Interest in investment pools is reported at fair value with changes in fair value reflected in excess (deficiency) of revenues over expenses in the consolidated statements of activities, see *Note 17*.

Alternative Investments

Except as described below, the fair value of the interest in investment pools considered alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	$ 3,830	$ -	Bimonthly	prenotification of 8 days
Dignity Health philanthropic asset management fund of funds (B)	$ 7,362	$ -	Bimonthly	prenotification of 8 days

	June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	$ 3,770	$ -	Bimonthly	prenotification of 8 days
Dignity Health philanthropic asset management fund of funds (B)	$ 6,707	$ -	Bimonthly	prenotification of 8 days

(In Thousands)

(A) This fund seeks to generate a real rate of return of 4.0% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 40% to 60%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small cap securities and international equity securities. The fixed income securities are allocated between various domestic fixed income securities. The fund also includes a small amount of private equity, real estate and hedge fund of funds investments.

(B) This fund seeks to generate a real rate of return of 5.5% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 60% to 40%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small cap securities and international equity securities. The fixed income securities are allocated between various domestic and international fixed income securities.

Other-Than-Temporary Impairment

ECA routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary impairment such as severity of loss, length of time in a loss position and other significant factors.

Note 4: Property and Equipment

Property and equipment consist of the following at June 30:

	2012	2011
Land	$ 4,772	$ 2,750
Land lease	10,898	6,892
Land improvements	4,501	4,341
Buildings, building improvements and building service equipment	99,524	97,817
Equipment	11,426	9,463
Construction in progress	1,155	1,045
	132,276	122,308
Less accumulated depreciation	44,787	41,320
	$ 87,489	$ 80,988

Land lease includes a capitalized land lease of approximately $4.1 million for AVSF for the first 30 years' base rent prepaid as required by the ground lease agreement with the Roman Catholic Archbishop of San Francisco as more fully described in *Note 12*. The land lease was amended on October 1, 2011, due to HUD refinancing. The lease now expires March 2075 and has no options to extend the term of the lease. The amendment required AVSF to prepay approximately $4,005 for an additional 43 years' base rent. The land lease will be amortized over the remaining lease term using the straight-line method. The land lease has accumulated amortization of $1,343 and $1,207 at June 30, 2012 and 2011, respectively, and a net land lease balance of $6,754 and $2,886 at June 30, 2012 and 2011, respectively.

Land lease also includes property of $1,150 purchased by AVUC from the Community Redevelopment Agency of the City of Union City (the "Agency") in the amount of one dollar for the purpose of constructing the AVUC facility. This transaction is accounted for as a contribution in the accompanying financial statements as described in *Note 7*. Based on the Agency Agreement, the Agency has the option to repurchase the property from AVUC for one dollar during the option period which begins approximately 55 years after completion of the AVUC facility and expires after one year. The land lease is being amortized ratably over the 55 years resulting in accumulated amortization of $147 and $126 at June 30, 2012 and 2011, respectively, and a net land lease balance at June 30, 2012 and 2011, of $1,003 and $1,024, respectively.

Land lease also includes property that was purchased by AVSR from the Lutheran Synod in the form of a promissory note for $1,650 for the purpose of constructing the AVSR facility. The promissory note with the Lutheran Synod was paid in full through financing obtained in March 2010 (see *Note 5*). The existing ground lease with the Lutheran Synod was amended due to the refinancing of the bonds. The original land lease gave the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the AVSR bonds, not to exceed 60 years. Therefore, the land lease was being amortized ratably over 40 years. The amended ground lease gives the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the HUD insured loan, not to exceed 60 years. The land lease is now being amortized ratably over 45 years resulting in accumulated amortization of $241 and $205 at June 30, 2012 and 2011, respectively, and a net land lease balance at June 30, 2012 and 2011, of $1,409 and $1,445, respectively.

As described in *Note* 5, portions of the above property and equipment are pledged as collateral on ECA's long-term debt.

(In Thousands)

Note 5: Long-Term Debt

	2012	2011
ECA-Corporate line-of-credit payable (A)	$ 13,021	$ 13,345
ECA-Corporate note payable (B)	4,000	-
ECA-Corporate note payable (C)	2,000	-
ECA-Corporate note payable (D)	500	-
SLH promissory note payable (E)	-	4,667
SLH note payable (F)	4,360	-
AVC Series 2000 revenue bonds (G)	-	12,560
AVC promissory note payable (H)	12,416	-
AVSF Series 2002B revenue bonds (I)	-	7,850
AVSF Series 2006 revenue bonds (J)	-	31,885
AVSF promissory note (K)	38,165	-
AVUC Series 2004 revenue bonds (L)	14,485	14,805
AVUC agency loan (M)	1,300	1,300
AVUC debt relief agreement (N)	437	-
AVSR promissory note payable (O)	32,085	32,462
	122,769	118,874
Less current maturities	2,692	1,675
Less current portion of variable rate debt related to letters of credit if drawn upon	-	1,047
	$ 120,077	$ 116,152

(A) ECA-Corporate – Line of credit payable to Dignity Health under which ECA can borrow up to $13,500, interest payments due monthly at one-half of the Dignity Health blended internal rate for funds (3.25% at June 30, 2012), principal due monthly commencing in fiscal year 2011, collateralized by real property and gross revenues. Pursuant to the agreement, ECA must comply with the covenants of the existing credit enhancement agreement with Dignity Health as described below.

(B) ECA-Corporate entered into a $4,000 note payable with a financial institution in October 2011 to prepay rent for the AVSF ground lease (see *Note 12*) which was amended due to AVSF's refinancing discussed below. The note bears variable interest based on LIBOR plus 2.5%, the interest rate at June 30, 2012, was 2.75%. The note has monthly interest only payments commencing November 1, 2011, principal payments commence on November 1, 2013, in monthly installments of $18,502 with interest. The entire balance of the note payable is due in October 2016. The note payable is guaranteed by Dignity Health.

(C) ECA-Corporate entered into a $2,000 note payable with a financial institution in March 2012 to purchase the land for AVC (see *Note 12*). The note allows ECA-Corporate to select the interest rate from three separate options. Based upon ECA-Corporate's interest election, the note bears interest at the greater of 2.5% or the LIBOR interest rate plus 2%. At June 30, 2012, the interest rate was 2.50%. The note has monthly interest payments through March

2013, monthly principal payments of approximately $9 plus interest due starting in April 2014, with the entire balance of principal and interest due on March 1, 2019. The note is secured by $1,240 of investments held by ECA-Corporate and $1,000 of investments held by MRCC.

(D) ECA-Corporate entered into a $500 note payable with a financial institution in March 2012, bearing interest at the greater of 2.5% or prime plus 1%, the interest rate at June 30, 2012, was 4.25%, interest accrued on this note is payable monthly, and all outstanding principal is due on December 1, 2012. The note is secured by ECA assets.

(E) SLH - Promissory note payable to Dignity Health, principal and interest payments due monthly until June 30, 2021, interest payable at the Dignity Health blended internal rate for funds, collateralized by real property and gross revenues. Pursuant to the agreement, SLH must comply with the covenants of the existing credit enhancement agreement with Dignity Health as described below. In June 2012 this debt was refinanced, see (F) below.

(F) SLH entered into a $4,360 note payable with a financial institution in June 2012. The note allows SLH to select the interest rate from three separate options. Based upon SLH's interest election, the note bears interest at the greater of 3% or the LIBOR interest rate plus 2.75%. At June 30, 2012, the interest rate was 3.0%. The note has monthly principal payments of $18 plus interest, with the entire balance of principal and interest due on July 1, 2017. The note is secured by a first deed of trust on certain properties of ECA.

(G) AVC - Variable Rate Demand Revenue Bonds Series 2000 issued by the California Statewide Communities Development Authority with BNY Western Trust Company as the trustee, in the original amount of $12,760, bearing variable rates of interest, mandatory annual sinking fund payments beginning November 1, 2015, final maturity November 2030, collateralized by an irrevocable, direct-pay letter of credit issued by Allied Irish Banks to allow for a situation where the remarketing agent is unable to remarket the bonds and the bondholders then put the bonds back to the issuer. In June 2011, the existing letter of credit was replaced with an alternate letter of credit issued by Bank of the West that expires on May 31, 2013. If the letter of credit was drawn upon and not immediately reimbursed, the amount of the advance would be repaid in twelve equal quarterly installments beginning three months from the 180th day after the date of any advance. Dignity Health has issued a guarantee to the Bank of the West for any amounts owing. Pursuant to the sixth amendment of the credit enhancement agreement, Dignity Health's guarantee is collateralized by the real property and gross revenues of AVC. In May 2012, this debt was refinanced, see (H) below. A loss on extinguishment of debt of $473 was recorded due to the refinancing.

(H) AVC - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $12,416. The mortgage matures in June 2047, payable in monthly installments of $48 including interest at 3.0%, secured by a first lien on the AVC property. Under the terms of the note, AVC is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

(I) AVSF - Taxable Subordinate Revenue Bonds Series 2002B issued by the California Statewide Communities Development Authority with BNY Western Trust Company as the trustee, in the original amount of $8,180, bearing variable rates of interest, mandatory annual sinking fund payments beginning November 15, 2006, final maturity November 2042, collateralized by an irrevocable, direct-pay letter of credit issued by Allied Irish Banks to allow for a situation where the remarketing agent is unable to remarket the bonds and the bondholders then put the bonds back to the issuer. The letter of credit expired on December 31, 2011. AVSF is required to repay the principal amount to Allied Irish Banks at the expiration date of the letter of credit plus interest at a rate equal to prime plus 1% for the first sixty days of the draw and prime plus 2% thereafter. Dignity Health has issued a guarantee to Allied Irish Banks for any amounts owing. The bonds are payable from the revenues pledged under the indenture and subject to mandatory and optional redemption. In October 2011 this debt was refinanced, see (K) below. A loss on extinguishment of debt of $648 was recorded due to the refinancing.

(J) AVSF - Senior Living Revenue Bonds Series 2006A issued by the ABAG Finance Authority for Nonprofit Corporations and The Bank of New York Trust Company, N.A., as trustee, in the original amount of $33,895, bearing variable rates of interest, mandatory annual sinking fund payments beginning November 1, 2009, final maturity August 2035, collateralized by irrevocable, direct-pay letter of credit issued by Sovereign Bank to allow for a situation where the remarketing agent is unable to remarket the bonds and the bondholders then put the bonds back to the issuer. The letter of credit expired December 6, 2011. If the letter of credit was drawn upon, the amount of the advance would initiate a term loan between Sovereign Bank and AVSF. AVSF would repay the loan on the original bond maturity schedule at an interest rate equal to prime plus 1% with the requirement that the full principal amount of the bonds be repaid by the expiration date of the letter of credit. Banco Santander, S.A. has issued a confirming letter of credit for the Sovereign Bank letter of credit, which expired on September 8, 2011, subject to annual extensions through December 6, 2011. In October 2011 this debt was refinanced, see (K) below. A loss on extinguishment of debt of $820 was recorded due to the refinancing.

(K) AVSF - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $38,485. The mortgage matures in November 2046, payable in monthly installments of $162 including interest at 3.65%, secured by a first lien on the AVSF property. Under the terms of the note, AVSF is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. The lender requires a one-year debt service escrow reserve to be maintained that is equal to six months principal and interest. In addition, the lender required a five-year debt service escrow which is covered by an irrevocable standby letter of credit with a financial institutional in the amount of $974,503 which is subject to automatic annual extensions with a final expiration of October 31, 2016. The lender requires the debt service escrows to continue to be maintained until minimum debt service coverage ratios are met. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

(L) AVUC – Insured Revenue Bonds Series 2004 issued by the ABAG Finance Authority for Nonprofit Corporations and BNY Western Trust Company as the trustee, in the original amount of $15,685, bearing interest of 4.125% to 5.6%, mandatory annual sinking fund payments beginning August 15, 2008, final maturity August 2034, insured by the Office of Statewide Health Planning and Development of the State of California (the "Office"). The insured bonds are subject to optional, special and mandatory redemption and secured by the real property of AVUC. In February 2011, AVUC, ECA-Corporate and the Office entered into a Debt Service Relief Agreement related to the AVUC 2004 bond issue, see (N) below.

(M) AVUC – Pursuant to the First Amended and Restated Disposition, Development and Loan Agreement (Agency Agreement) between AVUC and the Community Redevelopment Agency of the City of Union City (the "Agency") and in conjunction with the issuance of the Insured Revenue Bonds Series 2004, the Agency agreed to lend (using exclusively the proceeds it received from the California Housing Finance Agency (CHFA HELP Loan) $1,300 to AVUC to pay a portion of the costs of constructing a residential assisted living and dementia care facility in Union City. The proceeds of the loan were deposited with the bond trustee and were disbursed pursuant to the insured bonds agreement. The loan bears no interest to AVUC and is repayable on terms identical to the repayment terms of the CHFA HELP Loan. If AVUC has insufficient funds on the payment date to make the full payment, any shortfall in such payment shall be forgiven by the Agency. The loan is included as long-term debt on the statements of financial position.

(N) AVUC - In February 2011, AVUC, ECA-Corporate and the Office entered into a Debt Service Relief Agreement related to the AVUC 2004 bond issue (see (L) above) that became retroactively effective October 1, 2010, terminating in January 2015. The agreement allows ECA-Corporate to fund a portion of the cash shortfalls of AVUC in order to make monthly debt service deposits with the Trustee, and the Office would fund the remaining portion of the debt service requirement. The repayment of amounts advanced to AVUC by ECA-Corporate and the Office, including management fees, will only commence at such time as AVUC meets required liquidity ratios. Funds disbursed by the Office to meet debt service requirements, will accumulate interest at a variable rate set by the Office semiannually, and will accrue from the date of the disbursement until the balance is paid in full. The interest rate at June 30, 2012, was .37%. Repayment of funds to the Office will commence on January 1, 2015, and will be amortized over seven years. Under this agreement, the full amount of monthly debt service requirements are not being deposited monthly with the Trustee, but rather right before semiannual payments are made, which results in a technical loan default under the Indenture. The indenture only allows the remedy of acceleration by the Trustee with the consent of the Office. The Office waives their right to direct the Trustee to accelerate repayments of the debt as long as the Debt Service Relief Agreement is in place.

(In Thousands)

(O) AVSR - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $32,878. The mortgage matures on April 1, 2045, payable in monthly installments of $166 including interest at 5%, secured by a first lien on the AVSR property. Under the terms of the note, AVSR is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

In May 1997, ECA entered into a credit enhancement agreement with Dignity Health, which expired on June 30, 2005. Under the agreement, Dignity provided ECA with a guaranty for certain loan agreements entered into by ECA, made loans to ECA and assisted ECA in obtaining financing through third parties. This agreement requires ECA to maintain a defined debt coverage ratio of at least 1.1 and meet other restrictive covenants, the most restrictive of which include limitations on the acquisition and disposition of property and limitations on additional indebtedness. While the agreement has expired, its provisions remain applicable to those loans subject to the credit enhancement agreement, as described above.

The bond indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use under bond indenture agreements in the financial statements.

Aggregate annual maturities of long-term debt at June 30, 2012, are:

2013	$ 2,692
2014	3,917
2015	2,880
2016	2,987
2017	6,205
Thereafter	104,088
	$ 122,769

Based on an independent third-party analysis at June 30, 2012 and 2011, the fair value of the fixed rate AVUC bonds was approximately $14,901 and $14,359, respectively. ECA has fixed rate debt on the HUD insured mortgages for AVSR, AVSF and AVC. Based on the borrowing rates currently available to ECA on this type of debt, management estimates the fair value of the debt to be $96,253 and $32,462 at June 30, 2012 and 2011, respectively. Based on the borrowing rates currently available to ECA and the variable nature of the remaining debt, management believes the carrying amount of the remaining long-term debt approximates its fair value.

(In Thousands)

Note 6: Derivative Financial Instrument

As a strategy to maintain acceptable levels of exposure to the risks of changes in the future cash flows due to interest rate fluctuations, ECA has entered into an interest rate swap agreement as noted below.

AVSF has an interest swap to manage the interest rate exposure on its 2006 variable rate demand bonds with a termination date of November 15, 2012. The swap was terminated in October 2011 due to AVSF's HUD refinancing, and AVSF paid $1,096 to settle the swap liability at the termination date. The swap provided for AVSF to receive interest from the counterparty at the SIFMA Municipal Swap Index and to pay interest to the counterparty at a fixed rate of 3.612% on a notional amount of $0 and $31,885 as of June 30, 2012 and 2011, respectively. The underlying value of the swap was $0 and $(1,496) as of June 30, 2012 and 2011, respectively. AVSF recorded unrealized gains of $400 and $632 for the years ended June 30, 2012 and 2011, respectively, for the change in the underlying value of the swap. AVSF also recorded realized losses in relation to this swap of $(327) and $(1,077) for the years ended June 30, 2012 and 2011, respectively.

Note 7: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions and grants at June 30, 2012 and 2011, for the following purposes:

	2012	2011
Equipment and expansion	$ 520	$ 520
Charity and other	3,368	3,565
	$ 3,888	$ 4,085

During the years ended June 30, 2012 and 2011, $510 and $989, respectively, of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of indigent care. Temporarily restricted net assets include the fair value of the AVUC land (see *Note 4*) contribution of $1,150. The contribution is being released from restriction ratably over 55 years beginning in fiscal year 2006 resulting in a release of $21 for each year. The remaining restricted balance of this contribution is $1,003 and $1,024 at June 30, 2012 and 2011, respectively.

Permanently restricted net assets consist of endowments that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people.

(In Thousands)

Note 8: Endowments

ECA's endowment consists of approximately eight individual funds established for charitable care purposes. The endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECA's governing body has interpreted the State of California Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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. As a result of this interpretation, ECA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ECA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of ECA and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of ECA
7. Investment policies of ECA

The composition of net assets for the endowment fund at June 30, 2012 and 2011, was:

	2012 Temporarily Restricted	2012 Permanently Restricted	2012 Total
Donor-restricted endowment funds	$ 1,354	$ 3,647	$ 5,001

	2011 Temporarily Restricted	2011 Permanently Restricted	2011 Total
Donor-restricted endowment funds	$ 1,523	$ 3,644	$ 5,167

(In Thousands)

Changes in endowment net assets for the years ended June 30, 2012 and 2011, were:

	2012 Temporarily Restricted	2012 Permanently Restricted	2012 Total
Endowment net assets, beginning of year	$ 1,523	$ 3,644	$ 5,167
Investment return			
Investment gain	375	-	375
Net depreciation	(544)	-	(544)
Total investment loss	(169)	-	(169)
Contributions	-	3	3
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	$ 1,354	$ 3,647	$ 5,001

	2011 Temporarily Restricted	2011 Permanently Restricted	2011 Total
Endowment net assets, beginning of year	$ 651	$ 3,644	$ 4,295
Investment return			
Investment gain	271	-	271
Net appreciation	661	-	661
Total investment return	932	-	932
Appropriation of endowment assets for expenditure	(60)	-	(60)
Endowment net assets, end of year	$ 1,523	$ 3,644	$ 5,167

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2012 and 2011, respectively.

ECA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods. Under ECA's policies, endowment assets are invested in a manner that is intended to produce results that exceed the average return of the Barclays Capital Aggregate Index for fixed income investments and the average return of the Russell 3000 index for equities while assuming an investment grade level of investment risk. ECA expects its endowment funds to provide an average rate of return of approximately 5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, ECA relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). ECA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

ECA has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of charitable care estimated to be provided as approved in the annual budget. In establishing this policy, ECA considered the long-term expected return on its endowment. This is consistent with ECA's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Note 9: Charitable Care

Traditional charitable care covers services provided to persons who cannot afford to pay. The estimated cost to provide these services was approximately $752 and $742 for 2012 and 2011, respectively. The estimated costs were calculated by applying the ratio of cost to charges to the gross uncompensated care charges.

(In Thousands)

Note 10: Functional Expenses

ECA provides residential and healthcare services to residents. Expenses related to providing these services are as follows:

	2012	2011
Health care services	$ 42,785	$ 39,680
General and administrative	10,705	10,832
	$ 53,490	$ 50,512

Note 11: Medical Malpractice Claims

ECA purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon ECA's claim experience, no such accrual is required. It is reasonably possible that this estimate could change materially in the near term.

In 2012, ECA adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for statement of financial position presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no material impact of the ASU adoption to ECA's financial statements.

Note 12: Ground Leases

AVC owns a building located on land that was subject to a ground lease with Dignity Health. In May 2012, the ground lease was terminated due to AVC's purchase of the land as part of HUD refinancing (see *Note 5 (H)*).

AVSF holds a ground lease with the Roman Catholic Archbishop of San Francisco. The lease expires March 2060 with two optional terms to extend the lease for 15 years each. AVSF was required to prepay the first 30 years base rent in the amount of $4,092 in July 2002. The rent prepayment was capitalized as a land lease (see *Note 4*). Six months prior to the end of the AVSF ground lease term, the lessor will determine whether it will accept the premises in their existing condition or require that ECA demolish the improvements and return the land to its original condition. This ground lease was amended in October 2011 in connection with the long-term debt refinancing (see *Note 5 (K)*). The ground lease expiration date was extended to March 31, 2075, and AVSF has no options to extend the term of this lease. The amendment required AVSF to prepay an additional 43 years of base rent of $4,005, which was paid with a term loan by ECA-Corporate (see *Note 5 (B)*).

Note 13: Retirement Plans

ECA has a defined contribution plan and incentive plan which cover all employees. Employees are eligible for participation in the defined contribution plan at the date of hire and ECA matches the employee contribution, after the completion of one year of service, up to a maximum of 6% of the employee's salary. In addition, employees are eligible for the incentive plan after the completion of one year of service where ECA contributes a discretionary amount of the employee's salary (for fiscal year 2012 and 2011, ECA contributed between 0.5% – 1.5% and 2% of an employee's salary, respectively). During the years ended June 30, 2012 and 2011, ECA contributed $478 and $355, respectively, to the plans.

Note 14: Management Company

ECA entered into a management agreement with Life Care Services, LLC (LCS) in December 2007. Pursuant to this agreement, LCS provided ECA's chief executive director, chief financial officer, certain management personnel and other management and financial services. Effective July 1, 2011, ECA's chief executive director and chief financial officer terminated their employment with LCS and became direct employees of ECA. ECA terminated the existing management agreement effective December 31, 2011. Total fees paid to LCS during the years ended June 30, 2012 and 2011, were $904 and $2,295, respectively.

Note 15: Continuing Care Reserve Requirement

The State of California Health and Safety Code requires continuing care retirement communities to report on the adequacy of certain reserve requirements. Management has determined that SLH and MRCC met both the statutory and liquid reserve requirements at June 30, 2012, and was exempt from the refund reserve requirement at June 30, 2012.

Note 16: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities, government guaranteed bonds, U.S agencies, equity securities and money market mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government Remics/CMOs, corporate debt securities, foreign bonds, municipal bonds and other investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. ECA holds an interest in an investment pool managed by Dignity Health which is classified as Level 3.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(In Thousands)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011.

		2012 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest in investment pool	$ 11,192	$ -	$ -	$ 11,192
Fixed income securities				
U.S. Treasury securities	334	334		
Government guaranteed bonds	156	156	-	-
U.S. agencies	2,120	2,120	-	-
U.S. government Remics/CMOs	365	-	365	-
Corporate debt securities	1,635	-	1,635	-
Foreign bonds	412	-	412	-
Municipal bonds	498	-	498	-
Equity securities				
Mutual funds	4	4	-	-
Money market mutual funds	2,078	2,078	-	-
Other investments	185	-	185	-

(In Thousands)

		2011 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest in investment pool	$ 10,477	$ -	$ -	$ 10,477
Fixed income securities				
U.S. Treasury securities	629	629		
Government guaranteed bonds	580	580	-	-
U.S. agencies	2,638	2,638	-	-
U.S. government Remics/CMOs	80	-	80	-
Corporate debt securities	2,404	-	2,404	-
Foreign bonds	869	-	869	-
Municipal bonds	1,126	-	1,126	-
Equity securities				
Mutual funds	1,020	1,020	-	-
Other	25	25	-	-
Money market mutual funds	2,384	2,384	-	-
Other investments	63	-	63	-
Interest rate swap agreement	(1,496)	-	(1,496)	-

(In Thousands)

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

		Investment Pool
Balance, July 1, 2010	$	8,633
Total unrestricted realized and unrealized gains included in excess of revenues over expenses		1,078
Total temporarily restricted realized and unrealized gains included in excess of revenues over expenses		766
Balance, June 30, 2011		10,477
Total unrestricted realized and unrealized losses included in deficiency of revenues over expenses		(6)
Total temporarily restricted realized and unrealized losses included in deficiency of revenues over expenses		(102)
Purchases		823
Balance, June 30, 2012	$	11,192
Total losses for the year included in decrease in net assets attributable to the change in unrealized losses related to assets and liabilities still held at June 30, 2012	$	(108)

Note 17: The Fair Value Option

As permitted by Topic 825, ECA has elected to measure its interest in investment pools at fair value. Management has elected the fair value option for this item because it more accurately reflects the portfolio returns and financial position of ECA. Total interest in investments pools at June 30, 2012 and 2011, are $11,192 and $10,477, respectively.

ECA's interest in investment pool represents funds invested in two Dignity Health-managed investment pools. The underlying assets of the pools include a variety of different investments such as equity securities, mutual funds, fixed income securities, real estate investment trusts, hedge funds and various other investments. At June 30, 2012 and 2011, total unrealized gains on the interest in investment pool are 1% and 13% of the total cost of the fund, respectively. The unrealized losses and gains correlate with the changing stock market during 2011 and 2012.

See *Note 16* for additional disclosures regarding fair value of the interest in investment pools listed in the preceding paragraph.

(In Thousands)

Changes in Fair Value

Changes in fair value for the interest in investment pool for which the fair value option has been elected and the line item in which these changes are reported are as follows:

	2012 Unrestricted Losses from Investment Pool	2012 Temporarily Restricted Losses from Investment Pool	2012 Total Change in Fair Value
Interest in investment pool	$ (6)	$ (102)	$ (108)

	2011 Unrestricted Gains from Investment Pool	2011 Temporarily Restricted Gains from Investment Pool	2011 Total Change in Fair Value
Interest in investment pool	$ 1,078	$ 766	$ 1,844

Interest income on the investment pool is measured monthly and included in investment return in the accompanying statements of activities.

Note 18: Contingencies

Compliance

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health-care providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. ECA is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on ECA's consolidated financial position.

Litigation

In the normal course of business, ECA is, from time to time, subject to allegations that may or do result in litigation. ECA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

ECA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Current Economic Conditions

The current protracted economic decline continues to present the healthcare industry with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the ECA.

Current economic conditions, including the decline in financial markets, could affect the monthly income of residents. This could have an adverse impact on ECA's future operating results.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact ECA's ability to meet debt covenants or maintain sufficient liquidity.

Note 19: Subsequent Events

In July 2012, ECA changed its workers' compensation insurance to a high deductible plan. ECA will have a $250 deductible per occurrence and a $1,700 cap for the fiscal year ended June 30, 2013. The program will require ECA to record an estimate for potential losses in addition to premiums paid. In July, ECA entered into an irrevocable standby letter of credit for $525 to cover potential losses.

Independent Accountants' Report on Supplementary Information

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Springfield, Missouri
October 26, 2012

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Financial Position Information
June 30, 2012
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash and cash equivalents	$ 61	$ 355	$ 578	$ 180	$ 1,098	$ 312	$ 819	$ -	$ 3,403
Patient and resident accounts receivable, net	-	700	931	56	128	19	12	-	1,846
Due from related parties	10,038	-	-	-	-	-	-	(10,038)	-
Assets limited as to use - current	-	-	-	-	-	635	-	-	635
Prepaid expenses and other	54	61	62	179	310	27	207	-	900
Other receivables	29	28	27	23	1	-	14	-	122
Total current assets	10,182	1,144	1,598	438	1,537	993	1,052	(10,038)	6,906
Investments and Interest in Investment Pool	2,959	10,767	4,113	-	105	-	814	-	18,758
Assets Limited As To Use									
Under indenture agreement, held by trustee									
Debt service reserve	-	-	-	-	-	1,110	-	-	1,110
Held by mortgagee under loan agreement with HUD									
Reserve for replacement	-	-	-	125	118	-	167	-	410
Escrow deposits	-	-	-	-	1,182	-	482	-	1,664
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	-	678	-	125	1,300	1,110	649	-	3,862
Property and Equipment, Net	508	6,046	9,433	10,431	26,747	12,377	21,947	-	87,489
Deferred Financing Costs and Other	25	-	50	486	1,304	1,347	952	-	4,164
Total assets	$ 13,674	$ 18,635	$ 15,194	$ 11,480	$ 30,993	$ 15,827	$ 25,414	$ (10,038)	$ 121,179

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	$ 992	$ -	$ 200	$ 204	$ 565	$ 335	$ 396	$ -	$ 2,692
Accounts payable	473	548	488	83	87	25	98	-	1,802
Accrued expenses and other	450	751	659	308	608	481	493	-	3,750
Due to related parties	-	86	97	1,999	4,223	3,455	178	(10,038)	-
Total current liabilities	1,915	1,385	1,444	2,594	5,483	4,296	1,165	(10,038)	8,244
Long-Term Debt	18,530	-	4,160	12,212	37,599	15,887	31,689	-	120,077
Asset Retirement Obligations	-	539	387	-	-	-	-	-	926
Deferred Revenue - Unearned Entrance Fees	-	-	451	-	-	-	-	-	451
Total liabilities	20,445	1,924	6,442	14,806	43,082	20,183	32,854	(10,038)	129,698
Net Assets									
Unrestricted	(6,797)	12,622	7,212	(3,333)	(12,114)	(5,374)	(8,270)	-	(16,054)
Temporarily restricted	26	1,746	236	7	25	1,018	830	-	3,888
Permanently restricted	-	2,343	1,304	-	-	-	-	-	3,647
Total net assets	(6,771)	16,711	8,752	(3,326)	(12,089)	(4,356)	(7,440)	-	(8,519)
Total liabilities and net assets	$ 13,674	$ 18,635	$ 15,194	$ 11,480	$ 30,993	$ 15,827	$ 25,414	$ (10,038)	$ 121,179

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Financial Position Information
June 30, 2011
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash and cash equivalents	$ 24	$ 1,110	$ 855	$ 401	$ 2,505	$ 156	$ 1,274	$ -	$ 6,325
Patient and resident accounts receivable, net	-	782	855	29	(12)	(22)	58	-	1,690
Due from related parties	2,930	-	-	-	-	-	-	(2,930)	-
Assets limited as to use - current	-	-	-	-	-	627	-	-	627
Prepaid expenses and other	21	36	58	19	39	10	160	-	343
Other receivables	34	45	21	3	16	2	8	-	129
Total current assets	3,009	1,973	1,789	452	2,548	773	1,500	(2,930)	9,114
Investments and Interest in Investment Pool	2,780	9,784	4,213	-	3,106	-	941	-	20,824
Assets Limited As To Use									
Under indenture agreement, held by trustee									
Debt service reserve	-	-	-	-	-	1,050	-	-	1,050
Held by mortgagee under loan agreement with HUD									
Reserve for replacement	-	-	-	-	-	-	129	-	129
Escrow deposits	-	-	-	-	-	-	475	-	475
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	-	678	-	-	-	1,050	604	-	2,332
Property and Equipment, Net	288	5,225	9,261	8,372	23,079	12,537	22,226	-	80,988
Deferred Financing Costs and Other	90	-	6	647	1,746	1,380	957	-	4,826
Total assets	$ 6,167	$ 17,660	$ 15,269	$ 9,471	$ 30,479	$ 15,740	$ 26,228	$ (2,930)	$ 118,084

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	$ 323	$ -	$ 338	$ -	$ 317	$ 320	$ 377	$ -	$ 1,675
Current maturities of variable rate debt related to letter of credit	-	-	-	1,047	-	-	-	-	1,047
Accounts payable	552	184	145	62	17	56	78	-	1,094
Accrued expenses and other	224	703	573	250	494	461	534	-	3,239
Due to related parties	-	60	27	19	32	2,588	204	(2,930)	-
Total current liabilities	1,099	947	1,083	1,378	860	3,425	1,193	(2,930)	7,055
Long-Term Debt	13,022	-	4,329	11,513	39,418	15,785	32,085	-	116,152
Asset Retirement Obligations	-	508	366	-	-	-	-	-	874
Interest Rate Swap Agreements	-	-	-	-	1,496	-	-	-	1,496
Other Long-Term Liabilities	20	-	-	-	-	-	-	-	20
Deferred Revenue - Unearned Entrance Fees	-	-	719	-	-	-	-	-	719
Total liabilities	14,141	1,455	6,497	12,891	41,774	19,210	33,278	(2,930)	126,316
Net Assets									
Unrestricted	(7,994)	12,196	6,942	(3,427)	(11,315)	(4,505)	(7,858)	-	(15,961)
Temporarily restricted	20	1,666	529	7	20	1,035	808	-	4,085
Permanently restricted	-	2,343	1,301	-	-	-	-	-	3,644
Total net assets	(7,974)	16,205	8,772	(3,420)	(11,295)	(3,470)	(7,050)	-	(8,232)
Total liabilities and net assets	$ 6,167	$ 17,660	$ 15,269	$ 9,471	$ 30,479	$ 15,740	$ 26,228	$ (2,930)	$ 118,084

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2012
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	$ 225	$ 12,616	$ 12,520	$ 4,833	$ 10,151	$ 3,628	$ 8,478	$ -	$ 52,451
Contributions	403	1,005	61	4	68	79	4	-	1,624
Other revenue, net	-	325	45	21	20	29	78	-	518
Net assets released from restrictions for operations	-	180	35	-	-	-	2	-	217
Net assets released from restrictions for charity	-	22	250	-	-	-	-	-	272
Total revenues, gains and other support	628	14,148	12,911	4,858	10,239	3,736	8,562	-	55,082
Expenses and Losses									
Salaries and benefits	1,625	7,661	7,088	2,294	4,210	1,995	3,654	-	28,527
Purchased services and other	1,747	3,085	2,381	923	1,461	661	1,247	-	11,505
Supplies	37	1,033	1,080	349	591	269	553	-	3,912
Depreciation, amortization and other	86	918	804	438	795	372	745	-	4,158
Interest and fees	913	-	272	253	1,325	826	1,613	-	5,202
Provision for uncollectible accounts	-	60	69	5	-	7	3	-	144
Management fee	(3,623)	993	936	294	664	184	552	-	-
Intercompany expense	(404)	-	-	10	81	313	-	-	-
(Gain) loss on disposal of property and equipment	7	27	10	(5)	2	-	1	-	42
Total expenses and losses	388	13,777	12,640	4,561	9,129	4,627	8,368	-	53,490
Operating Income (Loss)	240	371	271	297	1,110	(891)	194	-	1,592
Other Income (Expense)									
Interest and dividend income	76	83	7	-	65	1	1	-	233
Net realized and unrealized gain on interest rate swap agreements	-	-	-	-	73	-	-	-	73
Gains (losses) from investment pool	-	(11)	5	-	-	-	-	-	(6)
Loss on extinguishment of debt	-	-	-	(473)	(1,468)	-	-	-	(1,941)
Excess (Deficiency) of Revenues Over Expenses	$ 316	$ 443	$ 283	$ (176)	$ (220)	$ (890)	$ 195	$ -	$ (49)

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2011
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	$ 333	$ 12,045	$ 11,551	$ 4,633	$ 9,751	$ 3,409	$ 8,612	$ -	$ 50,334
Contributions	420	221	76	15	65	78	1	-	876
Other revenue, net	-	245	9	3	4	-	1	-	262
Net assets released from restrictions for operations	-	208	42	-	-	-	-	-	250
Net assets released from restrictions for charity	-	404	314	-	-	-	-	-	718
Total revenues, gains and other support	753	13,123	11,992	4,651	9,820	3,487	8,614	-	52,440
Expenses and Losses									
Salaries and benefits	624	7,290	6,397	2,176	3,818	2,033	3,527	-	25,865
Purchased services and other	2,632	2,692	2,454	785	1,047	767	1,340	-	11,717
Supplies	27	989	948	338	562	310	586	-	3,760
Depreciation, amortization and other	71	841	832	343	646	353	704	-	3,790
Interest and fees	840	-	302	652	1,019	840	1,631	-	5,284
Provision for uncollectible accounts	-	32	48	8	-	3	5	-	96
Management fee	(3,471)	940	884	279	636	172	560	-	-
Total expenses and losses	723	12,784	11,865	4,581	7,728	4,478	8,353	-	50,512
Operating Income (Loss)	30	339	127	70	2,092	(991)	261	-	1,928
Other Income (Expense)									
Interest and dividend income	119	72	20	-	109	1	2	-	323
Net realized and unrealized loss on interest rate swap agreements	-	-	-	-	(445)	-	-	-	(445)
Gains from investment pool	-	865	213	-	-	-	-	-	1,078
Excess (Deficiency) of Revenues Over Expenses	$ 149	$ 1,276	$ 360	$ 70	$ 1,756	$ (990)	$ 263	$ -	$ 2,884

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2012

(In Thousands)

	ECA - Corporate		Mercy Retirement and Care Center			Salem Lutheran Home Association of the Bay Cities, Inc.			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance, July 1, 2011	$ (7,994)	$ 20	$ 12,196	$ 1,666	$ 2,343	$ 6,942	$ 529	$ 1,301	$ (3,427)	$ 7
Excess (deficiency) of revenues over expenses	316	-	443	-	-	283	-	-	(176)	-
Transfers from affiliate	887	-	-	-	-	-	-	-	270	-
Investment return	-	-	-	-	-	-	(31)	-	-	-
Donor-restricted contributions	-	6	-	352	-	-	91	3	-	-
Net change in unrealized losses on investments	(6)	-	(17)	-	-	(13)	(36)	-	-	-
Losses from investment pool	-	-	-	(70)	-	-	(32)	-	-	-
Net assets released from restrictions	-	-	-	(202)	-	-	(285)	-	-	-
Balance June 30, 2012	$ (6,797)	$ 26	$ 12,622	$ 1,746	$ 2,343	$ 7,212	$ 236	$ 1,304	$ (3,333)	$ 7

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2012

(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance, July 1, 2011	$ (11,315)	$ 20	$ (4,505)	$ 1,035	$ (7,858)	$ 808	$ (15,961)	$ 4,085	$ 3,644
Excess (deficiency) of revenues over expenses	(220)	-	(890)	-	195	-	(49)	-	-
Transfers from affiliate	(550)	-	-	-	(607)	-	-	-	
Investment return	-	-	-	-	-	28	-	(3)	-
Donor-restricted contributions	-	5	-	4	-	3	-	461	3
Net change in unrealized losses on investments	(29)	-	-	-	-	(7)	(65)	(43)	-
Losses from investment pool	-	-	-	-	-	-	-	(102)	-
Net assets released from restrictions	-	-	21	(21)	-	(2)	21	(510)	-
Balance June 30, 2012	$ (12,114)	$ 25	$ (5,374)	$ 1,018	$ (8,270)	$ 830	$ (16,054)	$ 3,888	$ 3,647

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2011
(In Thousands)

	ECA - Corporate		Mercy Retirement and Care Center			Salem Lutheran Home Association of the Bay Cities, Inc.			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance, July 1, 2010	$ (8,143)	$ 20	$ 10,905	$ 1,337	$ 2,343	$ 6,553	$ 259	$ 1,301	$ (3,497)	$ -
Excess (deficiency) of revenues over expenses	149	-	1,276	-	-	360	-	-	70	-
Investment return	-	-	-	-	-	-	22	-	-	-
Donor-restricted contributions	-	-	-	434	-	-	200	-	-	7
Net change in unrealized gains and losses on investments	-	-	15	-	-	29	145	-	-	-
Gains from investment pool	-	-	-	507	-	-	259	-	-	-
Net assets released from restrictions	-	-	-	(612)	-	-	(356)	-	-	
Balance June 30, 2011	$ (7,994)	$ 20	$ 12,196	$ 1,666	$ 2,343	$ 6,942	$ 529	$ 1,301	$ (3,427)	$ 7

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2011

(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance, July 1, 2010	$ (13,061)	$ 12	$ (3,536)	$ 1,056	$ (8,121)	$ 780	$ (18,900)	$ 3,464	$ 3,644
Excess (deficiency) of revenues over expenses	1,756	-	(990)	-	263	-	2,884	-	-
Investment return	-	-	-	-	-	26	-	48	-
Donor-restricted contributions	-	8	-	-	-	6	-	655	-
Net change in unrealized gains and losses on investments	(10)	-	-	-	-	(4)	34	141	-
Gains from investment pool	-	-	-	-	-	-	-	766	-
Net assets released from restrictions	-		21	(21)	-	-	21	(989)	-
Balance June 30, 2011	$ (11,315)	$ 20	$ (4,505)	$ 1,035	$ (7,858)	$ 808	$ (15,961)	$ 4,085	$ 3,644

Salem Lutheran Home Association of the Bay Cities, Inc.

Supplemental Schedule of Cash Flows
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Cash Flows From Operating Activities		
Cash received from residents and third-party payers	$ 1,562	$ 1,551
Cash received from noncontract residents	10,340	10,104
Contributions	155	276
Reimbursement for services to nonresidents	198	242
Cash received from other operating activities	45	9
Cash received from interest	83	42
Cash paid to related parties	(866)	(946)
Cash paid to suppliers and employees	(10,216)	(9,741)
Cash paid for interest	(272)	(302)
Entrance fees refunded	-	(41)
Net cash provided by operating activities	1,029	1,194
Cash Flows From Investing Activities		
Purchases of investments and investment pool	(1,035)	(41)
Sales of investments and investment pool	953	-
Purchases of operating property and equipment	(867)	(252)
Net cash used in investing activities	(949)	(293)
Cash Flows From Financing Activities		
Proceeds from issuance of long-term debt	4,360	-
Repayment of long-term debt	(4,667)	(315)
Payment of deferred financing costs	(50)	-
Net cash used in financing activities	(357)	(315)
Increase (Decrease) in Cash and Cash Equivalents	(277)	586
Cash and Cash Equivalents, Beginning of Year	855	269
Cash and Cash Equivalents, End of Year	$ 578	$ 855
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$ (20)	$ 659
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and accretion	804	832
Loss on disposal of capital assets	10	-
Entrance fees refunded	-	(41)
Amortization of earned entrance fees	(268)	(63)
Net unrealized and realized gains on investments, net	182	(646)
Changes in certain current assets and liabilities		
Patient accounts receivable and other receivables	(82)	457
Prepaid expenses and other	2	15
Accounts payable	245	(24)
Accrued liabilities and other	86	67
Net change in due to related parties	70	(62)
Net cash provided by operating activities	$ 1,029	$ 1,194

Mercy Retirement and Care Center
Supplemental Schedule of Cash Flows
Year Ended June 30, 2012
(In Thousands)

	2012
Cash Flows From Operating Activities	
Cash received from noncontract residents	$ 12,457
Contributions	1,357
Reimbursement for services to nonresidents	198
Cash received from other operating activities	325
Cash received from interest	199
Cash paid to related parties	(967)
Cash paid to suppliers and employees	(11,547)
Net cash provided by operating activities	2,022
Cash Flows From Investing Activities	
Purchases of investments and investment pool	(1,258)
Sales of investments and investment pool	61
Purchases of operating property and equipment	(1,580)
Net cash used in investing activities	(2,777)
Decrease in Cash and Cash Equivalents	(755)
Cash and Cash Equivalents, Beginning of Year	1,788
Cash and Cash Equivalents, End of Year	$ 1,033
Reconciliation of Cash and Cash Equivalents to Statement of Financial Position	
Cash	$ 355
Cash in assets limited as to use	678
Total cash and cash equivalents	$ 1,033
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities	
Change in net assets	$ 506
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and accretion	918
Loss on disposal of capital assets	27
Unrealized and realized gains on investments, net	214
Changes in certain current assets and liabilities	
Patient accounts receivable and other receivables	99
Prepaid expenses and other	(25)
Accounts payable	209
Accrued liabilities and other	48
Net change in due to related parties	26
Net cash provided by operating activities	$ 2,022