LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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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
Worcester, 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, 2012 and 2011, 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, 2012 and 2011, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Quincy, Massachusetts
November 27, 2012

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,286,638	$ 2,728,057
Investments (Note 14)	339,448	347,276
Accounts Receivable, Net (Note 3)	5,028,380	6,196,054
Inventory	185,881	221,053
Prepaid Expenses	633,313	505,199
Other Current Assets	96,961	98,724
Assets Limited as to Use, Required for Current Liabilities (Note 5)	427,025	510,616
Total Current Assets	9,997,646	10,606,979
ASSETS LIMITED AS TO USE		
Under Indenture Agreement - Held by Trustee, Net	1,409,220	1,358,709
Under Regulatory Agreement	1,010,204	882,978
Board Restricted - Cash	38,980	38,980
Tenant/Resident Funds	271,436	253,008
Pension Reserve (Note 6)	281,192	275,951
Beneficial Interest in Third-Party Trusts	3,058,984	2,958,522
Pledges Receivable	-	17,657
Total Assets Limited as to Use (Note 5)	6,070,016	5,785,805
PROPERTY AND EQUIPMENT		
Land	1,120,814	1,349,730
Buildings	32,369,545	34,934,751
Improvements	8,002,732	8,947,628
Furniture and Equipment	4,694,733	6,452,896
Vehicles	328,842	245,183
Equipment Held Under Capital Lease	677,833	408,295
Software	83,795	30,077
Total	47,278,294	52,368,560
Less: Accumulated Depreciation	22,960,917	26,212,837
Property and Equipment, Net	24,317,377	26,155,723
OTHER ASSETS		
Construction in Progress (Note 9)	123,529	3,456,738
Prepaid Rent	283,194	339,995
Deferred Charges, Net	399,815	432,661
Loans Receivable (Note 4)	753,088	465,588
Interest Receivable (Note 4)	261,709	230,480
Cash Surrender Value of Life Insurance	87,328	93,564
Miscellaneous Other Assets	84,769	83,135
Total Other Assets	1,993,432	5,102,161
Total Assets	$ 42,378,471	$ 47,650,668

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Lines of Credit (Note 11)	$ 550,000	$ 1,172,861
Accounts Payable and Accrued Expenses	6,229,291	6,774,731
Deferred Revenue	528,494	596,163
Due to the Third-Party Payors (Note 2)	480,488	448,977
Current Portion of Long-Term Debt (Note 12)	968,500	780,425
Other Current Liabilities	140,342	105,734
Total Current Liabilities	8,897,115	9,878,891
LONG-TERM DEBT AND OTHER LIABILITIES		
Long-Term Debt, Net of Current Portion	17,904,389	22,019,519
Capital Advances	7,042,673	7,042,673
Total Long-Term Debt (Note 12)	24,947,062	29,062,192
Long-Term Pension Liability (Note 6)	448,570	443,328
Tenant Deposits	68,997	70,271
Total Other Liabilities	517,567	513,599
Total Long-Term Debt and Other Liabilities	25,464,629	29,575,791
Total Liabilities	34,361,744	39,454,682
NET ASSETS		
Unrestricted	1,891,032	1,890,148
Temporarily Restricted	3,052,386	3,332,991
Permanently Restricted	3,073,309	2,972,847
Total Net Assets (Note 16)	8,016,727	8,195,986
Total Liabilities and Net Assets	$ 42,378,471	$ 47,650,668

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
REVENUES		
Program Service Revenue	$ 64,449,012	$ 62,358,515
Contribution Income	789,336	591,146
Donated Vehicles	2,198,474	2,065,608
Rental Income	13,200	13,200
Net Assets Released from Restriction Used for Operations	883,133	696,153
Other Income	580,738	530,781
Total Revenues	68,913,893	66,255,403
EXPENSES		
Program Services	60,828,270	60,372,067
Supporting Services and Other:		
Administrative	6,893,340	5,692,756
Fundraising	377,821	598,749
Impairment Costs	1,094,937	-
Total Supporting Services and Other	8,366,098	6,291,505
Total Expenses	69,194,368	66,663,572
LOSS FROM OPERATIONS	(280,475)	(408,169)
NON-OPERATING ITEMS		
Investment/Interest Income	32,410	45,283
Gain on Sale of Accounts Receivables, Property and Equipment, Net	5,869	-
Abandonment Costs	(148,250)	-
Total Non-Operating Items, Net	(109,971)	45,283
EXCESS OF EXPENSES OVER REVENUES	(390,446)	(362,886)
Net Assets Released from Restrictions Used for Capital Improvements	391,330	72,203
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 884	$ (290,683)

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
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
Loss from Operations	(280,475)	-	-	(280,475)
Temporary and Permanently Restricted Contributions	-	999,944	-	999,944
Uncollectible Pledges Expense	-	(6,086)	-	(6,086)
Change in Beneficial Interest in Third-Party Trusts	-	-	100,462	100,462
Non-Operating Items, Net	(109,971)	-	-	(109,971)
Net Assets Released from Restrictions	391,330	(1,274,463)	-	(883,133)
INCREASE (DECREASE) IN NET ASSETS	884	(280,605)	100,462	(179,259)
NET ASSETS AT JUNE 30, 2012	$ 1,891,032	$ 3,052,386	$ 3,073,309	$ 8,016,727

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, 2012

	Total	Program Services	Administrative	Fundraising	Impairment Costs
Salaries and Wages	$ 33,155,267	$ 28,934,941	$ 4,220,326	$ -	$ -
Employee Benefits	7,011,927	6,211,529	800,398	-	-
Purchased Services	1,864,374	1,864,374	-	-	-
Insurance	343,438	343,438	-	-	-
Program Expenses	7,455,431	7,423,897	31,534	-	-
Professional Fees	860,534	612,772	247,762	-	-
Occupancy Costs	3,021,662	2,540,643	481,019	-	-
Advertising Expense	331,187	297,738	33,449	-	-
Operating Supplies and Expenses	6,209,248	5,424,904	784,344	-	-
Donated Vehicle Expense	1,156,000	1,156,000	-	-	-
Garage Expense	853,014	853,014	-	-	-
Travel Expenses	1,033,348	867,553	165,795	-	-
Equipment and Other Office Operations	95,756	95,756	-	-	-
Fundraising Expense	377,821	-	-	377,821	-
Real Estate Taxes	227,949	227,949	-	-	-
Resident Care Costs	609,785	609,785	-	-	-
Depreciation and Amortization	1,764,603	1,674,382	90,221	-	-
Impairment Costs	1,094,937	-	-	-	1,094,937
Bad Debt Expense	480,668	480,668	-	-	-
Interest	1,247,419	1,208,927	38,492	-	-
Total Functional Expenses	$ 69,194,368	$ 60,828,270	$ 6,893,340	$ 377,821	$ 1,094,937

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 Operations	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 STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ (179,258)	$ 246,226
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,769,359	1,781,490
Provision for Bad Debts	532,949	489,443
Uncollectible Pledges Expense	6,086	900
Change in Beneficial Interest in Third-Party Trusts	(100,459)	(414,370)
Contributed Leased Property and Improvements	(81,935)	-
Net Change in Cash Surrender Value of Life Insurance	6,237	28,351
Interest Receivable	(32,426)	(30,944)
Restricted Contributions	-	(15,480)
Net Unrealized Loss (Gain) on Investments	360	(1,475)
Net Gain on Sale of Accounts Receivable, Property and Equipment	(5,869)	-
Impairment Costs	1,094,937	-
Abandonment Costs	148,250	4,800
(Increase) Decrease in:		
Accounts Receivable	(406,713)	(384,372)
Inventory	32,269	42,992
Prepaid Expenses	(91,859)	(94,783)
Other Current Assets	54,094	136,361
Assets Whose Use is Limited	106,641	(106,641)
Tenant/Resident Funds	(15,228)	(3,702)
Pledges Receivable	11,571	70,531
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(327,536)	64,678
Deferred Revenue	(65,262)	115,766
Due to Third-Party Payors	74,570	(213,591)
Other Liabilities	(453)	(13,439)
Net Cash Provided by Operating Activities	2,530,324	1,702,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(824,519)	(296,425)
Proceeds from Sale of Property and Equipment	577,527	-
Net Change in Escrow Funds	3,420	(31,358)
Deposits to Restricted Accounts	(766,013)	(955,985)
Withdrawals from Restricted Accounts	559,237	612,895
Sales (Purchases) of Investments	8,664	(61,707)
Additions to Board Restricted Cash	-	(154)
Additions to Construction in Progress	(30,000)	(1,233,806)
Net Cash Used by Investing Activities	(471,684)	(1,966,540)

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2012

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Advancements on Line of Credit	-	400,000
Payments on Line of Credit	(622,861)	(740,000)
Proceeds from Long-Term Debt	-	1,542,717
Principal Payments on Long-Term Debt	(877,198)	(720,167)
Principal Payments on Capital Leases	-	(7,117)
Advances from Related Parties	-	(250,000)
Net Cash Provided (Used) by Financing Activities	(1,500,059)	225,433
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	558,581	(38,366)
Cash and Cash Equivalents - Beginning of Year	2,728,057	2,766,423
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,286,638	$ 2,728,057

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lutheran Social Services of New England, Inc. and Subsidiaries (collectively the Organization) 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.

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, Inc. (LCS)	Social Services Provider
Lutheran Community Care, Inc. (Subsidiary of LCS)	In Home Care
Good News Garage - LSS, Inc.	Provides Transportation to Those in Need
Lutheran Housing Corporation - Brockton	Assisted Living Residence
Lutheran Home of Worcester, Inc. (Sold in 2012 - Note 10)	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

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.

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

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.

Loans Receivable

The Organization’s loan portfolio is comprised of an unsecured loan and secured loan that bear interest and have fixed repayment terms, as detailed in Note 4, and is considered a single portfolio class. Loans receivable are recorded net of an allowance for expected loan losses (allowance). The Organization establishes an allowance as an estimate of inherent risk in the Organization’s loan portfolio. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The allowance is established through a provision for loan losses that is charged to expense. Loan losses are charged off against the allowance when the Organization determines the loan balance to be uncollectible.

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

Loans Receivable (Continued)

Proceeds received on previously charged off amounts are recorded as a recovery in the year of receipt. The allowance for uncollectible loans receivable was $-0- as of June 30, 2012 and 2011.

The Organization reviews the adequacy of the allowance, including consideration of the relevant risks in the loan portfolio, current economic conditions and other factors periodically. The Organization monitors timeliness of scheduled payments to assess the risk of nonperformance. If the Organization determines that changes are warranted based on those reviews, the allowance is adjusted.

Inventory

Vehicles identified for the purpose of being delivered to program participants are valued based on the average contract reimbursement rate for the reporting period.

Program vehicles expected to be sold at retail are recorded based on trade-in value.

Vehicles expected to be sold at wholesale are valued using the average sales proceeds for all vehicles sold during the reporting period.

Vehicles are recorded as Donated Vehicles when the vehicle is received.

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 $1,736,873 and $1,749,158 for the years ended June 30, 2012 and 2011, respectively.

For the year ended June 30, 2012 the Organization recognized approximately $1,094,000 in impairment losses on property and equipment of Lutheran Home of Worcester, Inc. that operated a skilled nursing and residential care facility. Substantially all assets of Lutheran Home of Worcester, Inc. were sold in June of 2012 as more fully described in Note 10. The impairment loss was recorded to reflect declines in the net realizable value of the property and equipment associated with that asset group and is included in administrative expenses in the consolidated statement of activities.

Assets Held for Sale

The Organization had classified a portion of its land as available for sale as of June 30, 2011. The Organization recognizes assets held for sale at the lower of its cost basis or fair value less selling costs. During 2012, the land was sold and the Organization recognized a net gain on the sale of the land in the amount of $436,027.

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

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 approximately $30,000 for each of 2012 and 2011.

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.

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 and expenses.

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).

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

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”).

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.

In-Kind Donations

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, 2012 and 2011.

Donated vehicles include vehicles that will be repaired and delivered to program participants. They are valued based on the average contract reimbursement rate for the reporting period. Donated vehicles also include vehicles that do not meet the needs of program participants. These vehicles are sold at auction and valued based on average proceeds for the reporting period.

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).

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

Income Taxes (Continued)

The Organization files as a tax-exempt organization. Should that status be challenged in the future, the entity's 2009 through 2012 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 approximately $320,000 and $328,000 as of June 30, 2012 and 2011, respectively.

Asset Retirement Obligations

U.S. generally accepted accounting principles require 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.

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

Fair Value Measurement (Continued)

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.

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 27, 2012, 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.

NOTE 2 REVENUES FROM THIRD-PARTY PAYORS (CONTINUED)

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.

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, 2012 and 2011:

	2012	2011
Accounts Receivable, Gross	$ 5,446,559	$ 7,017,563
Less: Allowance for Doubtful Accounts	418,179	821,509
Accounts Receivable, Net	$ 5,028,380	$ 6,196,054

NOTE 4 LOANS RECEIVABLE

In connection with the sale of the skilled nursing and residential care facility (Note 10), the Organization entered into an unsecured loan agreement with the buyer in the amount of $287,500. The loan receivable is payable in monthly interest only installments commencing on August 1, 2012. Beginning August 1, 2015 monthly interest and principal payments commence until August 1, 2019 when the loan receivable is due in its entirety. The interest rate on the loan receivable is fixed at 3% per annum. In addition, the loan receivable is subject to an off-set reduction if certain requirements in the purchase and sale agreement are not met. As of June 30, 2012, the value of the loan receivable was $287,500.

The Organization has an additional loan receivable in connection with a lease agreement with an unrelated nonprofit organization. The loan receivable amounted to $465,588 at each of June 30, 2012 and 2011. See Note 13 for additional details on this loan receivable.

NOTE 5 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 12), 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.

Following is a summary of the funds held under indenture agreement at market value as of June 30, 2012 and 2011:

	2012	2011
Debt Service Reserve Fund	$ 648,285	$ 648,102
Renewal and Replacement Fund	393,411	393,411
Principal and Interest Account	772,338	698,967
Earnings Fund	20,814	20,807
Project Fund	1,397	1,397
Total	1,836,245	1,762,684
Less: Amount Required for Current Liabilities	427,025	403,975
Funds Held Under Indenture Agreement, Net	$ 1,409,220	$ 1,358,709

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.

NOTE 5 ASSETS LIMITED AS TO USE (CONTINUED)

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 $3,058,984 and $2,958,522 at June 30, 2012 and 2011, 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 $100,462 and $414,367 for the years ended June 30, 2012 and 2011, 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.

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 6 for additional details.

NOTE 6 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 $-0- and $2,153 for the years ended June 30, 2012 and 2011, respectively.

The Organization also has recorded a liability at June 30, 2012 and 2011 for contributions relating to a former noncontributory defined contribution plan in the amounts of $448,570 and $443,328, respectively. This plan was frozen in January of 1990. The Organization has set aside assets in the amounts of $281,192 and $275,951 as of June 30, 2012 and 2011, respectively, to fund the pension liability. The remaining obligation will be funded as assets become available.

NOTE 7 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.

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 $5,028,380 at June 30, 2012.

Loans Receivable

The Organization has entered into an unsecured loan agreement that totaled $287,500 at June 30, 2012.

Assets Limited As To Use

The Organization is reflecting assets limited as to use at approximately $6,070,000. 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 approximately $340,000 at June 30, 2012.

NOTE 7 CONCENTRATION OF CREDIT RISK (CONTINUED)

Major Sources of Revenue

For the year ended June 30, 2012, 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 approximately 30% from the skilled nursing homes and 60% from the social service organizations for the year ended June 30, 2012.

NOTE 8 SUPPLEMENTAL DISCLOSURES – STATEMENT OF CASH FLOWS

	2012	2011
Cash Paid for Interest	$ 1,196,525	$ 1,446,810

Noncash Investing and Financing Activity

The Organization sold property and equipment (Note 10) with a net book value of approximately $3,332,500 in 2012.

The Organization sold part of its accounts receivable portfolio (Note 10) with a net realizable value of approximately $1,104,000 in 2012.

The Organization paid long-term debt of approximately $3,307,000 with the proceeds of the sale of the skilled nursing and residential care facility (Note 12) in 2012.

In 2012, the Organization placed into service construction in progress in the amount of $3,215,959. In 2011, net changes in construction in progress that did not represent cash were $350,678.

NOTE 9 CONSTRUCTION IN PROGRESS

The Organization has capitalized certain costs associated with construction/development projects that have a future economic benefit. The Organization's construction in progress consists of the following:

	2012	2011
Lutheran Home of Worcester, Inc.	$ -	$ 3,212,959
Fair Havens, Inc.	93,529	240,779
Lutheran Community Services, Inc.	30,000	3,000
Total	$ 123,529	$ 3,456,738

NOTE 9 CONSTRUCTION IN PROGRESS (CONTINUED)

The costs associated with Lutheran Home of Worcester, Inc. were placed into service during 2012. Those costs consist of determination of need filing fees, architectural fees and other development costs associated with the renovation and refurbishing of the facility.

Fair Havens, Inc. 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. In 2012, management determined that certain costs previously incurred and capitalized were obsolete and consequently were expensed. These costs amounted to approximately $150,000 as of June 30, 2012.

NOTE 10 SALE OF SKILLED NURSING AND RESIDENTIAL CARE FACILITY

During 2012, the Organization sold various assets of its skilled nursing and residential care facility, operated by Lutheran Home of Worcester, Inc., including property and equipment, accounts receivable and intangible assets to a non-related party. The proceeds from the sale of the skilled nursing and residential care facility were used to repay outstanding debt, as detailed in Note 12 and pay various other costs related to the transaction. The sale resulted in a net loss of approximately $449,000 that has been netted with a gain recognized on sale of land of approximately $436,000, as detailed in Note 1. The net amount of these items have been included in the statement of activities under the caption "gain on sale of accounts receivable, property and equipment, net."

NOTE 11 LINES OF CREDIT

The Organization had five line of credit agreements with various banks at June 30, 2011. The lines of credit were payable on demand and had limits of $100,000 to $500,000 at June 30, 2011. The lines of credit bore interest at variable rates ranging from 4.00% to 6.25%. Two of the lines were closed during 2012, reducing the range of limits at June 30, 2012 to $250,000 to $400,000 and reducing the range of interest rates at June 30, 2012 to 4.25% to 6.25%. The lines are collateralized by various business assets. The Organization had $550,000 and $1,172,861 outstanding on the lines of credit and $400,000 and $377,139 available to draw upon at June 30, 2012 and 2011, respectively. The Organization was not in compliance with the covenant requirements of one line of credit at June 30, 2012. As of the date of the financial statements the lender has not demanded payment of the line of credit. The debt is classified as a current liability as the amount is due on demand.

NOTE 12 LONG-TERM DEBT

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

Description	2012	2011
Mortgage payable with a variable interest rate of 4.37% at June 30, 2012 and fixed rates ranging from 5.27% to 7.70% at each of June 30, 2012 and 2011, secured by fixed assets, payable in monthly installments ranging from $1,487 to $21,098, which include interest, becoming due from 2012 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.	$ 3,710,472	$ 3,926,586
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 2012 to 2013, thereafter the rate is adjusted every five years, secured by property and equipment and becoming due from 2031 to 2034. The Organization paid off these mortgages as part of the sale of Lutheran Home of Worcester, Inc.	-	3,366,791
HUD insured capital advance mortgages under the Section 202 program, which bear no interest and repayment is not required provided the Organization remains in compliance with the provisions of the Regulatory Agreement and HUD regulations through January 1, 2045 and 2046 ("maturity date"). At the maturity date the Organization will be discharged from the capital advances. In the event of a default, the mortgages become due and payable with interest at 5.375%. Consequently, the capital advances are considered refundable and are presented as a liability. The capital advances are secured by certain assets of the Organization.	6,563,300	6,563,300

NOTE 12 LONG-TERM DEBT (CONTINUED)

Description (continued)	2012	2011
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.	6,565,102	6,593,987
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.	5,043,954	5,115,084
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.	496,520	520,189
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

NOTE 12 LONG-TERM DEBT (CONTINUED)

Description (continued)	2012	2011
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.	2,405,000	2,795,000
The Organization is obligated under various capital lease agreements for equipment and motor vehicles, expiring from 2013 through 2017, with a combined monthly payment of approximately $10,000, including interest ranging from 0% to 8%, secured by equipment.	323,935	116,703
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, 2012 and 2011).	327,906	334,218
Long Term Debt	$ 25,915,562	$ 29,842,617
Less: Current Portion	968,500	780,425
Long Term Debt, Net of Current Portion	$ 24,947,062	$ 29,062,192

Interest charged to operations for the above long-term debt amounted to $1,247,419 and $1,207,344 for the years ended June 30, 2012 and 2011, respectively. The portion of interest expense related to capital leases was approximately $10,000 for each of 2012 and 2011.

Following are current maturities for the next five years:

Year Ending June 30,	Amount
2013	$ 968,500
2014	3,376,157
2015	1,077,780
2016	1,298,765
2017	204,828

NOTE 12 LONG-TERM DEBT (CONTINUED)

Minimum future lease payments under capital leases for each year ended June 30 are as follows:

Year Ending June 30,	Amount
2013	$ 100,960
2014	95,849
2015	92,753
2016	39,034
2017	21,932
Less Amount Representing Interest	(26,593)
	323,935

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.

NOTE 13 OPERATING LEASES

The Organization leases land, buildings and equipment for program and administrative purposes under various operating lease agreements with terms of one to fifteen years expiring in 2021. Total rent and related expenses for the years ended June 30, 2012 and 2011 amounted to approximately $1,350,000 and $1,550,000, respectively.

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.

NOTE 13 OPERATING LEASES (CONTINUED)

Leases – Bus Barn Lease (Continued)

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 loan receivable with the Lessor that amounted to $465,588 at each of June 30, 2012 and 2011. The loan receivable has an interest rate of 4.79% and interest receivable amounted to $242,001 and $209,575 as of June 30, 2012 and 2011, respectively. The loan 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, 2012:

Year Ending June 30,	Amount
2013	$ 695,976
2014	376,129
2015	344,036
2016	242,387
2017	230,556
Later Years	854,333

NOTE 14 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, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
Funds Held under Indenture Agreements	$ 1,836,245	$ -	$ -	$ 1,836,245
Investments	339,448	-	-	339,448
Pension Reserve	281,192	-	-	281,192
Beneficial Interest in Third Party Trusts	-	3,058,984	-	3,058,984
Total	$ 2,456,885	$ 3,058,984	$ -	$ 5,515,869

NOTE 14 FAIR VALUE MEASUREMENT (CONTINUED)

	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

NOTE 15 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 and Regulatory Agreements

The fair value of funds held under indenture and regulatory agreements are based on quoted market prices of money market funds and cash equivalents.

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.

Loans Receivable

The fair values of loans receivable are based on the original principal balance, adjusted for payments, and interest rates included in the terms of the loan agreements.

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 $2,400,000 at June 30, 2012.

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 16 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, 2012 and 2011:

	2012	2011
Program Restrictions	$ 1,966,327	$ 1,819,273
Property Projects	91,156	414,384
State Subsidized Building	994,903	1,099,334
	$ 3,052,386	$ 3,332,991

Included in temporarily restricted net assets is a building that was subsidized by a grant and has a net book value of $994,903 and $1,099,334 at June 30, 2012 and 2011, 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, 2012 and 2011.

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 $3,058,984 and $2,958,522 as of June 30, 2012 and 2011, 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 17 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 debarment from participation in 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.