LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of
New England, Inc. and Subsidiaries
Wellesley, Massachusetts

We have audited the accompanying consolidated statements of financial position of Lutheran Social Services of New England, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Social Services of New England, Inc. and Subsidiaries as of June 30, 2011 and 2010, and its consolidated changes in its net assets, its cash flows and its functional expenses for the years then ended in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP

LarsonAllen LLP

Quincy, Massachusetts
November 29, 2011

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,728,057	$ 2,766,422
Investments (Note 6)	347,276	286,207
Accounts Receivable, Net (Note 3)	6,196,054	6,297,807
Inventory	221,053	264,045
Prepaid Expenses	505,199	424,482
Other Current Assets	98,724	70,008
Assets Limited as to Use, Required for Current Liabilities (Note 4)	510,616	385,825
Total Current Assets	10,606,979	10,494,796
ASSETS LIMITED AS TO USE		
Under Indenture Agreement - Held by Trustee, Net	1,358,709	1,199,132
Under Regulatory Agreement	882,978	784,594
Board Restricted - Cash	38,980	38,826
Tenant/Resident Funds	253,008	249,239
Pension Reserve (Note 5)	275,951	288,144
Beneficial Interest in Third-Party Trusts	2,958,522	2,544,155
Pledges Receivable	17,657	73,608
Total Assets Limited as to Use (Note 4)	5,785,805	5,177,698
PROPERTY AND EQUIPMENT		
Land	1,349,730	1,352,649
Buildings	34,934,751	35,144,693
Improvements	8,947,628	8,800,293
Furniture and Equipment	6,452,896	6,650,987
Vehicles	245,183	333,448
Equipment Held Under Capital Lease	408,295	436,301
Software	30,077	127,007
Total	52,368,560	52,845,378
Less: Accumulated Depreciation	26,212,837	25,369,804
Property and Equipment, Net	26,155,723	27,475,574
OTHER ASSETS		
Construction in Progress (Note 7)	3,456,738	2,665,568
Prepaid Rent	339,995	396,666
Deferred Charges, Net	432,661	466,021
Loan Receivable (Note 10)	465,588	465,588
Interest Receivable (Note 10)	230,480	197,423
Cash Surrender Value of Life Insurance	93,564	121,915
Miscellaneous Other Assets	83,135	57,392
Total Other Assets	5,102,161	4,370,573
Total Assets	$ 47,650,668	$ 47,518,641

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES		
Lines of Credit (Note 8)	$ 1,172,861	$ 1,512,861
Accounts Payable and Accrued Expenses	6,774,731	7,205,026
Deferred Revenue	596,163	574,117
Due to the Third-Party Payors (Note 2)	448,977	507,286
Current Portion of Long-Term Debt (Note 9)	780,425	1,168,771
Other Current Liabilities	105,734	86,330
Total Current Liabilities	9,878,891	11,054,391
LONG-TERM DEBT AND OTHER LIABILITIES		
Long-Term Debt, Net of Current Portion	22,019,519	20,697,363
Capital Advances	7,042,673	7,042,673
Total Long-Term Debt (Note 9)	29,062,192	27,740,036
Long-Term Pension Liability (Note 5)	443,328	455,522
Tenant Deposits	70,271	68,932
Total Other Liabilities	513,599	524,454
Total Long-Term Debt and Other Liabilities	29,575,791	28,264,490
DUE TO RELATED PARTIES	-	250,000
Total Liabilities	39,454,682	39,568,881
NET ASSETS		
Unrestricted	1,890,148	2,180,831
Temporarily Restricted	3,332,991	3,210,449
Permanently Restricted	2,972,847	2,558,480
Total Net Assets (Note 13)	8,195,986	7,949,760
Total Liabilities and Net Assets	$ 47,650,668	$ 47,518,641

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS		
REVENUES		
Program Service Revenue	$ 62,358,515	$ 63,171,265
Contribution Income	591,146	632,796
Donated Vehicles	1,044,241	948,600
Donated Vehicles - Wholesale	1,021,367	925,819
Rental Income	13,200	7,700
Net Assets Released from Restriction Used for Operations	696,153	516,927
Other Income	530,781	366,785
Total Revenues	66,255,403	66,569,892
EXPENSES		
Salaries and Wages	33,311,924	37,143,393
Employee Benefits	7,106,183	5,296,668
Purchased Services	1,879,055	1,543,552
Insurance	396,710	399,676
Program Expenses	5,738,372	5,092,756
Professional Fees	850,198	468,071
Occupancy Costs	3,125,155	2,475,850
Advertising Expense	352,053	359,987
Operating Supplies and Expenses	5,663,463	7,027,729
Donated Vehicle Expense	1,082,900	1,021,800
Garage Expense	722,465	719,899
Travel Expenses	1,249,841	1,183,837
Equipment and Other Office Operations	180,100	336,561
Fundraising Expense	598,749	1,143,199
Real Estate Taxes	224,635	257,991
Resident Care Costs	703,492	597,319
Depreciation and Amortization	1,781,490	1,862,710
Bad Debt Expense	489,443	584,101
Interest	1,207,344	1,241,202
Total Expenses	66,663,572	68,756,301
LOSS FROM OPERATIONS	(408,169)	(2,186,409)
NON-OPERATING REVENUES		
Investment/Interest Income	45,283	96,922
Total Non-Operating Revenues, Net	45,283	96,922
EXCESS OF EXPENSES OVER REVENUES	(362,886)	(2,089,487)
Net Assets Released from Restrictions Used for Capital Improvements	72,203	63,866
DECREASE IN UNRESTRICTED NET ASSETS	$ (290,683)	$ (2,025,621)

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
NET ASSETS AT JUNE 30, 2009	$ 4,206,452	$ 2,720,739	$ 2,368,862	$ 9,296,053
Loss from Operations	(2,186,409)	-	-	(2,186,409)
Temporary and Permanently Restricted Contributions	-	1,098,956	1,889	1,100,845
Uncollectible Pledges Expense	-	(28,453)	-	(28,453)
Change in Beneficial Interest in Third-Party Trusts	-	-	187,729	187,729
Non-Operating Revenues, Net	96,922	-	-	96,922
Net Assets Released from Restrictions	63,866	(580,793)	-	(516,927)
INCREASE (DECREASE) IN NET ASSETS	(2,025,621)	489,710	189,618	(1,346,293)
NET ASSETS AT JUNE 30, 2010	2,180,831	3,210,449	2,558,480	7,949,760
Loss from Operations	(408,169)	-	-	(408,169)
Temporary and Permanently Restricted Contributions	-	891,798	-	891,798
Uncollectible Pledges Expense	-	(900)	-	(900)
Change in Beneficial Interest in Third-Party Trusts	-	-	414,367	414,367
Non-Operating Revenues, Net	45,283	-	-	45,283
Net Assets Released from Restrictions	72,203	(768,356)	-	(696,153)
INCREASE (DECREASE) IN NET ASSETS	(290,683)	122,542	414,367	246,226
NET ASSETS AT JUNE 30, 2011	$ 1,890,148	$ 3,332,991	$ 2,972,847	$ 8,195,986

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 246,226	$ (1,346,293)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,781,490	1,862,710
Provision for Bad Debts	489,443	584,101
Uncollectible Pledges Expense	900	28,453
Change in Beneficial Interest in Third-Party Trusts	(414,370)	(187,729)
Net Change in Cash Surrender Value of Life Insurance	28,351	(5,033)
Interest Receivable	(30,944)	(29,530)
Restricted Contributions	(15,480)	(85,568)
Net Unrealized Gain on Investments	(1,475)	(14,841)
Abandonment Cost	4,800	26,306
(Increase) Decrease in:		
Accounts Receivable	(384,372)	(661,504)
Inventory	42,992	131,746
Prepaid Expenses	(94,783)	68,073
Other Current Assets	136,361	23,369
Assets Whose Use is Limited	(106,641)	(68,759)
Tenant/Resident Funds	(3,702)	134,047
Pledges Receivable	70,531	77,112
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	64,678	70,602
Deferred Revenue	115,766	322
Due to Third-Party Payors	(213,591)	239,439
Other Liabilities	(13,439)	(152,724)
Net Cash Provided by Operating Activities	1,702,741	694,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(296,425)	(586,252)
Net Change in Escrow Funds	(31,358)	61,877
Deposits to Restricted Accounts	(955,985)	(1,291,723)
Withdrawals from Restricted Accounts	612,895	1,313,924
Purchases of Investments	(61,707)	(38,341)
Additions to Board Restricted Cash	(154)	(1,733)
Additions to Construction in Progress	(1,233,806)	(1,297,051)
Net Cash Used by Investing Activities	(1,966,540)	(1,839,299)

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Advancements on Line of Credit	400,000	731,213
Payments on Line of Credit	(740,000)	(753,276)
Proceeds from Long-Term Debt	1,542,717	-
Principal Payments on Long-Term Debt	(720,167)	(360,872)
Principal Payments on Capital Leases	(7,117)	(9,895)
Advances from Related Parties	(250,000)	250,000
Net Cash Provided (Used) by Financing Activities	225,433	(142,830)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(38,366)	(1,287,830)
Cash and Cash Equivalents - Beginning of Year	2,766,423	4,054,252
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,728,057	$ 2,766,422
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest	$ 1,446,810	$ 940,893
NON-CASH INVESTING TRANSACTIONS		
Change in Construction in Progress	$ 880,128	$ 1,754,370
Add: Cash Paid for Invoices in Accounts Payable	457,319	-
Less: Amounts Accrued in Accounts Payable	(106,641)	(457,319)
Cash Paid for Construction in Progress	$ 1,230,806	$ 1,297,051

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	Total	Program Services	Administrative	Fundraising
Salaries and Wages	$ 33,311,924	$ 29,644,674	$ 3,667,250	$ -
Employee Benefits	7,106,183	6,492,852	613,331	-
Purchased Services	1,879,055	1,879,055	-	-
Insurance	396,710	396,710	-	-
Program Expenses	5,738,372	5,738,372	-	-
Professional Fees	850,198	297,684	552,514	-
Occupancy Costs	3,125,155	2,731,343	393,812	-
Advertising Expense	352,053	319,473	32,580	-
Operating Supplies and Expenses	5,663,463	5,483,760	179,703	-
Donated Vehicle Expense	1,082,900	1,082,900	-	-
Garage Expense	722,465	722,465	-	-
Travel Expenses	1,249,841	1,068,991	180,850	-
Equipment and Other Office Operat	180,100	180,100	-	-
Fundraising Expense	598,749	-	-	598,749
Real Estate Taxes	224,635	224,635	-	-
Resident Care Costs	703,492	703,492	-	-
Depreciation and Amortization	1,781,490	1,710,792	70,698	-
Bad Debt Expense	489,443	487,425	2,018	-
Interest	1,207,344	1,207,344	-	-
Total Functional Expenses	$ 66,663,572	$ 60,372,067	$ 5,692,756	$ 598,749

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	Total	Program Services	Administrative	Fundraising
Salaries and Wages	$ 37,143,393	$ 33,343,994	$ 3,799,399	$ -
Employee Benefits	5,296,668	4,474,619	822,049	-
Purchased Services	1,543,552	1,390,501	153,051	-
Insurance	399,676	309,691	89,985	-
Program Expenses	5,092,756	5,044,992	47,764	-
Professional Fees	468,071	424,515	43,556	-
Occupancy Costs	2,475,850	2,153,122	322,728	-
Advertising Expense	359,987	340,403	19,584	-
Operating Supplies and Expenses	7,027,729	6,723,280	304,449	-
Donated Vehicle Expense	1,021,800	1,021,800	-	-
Garage Expense	719,899	719,899	-	-
Travel Expenses	1,183,837	977,105	206,732	-
Equipment and Other Office Operat	336,561	283,288	53,273	-
Fundraising Expense	1,143,199	-	-	1,143,199
Real Estate Taxes	257,991	257,991	-	-
Resident Care Costs	597,319	597,319	-	-
Depreciation and Amortization	1,862,710	1,825,443	37,267	-
Bad Debt Expense	584,101	581,131	2,970	-
Interest	1,241,202	1,203,925	37,277	-
Total Functional Expenses	$ 68,756,301	$ 61,673,019	$ 5,940,083	$1,143,199

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Lutheran Church has been serving people in need in New England for 140 years. Today, Lutheran Social Services of New England, Inc. (LSS) is one of the region's largest multi-service, faith-based human service agencies, despite the fact that Lutherans number less than one-percent of the population. LSS administers 60-plus programs in all six New England states, through 1,700 employees. Every day, LSS touches the lives of 5,000 clients, including: refugees and immigrants, frail older adults, adults with disabilities and mental illness, children and families at risk, low income individuals who need affordable housing or transportation, and families affected by disaster. LSS serves people who need our services, regardless of their background or belief.

Lutheran Social Services of New England, Inc. and Subsidiaries (collectively the Organization) include the accounts of the following entities, of which Lutheran Social Services of New England, Inc. is the sole corporate member of or exercises significant control over.

Entity	Services Provided
Lutheran Social Services of New England, Inc.	Parent Organization
Lutheran Community Services of Massachusetts, Inc.	Social Services Provider
Good News Garage - LSS, Inc.	Provides Transportation to Those in Need
Lutheran Housing Corporation - Brockton	Assisted Living Residence
Lutheran Home of Worcester, Inc.	Skilled Nursing and Residential Care Facility
Lutheran Home of Southbury, Inc.	Skilled Nursing and Residential Care Facility
Lutheran Services Association, Inc.	Subsidized Congregate Housing
Lutheran Community Services - Creative Living, Inc.	HUD Section 811 Housing
Emanuel Development Corporation	HUD Section 8 Housing
Luther Ridge at Middletown, Inc.	Provides Management and Assisted Living Services to Senior Housing Facilities
Lutheran Assisted Living at Middletown, Inc.	Assisted Living Residence
Lutheran Housing Corporation at Middletown, Inc.	HUD Section 202 Housing
Fair Havens, Inc.	Residential Care Facility
Lutheran Social Services of New England Foundation, Inc.	Manages and distributes charitable gifts to support various subsidiaries of LSS

On June 30, 2011, Lutheran Community Services of Massachusetts, Inc. (LCS-MA), Lutheran Community Services of New Hampshire, Inc. (LCS-NH) and Lutheran Community Services of Maine, Inc. (LCS-ME) combined their operations. The Organizations all provide community service programs to children, families, refugees, and developmentally disabled adults. As a result of the combination, the surviving organization is LCS-MA.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The above transaction falls under the guidance related to transactions between entities under common control, as LSS is the sole corporate member of all three of the Organizations. As a result of this transaction, the net assets of the transferring Organizations are accounted for at the carrying amount as of the beginning of the reporting period in which the transfer occurs. Therefore, effective July 1, 2010 the carrying amounts of net assets of LCS-NH and LCS-ME were transferred to LCS-MA. Effective July 1, 2011 LCS-MA legally changed its name to Lutheran Community Services, Inc.

A summary of the Organizations significant accounting policies follows:

Basis for Consolidation

The Organization's consolidated financial statements include the accounts of the above named entities. All significant transactions between the related organizations have been eliminated.

Method of Accounting

The financial statements of the Organization have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the Organization obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statement of cash flows.

Accounts Receivable

The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Customers are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or as the claim is submitted for third-party payors. Accounts past due for more than 90 days are individually analyzed for collectability. Historically, the Organization has not charged interest on accounts that are deemed to be delinquent. In addition, an allowance is estimated for other accounts based on historical experience.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

The Organization values program vehicles that are ready for delivery, in the process of being repaired and in the process of being evaluated for program use differently. Vehicles ready for delivery are valued at projected budget value for the year of disposition. Program vehicles still in the process of being repaired are stated at the projected budget value for the year of disposition less average repair costs for the current year. Program vehicles still in the process of being evaluated are valued at a trade-in value not to exceed projected budget value for the year of disposition.

Inventories of vehicles expected to be sold at wholesale are valued at estimated sales value which vary based on the condition of the vehicle.

The values of all vehicles are recorded as donated revenue when the vehicle is received.

Inventory of supplies is carried at lower of cost (first-in, first-out) or market.

Assets Limited as to Use

Assets limited as to use include: assets held by a trustee under the terms of a bond indenture; assets held under U.S. Department of Housing and Urban Development (HUD) Regulatory Agreement; tenant/resident deposits; pension account; beneficial interests in third-party trusts; pledges restricted for long-term purposes and cash restricted by the Board of Directors over which the Board retains control and may at its discretion subsequently use for other purposes.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give that are expected to be collected within one year recorded at their realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. This value is determined to be fair value and is calculated using the income approach of applying a discount rate technique in the year in which the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. Assets with an estimated useful life of more than one year and a historical cost in excess of $500 to $2,500 are capitalized, depending on entity. The Organization capitalizes acquisitions and improvements, while expenditures for maintenance and repairs that do not extend the useful lives of the assets are charged to operations. Donated property and equipment are recorded at fair market value at date of donation. Gifts of long-lived assets are reported as unrestricted support unless donor stipulations specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

	Depreciable Life
Buildings	5 - 40 Years
Improvements	5 - 30 Years
Furniture and Equipment	3 - 20 Years
Equipment Held Under Capital Lease	3 - 5 Years
Vehicles	3 - 4 Years
Software	3 Years

Depreciation expense charged to operations amounted to $1,749,158 and $1,830,378 for the years ended June 30, 2011 and 2010, respectively.

Deferred Charges

Intangible assets consist of deferred financing and ground lease acquisition costs. Deferred financing costs are being amortized over the periods the obligations are outstanding using the straight-line method. Ground lease acquisition costs are amortized over the period of the ground lease using the straight-line method. Amortization charged to operations amounted to $32,332 for each of 2011 and 2010.

Deferred Revenue

Deferred revenue consists of advances received from state and federal agencies for initial funding of programs, which will be recognized as revenue as these programs incur the related expenditures, and advanced payments received from residents.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets of the Organization are classified and reported as follows:

Unrestricted net assets

Those resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues that the Board has set aside for a particular purpose.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets

Include contributions which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Statement of Activities

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of the Organization's programs are reported as revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues.

Excess of Expenses Over Revenues

The statement of activities includes excess of expenses over revenues. Changes in unrestricted net assets which are excluded from excess of expenses over revenues, consistent with industry practice, include the changes in unrealized gains and losses on investments, unrestricted changes in beneficial interests in related parties, transfers of assets to and from related parties for other than goods and services, 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).

Revenue Recognition

Program service revenue, which includes service revenue, resident service revenue and program rental income, is recognized as costs are incurred and services are provided. Resident services revenue includes room charges and ancillary services to residents and is recorded at established rates, net of contractual adjustments, resulting from agreements with third-party payors. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in revenue in the year of settlement. Rental revenue for each unit of the facility is assigned a base rent amount. The tenant will pay a portion of the rent determined based on certain income limits. The remainder of the base rent will be paid by the HUD in the form of a Project Rental Assistance Contract ("PRAC"), Housing Assistance Payment (Section 8) or by the Connecticut Housing and Finance Authority ("CHFA").

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no donated services recorded in the consolidated financial statements for the years ended June 30, 2011 and 2010.

Income Taxes

All the members of the Organization are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Accordingly, no provisions for federal or state income taxes have been made. Additionally, the Organization qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than private foundation under Section 509(a)(2).

The Organization files as a tax-exempt organization. Should that status be challenged in the future, the entity's 2008 through 2011 tax years are open for examination by federal and state taxing authorities.

Promotional Advertising

Promotional advertising costs are expensed as incurred. Promotional advertising expense amounted to $328,329 and $355,621 as of June 30, 2011 and 2010, respectively.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligations

Generally accepted accounting principles requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Some of the Organization's buildings contain lead paint and asbestos that must be removed upon the demolition or extensive renovation. The Organization expects to and has the ability to continue to maintain and operate these buildings without undertaking any activities that would require removal of the lead paint or asbestos. As a result, the Organization is not able to estimate the date, or range of potential dates, of settlements of these obligations. Accordingly, the liability associated with these obligations is not reasonably estimable, and the accompanying statements of financial position do not include a liability for asset retirement obligations.

Investments

Investments consist mainly of shares in a pooled trust. The pooled trust consists of equity securities which have readily determinable fair values and investments in debt securities which are measured at fair value at the statement of financial position date. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless restricted by donor or law. Unrealized gains and losses on investments are recorded as changes in the respective category of net assets, depending on the existence or absences of donor restrictions.

Fair Value Measurement

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurements falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 29, 2011, the date the financial statements were issued.

NOTE 2 REVENUES FROM THIRD-PARTY PAYORS

Massachusetts Medicaid

The Organization receives reimbursement from the Commonwealth of Massachusetts under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients pursuant to regulations promulgated by the Division of Health Care Finance and Policy. Under the regulations, current year rates are a combination of actual base year costs blended with industry standards adjusted for inflation. The base year costs are subject to audit and could result in a retroactive rate adjustment for the current year.

Connecticut Medicaid

The Organization participates in the State of Connecticut's Medicaid program. The State of Connecticut Department of Social Services (DSS) annually establishes prospective rates for the reimbursement of Medicaid residents based on prior year cost reports, adjusted by inflation factors. Such rates are subject to review or audit and, in the opinion of management, future adjustments, if any, from those audits will not materially affect the Organization's financial position. To the extent amounts provided by the Organization differ from the final rates, such amounts are reflected as retroactive rate settlements in the statement of operations in the year differences become known.

Medicare - Prospective Payment System

The Organization receives reimbursement for the care of certain patients under the federally sponsored Medicare prospective payment system (PPS) through an insurance intermediary. The federal rates utilize facility case-mix resident assessment data, completed by the skilled nursing facility (SNF), to assign patients into Resource Utilization Groups (RUGS). SNF's must complete the resident assessments according to a specific time schedule designed for Medicare payment. SNF's that do not comply with this requirement will be paid at a default payment (the lowest of the federal rates) for the days of a patient's care for which the SNF is not in compliance.

NOTE 2 REVENUES FROM THIRD-PARTY PAYORS (CONTINUED)

The PPS program mandates the implementation of fee schedules for SNF therapy services to residents not in a covered Part A stay and to non-residents who receive outpatient rehabilitation services from the SNF. The Centers for Medicare and Medicaid Services imposed a limit for both physical therapy (including speech therapy) and occupational therapy services, except for certain medical conditions.

Massachusetts - Group Adult Foster Care

The Commonwealth of Massachusetts reimburses the Organization for qualified residents under the Group Adult Foster Care (GAFC) program. The program reimburses the Organization based on a per diem amount, which combines personal direct care and administrative compensation into one rate.

Maine Medicaid

The Organization provides services for Medicaid eligible individuals under terms of costs based contracts with the State of Maine.

NOTE 3 ACCOUNTS RECEIVABLE

The accounts receivable is comprised of the following at June 30, 2011 and 2010:

	2011	2010
Accounts Receivable, Gross	$ 7,017,563	$ 7,320,700
Less: Allowance for Doubtful Accounts	821,509	1,022,893
Accounts Receivable, Net	$ 6,196,054	$ 6,297,807

NOTE 4 ASSETS LIMITED AS TO USE

Assets limited as to use is comprised of the following at June 30:

Funds Held Under Indenture Agreement

Under the terms of the bond agreement (Note 9), the Organization is required to maintain and fund various escrow accounts. These escrow funds are held in trust and disbursements are made in accordance with the bond agreements. The escrow funds consist of money market funds and are recorded at their fair value.

NOTE 4 ASSETS LIMITED AS TO USE (CONTINUED)

Following is a summary of the funds held under indenture agreement at market value as of June 30, 2011 and 2010:

	2011	2010
Debt Service Reserve Fund	$ 648,102	$ 645,301
Renewal and Replacement Fund	393,411	393,411
Principal and Interest Account	698,967	524,059
Earnings Fund	20,807	20,789
Project Fund	1,397	1,397
Total	1,762,684	1,584,957
Less: Amount Required for Current Liabilities	403,975	385,825
Funds Held Under Indenture Agreement, Net	$ 1,358,709	$ 1,199,132

Tenant/Resident Funds
The Organization is in the possession of tenant/resident funds. These funds are held in an interest bearing bank account with disbursement pursuant to the residents' request.

Beneficial Interest in Third-Party Trusts
The Organization retains a percentage interest in various irrevocable third-party trusts. The beneficial interests are carried at the fair market value of the assets in the trust and amounted to $2,958,522 and $2,544,155 at June 30, 2011 and 2010, respectively. Changes in the carrying amount of the beneficial interests are recognized as increases or decreases in permanently restricted net assets. The Organization recognized an increase in the beneficial interests in third-party trusts in the amounts of $414,367 and $187,729 for the years ended June 30, 2011 and 2010, respectively.

Investments are held in a pooled investment portfolio of third-party trusts. These investments are carried at fair value with gains and losses reported as unrestricted, temporarily restricted or permanently restricted net assets, as appropriate. Investment income (loss) includes interest and dividends, amortization, realized gains and losses, and investment fees. The cost of securities sold is based on the average cost method.

Regulatory Agreements
Under the terms of the HUD Regulatory Agreement, the Organization must fund a real estate tax escrow. The Organization also must make monthly payments to a reserve for replacements, which may be used for capital expenditures and major repairs. Withdrawals from the reserve for replacements are subject to approval by HUD. The escrow accounts are comprised of cash and cash equivalents.

NOTE 4 ASSETS LIMITED AS TO USE (CONTINUED)

Under the terms of the Regulatory Agreement with CHFA ("Regulatory Agreement") the Organization is required to fund an insurance escrow, real estate tax escrow and a working capital escrow. In addition, under the terms of the Regulatory Agreement, the Organization must make monthly payments to a reserve for replacements, which may be used for capital expenditures and major repairs. Withdrawals from the escrow accounts are subject to approval by CHFA. The escrow accounts are comprised of cash and cash equivalents.

Board Restricted
The Board of Directors has set aside cash for building repairs over which the Board retains control and may at its discretion subsequently use for other purposes.

Pension Funds
The Organization has set aside assets to fund a frozen noncontributory pension plan. See Note 5 for additional details.

Pledges Receivable
Pledges receivable consist of unconditional promises to give that are donor restricted and are to be used for the renovation and refurbishing of the existing skilled nursing facility.

NOTE 5 DEFINED CONTRIBUTION PENSION PLAN

The Organization sponsors a defined contribution plan qualified under Internal Revenue Code Section 403(b). The Plan has been deemed a church plan. The Plan covers eligible employees of the Organization. The plan allows, but does not require, the Organization to match an amount of eligible employees' basic contributions to the Plan up to the maximum amount of 3% of salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Pension costs charged to operations amounted to $2,153 and $216,883 for the years ended June 30, 2011 and 2010, respectively.

The Organization also has recorded a liability at June 30, 2011 and 2010 for contributions relating to a former noncontributory defined contribution plan in the amounts of $443,328 and $455,522, respectively. This plan was frozen in January of 1990. The Organization has set aside assets in the amounts of $275,951 and $288,144 as of June 30, 2011 and 2010, respectively, to fund the pension liability. The remaining obligation will be funded as assets become available.

NOTE 6 CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents
The Organization maintains its cash and cash equivalents in federally insured financial institutions in the same geographic that may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE 6 CONCENTRATION OF CREDIT RISK (CONTINUED)

Accounts Receivable

The Organization grants credit without collateral to its residents, most of whom are local individuals, and residents covered under third-party payor arrangements. Accounts receivable from private and third-party payors totaled $6,196,054 at June 30, 2011.

Assets Limited As To Use

The Organization is reflecting assets limited as to use at approximately $5,785,000. These items include cash, pledges and various investments in third-party trusts that in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk.

Due to the level of risk associated with certain investments, in third-party trusts, it is reasonably possible that change in the values of the investments will occur in the near term and that such changes could materially affect account balances.

Investments

Investments consisting mainly of shares in a pooled trust at a market value of $347,276 at June 30, 2011.

Major Sources of Revenue

For the year ended June 30, 2011, the majority of the Organization’s revenues are received from federal and state government programs. Material changes to the funding of these programs would have a significant impact on the Organization’s revenues.

Importance of Operation

The Organization receives 28% from the skilled nursing homes and 59% from the social service organizations for the year ended June 30, 2011.

NOTE 7 CONSTRUCTION IN PROGRESS

As of June 30, 2011 and 2010, the Organization incurred and capitalized $3,212,959 and $2,332,831, respectively, of accumulated construction costs principally consisting of determination of need filing fees, architectural fees, and other development costs associated with the renovation and refurbishing of an existing skilled nursing facility. Through June 30, 2011, the Organization has contractual agreements totaling $1,099,801 for architectural and other services of which $996,279 has been incurred and capitalized. The project was substantially completed in July 2011.

The Organization has also incurred $240,779 and $317,139, as of June 30, 2011 and 2010, respectively, of costs in connection with the proposed replacement of an existing residential care facility. The Organization has received an approved Determination of Need from the Commonwealth of Massachusetts, Department of Public Health for a 63-bed residential care facility in the amount of $6,800,000. The project is in its preliminary stages and, consequently, management cannot estimate the start or completion date of the project.

NOTE 8 LINES OF CREDIT

The Organization has five line of credit agreements with various banks. The lines of credit are payable on demand and have limits of $100,000 to $500,000. The lines are collateralized by various business assets. The lines of credit bear interest at variable rates ranging from 4.00% through 6.25% at each of June 30, 2011 and 2010. The Organization had $1,172,861 and $1,512,861 outstanding on the lines of credit and $377,139 and $37,139 available to draw upon at June 30, 2011 and 2010, respectively.

NOTE 9 LONG-TERM DEBT

On February 1, 1999, the Connecticut Development Authority authorized the issuance of First Mortgage Gross Revenue Health Care Project Refunding Bonds in the amount of $6,080,000. By the terms of the bond issues, the Connecticut Development Authority has no direct obligation for payment of the bonds. A subsidiary has assumed the entire obligation and has granted a security interest to U.S. Bank as trustee.

All payments of principal and interest on the bonds will be made by the trustee from monies transferred by the subsidiary to the Bond Fund. The security for the bonds consists of a mortgage on the real and personal property of the subsidiary.

The subsidiary is subject to various covenants under the bond agreements. These covenants include various reporting, financial, and operational requirements: a Liquidity ratio, as defined in the bond agreement, of 1.0; Debt Service Coverage Ratio, as defined in the bond agreement, of 1.20; Operating Ratio, as defined in the bond agreement, of 1.0; Occupancy Covenant, as defined in the bond agreement, of 90%; and Trade Payables covenant, as defined in the bond agreement.

The Organization is liable on long-term debt at June 30 as follows:

Description	2011	2010
Mortgages payable with a variable interest rate of 4.37% and 7.68% at June 30, 2011 and 2010, respectively, and fixed rates ranging from 5.27% to 7.70%, secured by fixed assets, payable in monthly installments ranging from $1,487 to $21,098, which include interest, becoming due from 2011 to 2032. Certain mortgage agreements require the Organization to maintain a debt service coverage ratio of 1.25 to 1, and loan to value ratio of .75.	$ 3,926,586	$ 4,062,385
Mortgages payable to Mission Investment Fund of the Evangelical Lutheran Church in America, monthly interest and principal payments ranging from $9,539 to $13,193, at rates ranging from 5.45% to 6.25% for years 2011 to 2013, thereafter the rate is adjusted every five years, secured by property and equipment and becoming due from 2031 to 2034.	3,366,791	1,866,912

NOTE 9 LONG-TERM DEBT (CONTINUED)

Description (continued)	2011	2010
Community Economic Development Assistance Corporation ("CEDAC") capital advance mortgage due November 24, 2017. At the option of CEDAC, the loan may be extended for additional periods in increments of 10 years each. The term of the loan including any additional periods may not exceed 40 years from the loan inception date, November 24, 2004. The mortgage does not bear any interest and no repayments can be made during the term of the loan without HUD approval. The capital advance is secured by certain assets of the Organization.	479,373	479,373
Mortgages payable to CHFA, due in 2045 and 2046 . At its sole discretion, CHFA has the right to call the mortgages due and payable in their entirety in 2035 and 2036. The mortgages are secured by fixed assets of the Organization. The mortgages are payable in monthly installments of $22,833 including interest. In the event of a default, the mortgage becomes due and payable with an interest rate equal to the highest allowable rate under the law.	6,593,987	6,621,059
Midland Loan Services, Inc. HUD insured mortgage note in the original amount of $5,444,200 payable in monthly installments of $29,236, including interest at 5.50% through December 1, 2040 secured by certain assets of the Organization.	5,115,084	5,182,418
Installment loan payable in monthly installments of $3,510, including interest at 5%, through 2014. Principal and interest rate review will occur in 2014. Loan is secured by certain property and equipment of the Organization.	520,189	540,642
Installment loan payable to Saint Paul's Evangelical Lutheran Church, payable in monthly installments of $623, including interest at 6.5%, through June 2016.	31,386	37,056
First Mortgage Gross Revenue Health Care Project Refunding Bonds - 1999 Series A, issued by the Connecticut Development Authority (CDA), with interest ranging from 5.60% to 6.00%, and annual principal payments due on December 1 with a final maturity of December 1, 2015.	2,795,000	3,165,000

NOTE 9 LONG-TERM DEBT (CONTINUED)

Description (continued)	2011	2010
The Organization is obligated under various capital lease agreements for equipment and motor vehicles, expiring from 2011 through 2015, with a combined monthly payment ranging from $3,000 to $6,020, secured by equipment.	116,703	50,508
Term note payable to Bank of America face amount $350,000, due August 7, 2033, secured by certain assets, payable in monthly installments of interest only through August 2008 then monthly payments of principal and interest through maturity. Interest rate is the 30 year treasury bill rate plus 2 ½% adjusted annually (7.1% at each of June 30, 2011 and 2010).	334,218	340,154
Long Term Debt	$ 29,842,617	$ 28,908,807
Less: Current Portion	780,425	1,168,771
Long Term Debt, Net of Current Portion	$ 29,062,192	$ 27,740,036

Following are current maturities for the next five years:

Year Ending June 30,	Amount
2012	$ 780,425
2013	1,018,901
2014	3,405,318
2015	1,140,717
2016	1,360,803

NOTE 10 OPERATING LEASES

The Organization leases land, buildings and equipment for program and administrative purposes under various operating lease agreements with terms of one to ten years expiring in 2015. Total rent and related expenses for the years ended June 30, 2011 and 2010 amounted to approximately $1,550,000 and $1,460,000, respectively.

NOTE 10 OPERATING LEASES (CONTINUED)

Leases – Bus Barn Lease

The Organization (the Lessee) entered a lease agreement effective June 27, 2003 for office and garage space for its Vermont Good News Garage operation with an unrelated nonprofit organization (the Lessor). The term of the lease is ten years with additional lessee renewal options of five and four years, respectively. Under the terms of the lease, if the Lessee, its sub-lessee, or its assignee continually occupies the space for 15 years and all rent payments are made, the Lessee will have the option to purchase the Unit for its fair market value. The intent of the Organization is to purchase the Unit for its fair market value and therefore the estimated minimum life of the lease has been determined to be 15 years.

The rent consists of three components. The first component required the Organization to pay $850,000 at the commencement of the lease. This amount is reflected as prepaid rent on the statement of financial position and is amortized over the life of the lease, which amounts to $56,667 per year. The second component is annual rent of $29,601, due monthly. This component represents the costs of maintenance, taxes, and other related costs to maintain the unit and may be adjusted in subsequent years based on actual costs. The third component is annual debt service rent of $13,955, due monthly. This component represents the reimbursement of a $150,000 loan received by the Lessor for additional fix up costs for the Unit.

The Organization has a note receivable with the Lessor that amounted to $465,588 at each of June 30, 2011 and 2010. The note receivable has an interest rate of 4.79% and interest receivable amounted to $209,575 and $197,423 as of June 30, 2011 and 2010, respectively. The note receivable and related interest matures in June of 2018.

Future minimum lease payments under the long-term lease are as follows for the years ending June 30, 2011:

Year Ending June 30,	Amount
2012	$ 945,545
2013	717,949
2014	370,373
2015	328,045
2016	242,387

NOTE 11 FAIR VALUE MEASUREMENT

The Organization uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
Funds Held under Indenture Agreements	$ 1,762,684	$ -	$ -	$ 1,762,684
Investments	347,276	-	-	347,276
Pension Reserve	275,951	-	-	275,951
Beneficial Interest in Third Party Trusts	-	2,958,522	-	2,958,522
Total	$ 2,385,911	$ 2,958,522	$ -	$ 5,344,433

	2010			
	Level 1	Level 2	Level 3	Total
Funds Held under Indenture Agreements	$ 1,584,957	$ -	$ -	$ 1,584,957
Investments	286,207	-	-	286,207
Pension Reserve	288,144	-	-	288,144
Beneficial Interest in Third Party Trusts	-	2,544,155	-	2,544,155
Total	$ 2,159,308	$ 2,544,155	$ -	$ 4,703,463

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Funds Held under Indenture Agreements

The fair value of funds held under indenture agreements are based on quoted market prices of money market funds and certificates of deposit.

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Beneficial Interest in Third-Party Trusts

Beneficial interests in third-party trusts have investments in money market funds, equity securities with readily determinable fair values and debt securities and are measured at their fair value. The Organization reflects their allocable portion of the fair value of the trusts in the consolidated statement of financial position.

Lines of Credit

The fair value of the lines of credit is approximately the carrying value due to the short maturity period of the debt.

Long-Term Debt

The fair value of bonds payable is based on quoted market prices for the same or similar issues or on the current rates offered to the Organization for debt of the same remaining maturities. The fair value of bonds payable is approximately $2,732,000 at June 30, 2011.

Other financial instruments reflected in the Organization's financial statements are not traded or settled regularly in the market place and therefore do not have readily determinable market prices. Consequently, the Organization has determined that it is not practical to estimate their fair value as of the financial statement date.

NOTE 13 DONOR-RESTRICTED FUNDS

The Organization has received donor-restricted gifts which have been accounted for as temporarily and permanently restricted net assets depending on the existence of and/or nature of any donor restrictions. Temporarily restricted net assets are available for the following purposes as of June 30, 2011 and 2010:

	2011	2010
Program Restrictions	$ 1,819,273	$ 1,545,792
Property Projects	414,384	460,893
State Subsidized Building	1,099,334	1,203,764
	$ 3,332,991	$ 3,210,449

Included in temporarily restricted net assets is a building that was subsidized by a grant and has a net book value of $1,099,334 and $1,203,764 at June 30, 2011 and 2010, respectively. The building is restricted in its use in accordance with the grant and is to be operated as congregate housing for the frail elderly, and, accordingly, the asset is included as a component of temporarily restricted net assets. The asset is being transferred to unrestricted net assets over its useful life to correspond with the depreciation expense reflected in operations. The amount transferred to unrestricted net assets relating to the state subsidized building was $104,431 for each of the years ended June 30, 2011 and 2010.

NOTE 13 DONOR RESTRICTED FUNDS (CONTINUED)

The Organization has received a donor-restricted contribution which has been accounted for as a permanently restricted net asset which is held in perpetuity with disbursements only being used to satisfy the donor's requirements. The Organization has a beneficial interest in third-party trusts which is recorded as permanently restricted net asset that amounts to $2,958,522 and $2,544,155 as of June 30, 2011 and 2010, respectively. Distributions from the trusts are to be used for general purposes of the Organization.

The Board of Directors has classified the endowment and related appreciation/depreciation in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, unless explicitly stated otherwise by the gift instrument, the assets in and endowment fund are donor restricted assets until appropriated for expenditure by the institution. Accordingly, the Organization classifies the portion of their endowments that must be retained in perpetuity as permanently restricted as the original corpus is not known.

Gains and losses on the permanently restricted net asset are recorded as a change in the beneficial interest in the net asset. The endowments are controlled by various trustees that manage the funds based on donor stipulations. Therefore, the trustees of the endowment have sole control over investment and expenditure decisions.

NOTE 14 CONTINGENCIES

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Various claims have been filed against the Organization with discrimination commissions. In addition, the Organization is involved in various lawsuits. The Organization is vigorously defending those claims and suits, and the likelihood of a favorable or unfavorable outcome cannot be determined a this time, accordingly, no provision has been recorded in the financial statements. Management contends that insurance coverage applies in most instances with a deductible on the applicable policy of $10,000.

A significant portion of the Organization's revenues are derived from state and federal government funding. Due to current economic conditions it is possible that funding from these sources could be reduced in the next term.

NOTE 15 SUBSEQUENT EVENTS

Effective July 1, 2011, Lutheran Community Services of Massachusetts, Inc. legally changed its name to Lutheran Community Services, Inc.

Subsequent to year end, the Organization entered into a Letter of Intent (LOI) with a prospective buyer exclusively to explore the terms of a mutually beneficial arrangement to sell the assets of Lutheran Home of Worcester, Inc. The terms of the LOI are binding related to confidentiality, non-disclosure and exclusivity. The LOI allows for either party to terminate the agreement without financial impact. The Organization has incurred an immaterial amount of expenses related to the LOI as of the date the financial statements were issued.

On July 5, 2011, the Organization modified a line of credit agreement to reduce the limit to $200,000. Effective, August 10, 2011 the outstanding balance was repaid and the agreement was terminated.

On September 19, 2011, the Organization amended a mortgage payable in the amount of $447,750. The mortgage now bears an interest rate of 5% and is payable in monthly installments of $3,558, with a maturity date of December 17, 2014.

Subsequent to year end, the Organization's board of directors approved the exploration of the sale of one of the Organization's long-lived assets located in New Hampshire. As of the date of the issuance of the financial statements, the long-lived asset is not being actively marketed and the Organization has not committed to or entered an agreement to sell the property. As of the date of issuance of the financial statements the program associated with this property has been suspended. The Organization's management team is currently exploring alternative uses and funding sources with respect to this program. The program had approximately $755,000 in revenues for the year ended June 30, 2011. It is not possible to determine if management will be able to secure an alternative use or funding source for the program at this time.

Subsequent to year end, Lutheran Community Services, Inc. re-organized its operating structure. Its "In Home Care" service line was transferred to a new entity Lutheran Community Care, Inc. Lutheran Community Care, Inc. is a subsidiary of the Organization. The "In Home Care" service line had $6,386,226 in revenues for the year ended June 30, 2011.