Hebrew Health Care, Inc. and Affiliates

Consolidated Audited Financial Statements and Reports Required
for Audits in Accordance with *Government Auditing Standards*
and OMB Circular A-133
September 30, 2009

McGladrey & Pullen
Certified Public Accountants

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Independent Auditor's Report
on the Consolidated Financial Statements

Board of Trustees
Hebrew Health Care, Inc. and affiliates
West Hartford, Connecticut

We have audited the accompanying consolidated balance sheets of Hebrew Health Care, Inc. and affiliates ("the Organization") as of September 30, 2009 and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2009 and the changes in its net assets 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 {DATE} on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

As described in Note 22 to the consolidated financial statements, the Organization has restated its net assets as of September 20, 2008 for errors in the application of accounting principles generally accepted in the United States of America. The previously-issued auditor's report dated February 9, 2009 is not to be relied on because the previously-issued financial statements were materially misstated and is replaced by this independent auditor's report on the restated financial statements. The report on internal control described below contains a discussion of the significant internal control deficiencies identified as having failed to prevent or detect the misstatements and the corrective action taken by management to address the deficiencies.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for 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 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Burlington, Massachusetts
February 18, 2010

Hebrew Health Care, Incorporated and Affiliates

Consolidated Balance Sheets
September 30, 2009 and 2008

Assets	2009	2008
Current Assets		
Cash and cash equivalents	$ 269,086	$ 262,075
Assets limited as to use (Note 3)	1,982,112	2,930,426
Patient accounts receivable, net of allowance for doubtful accounts (Notes 4 and 9)	8,134,563	7,480,284
Current portion of pledges receivable (Notes 2 and 7)	638,823	842,781
Other receivables	73,976	44,471
Inventory	168,119	198,575
Prepaid expenses	231,947	204,204
Total current assets	11,498,626	11,962,816
Assets Limited as to Use (Notes 3 and 9)	2,160,267	10,476,313
Property, Plant and Equipment, net (Notes 5, 10 and 11)	22,733,536	19,042,287
Other Assets		
Pledges receivable (Notes 2 and 7)	382,629	799,423
Beneficial interest in charitable remainder trust	473,990	519,682
Cash surrender value of life insurance	34,267	17,975
Investments (Notes 6 and 9)	7,814,882	8,115,969
Deposits	54,500	27,417
Mortgage acquisition costs, net	993,687	727,717
Due from affiliates (Note 2)	33,306	34,578
Total other assets	9,787,261	10,242,761
Total assets	$ 46,179,690	$ 51,724,177

Liabilities and Net Assets	2009	2008
Current Liabilities		
Current installments of mortgage note payable (Note 10)	$ 270,757	$ 443,086
Current portion of capital lease obligations (Note 11)	55,780	79,380
Accounts payable and accrued expenses (Notes 12, 13, 14 and 21)	6,745,288	7,778,394
Lines of credit (Note 9)	4,552,721	9,614,928
Funds held in trust (Note 3)	420,735	448,830
Deferred revenue	12,636	50,793
Total current liabilities	12,057,917	18,415,411
Long-term Debt		
Notes and bonds payable (Note 10)	37,051,633	32,626,399
Capital lease obligations (Note 11)	90,398	114,700
Total long-term debt	37,142,031	32,741,099
Other Liabilities		
Payable from charitable gift annuity (Note 8)	140,775	53,751
Accrued pension liability (Note 13)	2,054,108	864,581
Total other liabilities	2,194,883	918,332
Total liabilities	51,394,831	52,074,842
Commitments and Contingencies (Note 15)		
Net Assets		
Unrestricted (Note 22)	(9,759,632)	(5,386,264)
Temporarily restricted (Note 18)	2,270,349	2,802,391
Permanently restricted (Note 19)	2,274,142	2,233,208
Total net assets (deficit)	(5,215,141)	(350,665)
Total liabilities and net assets	$ 46,179,690	$ 51,724,177

See Notes to Consolidated Financial Statements.

Hebrew Health Care, Incorporated and Affiliates

Consolidated Statements of Operations
Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted Revenues and Other Support		
Net patient service revenue	$ 39,293,604	$ 39,496,323
Member services - SummerWood	3,169,544	3,141,562
Adult day health center services	957,667	978,566
Home health care revenue	3,978,632	3,404,823
Grants	480,337	506,834
Other income	771,698	319,605
Net assets released from restrictions (Note 17)	596,254	443,120
Total unrestricted revenues and other support	49,247,736	48,290,833
Expenses (Notes 2, 11, 13, 14, 15 and 21)		
Nursing services	20,876,489	21,099,545
Administration (Note 2)	8,979,591	7,392,332
Nutritional services	4,102,023	4,091,616
Environmental services	2,247,918	2,262,195
Building operations	2,084,286	2,124,431
Depreciation and amortization	2,172,281	2,122,396
Interest expense (Notes 9, 10 and 11)	1,493,881	1,585,413
Pharmacy services	2,222,579	2,177,434
Medical services	4,124,675	3,533,892
Rehabilitation services	1,367,461	1,204,510
Provider tax	1,194,841	963,805
Life enrichment services	681,757	732,592
Social services	364,097	331,545
Bad debt expense	392,180	287,613
Development (Note 16)	558,850	661,826
Health information management	216,915	233,077
Total expenses	53,079,824	50,804,222
Deficiency of Revenues over Expenses	(3,832,088)	(2,513,389)
Nonoperating Gains (Losses)		
Interest and dividend income and distributions	313,475	494,476
Net realized and unrealized losses on investments (Note 6)	(316,355)	(1,628,530)
Change in value of beneficial interest in charitable gift annuity - unrestricted (Note 8)	(87,023)	(25,965)
Change in cash surrender value of life insurance	16,550	6,386
Change in pension instrument (Note 13)	(1,169,852)	(1,304,410)
Gifts, bequests, and special events (Notes 2, 7 and 16)	873,428	1,355,230
Reclassification of donor intent	-	(53,150)
Reclassification of endowment appreciation (Note 23)	(94,896)	-
Investment fees	(76,607)	(71,086)
Total nonoperating losses	(541,280)	(1,227,049)
Change in unrestricted net assets	$ (4,373,368)	$ (3,740,438)

See Notes to Consolidated Financial Statements.

Hebrew Health Care, Incorporated and Affiliates

Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted Net Assets		
Deficiency of revenues over expenses	$ (3,832,088)	$ (2,513,389)
Nonoperating losses	(541,280)	(1,227,049)
Change in unrestricted net assets	(4,373,368)	(3,740,438)
Temporarily Restricted Net Assets		
Change in value of beneficial interest in charitable remainder trust	(45,691)	(119,725)
Contributions	36,022	45,796
Reclassification of donor intent	-	(15,000)
Net realized and unrealized loss	(21,015)	-
Reclassification of endowment appreciation (Note 23)	94,896	-
Net assets released from restrictions (Note 17)	(596,254)	(443,120)
Change in temporarily restricted net assets	(532,042)	(532,049)
Permanently Restricted Net Assets		
Contributions	40,934	173,226
Reclassification of donor intent	-	68,150
Change in permanently restricted net assets	40,934	241,376
Change in net assets	(4,864,476)	(4,031,111)
Net Assets at Beginning of Year, As Restated (Note 22)	(350,665)	3,680,446
Net Assets at End of Year	$ (5,215,141)	$ (350,665)

See Notes to Consolidated Financial Statements.

Hebrew Health Care, Incorporated and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities and Nonoperating Gains		
Change in net assets	$ (4,864,476)	$ (4,031,111)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and nonoperating gains (losses):		
Depreciation and amortization	2,172,281	2,122,396
Change in value of split interest agreement	45,692	119,724
Change in charitable gift annuity	87,024	145,692
Change in cash surrender value of life insurance policy	(16,292)	(6,386)
Net loss on investments	337,370	1,628,530
Change in patient accounts receivable	(654,279)	(434,969)
Change in other receivables	(29,505)	290,197
Change in pledges receivables	620,752	534,867
Change in prepaid expenses	(27,743)	(15,155)
Change in due from affiliate	1,272	(21,611)
Change in inventory	30,456	(9,225)
Change in pension liability	1,189,527	1,176,203
Change in accounts payable and accrued expenses	(1,033,106)	(574,007)
Change in deferred revenue	(38,157)	(32,616)
Change in deposits	(27,083)	(2,417)
Total adjustments	2,658,209	4,921,223
Net cash provided by (used in) operating activities and nonoperating (losses) gains	(2,206,267)	890,112
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(5,762,787)	(2,572,465)
Purchases of investments and assets limited as to use	(2,369,598)	(10,062,274)
Proceeds from investments and assets limited as to use	11,569,580	5,166,587
Net cash provided by (used in) investing activities	3,437,195	(7,468,152)
Cash Flows from Financing Activities		
Repayments of note payable	(8,119)	(8,741)
Bond acquisition cost incurred	(366,713)	(233,408)
Proceeds from notes payable	20,242,000	17,055,000
Repayments of notes and bonds payable	(15,980,976)	(9,787,621)
Repayments on capital lease obligation	(47,902)	(47,907)
Net change in lines of credit	(5,062,207)	(173,686)
Net cash (used in) provided by financing activities	(1,223,917)	6,803,637
Net Increase in Cash and Cash Equivalents	7,011	225,597
Cash and Cash Equivalents:		
Beginning of Year	262,075	36,478
End of Year	$ 269,086	$ 262,075
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 1,493,881	$ 1,806,111
Supplemental Disclosure on Non-Cash Flow Informatior		
Equipment acquired with capital leases	$ -	$ 137,718

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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. (SummerWood), Hebrew Health Care Foundation, Inc. (the Foundation), 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. In addition, the Organization formed a new entity, a for-profit Professional Corporation, Connecticut Geriatric Specialty Group, PC (CGSG) owned by two physician shareholders.

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

The Home operates a 332-bed skilled nursing and chronic disease hospital facility. HCS provides in-home health care services, hospice services, and operates two adult day health centers. SummerWood 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 medical practice whose purpose is to render professional medical services.

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Classification and reporting of net assets: The Organization's financial statement presentation follows the requirements of Accounting Principles Generally Accepted in the United States of America ("GAAP"). Under GAAP, the Organization is required 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 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 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 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.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Classification and reporting of net assets (continued): The Organization has adopted the Financial Accounting Standard Board's ("FASB") accounting standard regarding classification of donor-restricted endowment funds subject to UPMIFA. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

UPMIFA is a model act approved by the Uniform Law Commission ("ULC"; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This accounting standard also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The Organization adopted the provisions of UPMIFA during the year ended September 30, 2009, which apply to funds existing on or established after that date.

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

Cash and cash equivalents: The Organization defines cash equivalents to include investments in liquid securities with maturities of three months or less when purchased, excluding certain money market funds included in investment portfolios.

The Organization maintains its cash in bank deposit accounts and the balances generally exceed federally insured limits. Management believes the Organization is not exposed to any significant credit risks on cash and cash equivalents and has not experienced any losses in such accounts.

Assets limited as to use: Assets limited as to use include assets held by trustees under indenture agreements, funds held in trust, and security deposits. Assets limited as to use that are required to meet current liabilities are reported as current assets.

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:

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

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

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Property, plant and equipment (continued): The Organization has adopted the FASB accounting standard regarding accounting for conditional asset retirement obligations. This standard 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, 2009, 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.

Deficiency of revenues over expenses: The consolidated statements of operations present a deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include net realized and unrealized gains and losses on investments, investment fees, interest and dividend income, other revenue, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets. Such items are classified as non-operating activities.

Mortgage acquisition costs: Mortgage acquisition costs represent financing costs related to mortgage and bond financing. The mortgage acquisition costs are being amortized over the life of the bonds.

Revenue recognition: Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Approximately 74% of the Organization's gross revenues are received from Medicare and Medicaid during the year ended September 30, 2009.

Revenue received under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor 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 $4,423,900 in 2009.

SummerWood is funded through private member service fees.

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

HHC's revenue consists of administrative fees from the Home, SummerWood, 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.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Contributions (continued): Contributions to be received after one year are discounted at 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 approximately 207,000 hours of volunteer services from the community during the year ended September 30, 2009. The majority of these services do not qualify for recording in the statement of activities under GAAP and are therefore not reported in the consolidated statements of operations.

Charitable remainder trust: The Home is named as the final trust beneficiary under two irrevocable charitable remainder trusts. Both trusts are currently making specified distributions to the current income beneficiaries. Upon the deaths of all current beneficiaries, the remaining assets will be distributed to the Home. The Home has recorded an asset for contributions receivable from the trusts calculated at the present value of the remainder interest.

Charitable gift annuity: The Home is named as the final trust beneficiary under an irrevocable charitable gift annuity. The assets held in trust are recorded as investments at fair value, and the liability to the donors is recorded at the present value of the estimated future payments to be distributed over the life of the donor. The amount of the contribution is the difference of these amounts. Adjustments to the asset and liability accounts are reflected as changes in the value of beneficial interest in charitable remainder gift annuity in the statements of activities. The contributions of this agreement are recorded as unrestricted net assets.

Investments: Marketable securities with readily determinable fair values are measured at fair value in the balance sheet. 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.

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Investments (continued): classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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
(7) The investment policies of the organization.

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, net realized gains and net appreciation is allocated to operations in accordance with the Organization's investment policies and procedures. During the year ended September 30, 2009, the Board of Trustees approved a transfer in the amount of $425,000.

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. The Board of Trustees has approved spending of $250,000 for the year ending September 2010.

Fair value measurement: The Organization adopted the FASB accounting standard regarding fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for such transactions. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

Fair value measurements are separately disclosed by level within the fair value hierarchy. The effect of the adoption of this standard as of October 1, 2008 would have been insignificant.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Fair value measurement (continued): Investments measured and reported at fair value are classified and disclosed in one of the following categories:

> **Level I**: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments included in Level I are marketable equity securities classified as available for sale securities.
>
> **Level II**: Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Instruments included in this category are warrants and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
>
> **Level III**: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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.

Advertising: The Organization's policy is to expense advertising costs as incurred.

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.

The Organization adopted the FASB accounting standard regarding accounting for uncertainty in income taxes. It clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. It is effective for fiscal years beginning after December 15, 2006 and was implemented by the Organization in fiscal year 2008. Management believes that the Organization has no material uncertainties in income taxes.

Note 2. 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 are $25,000 received from the Auxiliary during the year ended September 30, 2009. Non-interest bearing advances totaling $33,306 was due from the Auxiliary at September 30, 2009. Included in pledges receivable and temporarily restricted contributions, net of discount at September 30, 2009 is $64,542.

Note 2. Related Party Transactions (continued)

Members of the Organization's Board of Trustees are members of law firms that the Organization used for legal services during 2009. Total legal expenses paid to these firms during the year ended September 30, 2009 was approximately $72,500. The Organization also purchases services from companies owned by or employing individual board members. Total amounts expended for such services during the year ended September 30, 2009 totaled approximately $411,000.

Note 3. Assets Limited as to Use

The following is a summary of the current portion of assets limited as to use at September 30, 2009:

Security deposits – cash	$ 290,358
Patient funds held in trust – cash	130,377
Sinking Fund (Note 10)	1,561,377
Total assets limited as to use – current	$ 1,982,112

The following is a summary of the long-term portion of assets limited as to use at September 30, 2009:

Mortgage reserve funds (Note 10)	$ 507,207
Liquidity reserve fund (Note 10)	933,942
Replacement reserve funds (Note 10)	719,118
Total assets limited as to use – long-term	$ 2,160,267

The following is a summary of the asset allocation at September 30, 2009:

	Amount	%
Cash and equivalents	$ 2,194,343	53%
U.S. obligations	197,574	5%
Time deposits	839,333	20%
Marketable securities	911,129	22%
	$ 4,142,379	100%

Assets limited as to use are classified as a level I asset under the fair value hierarchy.

Note 4. Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Gross receivables from patients and third-party payors at September 30, 2009 are distributed as follows:

Medicaid	42%
Medicaid Pending	5%
Medicare	24%
Private patients and other third-party payors	29%
	100%

Note 4. Concentrations of Credit Risk (continued)

Patient accounts receivable balances are net of an allowance for doubtful accounts of $789,009 at September 30, 2009. Advances from third party payors are included in net patient accounts receivable.

Note 5. Property, Plant and Equipment

The following is a summary of the Organization's property, plant and equipment at September 30, 2009:

Land	$ 2,612,381
Building and building improvements	42,592,260
Furnishings and equipment	4,101,651
Motor vehicles	286,394
Construction in progress	113,424
Total	49,706,110
Less accumulated depreciation and amortization	(26,972,574)
Net property, plant and equipment	$ 22,733,536

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 and that development costs associated with this program will be amortized as components of the program are completed. As of September 30, 2009, the Home's beauty salon was undergoing renovations that were completed in October, 2009. The total cost of the project was $18,300.

Note 6. Investments

Investments, at fair value consisted of the following at September 30, 2009:

Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using		
		Quoted Prices	Unobservable Inputs
Assets		**Level I**	**Level III**
Pooled funds held in custody	$ **3,594,766**	$ -	$ 3,594,769
Equity securities	**4,215,116**	4,215,116	-
Bonds	**5,000**	5,000	-
Total	$ **7,814,882**	$ 4,220,116	$ 3,594,766

Note 6. Investments (continued)

The changes in investments measured at fair value for which the Organization has used Level III inputs to determine fair value are as follows:

	Pooled funds
Balance September 30, 2008	$ 3,490,306
Investment Income	
Net realized/unrealized gains on investments	90,863
Interest and dividends	75,507
Investment fees	(38,348)
Distributions	(273,922)
Purchase of investments	250,360
Balance September 30, 2009	$ 3,594,766

The pooled funds represent approximately 5.2% of the units in a portfolio of investments managed by The Jewish Community Foundation of Greater Hartford, Inc., formerly known as the Endowment Foundation of The Jewish Federation of Greater Hartford, Inc. (the Endowment Foundation), as of September 30, 2009.

The following is a summary of the asset allocation at the Endowment Foundation at September 30, 2009:

Equities	61%
U.S. obligations and bonds	24%
Alternative investments	9%
Cash and equivalents	6%
	100%

As of September 30, 2009, net realized and unrealized losses on investments and assets limited as to use totaled $316,355.

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

At September 30, 2009 the Endowment Foundation held $1,590,642 of certain designated and charitable gift annuities for the benefit of the Organization.

Note 6. Investments (continued)

The following table shows the gross unrealized losses and fair value of the Organization's investments with unrealized losses as of September 30, 2009 and 2008. These losses are not deemed to be other than temporarily impaired.

2009	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable Equity Securities	$ 532,795	$ 81,524	$ 684,335	$ 108,458	$ 1,181,130	$ 189,982
Fixed Income	209,260	1,831	-	-	209,260	1,831
Total	$ 742,055	$ 83,355	$ 684,335	$ 108,458	$ 1,390,390	$ 191,813

Marketable equity securities represent the Organization's stock holdings. The holdings represent nine different sectors (consumer discretionary, consumer staples, energy, healthcare, financial service, industrials, information technology, telecommunication services, and utilities). All of these stocks are analyzed regularly by investment advisors, and are showing signs of improvement in the near term. There is no specific reason to believe these stock values will not rebound in a reasonable period of time and therefore are being held within the portfolio. Based on the state of the overall stock market, as of September 30, 2009 and the ability of the Organization to hold these stocks, they are not considered to be other than temporarily impaired.

Note 7. Pledges Receivable

The Organization is a participating agency in the Jewish Community Foundation of Greater Hartford, Inc.'s Community Capital Campaign. The Organization is also a participant in the Weinberg Challenge. 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.

The Organization began another 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, discounted using an appropriate risk-free rate (3.91% for pledges received during the year ending September 30, 2009).

Pledges receivable, gross	$ 1,082,460
Less: Unamortized discount	(61,008)
Net unconditional promises to give	$ 1,021,452

Amounts due in:	
Less than one year	$ 638,823
One to eight years	382,629
Total	$ 1,021,452

Note 8. Charitable Gift Annuity

The Home was the sole beneficiary in an irrevocable charitable gift annuity whereby the Home was the Trustee. An independent custodian, TD Banknorth Wealth Management Group, invested the funds related to the annuity in various mutual funds. The interest and dividend income generated by the investments was distributed each year to the beneficiaries in accordance with the trust and annuity agreements. A liability was calculated based on the present value of the stream of payments over the life expectancy of the beneficiaries. The assets were maintained at fair value. The net change in the value of the assets and liabilities is recorded as a change in the value of charitable remainder trusts on the statement of activities. This change amounted to $27,786 during the year ended September 30, 2008. The beneficiary passed away during the year ended September 30, 2008. The Foundation is the beneficiary in an irrevocable charitable gift annuity that is held at the Endowment Foundation. As of September 30, 2009, the liability owed to the beneficiary exceeded the fair value of the assets, and a liability has been recorded in the amount of $140,775. The charitable gift annuity is considered a level I asset and liability under the fair value hierarchy as of September 30, 2009.

Note 9. Lines of Credit

At September 30, 2009 the Organization had three line of credit agreements with TDBank. The first line of credit agreement has a 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, 2009. The first line of credit is secured by $4,117,000 of marketable securities maintained at TDBank. 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% at September 30, 2009. The second line of credit is secured by investments of the Foundation. The balances outstanding on these lines of credit totaled $4,552,721 at September 30, 2009 and are subject to annual review expiring on May 31, 2010. 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 at September 30, 2009.

Note 10. Notes and Bonds Payable

$20,242,000 Government National Mortgage Association ("GNMA") mortgage-backed securities, the Mortgagee is Wells Fargo Bank, National Association.	$ 20,199,726
$17,055,000 CHEFA Variable Rate Demand Revenue Bond, Hoffman SummerWood Community Issue, Series B.	17,055,000
The Organization has a note payable to the Metropolitan District Commission in annual installments totaling $13,611, including interest at 6%, maturing in June 2015.	67,664
Total bonds payable	37,322,390
Less current installments	(270,757)
Bonds payable, net of current installments	$ 37,051,633

Note 10. Notes and Bonds Payable (continued)

Anticipated future maturities of bonds payable for the next five years are as follows:

Years ending September 30,	
2010	$ 270,757
2011	604,693
2012	634,348
2013	664,759
2014	700,908
Thereafter	34,446,925
	$ 37,322,390

Mortgage – Wells Fargo

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 year ended September 30, 2009, the Organization paid $224,823 in interest expense related to the mortgage. The fair value of the debt is approximately equal to its carrying value at September 30, 2009.

The mortgage to Wells Fargo refinanced the Series B Bond payable to Capmark in June 2009. During the year ended September 30, 2009, the Organization paid $590,741 in interest expense related to the Series B Bond.

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. See Note 3.

Series B Bonds – 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 SummerWood's assisted living facility to house an additional 43 assisted living units and to expand certain portions of the existing facility. The CHEFA bond consists of Series B variable rate bond due July 1, 2037. Monthly interest payments are made. Principal payments commence on July 1, 2011. The bond is secured by land, building and a letter of credit. During the year ended September 30, 2009, the Organization paid $509,742, in interest expense related to the bonds. The fair value of the debt is approximately equal to its carrying value at September 30, 2009.

Principal payments to the bond principal account of $26,666 per month will begin in July 2010, with the agent making its annual payments to bond holders beginning in July 2011.

The Organization is required to maintain a liquidity reserve under the terms of the CHEFA bond agreement. See Note 3.

Note 11. Capital Lease Obligations

During 2006, the Organization entered into a lease arrangement, due in monthly payments of $3,915 through January 2010, collateralized by financial software with a depreciated cost of $43,819. There was an outstanding balance of $15,515 at September 30, 2009.

Note 11. Capital Lease Obligations (continued)

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 depreciated cost of $117,100. There was an outstanding balance of $110,328 at September 30, 2009.

During 2009, the Organization entered into a lease arrangement, due in monthly payments of $643 through January 2013, collateralized by the leased agreement with a depreciated cost of $23,705 at September 30, 2009. There was an outstanding balance of $20,335 at September 30, 2009.

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

Years ending September 30,	
2010	$ 55,780
2011	40,120
2012	40,120
2013	24,594
Total minimum lease payments	160,614
Less amount representing interest	(14,436)
	$ 146,178

Note 12. Accounts Payable and Accrued Expenses

The following is a summary of accounts payable and accrued expenses as of September 30, 2009:

Accounts payable	$ 2,696,516
Accrued vacation	2,446,221
Accrued employee benefits	887,617
Accrued payroll	440,311
Provider tax	274,623
Total accounts payable and accrued expenses	$ 6,745,288

Note 13. Pension Plans

Non-qualified retirement compensation program: The Organization has a noncontributory retirement compensation program for key senior management staff.

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, 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 $275,818 for the year ended September 30, 2009. Information as to the amount of net assets available for benefits is not available.

Nonbargaining unit plan: The Organization had a noncontributory, defined benefit pension plan covering all nonbargaining unit employees who satisfied certain eligibility requirements. This plan was frozen on September 30, 2007 and replaced by a 401(k) Retirement Plan which provides for an employer match of up to 2% of the employees annual salary.

Note 13. Pension Plans (continued)

Nonbargaining unit plan (continued): Benefits under the defined benefit plan were based on years of service. The plan assets consist of cash and mutual funds, which are valued at fair value as determined by the trustee's agent.

Information relative to the Organization's defined benefit pension plan is presented below:

Obligations and Funded Status

Change in benefit obligation	
Benefit obligation at beginning of year	$ 5,785,123
Interest cost	379,547
Benefits paid to participants	(123,365)
Actuarial (gain) or loss	(831,770)
Actuarial adjustment	136,186
Benefit obligation at end of year	7,009,261
Change in plan assets	
Fair value of plan assets at beginning of year	4,920,542
Actual return on plan assets	157,976
Employer contributions	-
Benefits paid to participants	(123,365)
Fair value of plan assets at end of year	4,955,153
Funded status at end of year	$ (2,054,108)
Amounts recognized in balance sheet:	
Other liabilities	$ (2,054,108)
Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:	
Net actuarial loss	$ 2,752,169
Total	$ 2,752,169
For pension plans with accumulated benefit obligations in excess of assets at September 30 of the respective years, aggregate amounts were:	
Projected benefit obligations	$ 7,009,261
Accumulated benefit obligations	7,009,261
Plan assets	4,955,153

Net Periodic Benefit Cost and Other Changes in Unrestricted Net Assets

Net periodic benefit cost	$ 19,675

Note 13. Pension Plans (continued)

Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost, of amounts previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose:	
Net actuarial loss	$ 1,095,591
Amortization of loss	(61,925)
Actuarial adjustments	136,186
	1,169,852
Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan	$ 1,189,527

Assumptions

Weighted-average assumptions used in computing ending obligations:	
Discount rate	5.75%
Weighted-average assumptions used in computing net cost:	
Discount rate	5.75%
Expected return on plan assets	8.00%

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.

Plan Assets

Asset Category	Percentage of Plan Assets at September 30, 2009
Pension plans:	
Equity securities	61%
Debt securities	36%
Cash equivalents	3%
Total	100%

Cash Flows

Employer contributions:	Amount
2008	$ 108,750
2009	-

Benefit payments:	Amount
2008	$ 83,272
2009	123,365

Note 13. Pension Plans (continued)

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

Year	Amount
2010	$ 735,000
2011	280,000
2012	303,000
2013	279,000
2014	302,000
2015 – 2019	2,966,000

The estimated net periodic benefit cost amortization for the year ending September 30, 2010 is $153,403.

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 14. Employee Health Insurance

The Organization maintains a self-insured health insurance plan for its employees. Under the plan, the Organization pays an insurance company certain fixed and variable costs, including administration fees, actual claims incurred, and a premium for losses exceeding a negotiated amount. The Organization's cost for the plan totaled approximately $4,563,966 for the year ended September 30, 2009. The Organization has also recorded a liability for potential future claims of $168,385 for the year ended September 30, 2009.

Note 15. Commitments and Contingencies

Operating leases: The Organization leases various office equipment under operating leases expiring through May 2009. Rental expense under these leases amounted to $38,828 for the year ended September 30, 2009.

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 16. Special Events

The following is a summary of special events income (included in gifts, bequests and special revenue) and expenses (included in development expenses) at September 30, 2009:

Ticket sales and sponsorships	**$ 190,480**
Less expenses	**(76,401)**
Net special events income	**$ 114,079**

Note 17. Net Assets Released from Restrictions

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 18. Temporarily Restricted Net Assets

The following is a summary of temporarily restricted net assets as of September 30, 2009:

Second Century Campaign	$ 752,807
Harry and Jeanette Weinberg Foundation Challenge	783,134
Interest in Thumim Charitable Trust	340,447
Interest in split interest agreement	131,132
Capital campaign	44,537
Other funds	50,903
The Rabbi Fund	40,237
The Music Fund	24,337
Annual Fund	28,934
Appreciation of permanently restricted net assets	73,881
	$ 2,270,349

Note 19. Permanently Restricted Net Assets

Permanently restricted net assets total $2,274,142 as of September 30, 2009.

Note 20. Conditional Promises to Contribute

At September 30, 2009, the Organization had received $2,070,000 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, 2009, 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, 2009.

Note 22. Restatement of Net Assets

A prior period adjustment was recorded as of September 30, 2009 to reflect an increase in unrestricted net assets related to the accounting of the Organization's Series B debt service reserve fund. The Organization had not recorded the asset and related investment income for the reserve fund prior to this date. The financial statements presented as of and for the year ended September 30, 2008 have been restated to properly reflect the activity. This prior period adjustment increased net assets by $1,089,965 as of September 30, 2008.

A prior period adjustment was also recorded to reflect a reclassification of permanently restricted net assets from temporarily restricted net assets and unrestricted net assets in the amount of $632,186 to reflect the intention of a donor. This reclassification did not affect total net assets.

Note 22. Restatement of Net Assets (continued)

The following is a summary:

Consolidated Balance Sheet

	As of September 30, 2008		
	As Previously Reported	Adjustment	As Restated
Assets limited as to Use	$ 11,867,944	$ 1,089,965	$ 12,957,909
All other assets	38,766,268	-	38,766,268
Total assets	$ 50,634,212	$ 1,089,965	$ 51,724,177
Total liabilities	$ 52,074,842	$ -	$ 52,074,842
Unrestricted	(6,114,092)	727,828	(5,386,264)
Temporarily restricted	3,072,440	(270,049)	2,802,391
Permanently restricted	1,601,022	632,186	2,233,208
Total net assets	(1,440,630)	1,089,965	(350,665)
Total liabilities and net assets	$ 50,634,212	$ 1,089,965	$ 51,724,177

Consolidated Statement of Operations

	As Previously Reported	Adjustment	As Restated
Net assets released from restriction	$ 565,225	$ (122,105)	$ 443,120
Other unrestricted revenues and support	47,847,713	-	47,847,713
Unrestricted Revenues and Other Support	48,412,938	(122,105)	48,290,833
Total expenses	50,804,222	-	50,804,222
Deficiency of Revenues over Expenses	(2,391,284)	(122,105)	(2,513,389)
Interest and dividend income and distributions	494,502	(26)	494,476
Gifts, bequests, and special events	1,372,571	(17,341)	1,355,230
All other nonoperating gains	(3,076,755)	-	(3,076,755)
Total nonoperating gains	(1,209,682)	(17,367)	(1,227,049)
Change in unrestricted net assets	$ (3,600,966)	$ (139,472)	$ (3,740,438)

Note 22. Restatement of Net Assets (continued)

Consolidated Statement of Changes in Net Assets

	As Previously Reported	Adjustment	As Restated
Deficiency of Revenues over Expenses	$ (2,391,284)	$ (122,105)	$ (2,513,389)
Nonoperating gains	(1,209,682)	(17,367)	(1,227,049)
Change in unrestricted net assets	(3,600,966)	(139,472)	(3,740,438)
Net assets released from restriction	$ (565,225)	$ 122,105	$ (443,120)
Other changes in temporarily restricted net assets	(88,929)	-	(88,929)
Change in temporarily restricted net assets	(654,154)	122,105	(532,049)
Contributions	155,885	17,341	173,226
Other changes in permanently restricted net assets	68,150	-	68,150
Change in permanently restricted net assets	224,035	17,341	241,376
Change in net assets	(4,031,085)	(26)	(4,031,111)
Net assets at beginning of year	2,590,455	1,089,991	3,680,446
Net assets at end of year	$ (1,440,630)	$ 1,089,965	$ (350,665)

Note 23. Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Donor Restricted Endowment Funds	$ -	$ 73,881	$ 2,119,142	$ 2,193,023
Board Designated Endowment Funds	220,965	-	-	220,965
Total Endowment Net Assets	$ 220,965	$ 73,881	$ 2,119,142	$ 2,413,988

Note 23. Endowment Net Assets (continued)

Changes in Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Net assets, beginning of year	$ 272,251	$ -	$ 1,946,022	$ 2,218,273
Reclassification of appreciation of permanently restricted net assets due to the application of UPMIFA	(94,896)	94,896	-	-
Investment return:				
Investment income	14,832	33,499	-	48,331
Net appreciation (depreciation), realized and unrealized	114,957	(21,015)	-	93,942
Total investment return	129,789	12,484	-	142,273
New gifts	39,159	-	173,120	212,279
Distributions and fees	(125,338)	(33,499)	-	(158,837)
Net assets, end of year	**$ 220,965**	**$ 73,881**	**$ 2,119,142**	**$ 2,413,988**

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 $305,500 for the year ended September 30, 2009 and have been accounted for in unrestricted realized and unrealized losses.

Note 24. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 18, 2010, the date the financial statements were issued.

During February 2010, the Organization entered into a three year loan agreement with a bank in the amount of $260,000 with an interest rate of 5.57% relating the financing of a cogeneration project.

Hebrew Health Care, Inc. and Affiliates

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

September 30, 2009

Contents

Hebrew Health Care, Inc. and Affiliates

Consolidated Schedule of Expenditures of Federal Awards
September 30, 2009

Federal Grantor/Pass-through Grantor/Program 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	$ 20,199,726
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	48,864
Total Federal Expenditures		$ 20,248,590

Note A: Basis of Presentation
The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activity of Hebrew Health Care, Inc. and Affiliates 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 basic consolidated financial statements.

Note B: Loans Outstanding
The expenditures of federal awards listed above for CFDA Number 14.129 represent the loan balance outstanding as of September 30, 2009.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's 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*

Board of Trustees
Hebrew Health Care, Inc. and affiliates
West Hartford, Connecticut

We have audited the financial statements of Hebrew Health Care, Inc. and affiliates ("the Organization") as of and for the year ended September 30, 2009 and have issued our report thereon dated February 18, 2010. 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

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 09-01 and 09-02 to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McGladrey & Pullen, LLP

Burlington, Massachusetts
February 18, 2010

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Hebrew Health Care, Inc. and affiliates
West Hartford, Connecticut

Compliance

We have audited the compliance of Hebrew Healthcare, Inc. and affiliates ("the Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2009. The Organization's major federal program is 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.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

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

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

McGladrey & Pullen, LLP

Burlington, Massachusetts
February 18, 2010

Hebrew Health Care, Inc. and Affiliates

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? __x__ Yes ____ No
- Significant deficiencies identified that are not considered to be material weaknesses? ____ Yes __x__ None Reported

Noncompliance material to financial statements noted? ____ Yes __x__ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ____ Yes __x__ No
- Significant deficiencies identified that are not considered to be material weaknesses? ____ Yes __x__ No

Type of auditor's report issued on compliance for major programs: unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? ____ Yes __x__ No

Identification of major programs.

CFDA Number	Name of Federal Program or Cluster
14.129	U.S. Department of Housing and Urban Development Mortgage Insurance – Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities

Dollar threshold used to distinguish between Type A and type B programs $ 300,000

Auditee qualified as low-risk auditee? ____ Yes __x__ No

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

09-01 Reserve Fund

During the year ended September 30, 2009, the Organization refinanced its Series B Bonds and found that a debt service reserve account which had originated from its Series A Bonds in the mid nineteen eighties and had erroneously not been recorded as an asset on the Organization's financial statements, resulting in a restatement of previously issued financial statements in the amount of approximately $1,090,000. While we acknowledge that the genesis of this error was many years ago and that management understands that all accounts owned in the Organization's name need to be reported on the Organization's financial statements, the magnitude of the asset being omitted from the financial statements is indicative of a material weakness of internal controls over financial reporting.

09-02 Contributions

The Organization receives two different kinds of contributions: donor restricted and unrestricted. It is important that these contributions be accounted for separately to ensure donors' intentions are carried out when there are donor restrictions. The Board may designate unrestricted funds, for specific purposes such as a reserve for equipment replacement or an operating reserve. The purpose of Board designated funds can be changed, if needed, by the action of the Board. The restrictions on donor restricted contributions may not be changed without further communication from the donor. During the year ended September 30, 2009, it was found through a conversation with a donor that his intention for a $650,000 contribution was always that it would be permanently restricted. As a result, previously issued financial statements are being restated to correctly classify the contribution as permanently restricted net assets. Additionally we noted approximately $23,000 of contributions that were improperly classified as unrestricted funds rather than permanently restricted funds in the current year.

We recommend the Organization keep documentation as to what restrictions donors have placed on their contributions, and if written documentation is not received from the donor we recommend that the Organization contact the donor and document the intent. Furthermore, any amounts the Board wants to designate should be documented by approval in the Board minutes. Management should also consider computerizing the detailed record keeping for restricted contributions and related expense. Different funds could be added to the Organization's general ledger software, with separate accounts for each restricted fund and separate accounts for unrestricted funds, broken down by Board-designated and unrestricted.

III. Findings and Questioned Costs for Federal Awards

None noted.

HEBREW HEALTH CARE
for health, for life

David A. Houle, M.S.B.A.
Executive Vice President and
Chief Financial Officer

March 25, 2010

Corrective Action Plan
September 30, 2009

Identifying Number: 09-1

Finding: Reserve Fund

During the year ended September 30, 2009, the Organization refinanced its Series B Bonds and found that a debt service reserve account which had originated from its Series A Bonds in the mid nineteen eighties and had erroneously not been recorded as an asset on the Organization's financial statements, resulting in a restatement of previously issued financial statements in the amount of approximately $1,090,000. While we acknowledge that the genesis of this error was many years ago and that management understands that all accounts owned in the Organization's name need to be reported on the Organization's financial statements, the magnitude of the asset being omitted from the financial statements is indicative of a material weakness of internal controls over financial reporting.

Corrective Actions Taken or Planned: Management understands and agrees that all accounts owned in the Organization's name need to be reported on the Organization's financial statements. The account in question was held by the Bond Trustee on behalf of the Bond holders, and was decided at that time with concurrence from the Organization's auditors that it should not be recorded on the Organizations books. The financial statements have been corrected and now reflect the assets previously held in the reserve account.

Identifying Number: 09-2

Finding: Contributions

The Organization receives two different kinds of contributions: donor restricted and unrestricted. It is important that these contributions be accounted for separately to ensure donors' intentions are carried out when there are donor restrictions. The Board may designate unrestricted funds, for specific purposes such as a reserve for equipment replacement or an operating reserve. The purpose of Board designated funds can be changed, if needed, by the action of the Board. The restrictions on donor restricted contributions may not be changed without further communication from the donor. During the year ended September 30, 2009, it was found through a conversation with a donor that his intention for a $650,000 contribution was always that it would be permanently restricted. As a result, previously issued financial statements are being restated to correctly classify the contribution as permanently restricted net assets. Additionally we noted approximately $23,000 of contributions that were improperly classified as unrestricted funds rather than permanently restricted funds in the current year.

We recommend the Organization keep documentation as to what restrictions donors have placed on their contributions, and if written documentation is not received from the donor we recommend that the Organization contact the donor and document the intent. Furthermore, any amounts the Board wants to designate should be documented by approval in the Board minutes. Management should also consider computerizing the detailed record keeping for restricted contributions and related expense. Different funds could be added to the Organization's general ledger software, with separate accounts for each restricted fund and separate accounts for unrestricted funds, broken down by Board-designated and unrestricted.

Corrective Actions Taken or Planned: Management makes every effort at the time a contribution is received to determine the donors intention and recorded accordingly, unfortunately the donor may not always be sure of their intent or may change their mind at a later date. We will continue to work with donors to ensure that their intention at the time of the contribution is adhered to and that should changes in that intention change at a later date the funds will be reclassified accordingly.

Hebrew Health Care, Inc. and Affiliates

Summary Schedule of Prior Year Audit Findings
September 30, 2009

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

08-1 Preparation of Financial Statements and Significant Adjustments and Footnotes

Guided by Statement on Auditing Standards (SAS) No. 112, auditors are directed to communicate to their client and concern themselves about whether or not the client possesses the ability to process and have effective controls over preparation of their own financial statements such that client controls would be effective in preventing or detecting material misstatements in the preparation of the financial statements including the related footnotes. Of all the areas of control for an organization to practice, the control(s) over the process of preparing financial statements and footnotes is most challenging. Therefore, auditors of non-public entities have traditionally assisted those entities with the preparation of their financial statements. In these situations, it is not uncommon for the auditor to prepare significant adjusting entries as well as determine which disclosures are required under generally accepted accounting principles. Although auditors will likely continue to provide this service in the future, SAS No. 112 indicates that if this practice is necessary in order to prepare financial statements in accordance with generally accepted accounting principles (GAAP), such assistance is indicative of a significant deficiency. As such, the auditor is required to communicate such matters to the entity's management and board of directors to let them know that the auditors have assisted with certain significant reporting matters that are ultimately the Organization's responsibility. The utilization of this practice still allows auditors to issue unqualified opinions on the financial statements when otherwise appropriate; however, it is a reporting matter to disclose to management and to the board of directors.

Management has a solid understanding of recording day-to-day routine transactions. However, we assisted with the process of preparing financial statements in accordance with GAAP by identifying over 40 adjustments to record to the general ledger. They involved accounting for many of the Organization's non-routine, complex matters, including proper asset, liability and revenue accounting, along with key estimates.

Some of these adjustments could have been recognized and recorded on a monthly and/or quarterly review performed by the Organization, while other adjustments were related to one-time events/transactions that needed further research and information from third parties, which was not available to management at year-end, and until after the audit process had begun. Collectively, the adjustments represented a net decrease to net assets of approximately $2 million. This included an adjustment for $1.2 million to adjust the funded status of the Organization's defined benefit plan. This also included a $400,000 adjustment to record the fourth quarter investment activity, addressed later in this letter.

Exclusive of the pension plan adjustment and the adjustment for investment transactions, the nature of several of the entries give indication that reconciliations and normal processes were not being performed or followed on a timely basis, if at all in some instances. Although the number of entries was improved from last year, there is an opportunity for improvement by requiring all reconciliations to be prepared and reviewed for key transactions to minimize the risk of inaccurate information being recorded.

Besides processing transactions and recording transactions in accordance with GAAP, the final step is reporting, which involves identifying and addressing all appropriate key disclosures and preparing the financial statements (balance sheet, statement of operations and changes in net assets, and statement of cash flows). Upon management's request, we prepared the complete set of financial statements and management prepared a first draft of the footnote disclosures, which were edited by us. Those organizations that have the resources typically perform the following procedures:

1. In the process of preparing monthly financial statements, reconciliations are performed for all material balance sheet accounts, including significant estimates, and at a minimum, all accounts on a quarterly basis.
2. Some organizations have interim financial statement reporting requirements. In these cases, the finance department along with the Finance/Audit Committee reviews the financial statement footnote disclosures.
3. The finance department typically prepares the financial statements to give to the auditors and they devise and use a checklist (reporting tool) to facilitate the preparation of the financial statements. This list would trigger and help identify items that might need to be separately reported and/or classified differently than originally prepared/reported. Also, these checklists are needed to identify all appropriate disclosures.
4. Leaders and individual professionals within the finance department monitor and recognize emerging changes in accounting, financial reporting and auditing. Management typically provides continuing educational opportunities for the financial department staff and subscribes to accounting journals and has membership to accounting societies.

Some of these procedures and systems are not practical for entities with limited resources to perform. We will be happy to assist management in prioritizing, developing and implementing any of the above procedures that may be helpful to the Organization beyond what management is already doing.

Corrective action taken: Management limited the number of entries by performing more timely reconciliations and prepared their own financial statements.

08-2 Contributions and Related Receivables

The finance office does not routinely prepare reconciliations between the reports prepared by development and the amounts recorded in the general ledger. Additionally, it was noted that pledge payments were recorded as new contributions instead of being applied against the related pledge receivable balance. We recommend that timely reconciliations are prepared in order to prevent these issues from occurring in the future.

The finance office is only recording annual fund pledges when the payments are received, rather than when the intent to give is received and had not been recording in-kind contributions. We recommend that the finance office record annual fund contributions as pledges when a donor makes a commitment and that all in-kind donations tracked by development are valued and recorded.

Corrective action taken: Reconciliations are performed monthly with development and all annual fund commitments are recorded once received.

08-3 Investment Reconciliation

We understand that management has a normal process to record quarterly investment activity, and information for the first three quarters was recorded and was correct on audit. The information needed to make the fourth quarter investment activity adjustment for Hebrew Health Care Foundation was received subsequent to the commencement of the audit. The adjustment provided was materially incorrect and needed to be corrected by us. We recommend that all reconciliations be reviewed prior to posting to ensure their accuracy.

Corrective action taken: Management prepared reconciliations quarterly and they were reviewed prior to posting to ensure accuracy limiting entries that had to be recorded at year end.

08-4 Line of Credit

As noted in the prior year, during our audit of the Hebrew Home and Hospital line of credit we noted that there was a variance between the general ledger and the confirmation received from the bank of approximately $53,000. Per discussion with management, they have contacted the bank and have been unable to resolve the matter. We recommend the finance office continue to communicate with the bank and resolve the matter.

Corrective action taken: Management resolved the error with the bank.

08-5 Bank Account Reconciliations

The bank reconciliation for the Home's operating account varies from the general ledger by approximately $20,000. The variances remain from the account not being reconciled monthly in fiscal year 2007. We recommend that these variances be investigated in fiscal year 2009 and be adjusted accordingly.

Corrective action taken: Management resolved the variances in fiscal year 2009 and adjusted cash accordingly.

II. Findings and Questioned Costs for Federal Awards

08-6 Inadequate Insurance Coverage on Deposits

During the year ended September 30, 2008, cash accounts of Hebrew Healthcare, Incorporated and Affiliates exceeded the $100,000 FDIC-insured balance, leaving a substantial amount uninsured. This is not consistent with the terms of the regulatory agreement between the Project and HUD.

Corrective action taken: Management deposited funds in accounts with a higher FDIC insurance limit in refinancing their HUD mortgage in fiscal year 2009.

08-7 Inadequate Insurance Coverage on Replacement Reserve

At September 30, 2008, Hebrew Healthcare, Incorporated and Affiliates had $728,215 in its replacement reserve, which exceeded the $100,000 FDIC-insured balance, leaving a substantial amount uninsured. This is not consistent with the terms of the regulatory agreement between the Project and HUD.

Corrective action taken: Management deposited funds in accounts with a higher FDIC insurance limit in refinancing their HUD mortgage in fiscal year 2009.

08-8 Fidelity Bond Coverage

Management of the project feels that fidelity bond coverage equals two months cash receipts is excessive and unnecessary for this project and that the $1,000,000 coverage is adequate since the majority of net patient service revenue is electronically received. Management agrees to periodically review adequately in the event of changes in circumstances.

Corrective action taken: Management increased the insurance coverage on directors and officers insurance in order to meet the fidelity bond coverage.