Motion Picture and Television Fund and Affiliated Entities

Consolidated Financial Statements

December 31, 2011 and 2010

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Report of Independent Auditors

To the Board of Directors
Motion Picture and Television Fund and Affiliated Entities

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Motion Picture and Television Fund and Affiliated Entities (the "Company") at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 18, 2012

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Motion Picture and Television Fund and Affiliated Entities
Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 2,049,000	$ 3,425,000
Patients accounts receivable, net	6,480,000	6,340,000
Other receivables	1,687,000	2,082,000
Pledges receivable, net	2,468,000	4,393,000
Other current assets	3,706,000	3,692,000
Total current assets	16,390,000	19,932,000
Investments	111,482,000	130,011,000
Land, buildings and equipment, net	47,763,000	51,404,000
Insurance recoveries receivable, net of current portion	4,744,000	4,638,000
Pledges receivable, net of current portion	4,351,000	4,432,000
Assets held under split-interest agreements	1,058,000	4,697,000
Other assets	2,603,000	2,783,000
Total assets	$188,391,000	$217,897,000
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 3,302,000	$ 3,620,000
Accrued liabilities	8,843,000	9,621,000
Current portion of long-term debt	2,740,000	1,825,000
Total current liabilities	14,885,000	15,066,000
Long-term debt, net of current portion	55,035,000	57,775,000
Accrued pension benefits	21,026,000	15,263,000
Insurance claim liability	5,434,000	5,332,000
Other long-term liabilities	6,097,000	5,275,000
Actuarial liability under split-interest agreements	746,000	2,212,000
Total liabilities	103,223,000	100,923,000
Commitments and contingencies (Note 13)		
Net assets		
Unrestricted	61,837,000	88,029,000
Temporarily restricted	8,388,000	14,530,000
Permanently restricted	14,943,000	14,415,000
Total net assets	85,168,000	116,974,000
Total liabilities and net assets	$188,391,000	$217,897,000

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenues, gains and other support					
Net patient service and resident revenue	$ 68,051,000	$ -	$ -	$ 68,051,000	$ 70,608,000
Other operating revenue	6,129,000	-	-	6,129,000	6,166,000
Contributions	15,049,000	2,924,000	528,000	18,501,000	16,052,000
Investment income	4,706,000	20,000	-	4,726,000	7,567,000
Loss on sale of investments	(120,000)	-	-	(120,000)	(43,000)
Other than temporary impairment loss	(37,000)	-	-	(37,000)	(5,000)
Net assets released from restrictions used for operations	10,360,000	-	-	10,360,000	11,478,000
Total revenues, gains, and other support	104,138,000	2,944,000	528,000	107,610,000	111,823,000
Expenses					
Salaries, wages and benefits	68,345,000	-	-	68,345,000	65,726,000
Purchased services	16,375,000	-	-	16,375,000	16,402,000
Professional fees	14,309,000	-	-	14,309,000	13,676,000
Supplies	9,811,000	-	-	9,811,000	11,428,000
Depreciation and amortization	5,984,000	-	-	5,984,000	6,201,000
Market adjustment on interest rate swap	2,664,000	-	-	2,664,000	1,986,000
Interest and financing costs	851,000	-	-	851,000	885,000
Other expenses	3,734,000	-	-	3,734,000	3,294,000
Total expenses	122,073,000	-	-	122,073,000	119,598,000
Excess of expenses over revenues, gains, and other support	(17,935,000)	2,944,000	528,000	(14,463,000)	(7,775,000)
Other changes in net assets					
Unrealized (loss) gain on investments	(2,904,000)	-	-	(2,904,000)	4,166,000
Minimum pension liability adjustment	(5,556,000)	-	-	(5,556,000)	(3,691,000)
Net assets released from restrictions	-	(10,563,000)	-	(10,563,000)	(11,588,000)
Net assets released from restrictions used for purchase of property and equipment	203,000	-	-	203,000	110,000
Change in split-interest agreements	-	1,477,000	-	1,477,000	31,000
Total other changes in net assets	(8,257,000)	(9,086,000)	-	(17,343,000)	(10,972,000)
Total changes in net assets	(26,192,000)	(6,142,000)	528,000	(31,806,000)	(18,747,000)
Net assets					
Beginning of year	88,029,000	14,530,000	14,415,000	116,974,000	135,721,000
End of year	$ 61,837,000	$ 8,388,000	$ 14,943,000	$ 85,168,000	$ 116,974,000

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Net patient service and resident revenue	$ 70,608,000	$ -	$ -	$ 70,608,000
Other operating revenue	6,166,000	-	-	6,166,000
Contributions	13,277,000	2,725,000	50,000	16,052,000
Investment income	7,185,000	173,000	209,000	7,567,000
Loss on sale of investments	(43,000)	-	-	(43,000)
Other than temporary impairment loss	(5,000)	-	-	(5,000)
Net assets released from restrictions used for operations	11,478,000	-	-	11,478,000
Total revenues, gains, and other support	108,666,000	2,898,000	259,000	111,823,000
Expenses				
Salaries, wages and benefits	65,726,000	-	-	65,726,000
Purchased services	16,402,000	-	-	16,402,000
Professional fees	13,676,000	-	-	13,676,000
Supplies	11,428,000	-	-	11,428,000
Depreciation and amortization	6,201,000	-	-	6,201,000
Market adjustment on interest rate swap	1,986,000	-	-	1,986,000
Interest and financing costs	885,000	-	-	885,000
Other expenses	3,294,000	-	-	3,294,000
Total expenses	119,598,000	-	-	119,598,000
Excess of expenses over revenues, gains, and other support	(10,932,000)	2,898,000	259,000	(7,775,000)
Other changes in net assets				
Unrealized gain on investments	4,166,000	-	-	4,166,000
Minimum pension liability adjustment	(3,691,000)	-	-	(3,691,000)
Net assets released from restrictions	-	(11,588,000)	-	(11,588,000)
Net assets released from restrictions used for purchase of property and equipment	110,000	-	-	110,000
Change in split-interest agreements	-	31,000	-	31,000
Total other changes in net assets	585,000	(11,557,000)	-	(10,972,000)
Total changes in net assets	(10,347,000)	(8,659,000)	259,000	(18,747,000)
Net assets				
Beginning of year	98,376,000	23,189,000	14,156,000	135,721,000
End of year	$ 88,029,000	$ 14,530,000	$ 14,415,000	$ 116,974,000

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Changes in net assets	$ (31,806,000)	$ (18,747,000)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Unrealized losses (gains) on investments	2,904,000	(4,166,000)
Loss on sale of investments	120,000	43,000
Other than temporary impairment loss	37,000	5,000
Loss on disposal of equipment	153,000	-
Minimum pension liability adjustment	5,556,000	3,691,000
Depreciation and amortization, including bond issuance costs	6,116,000	6,333,000
Receipt of contributed securities	(5,000)	(107,000)
Contributions restricted for buildings and equipment	(17,000)	(121,000)
Contributions restricted for long-term investment	(528,000)	(50,000)
Changes in assets and liabilities		
Patient accounts receivable, net	(140,000)	1,325,000
Other receivables	406,000	830,000
Insurance recoveries receivable	(117,000)	1,114,000
Pledges receivable	1,816,000	2,973,000
Other current assets and other assets	109,000	173,000
Assets held under split-interest agreements	3,639,000	249,000
Accounts payable and accrued liabilities	(530,000)	610,000
Accrued pension benefits	207,000	(614,000)
Insurance claim liability	113,000	(1,079,000)
Actuarial liability under split-interest agreements	(1,466,000)	(145,000)
Cash used in operating activities	(13,433,000)	(7,683,000)
Cash flows from investing activities		
Purchases of buildings and equipment	(2,251,000)	(1,820,000)
Purchases of investments	(45,471,000)	(70,036,000)
Sales of investments	60,944,000	84,103,000
Cash provided by investing activities	13,222,000	12,247,000
Cash flows from financing activities		
Payment on long-term debt	(1,900,000)	(1,853,000)
Proceeds from contributions for		
Buildings and equipment	110,000	210,000
Long-term investment	625,000	85,000
Cash used in financing activities	(1,165,000)	(1,558,000)
Net increase (decrease) in cash and cash equivalents	(1,376,000)	3,006,000
Cash and cash equivalents		
Beginning of year	3,425,000	419,000
End of year	$ 2,049,000	$ 3,425,000
Supplemental disclosures of cash flow information		
Contributed securities	$ 5,000	$ 107,000
Interest paid	715,000	723,000
Accrued purchases of buildings and equipment	308,000	63,000
Capital leases	-	342,000

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

1. Organization

The Motion Picture and Television Fund (the "Company"), a California nonprofit public benefit corporation founded in 1921, is an integrated health and human service organization providing inpatient and outpatient medical care, retirement community accommodations, temporary financial assistance, social services, child care, various wellness and education programs to eligible members including retirees of the entertainment industry (the "Industry") and their families within Southern California. The Company's operations include a 256-bed multi-level care hospital, seven medical outpatient centers, a 186 unit retirement community providing independent and assisted living, and a free-standing child care facility.

MPTF Corp., a California nonprofit public benefit corporation, commenced operations in January 1997 and was dissolved effective January 1, 2011 by a unanimous approval by the Board of Directors to allow a merger in principle with the Company. Prior to its dissolution, MPTF Corp. was the sole member of the Company and the sole shareholder of Before and After Productions LLC ("BAP LLC") and The Industry Health Network LLC ("TIHN LLC"). As of June 22, 2010, pursuant to an assignment and assumption agreement, the Company became the sole shareholder of BAP LLC and TIHN LLC.

BAP LLC is a limited liability company established for the primary purpose of organizing, producing and promoting fundraising activities. TIHN LLC was established for the purpose of contracting with physicians, hospitals, employers and insurance carriers for the provision of comprehensive health services.

The Motion Picture & Television Fund Medical Group, Inc. (the "Medical Group"), a California Professional Medical Corporation is licensed, and conducts and performs professional medical services in accordance with the statutory requirements governing professional medical corporations set forth in the California Business & Professions Code and the California Corporations Code. The Company controls the Medical Group by virtue of restrictions on the sale and transfer of the stock as set forth in a shareholder agreement.

The Motion Picture and Television Fund and its affiliated entities are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the Audit and Accounting Guide, "Health Care Organizations," (the "Audit Guide") issued by the American Institute of Certified Public Accountants. Net assets of the Company and changes therein have been classified and are reported as follows:

- *Unrestricted net assets* – Unrestricted net assets represent those resources of the Company that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Company and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

- *Temporarily restricted net assets* – Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Company pursuant to those stipulations or by the passage of time. In addition, investment income on certain donor-restricted endowment funds are classified as temporarily restricted until authorized for spending.

- *Permanently restricted net assets* – Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that must be maintained permanently by the Company. Generally, the donors of these assets permit the Company to use all or part of the investment return on these assets for the specified purpose.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted revenues. Investment income on temporarily or permanently restricted assets that is expended for its intended purpose in the same period it is earned is recorded as unrestricted.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, and cash in checking and savings accounts. Marketable securities purchased with original maturities of three months or less are considered to be cash equivalents.

Inventories
Inventories of drugs and supplies, totaling approximately $827,000 and $1,050,000 at December 31, 2011 and 2010, respectively, are included in other current assets in the consolidated balance sheets and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Assets Held for Debt Service
Assets held for debt service include money market funds held by a major financial institution under the provisions of the Company's Series 2006 revenue bond agreement. These assets are limited to use in accordance with bond indenture requirements and total $1,900,000 and $1,825,000 at December 31, 2011 and 2010, respectively. These investments are included in other current assets on the consolidated balance sheets.

Investments
Investments consist of money market funds, mutual funds (including fixed income and equity funds), U.S. government notes, municipal bonds, and other holdings, comprised of nonpublicly traded investments (alternative investments). Marketable securities and alternative investments are valued in accordance with the authoritative guidance for *Fair Value Measurements*. The authoritative guidance defines a hierarchy which prioritizes the inputs in fair value measurements. Investment earnings (including realized gains and losses on investments, interest, dividends and other than temporary impairments) are included in operating revenue unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess or (deficit) of expenses, gains, and other support over revenues. The Company records its investment income, realized and unrealized gains and losses on investments of donor restricted funds as additions to or deductions from the appropriate net asset category based on the donor's restriction.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over the asset's estimated useful lives, which range from 3 to 40 years and are assigned based on the Estimated Useful Lives of Depreciable Hospital Assets guide published by the American Hospital Association. In addition, the Company records a liability for the fair value of any conditional asset retirement obligation, if determinable.

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of land, buildings and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the consolidated statements of operations.

Pledges Receivable

Unconditional promises to give ("pledges") are recorded as receivables and contribution revenue and require the Company to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Multi-year pledges are recorded at fair value on the date of donation. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the pledges are received, and recorded in their respective net asset category. Amortization of the discount is calculated using the effective interest method and included in contribution revenue in the consolidated statements of operations. Conditional promises to give are not included as support until the conditions have been substantially met.

Split-Interest Agreements

The Company uses the actuarial method of recording split-interest agreements, which include charitable gift annuities, charitable remainder unitrust and pooled income funds. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables and appropriate discount rates. The remainder is recorded as a contribution in the appropriate net asset category. Investment income and some gains are credited, and annuity payments and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses.

The actuarial liability is based on the present value of future payments discounted at rates ranging from 3.2% to 9.0% over estimated time periods derived from the IRS actuarial tables on life expectancy. The assets held under split-interest agreements are stated at fair market value and are invested in publicly traded securities.

Debt Issuance Costs

The costs incurred in the issuance of long-term debt, including legal fees, bank fees, and accounting and consulting costs, have been capitalized and are being amortized on the straight-line basis over the term of the related long-term debt. The straight-line method approximates the effective interest method. These costs, totaling $1,704,000 and $1,835,000 at December 31, 2011 and 2010, respectively, are included in other assets in the consolidated balance sheets.

Interest Rate Swap Agreement

The Company entered into an interest rate swap agreement, also known as a risk management or derivative instrument, to reduce the effect of interest rate fluctuation on its variable rate Series 2006 Insured Revenue Bonds (the “2006 Bonds”). The swap is recognized on the consolidated balance sheet at its fair value and changes in the fair value and net cash payments or receipts are recorded in the Consolidated Statements of Operations and Changes in Net Assets.

Excess of Expenses over Revenues, Gains, and Other Support

The consolidated statements of operations include the caption excess of expenses, gains, and other support over revenues (“operating indicator”). Consistent with industry practice, changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, 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), changes in split-interest agreements, and minimum pension liability adjustments. As such, the Company’s operating indicator was ($17,935,000) and ($10,932,000) for the years ended December 31, 2011 and 2010, respectively.

Net Patient Service and Resident Revenue

Net patient service and resident revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Other Operating Revenue

The Company has agreements with Industry health plans to provide comprehensive wellness services, chronic disease management and other contracted services. Under these agreements, monthly payments are received and are recorded as other operating revenue. Revenue from these agreements total $1,740,000 and $1,705,000 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the chronic disease management program was terminated and it represented approximately $1,500,000 of the 2011 revenue.

Bequests and Trusts

Amounts to be received from bequests and trusts are recorded at the time the Company becomes entitled to the assets and the amounts to be received are assured and reasonably determined. Amounts to be received are recorded as other receivables on the consolidated balance sheets.

At December 31, 2011, the Company has been named as a beneficiary in certain bequests and trusts, which have not been recorded as they do not meet all the criteria for income recognition.

Charity Care and Community Benefit

The Company provides charity care for certain nonelective healthcare services to qualifying individuals who complete an application which is based on Federal Poverty Guidelines. Community services are expenditures associated with providing benefits for those in need, and unpaid costs of public programs and benefits to the broader community. Community services include retirement housing and assisted living services, as well as, various social service and community welfare programs and direct emergency financial assistance to eligible Industry employees, retirees and members of their immediate family.

Commercial Malpractice Liability
The Company has a claims-made policy for all commercial malpractice liability coverage, with nominal deductibles that was acquired on January 1, 2003. Liabilities for the Company's retained risk related to the commercial malpractice liability coverage are determined by an actuary. The amounts in other current assets and accrued liabilities representing the current portion of the commercial malpractice liability are $567,000 and $556,000 for December 31, 2011 and 2010, respectively. The amounts representing the long term components of the commercial malpractice are $4,744,000 and $4,638,000 in insurance recoveries receivable and $5,434,000 and $5,332,000 in insurance claims liability for December 31, 2011 and 2010, respectively, approximating a net liability of $690,000 and $694,000, respectively.

Workers' Compensation Insurance
The Company has a workers' compensation insurance policy for its employees that was purchased in November 2006 with a zero deductible. Between November 1999 and November 2006, the Company had a workers' compensation insurance policy with a deductible of $350,000 per claim, and an annual aggregate of $6,200,000. Liabilities for the Company's retained risk related to the coverage are determined by an actuary and are included in accrued liabilities and other long-term liabilities in the consolidated financial statements depending on the estimated payment period. At December 31, 2011 and 2010, the estimated workers' compensation insurance liability was approximately $1,368,000 and $2,140,000, respectively.

The Company has deposited $434,000 and $649,000 in U.S. government treasury notes for the retained risk associated with workers' compensation insurance liability for the years ended December 31, 2011 and 2010, respectively. In addition, the Company has $936,000 and $1,180,000 in deposits for the benefit of the workers' compensation insurance carrier at December 31, 2011 and 2010, respectively. All deposited amounts are included in investments in the consolidated balance sheets.

Income Taxes
The Company is a nonprofit organization determined by the Internal Revenue Service and the California Franchise Tax Board to be exempt from federal and state income taxes, except to the extent of any unrelated business income. Certain of the affiliated entities included in the consolidated financial statements are subject to federal and state income taxes.

Concentration of Credit Risk
Financial instruments, which potentially subject the Company to credit risk, consist principally of temporary cash investments, receivables and investments in marketable equity and other securities.

The Company invests its excess cash in deposits with major financial institutions. The Company has not experienced any losses on its temporary cash investments.

The Company receives payment for services rendered to patients from the federal and state governments under the Medicare and Medi-Cal programs, privately sponsored industry health plans for which payment is made based on terms defined under formal contracts and other payors. The following table summarizes the percentages of gross patient accounts receivable from all payors:

	2011	2010
Government	23 %	26 %
Industry health plans	56	52
Others	21	22
	100 %	100 %

The Company believes there are no significant credit risks associated with patient receivables from government programs. Patient receivables from industry health plans and others are from various payors who are subject to differing economic conditions, and do not represent any concentrated risks to the Company. The Company continually monitors and adjusts the reserves associated with patient receivables. The Company estimates bad debt expense and the allowance for doubtful accounts based on historical collection experience.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") 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.

Fair Value

The authoritative guidance for Fair Value Measurement prioritizes the assumptions that market participants would use in pricing the asset or liability, or the inputs, into three broad levels or the fair value hierarchy. This fair value hierarchy gives the highest priority, or Level 1, to quoted prices in active markets for identical assets or liabilities and the lowest priority, or Level 3, to assumptions that are unobservable. Observable inputs that do not meet the criteria of Level 1, and include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available, or for which it is not cost effective for us to obtain.

The Company uses the Net Asset Value per Share ("NAV") to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis:

- *Money Market Funds:* Valued at the closing price reported on the active market on which the individual securities are traded at the measurement date.

- *Mutual Funds:* Mutual Funds classified as Level 1 under the fair value hierarchy are valued using the unadjusted quoted prices in active markets that are available at the measurement date, while mutual funds classified as Level 2 consists of a fund which is not directly traded on the market; however, all underlying holdings are actively traded public equities with quoted market prices. The fair value of the fund has been determined using the NAV of the investment. The investment is open ended and there are no unfunded commitments. The Company may withdraw all or any part of its interests without an advanced written notice. The composition of the Company's investments in mutual funds at December 31, 2011 was approximately 87% fixed income and 13% equity securities. Investments in mutual funds consist primarily of large capitalization securities, and are diversified among several industries, issuers and growth, value, indexed, bond and international funds.

- *Domestic equity securities and US government notes:* Valued at the closing price reported on the active market on which the individual securities are traded at the measurement date.

- *Fund of funds:* Both of the investments held in the fund of funds have been estimated using the NAV of the investments. The investments are open ended and there are no unfunded commitments. The fair value of the investment in Level 2 consists of a fund which is not directly traded on the market; however, substantially all of the underlying holdings are actively traded public entities with quoted prices. The Company may withdraw all or any part of its interests with written notice provided on a trading day. The Level 3 investment objective of the fund is capital appreciation with a target performance of the Citigroup Three-Month Treasury Bill plus 8% with a standard deviation of 5%. The Company may withdraw all or any part of its interests upon fourteen days advanced written notice to the administrator as of the first day of any fiscal period, or at such other time.

- *Interest rate swap obligation:* Valued at the net present value of future cash flows based on quotes from pricing sources and market data.

- *Actuarial liability under split-interest agreements:* Valued at the present value of estimated future payments discounted at a rate commensurate with the risks involved and the estimated return on the invested assets during the expected term of the agreement.

For accounts payable and accrued liabilities, the net carrying value of these items approximates their fair value at year end.

Recent Accounting Pronouncements
In August 2010, the FASB issued authoritative guidance which clarifies that a health care entity use cost as measurement basis for its charity care disclosure. This update will be effective for fiscal years beginning after December 15, 2010. The adoption of the guidance did not have a material impact on the consolidated financial statements.

In August 2010, the FASB issued authoritative guidance, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. This update will be effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years.

In January 2010, the FASB issued authoritative guidance, which amends the fair value guidance to require additional disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. The authoritative guidance also clarifies existing disclosure requirements regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures became effective for 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which became effective beginning January 1, 2011. The adoption of the guidance did not have a material impact on the consolidated financial statements.

Reclassifications
The 2010 accrued pension benefits of $15,263,000 was reclassified from other long-term liabilities to conform to current year presentation on the consolidated balance sheets. This reclassification conforms to the 2011 presentation and does not have an effect on the previously reported net assets.

3. Investments

The following is a summary of investments at fair value at December 31:

	2011	2010
Money market funds	$ 6,974,000	$ 1,280,000
Mutual funds	88,585,000	123,331,000
Equities	1,660,000	1,609,000
U.S. government notes/municipal bonds	839,000	1,281,000
Fund of funds	13,424,000	2,510,000
Total investments	$111,482,000	$130,011,000

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and 2010, respectively:

	2011					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Money market funds	$ -	$ -	$ -	$ -	$ -	$ -
Mutual funds	24,874,000	(1,240,000)	12,187,000	(1,492,000)	37,061,000	(2,732,000)
Equities	-	-	-	-	-	-
U.S. government notes	-	-	-	-	-	-
Fund of funds	-	-	-	-	-	-
Total investments	$ 24,874,000	$ (1,240,000)	$ 12,187,000	$ (1,492,000)	$ 37,061,000	$ (2,732,000)

	2010					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Money market funds	$ -	$ -	$ -	$ -	$ -	$ -
Mutual funds	12,238,000	(138,000)	24,428,000	(1,370,000)	36,666,000	(1,508,000)
Equities	-	-	-	-	-	-
U.S. government notes	-	-	-	-	-	-
Fund of funds	-	-	-	-	-	-
Total investments	$ 12,238,000	$ (138,000)	$ 24,428,000	$ (1,370,000)	$ 36,666,000	$ (1,508,000)

The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, credit quality and the Company's ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value General market conditions have caused the declines in fair value over the past two years.

Investment income and net realized gains and losses on investments consist of the following for the years ended December 31:

	2011	2010
Investment income	$ 4,726,000	$ 7,567,000
Loss on sale of investments	(120,000)	(43,000)
Other than temporary impairment loss	(37,000)	(5,000)
	$ 4,569,000	$ 7,519,000

Management fees paid were $231,000 and $213,000 for the years ended December 31, 2011 and 2010, respectively.

4. Government Reimbursement Programs

The Company has contractual agreements with government sponsored programs (Medicare and Medi-Cal). Some revenues received under these reimbursement agreements are subject to retroactive adjustment based upon cost reports prepared by the Company and subsequent audits by fiscal intermediaries for these programs.

Acute in-patient services are reimbursed by Medicare under the prospective payment system, which provides for payment at predetermined amounts based on the discharge diagnosis. Medicare reimburses for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The difference between customary charges and actual third party payments is accounted for as a contractual allowance, which is a deduction from patient service and resident revenue.

Long-term care services are reimbursed by Medi-Cal on a per-diem basis. The Company is licensed as a Distinct-Part Long-Term Care Facility for provision of these services.

Medicare and Medi-Cal cost reports have been finalized through December 31, 2010. Reserves, where applicable, have been provided for all years subject to adjustment. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is a risk that recorded estimates will change in the near term. In the opinion of management, subsequent settlement adjustments, if any, would not have a materially adverse effect on the Company's financial position.

Total revenue from Medicare programs approximated 12% of net patient service revenue in 2011 and 2010. In addition, the Company received approximately 9% and 10% of net patient service and resident revenue in 2011 and 2010, respectively, from the Medi-Cal skilled nursing facility program.

In March 2011, the Governor of California signed into law a bill that authorizes a significant reduction in Medi-Cal payment rates for distinct-part skilled nursing services effective June 1, 2011. The rate reduction was subsequently approved by the Secretary of the U.S. Department of Health and Human Services.

The California Hospital Association, on behalf of its member institutions, filed legal action resulting in a preliminary injunction being issued by the U.S. District Court of California prohibiting the implementation of the rate reduction. Both the State and the Secretary have appealed the injunction. The appeal is expected to be heard in late 2012.

Due to the uncertainty and ultimate resolution of the litigation, the rate reduction which would reduce the company's revenues by approximately $1,200,000 for 2011 has not been recorded in the accompanying consolidated financial statements.

5. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and contribution revenue in the appropriate net asset category. Pledges are recorded at the discounted net present value of the future cash flows, using discount rates ranging from 1.4% to 9.4% at December 31, 2011 and 1.4% to 5.1% at December 31, 2010.

Unconditional promises to give are expected to be realized in the following periods:

	2011	2010
In one year or less	$ 2,673,000	$ 4,603,000
Between one year and five years	4,178,000	4,384,000
More than five years	973,000	407,000
Total pledges receivable, gross	7,824,000	9,394,000
Less: Discount for pledges receivable	(800,000)	(359,000)
Less: Allowance for doubtful accounts	(205,000)	(210,000)
Total pledges receivable, net	6,819,000	8,825,000
Less: Current portion	(2,468,000)	(4,393,000)
Pledges receivable, net of current portion	$ 4,351,000	$ 4,432,000

Pledges receivable at December 31 have the following restrictions:

	2011	2010
Program expenses	$ 4,453,000	$ 2,997,000
Building construction	400,000	500,000
Permanent endowment - patient and resident support	480,000	600,000
Time restricted/general benefit	2,491,000	5,297,000
Total pledges receivable, gross	$ 7,824,000	$ 9,394,000

The Company received an irrevocable life contingent estate pledge of $30,000,000 in December 2011. Based on the uncertainty regarding the timing and ultimate payment amounts that the Company might receive in connection with this pledge, the estimated present value did not meet the recognition requirements as set forth in the authoritative guidance.

6. Land, Buildings and Equipment

A summary of land, buildings and equipment at December 31 follows:

	2011	2010
Land and improvements	$ 14,316,000	$ 15,575,000
Buildings and improvements	82,609,000	84,763,000
Furniture and equipment	47,270,000	51,884,000
Construction-in-progress	931,000	495,000
	145,126,000	152,717,000
Less: Accumulated depreciation	(97,363,000)	(101,313,000)
Land, buildings and equipment	$ 47,763,000	$ 51,404,000

Total depreciation expense was $5,984,000 and $6,201,000 and depreciation expense for equipment under capital leases was $264,000 and $262,000 for the years ended December 31, 2011 and 2010, respectively. Included in land, buildings and equipment are capital lease assets of $1,472,000 and $1,472,000 and associated accumulated amortization costs of $1,121,000 and $857,000 for the years ended December 31, 2011 and 2010, respectively. Fixed assets with a cost basis of $10,088,000 and a net book value of $153,000 were written off during 2011.

7. Long-Term Debt

A summary of long-term debt at December 31 follows:

	2011	2010
Series 2001A Revenue Bonds	$ 25,000,000	$ 25,000,000
Series 2006 Revenue Bonds	32,775,000	34,600,000
Note payable	-	-
Total long-term debt	57,775,000	59,600,000
Less: Current portion of long-term debt	(2,740,000)	(1,825,000)
Long-term debt, net of current portion	$ 55,035,000	$ 57,775,000

In March 2006, the California Statewide Communities Development Authority ("CSCDA") issued, on behalf of the Company, its Series 2006 Insured Revenue Bonds in the aggregate principal amount of $41,325,000 (the "2006 Bonds") for the purpose of repaying the outstanding Series 1994 CSCDA Certificates of Participation, and paying certain costs of issuance relating to the 2006 Bonds.

Payment of principal and interest on the 2006 Bonds is collateralized primarily by an Ambac Assurance Corporation insurance policy, and secondarily by a pledge of the Company's gross revenues.

Interest on the 2006 Bonds is variable and is set by way of a weekly auction. For some time the auction rate securities market has not functioned effectively, and the failed auctions have resulted in the weekly interest rate payable on the 2006 Bonds being set by formula: 275% of 1-month LIBOR. As of December 31, 2011, the weekly interest rate on the 2006 Bonds was 0.808%. Mandatory principal payments on the 2006 Bonds are required annually on January 1, in amounts increasing from $1,900,000 on January 1, 2012 to $4,000,000 due on the final maturity of January 1, 2024.

The 2006 Bonds may be redeemed early, in whole or in part, at the option of the Company on any interest payment date, upon payment of the principal amount of the 2006 Bonds called for redemption plus accrued interest.

The Company uses an interest rate swap, with a notional value of $32,775,000 at December 31, 2011, to manage the interest rate exposure of its 2006 Bonds. Under the terms of the agreement, which expires January 1, 2024, the Company pays the counter party at fixed interest rate of 3.468% and receives a variable rate, indexed at 67% of the one-month LIBOR (0.295% at December 31, 2011), on the principal amount of the bonds.

The interest rate swap agreement is recognized on the consolidated balance sheets at its estimated fair market value. The estimated fair value of the interest rate swap is recorded as a liability of $4,899,000 and $3,320,000 for the years ended December 31, 2011 and 2010, respectively, and is included in other long-term liabilities.

The interest rate swap has not been designated as a hedge under *Accounting for Derivative Instruments and Hedging Activities* and as such the change in fair value is recorded as increases of $1,579,000 and $850,000 in the consolidated statement of operations and changes in net assets for the years ended December 31, 2011 and 2010, respectively. In addition, cash payments and receipts resulted in net cash disbursements of $1,085,000 and $1,136,000 for the years ended December 31, 2011 and 2010, respectively.

In March 2001, CSCDA issued, on behalf of the Company, its Series 2001A Variable Rate Revenue Bonds in the aggregate principal amount of $25,000,000 (the “2001 Bonds”) for the purpose of financing the cost of acquiring, constructing, improving and equipping certain of the Company’s healthcare, assisted living and retirement facilities, and paying certain costs of issuance of the 2001 Bonds.

The 2001 Bonds bear interest at a variable rate (0.10% as of December 31, 2011), reset weekly and payable monthly in arrears, with annual principal payments commencing March 1, 2012, in amounts increasing from $840,000 to $1,770,000, with the final payment due on March 1, 2031. The 2001 Bonds may be redeemed early at the option of the Company upon payment of the principal amount of the 2001 Bonds called for redemption plus accrued interest.

Payment of the 2001 Bonds is collateralized primarily by an irrevocable direct pay letter of credit in the amount of $25,288,000 (the “Current LOC”), and secondarily by a pledge of the Company’s gross revenues. There are monthly draws against the Current LOC when principal and interest payments are made. The draws from the Current LOC are repaid from the Company’s funds on deposit at U.S. Bank. The Current LOC expires on May 13, 2014.

The Company’s outstanding long-term debt is subject to certain restrictive covenants requiring provision of certain quarterly and annual financial information, both unaudited and audited, and compliance with liquidity and debt service coverage requirements. The carrying value of the Company’s bonds approximates fair value due to the variable nature of the interest rates.

The amounts due on long-term debt at December 31, 2011 are as follows:

Year Ending December 31,	
2012	$ 2,740,000
2013	2,850,000
2014	2,935,000
2015	2,995,000
2016	3,080,000
Thereafter	43,175,000
Total long-term debt	$ 57,775,000

8. Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2011	2010
Emergency financial assistance	$ 388,000	$ 140,000
Buildings and equipment	621,000	817,000
Operating purposes	1,254,000	4,740,000
Patient and resident support	1,235,000	775,000
Other program support	4,890,000	8,058,000
Total temporarily restricted net assets	$ 8,388,000	$ 14,530,000

Permanently restricted net assets must be invested to generate income to support the following purposes at December 31:

	2011	2010
Patient and resident support	$ 5,857,000	$ 5,829,000
Grounds maintenance	4,211,000	4,211,000
Operating purposes	4,875,000	4,375,000
Total permanently restricted net assets	$ 14,943,000	$ 14,415,000

Net assets released from purpose or time restrictions by incurring expenses satisfying the restricted purpose comprise the following at December 31:

	2011	2010
Buildings and equipment	$ 203,000	$ 110,000
Emergency financial assistance	81,000	2,000
Operating purposes	10,279,000	11,476,000
Total releases from restriction	$ 10,563,000	$ 11,588,000

9. Program Expenses

Expenses incurred comprise the following program services for the years ended December 31:

	2011	2010
Patient and resident services	$100,350,000	$ 99,842,000
Managed care programs	1,238,000	1,212,000
Administrative services	6,279,000	6,346,000
Fiscal services	5,168,000	4,823,000
Fundraising	6,648,000	5,779,000
Other	2,390,000	1,596,000
Total program expenses	$122,073,000	$119,598,000

The consolidated statements of operations for the years ended December 31, 2011 and 2010 include expenses described as purchased services and professional fees totaling $30,684,000 and $30,078,000, respectively. These expenses consist primarily of medical fees (physician, physical therapy and transcription fees and nursing registry) amounting to 42% and 39% of the total, respectively, contracted services (information systems support, food, housekeeping, laundry and security services) amounting to 19% and 22% of the total, respectively, fundraising and insurance costs.

10. Pension Plan

The Company sponsors a defined benefit pension plan (the "Plan"), which is available to full-time employees who meet certain eligibility requirements. Benefits are based on service with the Company and the highest five years worth of earnings. Participants may voluntarily contribute to the Plan to earn additional benefits. The Company's policy is to fund pension costs at a level at least as great as the required minimum contribution under Employee Retirement Income Security Act ("ERISA").

The following table sets forth the Plan's funded status and amounts recognized, using a measurement date of December 31, in the Company's consolidated financial statements at December 31:

	2011	2010
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 53,722,000	$ 43,099,000
Service cost	2,232,000	2,417,000
Interest cost	2,874,000	2,553,000
Participant contributions	441,000	609,000
Plan amendments	210,000	482,000
Curtailment gain	(3,225,000)	-
Benefits paid	(1,079,000)	(958,000)
Actuarial loss	7,418,000	5,520,000
Projected benefit obligation at end of year	62,593,000	53,722,000
Change in plan assets		
Fair value of plan assets at beginning of year	39,311,000	31,751,000
Actual return on plan assets	(635,000)	3,895,000
Employer contributions	4,400,000	4,014,000
Participant contributions	441,000	609,000
Benefits paid	(1,079,000)	(958,000)
Fair value of plan assets at end of year	42,438,000	39,311,000
Net amount recognized (funded status) at year-end	(20,155,000)	(14,411,000)
Amounts recognized in the consolidated balance sheets consist of		
Noncurrent liabilities	(20,155,000)	(14,411,000)
Net amount recognized at year-end	$ (20,155,000)	$ (14,411,000)

The accumulated benefit obligation was $58,679,000 and $45,750,000 at December 31, 2011 and 2010, respectively.

Net benefit expense for the years ended December 31 includes the following components:

	2011	2010
Components of net periodic benefit cost		
Service cost	$ 2,232,000	$ 2,417,000
Interest cost	2,874,000	2,553,000
Expected return on plan assets	(2,702,000)	(1,979,000)
Amortization of prior service cost	124,000	205,000
Recognized net actuarial loss	350,000	425,000
Curtailment loss	2,049,000	-
Total net periodic benefit cost	4,927,000	3,621,000
Changes in plan asset and benefit obligations recognized in unrestricted net assets		
Change in unamortized prior service cost	(1,839,000)	482,000
Net actuarial loss arising during the year	7,530,000	3,603,000
Amounts recognized as a component of net periodic benefit cost		
Amortization of prior service cost	(124,000)	(205,000)
Amortization of loss	(350,000)	(425,000)
Total recognized in unrestricted net assets	5,217,000	3,455,000
Total recognized in net periodic benefit cost and unrestricted net assets	$ 10,144,000	$ 7,076,000
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year		
Unrecognized prior service cost	$ (21,000)	$ (248,000)
Unrecognized loss	(1,298,000)	(606,000)
	$ (1,319,000)	$ (854,000)

Change in unamortized prior service costs for the period ended December 31, 2011 are derived from additional unamortized plan amendment costs of $210,000 offset by curtailment losses of $2,049,000.

Additional information and assumptions are as follows:

	2011	2010
Assumptions		
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.3 %	5.5 %
Rate of compensation increase	4.0 %	5.0 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.5 %	6.0 %
Expected long-term rate of return on plan assets	7.0 %	7.0 %
Rate of compensation increase	5.0 %	5.0 %

The expected long-term rate of return on Plan assets was selected by the Company based on investment return modeling which incorporates historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The Company's pension plan asset allocations at December 31, by asset category, are as follows:

	2011	2010
Plan assets		
Asset category		
Equity securities	46.0 %	46.0 %
Debt securities (fixed income)	38.0	39.0
Fund of funds	16.0	15.0
	100.0 %	100.0 %

The primary investment objective is to provide capital appreciation of the investment portfolio over long periods of time. The portfolio is perpetual in nature and is invested to withstand the loss of purchasing power from inflation.

The current investment policy established targets and ranges for equity allocation (with a target of 50% and a range of 40% to 60%), fixed income allocation (with a target of 35% and a range of 25% to 45%) and other investment allocation (with a target of 15% and a range of 5% to 25%). Inappropriate investments include options, futures and unregistered securities, and short sales or the use of margin. All investments are valued at the closing price reported on the active market on which the mutual funds are traded. All the Plan assets are considered Level 1 in the fair value hierarchy.

The table below presents the pension plan assets at the fair value on a recurring basis at December 31, 2011 and 2010, respectively, categorized by inputs used in the valuation of each investment.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	2011	2010
Assets at fair value		
Mutual funds		
Domestic fixed income	$ 16,241,000	$ 15,199,000
Domestic equity securities	13,119,000	11,369,000
International equity securities	6,405,000	6,690,000
Fund of funds	6,673,000	6,053,000
Total fair value of plan assets	$ 42,438,000	$ 39,311,000

The Company expects to contribute at least the ERISA minimum contribution of $2,700,000 to its pension plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

Fiscal Year Ending	Expected Benefits
2012	$ 1,582,000
2013	1,743,000
2014	2,061,000
2015	2,310,000
2016	2,598,000
2017–Thereafter	17,217,000

11. Supplemental Executive Retirement Plan

The Company provides supplemental executive retirement plan (“SERP”) benefits to certain executives. The SERP provides benefits which are not subject to regulatory controls requiring funding of the obligation, and consequently, the benefits are payable out of general corporate assets. The projected SERP benefit obligation, assuming a 4.10% (5.40% – 2010) discount rate and a 5% (3% – 2010) annual compensation increase, is $904,000 at December 31, 2011 ($885,000 at December 31, 2010). Effective January 1, 2002, the Company’s defined benefit pension plan, as described in Note 10, was amended to provide supplemental retirement benefits to certain plan participants, which participants are also participants in the SERP. As these plan participants near retirement age, their SERP benefits will be replaced by the supplemental retirement benefits provided under the Plan.

The following amounts are recognized, using a measurement date of December 31, in the Company’s consolidated financial statements at December 31:

	2011	2010
Benefit cost charged for the year	$ (282,000)	$ (170,000)
Accrued benefit cost recognized in the consolidated balance sheets	$ 904,000	$ 885,000

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

Fiscal Year Ending	Expected Benefits
2012	$ 34,000
2013	50,000
2014	49,000
2015	49,000
2016	48,000
2017–Thereafter	316,000

12. Commitments and Contingencies

Future minimum rental payments required under noncancelable operating leases and noncancelable capital leases related to equipment as of December 31, 2011 are as follows:

	Operating	Capital
Year Ending December 31,		
2012	$ 1,007,000	$ 157,000
2013	882,000	104,000
2014	551,000	55,000
2015	31,000	-
2016	-	-
	$ 2,471,000	316,000
Less: Amounts representing interest		(24,000)
Net present value		$ 292,000

Building rental expense totaled $1,048,000 and $1,008,000 for the years ended December 31, 2011 and 2010, respectively.

The Company has been named in several claims which arise out of matters incidental to the conduct of its operations. The Company's management is of the opinion that adequate insurance coverage exists for any likely settlements and that the claims will not result in any loss, which would materially affect the financial position or results of operations of the Company.

During the latter part of 2011, the Company terminated its nonbinding letter of intent with Providence Health System-Southern California which had planned to expand healthcare services on its Wasserman Campus in Woodland Hills.

13. Endowments

The Company's thirteen endowments are donor-restricted and established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Company classifies as permanently restricted net assets (a) the portion of the gift explicitly stipulated to be retained permanently in the subject gift instrument, or (b) in the absence of such stipulation, the fair value of the endowment gift as of the gift date. Unless otherwise explicitly stipulated in the gift instrument, no portion of any investment income or realized net gains/losses generated on the original gift amount shall be classified as permanently restricted. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. These amounts would include interest, dividends and net realized gains. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value of the fund equals or exceeds historic value. There were no underwater endowments at December 31, 2011 and 2010.

Changes in endowment net assets for the year ended December 31, 2011 and 2010, respectively, had the following activity:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 176,000	$ 14,415,000	$ 14,591,000
Investment return				
Investment income	581,000	20,000	-	601,000
Net appreciation (realized)	-	-	-	-
Total investment return	581,000	20,000	-	601,000
Contributions to endowments	-	-	528,000	528,000
Appropriation of endowment for expenditure	(581,000)	(109,000)	-	(690,000)
Endowment net assets at end of year	$ -	$ 87,000	$ 14,943,000	$ 15,030,000

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 33,000	$ 14,156,000	$ 14,189,000
Investment return				
Investment income	334,000	145,000	-	479,000
Net appreciation (realized)	524,000	-	230,000	754,000
Total investment return	858,000	145,000	230,000	1,233,000
Contributions to endowments	-	-	29,000	29,000
Appropriation of endowment for expenditure	(858,000)	(2,000)	-	(860,000)
Endowment net assets at end of year	$ -	$ 176,000	$ 14,415,000	$ 14,591,000

The Company has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for donor-specified period (s). Under the investment policy, as approved by the Board, the endowment assets are invested in fixed income securities that are intended to produce results that exceed the results of the Merrill Lynch Domestic Master Bond Index. The endowment funds, over time, provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized) and current yield (the interest, realized capital appreciation related to the gains and dividends).

The Company's Board has established a spending policy whereby expenditures shall not exceed seven percent of the endowment fund's fair market value in any year.

14. Fair Value Measurements

The authoritative guidance on Fair Value Measurement, 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 (referred to as an “exit price”). The assets and liabilities reported at fair value by the Company on a recurring basis are discussed below and include investments, assets held under split-interest agreements, interest rate swap obligation, and actuarial liability under split-interest agreements. At December 31, 2011 and 2010, the Company’s financial instruments include cash, cash equivalents, accounts receivable, accounts payable, and other liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term maturities.

The table below presents the assets and liabilities measured at fair value on a recurring basis at December 31, 2011, and 2010, respectively, categorized by the level of inputs used in the valuation.

	2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Assets at fair value				
Investments				
Money market funds	$ 6,974,000	$ -	$ -	$ 6,974,000
Mutual funds				
Domestic fixed income	67,286,000	-	-	67,286,000
International fixed income	9,617,000	-	-	9,617,000
Domestic equity	4,808,000	2,023,000	-	6,831,000
International equity	4,851,000	-	-	4,851,000
Other	-	-	-	-
Domestic equity securities	1,660,000	-	-	1,660,000
U.S. government notes	839,000	-	-	839,000
Fund of funds	-	10,693,000	2,731,000	13,424,000
Total of investments	96,035,000	12,716,000	2,731,000	111,482,000
Assets held under split-interest agreements				
Money market funds	268,000	-	-	268,000
Mutual funds				
Domestic fixed income	114,000	-	-	114,000
International fixed income	85,000	-	-	85,000
Domestic equity	94,000	-	-	94,000
International equity	12,000	-	-	12,000
Other	76,000	-	-	76,000
U.S. government notes	409,000	-	-	409,000
Domestic corporate bonds	-	-	-	-
Total of assets held under split-interest agreements	1,058,000	-	-	1,058,000
Total assets at fair value	$ 97,093,000	$ 12,716,000	$ 2,731,000	$ 112,540,000
Liabilities at fair value				
Interest rate swap obligation	$ -	$ 4,899,000	$ -	$ 4,899,000
Actuarial liability under split-interest agreements	-	-	746,000	746,000
Total liabilities at fair value	$ -	$ 4,899,000	$ 746,000	$ 5,645,000

	2010			
	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Assets at fair value				
Investments				
Money market funds	$ 1,280,000	$ -	$ -	$ 1,280,000
Mutual funds				
Domestic fixed income	80,526,000	-	-	80,526,000
International fixed income	21,094,000	-	-	21,094,000
Domestic equity	10,235,000	1,988,000	-	12,223,000
International equity	6,789,000	-	-	6,789,000
Other	2,699,000	-	-	2,699,000
Domestic equity securities	1,609,000	-	-	1,609,000
U.S. government notes	1,281,000	-	-	1,281,000
Fund of funds	-	-	2,510,000	2,510,000
Total of investments	125,513,000	1,988,000	2,510,000	130,011,000
Assets held under split-interest agreements				
Money market funds	117,000	-	-	117,000
Mutual funds				
Domestic fixed income	1,359,000	-	-	1,359,000
Domestic equity	239,000	-	-	239,000
International equity	192,000	-	-	192,000
Other	158,000	-	-	158,000
U.S. government notes	1,703,000	-	-	1,703,000
Domestic corporate bonds	929,000	-	-	929,000
Total of assets held under split-interest agreements	4,697,000	-	-	4,697,000
Total assets at fair value	$ 130,210,000	$ 1,988,000	$ 2,510,000	$ 134,708,000
Liabilities at fair value				
Interest rate swap obligation	$ -	$ 3,320,000	$ -	$ 3,320,000
Actuarial liability under split-interest agreements	-	-	2,212,000	2,212,000
Total liabilities at fair value	$ -	$ 3,320,000	$ 2,212,000	$ 5,532,000

The following table is a rollforward of the assets and liabilities classified by the Company within Level 3 of the fair value hierarchy defined above:

	2011	2010
Assets at fair value		
Balance at January 1	$ 2,510,000	$ 1,647,000
Realized gains on investments	-	-
Change in net unrealized losses on investments	221,000	(15,000)
Purchases	-	878,000
Sales	-	-
Balance at December 31	$ 2,731,000	$ 2,510,000

	2011	2010
Liabilities at fair value		
Balance at January 1	$ 2,212,000	$ 2,357,000
Change in actuarial liability	(32,000)	(91,000)
New split interest agreements	60,000	-
Terminations	(1,494,000)	(54,000)
Balance at December 31	$ 746,000	$ 2,212,000

The realized gains on investments and the change in net unrealized losses on investments in the table above are included in the excess of expenses, gains and other support over revenues and other changes in net assets on the consolidated statement of operations and changes in net assets, respectively.

15. Subsequent Events

The Company has evaluated events through April 18, 2012, which represents the date these consolidated financial statements were issued. As of April 18, 2012, there were no subsequent events which require recognition or disclosure in the consolidated financial statements.