Hebrew Health Care, Incorporated and Affiliates

Consolidated Audited Financial Statements and
Reports Required for Audits in Accordance with
Government Auditing Standards and OMB Circular A-133

As of and for the Year Ended
September 30, 2012

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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, 2012 and 2011, and the related consolidated statements of operations and changes in net assets (deficit) and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hebrew Health Care, Incorporated and Affiliates as of September 30, 2012 and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Organization has suffered recurring losses from operations and has a net working capital deficiency. The Organization is in default with its $20.2 million Government National Mortgage Association (GNMA)/Wells Fargo mortgage note, which has caused a significant portion of the Organization's long-term debt to be reclassified to current debt, as the debt is now callable by the lender. In addition, the Organization is in violation of certain debt covenants with its CHEFA/TD Bank debt, which have been waived for 2012. These conditions raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

Saslow Lufkin & Buggy, LLP

February 12, 2013

Hebrew Health Care, Incorporated and Affiliates
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 101,189**	$ 166,716
Assets limited as to use, current portion	**670,199**	476,205
Patient accounts receivable, net of allowance for doubtful accounts of $1,070,482 in 2012 and $1,447,074 in 2011	**4,772,209**	5,579,896
Pledges receivable, current portion	**200,700**	300,025
Other receivables	**557,977**	542,741
Inventory	**242,846**	254,313
Prepaid expenses	**369,033**	463,495
Total current assets	**6,914,153**	7,783,391
Assets limited as to use, net of current portion:		
Donor restricted investments	**2,433,731**	2,274,325
Board designated investments	**426,101**	340,676
Investments restricted under debt agreements	**1,803,261**	1,822,123
Beneficial interest in charitable remainder trust	**-**	43,024
Total assets limited to use, net of current portion	**4,663,093**	4,480,148
Property, plant and equipment, net	**19,294,626**	20,698,923
Other assets:		
Pledges receivable, long-term	**36,102**	151,902
Cash surrender value of life insurance	**94,019**	73,428
Investments	**5,729,446**	5,683,965
Deposits	**207,869**	207,869
Mortgage acquisition costs, net	**945,786**	920,642
Due from affiliates	**24,944**	17,653
Total other assets	**7,038,166**	7,055,459
Total assets	**$ 37,910,038**	$ 40,017,921
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Notes and bonds payable, current portion	**$ 19,824,455**	$ 723,104
Capital lease obligations, current portion	**33,461**	37,589
Accounts payable and accrued expenses	**7,722,492**	6,591,498
Lines of credit	**4,802,910**	4,701,639
Funds held in trust	**670,228**	476,205
Deferred revenue	**4,019**	4,001
Total current liabilities	**33,057,565**	12,534,036
Notes and bonds payable, net of current portion	**16,071,799**	35,847,557
Capital lease obligations, net of current portion	**34,189**	24,170
Accrued pension liability	**3,912,819**	4,079,401
Total liabilities	**53,076,372**	52,485,164
Net assets (deficit):		
Unrestricted	**(18,074,254)**	(15,558,091)
Temporarily restricted	**621,592**	804,675
Permanently restricted	**2,286,328**	2,286,173
Total net assets (deficit)	**(15,166,334)**	(12,467,243)
Total liabilities and net assets (deficit)	**$ 37,910,038**	$ 40,017,921

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 (Deficit)
For the Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient revenues	**$ 39,636,855**	$ 40,441,976
Member services - SummerWood	**3,987,385**	3,692,263
Adult day health center services	**714,384**	769,937
Home health care revenue	**6,958,916**	5,868,232
Grants	**630,581**	539,935
Other income	**470,664**	612,854
Net assets released from restrictions used for operations	**351,412**	620,725
Total operating revenues	**52,750,197**	52,545,922
Operating expenses:		
Nursing services	**20,399,800**	20,364,750
Administration	**9,533,503**	9,066,078
Health benefits	**6,139,302**	4,583,901
Nutritional services	**4,139,990**	3,910,902
Medical services	**3,517,348**	3,993,642
Building operations	**1,962,922**	1,744,642
Environmental services	**1,837,155**	2,081,028
Depreciation and amortization	**1,849,349**	1,836,172
Pharmacy services	**1,683,904**	1,773,964
Rehabilitation services	**1,234,725**	1,190,380
Interest expense	**1,374,968**	1,383,385
Provider tax	**1,500,712**	1,464,551
Bad debt expense	**371,809**	464,628
Development	**582,680**	353,048
Life enrichment services	**449,941**	523,776
Social services	**609,013**	924,407
Health information management	**229,116**	199,671
Total operating expenses	**57,416,237**	55,858,925
Loss from operations	**(4,666,040)**	(3,313,003)
Non-operating gains (losses):		
Interest and dividend income and distributions	**230,853**	236,265
Net realized gains on investments	**148,368**	721,934
Change in cash surrender value of life insurance	**20,591**	19,925
Gifts, bequests and special events	**767,660**	851,552
Investment fees	**(76,815)**	(82,465)
Total non-operating gains	**1,090,657**	1,747,211
Excess of revenues over (under) expenses	**$ (3,575,383)**	$ (1,565,792)

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 (Deficit) (continued)
For the Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets (deficit):		
Excess of revenues (under) over expenses	**$ (3,575,383)**	$ (1,565,792)
Net unrealized gains (losses) on investments	**781,847**	(769,426)
Donation for capital campaign	**2,001**	-
Net assets released for capital	**-**	97,222
Change in pension instrument	**275,372**	(1,433,495)
Change in unrestricted net assets (deficit)	**(2,516,163)**	(3,671,491)
Temporarily restricted net assets:		
Contributions	**19,581**	17,735
Interest and dividend income	**45,169**	46,332
Net realized and unrealized gains (losses)	**103,579**	(62,773)
Net assets released from restrictions	**(351,412)**	(717,947)
Change in temporarily restricted net assets	**(183,083)**	(716,653)
Permanently restricted net assets:		
Contributions	**155**	4,269
Change in permanently restricted net assets	**155**	4,269
Change in net assets (deficit)	**(2,699,091)**	(4,383,875)
Net assets (deficit), beginning of year	**(12,467,243)**	(8,083,368)
Net assets (deficit), end of year	**$ (15,166,334)**	$ (12,467,243)

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets (deficit)	**$ (2,699,091)**	$ (4,383,875)
Adjustments to reconcile change in net assets (deficit) to		
net cash provided by operating activities:		
Depreciation and amortization	**1,849,349**	1,836,172
Change in value of beneficial interest in charitable remainder trust	**43,024**	390,699
Change in charitable gift annuity	**-**	(121,768)
Change in cash surrender value of life insurance policy	**(20,591)**	(19,925)
Net (gain) loss on investments	**(1,033,794)**	110,265
Changes in assets and liabilities:		
Patient accounts receivable	**807,687**	307,831
Pledges receivable	**215,125**	147,187
Other receivables	**(15,236)**	62,909
Inventory	**11,467**	(86,322)
Prepaid expenses	**94,462**	(146,937)
Deposits	**-**	(191,028)
Due from affiliates	**(7,291)**	25,258
Accounts payable and accrued expenses	**1,130,994**	477,004
Deferred revenue	**18**	141
Accrued pension liability	**(166,582)**	1,604,092
Net cash provided by operating activities	**209,541**	11,703
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(427,315)**	(585,975)
Net proceeds from investments and assets limited as to use	**762,373**	1,509,987
Net cash provided by investing activities	**335,058**	924,012
Cash flows from financing activities:		
Repayments of notes and bonds payable	**(674,407)**	(682,110)
Capital lease obligation		
Principal payments on capital lease obligations	**(36,990)**	(35,438)
Net change in lines of credit	**101,271**	(190,825)
Net cash used in financing activities	**(610,126)**	(908,373)
Change in cash and cash equivalents	**(65,527)**	27,342
Cash and cash equivalents, beginning of year	**166,716**	139,374
Cash and cash equivalents, end of year	**$ 101,189**	$ 166,716
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 1,374,968**	$ 1,383,385
Non-cash financing activity, capital lease obligation	**$ 42,881**	$ -

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

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 322-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.

Going Concern **-** As shown in the accompanying consolidated financial statements, the Organization has suffered recurring losses from operations and has a net working capital deficiency. In addition, the Organization is in default with its $20.2 million Government National Mortgage Association (GNMA)/Wells Fargo mortgage note, which has caused a significant portion of the Organization's long-term debt to be reclassified to current debt, as the debt is now callable by the lender. In addition, the Organization is in violation of certain debt covenants with its CHEFA/TD Bank, debt which have been waived for 2012. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management believes it can renegotiate the mortgage debt with the Department of Housing and Urban Development in 2013. In addition, it is in the process of requesting pension relief for the unfunded pension liability with the Federal government. Management also has plans to reduce operating expenses, however, without State rate relief, there is no assurance to restore operating profitability.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents - The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents are comprised of money market funds. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. In addition, FDIC coverage for balances in non-interest bearing accounts is unlimited if the bank elects to participate. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. Amounts in excess of the FDIC limit are uninsured. 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.

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 was named as the final trust beneficiary under two irrevocable charitable remainder trusts. During 2011, one of the trusts was released to the Home upon the death of a beneficiary. During 2012, the second trust was exhausted, therefore, the value of the asset was expensed as a change in value of beneficial interest in charitable remainder trust in the schedule of operations and changes in net assets.

Charitable Gift Annuity - The Home was 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, 2012 and 2011.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 2012 or 2011.

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, 2012 and 2011, 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.

Workers' Compensation, Professional and General Liability Insurance **-** The Organization maintains workers' compensation, medical malpractice and general liability policies. Effective October 1, 2011 and for all periods presented, the Organization adopted provisions of Accounting Standards Update (ASU) No. 2010-24, *"Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries"*, which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with the Organization's adoption of ASU 2010-24, the Organization recorded increases under the captions "Other receivables" and "Accounts payable and accrued expenses" in the accompanying consolidated balance sheets by $477,000, as of September 30, 2012 and 2011. The increase represents the Organization's estimate of liabilities and recoveries for certain workers' compensation and general liability claims. There are no known professional liability claims to record as of September 30, 2012 and 2011. The adoption of ASU 2010-24 had no impact on the Organization's consolidated results of operations or cash flows.

Note 2 - Summary of Significant Accounting Policies (continued)

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.
>
> ***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 excess of revenues over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized 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 72% of the Organization's gross revenues were received from Medicare and Medicaid during the years ended September 30, 2012 and 2011.

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 $6,857,535 in 2012 and $7,533,123 in 2011.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 $237,266 and $211,000 of volunteer services from the community during each of the years ended September 30, 2012 and 2011. 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 $233,508 and $172,013 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011. As of September 30, 2012 and 2011, 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted **-** 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. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. The Organization's adoption of ASU 2010-23 did not have a material impact on its overall consolidated financial statements.

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 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Organization's adoption of ASU 2010-24 did not have an impact on its overall consolidated financial statements, other than grossing up the consolidated balance sheet for expected claim recoveries and liabilities of $477,000, as previously discussed.

Pending Accounting Pronouncements **-** In May 2011, the FASB issued ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs"*. ASU No. 2011-04 amends certain guidance in ASC 820, *"Fair Value Measurement"*. ASU 2011-04 expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. The Organization is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Organization's consolidated financial statements.

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. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. The Organization does not believe adoption of ASU 2011-07 will have a material impact on its overall consolidated financial statements.

Reclassifications **-** Certain reclassifications to the 2011 consolidated financial statements have been made in order to conform with the 2012 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events **-** Subsequent events have been evaluated through February 12, 2013, 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 $15,000 and $25,000 received from the Auxiliary during the years ended September 30, 2012 and 2011, respectively. Non-interest bearing advances totaling $24,944 and $17,653 were due from the Auxiliary as of September 30, 2012 and 2011, respectively. Pledges receivable and temporarily restricted contributions from the Auxiliary were $36,315 and $46,315 as of September 30, 2012 and 2011, respectively.

Members of the Organization's Board of Trustees are members of law firms that the Organization used for legal services during 2012 and 2011. Total legal expenses paid to these firms during the years ended September 30, 2012 and 2011 were approximately $17,000 and $19,000, respectively. As of September 30, 2012 and 2011, there was $31,578 and $8,533 owed to these firms, respectively.

The Organization also purchases services from companies owned by or employing individual board members. Total amounts expended for such services, which primarily includes insurance services, during the years ended September 30, 2012 and 2011 totaled approximately $585,000 and $635,000, respectively. As of September 30, 2012 and 2011, there was $62,430 and $7,481 owed to these companies, respectively. There is one member of the Board of Trustees who holds a position at Farmington Bank, an institution with which the Organization has a note payable.

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, 2012 and 2011 are distributed as follows:

	2012	2011
Medicaid	**37%**	48%
Medicare	**29%**	26%
Private patients and other third-party payers	**34%**	26%
Total	**100%**	100%

Patient accounts receivable balances are net of an allowance for doubtful accounts of $1,070,482 and $1,447,074 as of September 30, 2012 and 2011, 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 as of September 30, 2012 and 2011:

	2012	2011
Current assets limited as to use:		
Security deposits - cash	**$ 339,843**	$ 355,676
Patient funds held in trust - cash	**330,356**	120,529
	670,199	476,205
Investments restricted under debt agreements:		
Mortgage reserve funds	**439,780**	483,281
Liquidity reserve fund	**858,821**	834,815
Other reserves - Farmington Bank	**132,055**	131,422
Replacement reserve funds	**372,605**	372,605
Beneficial interest in charitable remainder trust	**-**	43,024
Donor and board restricted investments	**2,859,832**	2,615,001
	4,663,093	4,480,148
Total assets limited as to use	**$ 5,333,292**	$ 4,956,353

The following is a summary of the asset allocation of assets limited to use, as of September 30, 2012 and 2011:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Cash and equivalents	**$ 1,279,661**	**24%**	$ 1,146,248	23%
U.S. obligations	**851,180**	**16%**	212,536	4%
Fixed income	**28,917**	**1%**	319,311	6%
Time deposits	**250,000**	**5%**	250,000	5%
Equities	**63,702**	**1%**	370,233	7%
Beneficial interest in charitable remainder trust	**-**	**0%**	43,024	1%
Donor and board restricted investments	**2,859,832**	**53%**	2,615,001	54%
	$ 5,333,292	**100%**	$ 4,956,353	100%

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 as of September 30, 2012 and 2011:

	2012	2011
Land	**$ 2,612,381**	$ 2,612,381
Building and building improvements	**43,929,834**	43,832,398
Furnishings and equipment	**4,565,996**	4,420,921
Motor vehicles	**414,082**	361,444
Construction in progress	**210,228**	78,062
Total	**51,732,521**	51,305,206
Less: Accumulated depreciation and amortization	**(32,437,895)**	(30,606,283)
Net property, plant and equipment	**$ 19,294,626**	$ 20,698,923

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.

Note 7 - Investments

Investments, which include donor and board restricted investments, are stated at fair value and consist of the following, as of September 30, 2012 and 2011:

	2012	2011
Pooled funds held by JCF	**$ 3,764,471**	$ 3,658,987
Domestic equity securities	**3,018,527**	2,694,209
International equity securities	**17,715**	15,415
Bonds	**29,900**	30,900
Money market funds	**207,635**	309,443
Domestic fixed income	**1,536,707**	1,579,788
International fixed income	**4,538**	3,268
Public REITs	**6,497**	4,070
Commodity funds	**3,288**	2,886
Total	**$ 8,589,278**	$ 8,298,966

The pooled funds represent approximately 4.5% and 4.9% of the units in a portfolio of investments managed by the JCF as of September 30, 2012 and 2011, respectively.

Note 7 - Investments (continued)

The following is a summary of the asset allocation of the pooled funds at JCF as of September 30, 2012 and 2011:

	2012	**2011**
Equities	**59%**	57%
U.S. obligations and bonds	**25%**	26%
Alternative investments	**14%**	15%
Cash and equivalents	**2%**	2%
Total	**100%**	100%

As of September 30, 2012 and 2011, net realized and unrealized gains (losses) on investments and assets limited as to use totaled $1,033,794 and $(110,265), 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, 2012 and 2011, JCF held $1,522,999 and $1,341,831, respectively, of certain designated and charitable gift annuities for the benefit of the Organization.

The following tables show the gross unrealized losses and fair values of the Organization's investments with unrealized losses as of September 30, 2012 and 2011. These losses are not deemed to be other than temporarily impaired.

	Less Than 12 Months		**12 Months or Greater**		**Total**	
2012	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Equities:						
Consumer discretionary	$ 35,910	$ 560	$ -	$ -	$ 35,910	$ 560
Consumer staples	51,585	773	31,257	9,334	82,842	10,107
Energy	82,954	2,551	-	-	82,954	2,551
Health care	15,663	3,418	-	-	15,663	3,418
Industrial	21,471	502	-	-	21,471	502
Information technology	30,422	3,071	87,557	16,939	117,979	20,010
Materials	44,330	5,042	-	-	44,330	5,042
Mutual funds	-	-	383,408	6,131	383,408	6,131
Fixed income	483,939	5,972	-	-	483,939	5,972
Commodity funds	-	-	3,288	712	3,288	712
Total	$ 766,274	$ 21,889	$ 505,510	$ 33,116	$ 1,271,784	$ 55,005

Note 7 - Investments (continued)

	Less Than 12 Months		12 Months or Greater		Total	
2011	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
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	$ 1,752,306	$ 253,751	$ 360,171	$ 34,046	$ 2,112,477	$ 287,797

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"*.

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.

Note 8 - Fair Value Measurements (continued)

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.

The following table presents the financial instruments carried at fair value as of September 30, 2012 by the valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Investments (including donor and board restricted):				
Pooled funds held in custody	$ -	$ -	$ 3,764,471	$ 3,764,471
Domestic equity securities	3,018,527	-	-	3,018,527
International equity securities	17,715	-	-	17,715
Bonds	-	29,900	-	29,900
Money market funds	-	207,635	-	207,635
Domestic fixed income	-	1,536,707	-	1,536,707
International fixed income	-	4,538	-	4,538
Public REITs	-	6,497	-	6,497
Commodity funds	-	3,288	-	3,288
Total	3,036,242	1,788,565	3,764,471	8,589,278
Other assets limited as to use:				
Cash and equivalents	1,279,661	-	-	1,279,661
U.S. obligations	-	851,180	-	851,180
Fixed income	-	28,917	-	28,917
Time deposits	-	250,000	-	250,000
Equities	63,702	-	-	63,702
Total	1,343,363	1,130,097	-	2,473,460
Pension plan assets:				
Cash	6,409	-	-	6,409
Money market funds	-	111,362	-	111,362
Corporate and foreign bonds	-	491,424	-	491,424
Common equity funds	3,105,945	-	-	3,105,945
Preferred equity securities	129,655	-	-	129,655
Mutual funds	647,124	910,594	-	1,557,718
Total	3,889,133	1,513,380	-	5,402,513
Total	$ 8,268,738	$ 4,432,042	$ 3,764,471	$ 16,465,251

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:

	Level 1	Level 2	Level 3	Total
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	2,709,624	1,930,355	3,658,987	8,298,966
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	1,516,481	781,847	-	2,298,328
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	3,095,151	1,472,630	-	4,567,781
Beneficial interest in charitable remainder trust	-	-	43,024	43,024
Total	$ 7,321,256	$ 4,184,832	$ 3,702,011	$ 15,208,099

Note 8 - Fair Value Measurements (continued)

A rollforward as of September 30, 2012 and 2011 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

	Pooled Funds	Beneficial Interest	Total
Balance at October 1, 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	3,658,987	43,024	3,702,011
Change in beneficial interest	-	(43,024)	(43,024)
Investment income:			
Net realized/unrealized gain on investments	516,324	-	516,324
Interest and dividends	84,305	-	84,305
Investment fees	(41,054)	-	(41,054)
Distributions	(485,000)	-	(485,000)
Purchase of investments	30,909	-	30,909
Balance at September 30, 2012	$ 3,764,471	$ -	$ 3,764,471

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 public real estate investment trust funds, commodity funds, time deposits 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.

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.

	Fair Value	# of Funds	Unfunded Commitments	Timing to Draw Down	Redemption Period	Redemption Notice Period	Remaining Life
Pooled funds held in custody (a)	$ 3,764,471	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, 2012 and 2011, 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.

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%.

	2012	2011
Pledges receivable, gross	**$ 267,400**	$ 481,340
Less: Unamortized discount	**(30,598)**	(29,413)
Net unconditional promises to give	**$ 236,802**	$ 451,927
Due within one year	**$ 200,700**	$ 302,525
Due in one to five years	**66,700**	178,815
Total	**$ 267,400**	$ 481,340

Note 10 - Lines of Credit

As of September 30, 2012 and 2011, 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, 2012 and 2011. The first line of credit is secured by $4,607,067 and $4,097,269 of marketable securities maintained at TD Wealth Management and is subject to certain covenants as of September 30, 2012 and 2011, respectively. The Organization was in violation of certain covenants under these agreements for the years ended September 30, 2012 and 2011, however, these 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, 2012 and 2011. The second line of credit is secured by investments of the Foundation. The balances outstanding on these lines of credit totaled $4,802,910 and $4,701,639 as of September 30, 2012 and 2011, respectively and are subject to annual review expiring on May 31, 2013.

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, 2012 and 2011.

Note 11 - Notes and Bonds Payable

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

	2012	2011
$20,242,000 Government National Mortgage Association (GNMA) mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association.	**$ 19,424,575**	$ 19,664,045
$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B.	**16,400,000**	16,735,000
Note payable to the Metropolitan District Commission in annual installments totaling $13,611, including interest at 6%, maturing in June, 2015.	**32,581**	43,363
Note payable to Farmington Bank in monthly installments totaling $7,858, including interest at 5.6%, maturing in February, 2013.	**39,098**	128,253
	35,896,254	36,570,661
Less: Current portion	**(19,824,455)**	(723,104)
Total	**$ 16,071,799**	$ 35,847,557

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

2013	$ 19,824,455
2014	380,900
2015	395,899
2016	405,000
2017	425,000
Thereafter	14,465,000
	$ 35,896,254

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, 2012 and 2011, the Organization incurred $976,649 and $990,696, respectively, in interest expense related to the mortgage. The fair value of the debt is approximately equal to its carrying value at September 30, 2012 and 2011.

Note 11 - 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.

As discussed in Note 2, the Organization is in default of its mortgage note as the Organization has stopped paying its mortgage payments since June 2012. The non-payments are in event of default and this default has caused the mortgage note to be reclassified to current debt, as the debt is now callable by the lender.

***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 bonds due July 1, 2037. The bonds are secured by land, building and a letter of credit with an expiration date of November 7, 2015. During the years ended September 30, 2012 and 2011, the Organization incurred $168,004 and $181,575, respectively, in interest expense related to the bonds. The fair value of the debt is approximately equal to its carrying value as of September 30, 2012 and 2011.

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, 2012 and 2011, however, the Organization received a waiver for these covenant violations.

Note 12 - 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 $29,275 and $56,110 as of September 30, 2012 and 2011, respectively. There was an outstanding balance of $21,280 and $52,156 as of September 30, 2012 and 2011, respectively.

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 $1,632 and $18,506 as of September 30, 2012 and 2011, respectively. There was an outstanding balance of $3,489 and $9,603 as of September 30, 2012 and 2011, respectively.

Note 12 - Capital Lease Obligations (continued)

During 2012, the Organization entered into a lease arrangement, due in monthly payments of $951 through November 2016, collateralized by the leased vehicle with a net book value of $40,578 as of September 30, 2012. There was an outstanding balance of $42,881 as of September 30, 2012.

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

2013	$	36,227
2014		11,410
2015		11,410
2016		11,410
2017		1,903
		72,360
Less: Amounts representing interest		(4,710)
Total	$	67,650

Note 13 - Accounts Payable and Accrued Expenses

The following is a summary of accounts payable and accrued expenses as of September 30, 2012 and 2011:

		2012		**2011**
Accounts payable	**$**	**3,668,755**	$	2,963,186
Accrued vacation		**2,526,229**		2,504,554
Accrued employee benefits		**514,290**		313,605
Accrued payroll		**630,254**		478,210
Provider tax		**382,964**		331,943
Total	**$**	**7,722,492**	$	6,591,498

Note 14 - 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 $305,748 and $274,785 for the years ended September 30, 2012 and 2011, respectively. Information as to the amount of net assets available for benefits is not available.

Note 14 - Pension Plans (continued)

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 $299,703 and $51,209 for the years ended September 30, 2012 and 2011, respectively. 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 $169,321 and $163,268 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011 are as follows:

	2012	2011
Changes in benefit obligations:		
Benefit obligations at beginning of year	**$ 8,647,182**	$ 7,582,629
Interest cost	**395,949**	379,500
Benefits paid to participants	**(350,364)**	(411,775)
Actuarial loss	**622,565**	1,096,828
Benefit obligations at end of year	**$ 9,315,332**	$ 8,647,182

	2012	**2011**
Changes in plan assets:		
Fair value of plan assets at beginning of year	**$ 4,567,781**	$ 5,107,320
Actual return on plan assets	**885,393**	(178,973)
Employer contributions	**299,703**	51,209
Benefits paid	**(350,364)**	(411,775)
Fair value of plan assets at end of year	**$ 5,402,513**	$ 4,567,781
Accrued pension liability (no current portion is due)	**$ (3,912,819)**	$ (4,079,401)

Note 14 - Pension Plans (continued)

Assumptions:

Weighted-average assumptions used to determine benefit obligations:	2012	2011
Discount rate	**4.10%**	4.65%
Expected return on plan assets	**7.50%**	8.00%

Weighted-average assumptions used to determine net periodic benefit cost:	2012	2011
Discount rate	**4.65%**	5.00%
Expected long-term return on plan assets	**8.00%**	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2012 and 2011, not yet amortized as components of net periodic benefit costs, are as follows:

	2012	2011
Net actuarial loss	**$ 4,199,309**	$ 4,474,681

The amortization of the above items expected to be recognized in net periodic benefit costs are approximately $390,043 for the year ended September 30, 2013. The components of net periodic benefit cost for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
Components of net periodic benefit cost:		
Interest cost	**$ 395,949**	$ 379,500
Expected return on plan assets	**(347,110)**	(400,321)
Recognized net loss	**359,654**	242,627
Net periodic benefit cost	**$ 408,493**	$ 221,806

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.

Note 14 - Pension Plans (continued)

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

	2012	2011
Equity securities	**72%**	67%
Debt securities	**26%**	31%
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:

2013	$	856,000
2014	$	388,000
2015	$	519,000
2016	$	754,000
2017	$	558,000
2018 - 2022	$	3,540,000

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 15 - 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 $6,139,302 and $4,583,901 for the years ended September 30, 2012 and 2011, respectively. The Organization has also recorded a liability for incurred but not reported claims of $325,000 and $327,598 as of September 30, 2012 and 2011, respectively. In addition, the Organization has purchased stop loss insurance coverage. The coverage is initiated when a loss reaches $150,000 on a per claim basis.

Note 16 - Commitments and Contingencies

Operating Leases - The Organization leases various office equipment under operating leases expiring through September 2015. 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. Rental expense under these leases amounted to $86,510 and $89,862 for the years ended September 30, 2012 and 2011, respectively.

Note 16 - Commitments and Contingencies (continued)

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

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 17 - 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, 2012 and 2011:

	2012	**2011**
Ticket sales and sponsorships	**$ 251,363**	$ 235,202
Less: Expenses	**(58,685)**	(53,900)
Net special events income	**$ 192,678**	$ 181,302

Note 18 - Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of September 30, 2012 and 2011:

	2012	**2011**
Harry and Jeanette Weinberg Foundation Challenge	**$ 354,930**	$ 354,930
Second Century Campaign	**159,435**	334,435
Interest in split interest agreement	**-**	43,024
Other funds	**28,080**	29,563
Annual Fund	**28,500**	28,500
The Music Fund	**13,800**	8,650
The Rabbi Fund	**3,302**	3,611
Appreciation of permanently restricted net assets	**33,545**	1,962
Total	**$ 621,592**	$ 804,675

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 19 - Permanently Restricted Net Assets

Permanently restricted net assets total $2,286,328 and $2,286,173 as of September 30, 2012 and 2011, respectively, include investments to be held in perpetuity, the income of which is expendable to support patient special needs and other services.

Note 20 - Conditional Promises to Contribute

At September 30, 2012 and 2011, the Organization had received $1,056,000 and $1,076,600 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 21 - Professional Liability Insurance

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through September 30, 2012, 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, 2012 and 2011. The $477,000 of expected insurance liabilities and recoveries discussed earlier in footnote 2, relates to workers' compensation and general liability coverages.

Note 22 - Endowment Net Assets

Changes in endowment net assets for the years ended September 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 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	(90,663)	(46,332)	-	(136,995)
Balance at September 30, 2011	340,676	1,962	2,286,173	2,628,811
Investment return:				
Investment income	16,645	45,169	-	61,814
Net change in market value	102,268	103,579	-	205,847
Contributions	23,199	7,532	155	30,886
Distributions and fees	(56,687)	(124,697)	-	(181,384)
Balance at September 30, 2012	$ 426,101	$ 33,545	$ 2,286,328	$ 2,745,974

Note 22 - Endowment Net Assets (continued)

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, 2012 and 2011, the Board of Trustees approved an appropriation in the amount of $181,384 and $136,995, respectively.

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 approved spending from Foundation investments was $400,000 and $407,331 for the years ended September 30, 2012 and 2011, 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 $237,387 and $321,572 for the years ended September 30, 2012 and 2011, respectively and have been accounted for in unrestricted realized and unrealized losses. During the year ended September 30, 2012 and 2011, gains of approximately $86,997 and $591 associated with donor restricted funds were recorded as unrestricted to restore deficiency losses recorded in unrestricted net assets as of September 30, 2012 and 2011, respectively.

Note 23 - Functional Expenses

Expenses of the Organization incurred during the years ended September 30, 2012 and 2011 by functional area were as follows:

	2012	2011
Health care services	$ 39,263,765	$ 39,560,012
General and administrative	17,890,087	15,878,022
Fundraising	262,385	420,891
Total	$ 57,416,237	$ 55,858,925

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet
September 30, 2012

	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	$ 67,870	$ 25,749	$ 837	$ 3,404	$ 3,329	$ -	$ 101,189	$ -	$ 101,189
Assets limited as to use, current portion	-	326,856	-	343,343	-	-	670,199	-	670,199
Patient accounts receivable, net of allowance for doubtful accounts of $1,070,482	-	3,983,608	786,975	1,626	-	-	4,772,209	-	4,772,209
Pledges receivable, current portion	190,700	10,000	-	-	-	-	200,700	-	200,700
Other receivables	12,796	545,181	-	-	174,000	-	731,977	(174,000)	557,977
Inventory	-	242,846	-	-	-	-	242,846	-	242,846
Prepaid expenses	3,654	220,109	10,853	113,421	-	20,996	369,033	-	369,033
Total current assets	275,020	5,354,349	798,665	461,794	177,329	20,996	7,088,153	(174,000)	6,914,153
Assets limited as to use, net of current portion:									
Donor restricted investments	-	-	-	-	2,433,731	-	2,433,731	-	2,433,731
Board designated investments	-	-	-	-	426,101	-	426,101	-	426,101
Investments restricted under debt agreements	-	725,705	-	1,077,556	-	-	1,803,261	-	1,803,261
Total assets limited to use, net of current portion	-	725,705	-	1,077,556	2,859,832	-	4,663,093	-	4,663,093
Property, plant and equipment, net	-	5,310,970	113,271	13,945,385	-	-	19,369,626	(75,000)	19,294,626
Other assets:									
Pledges receivable, long-term	9,787	26,315	-	-	-	-	36,102	-	36,102
Cash surrender value of life insurance	-	-	-	-	94,019	-	94,019	-	94,019
Investments	-	215,282	-	-	5,514,164	-	5,729,446	-	5,729,446
Deposits	-	198,278	9,591	-	-	-	207,869	-	207,869
Mortgage acquisition costs, net	-	349,574	-	596,212	-	-	945,786	-	945,786
Due from affiliates	498,755	248,245	78,420	-	233,026	-	1,058,446	(1,033,502)	24,944
Total other assets	508,542	1,037,694	88,011	596,212	5,841,209	-	8,071,668	(1,033,502)	7,038,166
Total assets	$ 783,562	$ 12,428,718	$ 999,947	$ 16,080,947	$ 8,878,370	$ 20,996	$ 39,192,540	$ (1,282,502)	$ 37,910,038

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Balance Sheet (continued)
September 30, 2012

	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	$ -	$ 19,463,673	$ -	$ 360,782	$ -	$ -	$ 19,824,455	$ -	$ 19,824,455
Capital lease obligations, current portion	-	24,769	-	8,692	-	-	33,461	-	33,461
Accounts payable and accrued expenses	369,477	6,282,274	474,526	304,649	-	291,566	7,722,492	-	7,722,492
Lines of credit	-	3,499,999	-	1,302,911	-	-	4,802,910	-	4,802,910
Funds held in trust	-	326,856	-	343,372	-	-	670,228	-	670,228
Deferred revenue	-	-	4,019	-	-	-	4,019	-	4,019
Total current liabilities	369,477	29,597,571	478,545	2,320,406	-	291,566	33,057,565	-	33,057,565
Due to affiliates	481,271	-	473,811	72,801	5,619	-	1,033,502	(1,033,502)	-
Notes and bonds payable, net of current portion	-	-	174,000	16,071,799	-	-	16,245,799	(174,000)	16,071,799
Capital lease obligations, net of current portion	-	-	-	34,189	-	-	34,189	-	34,189
Accrued pension liability	-	3,912,819	-	-	-	-	3,912,819	-	3,912,819
Total liabilities	850,748	33,510,390	1,126,356	18,499,195	5,619	291,566	54,283,874	(1,207,502)	53,076,372
Net assets (deficit)	(67,186)	(21,081,672)	(126,409)	(2,418,248)	8,872,751	(270,570)	(15,091,334)	(75,000)	(15,166,334)
Total liabilities and net assets (deficit)	$ 783,562	$ 12,428,718	$ 999,947	$ 16,080,947	$ 8,878,370	$ 20,996	$ 39,192,540	$ (1,282,502)	$ 37,910,038

See accompanying Independent Auditors' Report.

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	534,883	-	-	180,000	-	722,741	(180,000)	542,741
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	6,096,814	843,385	490,089	183,325	32,429	7,963,391	(180,000)	7,783,391
Assets limited as to use, net of current portion:									
Donor restricted investments	-	-	-	-	2,274,325	-	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	-	817,163	-	1,047,984	2,615,001	-	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	-	435,262	-	-	5,248,703	-	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	-	59,544	-	1,690,317	-	-	1,749,861	(1,732,208)	17,653
Total other assets	115,587	1,090,973	9,591	2,249,385	5,322,131	-	8,787,667	(1,732,208)	7,055,459
Total assets	$ 432,936	$ 13,990,012	$ 1,004,197	$ 18,425,098	$ 8,120,457	$ 32,429	$ 42,005,129	$ (1,987,208)	$ 40,017,921

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	5,323,130	464,956	355,737	-	222,024	6,591,498	-	6,591,498
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	9,354,180	468,957	2,263,224	-	222,024	12,534,036	-	12,534,036
Due to affiliates	142,068	-	399,321	-	23,281	1,167,538	1,732,208	(1,732,208)	-
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	367,719	32,872,116	1,048,278	18,696,416	23,281	1,389,562	54,397,372	(1,912,208)	52,485,164
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)	$ 432,936	$ 13,990,012	$ 1,004,197	$ 18,425,098	$ 8,120,457	$ 32,429	$ 42,005,129	$ (1,987,208)	$ 40,017,921

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit)
For the Year Ended September 30, 2012

	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	$ -	$ 39,482,559	$ -	$ -	$ -	$ 1,133,067	$ 40,615,626	$ (978,771)	$ 39,636,855
Member services - SummerWood	-	-	-	3,987,385	-	-	3,987,385	-	3,987,385
Adult day health center services	-	-	714,384	-	-	-	714,384	-	714,384
Home health care revenue	-	39,292	6,919,624	-	-	-	6,958,916	-	6,958,916
Grants	301,754	643,332	86,535	-	-	-	1,031,621	(401,040)	630,581
Management fees	2,651,783	-	-	-	-	-	2,651,783	(2,651,783)	-
Other income	19,805	2,194,565	6,396	272,880	-	-	2,493,646	(2,022,982)	470,664
Net assets released from restrictions used for operations	-	226,715	-	-	124,697	-	351,412	-	351,412
Total operating revenues	2,973,342	42,586,463	7,726,939	4,260,265	124,697	1,133,067	58,804,773	(6,054,576)	52,750,197
Operating expenses:									
Nursing services	-	17,826,871	2,796,468	-	-	108,438	20,731,777	(331,977)	20,399,800
Administration	2,750,565	4,460,725	4,098,147	1,749,397	-	922,795	13,981,629	(4,448,126)	9,533,503
Health benefits	197,975	4,949,255	594,570	276,013	-	121,489	6,139,302	-	6,139,302
Nutritional services	-	3,261,281	90,966	878,709	-	-	4,230,956	(90,966)	4,139,990
Environmental services	-	1,632,716	8,352	196,087	-	-	1,837,155	-	1,837,155
Building operations	-	1,371,186	78,520	513,216	-	-	1,962,922	-	1,962,922
Depreciation and amortization	-	928,852	47,539	872,958	-	-	1,849,349	-	1,849,349
Interest expense	-	1,138,757	-	236,211	-	-	1,374,968	-	1,374,968
Pharmacy services	-	1,683,904	-	-	-	-	1,683,904	-	1,683,904
Medical services	-	3,288,761	20,128	-	-	965,766	4,274,655	(757,307)	3,517,348
Rehabilitation services	-	1,234,725	-	-	-	-	1,234,725	-	1,234,725
Provider tax	-	1,500,712	-	-	-	-	1,500,712	-	1,500,712
Life enrichment services	-	475,101	-	-	-	-	475,101	(25,160)	449,941
Social services	-	556,242	52,771	-	-	-	609,013	-	609,013
Bad debt expense	-	350,003	21,806	-	-	-	371,809	-	371,809
Development	983,720	-	-	-	-	-	983,720	(401,040)	582,680
Health information management	-	229,116	-	-	-	-	229,116	-	229,116
Total operating expenses	3,932,260	44,888,207	7,809,267	4,722,591	-	2,118,488	63,470,813	(6,054,576)	57,416,237
(Loss) income from operations	(958,918)	(2,301,744)	(82,328)	(462,326)	124,697	(985,421)	(4,666,040)	-	(4,666,040)
Non-operating gains (losses):									
Interest and dividend income and distributions	-	7,348	-	16,301	207,204	-	230,853	-	230,853
Net realized gains on investments	-	28,522	-	41,572	78,274	-	148,368	-	148,368
Change in cash surrender value of life insurance	-	-	-	-	20,591	-	20,591	-	20,591
Donation expense	-	-	-	-	(400,000)	-	(400,000)	400,000	-
Gifts, bequests, and special events	1,142,738	36	-	-	24,886	-	1,167,660	(400,000)	767,660
Investment fees	-	(1,117)	-	-	(75,698)	-	(76,815)	-	(76,815)
Total non-operating gains	1,142,738	34,789	-	57,873	(144,743)	-	1,090,657	-	1,090,657
Excess of revenues over (under) expenses	$ 183,820	$ (2,266,955)	$ (82,328)	$ (404,453)	$ (20,046)	$ (985,421)	$ (3,575,383)	$ -	$ (3,575,383)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit) (continued)
For the Year Ended September 30, 2012

	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	$ 183,820	$ (2,266,955)	$ (82,328)	$ (404,453)	$ (20,046)	$ (985,421)	$ (3,575,383)	$ -	$ (3,575,383)
Net unrealized gains on investments	-	4,680	-	13,284	763,883	-	781,847	-	781,847
Donation for capital campaign	-	2,001	-	-	-	-	2,001	-	2,001
Equity transfer to HHC from HLCI	1,755,761	-	-	(1,755,761)	-	-	-	-	-
Equity transfer to CGSG from HHC	(2,071,984)	-	-	-	-	2,071,984	-	-	-
Change in pension instrument	-	275,372	-	-	-	-	275,372	-	275,372
Change in unrestricted net assets (deficit)	(132,403)	(1,984,902)	(82,328)	(2,146,930)	743,837	1,086,563	(2,516,163)	-	(2,516,163)
Temporarily restricted net assets:									
Contributions	-	12,049	-	-	7,532	-	19,581	-	19,581
Interest and dividend income	-	-	-	-	45,169	-	45,169	-	45,169
Net realized and unrealized gains	-	-	-	-	103,579	-	103,579	-	103,579
Net assets released from restrictions	-	(226,715)	-	-	(124,697)	-	(351,412)	-	(351,412)
Change in temporarily restricted net assets	-	(214,666)	-	-	31,583	-	(183,083)	-	(183,083)
Permanently restricted net assets:									
Contributions	-	-	-	-	155	-	155	-	155
Change in permanently restricted net assets	-	-	-	-	155	-	155	-	155
Change in net assets (deficit)	(132,403)	(2,199,568)	(82,328)	(2,146,930)	775,575	1,086,563	(2,699,091)	-	(2,699,091)
Net assets (deficit), beginning of year	65,217	(18,882,104)	(44,081)	(271,318)	8,097,176	(1,357,133)	(12,392,243)	(75,000)	(12,467,243)
Net assets (deficit), end of year	$ (67,186)	$ (21,081,672)	$ (126,409)	$ (2,418,248)	$ 8,872,751	$ (270,570)	$ (15,091,334)	$ (75,000)	$ (15,166,334)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit)
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	2,080,068	43,119,775	6,713,987	3,930,733	46,332	1,411,497	57,302,392	(4,756,470)	52,545,922
Operating expenses:									
Nursing services	-	17,973,955	2,563,250	-	-	101,097	20,638,302	(273,552)	20,364,750
Administration	2,226,976	4,315,666	3,406,004	1,563,416	-	746,407	12,258,469	(3,192,391)	9,066,078
Health benefits	153,203	3,718,222	425,969	230,906	-	55,601	4,583,901	-	4,583,901
Nutritional services	-	3,079,200	99,172	831,702	-	-	4,010,074	(99,172)	3,910,902
Environmental services	-	1,539,361	12,996	192,285	-	-	1,744,642	-	1,744,642
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	-	1,771,861	2,103	-	-	-	1,773,964	-	1,773,964
Medical services	-	3,681,476	21,014	-	-	1,053,788	4,756,278	(762,636)	3,993,642
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	-	-	-	-	487,343	(22,715)	464,628
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	-	199,671	-	-	-	-	199,671	-	199,671
Total operating expenses	3,309,959	44,228,821	6,658,999	4,460,723	-	1,956,893	60,615,395	(4,756,470)	55,858,925
(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	1,217,577	229,771	-	87,004	212,859	-	1,747,211	-	1,747,211
Excess of revenues over (under) expenses	$ (12,314)	$ (879,275)	$ 54,988	$ (442,986)	$ 259,191	$ (545,396)	$ (1,565,792)	$ -	$ (1,565,792)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Consolidating Statement of Operations and Changes in Net Assets (Deficit) (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	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	$ 65,217	$ (18,882,104)	$ (44,081)	$ (271,318)	$ 8,097,176	$ (1,357,133)	$ (12,392,243)	$ (75,000)	$ (12,467,243)

See accompanying Independent Auditors' Report.

Hebrew Health Care, Incorporated and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Major Program:		
U.S. Department of Housing and Urban Development:		
Mortgage Insurance - Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities	14.129	$ 19,424,575
Total Major Program		19,424,575
Other Expenditures of Federal Awards:		
U.S. Department of Agriculture:		
Passed-through the State of Connecticut Department of Education:		
Child and Adult Care Food Program	10.558	29,634
Total Other Federal Expenditures		29,634
Total Federal Expenditures		$ 19,454,209

See accompanying notes to the schedule of expenditures of federal awards.

Hebrew Health Care, Incorporated and Affiliates
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Note 1 - General

Various departments and agencies of the federal government have provided financial assistance to Hebrew Health Care, Incorporated and Affiliates (the Organization) through grants and other authorizations in accordance with the federal laws and regulations. These financial assistance programs provide funding for several programs as listed on the Schedule of Expenditures of Federal Awards.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Presentation

The consolidated financial statements contained in the Organization's annual audit are prepared on the accrual basis of accounting. The following is a summary of such basis:

- Revenues are recognized when they are earned. Due to certain grants having fiscal periods different from the Organization, the revenue is prorated over the grant period as services are provided.

- Expenses are recorded in the period when incurred.

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Organization's basic consolidated financial statements.

Loans Outstanding

The expenditures of federal awards listed above for CFDA Number 14.129 represent the loan balance outstanding as of September 30, 2012. The Organization is currently in default with this debt agreement.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the consolidated financial statements of Hebrew Health Care, Incorporated and Affiliates (the Organization) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Hebrew Health Care, Incorporated and Affiliates is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as findings 12-1, 12-2 and 12-3.

We noted certain other matters that we reported to management of the Organization in a separate letter dated December 21, 2012.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Saslow Lufkin & Buggy, LLP

February 12, 2013

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Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Hebrew Health Care, Incorporated and Affiliates (the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

As described in finding 12-1 in the accompanying schedule of findings and questioned costs, the Organization did not comply with the requirements of the U.S. Department of Housing and Urban Development Mortgage Insurance (CFDA 14.129) regarding the timeliness of payments on the mortgage note. During 2012, the Organization stopped paying on the mortgage note, which resulted in default of the mortgage note. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 12-2 and 12-3.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance; such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-1 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-2 and 12-3 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the Organization as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated February 12, 2013, which contained an unqualified going concern opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Organization's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Organization's compliance but not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Saslow Lufkin & Buggy, LLP

March 29, 2013

Hebrew Health Care, Incorporated and Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued			Unqualified (going concern)	
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?		Yes	X	None reported
Noncompliance material to financial statements noted?	X	Yes		No

Federal Awards:

Internal control over major programs:				
Material weakness(es) identified?	X	Yes		No
Significant deficiencies identified that are not considered to be material weakness(es)?	X	Yes		None reported
Type of auditors' report issued on compliance for major programs			Qualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	X	Yes		No

The following schedule reflects the major programs included in the audit:

CFDA Number	Name of Federal Program or Cluster	Expenditures
14.129	U.S. Department of Housing and Urban Development Mortgage Insurance - Nursing Homes, Intermediate Care Facilites, Board of Care Homes and Assisted Living Facilities	$ 19,424,575

Dollar threshold used to distinguish between type A and type B programs:			$ 583,626	
Auditee qualified as low-risk auditee?		Yes	X	No

Section II - Findings Relating to the Consolidated Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

- None noted

Section III - Findings and Questioned Costs for Federal Awards

Finding 12-1: The Organization had two mortgage payments related to fiscal year 2012 that were not paid until January 2013 (U.S. Department of Housing and Urban Development – CFDA 14.129).

Criteria or specific requirement: Mortgage payments are to be made by the 15th of the month.

Condition: The Organization did not pay two out of twelve mortgage payments required to be paid during fiscal year 2012. These payments were subsequently paid in January 2013 using funds from the replacement reserve fund.

Questioned Costs: In performing the audit, the auditor noted $19,424,575 of questioned costs, which is the total amount of the mortgage loan as reported on the September 30, 2012 audited consolidated balance sheet.

Context: In performing the audit, the auditor identified this finding.

Effect: The Organization was not in compliance with the applicable payment requirements.

Cause: The cause of the non-payment is a decision made by management.

Recommendation: The Organization needs to ensure all payments are received by Wells Fargo by the 15th of the month.

Views of responsible officials and planned corrective actions: The Organization will work to ensure that such payments are filed timely in the future and Dave Houle, Executive Vice President and CFO will be responsible for ensuring this.

Finding 12-2: Untimely financial statement filing with HUD (U.S. Department of Housing and Urban Development – CFDA 14.129).

Criteria or specific requirement: HUD requires that the audited financials are filed with HUD within 90 days of its year end.

Condition: The Organization did not have the audited financials complete due to the fact that they were awaiting a bank covenant waiver.

Questioned Costs: In performing the audit, the auditor noted $19,424,575 of questioned costs, which is the total amount of the mortgage loan as reported on the September 30, 2012 audited consolidated balance sheet.

Context: In performing the audit, the auditor identified this finding.

Effect: The Organization was not in compliance with the applicable reporting requirements.

Cause: The Organization did not have the audited financials complete due to the fact that they were awaiting a bank covenant waiver.

Section III - Findings and Questioned Costs for Federal Awards (continued)

Recommendation: The Organization needs to ensure it files its audited financials within 90 days of its year end with HUD.

Views of responsible officials and planned corrective actions: The Organization will work to ensure that such filings are filed timely in the future and Dave Houle, Executive Vice President and CFO will be responsible for ensuring this.

Finding 12-3: The HUD Enforcement Center is currently reviewing the inter-company loan activities of the HUD project and the overall organization (U.S. Department of Housing and Urban Development – CFDA 14.129).

Criteria or specific requirement: HUD requires that no Project funds are loaned from the HUD project.

Condition: The HUD Enforcement Center is currently reviewing all inter-company loan activities surrounding the HUD project.

Questioned Costs: In performing the audit, the auditor noted $248,245 of questioned costs, which is the total amount of gross intercompany balances as reported on the September 30, 2012 audited consolidated balance sheet. This amount represents general cash flow changes between the Affiliates and will be settled within the next year’s operating cycle.

Context: In performing the 2012 audit, the auditor noted a letter from the HUD Enforcement Center.

Effect: The Organization was not in compliance with the specific Project requirements, per HUD.

Cause: The Organization has several intercompany loan balances relating to the overall Organization.

Recommendation: The Organization should continue to work with the HUD Enforcement Center to resolve this issue.

Views of responsible officials and planned corrective actions: The Organization has responded to requests from the HUD Enforcement Center and has taken steps to resolve these issues. The Organization will continue to work with the HUD Enforcement Center to resolve all outstanding issues.

Hebrew Health Care, Incorporated and Affiliates
Schedule of Prior Year Findings
For the Year Ended September 30, 2012

Section I - Findings Relating to the Consolidated Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

- None noted

Section II - Findings and Questioned Costs for Federal Awards

Finding 11-1: Untimely financial statement filing with HUD (U.S. Department of Housing and Urban Development – CFDA 14.129).

> ***Criteria and Condition:*** HUD requires that the audited financials are filed with HUD within 90 days of its year end. The Organization did not have the audited financials complete due to the fact that they were awaiting a bank covenant waiver.
>
> ***Current Status:*** We noted this finding also in 2012. HUD requires the filing to be filed within ninety days, see finding 12-2.

Finding 11-2: The HUD Enforcement Center is currently reviewing the inter-company loan activities of the HUD project and the overall organization (U.S. Department of Housing and Urban Development – CFDA 14.129).

> ***Criteria and Condition:*** HUD requires that no Project funds are loaned from the HUD project. The HUD Enforcement Center is currently reviewing all inter-company loan activities surrounding the HUD project.
>
> ***Current Status:*** The Organization has responded to requests from the HUD Enforcement Center and has taken steps to resolve these issues. The Organization will continue to work with the HUD Enforcement Center to resolve all outstanding issues.

Hebrew Health Care, Incorporated and Affiliates
Corrective Action Plan
For the Year Ended September 30, 2012

The Organization respectively submits the following corrective action plan for the year ending September 30, 2012.

Finding 12-1: The Organization had two mortgage payments related to fiscal year 2012 that were not paid until January 2013 (U.S. Department of Housing and Urban Development – CFDA 14.129).

> ***Recommendation:*** The Organization needs to ensure all payments are received by Wells Fargo by the 15th of the month.
>
> ***Action Taken:*** We concur with the recommendation. The Organization will work to ensure that such payments are remitted timely in the future and Dave Houle, Executive Vice President and CFO will be responsible for ensuring this.

Finding 12-2: Untimely financial statement filing with HUD (U.S. Department of Housing and Urban Development – CFDA 14.129).

> ***Recommendation:*** The Organization needs to ensure it files its audited financials within 90 days of its year end with HUD.
>
> ***Action Taken:*** We concur with the recommendation. The Organization will work to ensure that such filings are filed timely in the future and Dave Houle, Executive Vice President and CFO will be responsible for ensuring this.

Finding 12-3: The HUD Enforcement Center is currently reviewing the inter-company loan activities of the HUD project and the overall organization (U.S. Department of Housing and Urban Development – CFDA 14.129).

> ***Recommendation:*** The Organization should continue to work with the HUD Enforcement Center to resolve this issue.
>
> ***Action Taken:*** The Organization has responded to requests from the HUD Enforcement Center and has taken steps to resolve these issues. The Organization will continue to work with the HUD Enforcement Center to resolve all outstanding issues.

Hebrew Health Care, Incorporated and Affiliates

Management Letter

For the Year Ended September 30, 2012

SLB | Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

December 21, 2012

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

In planning and performing the audit of the consolidated financial statements of Hebrew Health Care, Incorporated and Affiliates (the Organization) for the year ended September 30, 2012, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of certain matters that are opportunities for strengthening operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report on the consolidated financial statements of the Organization referred to above. We would be pleased to discuss these comments with you at anytime.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform additional studies of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, management and others within Hebrew Health Care, Incorporated and Affiliates.

Saslow Lufkin & Buggy, LLP

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Comments

1. General Overall Financial Improvement Plan

The Organization's financial stability is truly at a crossroads, as the current year's audit report challenges the concept of a going concern. Management needs to continue to ensure they reduce operating expenses, work with the State of Connecticut on Medicaid rate relief, work with the Federal government on reducing the Wells Fargo debt structure and seek pension liability relief.

Management's Response:

The Organization is currently implementing a plan to improve the overall financial stability of the Organization, including the use of Corporate lawyers to assist in all matters.

2. Information Technology Security and Vulnerability Review

The Organization should consider engaging an outside IT firm to perform a formal IT security and vulnerability assessment. Typically, we see health care organizations perform these reviews once every three years. We believe these reviews are important, given that the Organization's information technology platform is one of the highest risks in a health care system when considering enterprise risk.

Management's Response:

The Organization will investigate proposals to perform this service regarding risk assessment in FY 2013.

3. Executive Summary of Key Internal Controls

The Organization, in keeping pace with best governance practices, should consider the preparation of an executive summary document, which summarizes the internal controls over key business cycles (revenue, billing, disbursements, payroll, investments, financial reporting, information technology and fraud) for all companies within the health care system. This document should be updated and reported to the Board of Trustees or Audit Committee annually.

Management's Response:

The Organization will prepare a summary of internal controls for an annual report to the designated committee in FY 2013.

4. Intercompany Balances

During our audit, we noted many large intercompany balances. In connection with the ongoing strategic plan, we recommend that management consider settling these balances through repayment and or forgiveness. We also recommend that management consider adopting formal policies surrounding intercompany allocations and the repayment or forgiveness of balances. For those balances not forgiven we recommend management consider formalizing the terms of this debt in a note payable agreement.

Management's Response:

The Organization has presented the FY 2013 draft financial statements with many of the intercompany balances being forgiven, thereby capitalizing the P.C. and eliminating equity from Health Services. All other intercompany balances will be able to be repaid and this will also simplify any issues related to HUD's review of intercompany balances due the Home.