

**AUGSBURG LUTHERAN HOME OF
MARYLAND, INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	7
SUPPLEMENTARY INFORMATION	
Consolidating Schedule of Financial Position	21
Consolidating Schedule of Activities	23
Consolidating Schedule of Cash Flows	25
Schedules of Nursing Care Expenses	27
Schedules of Routine Service Expenses	28
Schedules of Administrative Services Expenses	30
Schedules of Capital and Property Services Expenses	31
Schedules of Assisted Living Expenses	32
Schedules of Other Patient Care Expenses	33
Schedules of Other Resident Care Expenses	34



Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Augsburg Lutheran Home of Maryland, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of Augsburg Lutheran Home of Maryland, Inc. and Subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of Augsburg Lutheran Home of Maryland, Inc. and Subsidiary. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Augsburg Lutheran Home of Maryland, Inc. and Subsidiary as of December 31, 2009 and 2008, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information beginning on page 20 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schiavi, Wallace & Rowe, PC

April 27, 2010

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****December 31, 2009 and 2008**

ASSETS	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 513,405	\$ 874,047
Patient and resident accounts receivable, net	1,201,447	1,191,346
Debt service escrow	-	141,909
Prepaid expenses	191,232	269,867
TOTAL CURRENT ASSETS	<u>1,906,084</u>	<u>2,477,169</u>
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation of \$18,033,380 and \$16,725,344 in 2009 and 2008, respectively	<u>20,249,660</u>	<u>19,038,632</u>
OTHER ASSETS		
Contributions receivable	6,919	33,647
Deposits held in escrow	39	39
Investments	4,599,362	3,225,815
Operating reserve	2,074,832	2,069,478
Deferred costs, net of accumulated amortization	384,790	252,538
TOTAL OTHER ASSETS	<u>7,065,942</u>	<u>5,581,517</u>
TOTAL ASSETS	<u><u>\$ 29,221,686</u></u>	<u><u>\$ 27,097,318</u></u>

See accompanying notes.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****December 31, 2009 and 2008**

LIABILITIES AND NET ASSETS	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,609,133	\$ 1,499,205
Line of credit	450,000	344,000
Bonds payable, short term	277,084	312,500
Notes payable, short term	5,656	60,309
Capital lease payable, short term	6,391	5,859
Due to third party	120,000	80,000
TOTAL CURRENT LIABILITIES	<u>2,468,264</u>	<u>2,301,873</u>
LONG TERM LIABILITIES		
Bonds payable	11,337,604	7,102,500
Notes payable, bank	20,471	3,508,860
Obligation under capital lease	774	7,528
Deferred revenue	8,908,295	9,424,872
TOTAL LONG-TERM LIABILITIES	<u>20,267,144</u>	<u>20,043,760</u>
TOTAL LIABILITIES	<u>22,735,408</u>	<u>22,345,633</u>
NET ASSETS		
Unrestricted		
Undesignated	2,336,174	1,917,030
Board designated	3,999,362	2,625,815
Total unrestricted	<u>6,335,536</u>	<u>4,542,845</u>
Temporarily restricted	150,742	208,840
TOTAL NET ASSETS	<u>6,486,278</u>	<u>4,751,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 29,221,686</u></u>	<u><u>\$ 27,097,318</u></u>

See accompanying notes.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

December 31, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS and SUPPORT						
Net patient service revenue	\$ 10,054,120	\$ -	\$10,054,120	\$ 9,967,307	\$ -	\$ 9,967,307
Contributions and bequests	483,427	183,458	666,885	316,176	133,830	450,006
Rental income	2,533,400	-	2,533,400	2,424,483	-	2,424,483
Assisted Living revenue	1,938,747	-	1,938,747	1,796,247	-	1,796,247
Amortization of entrance fees	896,392	-	896,392	858,530	-	858,530
Investment income	(75,463)	161	(75,302)	(261,609)	59	(261,550)
Miscellaneous income	4,697	-	4,697	6,790	-	6,790
	<u>15,835,320</u>	<u>183,619</u>	<u>16,018,939</u>	<u>15,107,924</u>	<u>133,889</u>	<u>15,241,813</u>
Net Assets Released from Restriction	241,717	(241,717)	-	-	-	-
TOTAL REVENUE, GAINS and SUPPORT	<u>16,077,037</u>	<u>(58,098)</u>	<u>16,018,939</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES						
Nursing care expenses	4,753,420	-	4,753,420	4,583,371	-	4,583,371
Routine service expenses	4,382,283	-	4,382,283	4,289,370	-	4,289,370
Administrative service expenses	2,679,985	-	2,679,985	2,522,480	-	2,522,480
Capital and property service expenses	1,837,843	-	1,837,843	2,111,413	-	2,111,413
Assisted Living expenses	907,226	-	907,226	889,983	-	889,983
Other patient care expenses	386,370	-	386,370	393,085	-	393,085
Other resident care expenses	374,761	-	374,761	387,220	-	387,220
Provision for bad debts	72,000	-	72,000	72,340	-	72,340
TOTAL EXPENSES	<u>15,393,888</u>	<u>-</u>	<u>15,393,888</u>	<u>15,249,262</u>	<u>-</u>	<u>15,249,262</u>
OPERATING INCOME	<u>683,149</u>	<u>(58,098)</u>	<u>625,051</u>	<u>(141,338)</u>	<u>133,889</u>	<u>(7,449)</u>
OTHER INCOME (LOSS)						
Change in net unrealized gains and losses on investments	1,353,654	-	1,353,654	(1,391,097)	-	(1,391,097)
CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEM	<u>2,036,803</u>	<u>(58,098)</u>	<u>1,978,705</u>	<u>(1,532,435)</u>	<u>133,889</u>	<u>(1,398,546)</u>
EXTRAORDINARY ITEM- LOSS FROM DEBT EXTINGUISHMENT	<u>(244,112)</u>	<u>-</u>	<u>(244,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>1,792,691</u>	<u>(58,098)</u>	<u>1,734,593</u>	<u>(1,532,435)</u>	<u>133,889</u>	<u>(1,398,546)</u>
NET ASSETS, BEGINNING OF YEAR	<u>4,542,845</u>	<u>208,840</u>	<u>4,751,685</u>	<u>6,075,280</u>	<u>74,951</u>	<u>6,150,231</u>
NET ASSETS, END OF YEAR	<u>\$ 6,335,536</u>	<u>\$ 150,742</u>	<u>\$ 6,486,278</u>	<u>\$ 4,542,845</u>	<u>\$ 208,840</u>	<u>\$ 4,751,685</u>

See accompanying notes.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,734,593	\$(1,398,546)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	72,000	72,340
Depreciation	1,308,953	1,402,642
Unrealized loss (gain) on investments	(1,353,654)	1,784,637
Amortization of bond issue costs	14,949	14,410
Gain on sale of assets	-	213
Loss from debt extinguishment	244,111	-
Amortization of entrance fees	(897,592)	(858,530)
Entrance deposits received, net	358,324	414,364
Interest received on debt service escrow	(249)	(3,796)
Change in Operating Assets and Liabilities		
Deferred revenue	22,691	-
Patient and resident accounts receivable	(82,101)	142,526
Receivable, other	-	79,241
Contributions receivable	26,728	22,546
Prepaid expenses	78,635	(39,545)
(Deposits to) release from escrow	-	15,358
Accounts payable and accrued expenses	109,928	187,216
Due to/from third-party payor	40,000	80,000
Total Adjustments	<u>(57,277)</u>	<u>3,313,622</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,677,316</u>	<u>1,915,076</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,393,325)	(987,102)
Increase in investments	(19,893)	(48,250)
Deposits in debt service escrow	(207,490)	(269,715)
Increase in operating reserve	<u>(5,354)</u>	<u>(102,123)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>\$(1,626,062)</u>	<u>\$(1,407,190)</u>

See accompanying notes.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond payments	\$ (113,779)	\$ -
Cost of financing	(391,312)	-
Principal payments on notes payable	(16,423)	(9,745)
Principal payments on capital lease payable	(6,222)	(4,622)
Principal payments on building note payable	(3,526,619)	(42,048)
Proceeds from line of credit/capital lease	106,000	-
Net additional borrowings on bonds	<u>3,536,459</u>	<u>-</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(411,896)</u>	<u>(56,415)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(360,642)	451,471
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>874,047</u>	<u>422,576</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 513,405</u>	<u>\$ 874,047</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of capitalized interest of \$-0- and \$-0- in 2009 and 2008, respectively	<u>\$ 251,751</u>	<u>463,292</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Deposits held in escrow		
Change in deposits held in escrow	\$ -	\$ 15,359
Net transfers to/from checking	<u>-</u>	<u>(15,359)</u>
Interest received on deposits held in escrow (Included in cash flows from operating activities)	<u>\$ -</u>	<u>\$ -</u>
Debt service escrow		
Decrease in debt service escrow	\$ -	\$ 1,489
Cash deposits to debt service escrow	349,399	269,715
Withdrawals to repay bonds payable	<u>(349,648)</u>	<u>(275,000)</u>
Interest received on debt service escrow (Included in cash flows from operating activities)	<u>\$ (249)</u>	<u>\$ (3,796)</u>
Noncash investing and financing transaction		
Cost of building	\$ 1,543,934	\$ 432,258
Building loan	<u>(1,543,934)</u>	<u>(432,258)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note A - Organization and Summary of Significant Accounting Policies

Organization and Activity

Augsburg Lutheran Home of Maryland, Inc. and Subsidiary (the Companies) is composed of two not-for-profit, tax-exempt organizations as defined by §501(c)(3) of the Internal Revenue Code (IRC) that are publicly supported and, therefore, are not private foundations.

Augsburg Lutheran Home of Maryland, Inc. (the Home) was incorporated in the state of Maryland (the State) in 1892 and is supported by member congregations of the Lutheran Church Missouri Synod and Evangelical Lutheran Church of America. The Home's major activity is the operation of a nursing home with 123 skilled nursing beds and 64 assisted living beds in Baltimore,

Augsburg Lutheran Village, Inc. (the Village) is a wholly owned subsidiary of the Home. The Village was incorporated in the State on May 6, 1983. The Village was established for the purpose of operating a residential community of independent living apartments, including kitchen and dining facilities for elderly individuals. Operations commenced on or about January 1, 1987. An expansion project broke ground during 2005 for the construction of an additional 42 independent living apartment units as well as increased common area space. This project was completed during 2006 with the first units becoming available for occupancy on August 5, 2006. This increased the total independent living apartments in the Village to 138 units.

In August 2009 the Home began construction on a major transformation project to renovate the nursing home to become more "homelike" in its environment and service. The project is being funded with a \$10,000,000 Series 2009 Bond Issue (See Note H) as well as a Capital Fundraising Campaign. Construction of the Transformation Project is expected to be completed during 2010.

Principles of Consolidation

The accompanying consolidated financial statements include not only the accounts of the Home but also those of the Village, its affiliate, which is under the common control of the Home. All intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The financial statements of the Companies have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles for annual reporting periods ending after September 15, 2009. Pursuant to the provisions of FASB ASC 105, the Companies have updated references to GAAP in its financial statements issued for the period ending December 31, 2009. The adoption of FASB ASC 105 did not impact the Companies' financial positions or results of operations.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Companies books and records are maintained on the accrual basis and conform to accounting policies common to the nursing home industry and continuing care retirement communities. As required by the Not-for-Profit Entities Presentation of Financial Statements Topic of FASB ASC 958-205, the Companies are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily, and permanently restricted. The Companies did not have permanently restricted net assets as of December 31, 2009 and 2008.

Cash and Cash Equivalents

The Companies considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Periodically during the year, the cash balances have exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation of \$250,000.

Allowance for Doubtful Accounts

An allowance for doubtful accounts of \$82,591 and \$85,737 as of December 31, 2009 and 2008, respectively, has been established.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line basis over the estimated useful lives of the related assets (see Note C).

Investments

Investments with readily determinable fair market values are reported at fair market value in the consolidated statements of financial position. Investments whose fair market values are not readily determinable are recorded at cost. Gains and losses on investments for the year are reported in the consolidated statements of activities as part of investment income (see Note G).

Bond Issue Costs

In conjunction with the Series 1997 bond issuance (see Note I), bond issue costs were capitalized and amortized as a deferred asset over the life of the bonds (25 years) using the straight-line method (see Note D). The Series 1997 Bonds were paid off with the issuance of the Series 2009 bonds. As a result of the early payoff, pursuant to the provisions of FASB ASC Topic 470, the unamortized bond costs from the Series 1997 bonds were written off as a loss from early debt extinguishment and are classified as an extraordinary item in the Statement of Activities. In conjunction with the Series 2009 bond issuance (see Note I), bond issue costs are being capitalized and amortized as a deferred asset over the life of the bonds (25 years) using the straight-line method (see Note D).

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Patient Service Revenue

Approximately 79% and 80% of patient service revenue in 2009 and 2008, respectively, was derived under federal and state third-party reimbursement programs. Patient service revenue is recorded at net realizable amounts from patients and third-party payors for services rendered.

Revenue under third-party payor agreements is subject to examination and retroactive adjustment. A provision for estimated third-party payor settlements is provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in the consolidated statements of activities in the year of settlement.

Deferred Revenue

As required under generally accepted accounting principles, the Companies recognize as revenue a portion of the entrance fees over the life of the building or life expectancy of the resident (see Note I). The unamortized entrance fees are classified as deferred revenue in the consolidated statements of financial position.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional pledges to give support are recognized as receivables and as corresponding contribution revenue in the year the pledges are made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the condition has been met.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Upon the expiration of a restriction, temporarily restricted net assets are reclassified to unrestricted net assets in the consolidated statements of activities.

Income Taxes

The Companies have been recognized by the Internal Revenue Service (IRS) as not-for-profit, tax-exempt organizations as defined by §501(c)3 of the IRS Code and are exempt from federal income taxes. The Income Taxes Topic of FASB ASC 740-10 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on recognition, measurement and classification of amounts relating to uncertain tax positions, accounting for and disclosure of interest and penalties, accounting in interim periods, disclosures and transition relating to the adoption of the new accounting standards. The Companies adopted FASB ASC 740-10 as of January 1, 2009, as required, and determined that the adoption of FASB ASC 740-10 did not have a material impact on the Companies' financial position and results of operations.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are charged to operations when incurred. The Companies have no significant direct-response advertising. Advertising expense for the years ended December 31, 2009 and 2008 totaled \$94,788 and \$145,253, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America FASB ASC 275-10 requires management to make estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Note B - Promises to Give

The Companies are the recipients of unconditional promises to give at December 31, 2009, which are expected to be received as follows:

Receivable in less than 1 year	\$	-
Receivable in 1 to 5 years		-
Receivable in more than 5 years		16,096
Total unconditional promises to give		<u>16,096</u>
Less discount to net present value		<u>(9,177)</u>
Net unconditional promises to give at December 31, 2009		<u>\$ 6,919</u>

Promises to give are discounted to net present value using U.S. Treasury long-term average rates, which approximated 5.80%-5.91% at December 31, 2009, based on expected date of collection in accordance with pledge agreements. Management anticipates that all unconditional promises to give are collectible. Accordingly, no allowance for uncollectible promises has been established.

Note C - Property and Equipment

Property and equipment consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 22,595	\$ 22,595
Land Improvements	364,932	236,366
Building and Improvements	33,701,785	31,540,211
Furniture and Equipment	3,990,604	3,761,680
Vehicle	<u>203,124</u>	<u>203,124</u>
	\$ 38,283,040	\$ 35,763,976
Less accumulated depreciation and amortization	<u>(18,033,380)</u>	<u>(16,725,344)</u>
Property and Equipment, net	<u>\$ 20,249,660</u>	<u>\$ 19,038,632</u>

Depreciation expense for 2009 and 2008 was \$1,309,160 and \$1,402,642, respectively.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note D - Deferred Costs

Deferred Costs consisted of the following:

	<u>2009</u>	<u>2008</u>
Bond Issue Costs	\$ 391,313	\$ 361,165
Less accumulated amortization	(<u>6,523</u>)	(<u>108,627</u>)
Deferred Costs, net	<u>384,790</u>	<u>252,538</u>

Amortization expense for 2009 and 2008 was \$14,948 and \$14,409, respectively.

Note E - Deposits Held in Escrow

Deposits held in escrow consist of the entrance deposits received from the assisted living wing of the Home as well as the new units of the Village, which are subject to certain refund provisions (see Note J). Certain deposits of the Village that were held in escrow were approved for release from escrow by the Maryland Department of Aging in August of 2004. These funds had been maintained in a separate interest-bearing account and were used to finance the expansion project for the new Village apartment units.

Note F - Debt Service Escrow

The debt service escrow fund was required to be established under the Series 1997 bond agreement (see Note I). The fund is an interest-bearing account into which the Companies are required to fund monthly one-twelfth of the next scheduled principal payments. Any interest income earned on this fund is required to be retained in this fund and will be used to reduce the last monthly sinking fund installment. All money that had been escrowed through August 2009 for the next scheduled principal payment was used toward the early debt repayment of the Series 1997 bonds (See Note I).

The Series 2009 bond agreement (See Note I) no longer requires a debt service escrow fund. Bond principal and interest payments are made monthly as invoiced by TD Bank.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note G – Investments

Investments consisted of the following:

	December 31,			
	2009		2008	
	Fair Market Value	Cost	Fair Market Value	Cost
Corporate Stocks	\$ 3,662,908	\$ 3,281,603	\$ 2,712,907	\$ 3,399,111
Corporate Bonds	1,757,455	1,741,290	1,374,061	1,645,484
Government Securities/Bonds	50,125	50,339	129,114	129,000
Certificates of Deposit	383,144	369,282	495,780	470,925
Money Market Funds	504,125	507,247	249,440	249,444
Ground Rents	28,876	28,876	30,995	30,995
Cash Surrender Value, Life Ins.	7,645	7,645	7,645	7,645
Cemetery Plots	5,963	5,963	5,963	5,963
Total Investments	6,400,241	\$ 5,992,245	5,005,905	\$ 5,938,567
Less Operating Reserve (Note K)	(1,800,879)		(1,780,191)	
Investments, Net of Operating Reserve	4,599,362		3,225,815	
Less Long-Term Portion				
Collateral for Line of Credit	600,000		600,000	
Board Designated Endowment (Note O)	3,999,362		2,625,815	
Long Term Portion	4,599,362		3,225,815	
Investments, Current Portion	\$ -		\$ -	

Investment Income is included in operating income and is comprised as follows:

	December 31,					
	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Dividends and Interest	\$ 191,844	\$ 161	\$ 192,005	\$ 205,918	\$ 59	\$ 205,977
ALV Gain (Loss)	6,573	-	6,573	(8,071)	-	(8,071)
Realized (Loss) on Investments	(273,880)	-	(273,880)	(459,456)	-	(459,456)
	<u>\$ (75,463)</u>	<u>\$ 161</u>	<u>\$ (75,302)</u>	<u>\$ (261,609)</u>	<u>\$ 59</u>	<u>\$ (261,550)</u>

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note H – Fair Value and Fair Value Options

Effective January 1, 2009 the Companies have adopted the *Fair Value Measurements and Disclosures* Topic 820 of FASB ASC. The Fair Value Measurements and Disclosures Topic of FASB ASC defines fair value, establishes a consistent framework for measuring fair value in accordance with GAAP, and expands disclosure requirements about fair value measurements. The Fair Value Measurements and Disclosures Topic also requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs in accordance with the following fair value: quoted prices in active markets for identical assets or liabilities (Level 1 measurements), significant other observable inputs (Level 2 measurements), and significant unobservable inputs (Level 3 measurements). The fair value measurement is assigned an overall input level based on the lowest level input that is significant to the fair value measurement in its entirety. Investments recorded in the consolidated statement of financial position are categorized based on the inputs to valuation techniques as follows:

	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Stocks/Bonds	\$ 5,420,363	\$ 3,663,008	\$ 1,757,455	\$ -
Government Bonds	50,125	-	50,125	-
Certificates of Deposit	383,144	383,144	-	-
Money Market Funds	504,125	504,125	-	-
Ground Rents	28,876	-	-	28,876
Cash Surrender Value, Life Ins.	7,645	-	7,645	-
Cemetery Plots	5,963	-	-	5,963
Total investments	<u>\$ 6,400,241</u>	<u>\$ 4,550,277</u>	<u>\$ 1,815,225</u>	<u>\$ 34,839</u>

The option provisions of the Financial Instruments Topic 825 of FASB ASC (formerly SFAS No. 159), became effective beginning January 1, 2008. These optional provisions permit the Companies to report most financial assets and liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in the earnings. The Company elected not to measure at fair value the Companies' financial assets and liabilities under the optional provisions of the Financial Instruments Topic of FASB ASC.

Note I - Long-Term Debt

Bonds Payable

In May 1997, the Maryland Health and Higher Educational Facility Authority (MHHEFA) issued \$9,300,000 of Revenue Bonds (Series 1997) and entered into an indenture of trust agreement with M&T Bank (formerly Allfirst Trust Company, N.A.) (the Trustee) to serve as trustee of the bonds. The bond agreement has been issued jointly in the names of the Home and the Village. The entire proceeds of the bonds were deposited into a construction fund in the name of the Home. The bond agreement does not stipulate the amount of the proceeds to be allocated between the Home and the Village.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note I - Long-Term Debt (Continued)

In August 2009, Maryland Health and Higher Educational Facility Authority (MHHEFA) issued \$20,600,000 of Revenue Bonds (Series 2009) and entered into an indenture of trust agreement with TD Bank, N.A. (the Trustee) to serve as trustee of the bonds. The bond agreement has been issued jointly in the names of the Home and the Village. The bond agreement does not stipulate the amount of the proceeds to be allocated between the Home and the Village. \$10,600,000 of the proceeds of the Series 2009 bonds was used to pay off the Series 1997 bond issue and other debt. The remaining \$10,000,000 will be advanced under the indenture from time to time and deposited into a construction fund for payment of costs of the Transformation Project or the capitalized interest. Capitalized interest for the year ended December 31, 2009 was \$2,596.

Terms of the financing agreement are as follows:

Joint Bond Proceeds: \$20,600,000

Purpose: To consolidate debt and expand and renovate certain portions of the Home.

Maturity Date: August 1, 2036

Interest Rate: Variable. The rate can be fixed at the option of the Home, subject to certain conditions as defined in the agreement.

Security Interest: Revenue and property of both the Village and the Home.

Payment Terms: Must fund monthly the scheduled principal and interest payments.

Prepayment: The principal installments due may be prepaid.

Redemption Terms: The bonds can be redeemed prior to maturity at the option of the issuer. Bonds bearing interest at the variable rate will be redeemed at the face amount of the bonds plus accrued interest. Bonds bearing interest at the fixed rate will be redeemed at the face amount of the bonds plus accrued interest, along with a premium as calculated in the bond agreement.

Sinking fund requirements payable monthly toward bond principal maturities for the next five years and thereafter as of December 31, 2009, are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 277,084
2011	510,416
2012	553,334
2013	573,331
2014	593,330
thereafter	9,107,193
	<u>\$ 11,614,688</u>

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note I - Long-Term Debt (Continued)

Notes Payable

Notes Payable consisted of the following:

	December 31,	
	2009	2008
Auto Note Payable, bank; payable in monthly principal installments of \$812 plus interest. The note which bears interest at 3/25% and was secured by assets of the Home and Village was paid off as of December 31, 2009.	\$ -	\$ 10,558
Auto Note Payable, bank; payable in monthly principal installments of \$542 plus interest. The note will mature in 2014, bears interest at 10.44 % as of December 31, 2009 and is secured by assets of the Home and Village.	<u>26,127</u>	<u>31,992</u>
	<u>26,127</u>	<u>42,550</u>
Less current maturities	(<u>5,656</u>)	(<u>14,318</u>)
	<u>\$ 20,471</u>	<u>\$ 28,232</u>

Remaining Principal payments on the auto notes payable as of December 31, 2009, are as follows:

Year	Amount
2010	\$ 5,656
2011	6,275
2012	6,963
2013	6,558
Thereafter	<u>675</u>
	<u>\$ 26,127</u>

In June 2005 the Village (the Borrower) and the Home (the Guarantor) entered into a Construction Loan and security agreement (Loan Agreement) with the Bank in the amount of \$9,000,000, for the purpose of financing the expansion of the Village with 42 additional apartment units and increased common area for the use of all residents. In August 2006 the first tenants moved into the new apartments units. Also in August 2006 the Loan Agreement was amended which restated the face amount of the Loan to \$9,600,000. The Loan is subject to interest only on the unpaid principal balance, payable monthly which commenced on July 1, 2005. The note is secured by real estate of the Home and Village as well as by any assets of the Home and the Village held by the Bank. The outstanding balance on the construction note was \$3,526,618 at December 31, 2008.

In August 2009, a portion of the \$10,600,000 from the proceeds of the Series 2009 bonds was used to pay off the Series 1997 bond issue as well as other debt which included the Village Construction Loan. The outstanding balance of the Construction Loan at that time was allocated to the Village's portion of the bonds payable.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note I - Long-Term Debt (Continued)

Capital Lease Payable

In April 2008 the Home (Lessee) entered into a capital lease with Wachovia Financial Services, Inc. (Lessor) for the purchase of a Panasonic Telephone System for a cost of \$18,009. The lease is payable over a 36 month term with monthly payments of \$570 and is being financed at an interest rate of 8.72%. At the end of the lease term, ownership of the equipment will transfer to the Home for \$1.

Payments on the Capital Lease as of December 31, 2009, are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 6,391
2011	774
	<u>\$ 7,165</u>

Amortization expense of \$918 and \$2,401 has been recognized as of December 31, 2009 and 2008, respectively.

Operating Lease Payable

In September 2009 the Home (Lessee) entered into an equipment lease agreement with Quality Business Solutions (Lessor) to lease thirteen Kyocera Digital Copier Systems for a cost of \$2,650 per month payable over a 63 month term and is being financed at an interest rate of 11.66%. At the end of the lease term, ownership of the equipment may transfer to the Home for \$1.

Payments on the Operating Lease as of December 31, 2009, are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 31,800
2011	31,800
2012	31,800
2013	31,800
2014	31,800
	<u>\$ 159,000</u>

Note J - Deferred Revenue

Prior to occupancy in the Home's Assisted Living wing as well as in the Village, residents are required to make a one-time entrance deposit fee. Should the resident, after a designated trial period of six months, terminate the residence agreement, a refund of 80% of the resident's entrance deposit fee will be made only after the Companies have entered into a residence agreement with a new resident for that unit. Termination of the residence agreement prior to completion of the trial period results in a 100% refund of the entrance deposit fee.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note J - Deferred Revenue (Continued)

Deferred revenue represents the unamortized refundable and nonrefundable portions of entrance deposit fees received from residents and deposits made by residents for the Village and the Assisted Living wing of the Home (see Note E). The refundable portion of the entrance deposit fees is amortized over the expected useful life of the building, and the nonrefundable portion is amortized over the life expectancy of the resident.

Note K – Commitments

Unemployment Compensation Plan

The Home has elected to maintain a self-funded unemployment compensation plan, whereby it will pay qualified claims directly in lieu of submitting quarterly unemployment taxes to the State. In order to be eligible for self-funding, the State requires collateral to be held in the event that the Home would fail to pay claims. As of December 31, 2009, the State required collateral of \$112,431, which was in the form of a letter of credit (LOC) with M&T Bank (the Bank). Unemployment claims paid for 2009 and 2008 were \$33,394 and \$13,551, respectively.

Letters of Credit

The Companies have been named jointly on a LOC issued by the Bank. The LOC has been issued to guarantee the repayment of the outstanding amount of the bonds payable to MHHEFA, plus 60 days of interest. As of December 31, 2009, the outstanding amount of the LOC was \$7,516,298. The LOC expires on May 8, 2010. As of December 31, 2009 and 2008 the annual fee for this outstanding LOC was \$115,110 and \$100,407, respectively.

The Companies have also been named jointly on a LOC collateralizing the Home for any unpaid unemployment claims under the Home's self-funded unemployment compensation plan. The amount of the LOC was \$112,431 as of December 31, 2009 and 2008. The unemployment LOC, which expires on September 30, 2010, had an annual fee of \$180 in 2009 and 2008.

Additional LOC issued by the Bank include \$20,000 to guarantee funds for storm water management for the expansion project. This letter of credit currently is in effect until May 17, 2010 and will be automatically extended each year unless proper notification of expiration is received. The Baltimore County, Maryland Office of Budget and Finance is the beneficiary of this letter of credit.

The Home elected in 2004 to join an industry-supported risk retention group (RRG), Aegis Healthcare Risk Retention Group, Inc., a District of Columbia corporation, that provides the Home with general and professional liability insurance coverage. In agreement with the stock subscription agreement, a LOC in favor of the RRG is held by the RRG in return for shares in the corporation. This LOC, underwritten by the Bank, is in the amount of \$100,000 for the years ending December 31, 2009 and 2008. The LOC expires August 27, 2010 and had an annual fee of \$150 as of December 31, 2009 and 2008. According to the original terms, this letter of credit automatically renews annually.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note K – Commitments (Continued)

Line of Credit

The Village and the Home had a joint revolving line of credit in the amount of \$450,000 with M&T Bank for the year ending June 30, 2008 and through August 2009. In August 2009, a portion of the \$10,600,000 from the proceeds of the Series 2009 bonds issued through TD Bank was used to pay off the Series 1997 bond issue as well as other debt of the Home and Village which included the line of credit with M&T Bank. A new line of credit in the amount of \$450,000 was established with TD Bank. It bears interest at the Bank's prime rate of 2.24% and 2.83% as of December 31, 2009 and 2008, respectively. The line of credit is secured by certain securities of the Home with a fair value of at least \$600,000 that are controlled by the Bank. As of December 31, 2009 and 2008 \$450,000 and \$344,000, respectively, has been drawn on the line of credit by the Home.

Operating Reserve

Effective October 1, 1996, the Office on Aging began requiring the Companies to establish and fund an operating reserve equal to 15% of annual operating expenses, net of depreciation and Adult Day Care expenditures. As of December 31, 2009 and 2008, the operating reserve is approximately \$2,074,832 and \$2,069,478, respectively. The reserve is in compliance and has been fully funded at 15% of annual operating expenses since December 31, 2006. The reserve is composed of \$1,800,879 in investments and \$273,953 in cash as of December 31, 2009. As of December 31, 2008 the reserve was composed of \$1,780,090 in investments and \$289,388 in cash.

Pension Plan

The Companies maintain a plan for their employees under IRC §403(b). Under the terms of the plan, employees are immediately eligible to contribute pre-tax dollars towards the purchase of the annuity. In addition, employees are eligible to receive employer's contributions after 1 year of full-time service. The amount of the Companies' contributions is at the discretion of the Board. Contributions for the years ended December 31, 2009 and 2008 were \$85,865 and \$88,591, respectively.

Note L - Functional Classification of Expenses

The functional classification of expenses for the years ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Program Services		
Skilled Nursing and Assisted Living	\$ 9,613,071	\$ 8,752,922
Independent Living Apartments	2,589,098	2,670,365
Total Program Services	<u>12,202,169</u>	<u>11,423,287</u>
Supporting Services		
Management and General	2,910,959	3,514,030
Fundraising	280,760	311,945
Total Supporting Services	<u>3,191,719</u>	<u>3,825,975</u>
	\$ <u>15,393,888</u>	\$ <u>15,249,262</u>

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note M - Patient Cash Funds

The Home acts in an agency capacity regarding the holding of patient cash funds. At December 31, 2009 and 2008, the Home was holding approximately \$128,793 and \$123,330, respectively, in patient cash funds, which have not been reflected in these consolidated financial statements.

Note N – Temporarily Restricted Net Assets

As of December 31, 2009 and 2008 temporarily restricted net assets were available as following:

	<u>2009</u>	<u>2008</u>
Ziethen Scholarship Fund	\$ 18,845	\$ 18,818
Capital Campaign	<u>131,897</u>	<u>190,022</u>
	<u>\$ 150,742</u>	<u>\$ 208,840</u>

Note O - Board Designated Net Assets

Investments in excess of the operating reserve and collateral for the line of credit are board designated to be held as endowment funds (see Note G). The Companies' goal is to protect its endowment assets, earn a reasonable return and conform to all applicable laws and the accounting standards defined in FASB ASC 958-205. Investment policies include strategies to maximize the advantages of diversification and to minimize risk consistent with stated objectives; maintain diversification of assets among the investment category components consistent with stated objectives and maintain diversification within each investment category component to further reduce risk. Funds cannot be withdrawn from the Endowment without Board approval.

Note P – Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note Q – Subsequent Events

Effective January 1, 2009, the Company adopted the FASB ASC Subsequent Events requirement 855 which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The FASB ASC Subsequent Events topic defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. The FASB Subsequent Events Topic defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. The second consists of events or transactions that did not exist at the balance sheet date but arose after that date but before the statements were issued or available to be issued. Management evaluated all events and transactions that occurred after December 31, 2009 through April 27, 2010, the date these financial statements were available to be issued.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC.
AND SUBSIDIARY
SUPPLEMENTARY INFORMATION

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

ASSETS

	Augsburg Lutheran Home of Maryland, Inc.	Augsburg Lutheran Village, Inc.	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 385,588	\$ 127,817	\$ -	\$ 513,405
Patient and resident accounts receivable, net	1,162,305	39,142	-	1,201,447
Due from related party, operating	263,476	-	(263,476)	-
Debt service escrow	-	-	-	-
Prepaid expenses	57,883	133,349	-	191,232
TOTAL CURRENT ASSETS	<u>1,869,252</u>	<u>300,308</u>	<u>(263,476)</u>	<u>1,906,084</u>
PROPERTY AND EQUIPMENT				
Net of accumulated depreciation	<u>6,475,206</u>	<u>13,774,454</u>	<u>-</u>	<u>20,249,660</u>
OTHER ASSETS				
Contributions receivable, long term	6,919	-	-	6,919
Deposits held in escrow	-	39	-	39
Investments	4,599,362	-	-	4,599,362
Due from related party, bond financing, long term	4,924,628	-	(4,924,628)	-
Operating reserve	1,689,633	385,199	-	2,074,832
Investment in subsidiary	100	-	(100)	-
Deferred costs, net of accumulated amortization	204,105	180,685	-	384,790
TOTAL OTHER ASSETS	<u>11,424,747</u>	<u>565,923</u>	<u>(4,924,728)</u>	<u>7,065,942</u>
TOTAL ASSETS	<u>\$ 19,769,205</u>	<u>\$ 14,640,685</u>	<u>\$(5,188,204)</u>	<u>\$ 29,221,686</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS

	Augsburg Lutheran Home of Maryland, Inc.	Augsburg Lutheran Village, Inc.	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,508,132	\$ 101,001	\$ -	\$ 1,609,133
Line of credit	450,000	-	-	450,000
Due to related party, operating	-	117,484	(117,484)	-
Due to third party payor	120,000	-	-	120,000
Bonds payable, short term	277,084	-	-	277,084
Notes payable, short term	5,656	-	-	5,656
Capital lease payable, short term	6,391	-	-	6,391
TOTAL CURRENT LIABILITIES	<u>2,367,263</u>	<u>218,485</u>	<u>(117,484)</u>	<u>2,468,264</u>
LONG TERM LIABILITIES				
Bonds payable	11,337,604	-	-	11,337,604
Due to related party, bond financing	-	4,807,144	(4,807,144)	-
Due to related party, other	-	263,476	(263,476)	-
Notes payable, bank	20,471	-	-	20,471
Capital lease payable	774	-	-	774
Deferred revenue	675,093	8,233,202	-	8,908,295
TOTAL LONG-TERM LIABILITIES	<u>12,033,942</u>	<u>13,303,822</u>	<u>(5,070,620)</u>	<u>20,267,144</u>
TOTAL LIABILITIES	<u>14,401,205</u>	<u>13,522,307</u>	<u>(5,188,104)</u>	<u>22,735,408</u>
NET ASSETS				
Unrestricted				
Undesignated	1,217,896	1,118,378	(100)	2,336,174
Board designated	3,999,362	-	-	3,999,362
Total unrestricted	<u>5,217,258</u>	<u>1,118,378</u>	<u>(100)</u>	<u>6,335,536</u>
Temporarily restricted	150,742	-	-	150,742
TOTAL NET ASSETS	<u>5,368,000</u>	<u>1,118,378</u>	<u>(100)</u>	<u>6,486,278</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,769,205</u>	<u>\$ 14,640,685</u>	<u>\$ (5,188,204)</u>	<u>\$ 29,221,686</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF ACTIVITIES

UNRESTRICTED NET ASSETS

	<u>Augsburg Lutheran Home of Maryland, Inc.</u>	<u>Augsburg Lutheran Village, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Net patient service revenue	\$ 9,909,983	\$ 144,137	\$ -	\$ 10,054,120
Contributions and bequests	483,427	-	-	483,427
Rental income	-	2,533,400	-	2,533,400
Assisted Living revenue	1,938,747	-	-	1,938,747
Amortization of entrance fees	119,827	776,565	-	896,392
Investment income (loss)	(82,035)	6,572	-	(75,463)
Miscellaneous income	4,697	-	-	4,697
	<hr/>	<hr/>	<hr/>	<hr/>
	12,374,646	3,460,674	-	15,835,320
NET ASSETS RELEASED FROM RESTRICTION	241,717	-	-	241,717
TOTAL REVENUE, GAINS and SUPPORT	<hr/> 12,616,363	<hr/> 3,460,674	<hr/> -	<hr/> 16,077,037
EXPENSES				
Nursing care expenses	4,753,420	-	-	4,753,420
Routine service expenses	3,112,581	1,269,702	-	4,382,283
Administrative service expenses	2,185,656	494,329	-	2,679,985
Capital and property service expenses	750,141	1,087,702	-	1,837,843
Assisted Living expenses	907,226	-	-	907,226
Other patient care expenses	386,370	-	-	386,370
Other resident care expenses	-	374,761	-	374,761
Provision for bad debts	72,000	-	-	72,000
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	12,167,394	3,226,494	-	15,393,888
OPERATING INCOME (LOSS)	448,969	234,180	-	683,149
OTHER INCOME				
Unrealized (loss) gains on investments	1,353,654	-	-	1,353,654
	<hr/>	<hr/>	<hr/>	<hr/>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE EXTRAORDINARY ITEM	1,802,623	234,180	-	2,036,803
EXTRAORDINARY ITEM - LOSS FROM DEBT EXTINGUISHMENT	<hr/> (75,053)	<hr/> (169,059)	<hr/> -	<hr/> (244,112)
CHANGE IN UNRESTRICTED NET ASSETS	1,727,570	65,121	-	1,792,691
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<hr/> 3,489,688	<hr/> 1,053,257	<hr/> (100)	<hr/> 4,542,845
UNRESTRICTED NET ASSETS AT END OF YEAR	<hr/> \$ 5,217,258	<hr/> \$ 1,118,378	<hr/> \$ (100)	<hr/> \$ 6,335,536

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF ACTIVITIES

TEMPORARILY RESTRICTED NET ASSETS

	Augsburg Lutheran Home of Maryland, Inc.	Augsburg Lutheran Village, Inc.	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES AND OTHER SUPPORT:				
Contributions and bequests	\$ 183,458	\$ -	\$ -	\$ 183,458
Investment income	161	-	-	161
	<u>183,619</u>	<u>-</u>	<u>-</u>	<u>183,619</u>
 NET ASSETS RELEASED FROM RESTRICTION	 (241,717)	 -	 -	 (241,717)
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 (58,098)	 -	 -	 (58,098)
 TEMPORARILY RESTRICTED NET ASSETS AT BEGINNING OF YEAR	 <u>208,840</u>	 <u>-</u>	 <u>-</u>	 <u>208,840</u>
 TEMPORARILY RESTRICTED NET ASSETS AT END OF YEAR	 <u><u>150,742</u></u>	 <u><u>-</u></u>	 <u><u>-</u></u>	 <u><u>150,742</u></u>
 SUMMARY OF CHANGES IN NET ASSETS				
Unrestricted	5,217,258	1,118,378	(100)	6,335,536
Temporarily restricted	<u>150,742</u>	<u>-</u>	<u>-</u>	<u>150,742</u>
	<u><u>\$ 5,368,000</u></u>	<u><u>\$ 1,118,378</u></u>	<u><u>\$(100)</u></u>	<u><u>\$ 6,486,278</u></u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF CASH FLOWS

	Augsburg Lutheran Home of Maryland, Inc.	Augsburg Lutheran Village, Inc.	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ 1,669,472	\$ 65,121	\$ -	\$ 1,734,593
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Provision for bad debts	72,000	-	-	72,000
Depreciation	556,234	752,719	-	1,308,953
Unrealized net loss on investments	(1,353,654)	-	-	(1,353,654)
Amortization of bond issue costs	6,862	8,087	-	14,949
Loss from debt extinguishment	75,052	169,059	-	244,111
Amortization of entrance fees	(121,027)	(776,565)	-	(897,592)
Entrance deposits received, net	59,826	298,498	-	358,324
Interest received on debt service escrow	(249)	-	-	(249)
Change in operating assets and liabilities				
Deferred revenue - room and board	22,691	-	-	22,691
Patient and resident accounts receivable	(59,327)	(22,774)	-	(82,101)
Contributions receivable	26,728	-	-	26,728
Prepaid expenses	90,907	(12,272)	-	78,635
Accounts payable and accrued expenses	267,810	(157,882)	-	109,928
Due to/from third-party payor	40,000	-	-	40,000
Due to/from related party	(286,709)	286,709	-	-
Total Adjustments	<u>(602,856)</u>	<u>545,579</u>	<u>-</u>	<u>(57,277)</u>
Net cash provided by operating activities	<u>1,066,616</u>	<u>610,700</u>	<u>-</u>	<u>1,677,316</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(976,047)	(417,278)	-	(1,393,325)
Net change in investments	(19,893)	-	-	(19,893)
Deposits in debt service escrow	(207,490)	-	-	(207,490)
Increase in operating reserve	(5,672)	318	-	(5,354)
Net cash used by investing activities	<u>\$(1,209,102)</u>	<u>\$(416,960)</u>	<u>\$ -</u>	<u>\$(1,626,062)</u>

(Continued)

See Independent Auditor's Report.

UGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009

CONSOLIDATING STATEMENTS OF CASH FLOWS

	Augsburg Lutheran Home of Maryland, Inc.	Augsburg Lutheran Village, Inc.	Eliminations	Total
	<u>Inc.</u>	<u>Inc.</u>	<u>Eliminations</u>	<u>Total</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of due to related party, bond financing	(3,256,258)	3,256,258	-	-
Payments on new bonds	(113,779)	-	-	(113,779)
Costs of financing	(207,564)	(183,748)	-	(391,312)
Principal payments on notes payable	(5,865)	(10,558)	-	(16,423)
Principal payments on capital lease payable	(6,222)	-	-	(6,222)
Principal payments on building note payable	-	(3,526,619)	-	(3,526,619)
Proceeds from line of credit	106,000	-	-	106,000
Net additional bond borrowings	3,536,459	-	-	3,536,459
Net cash (used) by financing activities	<u>52,771</u>	<u>(464,667)</u>	<u>-</u>	<u>(411,896)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS				
	(89,715)	(270,927)	-	(360,642)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR				
	<u>475,303</u>	<u>398,744</u>	<u>-</u>	<u>874,047</u>
CASH AND CASH EQUIVALENTS, END OF YEAR				
	<u><u>385,588</u></u>	<u><u>127,817</u></u>	<u><u>-</u></u>	<u><u>513,405</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the year for interest	<u>\$ 156,295</u>	<u>\$ 95,456</u>	<u>\$ -</u>	<u>\$ 251,751</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Debt service escrow				
Decrease in debt service escrow	\$ -	\$ -	\$ -	\$ -
Cash deposits to debt service escrow	349,399	-	-	349,399
Withdrawals to repay bonds payable	(349,648)	-	-	(349,648)
Interest received on debt service escrow (Included in cash flows from operating activities)	<u>\$(249)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(249)</u>
Noncash investing and financing transaction				
Cost of Building	\$ 1,126,656	\$ 417,278	\$ -	\$ 1,543,934
Building Loan	(1,126,656)	(417,278)	-	(1,543,934)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF NURSING CARE EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Salaries	\$ 3,418,403	\$ 3,335,248
Supplies	514,485	467,123
Employee Benefits	531,408	475,578
Payroll Taxes	252,079	243,934
Contracted Services	<u>37,045</u>	<u>61,488</u>
Total Nursing Care Expenses	<u>\$ 4,753,420</u>	<u>\$ 4,583,371</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF ROUTINE SERVICE EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Salaries and Payroll Taxes		
Dietary		
Salaries	\$ 595,469	\$ 566,971
Payroll Taxes	43,728	41,180
Operation and Plant Maintenance		
Salaries	251,708	230,605
Payroll Taxes	17,223	16,079
Housekeeping		
Salaries	253,041	240,684
Payroll Taxes	22,840	21,520
Laundry		
Salaries	138,391	130,075
Payroll Taxes	9,883	9,447
Total Salaries and Payroll Taxes	<u>1,332,283</u>	<u>1,256,561</u>
Employee Benefits	<u>192,548</u>	<u>166,594</u>
Supplies		
Housekeeping	88,157	88,930
Dietary	38,194	38,129
Laundry	10,053	14,769
Operation and Plant Maintenance	41,526	26,908
Total Supplies	<u>177,930</u>	<u>168,736</u>
Contract Services		
Operating and Plant Maintenance	178,609	154,407
Therapies	38,386	37,347
Dietary	8,318	10,562
Other Expenses		
Professional Services	359,742	348,039
Utilities	450,802	455,789
Food	355,724	372,758
Repairs and Maintenance	77,439	107,987
Protection	28,610	30,588
Linen	13,037	8,292
Licenses	-	300
Expenses Billed to Subsidiary	<u>(100,847)</u>	<u>(100,691)</u>
Total Contracted and Other Services	<u>1,409,820</u>	<u>1,425,378</u>
	<u>\$ 3,112,581</u>	<u>\$ 3,017,269</u>

(Continued)

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF ROUTINE SERVICE EXPENSES (Cont.)

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN VILLAGE, INC.		
Salaries, Dietary	\$ 310,549	\$ 283,203
Employee Benefits and Staff Development, Dietary	47,146	42,145
Payroll Taxes, Dietary	22,997	20,206
Rent, Dining Room	-	72,000
Dietary and Store Supplies	65,120	52,170
Repairs and Maintenance	-	90,904
Utilities	-	-
Salaries, Housekeeping	91,867	83,383
Employee Benefits, Housekeeping	13,654	12,251
Payroll Taxes, Housekeeping	6,375	5,645
Housekeeping Supplies	8,906	10,074
Cleaning	1,565	274
Plant Salaries	63,567	57,310
Employee Benefits, Plant	9,393	8,311
Payroll Taxes, Plant	5,940	5,415
Laundry	12,000	11,849
Plant Supplies	42,417	29,706
Repairs and Maintenance	84,524	45,579
Management Fees	28,382	30,719
Professional Fees	184,885	192,321
Utilities	266,743	213,494
Transportation	3,672	5,142
	<u>1,269,702</u>	<u>1,272,101</u>
TOTAL ROUTINE SERVICE EXPENSE	<u><u>\$ 4,382,283</u></u>	<u><u>\$ 4,289,370</u></u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF ADMINISTRATIVE SERVICE EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Salaries	\$ 1,120,610	\$ 978,283
Insurance	207,951	206,523
Employee Benefits	174,204	139,494
Professional Fees	217,379	226,884
Contract Services	119,091	111,916
Payroll Taxes	73,212	61,481
Supplies	51,700	54,142
Printing	58,912	66,191
Employment Advertisements	26,633	29,686
Computer	22,372	21,809
Communications	38,067	38,989
Postage	19,018	20,762
Promotion	10,053	18,640
Staff Training and Development	15,268	11,740
Dues and Subscriptions	18,161	53,402
Vehicle Mileage	1,321	1,640
Entertainment	8,803	6,274
Resident Care Fund	5,200	2,022
Travel and Conferences	10,682	12,234
Miscellaneous	94,558	84,405
Expenses Billed to Subsidiary	<u>(107,539)</u>	<u>(104,347)</u>
	<u>2,185,656</u>	<u>2,042,170</u>
AUGSBURG LUTHERAN VILLAGE, INC.		
Management Fees	81,593	81,152
Salaries, General & Admin.	176,764	150,255
Insurance, General	114,722	109,453
Advertising	57,307	79,402
Employee Benefits	21,731	14,571
Professional Fees	7,700	7,863
Payroll Taxes	13,852	11,082
Supplies	5,024	5,299
Miscellaneous	15,636	21,233
	<u>494,329</u>	<u>480,310</u>
TOTAL ADMINISTRATIVE SERVICE EXPENSES	<u><u>\$ 2,679,985</u></u>	<u><u>\$ 2,522,480</u></u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF CAPITAL AND PROPERTY SERVICES EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Depreciation	\$ 555,336	\$ 690,174
Interest	73,882	157,606
Letter of Credit Fees	82,413	80,257
Taxes, Property	31,648	28,137
Amortization	6,862	5,796
	<u>750,141</u>	<u>961,970</u>
AUGSBURG LUTHERAN VILLAGE, INC.		
Depreciation	752,719	712,468
Interest	95,456	234,131
Letter of Credit Fees	32,159	29,707
Taxes, Property	199,281	172,594
Amortization	8,087	8,614
	<u>1,087,702</u>	<u>1,157,514</u>
TOTAL CAPITAL AND PROPERTY SERVICE EXPENSES	<u><u>\$ 1,837,843</u></u>	<u><u>\$ 2,119,484</u></u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF ASSISTED LIVING EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Salaries and Payroll Taxes		
Nursing		
Salaries	\$ 574,780	\$ 554,774
Payroll Taxes	49,930	47,742
Administrative		
Salaries	102,681	98,834
Payroll Taxes	-	-
Employee benefits	105,315	93,199
Supplies	55,778	41,756
Promotion	9,845	12,735
Contracted Services	503	25,583
Staff Training and Development	4,114	1,835
Dues and Subscriptions	2,618	7,488
Postage	281	265
Employment Advertisements	795	4,790
Travel	492	925
Vehicle Mileage	94	57
	<u> </u>	<u> </u>
Total Assisted Living Expenses	<u>\$ 907,226</u>	<u>\$ 889,983</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF OTHER PATIENT CARE EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN HOME OF MARYLAND, INC.		
Other Patient Care Expenses		
Salaries	\$ 291,162	\$ 284,568
Employee Benefits	45,263	40,577
Payroll Taxes	21,293	21,109
Contract Services	8,576	29,988
Supplies	11,954	10,091
Refreshments and Catering	7,266	5,642
Staff Training and Development	856	1,110
	<u> </u>	<u> </u>
Total Other Patient Care Expenses	<u>\$ 386,370</u>	<u>\$ 393,085</u>

See Independent Auditor's Report.

AUGSBURG LUTHERAN HOME OF MARYLAND, INC. AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

December 31, 2009 and 2008

SCHEDULES OF OTHER RESIDENT CARE EXPENSES

	<u>2009</u>	<u>2008</u>
AUGSBURG LUTHERAN VILLAGE, INC.		
Other Resident Care Expenses		
Food	\$ 297,552	\$ 303,581
Supplies and Other Expenses	51,534	55,994
General & Pastoral Care	<u>25,675</u>	<u>27,645</u>
Total Other Resident Care Expenses	<u>\$ 374,761</u>	<u>\$ 387,220</u>

See Independent Auditor's Report.