

Hebrew Health Care, Incorporated and Affiliates

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

As of and for the Years Ended
September 30, 2011 and 2010

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Independent Auditors' Report

To the Board of Trustees of
Hebrew Health Care, Incorporated and Affiliates:

We have audited the accompanying consolidated balance sheets of Hebrew Health Care, Incorporated and Affiliates (the Organization), a Connecticut not-for-profit, non-stock corporation, as of September 30, 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2010, were audited by other auditors whose report dated February 25, 2011, expressed an unqualified opinion on those statements. As discussed in Note 2, the Organization has restated its 2010 consolidated financial statements for a reduction in patient accounts receivable and an increase in self-insurance liabilities. The other auditors reported on the 2010 consolidated financial statements before these retrospective adjustments.

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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We also audited the restatement adjustments to the 2010 consolidated financial statements for accounts receivable and self-insurance liabilities, as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2010 financial statements other than with respect to the adjustments and, accordingly, do not express an opinion or any other form of assurance on the 2010 consolidated financial statements taken as a whole.

In our opinion, based on our audit, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2011, and the results of its consolidated operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating 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. Such 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

DRAFT

December 19, 2011

Hebrew Health Care, Incorporated and Affiliates
Consolidated Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		<i>(Restated)</i>
Current assets:		
Cash and cash equivalents	\$ 166,716	\$ 139,374
Assets limited as to use, current portion	476,205	395,974
Patient accounts receivable, net of allowance for doubtful accounts of \$1,447,074 in 2011 and \$1,070,472 in 2010	5,579,896	5,887,727
Pledges receivable, current portion	300,025	230,033
Other receivables	65,741	128,650
Inventory	254,313	167,991
Prepaid expenses	463,495	316,558
Total current assets	7,306,391	7,266,307
Assets limited as to use, net of current portion:		
Donor restricted investments	2,274,325	2,517,034
Board designated investments	340,676	372,934
Investments restricted under debt agreements	1,822,123	2,429,573
Beneficial interest in charitable remainder trust	43,024	433,723
Total assets limited to use, net of current portion	4,480,148	5,753,264
Property, plant and equipment, net	20,698,923	21,902,983
Other assets:		
Pledges receivable, long-term	151,902	369,081
Cash surrender value of life insurance	73,428	53,503
Investments	5,683,965	6,421,799
Deposits	207,869	16,841
Mortgage acquisition costs, net	920,642	966,779
Due from affiliates	17,653	42,911
Total other assets	7,055,459	7,870,914
Total assets	\$ 39,540,921	\$ 42,793,468
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Notes and bonds payable, current portion	\$ 723,104	\$ 689,574
Capital lease obligations, current portion	37,589	40,120
Accounts payable and accrued expenses	6,114,498	5,637,494
Lines of credit	4,701,639	4,892,464
Funds held in trust	476,205	395,973
Deferred revenue	4,001	3,860
Total current liabilities	12,057,036	11,659,485
Notes and bonds payable, net of current portion	35,847,557	36,563,197
Capital lease obligations, net of current portion	24,170	57,077
Payable under charitable gift annuity	-	121,768
Accrued pension liability	4,079,401	2,475,309
Total liabilities	52,008,164	50,876,836
Net assets (deficit):		
Unrestricted	(15,558,091)	(11,886,600)
Temporarily restricted	804,675	1,521,328
Permanently restricted	2,286,173	2,281,904
Total net assets (deficit)	(12,467,243)	(8,083,368)
Total liabilities and net assets (deficit)	\$ 39,540,921	\$ 42,793,468

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

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Net patient revenues	\$ 40,441,976	\$ 39,607,885
Member services - SummerWood	3,692,263	3,453,599
Adult day health center services	769,937	860,696
Home health care revenue	5,868,232	4,644,359
Grants	539,935	417,142
Other income	612,854	820,478
Net assets released from restrictions used for operations	620,725	435,692
Total operating revenues	52,545,922	50,239,851
Operating expenses:		
Nursing services	20,364,750	18,735,017
Administration	12,320,271	11,407,863
Nutritional services	3,910,902	3,703,260
Medical services	4,673,429	5,285,145
Building operations	2,081,028	2,147,657
Environmental services	2,072,239	1,894,481
Depreciation and amortization	1,836,172	1,903,830
Pharmacy services	1,832,973	2,078,381
Rehabilitation services	1,464,551	1,495,134
Interest expense	1,383,385	1,377,958
Provider tax	1,190,380	1,082,902
Bad debt expense	924,407	911,148
Development	523,776	728,887
Life enrichment services	695,534	585,890
Social services	353,048	326,843
Health information management	232,080	164,762
Total operating expenses	55,858,925	53,829,158
Loss from operations	(3,313,003)	(3,589,307)
Non-operating gains (losses):		
Interest and dividend income and distributions	236,265	205,992
Net realized gains on investments	721,934	11,896
Change in value of beneficial interest in charitable gift annuity - unrestricted	-	19,006
Change in cash surrender value of life insurance	19,925	19,236
Gifts, bequests and special events	851,552	1,097,624
Investment fees	(82,465)	(68,802)
Total non-operating gains	1,747,211	1,284,952
Excess of revenues over (under) expenses	\$ (1,565,792)	\$ (2,304,355)

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

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2011 and 2010

	2011	2010
		<i>(Restated)</i>
Unrestricted net assets (deficit):		
Excess of revenues over (under) expenses	\$ (1,565,792)	\$ (2,304,355)
Net unrealized (losses) gains on investments	(769,426)	545,128
Net assets released for capital	97,222	330,982
Change in pension instrument	(1,433,495)	(289,017)
Change in unrestricted net assets (deficit)	(3,671,491)	(1,717,262)
Temporarily restricted net assets:		
Change in value of beneficial interest in charitable remainder trust	-	(40,268)
Contributions	17,735	34,009
Bad debts	-	(49,537)
Interest and dividend income	46,332	41,654
Net realized and unrealized (losses) gains	(62,773)	31,795
Net assets released from restrictions	(717,947)	(766,674)
Change in temporarily restricted net assets	(716,653)	(749,021)
Permanently restricted net assets:		
Contributions	4,269	7,762
Change in permanently restricted net assets	4,269	7,762
Change in net assets (deficit)	(4,383,875)	(2,458,521)
Net assets (deficit), beginning of year (October 1, 2010 as restated and October 1, 2009 as previously reported)	(8,083,368)	(5,215,141)
Adjustment for restatement (see Note 2)	-	(409,706)
Net assets (deficit), beginning of year (October 1, 2010 as restated and October 1, 2009 as restated)	(8,083,368)	(5,624,847)
Net assets (deficit), end of year (September 30, 2011 and September 30, 2010 as restated)	\$ (12,467,243)	\$ (8,083,368)

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

Hebrew Health Care, Incorporated and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	2011	2010
		<i>(Restated)</i>
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (4,383,875)	\$ (2,458,521)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	1,836,172	1,903,830
Change in value of beneficial interest in charitable remainder trust	390,699	40,267
Change in charitable gift annuity	(121,768)	(19,006)
Change in cash surrender value of life insurance policy	(19,925)	(19,236)
Net loss (gain) on investments	110,265	(588,819)
Changes in assets and liabilities:		
Patient accounts receivable	307,831	1,962,347
Pledges receivable	147,187	419,838
Other receivables	62,909	(54,674)
Inventory	(86,322)	128
Prepaid expenses	(146,937)	(84,611)
Deposits	(191,028)	37,659
Due from affiliate	25,258	(9,605)
Accounts payable and accrued expenses	477,004	(1,230,511)
Deferred revenue	141	(8,776)
Accrued pension liability	1,604,092	421,201
Net cash provided by operating activities	11,703	311,511
Cash flows from investing activities:		
Purchase of property, plant and equipment	(585,975)	(1,046,368)
Net proceeds from investments and assets limited as to use	1,509,987	384,002
Net cash provided by (used in) investing activities	924,012	(662,366)
Cash flows from financing activities:		
Proceeds from notes payable	-	260,000
Repayments of notes and bonds payable	(682,110)	(329,619)
Repayments on capital lease obligation	(35,438)	(48,981)
Net change in lines of credit	(190,825)	339,743
Net cash (used in) provided by financing activities	(908,373)	221,143
Change in cash and cash equivalents	27,342	(129,712)
Cash and cash equivalents, beginning of year	139,374	269,086
Cash and cash equivalents, end of year	\$ 166,716	\$ 139,374
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,383,385	\$ 1,377,958

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

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 1 - General

Hebrew Health Care, Incorporated and Affiliates (the Organization) consists of the following entities: Hebrew Home and Hospital, Incorporated (the Home), Hebrew Community Services, Inc. (HCS), Hebrew Life Choices, Inc. (Hoffman SummerWood Community), Hebrew Health Care Foundation, Inc. (the Foundation), Connecticut Geriatric Specialty Group, PC (CGSG) and Hebrew Health Care, Inc. (HHC). The entities, which are located in West Hartford, Connecticut, are incorporated as non-sectarian not-for-profit organizations under the Non-Stock Corporation Act of the State of Connecticut and provide services to aged residents of the greater Hartford community, with the exception of CGSG, which is a for-profit organization.

Hebrew Health Care, Incorporated is the sole corporate member of each of the Home, HCS, Hoffman SummerWood Community and the Foundation while three of its staff members serve as Board members of CGSG's five member Board. It provides administrative support services for the related exempt organizations, as well as soliciting and receiving gifts, grants and contributions, and making gifts, grants and contributions to the related exempt organizations.

The Home operates a 332-bed skilled nursing and chronic disease hospital facility. HCS provides in-home health care services, hospice services, ALSA services and operates two adult day health centers. Hoffman SummerWood Community operates a 108-unit assisted living facility.

The Foundation holds board-designated funds, temporarily restricted funds, and permanently restricted endowment funds on behalf of its Affiliates.

CGSG began operations in fiscal year 2008, and is a for-profit medical practice, owned by two physician shareholders, whose purpose is to render professional medical services.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hebrew Health Care, Incorporated and Affiliates. All significant inter-company balances and transactions have been eliminated in consolidation.

Restatement of October 1, 2009 Unrestricted Net Assets - The Organization has restated its October 1, 2009 beginning net assets by \$409,706. These adjustments reduced patient accounts receivable by approximately \$288,000 and increased self-insurance liabilities by approximately \$122,000. Management believes these are correction of errors and has restated its October 1, 2009 unrestricted net assets.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. It is the Organization's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Organization maintains cash balances in excess of the FDIC insurance limit.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable - Patient accounts receivable where a third-party payer is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Patient accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third-party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Assets Limited As To Use - Assets limited as to use include assets held by trustees under indenture agreements, funds held in trust, security deposits and donor restricted funds. Assets limited as to use that are required to meet current liabilities are reported as current assets.

Mortgage Acquisition Costs - Mortgage acquisition costs represent financing costs related to mortgage and bond financing. These costs are being amortized over the life of the bonds.

Charitable Remainder Trusts - The Home is named as the final trust beneficiary under two irrevocable charitable remainder trusts. Both trusts are currently making specified distributions to the current income beneficiaries. Upon the deaths of all current beneficiaries, the remaining assets will be distributed to the Home. The Home has recorded an asset for contributions receivable from the trusts calculated at the present value of the remainder interest. Adjustments to the asset accounts are reflected as changes in the value of beneficial interest in charitable remainder trust in the consolidated statement of operations and changes in net assets. During 2011, one of the trusts was released to the Home upon the death of a beneficiary.

Charitable Gift Annuity - The Home is named as the final trust beneficiary under an irrevocable charitable gift annuity. The assets held in trust are recorded as investments at fair value, and the liability to the donors is recorded at the present value of the estimated future payments to be distributed over the life of the donor. Adjustments to the asset and liability accounts are reflected as changes in the value of beneficial interest in charitable remainder gift annuity in the consolidated statement of operations and changes in net assets. During 2011, the liability was eliminated during the year, as the annuitant passed away.

Investments - The Organization is invested in a pooled fund held and managed by Jewish Community Foundation of Greater Hartford, Inc. (JCF), which includes investments in non-marketable securities. These investments are recorded at fair value as reported by the JCF.

Non-marketable securities in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of alternative investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets. Management has reviewed the risk associated with these investments and has determined it is not material to the Organization as of September 30, 2011 and 2010.

Marketable securities with readily determinable fair values are measured at fair value in the consolidated balance sheets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Other Than Temporary Impairments on Investments - The Organization accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2011 or 2010.

Property, Plant and Equipment - Property, plant and equipment acquisitions are recorded at cost. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated life of the equipment. Depreciation and amortization are provided over the estimated useful life of each class of depreciable assets and are computed using the straight-line method, as follows:

Buildings	40 years
Building improvements	10-25 years
Furnishings and equipment	3-10 years
Motor vehicles	5 years

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

The Organization follows FASB ASC 410, *Asset Retirement and Environmental Obligations*, which requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of September 30, 2011 and 2010, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate the fair value.

Estimated Malpractice Costs - The provision for estimated malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Net Assets - The Organization's consolidated financial statement presentation follows the recommendations of FASB ASC 958 - *Financial Statements of Not-for-Profit Organizations*, which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets. A description of the three net asset classes follows:

Unrestricted Net Assets - Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Permanently Restricted Net Assets - Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Excess of Revenues Over (Under) Expenses - The consolidated statements of operations and changes in net assets includes (deficiency) excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments on other than trading securities, assets released from restrictions for purchase of property, plant and equipment and certain changes in pension liabilities.

Revenue Recognition - Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Approximately 77% of the Organization's gross revenues were received from Medicare and Medicaid during the years ended September 30, 2011 and 2010.

Revenue received under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of the settlement.

HCS's adult day health centers are funded by various state programs at agreed upon rates and from individuals or their responsible party at HCS published rates.

The payments received under the Medicaid and Medicare programs are less than the cost of providing the services. The differences between the costs incurred to provide services and reimbursements of these programs were approximately \$7,533,123 in 2011 and \$7,595,400 in 2010.

Hoffman SummerWood Community is funded through private member service fees.

CGSG is funded through third-party payer agreements and a contract with the Home for the provision of medical direction and services.

HHC's revenue consists of administrative fees from the Home, Hoffman SummerWood Community, HCS and CGSG and is eliminated in consolidation. Gifts received from donors by HHC are donated to Affiliates and the intercompany donations are eliminated in consolidation.

Contributions - The Organization follows the requirements of GAAP for accounting for contributions received and contributions made. Contributions, including unconditional promises to give, are recognized as revenue in the period when the donor makes the promise to give. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Contributions to be received after one year are discounted at fair value using an appropriate rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution. An allowance for uncollectible contributions receivable is provided based upon management's consideration of such factors as prior collection history, type of contribution and nature of the fundraising activity.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met.

Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property, plant and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Donated Services - The Home benefits from significant volunteer services provided by professionals and individuals in the community. The Home estimates that they received the approximate value of \$211,000 and \$260,000 of volunteer services from the community during each of the years ended September 30, 2011 and 2010. The majority of these services do not qualify for recording in the statement of operations and changes in net assets under GAAP and are therefore not reported in the consolidated statements of operations and changes in net assets.

Advertising - The Organization's policy is to expense advertising costs as incurred. Advertising costs were \$172,013 and \$62,587 for the years ended September 30, 2011 and 2010, respectively.

Income Tax Status - Each entity, with the exception of CGSG is qualified under Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. CGSG is a Qualified Personal Service Corporation and as such is subject to a 35% federal income tax rate.

The Organization accounts for uncertain tax positions with provisions of FASB ASC 740, "Income Taxes" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization does not have any uncertain tax positions as of September 30, 2011 and 2010. As of September 30, 2011 and 2010, the Organization did not record any penalties or interest associated with uncertain tax positions. The Organization's prior three tax years are open and subject to examination by the Internal Revenue Service.

Reclassifications - Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. Such reclassifications did not have a material effect on the financial statements.

New Accounting Pronouncements - In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, is effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance also requires that purchases, sales, issuances and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not impact the Organization's financial position, results of operations or cash flows.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, “*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*”. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The adoption of this new guidance is effective for the Organization beginning October 1, 2011.

In August 2010, the FASB issued ASU No. 2010-24, “*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*”. ASU No. 2010-24 is intended to address current diversity in practice to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Most healthcare entities have netted anticipated insurance recoveries against the related accrued liability, although some entities have presented the anticipated insurance recovery and related liability on a gross basis. The existing guidance does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. This update clarifies that a healthcare entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this new guidance is effective for the Organization beginning October 1, 2011.

In July 2011, the FASB issued ASU No. 2011-07, “*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*”, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity’s policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Organization beginning October 1, 2012.

Subsequent Events - Subsequent events have been evaluated through December 19, 2011, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 3 - Related Party Transactions

The Organization is related to The Auxiliary of the Hebrew Home and Hospital, Incorporated (the Auxiliary), a not-for-profit corporation, through common board members. The Auxiliary was established to promote the religious, physical, and financial well being of the Home by providing services, entertainment and additional physical comfort to the individuals it serves and by contributions to the Home. Included in unrestricted gifts and bequests in the accompanying consolidated statements of operations and changes in net assets was \$25,000 received from the Auxiliary during the years ended September 30, 2011 and 2010. Non-interest bearing advances totaling \$17,653 and \$42,911 were due from the Auxiliary at September 30, 2011 and 2010, respectively. Pledges receivable and temporarily restricted contributions from the Auxiliary were \$46,315 and \$56,315 as of September 30, 2011 and 2010, respectively.

Members of the Organization’s Board of Trustees are members of law firms that the Organization used for legal services during 2011 and 2010. Total legal expenses paid to these firms during the years ended September 30, 2011 and 2010 were approximately \$19,000 and \$73,900, respectively. At September 30, 2011 there was \$8,533 owed to these firms. There was no amount owed at September 30, 2010. The Organization also purchases services from companies owned by or employing individual board members.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 3 - Related Party Transactions (continued)

Total amounts expended for such services, which primarily includes insurance services, during the years ended September 30, 2011 and 2010 totaled approximately \$635,000 and \$667,000, respectively. As of September 30, 2011 and 2010, there was \$7,481 and \$5,805 owed to these companies, respectively. There is one member of the Board of Trustees who holds a position at Farmington Bank, an institution in which the Organization has a note payable with.

Note 4 - Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Gross receivables from patients and third-party payers as of September 30, 2011 and 2010 are distributed as follows:

	<u>2011</u>	<u>2010</u>
Medicaid	48%	41%
Medicare	26%	30%
Private patients and other third-party payers	26%	29%
	<u>100%</u>	<u>100%</u>

Patient accounts receivable balances are net of an allowance for doubtful accounts of \$1,447,074 and \$1,070,472 as of September 30, 2011 and 2010, respectively. Advances from third-party payers are included in net patient accounts receivable.

Note 5 - Assets Limited as to Use

The following is a summary of assets limited as to use at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Current assets limited as to use:		
Security deposits - cash	\$ 355,676	\$ 284,354
Patient funds held in trust - cash	120,529	111,620
	<u>476,205</u>	<u>395,974</u>
Investments restricted under debt agreements:		
Mortgage reserve funds	483,281	399,264
Liquidity reserve fund	834,815	1,296,064
Other reserves - Farmington Bank	131,422	130,588
Replacement reserve funds	372,605	603,657
Beneficial interest in charitable remainder trust	43,024	433,723
Donor and board restricted investments	2,615,001	2,889,968
	<u>4,480,148</u>	<u>5,753,264</u>
Total assets limited as to use	<u>\$ 4,956,353</u>	<u>\$ 6,149,238</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Assets Limited as to Use (continued)

The following is a summary of the asset allocation of assets limited to use as of September 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Cash and equivalents	\$ 1,146,248	23%	\$ 1,418,663	23%
U.S. obligations	212,536	4%	161,370	3%
Fixed income	319,311	6%	543,150	9%
Time deposits	250,000	5%	250,000	4%
Equities	370,233	7%	452,364	7%
Beneficial interest in charitable remainder trust	43,024	1%	433,723	7%
Donor and board restricted investments	2,615,001	54%	2,889,968	47%
	<u>\$ 4,956,353</u>	<u>100%</u>	<u>\$ 6,149,238</u>	<u>100%</u>

The asset allocations for the donor and board restricted investments are depicted in Note 7. The underlying investments of the beneficial interest in charitable remainder trust consist primarily of cash, equities and fixed income securities.

Note 6 - Property, Plant and Equipment

The following is a summary of the Organization's property, plant and equipment at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,612,381	\$ 2,612,381
Building and building improvements	43,832,398	43,396,894
Furnishings and equipment	4,420,921	4,301,715
Motor vehicles	361,444	369,627
Construction in progress	78,062	50,000
Total	<u>51,305,206</u>	<u>50,730,617</u>
Less: Accumulated depreciation and amortization	<u>(30,606,283)</u>	<u>(28,827,634)</u>
Net property, plant and equipment	<u>\$ 20,698,923</u>	<u>\$ 21,902,983</u>

The Organization is in the midst of developing a long range plan for renovation and refurbishing of existing facility areas. It is anticipated that these renovations will be accomplished over a number of years. As of the date the consolidated financial statements are being issued, management is unable to estimate the total expected cost of the renovations.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 7 - Investments

Investments, which include donor and board restricted investments, at fair value consisted of the following at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pooled funds held in custody	\$ 3,658,987	\$ 3,711,128
Domestic equity securities	2,694,209	3,774,724
International equity securities	15,415	77,109
Bonds	30,900	32,900
Money market funds	309,443	129,114
Domestic fixed income	1,579,788	1,480,706
International fixed income	3,268	106,086
Public REITs	4,070	-
Commodity funds	2,886	-
	<u>\$ 8,298,966</u>	<u>\$ 9,311,767</u>

The pooled funds represent approximately 14.1% and 13.3% of the units in a portfolio of investments managed by the JCF as of September 30, 2011 and 2010, respectively.

The following is a summary of the asset allocation at the Endowment Foundation at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Equities	57%	59%
U.S. obligations and bonds	26%	25%
Alternative investments	15%	14%
Cash and equivalents	2%	2%
	<u>100%</u>	<u>100%</u>

As of September 30, 2011 and 2010, net realized and unrealized (losses) gains on investments and assets limited as to use totaled \$(110,265) and \$588,819, respectively.

JCF holds several funds and split-interest agreements of which the Organization is the designated charitable beneficiary. Because JCF retains variance powers, these funds do not qualify for recording as unconditional promises to give or net assets under the provisions of FASB ASC 958-605.

As of September 30, 2011 and 2010, JCF held \$1,341,831 and \$1,197,284, respectively, of certain designated and charitable gift annuities for the benefit of the Organization.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 7 - Investments (continued)

The following tables show the gross unrealized losses and fair values of the Organization's investments with unrealized losses as of September 30, 2011 and 2010. These losses are not deemed to be other than temporarily impaired.

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
2011						
Equities:						
Consumer discretionary	\$ 120,504	\$ 11,537	\$ -	\$ -	\$ 120,504	\$ 11,537
Consumer staples	45,854	15,908	50,544	2,234	96,398	18,142
Energy	98,953	39,123	56,797	2,630	155,750	41,753
Financial	72,461	17,080	3,916	2,318	76,377	19,398
Health care	48,500	1,674	35,701	590	84,201	2,264
Industrial	127,184	20,612	45,960	3,089	173,144	23,701
Information technology	125,863	24,622	91,857	18,280	217,720	42,902
Materials	46,837	324	-	-	46,837	324
Utilities	-	-	50,280	3,974	50,280	3,974
Mutual funds	710,757	111,483	-	-	710,757	111,483
Fixed income	348,437	10,460	25,116	931	373,553	11,391
Public REITs	4,070	314	-	-	4,070	314
Commodity funds	2,886	614	-	-	2,886	614
Total	<u>\$ 1,752,306</u>	<u>\$ 253,751</u>	<u>\$ 360,171</u>	<u>\$ 34,046</u>	<u>\$ 2,112,477</u>	<u>\$ 287,797</u>

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
2010						
Equities:						
Consumer discretionary	\$ 30,297	\$ 5,316	\$ -	\$ -	\$ 30,297	\$ 5,316
Consumer staples	-	-	29,385	3,366	29,385	3,366
Energy	38,790	7,201	77,489	10,063	116,279	17,264
Financial	19,018	3,151	82,717	7,666	101,735	10,817
Health care	49,516	498	70,988	1,883	120,504	2,381
Industrial	-	-	37,752	1,034	37,752	1,034
Information technology	-	-	128,390	6,319	128,390	6,319
Materials	11,024	3,521	6,619	2,867	17,643	6,388
Utilities	28,954	4,406	-	-	28,954	4,406
Fixed income	127,545	2,873	101,365	3,174	228,910	6,047
Total	<u>\$ 305,144</u>	<u>\$ 26,966</u>	<u>\$ 534,705</u>	<u>\$ 36,372</u>	<u>\$ 839,849</u>	<u>\$ 63,338</u>

These unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320, "Investments - Debt and Equity Securities".

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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Note 8 - Fair Value Measurements

FASB ASC 820-10, “*Fair Value Measurements and Disclosures*”, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Hebrew Health Care, Incorporated and Affiliates
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For the Years Ended September 30, 2011 and 2010

Note 8 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2011 by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (including donor and board restricted):				
Pooled funds held in custody	\$ -	\$ -	\$ 3,658,987	\$ 3,658,987
Domestic equity securities	2,694,209	-	-	2,694,209
International equity securities	15,415	-	-	15,415
Bonds	-	30,900	-	30,900
Money market funds	-	309,443	-	309,443
Domestic fixed income	-	1,579,788	-	1,579,788
International fixed income	-	3,268	-	3,268
Public REITs	-	4,070	-	4,070
Commodity funds	-	2,886	-	2,886
Total	<u>2,709,624</u>	<u>1,930,355</u>	<u>3,658,987</u>	<u>8,298,966</u>
Other assets limited as to use:				
Cash and equivalents	1,146,248	-	-	1,146,248
U.S. obligations	-	212,536	-	212,536
Fixed income	-	319,311	-	319,311
Time deposits	-	250,000	-	250,000
Equities	370,233	-	-	370,233
Total	<u>1,516,481</u>	<u>781,847</u>	<u>-</u>	<u>2,298,328</u>
Pension plan assets:				
Cash	15,037	-	-	15,037
Money market funds	-	67,493	-	67,493
Corporate and foreign bonds	-	572,867	-	572,867
Common equity funds	2,134,419	-	-	2,134,419
Preferred equity securities	150,094	-	-	150,094
Mutual funds	795,601	832,270	-	1,627,871
Total	<u>3,095,151</u>	<u>1,472,630</u>	<u>-</u>	<u>4,567,781</u>
Beneficial interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>43,024</u>	<u>43,024</u>
Total	<u>\$ 7,321,256</u>	<u>\$ 4,184,832</u>	<u>\$ 3,702,011</u>	<u>\$ 15,208,099</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
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Note 8 - Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of September 30, 2010 by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (including donor and board restricted):				
Pooled funds held in custody	\$ -	\$ -	\$ 3,711,128	\$ 3,711,128
Domestic equity securities	3,774,724	-	-	3,774,724
International equity securities	77,109	-	-	77,109
Bonds	-	32,900	-	32,900
Money market funds	-	129,114	-	129,114
Domestic fixed income	2,677	1,478,029	-	1,480,706
International fixed income	-	106,086	-	106,086
Total	<u>3,854,510</u>	<u>1,746,129</u>	<u>3,711,128</u>	<u>9,311,767</u>
Other assets limited as to use:				
Cash and equivalents	1,418,663	-	-	1,418,663
U.S. obligations	-	161,370	-	161,370
Fixed income	-	543,150	-	543,150
Time deposits	-	250,000	-	250,000
Equities	452,364	-	-	452,364
Total	<u>1,871,027</u>	<u>954,520</u>	<u>-</u>	<u>2,825,547</u>
Pension plan assets:				
Cash	14,712	-	-	14,712
Money market funds	-	95,816	-	95,816
Corporate and foreign bonds	-	664,957	-	664,957
Common equity funds	1,978,188	-	-	1,978,188
Preferred equity securities	217,019	-	-	217,019
Mutual funds	1,001,694	1,134,934	-	2,136,628
Total	<u>3,211,613</u>	<u>1,895,707</u>	<u>-</u>	<u>5,107,320</u>
Beneficial interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>433,723</u>	<u>433,723</u>
Total	<u>\$ 8,937,150</u>	<u>\$ 4,596,356</u>	<u>\$ 4,144,851</u>	<u>\$ 17,678,357</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Fair Value Measurements (continued)

A rollforward as of September 30, 2011 and 2010 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

	<u>Pooled Funds</u>	<u>Beneficial Interest</u>	<u>Total</u>
Balance at October 1, 2009	\$ 3,594,766	\$ 473,990	\$ 4,068,756
Change in beneficial interest	-	(40,267)	(40,267)
Investment income:			
Net realized/unrealized gains on investments	290,955	-	290,955
Interest and dividends	79,124	-	79,124
Investment fees	(40,092)	-	(40,092)
Distributions	(378,435)	-	(378,435)
Purchase of investments	164,810	-	164,810
Balance at September 30, 2010	3,711,128	433,723	4,144,851
Change in beneficial interest	-	(390,699)	(390,699)
Investment income:			
Net realized/unrealized loss on investments	(242,037)	-	(242,037)
Interest and dividends	81,953	-	81,953
Investment fees	(39,304)	-	(39,304)
Distributions	(71,163)	-	(71,163)
Purchase of investments	218,410	-	218,410
Balance at September 30, 2011	<u>\$ 3,658,987</u>	<u>\$ 43,024</u>	<u>\$ 3,702,011</u>

The Organization's valuation methodologies used to measure financial assets at fair value are outlined below. Where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value (Level 1 inputs). This pricing methodology applies to cash and cash equivalents, equities and mutual funds.

If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include government securities, corporate and foreign bonds fixed income securities, mutual funds and money market funds.

Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Organization's pooled funds held in custody and beneficial interest in trusts are classified within the Level 3 classification.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Fair Value Measurements (continued)

The Organization uses the net asset value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the investment in the pooled fund held by the Endowment Foundation which is disclosed in Level 3 above.

	<u>Fair Value</u>	<u># of Funds</u>	<u>Unfunded Commitments</u>	<u>Timing to Draw Down</u>	<u>Redemption Period</u>	<u>Redemption Notice Period</u>	<u>Remaining Life</u>
Pooled funds held in custody (a)	\$ 3,658,987	1	\$ -	N/A	Monthly	60 days or 6 months if 100% redemption	N/A

- (a) The pooled funds follow a total return approach to investing. This investment approach strives to balance income and potential for capital appreciation so that both components can contribute to the long-term total return of the pooled investment portfolio. The pooled funds investment policy and guidelines and spending guidelines are designed to operate in concert in order to provide a significant and stable flow of funds over the short-term to provide resources to meet current community needs and, at the same time, maintain the purchasing power of the funds over the long-term, so that the fund will be able to provide adequate resources to future generations to meet new and emerging needs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of September 30, 2011 and 2010, the Organization's other financial instruments included accounts receivable, other assets, accounts payable and accrued expenses, other liabilities and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 9 - Pledges Receivable

Unconditional promises to give to the Organization are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. The pledges are expected to be received equally over a five-year period. The pledges were recorded at their present value, discounted using a 5% rate.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 9 - Pledges Receivable (continued)

The Organization began a fundraising initiative, entitled the Second Century Campaign during the year ended September 30, 2005. The pledges are due in various payment streams and have been recorded at their net present value using discount rates from approximately 4% to approximately 5%.

	2011	2010
Pledges receivable, gross	\$ 481,340	\$ 632,212
Less: Unamortized discount	(29,413)	(33,098)
Net unconditional promises to give	\$ 451,927	\$ 599,114
Due within one year	\$ 302,525	\$ 232,533
Due in one to five years	178,815	399,679
Total	\$ 481,340	\$ 632,212

Note 10 - Charitable Gift Annuity

The Foundation is the beneficiary in an irrevocable charitable gift annuity that is held at the Endowment Foundation. As of September 30, 2010, the liability owed to the beneficiary exceeded the fair value of the assets, and a liability was recorded in the amount of \$121,768. The liability was eliminated during the year ended September 30, 2011 due to the death of the donor.

Note 11 - Lines of Credit

As of September 30, 2011 and 2010, the Organization had three line of credit agreements with TD Bank. The first line of credit agreement has total availability of \$3,500,000 payable on demand, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% at September 30, 2011 and 2010. The first line of credit is secured by \$4,097,269 and \$4,313,000 of marketable securities maintained at TD Wealth Management and is subject to certain covenants as of September 30, 2011 and 2010, respectively. The Organization was in violation of certain terms of these covenants for the years ended September 30, 2011 and 2010, however, the covenants were waived by the bank. In addition, the Organization has a limited guarantee by the Hebrew Health Care Foundation, Inc. on the first line of credit not to exceed \$3,500,000. The second line of credit agreement has a total availability of \$1,500,000 payable on demand, with interest at the Wall Street Journal's prime rate less one percent, with a minimum rate of 4% as of September 30, 2011 and 2010. The second line of credit is secured by investments of the Foundation. The balances outstanding on these lines of credit totaled \$4,701,639 and \$4,892,464 as of September 30, 2011 and 2010, respectively and are subject to annual review expiring on May 31, 2012.

The third line of credit agreement has a total availability of \$150,000 and is to be used for letters of credit, with a 2% fee for each letter of credit issued, with interest at the Wall Street Journal's prime rate if drawn upon. The third line of credit had no outstanding balance as of September 30, 2011 and 2010.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 12 - Notes and Bonds Payable

The composition of notes and bonds payable of the Organization is as follows:

	2011	2010
\$20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association.	\$ 19,664,045	\$ 19,938,565
\$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B.	16,735,000	17,055,000
Note payable to the Metropolitan District Commission in annual installments totaling \$13,611, including interest at 6%, maturing in June 2015	43,363	53,534
Note payable to Farmington Bank in monthly installments totaling \$7,858, including interest at 5.6%, maturing in February, 2013.	128,253	205,672
	36,570,661	37,252,771
Less: Current portion	(723,104)	(689,574)
Total	\$ 35,847,557	\$ 36,563,197

Anticipated future maturities of notes and bonds payable for the next five fiscal years and thereafter are as follows:

2012	\$ 723,104
2013	663,502
2014	699,021
2015	730,334
2016	757,310
Thereafter	32,997,390
	\$ 36,570,661

Wells Fargo Mortgage - The mortgage is payable to Wells Fargo Bank in monthly installments of \$105,435, including interest at 5.0% through October 2041 and is secured by land and buildings. The Federal Housing Administration under the Section 223(a)(7) Housing Program insures the note payable. During the years ended September 30, 2011 and 2010, the Organization paid \$990,696 and \$1,006,177, respectively, in interest expense related to the mortgage. The fair value of the debt is approximately equal to its carrying value at September 30, 2011 and 2010.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 12 - Notes and Bonds Payable (continued)

Under the terms of the mortgage agreement with Wells Fargo and the Regulatory Agreement with the Federal Housing Administration, the Organization is required to fund a replacement reserve for the replacement of assets. There are certain other restrictions and covenants, relating to transfer and disposal of mortgaged property, maintenance of insurance coverage, and methods of conducting the Organization's operations. The replacement reserve is held by the mortgagee and consists of cash and is included within assets limited as to use as described in Note 5.

CHEFA Series B Bonds - The CHEFA Series B Bonds were issued in November 2007: (i) to refund the Series A Bonds; (ii) to finance and refinance the costs of the construction and equipping of a new wing at Hoffman SummerWood Community's assisted living facility to house an additional 43 assisted living units and to expand certain portions of the existing facility. The CHEFA bonds consist of Series B variable rate bond due July 1, 2037. The bond is secured by land, building and a letter of credit with an expiration date of November 7, 2015. During the years ended September 30, 2011 and 2010, the Organization paid \$181,575 and \$185,085, respectively, in interest expense related to the bonds. The fair value of the debt is approximately equal to its carrying value at September 30, 2011 and 2010.

Principal payments to the bond principal account of \$26,666 per month began in July 2010, with the agent making payments annually to bond holders beginning in July 2011. The payments increased to \$27,916 in July 2011.

The Organization is required to maintain a liquidity reserve under the terms of the CHEFA bond agreement, which is included within assets limited as to use as described in Note 5.

The Organization is subject to certain financial covenants under the terms of the CHEFA bond agreement. Hoffman SummerWood Community must maintain a debt service coverage ratio of 1.25 and an operating ratio of 1.00. The Organization was in violation of certain of these covenants for the years ended September 30, 2011 and 2010, however, the Organization received a waiver of the covenants from the trustee.

Note 13 - Capital Lease Obligations

During 2008, the Organization entered into a lease arrangement, due in monthly payments of \$2,700 through May 2013, collateralized by telemetry equipment with a net book value of \$56,110 (\$87,825 at September 30, 2010). There was an outstanding balance of \$52,156 and \$82,245 at September 30, 2011 and 2010.

During 2009, the Organization entered into a lease arrangement, due in monthly payments of \$643 through January 2013, collateralized by the leased equipment with a net book value of \$18,506 (\$21,210 at September 30, 2010). There was an outstanding balance of \$9,603 and \$14,952 at September 30, 2011 and 2010.

The value of minimum future lease payments under these capital lease obligations are as follows:

2012	\$	40,120
2013		24,595
		64,715
Less: Amounts representing interest		(2,956)
Total	\$	61,759

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 14 - Accounts Payable and Accrued Expenses

The following is a summary of accounts payable and accrued expenses as of September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Accounts payable	\$ 2,486,186	\$ 2,184,849
Accrued vacation	2,504,554	2,391,793
Accrued employee benefits	313,605	383,465
Accrued payroll	478,210	398,862
Provider tax	<u>331,943</u>	<u>278,525</u>
 Total	 <u>\$ 6,114,498</u>	 <u>\$ 5,637,494</u>

Note 15 - Pension Plans

Bargaining Unit Plan - Approximately 41% of the Organization's labor force is covered by a collective bargaining agreement. A new collective bargaining agreement was negotiated and approved by the Union membership effective October 1, 2011 through September 30, 2015, which replaced the former agreement that was effective October 1, 2008 through September 30, 2011. Bargaining unit employees are covered under a multi-employer defined benefit pension plan administered by the bargaining unit. The Organization contributes monthly to this plan based on a negotiated flat rate per employee hour worked. Contributions to the plan totaled \$274,785 and \$262,079 for the years ended September 30, 2011 and 2010, respectively. Information as to the amount of net assets available for benefits is not available.

Nonbargaining Unit Plan - The Organization has a noncontributory, defined benefit pension plan covering all nonbargaining unit employees who satisfied certain eligibility requirements. Employer contributions made to this plan were \$51,209 for the year ended September 30, 2011. There were no employer contributions made during the year ended September 30, 2010. This plan was frozen on September 30, 2007 and replaced by a 401(k) Retirement Plan that provides for an employer match of up to 2% of the employees annual salary. In addition, the Organization has another defined contribution retirement plan covering substantially all employees. The Organization makes matching contributions to the plan at the discretion of the Board of Directors, which amounted to \$163,268 and \$150,282 for the years ended September 30, 2011 and 2010, respectively.

Benefits under the defined benefit plan are based on years of service.

Significant disclosures relating to the defined benefit plan as of September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Changes in benefit obligations:		
Benefit obligations at beginning of year	\$ 7,582,629	\$ 7,009,261
Interest cost	379,500	390,892
Benefits paid to participants	(411,775)	(251,487)
Actuarial loss	1,096,828	517,295
Actuarial adjustment	<u>-</u>	<u>(83,332)</u>
 Benefit obligations at end of year	 <u>\$ 8,647,182</u>	 <u>\$ 7,582,629</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 15 - Pension Plans (continued)

	<u>2011</u>	<u>2010</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,107,320	\$ 4,955,153
Actual return on plan assets	(178,973)	403,654
Employer contributions	51,209	-
Benefits paid	(411,775)	(251,487)
	<u>4,567,781</u>	<u>5,107,320</u>
Accrued pension liability (no current portion is due)	<u>\$ (4,079,401)</u>	<u>\$ (2,475,309)</u>

Assumptions:

	<u>2011</u>	<u>2010</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.65%	5.00%
Expected return on plan assets	8.00%	8.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.00%	5.75%
Expected long-term return on plan assets	8.00%	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2011 and 2010, not yet amortized as components of net periodic benefit costs, are as follows:

	<u>2011</u>	<u>2010</u>
Net actuarial loss	<u>\$ 4,474,681</u>	<u>\$ 3,041,186</u>

The amortization of the above items expected to be recognized in net periodic benefit costs are approximately \$360,000 September 30, 2012. The components of net periodic benefit cost for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Components of net periodic benefit cost:		
Interest cost	\$ 379,500	\$ 390,892
Expected return on plan assets	(400,321)	(413,138)
Recognized net loss	<u>242,627</u>	<u>154,430</u>
Net periodic benefit cost	<u>\$ 221,806</u>	<u>\$ 132,184</u>

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 15 - Pension Plans (continued)

The expected long-term rate of return on plan assets reflects the plan sponsor's estimate of future investment returns (expressed as an annual percentage), taking into account the allocation of plan assets among different investment classes and long-term expectations of future returns on each class.

The investment allocation of the Plan's assets is as follows:

	2011	2010
Equity securities	67%	63%
Debt securities	31%	35%
Cash equivalents	2%	2%
Total	100%	100%

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

2012	\$	838,000
2013	\$	277,000
2014	\$	378,000
2015	\$	542,000
2016	\$	868,000
2017 - 2021	\$	3,336,000

The Organization has a sub-committee of Hebrew Health Care's board level Human Resources Committee that oversees the investment of pension assets for the Hebrew Home and Hospital Inc. Retirement Income Plan. Funds are currently invested and managed by Webster Financial Advisors, a division of Webster Bank. The investment approach taken by the Committee mirrors the investment philosophy of the Hebrew Health Care Foundation, Inc. The plan employs a total return on investment approach, whereby a mix of equity securities, debt securities and other assets is targeted to maximize the long-term return on assets. Investments are monitored through periodic portfolio reviews with Webster Financial Advisors and compared to annual actuarial liability measurements. The expected yield on plan assets is determined based on historical experience, market conditions, and recommendations from the Organization's actuary.

Note 16 - Employee Health Insurance

The Organization maintains a self-insured health insurance plan for its employees. Under the plan, the Organization pays an insurance company certain fixed and variable costs, including administration fees, actual claims incurred, and a premium for losses exceeding a negotiated amount. The Organization's cost for the plan totaled approximately \$4,583,901 and \$4,359,791 for the years ended September 30, 2011 and 2010, respectively. The Organization has also recorded a liability for potential future claims of \$327,598 and \$359,493 for the years ended September 30, 2011 and 2010, respectively. In addition, the Organization has purchased stop loss insurance coverage. The coverage is initiated when a claim reaches \$125,000 per claim.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 17 - Commitments and Contingencies

Operating Leases - The Organization leases various office equipment under operating leases expiring through September 2015. Rental expense under these leases amounted to \$89,862 and \$48,299 for the years ended September 30, 2011 and 2010, respectively.

On August 10, 2010, the Organization entered into an operating lease beginning October 1, 2010 and through September 2015 for HCS's Home Health and Hospice office space.

The value of future minimum lease payments under these lease agreements are as follows:

2012	\$	85,146
2013	\$	80,941
2014	\$	53,904
2015	\$	54,648

Litigation - The Organization is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management anticipates that these matters will be resolved without material adverse effect on the Organization's future financial position or results from operations.

Note 18 - Special Events

The following is a summary of special events income (included in gifts, bequests and special events) and expenses (included in development expenses) as of September 30, 2011 and 2010:

	2011	2010
Ticket sales and sponsorships	\$ 235,202	\$ 217,036
Less: Expenses	(53,900)	(67,199)
Net special events income	\$ 181,302	\$ 149,837

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 19 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of September 30, 2011 and 2010:

	2011	2010
Harry and Jeanette Weinberg Foundation Challenge	\$ 354,930	\$ 452,152
Second Century Campaign	334,435	513,260
Interest in split interest agreement	43,024	95,099
Other funds	29,563	37,170
Annual Fund	28,500	23,500
The Music Fund	8,650	-
The Rabbi Fund	3,611	-
Appreciation of permanently restricted net assets	1,962	63,935
Interest in Thumin Charitable Trust	-	336,212
	\$ 804,675	\$ 1,521,328
Total		

Net assets were released from temporary donor-imposed restrictions by incurring program expenses, which satisfied the restricted purposes, by occurrence of events specified by the donors or by passage of time.

Note 20 - Permanently Restricted Net Assets

Permanently restricted net assets total \$2,286,173 and \$2,281,904 as of September 30, 2011 and 2010, respectively, which include investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services.

Note 21 - Conditional Promises to Contribute

At September 30, 2011 and 2010, the Organization had received \$1,076,600 and \$1,096,500 of conditional promises to contribute to the Organization's *Second Century Campaign*. These contributions will be recorded as to donor intention when received or when the condition has been met.

Note 22 - Professional Liability Insurance

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through September 30, 2011, the Organization was covered by a claims-made policy. There are no known claims or incidents that may result in the assertion of additional claims. Based on historical evidence, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the financial statements as of September 30, 2011 and 2010.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 23 - Endowment Net Assets

Changes in endowment net assets for the years ended September 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2009	\$ 220,965	\$ 73,881	\$ 2,274,142	\$ 2,568,988
Investment return:				
Investment income	10,913	41,654	-	52,567
Net change in market value	166,917	31,795	-	198,712
Contributions	12,392	-	7,762	20,154
Distributions and fees	<u>(38,253)</u>	<u>(83,395)</u>	<u>-</u>	<u>(121,648)</u>
Balance at September 30, 2010	372,934	63,935	2,281,904	2,718,773
Investment return:				
Investment income	12,013	46,332	-	58,345
Net change in market value	(166,932)	(62,773)	-	(229,705)
Contributions	213,324	800	4,269	218,393
Distributions and fees	<u>(90,663)</u>	<u>(46,332)</u>	<u>-</u>	<u>(136,995)</u>
Balance at September 30, 2011	<u>\$ 340,676</u>	<u>\$ 1,962</u>	<u>\$ 2,286,173</u>	<u>\$ 2,628,811</u>

The Organization's endowment net assets consist of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Organization has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization during its annual budgeting process.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Organization; and (7) the investment policies of the Organization.

Spending Policy, Return Objectives and Risk Parameters - At the discretion of the Board, 5% of the average market value of the portfolio at September 30 of each of the preceding twenty quarters is applied to operations. As a result of that calculation, a portion of cumulative interest and dividends, cumulative net realized gains and net appreciation is allocated to operations in accordance with the Organization's investment policies and procedures. During the years ended September 30, 2011 and 2010, the Board of Trustees approved an appropriation in the amount of \$136,995 and \$121,648, respectively.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 23 - Endowment Net Assets (continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a diversified manner to reduce the adverse impact that any single security or class of securities may have on the portfolio.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to maintain sufficient liquidity to satisfy near term cash flow needs and achieve its long-term return objectives within prudent risk constraints to keep pace with inflation over a full market cycle (3-5 years or longer). This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In addition to the above endowments, the Board of Trustees has approved spending of \$400,000 from the Foundation investments for the year ending September 2012. The amount of spending from Foundation investments was \$407,331 and \$270,535 for the years ended September 30, 2011 and 2010, respectively.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or law requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature were approximately \$321,572 and \$253,361 for the years ended September 30, 2011 and 2010, respectively and have been accounted for in unrestricted realized and unrealized losses. During the year ended September 30, 2011 and 2010, gains of approximately \$591 and \$52,100 associated with donor restricted funds were recorded as unrestricted to restore deficiency losses recorded in unrestricted net assets as of September 30, 2011 and 2010, respectively.

Note 24 - Functional Expenses

Expenses of the Organization incurred during the years ended September 30, 2011 and 2010 by functional area were as follows:

	2011	2010
Health care services	\$ 39,560,012	\$ 36,986,976
General and administrative	15,878,022	16,407,488
Fundraising	420,891	434,694
Total	\$ 55,858,925	\$ 53,829,158

Note 25 - Strategic Plan

As of September 30, 2011, the Organization has an unrestricted net asset available for operations deficit totaling approximately \$15.1 million. In response to the deficit, the Organization is currently engaged in a Board directed Strategic Planning process. As part of this process the Board and staff, with the assistance of ThirdAge, a division of LarsonAllen consultants who have provided a market analysis as part of their engagement, will be developing guidelines outlining the market for future opportunities as well as trends in aging services within Northern Connecticut and nationally.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 25 - Strategic Plan (continued)

The market analysis is intended to guide and inform HHC's strategic planning efforts. Those planning efforts are focused on the next five years - as well as a longer horizon of 10 to 15 years. The market analysis is expected to:

1. Assist in developing an overall understanding of the market for geriatric services both within the broader or general community market as well as the Jewish community needs.
2. Be based on a rigorous analysis of the market area dynamics, demographics, competition and the demand for services.
3. Be informed through consideration of both quantitative as well as qualitative research.
4. Provide recommendations, that address (among other issues):
 - a. Target residents - including age, income and service needs.
 - b. Income mix - specifically identifying the opportunity for private pay, income levels required and Medicaid and Medicare.
 - c. Suggested programs and amenities.
 - d. Marketing strategies/approaches to assist in achieving and maintaining occupancy for the recommended programs.
5. Include a qualitative community study and recommendations.

Upon completion of this phase of the strategic planning process the Board, staff and consultants will concentrate their efforts on development of key strategies that will enable HHC to achieve financial stability while maintaining its vision; as well as achieving agreement on the initiatives or action items that support the key strategies. This is to include clarifying vision and strategies as well as developing a strategic capital plan.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2011

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current assets:									
Cash and cash equivalents	\$ 7,243	\$ 97,953	\$ 55,873	\$ 2,322	\$ 3,325	\$ -	\$ 166,716	\$ -	\$ 166,716
Assets limited as to use, current portion	-	115,529	-	360,676	-	-	476,205	-	476,205
Patient accounts receivable, net of allowance for doubtful accounts of \$1,447,074	-	4,802,170	773,225	4,501	-	-	5,579,896	-	5,579,896
Pledges receivable, current portion	290,025	10,000	-	-	-	-	300,025	-	300,025
Other receivables	7,858	57,883	-	-	180,000	-	245,741	(180,000)	65,741
Inventory	-	254,313	-	-	-	-	254,313	-	254,313
Prepaid expenses	12,223	281,966	14,287	122,590	-	32,429	463,495	-	463,495
Total current assets	317,349	5,619,814	843,385	490,089	183,325	32,429	7,486,391	(180,000)	7,306,391
Assets limited as to use, net of current portion:									
Donor restricted investments	-	279,262	-	-	1,995,063	-	2,274,325	-	2,274,325
Board designated investments	-	-	-	-	340,676	-	340,676	-	340,676
Investments restricted under debt agreements	-	774,139	-	1,047,984	-	-	1,822,123	-	1,822,123
Beneficial interest in charitable remainder trust	-	43,024	-	-	-	-	43,024	-	43,024
Total assets limited to use, net of current portion	-	1,096,425	-	1,047,984	2,335,739	-	4,480,148	-	4,480,148
Property, plant and equipment, net	-	5,985,062	151,221	14,637,640	-	-	20,773,923	(75,000)	20,698,923
Other assets:									
Pledges receivable, long-term	115,587	36,315	-	-	-	-	151,902	-	151,902
Cash surrender value of life insurance	-	-	-	-	73,428	-	73,428	-	73,428
Investments	-	156,000	-	-	5,527,965	-	5,683,965	-	5,683,965
Deposits	-	198,278	9,591	-	-	-	207,869	-	207,869
Mortgage acquisition costs, net	-	361,574	-	559,068	-	-	920,642	-	920,642
Due from affiliates	(142,068)	59,544	-	1,690,317	-	-	1,607,793	(1,590,140)	17,653
Total other assets	(26,481)	811,711	9,591	2,249,385	5,601,393	-	8,645,599	(1,590,140)	7,055,459
Total assets	\$ 290,868	\$ 13,513,012	\$ 1,004,197	\$ 18,425,098	\$ 8,120,457	\$ 32,429	\$ 41,386,061	\$ (1,845,140)	\$ 39,540,921

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2011

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Notes and bonds payable, current portion	\$ -	\$ 377,933	\$ -	\$ 345,171	\$ -	\$ -	\$ 723,104	\$ -	\$ 723,104
Capital lease obligations, current portion	-	37,589	-	-	-	-	37,589	-	37,589
Accounts payable and accrued expenses	225,651	4,846,130	464,956	355,737	-	222,024	6,114,498	-	6,114,498
Lines of credit	-	3,499,999	-	1,201,640	-	-	4,701,639	-	4,701,639
Funds held in trust	-	115,529	-	360,676	-	-	476,205	-	476,205
Deferred revenue	-	-	4,001	-	-	-	4,001	-	4,001
Total current liabilities	225,651	8,877,180	468,957	2,263,224	-	222,024	12,057,036	-	12,057,036
Due to affiliates	-	-	399,321	-	23,281	1,167,538	1,590,140	(1,590,140)	-
Notes and bonds payable, net of current portion	-	19,414,365	180,000	16,433,192	-	-	36,027,557	(180,000)	35,847,557
Capital lease obligations, net of current portion	-	24,170	-	-	-	-	24,170	-	24,170
Accrued pension liability	-	4,079,401	-	-	-	-	4,079,401	-	4,079,401
Total liabilities	225,651	32,395,116	1,048,278	18,696,416	23,281	1,389,562	53,778,304	(1,770,140)	52,008,164
Net assets (deficit)	65,217	(18,882,104)	(44,081)	(271,318)	8,097,176	(1,357,133)	(12,392,243)	(75,000)	(12,467,243)
Total liabilities and net assets (deficit)	\$ 290,868	\$ 13,513,012	\$ 1,004,197	\$ 18,425,098	\$ 8,120,457	\$ 32,429	\$ 41,386,061	\$ (1,845,140)	\$ 39,540,921

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2010

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Assets									
Current assets:									
Cash and cash equivalents	\$ 109,129	\$ 23,043	\$ 1,106	\$ 2,774	\$ 3,322	\$ -	\$ 139,374	\$ -	\$ 139,374
Assets limited as to use, current portion	-	105,621	-	290,353	-	-	395,974	-	395,974
Patient accounts receivable, net of allowance for doubtful accounts of \$1,070,472	-	5,326,343	561,384	-	-	-	5,887,727	-	5,887,727
Pledges receivable, current portion	220,033	10,000	-	-	-	-	230,033	-	230,033
Other receivables	8,158	120,492	-	-	180,000	-	308,650	(180,000)	128,650
Inventory	-	167,991	-	-	-	-	167,991	-	167,991
Prepaid expenses	9,977	195,852	13,127	77,360	-	20,242	316,558	-	316,558
Total current assets	347,297	5,949,342	575,617	370,487	183,322	20,242	7,446,307	(180,000)	7,266,307
Assets limited as to use, net of current portion:									
Donor restricted investments	-	396,056	-	-	2,120,978	-	2,517,034	-	2,517,034
Board designated investments	-	-	-	-	372,934	-	372,934	-	372,934
Investments restricted under debt agreements	-	972,138	-	1,457,435	-	-	2,429,573	-	2,429,573
Beneficial interest in charitable remainder trust	-	433,723	-	-	-	-	433,723	-	433,723
Total assets limited to use, net of current portion	-	1,801,917	-	1,457,435	2,493,912	-	5,753,264	-	5,753,264
Property, plant and equipment, net	-	6,434,431	157,498	15,386,054	-	-	21,977,983	(75,000)	21,902,983
Other assets:									
Pledges receivable, long-term	322,766	46,315	-	-	-	-	369,081	-	369,081
Cash surrender value of life insurance	-	-	-	-	53,503	-	53,503	-	53,503
Investments	-	784,581	-	-	5,637,218	-	6,421,799	-	6,421,799
Deposits	-	7,250	9,591	-	-	-	16,841	-	16,841
Mortgage acquisition costs, net	-	373,574	-	593,205	-	-	966,779	-	966,779
Due from affiliates	-	1,755,308	22,526	1,858,099	-	64,228	3,700,161	(3,657,250)	42,911
Total other assets	322,766	2,967,028	32,117	2,451,304	5,690,721	64,228	11,528,164	(3,657,250)	7,870,914
Total assets	\$ 670,063	\$ 17,152,718	\$ 765,232	\$ 19,665,280	\$ 8,367,955	\$ 84,470	\$ 46,705,718	\$ (3,912,250)	\$ 42,793,468

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2010

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Liabilities and Net Assets (Deficit)									
Current liabilities:									
Notes and bonds payable, current portion	\$ -	\$ 359,403	\$ -	\$ 330,171	\$ -	\$ -	\$ 689,574	\$ -	\$ 689,574
Capital lease obligations, current portion	-	40,120	-	-	-	-	40,120	-	40,120
Accounts payable and accrued expenses	219,188	4,555,183	352,663	266,636	-	243,824	5,637,494	-	5,637,494
Lines of credit	-	3,499,999	-	1,392,465	-	-	4,892,464	-	4,892,464
Funds held in trust	-	105,620	-	290,353	-	-	395,973	-	395,973
Deferred revenue	-	-	3,860	-	-	-	3,860	-	3,860
Total current liabilities	219,188	8,560,325	356,523	2,279,625	-	243,824	11,659,485	-	11,659,485
Due to affiliates	373,344	1,875,006	327,778	385,877	42,862	652,383	3,657,250	(3,657,250)	-
Notes and bonds payable, net of current portion	-	19,784,834	180,000	16,778,363	-	-	36,743,197	(180,000)	36,563,197
Capital lease obligations, net of current portion	-	57,077	-	-	-	-	57,077	-	57,077
Payable from charitable gift annuity	-	-	-	-	121,768	-	121,768	-	121,768
Accrued pension liability	-	2,475,309	-	-	-	-	2,475,309	-	2,475,309
Total liabilities	592,532	32,752,551	864,301	19,443,865	164,630	896,207	54,714,086	(3,837,250)	50,876,836
Net assets (deficit)	77,531	(15,599,833)	(99,069)	221,415	8,203,325	(811,737)	(8,008,368)	(75,000)	(8,083,368)
Total liabilities and net assets (deficit)	<u>\$ 670,063</u>	<u>\$ 17,152,718</u>	<u>\$ 765,232</u>	<u>\$ 19,665,280</u>	<u>\$ 8,367,955</u>	<u>\$ 84,470</u>	<u>\$ 46,705,718</u>	<u>\$ (3,912,250)</u>	<u>\$ 42,793,468</u>

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2011

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Operating revenues:									
Net patient revenues	\$ -	\$ 40,288,508	\$ -	\$ -	\$ -	\$ 1,411,497	\$ 41,700,005	\$ (1,258,029)	\$ 40,441,976
Member services - SummerWood	-	-	-	3,692,263	-	-	3,692,263	-	3,692,263
Adult day health center services	-	-	769,937	-	-	-	769,937	-	769,937
Home health care revenue	-	15,959	5,852,273	-	-	-	5,868,232	-	5,868,232
Grants	246,154	610,918	88,867	-	-	-	945,939	(406,004)	539,935
Management fees	1,813,497	-	-	-	-	-	1,813,497	(1,813,497)	-
Other income	20,417	1,629,997	2,910	238,470	-	-	1,891,794	(1,278,940)	612,854
Net assets released from restrictions used for operations	-	574,393	-	-	46,332	-	620,725	-	620,725
Total operating revenues	<u>2,080,068</u>	<u>43,119,775</u>	<u>6,713,987</u>	<u>3,930,733</u>	<u>46,332</u>	<u>1,411,497</u>	<u>57,302,392</u>	<u>(4,756,470)</u>	<u>52,545,922</u>
Operating expenses:									
Nursing services	-	17,973,955	2,563,250	-	-	101,097	20,638,302	(273,552)	20,364,750
Administration	2,380,179	6,935,086	3,831,973	1,563,416	-	802,008	15,512,662	(3,192,391)	12,320,271
Nutritional services	-	3,079,200	99,172	831,702	-	-	4,010,074	(99,172)	3,910,902
Environmental services	-	1,866,958	12,996	192,285	-	-	2,072,239	-	2,072,239
Building operations	-	1,479,455	56,636	544,937	-	-	2,081,028	-	2,081,028
Depreciation and amortization	-	928,284	47,452	860,436	-	-	1,836,172	-	1,836,172
Interest expense	-	1,146,344	-	237,041	-	-	1,383,385	-	1,383,385
Pharmacy services	-	1,830,870	2,103	-	-	-	1,832,973	-	1,832,973
Medical services	-	4,361,263	21,014	-	-	1,053,788	5,436,065	(762,636)	4,673,429
Rehabilitation services	-	1,464,551	-	-	-	-	1,464,551	-	1,464,551
Provider tax	-	1,190,380	-	-	-	-	1,190,380	-	1,190,380
Life enrichment services	-	487,343	-	230,906	-	-	718,249	(22,715)	695,534
Social services	-	353,048	-	-	-	-	353,048	-	353,048
Bad debt expense	-	900,004	24,403	-	-	-	924,407	-	924,407
Development	929,780	-	-	-	-	-	929,780	(406,004)	523,776
Health information management	-	232,080	-	-	-	-	232,080	-	232,080
Total operating expenses	<u>3,309,959</u>	<u>44,228,821</u>	<u>6,658,999</u>	<u>4,460,723</u>	<u>-</u>	<u>1,956,893</u>	<u>60,615,395</u>	<u>(4,756,470)</u>	<u>55,858,925</u>
(Loss) income from operations	(1,229,891)	(1,109,046)	54,988	(529,990)	46,332	(545,396)	(3,313,003)	-	(3,313,003)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	14,899	-	27,958	193,408	-	236,265	-	236,265
Net realized gains on investments	-	236,176	-	59,046	426,712	-	721,934	-	721,934
Change in cash surrender value of life insurance	-	-	-	-	19,925	-	19,925	-	19,925
Donation expense	-	-	-	-	(407,331)	-	(407,331)	407,331	-
Gifts, bequests, and special events	1,217,577	-	-	-	41,306	-	1,258,883	(407,331)	851,552
Investment fees	-	(21,304)	-	-	(61,161)	-	(82,465)	-	(82,465)
Total non-operating gains	<u>1,217,577</u>	<u>229,771</u>	<u>-</u>	<u>87,004</u>	<u>212,859</u>	<u>-</u>	<u>1,747,211</u>	<u>-</u>	<u>1,747,211</u>
Excess of revenues over (under) expenses	<u>\$ (12,314)</u>	<u>\$ (879,275)</u>	<u>\$ 54,988</u>	<u>\$ (442,986)</u>	<u>\$ 259,191</u>	<u>\$ (545,396)</u>	<u>\$ (1,565,792)</u>	<u>\$ -</u>	<u>\$ (1,565,792)</u>

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2011

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Unrestricted net assets (deficit):									
Excess of revenues over (under) expenses	\$ (12,314)	\$ (879,275)	\$ 54,988	\$ (442,986)	\$ 259,191	\$ (545,396)	\$ (1,565,792)	\$ -	\$ (1,565,792)
Net unrealized losses on investments	-	(234,938)	-	(49,747)	(484,741)	-	(769,426)	-	(769,426)
Net assets released for capital	-	97,222	-	-	-	-	97,222	-	97,222
Transfers to (from) affiliates	-	(177,105)	-	-	177,105	-	-	-	-
Change in pension instrument	-	(1,433,495)	-	-	-	-	(1,433,495)	-	(1,433,495)
Change in unrestricted net assets (deficit)	(12,314)	(2,627,591)	54,988	(492,733)	(48,445)	(545,396)	(3,671,491)	-	(3,671,491)
Temporarily restricted net assets:									
Contributions	-	16,935	-	-	800	-	17,735	-	17,735
Interest and dividend income	-	-	-	-	46,332	-	46,332	-	46,332
Net realized and unrealized gains	-	-	-	-	(62,773)	-	(62,773)	-	(62,773)
Net assets released from restrictions	-	(671,615)	-	-	(46,332)	-	(717,947)	-	(717,947)
Change in temporarily restricted net assets	-	(654,680)	-	-	(61,973)	-	(716,653)	-	(716,653)
Permanently restricted net assets:									
Contributions	-	-	-	-	4,269	-	4,269	-	4,269
Change in permanently restricted net assets	-	-	-	-	4,269	-	4,269	-	4,269
Change in net assets (deficit)	(12,314)	(3,282,271)	54,988	(492,733)	(106,149)	(545,396)	(4,383,875)	-	(4,383,875)
Net assets (deficit), beginning of year (as restated)	77,531	(15,599,833)	(99,069)	221,415	8,203,325	(811,737)	(8,008,368)	(75,000)	(8,083,368)
Net assets (deficit), end of year	<u>\$ 65,217</u>	<u>\$ (18,882,104)</u>	<u>\$ (44,081)</u>	<u>\$ (271,318)</u>	<u>\$ 8,097,176</u>	<u>\$ (1,357,133)</u>	<u>\$ (12,392,243)</u>	<u>\$ (75,000)</u>	<u>\$ (12,467,243)</u>

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets
For the Year Ended September 30, 2010 (restated)

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Operating revenues:									
Net patient revenues	\$ -	\$ 39,453,064	\$ 10,499	\$ -	\$ -	\$ 1,217,828	\$ 40,681,391	\$ (1,073,506)	\$ 39,607,885
Member services - SummerWood	-	-	-	3,453,599	-	-	3,453,599	-	3,453,599
Adult day health center services	-	-	860,696	-	-	-	860,696	-	860,696
Home health care revenue	-	37,311	4,607,048	-	-	-	4,644,359	-	4,644,359
Grants	131,900	1,221,271	112,742	-	-	-	1,465,913	(1,048,771)	417,142
Management fees	1,993,779	-	-	-	-	-	1,993,779	(1,993,779)	-
Other income	2,796	1,580,516	2,350	406,175	-	-	1,991,837	(1,171,359)	820,478
Net assets released from restrictions used for operations	27,434	324,863	-	-	83,395	-	435,692	-	435,692
Total operating revenues	2,155,909	42,617,025	5,593,335	3,859,774	83,395	1,217,828	55,527,266	(5,287,415)	50,239,851
Operating expenses:									
Nursing services	-	16,835,222	1,847,852	1,718	-	103,369	18,788,161	(53,144)	18,735,017
Administration	2,234,798	6,869,612	3,488,299	1,730,086	-	809,839	15,132,634	(3,724,771)	11,407,863
Nutritional services	-	2,946,849	115,756	756,411	-	-	3,819,016	(115,756)	3,703,260
Environmental services	-	1,712,850	13,446	168,185	-	-	1,894,481	-	1,894,481
Building operations	-	1,508,060	63,925	575,672	-	-	2,147,657	-	2,147,657
Depreciation and amortization	-	1,013,819	42,655	847,356	-	-	1,903,830	-	1,903,830
Interest expense	-	1,142,561	-	235,397	-	-	1,377,958	-	1,377,958
Pharmacy services	-	2,078,381	-	-	-	-	2,078,381	-	2,078,381
Medical services	-	4,698,040	116,717	-	-	794,673	5,609,430	(324,285)	5,285,145
Rehabilitation services	-	1,450,218	44,916	-	-	-	1,495,134	-	1,495,134
Provider tax	-	1,082,902	-	-	-	-	1,082,902	-	1,082,902
Life enrichment services	-	411,784	-	194,794	-	-	606,578	(20,688)	585,890
Social services	-	324,255	2,588	-	-	-	326,843	-	326,843
Bad debt expense	-	889,067	22,081	-	-	-	911,148	-	911,148
Development	1,489,639	-	-	-	288,019	-	1,777,658	(1,048,771)	728,887
Health information management	-	164,762	-	-	-	-	164,762	-	164,762
Total operating expenses	3,724,437	43,128,382	5,758,235	4,509,619	288,019	1,707,881	59,116,573	(5,287,415)	53,829,158
Loss from operations	(1,568,528)	(511,357)	(164,900)	(649,845)	(204,624)	(490,053)	(3,589,307)	-	(3,589,307)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	25,844	-	26,088	154,060	-	205,992	-	205,992
Net realized (losses) gains on investments	-	(14,272)	-	42	26,126	-	11,896	-	11,896
Change in value of beneficial interest in charitable gift annuity - unrestricted	-	-	-	-	19,006	-	19,006	-	19,006
Change in cash surrender value of life insurance	-	-	-	-	19,236	-	19,236	-	19,236
Donation expense	-	-	-	-	(270,535)	-	(270,535)	270,535	-
Gifts, bequests, and special events	1,091,322	269,789	-	-	7,048	-	1,368,159	(270,535)	1,097,624
Investment fees	-	(7,334)	-	-	(61,468)	-	(68,802)	-	(68,802)
Total non-operating gains (losses)	1,091,322	274,027	-	26,130	(106,527)	-	1,284,952	-	1,284,952
Excess of revenues over (under) expenses	\$ (477,206)	\$ (237,330)	\$ (164,900)	\$ (623,715)	\$ (311,151)	\$ (490,053)	\$ (2,304,355)	\$ -	\$ (2,304,355)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2010 (restated)

	Hebrew Health Care, Inc.	Hebrew Home and Hospital, Incorporated	Hebrew Community Services, Inc.	Hebrew Life Choices, Inc.	Hebrew Health Care Foundation, Inc.	Connecticut Geriatric Specialty Group, P.C.	Consolidated Totals Prior to Eliminations	Eliminations	Consolidated Totals
Unrestricted net assets (deficit):									
Excess of revenues over (under) expenses	\$ (477,206)	\$ (237,330)	\$ (164,900)	\$ (623,715)	\$ (311,151)	\$ (490,053)	\$ (2,304,355)	\$ -	\$ (2,304,355)
Net unrealized gains on investments	-	63,383	-	25,895	455,850	-	545,128	-	545,128
Net assets released for capital	-	330,982	-	-	-	-	330,982	-	330,982
Change in pension instrument	-	(289,017)	-	-	-	-	(289,017)	-	(289,017)
Change in unrestricted net assets (deficit)	(477,206)	(131,982)	(164,900)	(597,820)	144,699	(490,053)	(1,717,262)	-	(1,717,262)
Temporarily restricted net assets:									
Change in value of beneficial interest in charitable remainder trust	-	(40,268)	-	-	-	-	(40,268)	-	(40,268)
Contributions	27,000	7,009	-	-	-	-	34,009	-	34,009
Bad debts	-	(5,000)	-	(44,537)	-	-	(49,537)	-	(49,537)
Interest and dividend income	-	-	-	-	41,654	-	41,654	-	41,654
Net realized and unrealized gains	-	-	-	-	31,795	-	31,795	-	31,795
Net assets released from restrictions	(27,434)	(655,845)	-	-	(83,395)	-	(766,674)	-	(766,674)
Change in temporarily restricted net assets	(434)	(694,104)	-	(44,537)	(9,946)	-	(749,021)	-	(749,021)
Permanently restricted net assets:									
Contributions	-	-	-	-	7,762	-	7,762	-	7,762
Change in permanently restricted net assets	-	-	-	-	7,762	-	7,762	-	7,762
Change in net assets (deficit)	(477,640)	(826,086)	(164,900)	(642,357)	142,515	(490,053)	(2,458,521)	-	(2,458,521)
Net assets (deficit), beginning of year (as previously reported)	557,671	(14,404,541)	103,831	863,772	8,060,810	(321,684)	(5,140,141)	(75,000)	(5,215,141)
Adjustment for restatement (see Note 2)	(2,500)	(369,206)	(38,000)	-	-	-	(409,706)	-	(409,706)
Net assets (deficit), beginning of year (as restated)	555,171	(14,773,747)	65,831	863,772	8,060,810	(321,684)	(5,549,847)	(75,000)	(5,624,847)
Net assets (deficit), end of year (as restated)	\$ 77,531	\$ (15,599,833)	\$ (99,069)	\$ 221,415	\$ 8,203,325	\$ (811,737)	\$ (8,008,368)	\$ (75,000)	\$ (8,083,368)

See accompanying Independent Auditors' Report.