LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

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AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Lutheran Social Services of New England, Inc. and Subsidiaries as of June 30, 2009, and the related consolidated statement of activities, changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Social Services of New England, Inc. and Subsidiaries as of June 30, 2009, and its consolidated changes in its net assets, its cash flows and its functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP

LarsonAllen LLP

Quincy, Massachusetts
March 10, 2010

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 2,073,098
Investments	25,022
Accounts Receivable, Net	6,188,032
Inventory	332,118
Prepaid Expenses	366,004
Real Estate Held for Sale	119,206
Other Current Assets	58,471
Assets Limited as to Use, Required for Current Liabilities	367,575
Total Current Assets	9,529,526
ASSETS LIMITED AS TO USE	
Under Indenture Agreement - Held by Trustee, Net	1,118,168
Under Regulatory Agreement	843,275
Board Restricted - Cash	78,210
Tenant/Resident Deposits	278,629
Pension Reserve	247,462
Beneficial Interest in Net Assets of Related Party	3,187,286
Beneficial Interest in Third Party Trust	2,356,425
Pledge Receivable	148,239
Total Assets Limited as to Use	8,257,694
PROPERTY AND EQUIPMENT	
Land	1,354,570
Buildings	36,575,562
Improvements	6,964,356
Furniture and Equipment	6,512,259
Vehicles	292,297
Equipment Held Under Capital Lease	421,181
Software	145,185
Total	52,265,410
Less: Accumulated Depreciation	23,551,981
Property and Equipment, Net	28,713,429
OTHER ASSETS	
Construction in Progress	939,277
Prepaid Rent	453,333
Deferred Charges, Net	504,473
Miscellaneous Other Assets	59,895
Total Other Assets	1,956,978
Total Assets	$ 48,457,627

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Line of Credit	$ 1,181,648
Accounts Payable and Accrued Expenses	6,692,780
Accounts Payable - Construction	110,649
Deferred Revenue	620,923
Due to the Third Party Payers	244,573
Current Portion of Long-Term Debt	723,137
Current Portion of Capital Lease Obligations	69,915
Other Current Liabilities	241,251
Total Current Liabilities	9,884,876
LONG-TERM DEBT AND OTHER LIABILITIES	
Long-Term Debt, Net of Current Portion	21,631,831
Capital Lease Obligation, Net of Current Portion	36,899
Capital Advances	7,042,673
Total Long-Term Debt	28,711,403
Long-Term Pension Liability	459,386
Tenant Deposits	70,332
Total Other Liabilities	529,718
Total Long-Term Debt and Other Liabilities	29,241,121
DUE TO RELATED PARTIES	1,085,036
Total Liabilities	40,211,033
NET ASSETS	
Unrestricted	1,320,590
Temporarily Restricted	4,557,142
Permanently Restricted	2,368,862
Total Net Assets	8,246,594
Total Liabilities and Net Assets	$ 48,457,627

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

UNRESTRICTED NET ASSETS		
REVENUES		
Program Service Revenue	$	61,644,597
Donated Vehicles		1,069,605
Wholesale Vehicle Sales		1,013,913
Rental Income		5,100
Net Assets Released from Restriction Used for Operations		927,863
Other Income		497,015
Total Revenues		65,158,093
EXPENSES		
Salaries and Wages		33,161,279
Employee Benefits		7,578,067
Purchased Services		1,069,644
Insurance		1,182,035
Program Expenses		4,277,208
Professional Fees		576,473
Occupancy Costs		2,952,564
Advertising Expense		395,520
Operating Supplies and Expenses		6,277,171
Donated Vehicle Expense		1,029,660
Garage Expense		529,327
Travel Expenses		675,201
Equipment and Other Office Operations		501,888
Fundraising Expense		33,064
Real Estate Taxes		158,171
Resident Care Costs		1,873,467
Depreciation and Amortization		1,806,649
Bad Debt Expense		841,843
Interest		1,304,385
Total Expenses		66,223,616
LOSS FROM OPERATIONS		(1,065,523)
NON-OPERATING REVENUES AND EXPENSES		
Investment/Interest Income		47,458
Unrestricted Gifts and Bequests		100,001
Total Non-Operating Revenues and Expenses		147,459
EXCESS OF EXPENSES OVER REVENUES		(918,064)
Net Assets Released from Restrictions Used for Capital Improvements		392,244
Change in Beneficial Interest in Net Assets of Related Party		262,419
Acquisition of Fair Havens, Inc.		226,056
DECREASE IN UNRESTRICTED NET ASSETS	$	(37,345)

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	Total
NET ASSETS AT JUNE 30, 2008	$ 1,357,935	$ 4,388,635	$ 2,947,813	$ 8,694,383
Decrease in Net Assets from Operations Excluding Net Assets Released from Restrictions Used for Operations	(1,993,386)	-	-	(1,993,386)
Contributions	-	108,240	-	108,240
Change in Beneficial Interest in Net Assets of Related Party	262,419	1,380,374	(4,828)	1,637,965
Change in Beneficial Interest in Third Party Trusts	-	-	(574,123)	(574,123)
Non-Operating Revenues, Net	147,459	-	-	147,459
Acquisition of Fair Havens, Inc.	226,056	-	-	226,056
Net Assets Released from Restrictions	1,320,107	(1,320,107)	-	-
Change in Net Assets	(37,345)	168,507	(578,951)	(447,789)
NET ASSETS AT JUNE 30, 2009	$ 1,320,590	$ 4,557,142	$ 2,368,862	$ 8,246,594

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICES OF NEW ENGLAND, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (447,789)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,806,649
Provision for Bad Debts	841,841
Change in Beneficial Interest in Third-Party Trusts	574,123
Change in Beneficial Interest in Net Assets of Related Parties	(1,637,965)
Assets Released from Restrictions	352,416
Restricted Contributions	(98,240)
Ground Lease Expense	1,919
Loss on Disposal of Fixed Asset	3,065
Net Unrealized Gain on Investments	(2,287)
Acquisition of Fair Havens, Inc.	(226,056)
(Increase) Decrease in:	
Accounts Receivables	(723,842)
Inventory	(14,025)
Due from Third Party Payers	243,328
Beneficial Interest in Net Assets of Related Parties	853,159
Tenant/Resident Deposits	(15,647)
Prepaid Expenses	397,136
Real Estate Held for Sale	370,800
Other Current Assets	1,615
Increase (Decrease) in:	
Accounts Payable and Accrued Expenses	443,773
Deferred Revenue	57,758
Due to Third Party Payers	165,181
Other Liabilities	8,894
Long-Term Pension Liability	(77,677)
Net Cash Provided by Operating Activities	2,878,129
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(928,558)
Net Change in Escrow Funds	(42,648)
Deposits to Restricted Accounts	563,681
Withdrawals from Restricted Accounts	(715,144)
Additions to Construction in Progress	(348,103)
Net Cash Used by Investing Activities	(1,470,772)

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, 2009

CASH FLOWS FROM FINANCING ACTIVITIES	
Advancements on Line of Credit	453,713
Payments on Line of Credit	(952,798)
Principal Payments on Long-Term Debt	(724,912)
Principal Payments on Capital Leases	(9,032)
Advances from Related Organizations	71,675
Net Cash Used by Financing Activities	(1,161,354)
NET INCREASE IN CASH AND CASH EQUIVALENTS	246,003
Cash and Cash Equivalents - Beginning of Year	1,827,095
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,073,098
SUPPLEMENTAL DISCLOSURE	
Cash Paid for Interest	$ 964,413

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, 2009

	Total	Program Services	Administrative	Fundraising
Salaries and Wages	$ 33,161,279	$29,670,431	$ 3,197,268	$ 293,580
Employee Benefits	7,578,067	6,686,745	836,900	54,423
Purchased Services	1,069,644	900,397	60,565	108,682
Insurance	1,182,035	1,181,463	573	-
Program Expenses	4,277,208	4,132,413	144,783	12
Professional Fees	576,473	118,152	456,306	2,016
Occupancy Costs	2,952,564	2,335,920	615,104	1,540
Advertising Expense	395,520	303,709	76,932	14,879
Operating Supplies and Expenses	6,277,171	6,059,758	-	217,413
Donated Vehicle Expense	1,029,660	1,029,660	-	-
Garage Expense	529,327	529,327	-	-
Travel Expenses	675,201	462,441	156,597	56,164
Equipment and Other Office Operatic	501,888	490,585	10,847	456
Fundraising Expense	33,064	-	-	33,064
Real Estate Taxes	158,171	158,171	-	-
Resident Care Costs	1,873,467	1,873,467	-	-
Depreciation and Amortization	1,806,649	1,691,763	114,844	42
Bad Debt Expense	841,843	841,589	254	-
Interest	1,304,385	1,238,004	66,371	10
Total Expenses	$ 66,223,616	$59,703,993	$ 5,737,343	$ 782,280

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Lutheran Church has been serving people in need in New England for nearly 140 years. Today, Lutheran Social Services of New England (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 1,500 employees. Every day, LSS touches the lives of 5,000 clients, including: refugees and immigrants, frail older adults, adults with disabilities and mental illness, children and families at risk, low income individuals who need affordable housing or transportation, and families affected by disaster. LSS serves people who need our services, regardless of their background or belief.

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

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

A summary of the Organizations significant accounting policies follows:

Basis for Consolidation

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

Method of Accounting

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

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

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 collectibility. 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.

Inventory

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

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

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

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

Assets Limited as to Use

Assets limited as to use include: assets held by a trustee under the terms of a bond indenture; assets held under U.S. Department of Housing and Urban Development (HUD)

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

Assets Limited as to Use (Continued)

Regulatory Agreement; tenant/resident deposits; pension account; beneficial interests in third-party trusts and in net assets of related party; cash set aside to meet temporary and permanent donor restrictions; 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.

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.

Description	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 $1,774,317 for the year ended June 30, 2009.

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 $32,332 for the year ended June 30, 2009.

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.

Donated Services

Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no donated services recorded in the consolidated financial statements for the year ended June 30, 2009.

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.

All the members of the Organization have elected to defer application of FASB Interpretation No. 48 “*Accounting for Uncertainty in Income Taxes*”. The Organization follows Financial Accounting Standard No. 5 “*Accounting for Contingencies*” for evaluating uncertain tax positions.

Additionally, the Organization qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization other than private foundations under Section 509(a)(2).

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

Promotional Advertising

Promotional advertising costs are expensed as incurred. Promotional advertising expense amounted to $391,071 as of June 30, 2009.

Sales of Real Estate

Sales of real estate are accounted for under the full accrual method. Under that method, gains are not recognized until the collectibility of the sales price is reasonably assured and the earnings process is virtually complete. When a sale does not meet the requirements for income recognition, the gain is deferred until those requirements are met.

Real Estate Held for Sale

Real estate held for sale is reported in the statement of financial position at the lower of its carrying amount or fair value less cost to sell. Real estate held for sale is assessed for impairment when management believes events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on this assessment, real estate held for sale that is considered impaired is written down to its fair value. Management has determined the fair value of real estate held for sale based on subsequent sales of such real estate. Impairment losses are recognized through a charge to expense. As of June 30, 2009 management determined that that cost of real estate held for sale did not exceed its fair value, therefore an impairment loss was not recognized.

Asset Retirement Obligations

Generally accepted accounting principles requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain 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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 10, 2010, the date the financial statements were issued.

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

Fair Value Measurement

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

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

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

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

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

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. The Organization recorded a provision for Medicaid overpayments in the accompanying financial statements under the caption "Due to the Third Party Payers" on the statement of financial position in the amount of $23,487 at June 30, 2009.

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.

At June 30, 2009, the Organization is reflecting an estimated net payable in the amount of $137,478, due to the State of Connecticut resulting from appeals and other estimated settlements prior to July 1, 2006. These amounts have been included in the accompanying financial statements under the caption "Due to the Third Party Payers" on the statement of financial position.

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 one of 53 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 53 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.

The Organization recorded a provision for Medicare overpayments in the accompanying financial statements under the caption "Due to the Third Party Payers" on the statement of financial position in the amount of $1,371 as of June 30, 2009.

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.

NOTE 2 REVENUES FROM THIRD PARTY PAYORS (CONTINUED)

Maine Medicaid

The Organization provides services for Medicaid eligible individuals under terms of costs based contracts with the State of Maine. Accordingly, the Organization provides for the estimated amounts of settlements with Medicaid as a liability included in accrued expenses. Final reimbursement is not determined until the State of Maine accepts the cost report. The amount of the liability is $82,237 and is reflected under the caption “Due to Third Party Payors” on the statement of financial position at June 30, 2009. Adjustments to these estimates are reflected as adjustments to revenue in the year in which it becomes known and agreed to by management.

NOTE 3 ACCOUNTS RECEIVABLE

The accounts receivable is comprised of the following at June 30, 2009:

Accounts Receivable, Gross	$ 7,024,309
Less: Allowance for Doubtful Accounts	836,277
Accounts Receivable, Net	$ 6,188,032

NOTE 4 ASSETS LIMITED AS TO USE

Assets limited as to use is comprised of the following at June 30, 2009:

Funds Held Under Indenture Agreement

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

Following is a summary of the funds held under indenture agreement at market value as of June 30, 2009:

Debt Service Reserve Fund	$ 612,325
Renewal and Replacement Fund	393,411
Principal and Interest Account	457,842
Earnings Fund	20,768
Project Fund	1,397
Total	1,485,743
Less: Amount Required for Current Liabilities	367,575
Trustee Funds Held, Net	$ 1,118,168

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 4 ASSETS LIMITED AS TO USE (CONTINUED)

Beneficial Interest in Net Assets of Related Party

The Organization records its beneficial interest in the assets of Lutheran Social Service of New England Foundation, Inc. (LSSNEF) for funds being held by LSSNEF on behalf of the Organization in the amount of $3,187,286 at June 30, 2009.

Beneficial Interest in Third-Party Trusts

The Organization retains a percentage interest in various irrevocable third-party trusts. The beneficial interests are carried at the fair market value of the assets in the trust and amounted to $2,356,425 at June 30, 2009. Changes in the carrying amount of the beneficial interests are recognized as increases or decreases in permanently restricted net assets. The Organization recognized a decrease in the beneficial interests in third-party trusts in the amount of $574,123 for the year ended June 30, 2009.

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 and the construction of new property over which the Board retains control and may at its discretion subsequently use for other purposes.

Pension Funds

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

NOTE 4 ASSETS LIMITED AS TO USE (CONTINUED)

Donor Restricted Pledges

Pledges receivable consist of unconditional promises to give that are donor restricted and are to be used for the capital campaign.

Pledge collection is estimated as follows:

	Amount
In One Year	$ 121,439
In Two to Five Years	26,800
Total	$ 148,239

NOTE 5 DEFINED CONTRIBUTION PENSION PLAN

The Organization sponsors a defined contribution plan qualified under Internal Revenue Code Section 403(b). The Plan has been deemed a church plan. The Plan covers eligible employees of the Organization. The plan allows, but does not require, the Organization to match an amount of eligible employees' basic contributions to the Plan up to the maximum amount of 3% of salary. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Pension costs charged to operations amounted to $237,861 for the year ended June 30, 2009.

The Organization also has recorded a liability at June 30, 2009 for contributions relating to a former noncontributory defined contribution plan in the amount of $459,386. This plan was frozen in January of 1990. The Organization has set aside assets in the amount of $247,462 as of June 30, 2009 to fund the pension liability. The remaining obligation will be funded as assets become available.

NOTE 6 CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents

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

Accounts Receivable

The Organization grants credit without collateral to its residents, most of whom are local individuals, and residents covered under third-party payor arrangements. Accounts receivable from private and third-party payors totaled $6,188,032 at June 30, 2009.

Assets Limited As To Use

The Organization is reflecting assets limited as to use at approximately $8,600,000. These items include cash and various investments that in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk.

NOTE 6 CONCENTRATION OF CREDIT RISK (CONTINUED)

Assets Limited As to Use (Continued)

Due to the level of risk associated with certain investments, 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.

Major Sources of Revenue

For the year ended June 30, 2009, 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 30% from the skilled nursing homes and 55% from the social service organizations for the year ended June 30, 2009.

NOTE 7 CONSTRUCTION IN PROGRESS

As of June 30, 2009, the Organization incurred and capitalized $603,527, of accumulated construction costs principally consisting of determination of need filing fees, architectural fees, and other development costs associated with the construction of an addition to a skilled nursing facility, and the renovation and refurbishing of the existing skilled nursing facility. Construction is estimated to cost $9,600,000. The Organization has received an approved Determination of Need from the Commonwealth of Massachusetts, Department of Public Health for in the amount of $6,375,000. Subsequent to year end the Organization has received approval for a change in the Determination of Need to increase the maximum capital expenditure to $9,600,000. The project is in its preliminary stages and, consequently, management cannot estimate the start or completion date of the project. Through June 30, 2009, the Organization has contractual agreements totaling $481,000 for architectural and other services of which $348,075 has been incurred and capitalized.

The Organization has also incurred $332,525, as of June 30, 2009, of costs in connection with the proposed replacement of the existing residential care facility. The Organization has received an approved Determination of Need from the Commonwealth of Massachusetts, Department of Public Health for a 63-bed residential care facility in the amount of $6,800,000. The project is in its preliminary stages and, consequently, management cannot estimate the start or completion date of the project.

NOTE 8 LINE OF CREDIT

The Organization has five lines of credit agreements with various banks. The lines of credit are payable on demand and have limits of $100,000 to $500,000. The lines are collateralized by various business assets. The lines of credit bear interest at variable rates ranging from 4 – 6% at June 30, 2009. The Organization has $1,181,648 outstanding on the lines of credit at June 30, 2009.

NOTE 9 LONG-TERM DEBT

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

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

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

The Organization is liable on long-term debt at June 30, 2009 as follows:

Mortgages payable with variable interest rates ranging from 5.68% to 7.68% and fixed rates ranging from 5.27% to 7.7%, secured by fixed assets, payable in monthly installments ranging from $1,520 to $22,350, which include interest becoming due from 2010 to 2032. Certain mortgage agreements requires the Organization to maintain a debt service coverage ratio of 1.25 to 1, and loan to value ratio of .75.	$ 4,192,143
Mortgage Payable to Mission Investment Fund of the Evangelical Lutheran Church in America, monthly interest and principal payments of $13,193, at a rate of 6.25% through October 31, 2011, thereafter the rate is adjusted every five years, secured by fixed assets, and due on November 1, 2031.	1,907,158
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 Regulator 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

NOTE 9 LONG-TERM DEBT (CONTINUED)

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
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.	6,536,432
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.	5,246,301
Installment loans payable in monthly installments ranging from $1,422 to $3,510, including interest at 5%, through 2009. Principal and interest rate reviews will occur in 2009.	567,165
Installment loan payable to Saint Paul's Evangelical Lutheran Church, payable in monthly installments of $623, including interest at 6.5%, through June 2016.	41,948
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.	3,515,000
The Organization is obligated under various capital lease agreements for equipment and motor vehicles, expiring from 2009 through 2011, with monthly payments ranging from $238 to $820 secured by equipment.	109,957

NOTE 9 LONG-TERM DEBT (CONTINUED)

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 2½% adjusted annually (7.1% at June 30, 2009).		345,678
Long Term Debt	$	29,504,455
Less: Current Portion		793,052
Long Term Debt, Net of Current Portion	$	28,711,403

Following are current maturities for the next five years:

Year Ending June 30,		Amount
2010	$	793,052
2011		1,344,496
2012		681,926
2013		723,817
2014		767,299

NOTE 10 OPERATING LEASES

The Organization leases land, buildings and equipment for program and administrative purposes under various operating lease agreements with terms of one to ten years expiring in 2013. Total rent and related expenses for the year ended June 30, 2009 amounted to approximately $1,465,000.

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, 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 $13,966, due monthly. This component represents the reimbursement of a $150,000 loan received by the Lessor for additional fix up costs for the Unit.

NOTE 10 OPERATING LEASES (CONTINUED)

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

Year Ending June 30,	Amount
2010	$ 795,611
2011	679,736
2012	445,975
2013	205,215
2014	155,351

NOTE 11 RELATED PARTY LOANS

Related party loans, which bear no interest and have no fixed repayment terms, are as follows at June 30, 2009:

Due to Related Party:	
Lutheran Social Services of New England Foundation, Inc.	$1,085,036

NOTE 12 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, 2009:

	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Beneficial Interest in Net Assets of Related Party	$ 3,187,286	$ 3,187,286	$ -	$ -
Beneficial Interest in Third	-			
Party Trust	2,356,425	-	2,356,425	
Investments	25,022	25,022	-	-
Total	$ 5,568,733	$ 3,212,308	$ 2,356,425	$ -

NOTE 12 FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, beneficial interest in net assets of related party and third party trusts, pledges receivable, line of credits and due to third party payors approximates fair value due to their short maturities. The fair value of bonds payable is approximately $3,497,000 at June 30, 2009. The determination of the fair value of the remaining financial instruments is not practical due to the lack of available information.

NOTE 13 DONOR RESTRICTED FUNDS

The Organization has received a donor-restricted contribution which has been accounted for as a temporarily and permanently restricted net asset 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, 2009:

Program Restrictions	$ 1,072,593
Property Projects	339,951
State Subsidized Building	1,308,195
Contributed Assets held by LSSNEF	1,836,403
	$ 4,557,142

Included in temporarily restricted net assets is a building that was subsidized by the Grant and has a net book value of $1,308,195 at June 30, 2009. 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 $110,193 for the year ending June 30, 2009.

The Organization has received a donor-restricted contribution which has been accounted for as a permanently restricted net asset which are held in perpetuity with disbursements only being used to satisfy the donor's requirements. The Organization has a beneficial interest in third-party trusts which is recorded as permanently restricted net asset that amounts to $2,368,862 as of June 30, 2009. 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 of 2006 (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.

NOTE 13 DONOR RESTRICTED FUNDS (CONTINUED)

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

NOTE 14 ACQUISTION

Effective January 1, 2009, Fair Havens, Inc. amended its by-laws designating Lutheran Social Services of New England, Inc. as the sole corporate member. Accordingly, the beginning net assets of Fair Havens, Inc. have been reflected as an increase in unrestricted net assets of the Organization in the statement of activities as of June 30, 2009.

NOTE 15 CONTINGENCIES

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

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

The City of Middletown, Connecticut, has assessed real estate taxes on two subsidiaries of the Organization as of June 30, 2009. The subsidiaries have filed for an abatement of the real estate taxes for their portion of the shared property they believe is tax exempt. The subsidiaries believe that a portion of the property qualifies as tax exempt under Connecticut law and therefore not liable for such taxes. Accordingly, the Organization has reflected $55,000 of real estate tax liability for their share of the expense they believe is not tax exempt as of June 30, 2009. Management is uncertain as to the outcome relating to the abatement request and, consequently, has not recognized an additional real estate tax expense for this matter as of June 30, 2009.