

**ORIGINAL**

08-081

**ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR PERMIT**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION (IDEN)**

**RECEIVED**

This section must be completed for all projects.

OCT 10 2008

**A. Facility/Project Identification**

**HEALTH FACILITIES  
PLANNING BOARD**

Facility Name Pleasant View

Street Address 505 College Avenue City Ottawa

County LaSalle Zip 61350 Health Service Planning Area 2-LaSalle

**B. Applicant Identification (provide for each co-applicant [refer to Part 1130.220] and insert after this page)**

Exact Legal Name Pleasant View Luther Home, Inc.

Address 505 College Avenue, Ottawa, Illinois 61350

Name of Registered Agent Roger W. Paulsberg

Name of Chief Executive Officer Roger W. Paulsberg

CEO Address 3150 Salt Creek Lane, Arlington Heights, IL 60005 Telephone No. (847) 368-7300

Type of Ownership:

Non-profit Corporation  For-profit Corporation  Limited Liability Company  
 Partnership  Governmental  Sole Proprietorship  Other (specify) \_\_\_\_\_

Corporations and limited liability companies must provide an Illinois certificate of good standing; partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

**APPEND DOCUMENTATION AS ATTACHMENT IDEN-1 AFTER THE LAST PAGE OF THIS SECTION.**

**C. Primary Contact Person (person who is to receive correspondence or inquiries during the review period)**

Name Joe Ourth Title Legal Counsel

Company Name Arnstein & Lehr LLP

Address 120 South Riverside Plaza, Suite 1200, Chicago, Illinois 60606  
Telephone No. (312) 876-7815

E-mail Address jourth@arnstein.com Fax No. (312) 876-0288

**ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR PERMIT**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION (IDEN)**

This section must be completed for all projects.

**A. Facility/Project Identification**

Facility Name Pleasant View  
 Street Address 505 College Avenue City Ottawa  
 County LaSalle Zip 61350 Health Service Planning Area 2-LaSalle

**B. Applicant Identification (provide for each co-applicant [refer to Part 1130.220] and insert after this page)**

Exact Legal Name Lutheran Life Communities  
 Address 3150 Salt Creek Lane, Arlington Heights, Illinois 60005  
 Name of Registered Agent Andrew P. Tecson  
 Name of Chief Executive Officer Roger W. Paulsberg  
 CEO Address 3150 Salt Creek Lane, Arlington Heights, IL 60005 Telephone No. (847) 368-7300

Type of Ownership:

Non-profit Corporation  For-profit Corporation  Limited Liability Company  
 Partnership  Governmental  Sole Proprietorship  Other (specify) \_\_\_\_\_

Corporations and limited liability companies must provide an Illinois certificate of good standing; partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

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Name Joe Ourth Title Legal Counsel  
 Company Name Arnstein & Lehr LLP  
 Address 120 South Riverside Plaza, Suite 1200, Chicago, Illinois 60606  
 Telephone No. (312) 876-7815  
 E-mail Address jourth@arnstein.com Fax No. (312) 876-0288

**D. Additional Contact Person (person such as consultant, attorney, financial representative, registered agent, etc. who also is authorized to discuss application and act on behalf of applicant)**

Name Kevin Madalinski Title Senior Project Manager  
Company Name Hoffman, LLC  
Address 122 East College Avenue, Suite 1G, Appleton, Wisconsin, 54911  
Telephone No. (920) 380-2196  
E-mail Address kmadalinski@hoffman.net Fax No. (920) 380-9196

**E. Post Permit Contact Person (person to whom all correspondence and inquiries pertaining to the project subsequent to permit issuance are to be directed)**

Name Jim Holbrook Title Senior Vice President Corporate Operations  
Company Name Lutheran Life Communities  
Address 3150 Salt Creek Lane, Arlington Heights, Illinois 60005  
Telephone No. (815) 368-7366  
E-mail Address jholbrook@lutheranlifecommunities.org Fax No. (224) 735-4112

**F. Site Ownership (complete this information for each applicable site and insert after this page)**

Exact Legal Name of Person Who Owns Site Pleasant View Luther Home, Inc.  
Address of Site Owner 505 College Avenue, Ottawa, Illinois 61350  
Street Address or Legal Description of Site 505 College Avenue, Ottawa, Illinois 61350

**G. Operating Entity/Licensee (complete this information for each applicable facility and insert after this page)**

Exact Legal Name Pleasant View Luther Home, Inc.  
Address 505 College Avenue, Ottawa, Illinois 61350

Type of Ownership:

Non-profit Corporation  For-profit Corporation  Limited Liability Company  
 Partnership  Governmental  Sole Proprietorship  Other (specify) \_\_\_\_\_

Corporations and limited liability companies must provide an Illinois certificate of good standing; partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

**APPEND DOCUMENTATION AS ATTACHMENT IDEN-2 AFTER THE LAST PAGE OF THIS SECTION.**

**H. Organizational Relationships**

Provide (for each co-applicant) an organization chart containing the name and relationship of any person who is related (related person is defined in Part 1130.140). If the related person is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

**APPEND DOCUMENTATION AS ATTACHMENT IDEN-3 AFTER THE LAST PAGE OF THIS SECTION.**

**I. Status of Previous Certificate of Need Projects**

Provide the project number for any of the applicant's projects that have received permits but are not yet complete (completion is defined in Part 1130.140) and provide the current status of the project. If all projects are complete, indicate NONE:

NONE

**J. Flood Plain Requirements (refer to instructions for completion of this application)**

Provide documentation regarding compliance with the Flood Plain requirements of Executive Order #4, 1979.

**APPEND DOCUMENTATION AS ATTACHMENT IDEN-4 AFTER THE LAST PAGE OF THIS SECTION.**

**K. Historic Resources Preservation Act Requirements (refer to instructions for completion of this application)**

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

**APPEND DOCUMENTATION AS ATTACHMENT IDEN-5 AFTER THE LAST PAGE OF THIS SECTION.**

**L. Project Classification (check those applicable, refer to Part 1110.40 and Part 1120.20.b)**

- |   |  |  |
|---|--|--|
| 1. Part 1110 Classification                     | 2. Part 1120 Applicability or Classification: (check one only) |  |
| <input checked="" type="checkbox"/> Substantive | <input type="checkbox"/> Part 1120 Not Applicable              | <input type="checkbox"/> Category A Project            |
| <input type="checkbox"/> Non-substantive        | <input type="checkbox"/> DHS or DVA Project                    | <input checked="" type="checkbox"/> Category B Project |

### **M. Narrative Description**

Provide in the space below a brief narrative description of the project. Explain what is to be done, **NOT** why it is being done. Include the rationale as to the project's classification as substantive or non-substantive. If the project site does NOT have a street address, include a legal description of the site.

The Applicants propose a major modernization of Pleasant View Luther Home in Ottawa. As part of the Project, Pleasant View will reduce its nursing beds from 181 to 90, and will construct 24 new assisted living units adjoining the skilled facility.

Pleasant View Luther Home was originally founded in 1937 as an 11-bed facility on the former Luther College Campus. The current licensed facility consists of a 4-story building housing 112 skilled beds (the "Health Center"). In addition, 69 intermediate care beds are housed in single story wings attached to the Health Center. The intermediate care wings will be demolished as part of this Project. Also located on the retirement campus are 34 independent living units.

The renovation of the existing Health Center will be extensive. Most of the residential rooms will be converted to private rooms and each room will have its own ADA accessible bath. Pleasant View will create a dedicated dementia care unit for residents requiring this specialized care. Other portions of the Health Center will be significantly renovated to update and add living amenities, energy conservation and safety features, and other services. Of particular importance will be the implementation of the "household" concept in the design and staffing of the facility. Each floor will contain 2 households of 15 beds, each household creating a small, intimate social and caring environment for the residents (See detailed discussion of the household concept in the Alternatives section GRC-3 of this application). The facility will continue to include both Medicare and Medicaid certified beds.

In addition, 24 assisted living apartments will be constructed adjoining the Health Center. Commensurate with the bed reduction, total square footage of the Health Center will be reduced from 120,449 to 60,822 square feet. The cost for modernizing the skilled portion of the facility is \$11,803,728. Total cost for construction both the skilled facility and assisted living apartments is \$22,168,053.

As part of an unrelated project, Pleasant View will be adding 40 independent living units to its existing campus. This unrelated project will be financed separately from the proposed project and each unit will be built upon demand.

Pleasant View Luther Home, Inc. will be the licensed entity. Lutheran Life Communities, also a faith-based not-for-profit organization, is the parent organization and is consequently a co-applicant. The Project is classified as substantive pursuant to Section 1110.40(c) of the Planning Board regulations.

**N. Project Costs and Sources of Funds**

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains components that are not related to the provision of health care, complete an additional table for the portions that are solely for health care and insert that table following this page (e.g. separate a nursing home's costs from the components of a retirement community; separate patient care area costs from a hospital project that includes a parking garage). Note, the use and sources of funds must equal.

| <b>PROJECT USES AND SOURCES OF FUNDS: SKILLED NURSING</b>  |                     |
|--|---------------------|
| <b>USE OF FUNDS</b>  | <b>AMOUNT</b>       |
| Preplanning Costs  | \$121,974           |
| Site Survey and Soil Investigation                         | \$4,750             |
| Site Preparation   | \$938,000           |
| Off Site Work  | N/A                 |
| New Construction Contracts                                 | \$599,617           |
| Modernization Contracts                                    | \$6,132,286         |
| Contingencies  | \$673,190           |
| Architectural/ Engineering Fees                            | \$647,946           |
| Consulting and Other Fees                                  | \$106,200           |
| Movable or Other Equipment (not in construction contracts) | \$550,754           |
| Bond Issuance Expense (project related)                    | \$541,335           |
| Net Interest Expense During Construction (project related) | \$801,997           |
| Fair Market Value of Leased Space or Equipment             | N/A                 |
| Other Costs To Be Capitalized                              | \$685,700           |
| Acquisition of Building or Other Property (excluding land) | N/A                 |
| <b>TOTAL USES OF FUNDS</b>                                 | <b>\$11,803,728</b> |
| <b>SOURCE OF FUNDS</b>                                     | <b>AMOUNT</b>       |
| Cash and Securities  |                     |
| Pledges  |                     |
| Gifts and Bequests   |                     |
| Bond Issues (project related)                              |                     |
| Mortgages  |                     |
| Leases (fair market value)                                 |                     |
| Governmental Appropriations                                |                     |
| Grants   |                     |
| Other Funds and Sources                                    |                     |
| <b>TOTAL SOURCES OF FUNDS</b>                              |                     |

**N. Project Costs and Sources of Funds**

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains components that are not related to the provision of health care, complete an additional table for the portions that are solely for health care and insert that table following this page (e.g. separate a nursing home's costs from the components of a retirement community; separate patient care area costs from a hospital project that includes a parking garage). Note, the use and sources of funds must equal.

| <b>PROJECT USES AND SOURCES OF FUNDS: AL/IL</b>            |                     |
|--|---------------------|
| <b>USE OF FUNDS</b>  | <b>AMOUNT</b>       |
| Preplanning Costs  | \$29,045            |
| Site Survey and Soil Investigation                         | \$3,500             |
| Site Preparation   | \$772,000           |
| Off Site Work  | N/A                 |
| New Construction Contracts                                 | \$5,292,842         |
| Modernization Contracts                                    | \$648,214           |
| Contingencies  | \$594,106           |
| Architectural/ Engineering Fees                            | \$571,827           |
| Consulting and Other Fees                                  | \$70,800            |
| Movable or Other Equipment (not in construction contracts) | \$486,052           |
| Bond Issuance Expense (project related)                    | \$475,869           |
| Net Interest Expense During Construction (project related) | \$704,991           |
| Fair Market Value of Leased Space or Equipment             | N/A                 |
| Other Costs To Be Capitalized                              | \$715,083           |
| Acquisition of Building or Other Property (excluding land) | N/A                 |
| <b>TOTAL USES OF FUNDS</b>                                 | <b>\$10,364,330</b> |
| <b>SOURCE OF FUNDS</b>                                     | <b>AMOUNT</b>       |
| Cash and Securities  |                     |
| Pledges  |                     |
| Gifts and Bequests   |                     |
| Bond Issues (project related)                              |                     |
| Mortgages  |                     |
| Leases (fair market value)                                 |                     |
| Governmental Appropriations                                |                     |
| Grants   |                     |
| Other Funds and Sources                                    |                     |
| <b>TOTAL SOURCES OF FUNDS</b>                              |                     |

**N. Project Costs and Sources of Funds**

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains components that are not related to the provision of health care, complete an additional table for the portions that are solely for health care and insert that table following this page (e.g. separate a nursing home's costs from the components of a retirement community; separate patient care area costs from a hospital project that includes a parking garage). Note, the use and sources of funds must equal.

| <b>PROJECT USES AND SOURCES OF FUNDS: TOTAL</b>            |                     |
|--|---------------------|
| <b>USE OF FUNDS</b>  | <b>AMOUNT</b>       |
| Preplanning Costs  | \$151,019           |
| Site Survey and Soil Investigation                         | \$8,250             |
| Site Preparation   | \$1,710,000         |
| Off Site Work  | N/A                 |
| New Construction Contracts                                 | \$5,892,459         |
| Modernization Contracts                                    | \$6,780,500         |
| Contingencies  | \$1,267,296         |
| Architectural/ Engineering Fees                            | \$1,219,772         |
| Consulting and Other Fees                                  | \$177,000           |
| Movable or Other Equipment (not in construction contracts) | \$1,036,806         |
| Bond Issuance Expense (project related)                    | \$1,017,204         |
| Net Interest Expense During Construction (project related) | \$1,506,968         |
| Fair Market Value of Leased Space or Equipment             | N/A                 |
| Other Costs To Be Capitalized                              | \$1,400,783         |
| Acquisition of Building or Other Property (excluding land) | N/A                 |
| <b>TOTAL USES OF FUNDS</b>                                 | <b>\$22,168,058</b> |
| <b>SOURCE OF FUNDS</b>                                     | <b>AMOUNT</b>       |
| Cash and Securities  | \$3,468,503         |
| Pledges  | \$0                 |
| Gifts and Bequests   | \$0                 |
| Bond Issues (project related)                              | \$18,699,555        |
| Mortgages  | \$0                 |
| Leases (fair market value)                                 | \$0                 |
| Governmental Appropriations                                | \$0                 |
| Grants   | \$0                 |
| Other Funds and Sources                                    |                     |
| <b>TOTAL SOURCES OF FUNDS</b>                              | <b>\$22,168,058</b> |



**O. Related Project Costs**

- 1. Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

No land acquisition is related to project;

Purchase Price \$ \_\_\_\_\_; Fair Market Value \$ \_\_\_\_\_

- 2. Does the project involve establishment of a new facility or a new category of service?

Yes  No

If yes, provide the dollar amount of all non-capitalized operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is \$ \_\_\_\_\_.

**P. Project Status and Completion Schedules**

- 1. Indicate the stage of the project's architectural drawings:  None or not applicable  Schematics  Preliminary  Final Working

- 2. Provide the following dates (indicate N/A for any item that is not applicable):

25% of project costs expended July 1, 2009      50% of project costs expended October 1, 2009  
 75% of project costs expended January 1, 2010      95% of project costs expended December 1, 2010  
 100% of project costs expended February 1, 2011      Midpoint of construction date February 1, 2010  
 Anticipated project completion date (refer to Part 1130.140) May 31, 2011

- 3. Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

Purchase orders, leases, or contracts pertaining to the project have been executed;

Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON contingencies.

Project obligation will occur after permit issuance.

**APPEND DOCUMENTATION AS ATTACHMENT INFO-6 AFTER THE LAST PAGE OF THIS SECTION.**

**Q. Cost/Space Requirements**

Provide in the format of the following example the gross square footage (GSF) and the attributable portion of total project cost for each department/area. Identify each piece of major medical equipment. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurement plus the department or area's portion of the surrounding circulation space. Indicate the proposed use of any vacated space.

| Dept. / Area      | Cost             | Gross Square Feet |               | Amount of Proposed Total Gross Square Feet That Is: |              |              |               |
|-------------------|------------------|-------------------|---------------|---|--------------|--------------|---------------|
|                   |                  | Existing          | Proposed      | New Const.  | Modernized   | As Is        | Vacated Space |
| Dietary           | 1,150,000        | 3,000             | 6,000         | 3,000   | 1,000        | 2,000        |               |
| Radiation Therapy | 3,250,000        | 4,000             | 5,500         | 5,500   |              |              |               |
| Medical Records   | 300,000          | 2,500             | 6,500         |   | 4,000        | 2,500        |               |
| <b>TOTALS</b>     | <b>4,700,000</b> | <b>9,500</b>      | <b>18,000</b> | <b>8,500</b>  | <b>5,000</b> | <b>4,500</b> |               |

**APPEND DOCUMENTATION AS ATTACHMENT INFO-7 AFTER THE LAST PAGE OF THIS SECTION.**

**R. Facility Bed Capacity and Utilization**

- Complete the following chart as applicable. Complete a separate chart for each facility that is part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest 12 month period for which data is available. Any bed capacity discrepancy from the Inventory will result with the application being deemed incomplete.

FACILITY NAME Pleasant View Luther Home CITY Ottawa  
 REPORTING PERIOD DATES: From 1/1/2007 to 12/31/2007

| Category of Service  | Authorized Beds | Admissions | Patient Days | Bed Changes | Proposed Beds |
|----------------------|-----------------|------------|--------------|-------------|---------------|
| Medical/Surgical     |                 |            |              |             |               |
| Pediatrics           |                 |            |              |             |               |
| Obstetrics           |                 |            |              |             |               |
| Intensive Care       |                 |            |              |             |               |
| Neonatal ICU         |                 |            |              |             |               |
| Acute Mental Illness |                 |            |              |             |               |
| Rehabilitation       |                 |            |              |             |               |
| Nursing Care         | 181             | 195        | 52,416       | (91)        | 90            |
| Sheltered Care       |                 |            |              |             |               |
| Other (identify)     |                 |            |              |             |               |
| Other (identify)     |                 |            |              |             |               |
| Other (identify)     |                 |            |              |             |               |
| <b>TOTALS</b>        |                 |            |              |             |               |

- Is the facility certified for participation in the Medicare "swing bed" (i.e. acute care beds certified for extended care) program?        Yes X No

- For the following categories of service, indicate the number of existing beds that are Medicare certified and the number of existing beds that are Medicaid certified (if none, so indicate):

| Service      | # Medicare Beds   | # Medicaid Beds   |
|--------------|-------------------|-------------------|
| Nursing Care | <u>122</u>        | <u>75</u>         |
| ICF/DD Adult | <u>          </u> | <u>          </u> |
| Children DD  | <u>          </u> | <u>          </u> |

**S. Certification**

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are in the case of a corporation, any two of its officers or members of its board of directors; in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist); in the case of a partnership, two of its general partners (or the sole general partner when two or more general partners do not exist); in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and in the case of a sole proprietor, the individual that is the proprietor. The signature(s) must be notarized. If the application has co-applicants, a separate certification page must be completed for each co-applicant and inserted following this page. One copy of the application must have the ORIGINAL signatures for all persons that sign for the applicant and for each of the co-applicants.

**This Application for Permit is filed on behalf of Pleasant View Luther Home, Inc. \* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.**

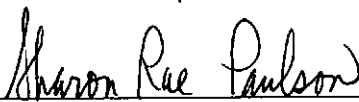
  
Signature


Printed Name ROGER W PAULSBERG  
Printed Title PRESIDENT/CEO  
CHAIRMAN OF THE BOARD OF DIRECTORS

  
Signature


Printed Name JAMES HOLBROOK  
Printed Title SECRETARY  
VICE CHAIRMAN OF THE BOARD OF DIRECTORS

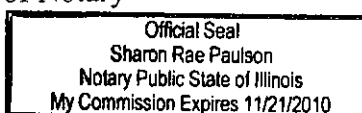
Notarization:  
Subscribed and sworn to before me  
This 16<sup>th</sup> day of September 2008

  
Signature of Notary

Seal 

Notarization:  
Subscribed and sworn to before me  
This 16<sup>th</sup> day of September 2008

  
Signature of Notary

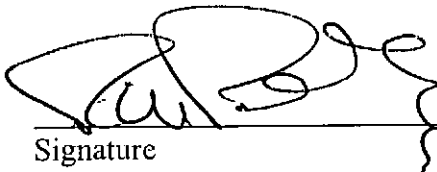
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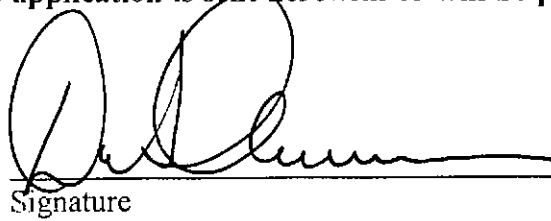
\*Insert EXACT legal name of the applicant

**S. Certification**

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**This Application for Permit is filed on behalf of Lutheran Life Communities \* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.**

  
Signature


  
Signature


Printed Name ROGER W. PAULSBERG  
Printed Title PRESIDENT/CEO & MEMBER OF THE BOARD OF DIRECTORS


Printed Name DAVID G. ABRAHAMSON  
Printed Title CHAIRMAN OF THE BOARD OF DIRECTORS

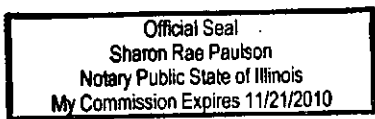
Notarization:  
Subscribed and sworn to before me  
This 16<sup>th</sup> day of September

Notarization:  
Subscribed and sworn to before me  
This 19<sup>th</sup> day of September

  
Signature of Notary

  
Signature of Notary

Seal 

Seal 

\*Insert EXACT legal name of the applicant



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

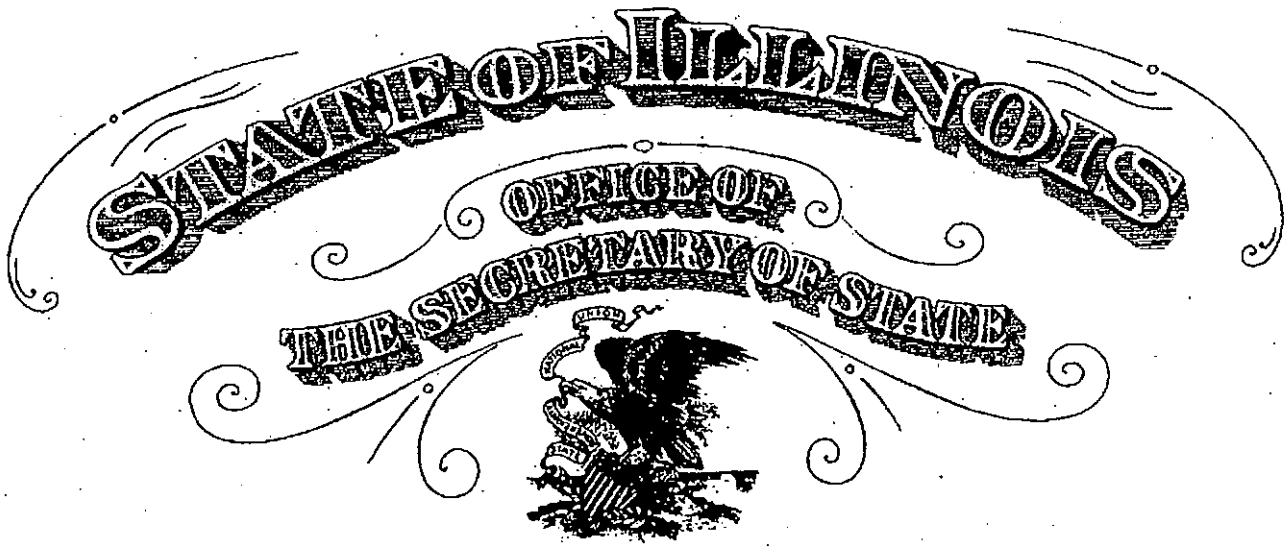
PLEASANT VIEW LUTHER HOME, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 22, 1895, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 1ST day of AUGUST A.D. 2008



Jesse White

SECRETARY OF STATE

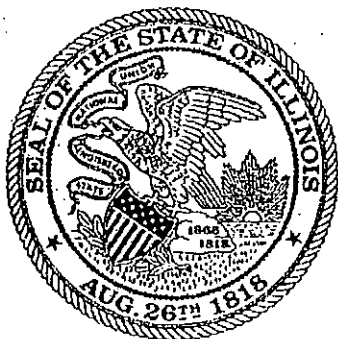


To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

LUTHERAN LIFE COMMUNITIES, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 21, 2005, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS:

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 5TH day of AUGUST A.D. 2008



Jesse White



*To all to whom these Presents Shall Come, Greeting:*

*I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that*

PLEASANT VIEW LUTHER HOME, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 22, 1895, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

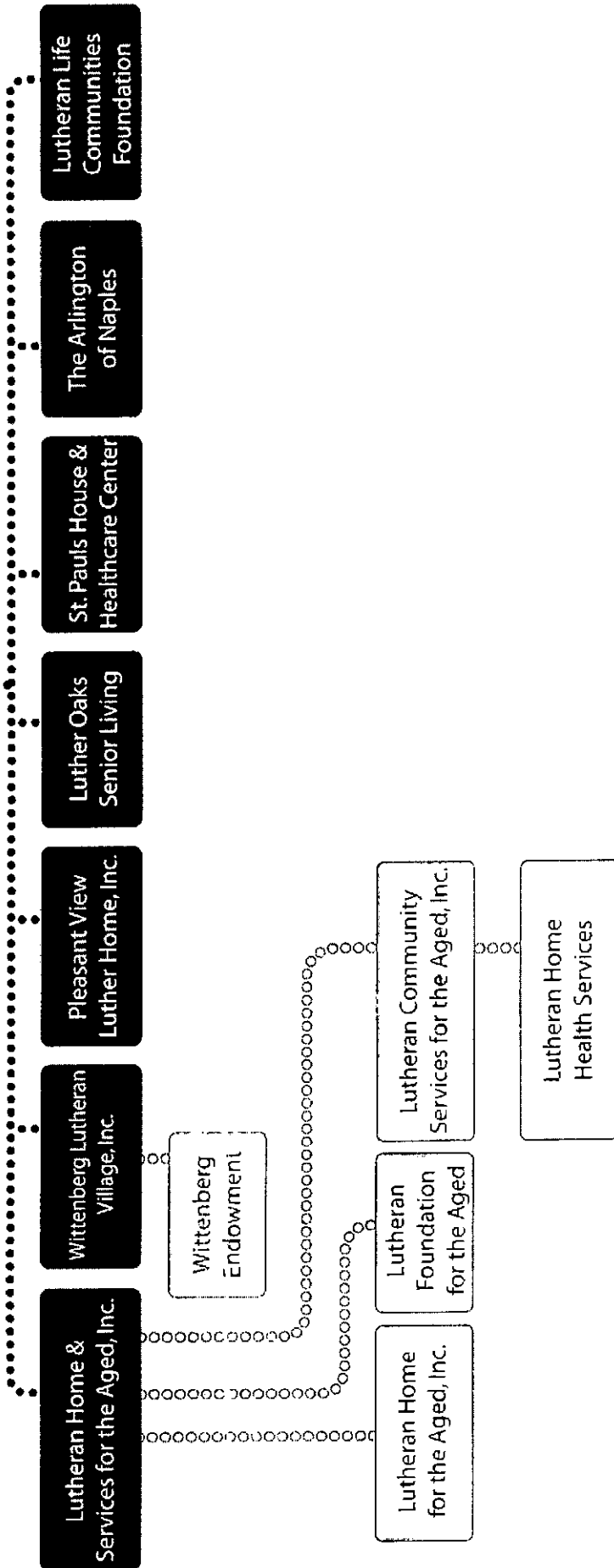
*In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 1ST day of AUGUST A.D. 2008*



*Jesse White*

SECRETARY OF STATE





UNIVERSITY OF ILLINOIS  
AT URBANA-CHAMPAIGN

Institute of Natural Resource Sustainability  
Illinois State Water Survey

2204 Griffith Drive, MC-674  
Champaign, Illinois 61820-7463



Special Flood Hazard Area Determination  
pursuant to Governor's Executive Order 5 (2006)  
(supersedes Governor's Executive Order 4 (1979))

Requester: Tracey A. Salinski, Attorney at Law  
Address: Arnstein & Lehr LLP, 120 South Riverside Plaza, Suite 1200  
City, state, zip: Chicago, IL 60606-3910 Telephone: (312) 876-7111

Site description of determination:

Site address: Pleasant View Luther Home including proposed Village Square addition, 505 College Ave.  
City, state, zip: Ottawa, IL 61350-3899  
County: La Salle Sec $\frac{1}{4}$ : W 1/2 of SE 1/4 Section: 14 T. 33 N. R. 3 E. PM: 3rd  
Subject area: Area bounded by College Ave. on the north, Marcy St. on the west, Erickson St. and Lockren St. on the south, and Bergen Ave. and University Ave. on the east.

The property described above IS NOT located in a Special Flood Hazard Area or a shaded Zone X floodzone.

Floodway mapped: Yes Floodway on property: No  
Sources used: FEMA Flood Insurance Rate Map (FIRM, copy attached); Hoffman architects overall site plan (4/16/2008).  
Community name: City of Ottawa, IL Community number: 170405  
Panel/map number: 17099C0530 E Effective Date: September 7, 2001  
Flood zone: X [unshaded] Base flood elevation: N/A ft NGVD 1929

- N/A a. The community does not currently participate in the National Flood Insurance Program (NFIP). NFIP flood insurance is not available; certain State and Federal assistance may not be available.  
N/A b. Panel not printed: no Special Flood Hazard Area on the panel (panel designated all Zone C or unshaded X).  
N/A c. No map panels printed: no Special Flood Hazard Areas within the community (NSFHA).

The primary structure on the property:

- N/A d. Is located in a Special Flood Hazard Area. Any activity on the property must meet State, Federal, and local floodplain development regulations. Federal law requires that a flood insurance policy be obtained as a condition of a federally-backed mortgage or loan that is secured by the building.  
N/A e. Is located in shaded Zone X or B (500-yr floodplain). Conditions may apply for local permits or Federal funding.  
X f. Is not located in a Special Flood Hazard Area or 500-year floodplain area shown on the effective FEMA map.  
N/A g. A determination of the building's exact location cannot be made on the current FEMA flood hazard map.  
N/A h. Exact structure location is not available or was not provided for this determination.

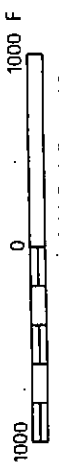
Note: This determination is based on the effective Federal Emergency Management Agency (FEMA) flood hazard reference for the subject area. This letter does not imply that the referenced property will be free from water damage. Property not in a Special Flood Hazard Area may be damaged by a flood greater than that illustrated on the FEMA map, by local drainage problems or runoff not illustrated on the source map, or by failure of flood control structures. This letter does not create liability on the part of the Illinois State Water Survey or employee thereof for any damage that results from reliance on this determination. This letter does not exempt the project from local stormwater management regulations.

Questions concerning this determination may be directed to Bill Saylor (217/333-0447) at the Illinois State Water Survey. Questions concerning requirements of Governor's Executive Order 5 (2006), or State floodplain regulations, may be directed to Paul Osman (217/782-3862) at the Illinois Department of Natural Resources' Office of Water Resources.

William Saylor Title: ISWS Floodplain Information Specialist Date: 9/19/2008  
William Saylor, CFM IL-02-00107, Illinois State Water Survey



APPROXIMATE SCALE



-LEGEND ON REVERSE-

**NATIONAL FLOOD INSURANCE PROGRAM**

**FIRM FLOOD INSURANCE RATE MAP**  
 LA SALLE COUNTY, ILLINOIS  
 AND INCORPORATED AREAS

**PANEL 530 OF 900**  
 (SEE MAP INDEX FOR PANELS NOT PRINTED)


|            |        |         |        |
|------------|--------|---------|--------|
| CONTAINS:  | NUMBER | PANEL   | SUFFIX |
|            | 17000  | 0300    | E      |
| COMMUNITY: | 17000  | 0300    | E      |
|            | OTAWA  | CITY OF |        |

*Water main 1/2" dia  
 lower 1/2" dia  
 base 1/2" dia*

Notice to User: The MAP NUMBER shown below should be used when placing map orders; the COMMUNITY NUMBER shown below should be used on insurance applications to the subject community.

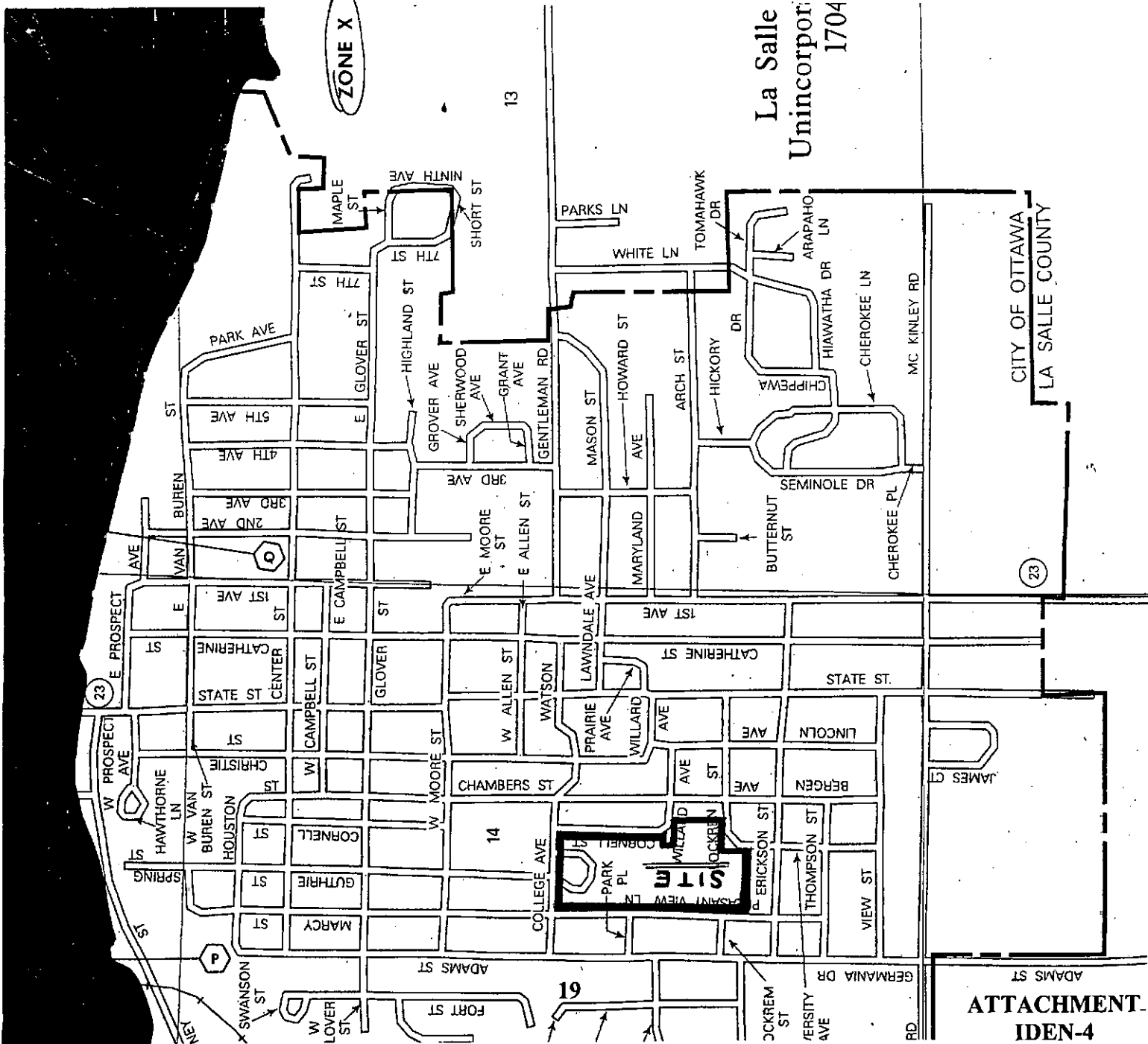
**MAP NUMBER**  
17099C0530 E

**EFFECTIVE DATE:**  
SEPTEMBER 7, 2001



Federal Emergency Management Agency

17099C0530 E



La Salle  
 Unincorporated  
 1704

ATTACHMENT  
 IDEN-4



**Illinois Historic  
Preservation Agency**

FAX (217) 782-8161

1 Old State Capitol Plaza • Springfield, Illinois 62701-1512 • [www.illinois-history.gov](http://www.illinois-history.gov)

LaSalle County  
Ottawa

CON - Modernization of Long Term Care Facility  
505 College Ave.  
IHPA Log #018082808

September 8, 2008

Tracey Salinski  
Arnstein & Lehr LLP  
120 S. Riverside Plaza, Suite 1200  
Chicago, IL 60606

Dear Ms. Salinski:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact Patrick Gleason, Cultural Resources Manager, 1 Old State Capitol Plaza, Springfield, IL 62701, 217/785-3977.

Sincerely,

Anne E. Haaker  
Deputy State Historic  
Preservation Officer

Review Criterion 1120.310(c) - Reasonableness of Project and Related Costs

| Department/Area           | SKILLED NURSING FACILITY |           |          |        |       |          |                  |          |             |             | Total Cost |             | Grand Total \$ |       |
|---------------------------|--------------------------|-----------|----------|--------|-------|----------|------------------|----------|-------------|-------------|------------|-------------|----------------|-------|
|                           | Existing                 |           | Proposed |        |       | Existing |                  | New      |             | Mod.*       |            | New         |                | Mod.* |
|                           | Total                    | Vacated** | New+     | Mod.*  | As-Is | Total    | Sqft/Bed         | Sqft/Bed | Cost / sqft | Cost / sqft |            |             |                |       |
| Resident Units            | 37576                    | 15810     |          | 20346  |       | 20346    | 207.6            | 226.1    | \$162       | \$122       | \$0        | \$2,482,212 | \$2,482,212    |       |
| Resident Baths (SNF)      | 5484                     | 1985      |          | 4200   |       | 4200     | 30.3             | 46.7     | \$0         | \$134       | \$0        | \$562,800   | \$562,800      |       |
| Administrative            | 4869                     | 4081      | 1131     | 372    |       | 1503     | 26.9             | 16.7     | \$166       | \$120       | \$187,746  | \$44,640    | \$232,386      |       |
| Laundry                   | 1991                     |           |          | 1548   | 1306  | 2854     | 11               | 31.7     | \$0         | \$95        | \$0        | \$147,060   | \$147,060      |       |
| Kitchen/Food Prep         | 3158                     |           |          | 509    | 954   | 1463     | 17.4             | 16.3     | \$0         | \$115       | \$0        | \$58,535    | \$58,535       |       |
| Chapel                    | 1267                     | 1267      | 451      | n/a    |       | 451      | 7                | 5        | \$198       | \$0         | \$89,298   | \$0         | \$89,298       |       |
| Fitness                   | 1364                     | 742       | 149      | n/a    |       | 149      | 7.5              | 1.7      | \$159       | \$0         | \$23,691   | \$0         | \$23,691       |       |
| Activity                  | 5434                     | 1103      | 193      | 2059.5 |       | 2252.5   | 30               | 25       | \$159       | \$114       | \$30,687   | \$234,783   | \$265,470      |       |
| Dining                    | 5611                     | 1284      |          | 2059.5 |       | 2059.5   | 31               | 22.9     | \$0         | \$128       | \$0        | \$263,616   | \$263,616      |       |
| Sitting / Living / Parlor | 6307                     | 1504      |          | 945    |       | 945      | 34.8             | 10.5     | \$167       | \$128       | \$0        | \$120,960   | \$120,960      |       |
| Physical Therapy / Exam   | 2623                     | 812       |          | 380    |       | 380      | 14.5             | 4.2      | \$0         | \$100       | \$0        | \$38,000    | \$38,000       |       |
| Spa / Restrooms           | 2205                     | 683       |          | 1593   |       | 1593     | 12.2             | 17.7     | \$160       | \$115       | \$0        | \$183,195   | \$183,195      |       |
| Staff Support / Maint.    | 4863                     | 1762      | 902      | 4211   |       | 5113     | 26.9             | 56.8     | \$150       | \$95        | \$135,300  | \$400,045   | \$535,345      |       |
| Storage                   | 3125                     | 2597      |          | 1669   |       | 1669     | 17.3             | 18.5     | \$0         | \$90        | \$0        | \$150,210   | \$150,210      |       |
| Mechanical / Chase        | 3128                     | 844       |          | 2577   |       | 2577     | 17.3             | 28.6     | \$0         | \$90        | \$0        | \$231,930   | \$231,930      |       |
| Circulation               | 2723                     | 9302      |          | 11928  | 318   | 12246    | 150.4            | 136.1    | \$150       | \$100       | \$0        | \$1,192,800 | \$1,192,800    |       |
| Beauty                    | 502                      | 502       | 100      | n/a    |       | 100      | 2.8              | 1.1      | \$168       | \$0         | \$16,800   | \$0         | \$16,800       |       |
| Country Store             | 1485                     | 1485      |          | 172    |       | 172      | 8.2              | 1.9      | \$174       | \$125       | \$0        | \$21,500    | \$21,500       |       |
| Bistro                    |                          |           |          |        |       | 0        | 0                | 0        | \$0         | \$0         | \$0        | \$0         | \$0            |       |
| Balcony/Canopy            | 2234                     | 2234      | 749      | n/a    |       | 749      | 12.3             | 8.3      | \$155       | \$0         | \$116,095  | \$0         | \$116,095      |       |
| Totals                    | 120449                   | 47997     | 3675     | 54569  | 2578  | 60822    | 665.4            | 675.8    | Subtotal    |             | \$599,617  | \$6,132,286 | \$6,731,903    |       |
|                           |                          |           |          |        |       |          | 10 % Contingency |          |             |             | \$59,962   | \$613,229   | \$673,190      |       |
|                           |                          |           |          |        |       |          | Total            |          |             |             | \$659,579  | \$6,745,515 | \$7,405,093    |       |

Skilled Nursing Facility SF Cost (not including contingency) \$163.16 \$112.38 \$115.58  
 Skilled Nursing Facility SF Cost (including contingency) \$179.48 \$123.61 \$127.14

Pleasant View Luther Home - Assisted/Independent Living Services  
 Certificate of Need Application  
 Table Q  
 Review Criterion 1120.310(c) - Reasonableness of Project and Related Costs

| Department/Area           | ASSISTED/INDEPENDENT LIVING SERVICES |         |       |          |       |       |             |       |                  |       | Grand Total \$ |            |             |
|---------------------------|--------------------------------------|---------|-------|----------|-------|-------|-------------|-------|------------------|-------|----------------|------------|-------------|
|                           | Existing                             |         |       | Proposed |       |       | Cost / sqft |       |                  |       |                | Total Cost |             |
|                           | Total                                | Vacated | New+  | Mod.*    | As-Is | Total | New         | Mod.* | New              | Mod.* |                | New        | Mod.*       |
| Resident Units            | 38836                                |         | 15532 |          |       | 15532 |             | \$162 | \$122            |       | \$2,516,184    | \$0        | \$2,516,184 |
| Resident Baths (SNF)      |                                      |         | 0     |          |       | 0     |             | \$0   | \$134            |       | \$0            | \$0        | \$0         |
| Administrative            |                                      |         | 2408  |          |       | 2408  |             | \$166 | \$120            |       | \$399,728      | \$0        | \$399,728   |
| Laundry                   |                                      |         | 0     |          |       | 0     |             | \$0   | \$95             |       | \$0            | \$0        | \$0         |
| Kitchen/Food Prep         |                                      |         |       | 293      | 2031  | 2324  |             | \$0   | \$115            |       | \$0            | \$33,695   | \$33,695    |
| Chapel                    |                                      |         | 960   |          |       | 960   |             | \$198 | \$0              |       | \$190,080      | \$0        | \$190,080   |
| Fitness                   |                                      |         | 467   |          |       | 467   |             | \$159 | \$0              |       | \$74,253       | \$0        | \$74,253    |
| Activity                  |                                      |         | 345   |          |       | 345   |             | \$159 | \$114            |       | \$54,855       | \$0        | \$54,855    |
| Dining                    |                                      |         |       | 3053     |       | 3053  |             | \$0   | \$128            |       | \$0            | \$390,784  | \$390,784   |
| Sitting / Living / Parlor |                                      |         | 1425  |          |       | 1425  |             | \$167 | \$128            |       | \$237,975      | \$0        | \$237,975   |
| Physical Therapy / Exam   |                                      |         |       | 809      |       | 809   |             | \$0   | \$100            |       | \$0            | \$80,900   | \$80,900    |
| Spa / Restrooms           |                                      |         | 267   | 154      |       | 421   |             | \$160 | \$115            |       | \$42,720       | \$17,710   | \$60,430    |
| Staff Support / Maint.    |                                      |         | 2323  |          |       | 2323  |             | \$150 | \$95             |       | \$348,450      | \$0        | \$348,450   |
| Storage                   |                                      |         |       |          |       | 0     |             | \$0   | \$90             |       | \$0            | \$0        | \$0         |
| Mechanical / Chase        |                                      |         |       |          |       | 0     |             | \$0   | \$90             |       | \$0            | \$0        | \$0         |
| Circulation               |                                      |         | 7028  |          |       | 7028  |             | \$150 | \$100            |       | \$1,054,200    | \$0        | \$1,054,200 |
| Beauty                    |                                      |         | 213   |          |       | 213   |             | \$168 | \$0              |       | \$35,784       | \$0        | \$35,784    |
| Country Store             |                                      |         |       | 366      |       | 366   |             | \$0   | \$125            |       | \$0            | \$45,750   | \$45,750    |
| Bistro                    |                                      |         | 527   | 635      |       | 1162  |             | \$174 | \$125            |       | \$91,698       | \$79,375   | \$171,073   |
| Balcony/Canopy            |                                      |         | 1593  |          |       | 1593  |             | \$155 | \$0              |       | \$246,915      | \$0        | \$246,915   |
| Totals                    | 38836                                | 0       | 33088 | 5310     | 2031  | 40429 |             |       | Subtotal         |       | \$5,292,842    | \$648,214  | \$5,941,056 |
|                           |                                      |         |       |          |       |       |             |       | 10 % Contingency |       | \$529,284      | \$64,821   | \$594,106   |
|                           |                                      |         |       |          |       |       |             |       | Total            |       | \$5,822,126    | \$713,035  | \$6,535,162 |

AL/IL SF Cost (not including contingency) \$159.96 \$122.07 \$154.72  
 AL/IL SF Cost (including contingency) \$175.96 \$134.28 \$170.20

### SECTION III. GENERAL REVIEW CRITERIA

This section is applicable to all projects EXCEPT those projects that are solely for discontinuation with no project costs and those projects that are non-substantive and subject only to a Part 1120 review. Refer to Part 1110.40 for the requirement for non-substantive projects.

#### A. Criterion 1110.230(a), Location

Check if the project will result in any of the following:  establishment of a health care facility;  establishment of a category of service;  acquisition of major medical equipment (for treating inpatients) that is not or will not be located in a health care facility and is not being acquired by or on behalf of a health care facility. If NO boxes are checked, this criterion is not applicable. If any box is checked, read the criterion and submit the following: N/A

1. A map (8 ½ " x 11") of the area showing:
  - a. the location of the applicant's facility or project;
  - b. the name and location of all the other facilities providing the same service within the planning area and surrounding planning areas within 30 minutes travel time of the proposed facility;
  - c. the distance (in miles) and the travel time (under normal driving conditions) from the applicant's facility to each of the facilities identified in b. above;
  - d. an outline of the proposed target population area.
2. For existing facilities, provide patient origin data for all admissions for the last 12 months presented by zip code. Note this information must be based upon the patient's legal residence other than a health care facility for the last 6 months immediately prior to admission. For all other projects for which referrals are required patient origin data for the referrals must be provided.
3. The ratio of beds to population (population will be based upon the latest census data by zip code) within 30 minutes travel time of the proposed project.
4. The status of the project in the zoning process. Provide letter(s) from the appropriate local officials.
5. Evidence of legal site ownership, possession, or option to purchase or lease.

**APPEND DOCUMENTATION AS ATTACHMENT GRC-1 AFTER THE LAST PAGE OF THIS SECTION.**

**B. Criterion 1110.230(b), Background of Applicant**

Read the criterion and submit the following information:

1. A listing of all health care facilities owned or operated by the applicant, including licensing, certification and accreditation identification numbers, if applicable.
2. Proof of current licensing and, if applicable, certification and accreditation of all health care facilities owned or operated by the applicant.
3. A certification from the applicant listing any adverse action taken against any facility owned or operated by the applicant during the three (3) years prior to the filing of the application.
4. Authorization(s) permitting the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of this subsection or to obtain any documentation or information that the State Board or Agency finds pertinent to this subsection. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any action by the State Board.**

**APPEND DOCUMENTATION AS ATTACHMENT GRC-2 AFTER THE LAST PAGE OF THIS SECTION.**

**C. Criterion 1110.230(c), Alternatives to the Proposed Project**

Read the criterion and provide the following information:

1. Provide a comparison of all of the alternatives considered including the alternative of doing nothing. The comparison must address cost benefit analyses, patient access, quality, and short and long-term financial benefits.
2. Discuss why the alternative of using other area facilities or resources to meet the needs identified in your project is not feasible.
3. Discuss why the alternative of utilizing underutilized bed or other space in the facility is not feasible.
4. If the alternative selected is based solely or in part on improved quality of care, provide empirical evidence (including quantified outcome data) that verifies improved quality of care.

**APPEND DOCUMENTATION AS ATTACHMENT GRC-3 AFTER THE LAST PAGE OF THIS SECTION.**



**D. Criterion 1110.230(d), Need for the Project**

Is the need for the project based upon need assessment per Part 1100 or a variance? N/A

Yes  No

If no is indicated, read the criterion and submit the following as applicable:

1. Copies of area market studies including explanations regarding how and when these studies were performed.
2. Calculation of the need for the beds or services including the models used to estimate the need (all assumptions used in the model and the mathematical calculations must be included).
3. Identification of the individuals likely to use the proposed beds or service by:  
  
Provide letters from physicians or hospitals which document how many patients were referred for this service in the past 12 months, where the patients were referred and how many patients will be referred annually to the proposed project.
4. If the project is for the acquisition of major medical equipment that does NOT result in the establishment of a category of service, provide documentation that the equipment will achieve or exceed the applicable target utilization levels specified in Appendix B of Part 1110 within 12 months after acquisition.

**APPEND DOCUMENTATION AS ATTACHMENT GRC-4 AFTER THE LAST PAGE OF THIS SECTION.**

**E. Criterion 1110.230(e), Size of Project**

Read the criterion and provide the following:

1. For any department involved in this project that has a square footage which exceeds the State Norm found in Appendix B of Part 1110 or if no State Norm is shown in Appendix B, provide:
  - a. a rationale explaining how the proposed square footage was determined;
  - b. copies of any standards used to determine appropriate square footage;
  - c. architectural drawings showing any design impediments in the existing facility; and
  - d. if the project is for the conversion of beds from one category of service to another an explanation as to why the excess space within the facility cannot be more appropriately used for other purposes.

**APPEND DOCUMENTATION AS ATTACHMENT GRC-5 AFTER THE LAST PAGE OF THIS SECTION.**

2. If the project involves a category of service for which the State Board has established utilization targets, provide the following:
  - a. projected utilization for the first two years of operation after project completion;
  - b. an explanation regarding how these projections were developed;
  - c. copies of any contracts with new physicians or professional staff;
  - d. a list of any new procedures which will affect the workload of the facility.

**APPEND DOCUMENTATION AS ATTACHMENT GRC-6 AFTER THE LAST PAGE OF THIS SECTION.**

**HEALTH CARE FACILITIES  
OWNED AND OPERATED BY  
LUTHERAN LIFE COMMUNITIES**

The following health care facilities are owned and operated by Lutheran Life Communities. The addresses and license numbers for each health care facility listed below are set forth on the license for each facility attached to this Application as part of Attachment GRC-2.

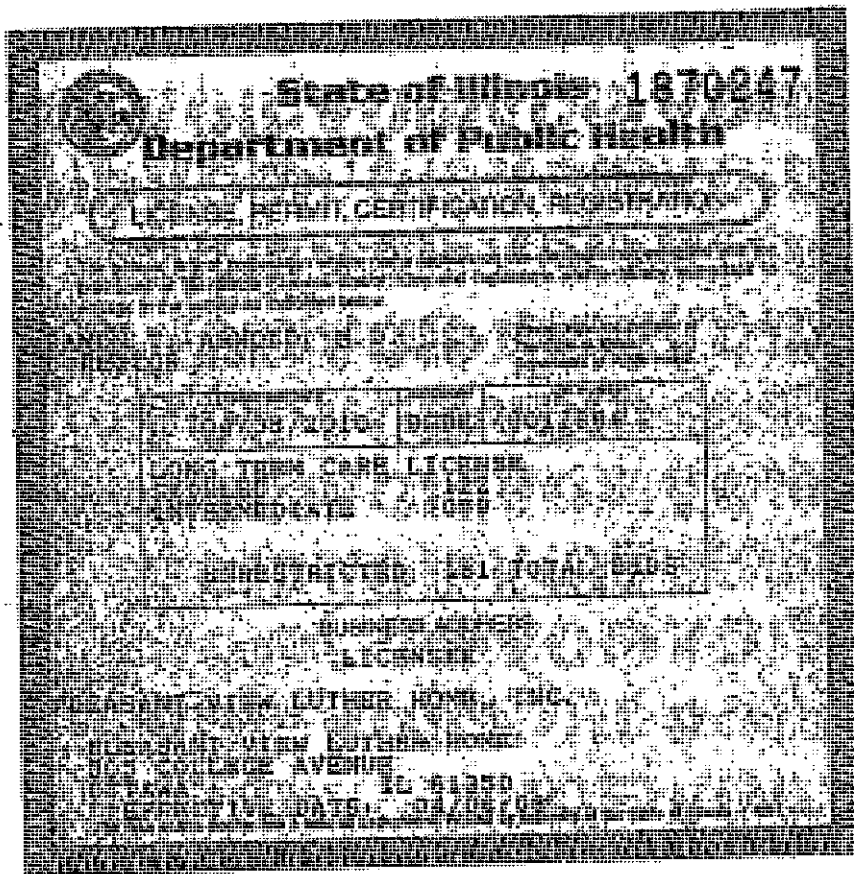
1. Lutheran Home for the Aged, Inc.
2. Wittenberg Lutheran Village, Inc.
3. Pleasant View Luther Home, Inc.
4. Luther Oaks Senior Living
5. St. Paul's House & Healthcare Center
6. Lutheran Home Health Services

**ATTACHMENT GRC-2**

**HEALTH CARE FACILITIES  
OWNED AND OPERATED BY  
PLEASANT VIEW LUTHER HOME, INC.**

1. Pleasant View Luther Home, Inc.

**ATTACHMENT GRC-2**



ATTACHMENT GRC-2



State of Illinois 1804005

Department of Public Health

LICENSE PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

ERIC E. WHITAKER, M.D.  
DIRECTOR

Issued under the authority of  
The State of Illinois  
Department of Public Health

| SERIAL DATE                 | CATEGORY | IC NUMBER |
|-----------------------------|----------|-----------|
| 04/05/2009                  | BGBE     | 0005090   |
| LONG TERM CARE LICENSE      |          |           |
| SKILLED                     | 262      |           |
| INTERMEDIATE                | 060      |           |
| SHELTERED                   | 070      |           |
| UNRESTRICTED 392 TOTAL BEDS |          |           |

BUSINESS ADDRESS  
LICENSEE

LUTHERAN HOME FOR THE AGED, INC.

LUTHERAN HOME FOR THE AGED  
500 WEST OAKTON STREET  
ARLINGTON HTS. IL 60004  
EFFECTIVE DATE: 04/06/07

This copy of this license has a colored background. Printed by Authority of the State of Illinois - 4/07

# Indiana State Department of Health

## Comprehensive Care License

*This is to certify that:*

WITTENBERG LUTHERAN VILLAGE, INC. d/b/a  
WITTENBERG LUTHERAN VILLAGE  
1200 EAST LUTHER DRIVE  
CROWN POINT, IN

31


*a 155 bed Comprehensive Care Facility, has fulfilled the requirements for licensure and is subject to provisions IC 16-28 and the rules of the Indiana State Department of Health issued thereunder.*

*This license shall not be assignable or transferable, and shall be subject to revocation, replacement, or reduction at any time by the Indiana State Department of Health for failure to comply with the laws of the State of Indiana or the rules of the Indiana State Department of Health issued thereunder.*

*License number 08-000515-1 is effective January 1, 2008 and expires December 31, 2008.*



ATTACHMENT GRC-2

  
SUZANNE HORNSTEIN, MSW  
Director  
Long Term Care

SDH 25-028  
State Form 44876 (03/5-05)  
HEA.PAC/CERT

DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 1866136  
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

This person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

DAMON T. ARNOLD, M.D.  
DIRECTOR

Issued under the authority of  
The State of Illinois  
Department of Public Health

| EXPIRATION DATE | CATEGORY | LD NUMBER |
|-----------------|----------|-----------|
| 02/27/2009      | Initial  | 8102842   |

ASSISTED LIVING LICENSE  
 Issued: 02/27/08  
 18 Alzheimer Units  
 40 Regular Units  
 58 Total Units

BUSINESS ADDRESS  
STATUS: UNRESTRICTED  
LICENSEE BUSINESS ADDRESS

LUTHER OAKS SENIOR LIVING  
601 LUTZ ROAD  
BLOOMINGTON IL 61704

This form of this license was prepared by computer. Printed by authority of the State of Illinois. 4/07

State of Illinois 1866136  
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

| EXPIRATION DATE | CATEGORY | LD NUMBER |
|-----------------|----------|-----------|
| 02/27/2009      | Initial  | 8102842   |

ASSISTED LIVING LICENSE

18 Alzheimer Units  
40 Regular Units  
58 Total Units

02/27/08

LUTHER OAKS SENIOR LIVING  
601 LUTZ ROAD  
BLOOMINGTON IL 61704

FEE RECEIPT NO.





State of Illinois 1848106

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

DAMON T. ARNOLD, M.D.  
DIRECTOR

Issued under the authority of  
The State of Illinois  
Department of Public Health

| EXPIRATION DATE             | CATEGORY | ID NUMBER |
|-----------------------------|----------|-----------|
| 10/31/2008                  | BGBE     | 0005165   |
| LONG TERM CARE LICENSE      |          |           |
| SKILLED                     | 110      |           |
| SHELTERED                   | 068      |           |
| UNRESTRICTED 178 TOTAL BEDS |          |           |

BUSINESS ADDRESS  
LICENSEE

ST. PAULS HOUSE

ST PAUL'S HOUSE & HLTH CR CTR  
3800 NORTH CALIFORNIA AVENUE  
CHICAGO IL 60618

EFFECTIVE DATE: 11/01/07

The face of this license has a color-coded background. Printed by Authority of the State of Illinois - 4/07

ATTACHMENT GRC-2



**State of Illinois 1856292**  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

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**DAMON T. ARNOLD, M.D.**  
**DIRECTOR**

Issued under the authority of  
 The State of Illinois  
 Department of Public Health

|   |                 |                        |
|---|-----------------|------------------------|
| EXPIRATION DATE<br>12/31/08   | CATEGORY<br>073 | ILL. NUMBER<br>1010284 |
| <b>**HOME HEALTH AGENCY LICENSES**</b><br><b>SKILLED NURSING**SPEECH THERAPY</b><br><b>PHYSICAL THERAPY *****</b><br><b>OCCUPATIONAL THERAPY *****</b><br><b>*****</b><br><b>HOME HEALTH AIDE *****</b> |                 |                        |

**BUSINESS ADDRESS**

LUTHERAN HOME HEALTH SERVICES  
 3150 SALT CREEK LANE  
 ARLINGTON HTS IL 60005

This form of this license has a colored background. Printed by Authority of the State of Illinois • 457 •

DISPLAY THIS PART IN A  
 CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN  
 IDENTIFICATION

State of Illinois **1856292**  
 Department of Public Health  
 LICENSE, PERMIT, CERTIFICATION, REGISTRATION

|   |                 |                        |
|---|-----------------|------------------------|
| EXPIRATION DATE<br>12/31/08   | CATEGORY<br>073 | ILL. NUMBER<br>1010284 |
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12/08/07

LUTHERAN HOME HEALTH SERVICES  
 3150 SALT CREEK LANE  
 ARLINGTON HGTS IL 60005

FEE RECEIPT NO. 022757

September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Pleasant View Permit Application

Dear Mr. Mark:

Please be advised that no adverse action as defined under Section 1110.230(b)(2)(A) of the Planning Board Rules has been taken against Pleasant View Luther Home, Inc. or against any health care facility owned or operated by it, directly or indirectly, within three (3) years preceding the filing of the permit application.

Sincerely,

PLEASANT VIEW LUTHER HOME, INC.

Signature:



Print Name: ROGER W. PAULSBERG

Title: PRESIDENT/CEO  
& CHAIRMAN OF THE BOARD OF DIRECTORS

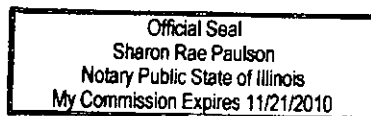
Notarization:

Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008



Signature of Notary Public

Seal



September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Lutheran Life Communities Permit Application

Dear Mr. Mark:

Please be advised that no adverse action as defined under Section 1110.230(b)(2)(A) of the Planning Board Rules has been taken against Lutheran Life Communities, or against any health care facility owned or operated by it, directly or indirectly, within three (3) years preceding the filing of the permit application.

Sincerely,

LUTHERAN LIFE COMMUNITIES

Signature:



Print Name: ROGER W. PAULSBERG

Title: PRESIDENT/CEO  
& MEMBER OF THE BOARD OF DIRECTORS

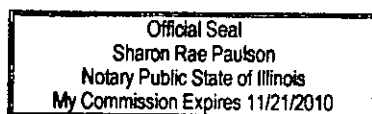
Notarization:

Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008



Signature of Notary Public

Seal



September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

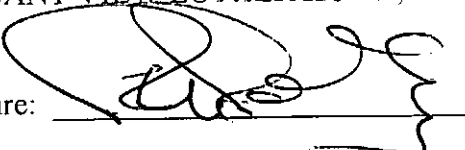
Re: Pleasant View Permit Application

Dear Mr. Mark:

I hereby authorize the State Board and State Agency access to information from any licensing/certification agency in order to verify any and all documentation or information submitted in relation to this permit application. I further authorize the Illinois Department of Public Health to obtain any additional documentation or information that said agency deems necessary for the review of the application as it pertains to Section 1110.230(d)(4)(D) of the Planning Board Rules.

Sincerely,

PLEASANT VIEW LUTHER HOME, INC.

Signature: 

Print Name: ROGER W. PAULSBERG

Title: PRESIDENT/CEO  
& CHAIRMAN OF THE BOARD OF DIRECTORS

September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

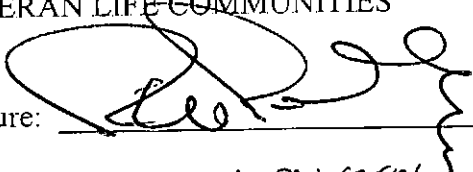
Re: Lutheran Life Communities Permit Application

Dear Mr. Mark:

I hereby authorize the State Board and State Agency access to information from any licensing/certification agency in order to verify any and all documentation or information submitted in relation to this permit application. I further authorize the Illinois Department of Public Health to obtain any additional documentation or information that said agency deems necessary for the review of the application as it pertains to Section 1110.230(d)(4)(D) of the Planning Board Rules.

Sincerely,

LUTHERAN LIFE COMMUNITIES

Signature: 

Print Name: ROGER W. PAULSBERG

Title: PRESIDENT/CEO  
& MEMBER OF THE BOARD OF DIRECTORS

**PLEASANT VIEW  
CON APPLICATION  
§ 1110.230(c) ALTERNATIVES**

The Applicants considered the following alternatives to the proposed project:

1. Do nothing;
2. Close the entire facility and sell the property for other development;
3. Demolish the existing facility and construct a new replacement facility; and
4. Proceed with the current plan.

**ALTERNATIVE 1: DO NOTHING**

Pleasant View Luther Home was founded in 1937 on the former campus of Luther College by local congregations who saw the need for a retirement community to serve the elderly in a faith-based environment. At that time, Pleasant View had 11 residents. In 1957, an infirmary was added, which included a physician's office, a bathing room and space for 14 more residents. A major addition was completed in 1962 which provided nursing care. This addition included a new kitchen, dining room, chapel and therapy facilities and increased the number of residents who could be served to 149. In 1975, a facility was built to accommodate up to 162 residents in need of intermediate or skilled nursing care. Pleasant View has grown to become a leading provider of senior housing and health care services in the Ottawa area.

What were once modern, up-to-date facilities, additions and renovations in the '50s, '60s and '70s are now outdated and verging on obsolete. The main building which houses the skilled nursing care is at the end of its functional life. The infrastructure of the main building is in serious need of updating: plumbing and mechanical systems are consistently breaking down and need to be completely replaced, many residents are without air-conditioning and one elevator is completely out of service, due to structural problems. Utility costs to run the building are high

and keep rising as the building becomes less energy efficient with age. Pleasant View is providing quality care in an old building and dated facilities, which have not kept pace with the level of care provided. Additionally, the provision of services at Pleasant View has been focused on the traditional, medical model of care in an industry that has rapidly focused on a residential model of care based on privacy, respect and dignity of the resident.

The main building is currently licensed for 181 skilled and intermediate nursing beds. Current architectural impediments do not allow the intermediate care beds to qualify for licensure as skilled nursing beds. A significant amount of residents who currently occupy the intermediate beds have more short-term rehabilitation needs and could qualify for assisted living care, however no assisted living facilities currently exist at Pleasant View. These inabilities and structural shortcomings preclude Pleasant View from providing the level of care required and needed by its residents.

There has been a long recognized need to modernize Pleasant View's existing facilities. According to a recent Pleasant View resident survey, one resident stated "*There is a need to upgrade Pleasant View Luther Home's facilities. Their care is the best, but the facilities and amenities have not kept pace with the demands of residents and their families. Now is the time to bring the facilities on par with care.*" In 2003, Pleasant View commissioned a long-range plan for the modernization of the facilities, however, a series of operating losses coupled with the significant cost of modernization left Pleasant View without the financial resources to accomplish the long-term plan of modernization. However, when Pleasant View became part of the Lutheran Life Communities System, Lutheran Life brought with it the financial ability to effect the modernization. In fact, one of the reasons Pleasant View's Board of Directors decided



to become part of the Lutheran Life Communities system was so that these much-needed and long planned for renovations could be finally realized.

The alternative of doing nothing was rejected because making no repairs or alterations to the existing facility simply is not an option in light of the extensive renovations needed and required for Pleasant View.

**ALTERNATIVE 2: CLOSE THE EXISTING FACILITY AND SELL THE PROPERTY FOR OTHER DEVELOPMENT**

Another alternative Pleasant View considered was to discontinue the facility, and sell the property for development.

While this alternative may be economically prudent, a permanent closure of the facility would force 144 residents out of their home. The residents would be displaced from their homes and their care givers, causing stress not only for the residents, but for their families. The closure would curtail quality skilled nursing care in the community and would fail to meet the assisted living needs of the existing residents.

Even though this alternative may have been economically sound, it was rejected because it was inconsistent with the faith-based mission of the Pleasant View organization to care for the needs of the elderly.

**ALTERNATIVE 3: DEMOLISH THE EXISTING FACILITY AND BUILD A NEW FACILITY**

Another alternative considered by Pleasant View was to tear down the existing facility and to construct a completely new facility.

As discussed in Alternative 1, the main building is at the end of its functional life, and therefore, the Pleasant View Board of Directors considered this alternative in great detail. This alternative was in fact Pleasant View's initial plan to improve its delivery of nursing services in the community. However, after considerable time was spent with the architects and financial

advisors, this alternative proved to be cost-prohibitive. The construction cost of a completely new facility is estimated at \$13,500,000, almost two times the construction cost to modernize the facility, which equals \$6,731,903. Total project costs for the new facility were not determined. Total project costs for modernization equal \$22,168,058.

This alternative was rejected because the cost of this alternative was too high.

#### **ALTERNATIVE 4: PROCEED WITH PROPOSED PLAN**

This alternative contemplates a major modernization of the facility. As part of the proposed project, Pleasant View will reduce its nursing beds from 181 to 90, and will construct 24 new assisted living units adjoining the skilled facility.

The proposed plan moves towards a cutting-edge concept in retirement communities: the “household” model of care. Traditionally, skilled nursing facilities have consisted of approximately 100 – 250 beds, set in long corridors and housed in a medical and institutional setting, both in terms of architecture and philosophy of care. Traditional skilled nursing facilities focus primarily on delivery of services and less on privacy, personal dignity and choice of each individual resident. The proposed project at Pleasant View departs from the traditional skilled nursing facility model (which reminds many of a hospital setting and of illness) and focuses on providing residents with a more open and home-like model than the traditional model. Private accommodations, each with its own toilet and sink, are arranged in a cluster-like setting and surround the common areas of the facility, such as the community kitchen, dining area and living area, anchored by the hearth, or fire-place. The clusters surround and facilitate access to the common or “community” areas of the facility. More areas for resident programs are provided (e.g., chapel, sitting parlors, library, activity room, fitness center, business center private dining room and bistro) and each area will be smaller than in the traditional model to foster a warmer and less institutional setting. Distance from resident rooms to community areas is reduced to

foster resident mobility and socializing. This model of care provides residents with home-like environment and greater sense of community and well-being while still providing the residents with access to appropriate levels of quality medical care.

The current need of Pleasant View residents is for fewer nursing beds and more assisted living care. The proposed plan reduces the number of skilled beds from 181 to 90, demolishes all intermediate skilled beds, and creates 24-mixed use apartments which will be attached to the main building. The apartments will be licensed as assisted living and could serve Pleasant View's growing independent living community if necessary. A number of residents currently housed in intermediate care will be moved to the newly-constructed assisted living apartments where they will receive care better suited for their levels of need in a less medical environment.

The project construction and renovation will occur in carefully planned stages to ensure that no residents will be displaced and without a home during the entirety of the project.

As stated previously, the main building was constructed in 1975 and has reached the end of its functional life. The proposed improvements include: roof replacement, replacement of old single pane windows with thermal pane windows, to minimize heat gain and to restrict glare (in consideration of the sight needs of the residents), low water usage plumbing fixtures with accessible faucets, energy efficient lighting replacement, which will not only conserve energy but will improve the quality of lighting throughout the facilities as well, new heating equipment and replacement of the existing air handling equipment. Additionally, wander control, emergency nurse call, emergency lighting and power and fire alarm systems will be improved and updated. These renovations will provide a higher level of energy efficiencies and will improve life safety systems throughout the facilities, which in turn improve the levels of service and comfort for the residents.

In light of the state of the current facilities and main building at Pleasant View and given Pleasant View's desire to provide its residents the highest quality of care in a household model. Pleasant View determined the proposed plan, and, at this size, is the best, most cost-effective alternative.

**Pleasant View  
 Alternatives to the Proposed Project  
 Cost/Benefit Analysis**

| ALTERNATIVE   | COSTS   | BENEFITS/LIMITATIONS  |
|---|---|---|
| <p><b>1. Do Nothing</b></p>   | <p>1. Short-term capital expense to compensate for deferred maintenance. Range of \$3,000,000 estimated over next 5 years to address basic infrastructure alone.</p> <p>2. Long-term capital expenses will still be required to address building and facility issues.</p> <p>3. Increased rate of operating costs due to inefficient building and facility systems.</p> | <p>1. Does not address fundamental problems:</p> <ul style="list-style-type: none"> <li>--Obsolete building and facilities.</li> <li>--Inability to provide level of care required by residents.</li> <li>--Inconsistent with mission of Pleasant View to provide for its elderly community</li> </ul>    |
| <p><b>2. Close Facility and Sell the Property for Other Development</b></p>   | <p>1. Little financial cost</p>   | <p>1. Economically attractive</p> <p>2. Inconsistent with the mission of Pleasant View.</p> <p>3. Displacement of residents from their homes.</p>   |
| <p><b>3. Demolish All Existing Buildings and Construct a New Facility</b></p> | <p>1. Projected construction cost of new SNF equals \$13,500,000 compared to \$6,731,903 for modernization</p>  | <p>1. Cost prohibitive</p>  |
| <p><b>4. Proceed with Proposed Plan</b></p>                                   | <p>1. Project cost equals \$22,168,058.</p>   | <p>1. Only alternative which addresses all issues:</p> <ul style="list-style-type: none"> <li>--Modern facilities</li> <li>--Access to more levels of service</li> <li>--Residential model of care</li> <li>--Consistent with mission of Pleasant View.</li> </ul> <p>2. Most cost effective solution</p> |

**PLEASANT VIEW  
CON APPLICATION  
§1110.230(e) SIZE OF PROJECT**

Size of Existing Facility. Originally established in 1937 on the former Luther College site in Ottawa, the Pleasant View retirement community now consists of a 181-bed licensed facility and 34 separate independent living townhomes and duplexes. The main building, which is the subject of the proposed modernization project, is a 4-story building, with 2 attached 1-story “wings”. The 4-story section of the main building houses 112 skilled nursing care beds in 72,452 gross square feet. The wings attached to the main building house 69 intermediate skilled care beds in approximately 47,997 gross square feet. The proposed project contemplates a complete renovation of the main 4-story building and demolition of the intermediate care wings. The intermediate care wings will be demolished and replaced with a newly-constructed assisted living care facility attached to the main 4-story building. The skilled beds will be reduced from 121 to 90 and the number of intermediate care beds will be reduced from 69 to 0. The proposed size of the renovated 4-story, nursing building is 60,822 gross square feet. The proposed gross square footage of the newly-constructed assisted living facility is 30,018. The current square footage of the existing nursing facility is 120,449 gross square feet. The present nursing care component equates to 665.4 gsf per bed and will increase only 10 gsf / bed to 675.8 gross square feet per bed upon project completion.

| SKILLED NURSING FACILITY  |               |              |             |              |             |              |                   |              |
|---------------------------|---------------|--------------|-------------|--------------|-------------|--------------|-------------------|--------------|
| Department/Area           | Existing      |              | Proposed    |              |             |              | Existing Sqft/Bed | New Sqft/Bed |
|                           | Total         | Vacated**    | New+        | Mod.*        | As-Is       | Total        |                   |              |
| Resident Units            | 37576         | 15810        |             | 20346        |             | 20346        | 207.6             | 226.1        |
| Resident Baths (SNF)      | 5484          | 1985         |             | 4200         |             | 4200         | 30.3              | 46.7         |
| Administrative            | 4869          | 4081         | 1131        | 372          |             | 1503         | 26.9              | 16.7         |
| Laundry                   | 1991          |              |             | 1548         | 1306        | 2854         | 11                | 31.7         |
| Kitchen/Food Prep         | 3158          |              |             | 509          | 954         | 1463         | 17.4              | 16.3         |
| Chapel                    | 1267          | 1267         | 451         | n/a          |             | 451          | 7                 | 5            |
| Fitness                   | 1364          | 742          | 149         | n/a          |             | 149          | 7.5               | 1.7          |
| Activity                  | 5434          | 1103         | 193         | 2059.5       |             | 2252.5       | 30                | 25           |
| Dining                    | 5611          | 1284         |             | 2059.5       |             | 2059.5       | 31                | 22.9         |
| Sitting / Living / Parlor | 6307          | 1504         |             | 945          |             | 945          | 34.8              | 10.5         |
| Physical Therapy / Exam   | 2623          | 812          |             | 380          |             | 380          | 14.5              | 4.2          |
| Spa/ Restrooms            | 2205          | 683          |             | 1593         |             | 1593         | 12.2              | 17.7         |
| Staff Support / Maint.    | 4863          | 1762         | 902         | 4211         |             | 5113         | 26.9              | 56.8         |
| Storage                   | 3125          | 2597         |             | 1669         |             | 1669         | 17.3              | 18.5         |
| Mechanical / Chase        | 3128          | 844          |             | 2577         |             | 2577         | 17.3              | 28.6         |
| Circulation               | 27223         | 9302         |             | 11928        | 318         | 12246        | 150.4             | 136.1        |
| Beauty                    | 502           | 502          | 100         | n/a          |             | 100          | 2.8               | 1.1          |
| Country Store             | 1485          | 1485         |             | 172          |             | 172          | 8.2               | 1.9          |
| Bistro                    |               |              |             |              |             | 0            | 0                 | 0            |
| Balcony/Canopy            | 2234          | 2234         | 749         | n/a          |             | 749          | 12.3              | 8.3          |
| <b>Totals</b>             | <b>120449</b> | <b>47997</b> | <b>3675</b> | <b>54569</b> | <b>2578</b> | <b>60822</b> | <b>665.4</b>      | <b>675.8</b> |

+ New construction, including envelope

\* Modernized, updated, renovated, remodeled, etc. Utilizes existing building shell

\*\* Includes former spaces devoted to "Intermediate Care"

The main 4-story building serves as the central building on the campus. The project includes construction of some new space on the ground floor for functional space shared with the non-skilled portion of the campus. These areas include administrative space, some kitchen and dining area, chapel space, fitness and therapy space, library and other spaces (see architectural drawing for first floor as attached in GRC-4). This shared space has been allocated between licensed and unlicensed areas. The chart above and in Table Q reflect the allocated square footage among these areas.

Constraints of Existing Architecture. As discussed further in Alternatives section GRC-3 of this application, the Pleasant View Board of Directors considered demolishing the existing building and constructing a completely new skilled nursing facility from the ground up. Building a total replacement facility, however, proved to be cost-prohibitive. The most cost-effective alternative is to proceed with the proposed plan, which contemplates a demolition of the intermediate care “wings” and the complete renovation of the existing 4-story building. The renovation of the 4-story building includes clearing the existing structure essentially to its shell and renovating and modernizing the building within the original footprint. We have attached a floor plan which illustrates the original structure of the building, with the proposed renovations and modernizations. As illustrated on the floor plan, the gross square footage of each floor is approximately 18,243. On each floor, approximately 10,061 gross square feet is dedicated to community space, mechanical and electrical space and community and common areas. The remaining 8,182 gross square feet is allocated to resident rooms and bathrooms. There are 22 private rooms and 4 semi-private rooms per floor, for a total of 30 beds per floor. The actual square footage per resident room, inclusive of private bath, averages 272.8 gross square feet.

Although the square footage per bed exceeds the state standard, the proposed plan is constrained by the size of the existing structure. Replacing the skilled nursing beds on a 1:1 ratio of previously existing skilled beds would have reduced square footage per bed, but would have resulted in more beds than needed at this facility. In addition, had Pleasant View wanted to add additional skilled nursing care beds over the proposed 90, with private baths, the existing structural constraints would be cost-prohibitive. For example, plumbing chases would need to be built-out to provide any additional rooms with access to running water. This would have resulted in costly restructuring of the current plumbing system. In addition, electrical wiring systems













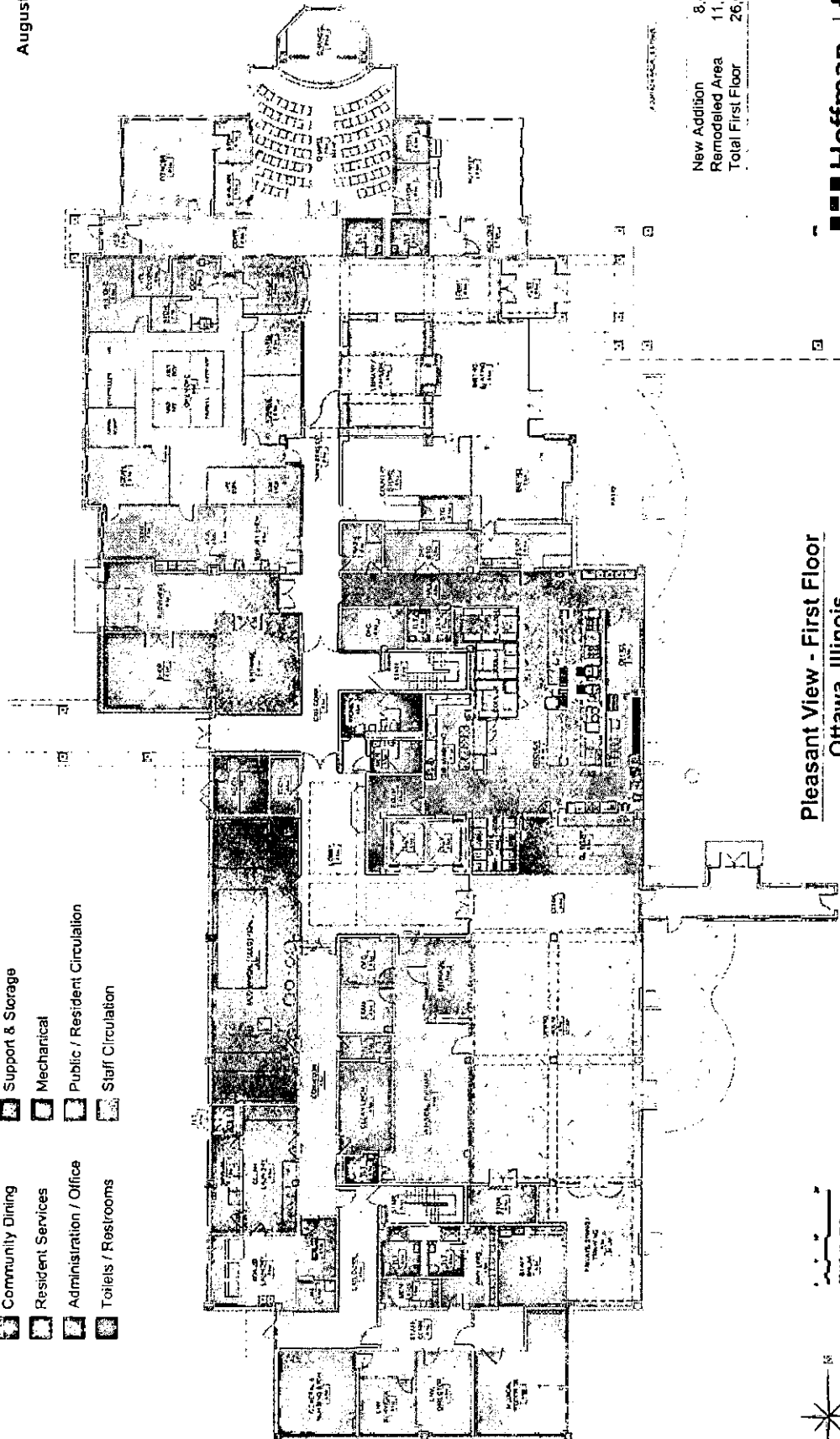
would need to be significantly reworked to provide electricity to additional rooms, which would also prove to be cost prohibitive. Therefore, the proposed project and its gross square footage essentially became a function of the space and structural constraints of the existing building shell within which Pleasant View had to work. For these reasons, the number of skilled nursing beds was reduced from 121 to 90 to better support the needs and size of its current population and its existing residents.

“Household” Size Explanation. Another sizing issue is that the currently existing building is configured in a traditional, medical model of care structure. To best serve residents’ desires, the existing building needed to be architecturally reconfigured to create a “residential” model of care. As discussed elsewhere in the application, as part of this modernization, the facility will be configured into 6 15-unit “households”. A consequence of the household care model is that Project Criterion does not take into consideration the redundancy inherent in this model. Given the private, homelike setting which is the cornerstone of this model, certain space redundancies exist. Each floor of the existing building will be converted to consist of two “households” per floor. Each household will consist of 11 private and 2 semi-private rooms. Each room will contain a fully-accessible private bathroom and toilet facilities. Each floor will contain a central warming pantry, a central staff office and rooms, two new rehabilitative spas, one residential style, community kitchen, dining room and activity room. Each floor will also provide two areas for resident and visitor seating, a janitor and utility room as well as state-mandated clean and soiled linen rooms. Given these space redundancies, gross square footage tends to be slightly higher in facilities providing services in a model of care.

Conclusion of Size Explanation. The current State Norm for nursing care facilities is 414 gross square feet per bed. While the proposed gross square footage per bed of the proposed

project is 675.8 and does exceed the State Norm, it is well within the size of projects previously approved by the Board. Furthermore, the existing gross square footage per skilled nursing bed is 665.4. The proposed gross square footage per bed reflects a modest increase of only 10.4 gsf per bed over the current size of the existing facility. Given the structural and architectural constraints of the proposed project, the resulting square footage per bed appears to present the most beneficial sizing from both a resident care and cost effectiveness perspective.

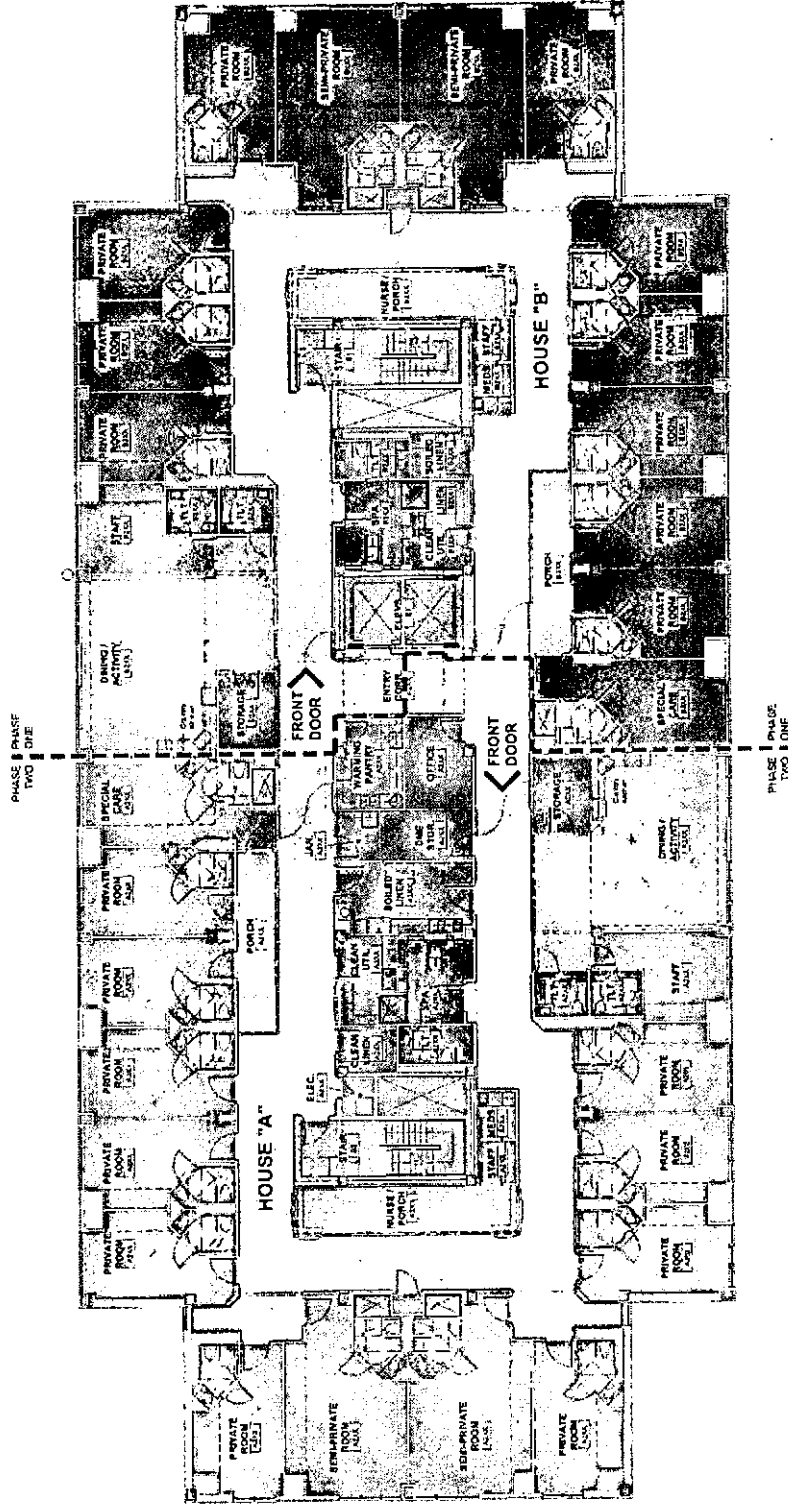
-  Community Center
-  Community Dining
-  Resident Services
-  Administration / Office
-  Toilets / Restrooms
-  Kitchen
-  Support & Storage
-  Mechanical
-  Public / Resident Circulation
-  Staff Circulation



New Addition 8,488sf  
Remodeled Area 11,770sf  
Total First Floor 26,677sf

**Pleasant View - First Floor**  
Ottawa, Illinois

- Neighborhood Spaces
- Country Kitchen
- Services and Support
- Common Toilets & Spas
- House "A"
- Neutral Zone
- House "B"
- Mechanical
- Circulation
- Resident Rooms
- Resident Toilets



Pleasant View - 2nd, 3rd, & 4th Floor  
Proposed Floor Plan

SCALE: 1/8" = 1'-0"



18,243 Total S.F.  
30 Beds/Floor

**Pleasant View Utilization**

|   | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>Projected 2010</u> | <u>Projected 2011</u> |
|---|-------------|-------------|-------------|-----------------------|-----------------------|
| Average Census*                                     | 173         | 125         | 144         | 85.5                  | 85.5                  |
| Licensed Beds                                       | 210         | 181         | 181         | 90                    | 90                    |
| Occupancy %   | 82.6%       | 69.1%       | 79.5%       | 95%                   | 95%                   |
| * Determined by dividing total patient days by 365. |             |             |             |                       |                       |
|   |             |             |             |                       |                       |
|   |             |             |             |                       |                       |
|   |             |             |             |                       |                       |

Our projections were developed based upon the historical and existing occupancy rates of the facility. We currently have 144 residents at Pleasant View. Approximately 18 residents qualify for and seek to move to assisted living on the campus upon completion of the project. The remaining residents will remain in skilled nursing care. The proposed project reduces the number of skilled nursing beds from 181 to 90. The expectation is that the facility will be full on the first day of project completion. Given resident admissions and discharges throughout the year, the census will never average 100% in any given year and we have projected a 95% occupancy rate ongoing.

**SECTION VII. REVIEW CRITERIA RELATING TO ALL MODERNIZATION PROJECTS (MOD)**

This section is applicable to all projects proposing modernization. Modernization includes, but is not limited to: expanding a department, acquiring major medical equipment, remodeling, or constructing additions or new buildings.

**A. Specific Information Requirements**

Indicate if the following areas or departments are to be modernized and provide the information as applicable.

- 1. AMBULATORY CARE (Include all outpatient clinics) -- Is this area being modernized?  
 Yes  No N/A

If yes, provide:

- a. The number of visits for each of the last three years:  
Year \_\_\_\_\_  
Number \_\_\_\_\_
- b. The number of treatment/examination rooms: Existing      Proposed

- 2. AMBULATORY SURGERY TREATMENT CENTERS-- Is this area being modernized?  
 Yes  No N/A

If yes, provide:

- a. The number of procedures for each of the last three years:  
Year \_\_\_\_\_  
Number \_\_\_\_\_
- b. The number of visits for each of the last three years:  
Year \_\_\_\_\_  
Number \_\_\_\_\_
- c. The number of operating rooms for each of the last three years:  
Year \_\_\_\_\_  
Number \_\_\_\_\_

- 3. CARDIAC CATHETERIZATION -- Is this area being modernized?  
 Yes  No N/A

If yes, provide the number of inpatient, outpatient, and total procedures (patient visits) performed on adults and on pediatric patients for each of the past three years:

| ADULT            | PEDIATRIC        |
|------------------|------------------|
| Year _____       | Year _____       |
| Inpatient _____  | Inpatient _____  |
| Outpatient _____ | Outpatient _____ |
| Total _____      | Total _____      |

4. EEG DEPARTMENT OR AREA -- Is this area being modernized? Yes No  
N/A

If yes, provide the number of inpatient, outpatient, and total procedures for each of the past three years:

Year \_\_\_\_\_  
 Inpatient \_\_\_\_\_  
 Outpatient \_\_\_\_\_  
 Total \_\_\_\_\_

5. EKG DEPARTMENT OR AREA -- Is this area being modernized? Yes No  
N/A

If yes, provide the number of inpatient, outpatient, and total procedures for each of the past three years:

Year \_\_\_\_\_  
 Inpatient \_\_\_\_\_  
 Outpatient \_\_\_\_\_  
 Total \_\_\_\_\_

6. HEMODIALYSIS SERVICES -- Is this area being modernized? Yes No N/A  
 If yes, provide the following information:

- a. The number of treatment stations: existing \_\_\_\_\_ proposed \_\_\_\_\_
- b. The number of treatments performed for each of the last three years:  
 Year \_\_\_\_\_  
 Treatments \_\_\_\_\_

7. LABOR-DELIVERY-RECOVERY -- Is this area being modernized? Yes  
No N/A

If yes, provide the following information:

- |                               |  |
|-------------------------------|--|
| a. The number of              | b. The number of procedures and deliveries for each of the last three years: |
| Labor rooms _____             | Year _____   |
| Delivery/birthing rooms _____ | Procedures _____   |
| Recovery stations _____       | Deliveries _____   |
| LDR's _____                   |  |
| LDRP rooms _____              |  |

8. LABORATORY SERVICES -- Is this area being modernized? Yes No N/A  
 If yes, provide the number of equivalent full-time employees (FTE's) employed in the laboratory \_\_\_\_\_

9. MAGNETIC RESONANCE IMAGING -- Is this area being modernized? Yes  
No N/A

If yes, provide the following information for each of the last three years:

Year \_\_\_\_\_  
 Number of visits \_\_\_\_\_  
 Number of scans \_\_\_\_\_

10. NURSERY (other than neonatal intensive care units) -- Is this area being modernized?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No N/A  
 If yes, provide the following for each of the last three years:  
 Year \_\_\_\_\_  
 Number of newborns \_\_\_\_\_  
 Number of patient days \_\_\_\_\_
11. OCCUPATIONAL THERAPY -- Is this area being modernized? Yes No N/A  
 If yes, provide the following information for each of the last three years:  
 Year \_\_\_\_\_  
 Inpatient treatments \_\_\_\_\_  
 Outpatient treatments \_\_\_\_\_  
 Number of visits \_\_\_\_\_
12. PHYSICAL THERAPY -- Is this area being modernized? Yes No N/A If yes, provide the following information for each of the last three years.  
 Year \_\_\_\_\_  
 Inpatient treatments \_\_\_\_\_  
 Outpatient treatments \_\_\_\_\_  
 Total treatments \_\_\_\_\_  
 Number of visits \_\_\_\_\_
13. PULMONARY FUNCTION -- Is this area being modernized? Yes No N/A If yes, provide the following information for each of the last three years.  
 Year \_\_\_\_\_  
 Inpatient treatments \_\_\_\_\_  
 Outpatient treatments \_\_\_\_\_  
 Total procedures \_\_\_\_\_  
 Number of visits \_\_\_\_\_
14. RECOVERY (SURGICAL) -- Is this area being modernized? Yes No N/A  
 If yes, provide the existing and proposed number of stations by type:  

|                     | Existing | Proposed |
|---------------------|----------|----------|
| Inpatient           | _____    | _____    |
| Outpatient Stage I  | _____    | _____    |
| Outpatient Stage II | _____    | _____    |
15. RESPIRATORY THERAPY -- Is this area being modernized? Yes No N/A  
 If yes, provide the following information for each of the last three years.  
 Year \_\_\_\_\_  
 Inpatient treatments \_\_\_\_\_  
 Outpatient treatments \_\_\_\_\_  
 Total treatments \_\_\_\_\_  
 Number of visits \_\_\_\_\_



16. DIAGNOSTIC RADIOLOGY -- Is this area being modernized? Yes No N/A

If yes, provide the following information classifying procedure rooms as general or special according to the type of machines employed.

General machines are:

- Radiographic
- Fluoroscopic
- Radiographic/Fluoroscopic
- Tomographic (linear)

Special machines are:

- Angiographic
- CT Scanner
- Mammography
- Sonographic (ultrasound)
- Tomographic (multi-directional)

- a. Provide the number of existing and proposed general procedure rooms by machine type.
- b. Provide the number of existing and proposed special procedure rooms by machine type.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1A AFTER THE LAST PAGE OF THIS SECTION.**

17. EMERGENCY SERVICES -- Is this area being modernized? Yes No N/A

If yes, provide the following information:

- a. The number of existing and proposed treatment/examination rooms;
- b. A list of any of the above rooms that are or will be used for purposes other than general treatment;
- c. The number of visits for each of the last three years.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1B AFTER THE LAST PAGE OF THIS SECTION.**

18. INPATIENT BED AREA -- Is this area being modernized? Yes No N/A

If yes, provide the following information:

- a. The number of existing and proposed private rooms, semi-private rooms, and three or more occupancy rooms (by category of service for each type of room) for the entire facility and for the project;
- b. Line drawings showing the configuration of the unit(s) being modernized.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1C AFTER THE LAST PAGE OF THIS SECTION.**

19. NUCLEAR MEDICINE -- Is this area being modernized? Yes No N/A  
If yes, provide the following information:
- a. A list of the existing and proposed major pieces of equipment;
  - b. The existing and proposed number of procedure rooms;
  - c. The number of inpatient, outpatient, and total procedures done for each of the last three years;
  - d. A breakdown of the procedures into types of procedures and machine time/procedure for the last year.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1D AFTER THE LAST PAGE OF THIS SECTION.**

20. RADIATION THERAPY -- Is this area being modernized? Yes No N/A  
If yes, provide the following information:
- a. The number of treatments and the number of "courses of treatment" for each of the last three years;
  - b. A list of the existing and proposed pieces of megavoltage equipment.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1E AFTER THE LAST PAGE OF THIS SECTION.**

21. SURGERY -- Is this area being modernized? Yes No N/A If yes, provide the following information:
- a. The existing and proposed number of procedure rooms. Indicate the use of these rooms such as general, open heart, eye, endoscopy, and cystology. Indicate how many rooms are dedicated solely to outpatient surgery, solely to inpatient surgery, and how many are used for both.
  - b. The inpatient, outpatient, and total hours of utilization (including clean-up and set-up time) for each of the last three years;
  - c. The total hours of utilization (including clean-up and set-up time) for each type of procedure room for each of the last three years;
  - d. The number of inpatient, outpatient, and total surgical visits for each type of surgical specialty for each of the last three years.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-1F AFTER THE LAST PAGE OF THIS SECTION.**

22. OTHER DEPARTMENTS OR AREAS - Are any other areas being modernized?

Yes  No

If yes, identify the area(s) and provide workload data for each area for each of the last three years. **Skilled nursing – see attachment.**

**APPEND DOCUMENTATION AS ATTACHMENTS MOD-1G, MOD-1H, MOD-1I, MOD 1J, ETC. AFTER THE LAST PAGE OF THIS SECTION.**

**B. Criterion 1110.420(b), Modern Facilities**

A criterion must be claimed for EACH department or area to be modernized. The justification for each department or area must be on a separate page. Choose the criterion or criteria which most clearly approximates the reason for proposing the modernization.

At least ONE of the following two criteria must be claimed for EACH department or area proposed for modernization.

1. Read criterion 1110.420(b)(1). This criterion cannot be used to justify any increase in square footage. If expansion of a department is proposed, criterion 1110.420(b)(2) must be claimed.

Indicate if this criterion is claimed and submit the following:

- a. the age of the building or piece of equipment;
- b. the downtime experienced on the piece of equipment for each of the last three years;
- c. the cost of repair experienced on the piece of equipment for each of the last three years;
- d. a detailed explanation of why and how it was determined that the building or piece of equipment was deteriorated and needs to be replaced;
- e. provide copies of any licensing, certification, or fire protection citations.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-2 AFTER THE LAST PAGE OF THIS SECTION.**

2. Read Criterion 1110.420(b)(2). Identify if this criterion is claimed and submit the following information:
  - a. a detailed explanation of why and how it was determined that expansion of the department or area was necessary;

- b. a discussion of the alternatives considered to expanding the department (e.g. increasing the hours or days of operation) and why the alternatives were rejected.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-3 AFTER THE LAST PAGE OF THIS SECTION.**

**C. Criterion 1110.420(c) Major Medical Equipment**

Read Criterion 1110.420(c) and provide documentation that the equipment will achieve or exceed the applicable target utilization levels specified in Appendix B of Part 1110 within 12 months after becoming operational.

**APPEND DOCUMENTATION AS ATTACHMENT MOD-4 AFTER THE LAST PAGE OF THIS SECTION.**

**Pleasant View Utilization**

|   | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>Projected 2010</u> | <u>Projected 2011</u> |
|---|-------------|-------------|-------------|-----------------------|-----------------------|
| Average Census*                                     | 173         | 125         | 144         | 85.5                  | 85.5                  |
| Licensed Beds                                       | 210         | 181         | 181         | 90                    | 90                    |
| Occupancy %   | 82.6%       | 69.1%       | 79.5%       | 95%                   | 95%                   |
| * Determined by dividing total patient days by 365. |             |             |             |                       |                       |
|   |             |             |             |                       |                       |
|   |             |             |             |                       |                       |
|   |             |             |             |                       |                       |

Our projections were developed based upon the historical and existing occupancy rates of the facility. We currently have 144 residents at Pleasant View. Approximately 18 residents qualify for and seek to move to assisted living on the campus upon completion of the project. The remaining residents will remain in skilled nursing care. The proposed project reduces the number of skilled nursing beds from 181 to 90. The expectation is that the facility will be full on the first day of project completion. Given resident admissions and discharges throughout the year, the census will never average 100% in any given year and we have projected a 95% occupancy rate ongoing.

**PLEASANT VIEW  
CON APPLICATION  
§1110.420(b) MODERN FACILITIES**

When Pleasant View Luther Home was founded in 1937 it initially used buildings from the closed campus of Luther College. From 1937 through 1965, various structures and facilities were added to the Pleasant View facility. In 1975, the main building, which currently houses the skilled nursing care, was constructed. The condition of the main building has now declined to where major renovation is needed from both a physical condition and functional use.

Deferred Maintenance and Major Infrastructure Replacements. Pleasant View Luther Home, Inc. merged into Lutheran Life Communities in 2005. At the time of this change, a significant amount of facility and building maintenance had been deferred. A detailed plan had previously been developed to demolish the main building and construct a new care facility for Pleasant View; however, the facility was unable to secure financing to put that plan into action. Therefore, leading up to that time little was done to the building and much-needed maintenance and the replacement of aged systems continued to be deferred.

The main building is outdated, verging on obsolete, and it, as well as its operating systems, are at the end of their useful lives. Resident surveys have shown satisfaction with their care but concern about the surroundings. According to a recent Pleasant View resident survey, one resident stated “There is a need to upgrade Pleasant View Luther Home’s facilities. Their care is the best, but the facilities and amenities have not kept pace with the demands of residents and their families. Now is the time to bring the facilities on par with care.”

Extensive Proposed Improvements. The proposed improvements are extensive. In addition to replacing existing HVAC and air handling equipment systems, the roof will be replaced, old single pane windows will be replaced with tinted, thermal pane windows, to

minimize heat gain and to restrict glare (in consideration of the sight needs of the residents), energy inefficient plumbing fixtures will be replaced with low water usage fixtures and energy efficient lighting will be installed throughout the facilities, new heating equipment and replacement of the existing air handling equipment.

Increased Energy Efficiency. The proposed improvements will implement a higher level of energy efficiency and significantly reduce operating costs and energy usage for the entire facility, effectively reducing the facility's overall carbon footprint. The new thermal pane windows will be tinted to minimize heat gain and to maximize efficient use of air conditioning and air handling systems. The perimeter wall replacement will contain heat and cooling loads, reducing demands upon heating and cooling systems. Compact fluorescent bulb lighting replacement will reduce energy use and promote conservation. Current plumbing fixtures will be replaced with new, low-water usage fixtures.

Improvement of Life Safety Systems. Additionally, wander control, emergency nurse call, emergency lighting and power and fire alarm systems will be updated to provide the residents with greater security, improved life safety systems and improved levels of service and comfort for the residents.

Intermediate Care Wings. The intermediate care wings cannot be effectively renovated. This area was not constructed in a way that cannot meet standards for skilled care. Many of these rooms do not have air-conditioning and over the last several years many of these units have been effectively taken out of use. While it makes economic sense to renovate the main building, the intermediate wings need to be demolished.

Changing Care Demands of Residents and Industry. The long term care industry is undergoing significant change in the delivery of care and the environment in which care is

provided. Historically, the long term care industry, including Pleasant View, had been focused on a traditional, medical model of delivery of care.

Innovations in long term care focus on a concept referred to as the "household" or "small house" model of delivery of care. The household model of care is more open and home-like model than the traditional model and, in addition to providing varying levels of care, provides greater social support for the comfort, dignity, respect and privacy of its residents. As part of this model, each floor of the main building will consist of 22 private and 4 semi-private ADA accessible rooms. Each room will contain a fully-ADA accessible private bathroom and toilet facilities. Each semi-private room will have a shower and each floor will have 2 ADA accessible bathing spas.

In addition to changing industry standards, there is a need of Pleasant View residents for differing levels of care. Many Pleasant View residents require levels of care not currently available at Pleasant View. The main building is currently licensed for 181 skilled nursing beds and 69 intermediate care beds; however, the current need of Pleasant View residents is for fewer nursing beds and more assisted living care.

In addition, Pleasant View's independent living community is growing and in need of additional, modern and updated facilities. Future plans for Pleasant View call for construction of additional independent living duplexes and townhomes. The independent living units will be built as demand arises, but under different construction contracts and financing, and are thus not included in this application.



**SECTION XXV. REVIEW CRITERIA RELATING TO FINANCIAL FEASIBILITY  
(FIN)**

This section is applicable to all projects subject to Part 1120.

Does the applicant (or the entity that is responsible for financing the project or is responsible for assuming the applicant's debt obligations in case of default) have a bond rating of "A" or better? Yes  No

If yes is indicated, submit proof of the bond rating of "A" or better (that is less than two years old) from Fitch's, Moody's or Standard and Poor's rating agencies and go to Section XXVI. If no is indicated, submit the most recent three years' audited financial statements including the following:

- 1. Balance sheet
- 2. Income statement
- 3. Change in fund balance
- 4. Change in financial position

**APPEND THE REQUIRED DOCUMENTS AS ATTACHMENT FINANCIALS AND PLACE AFTER ALL OTHER APPLICATION ATTACHMENTS INCLUDING THE REMAINING ATTACHMENTS FOR THIS SECTION AND FOR SECTION XXVI.**

**A. Criterion 1120.210(a), Financial Viability**

1. Viability Ratios

If proof of an "A" or better bond rating has not been provided, read the criterion and complete the following table providing the viability ratios for the most recent three years for which audited financial statements are available. Category B projects must also provide the viability ratios for the first full fiscal year after project completion or for the first full fiscal year when the project achieves or exceeds target utilization (per Part 1100), whichever is later: **LUTHERAN LIFE COMMUNITIES:**

| Provide Data for Projects Classified as: | Category A or Category B (last three years) |        |        | Category B |
|--|---|--------|--------|------------|
| Enter Historical and/or Projected Years: |   |        |        |            |
| Current Ratio                            | .67   | 1.11   | .79    | 1.23       |
| Net Margin Percentage                    | 1.14%                                       | 7.31%  | 4.18%  | 3.53%      |
| Percent Debt to Total Capitalization     | 44.87%                                      | 64.12% | 58.43% | 63.28%     |
| Projected Debt Service Coverage          | 1.85  | 1.96   | 1.88   | 1.85       |
| Days Cash on Hand                        | 184.61                                      | 197.70 | 166.01 | 178.18     |
| Cushion Ratio                            | 9.03  | 6.32   | 6.45   | 5.63       |

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each. Insert the worksheets after this page.

2. Variance

Compare the viability ratios provided to the Part 1120 Appendix A review standards. If any of the standards for the applicant or for any co-applicant are not met, provide documentation that a person or organization will assume the legal responsibility to meet the debt obligations should the applicant default. The person or organization must demonstrate compliance with the ratios in Appendix A when proof of a bond rating of "A" or better has not been provided.

**SECTION XXV. REVIEW CRITERIA RELATING TO FINANCIAL FEASIBILITY (FIN)**

This section is applicable to all projects subject to Part 1120.

Does the applicant (or the entity that is responsible for financing the project or is responsible for assuming the applicant's debt obligations in case of default) have a bond rating of "A" or better? Yes  No

If yes is indicated, submit proof of the bond rating of "A" or better (that is less than two years old) from Fitch's, Moody's or Standard and Poor's rating agencies and go to Section XXVI. If no is indicated, submit the most recent three years' audited financial statements including the following:

- 1. Balance sheet
- 2. Income statement
- 3. Change in fund balance
- 4. Change in financial position

**APPEND THE REQUIRED DOCUMENTS AS ATTACHMENT FINANCIALS AND PLACE AFTER ALL OTHER APPLICATION ATTACHMENTS INCLUDING THE REMAINING ATTACHMENTS FOR THIS SECTION AND FOR SECTION XXVI.**

**A. Criterion 1120.210(a), Financial Viability**

1. Viability Ratios

If proof of an "A" or better bond rating has not been provided, read the criterion and complete the following table providing the viability ratios for the most recent three years for which audited financial statements are available. Category B projects must also provide the viability ratios for the first full fiscal year after project completion or for the first full fiscal year when the project achieves or exceeds target utilization (per Part 1100), whichever is later. **PLEASANT VIEW:**

| Provide Data for Projects Classified as: | Category A or Category B (last three years) |         |         | Category B |
|--|---|---------|---------|------------|
| Enter Historical and/or Projected Years: |   |         |         |            |
| Current Ratio                            | .47   | .42     | .33     | .67        |
| Net Margin Percentage                    | -5.72%                                      | -1.16%  | -8.15%  | -0.68%     |
| Percent Debt to Total Capitalization     | 50.91%                                      | 136.08% | 199.79% | 108.82%    |
| Projected Debt Service Coverage          | .06   | 1.29    | (.40)   | 1.35       |
| Days Cash on Hand                        | 26.81                                       | 17.13   | 12.30   | 143.94     |
| Cushion Ratio                            | 0.53  | 1.64    | 1.28    | 1.72       |

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each. Insert the worksheets after this page.

2. Variance

Compare the viability ratios provided to the Part 1120 Appendix A review standards. If any of the standards for the applicant or for any co-applicant are not met, provide documentation that a person or organization will assume the legal responsibility to meet the debt obligations should the applicant default. The person or organization must demonstrate compliance with the ratios in Appendix A when proof of a bond rating of "A" or better has not been provided.

**APPEND DOCUMENTATION AS ATTACHMENT FIN-1 AFTER THE LAST PAGE OF THIS SECTION.**

**B. Criterion 1120.210(b), Availability of Funds**

If proof of an "A" or better bond rating has not been provided, read the criterion and document that sufficient resources are available to fund the project and related costs including operating start-up costs and operating deficits. Indicate the dollar amount to be provided from the following sources:

\$3,468,503 Cash & Securities

Provide statements as to the amount of cash/securities available for the project. Identify any security, its value and availability of such funds. Interest to be earned or depreciation account funds to be earned on any asset from the date of application submission through project completion are also considered cash.

\$0 Pledges

For anticipated pledges, provide a letter or report as to the dollar amount feasible showing the discounted value and any conditions or action the applicant would have to take to accomplish goal. The time period, historical fund raising experience and major contributors also must be specified.

\$0 Gifts and Bequests

Provide verification of the dollar amount and identify any conditions of the source and timing of its use.

\$18,699,555 Debt Financing (indicate type(s) Tax-Exempt Revenue Bonds)

For general obligation bonds, provide amount, terms and conditions, including any anticipated discounting or shrinkage) and proof of passage of the required referendum or evidence of governmental authority to issue such bonds;

For revenue bonds, provide amount, terms and conditions and proof of securing the specified amount;

For mortgages, provide a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated;

For leases, provide a copy of the lease including all terms and conditions of the lease including any purchase options.

\$0 Governmental Appropriations

Provide a copy of the appropriation act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, provide a resolution or other action of the governmental unit attesting to such future funding.

\$0 Grants

Provide a letter from the granting agency as to the availability of funds in terms of the amount, conditions, and time or receipt.

\$0 Other Funds and Sources

Provide verification of the amount, terms and conditions, and type of any other funds that will be used for the project.

\$22,168,058 TOTAL FUNDS AVAILABLE

**APPEND DOCUMENTATION AS ATTACHMENT FIN-2 AFTER THE LAST PAGE OF THIS SECTION.**

**C. Criterion 1120.210(c), Operating Start-up Costs**

1. If proof of an "A" or better bond rating has not been provided, indicate if the project is classified as a Category B project that involves establishing a new facility or a new category of service? Yes  No . If yes is indicated, read the criterion and provide in the space below the amount of operating start-up costs (the same as reported in Section I of this application) and provide a description of the items or components that comprise the costs. Indicate the source and amount of the financial resources available to fund the operating start-up costs (including any initial operating deficit) and reference the documentation that verifies sufficient resources are available.

Lutheran Life Communities  
 CON Financial Info for PVLH  
 10/6/2008

Sources:

|              | HC                  | AL                  |
|--------------|---------------------|---------------------|
| Cash         | \$1,438,503         | \$2,030,000         |
| Bonds        | \$10,365,225        | \$8,334,330         |
| <b>Total</b> | <b>\$11,803,728</b> | <b>\$10,364,330</b> |

Current Ratio

|                      | PVLH               |                    |                    |                    |
|----------------------|--------------------|--------------------|--------------------|--------------------|
|                      | FY05               | FY06               | FY07               | FY05               |
| Current Assets       | \$ 1,687,978       | \$ 1,377,583       | \$ 1,214,764       | \$ 8,764,995       |
| Current Liabilities  | \$ 3,557,674       | \$ 3,249,932       | \$ 3,652,753       | \$ 13,104,636      |
| <b>Current Ratio</b> | <b>0.474461123</b> | <b>0.423880561</b> | <b>0.332561222</b> | <b>0.668846887</b> |

Net Margin percentage

|             | PVLH          |               |               |               |
|-------------|---------------|---------------|---------------|---------------|
|             | FY05          | FY06          | FY07          | FY05          |
| Net Income  | \$ (472,206)  | \$ (51,725)   | \$ (644,659)  | \$ 541,049    |
| Net Revenue | \$ 8,262,021  | \$ 4,470,795  | \$ 7,913,413  | \$ 47,407,915 |
|             | <b>-5.72%</b> | <b>-1.16%</b> | <b>-8.15%</b> | <b>1.14%</b>  |

% Debt to total Capitalization

|                            | PVLH                |                     |                     |                      |
|----------------------------|---------------------|---------------------|---------------------|----------------------|
|                            | FY05                | FY06                | FY07                | FY05                 |
| Long Term Debt             | \$ 1,310,672        | \$ 2,221,520        | \$ 2,470,044        | \$ 28,840,796        |
| Unrestricted Net Assets    | \$ 1,263,806        | \$ (589,059)        | \$ (1,233,718)      | \$ 35,434,019        |
| <b>LT Debt + Unrest NA</b> | <b>\$ 2,574,478</b> | <b>\$ 1,632,461</b> | <b>\$ 1,236,326</b> | <b>\$ 64,274,815</b> |
|                            | <b>50.91%</b>       | <b>136.08%</b>      | <b>199.79%</b>      | <b>44.87%</b>        |

Projected Debt Service Coverage

|              |            |            |            |              |
|--------------|------------|------------|------------|--------------|
|              | 0.06       | 1.29       | (0.40)     | 1.85         |
| Depreciation | \$ 360,072 | \$ 225,261 | \$ 348,607 | \$ 3,021,009 |

Interest \$ 178,933 \$ 111,754 \$ 207,868 \$ 1,317,061

Days Cash on Hand

|                      | 9/1/04-8/31/05 | 12/1/05-6/30/06 |              |                |
|----------------------|----------------|-----------------|--------------|----------------|
|                      | FY05           | PVLH<br>FY06    | FY07         | FY05           |
| Cash and Investments | \$ 636,972     | \$ 363,086      | \$ 283,233   | \$ 23,837,830  |
| Operating Expense    | \$ 8,934,373   | \$ 4,718,959    | \$ 8,753,360 | \$ 50,151,049  |
| Depreciation Expense | \$ (262,161)   | \$ (225,261)    | \$ (348,607) | \$ (3,021,009) |
| Cash Op Expense      | \$ 8,672,212   | \$ 4,493,698    | \$ 8,404,753 | \$ 47,130,040  |
| Days Cash on Hand    | 26.80916703    | 17.12937363     | 12.30018836  | 184.6127852    |

Cushion Ratio

|                         | FY05         | PVLH<br>FY06 | FY07        | FY05          |
|-------------------------|--------------|--------------|-------------|---------------|
| Cash and Investments    | \$ 636,972   | \$ 363,086   | \$ 283,233  | \$ 23,837,830 |
| Max Annual Debt Service | \$ 1,200,000 | \$ 221,280   | \$ 221,280  | \$ 2,640,807  |
|                         | 0.53081      | 1.640844179  | 1.279975597 | 9.026721756   |

| LLC<br>FY06   | FY07          | PVLH<br>Stabilization | LLC<br>Stabilization |
|---------------|---------------|-----------------------|----------------------|
| \$ 16,140,296 | \$ 15,197,032 | \$ 2,021,000          | \$ 17,200,000        |
| \$ 14,512,472 | \$ 19,144,580 | \$ 3,000,000          | \$ 14,000,000        |
| 1.112167245   | 0.793803364   | 0.673666667           | 1.228571429          |

| LLC<br>FY06   | FY07          | PVLH<br>Stabilization | LLC<br>Stabilization |
|---------------|---------------|-----------------------|----------------------|
| \$ 4,048,419  | \$ 2,642,955  | \$ (57,000)           | \$ 3,000,000         |
| \$ 55,345,871 | \$ 63,239,246 | \$ 8,400,000          | \$ 85,000,000        |
| 7.31%         | 4.18%         | -0.68%                | 3.53%                |

| LLC<br>FY06    | FY07           | PVLH<br>Stabilization | LLC<br>Stabilization |
|----------------|----------------|-----------------------|----------------------|
| \$ 70,898,393  | \$ 63,609,605  | \$ 18,500,000         | \$ 81,000,000        |
| \$ 39,670,837  | \$ 45,249,521  | \$ (1,500,000)        | \$ 47,000,000        |
| \$ 110,569,230 | \$ 108,859,126 | \$ 17,000,000         | \$ 128,000,000       |
| 64.12%         | 58.43%         | 108.82%               | 63.28%               |

1.96

1.88

1.35

1.85

\$ 3,459,355 \$ 4,067,346

67

Attachment FIN-1

\$ 1,570,052 \$ 1,993,213

| LLC<br>FY06    | FY07           | PVLH<br>Stabilization | LLC<br>Stabilization |
|----------------|----------------|-----------------------|----------------------|
| \$ 29,230,640  | \$ 29,851,579  | \$ 2,800,000          | \$ 34,000,000        |
| \$ 57,424,753  | \$ 69,700,667  | \$ 8,000,000          | \$ 74,400,000        |
| \$ (3,459,355) | \$ (4,067,346) | \$ (900,000)          | \$ (4,750,000)       |
| \$ 53,965,398  | \$ 65,633,321  | \$ 7,100,000          | \$ 69,650,000        |
| 197.7041585    | 166.0105899    | 143.943662            | 178.1765973          |

| LLC<br>FY06   | FY07          | PVLH<br>Stabilization | LLC<br>Stabilization |
|---------------|---------------|-----------------------|----------------------|
| \$ 29,230,640 | \$ 29,851,579 | \$ 2,800,000          | \$ 34,000,000        |
| \$ 4,626,699  | \$ 4,626,699  | \$ 1,628,000          | \$ 6,034,000         |
| 6.31781752    | 6.452025299   | 1.71990172            | 5.634736493          |

### Statement regarding Current Ratio

We believe that Lutheran Life Communities complies with all financial ratios of § 1120. 210 (a) except the current ratio. This is a result of the GAAP requirement to classify all the Refundable Entrance fees and Deposits as current, even though they will not be paid currently. This GAAP interpretations regarding this classification were only recently delivered in FY05.

These refundable deposits and entrance fees are typically paid for out of the new residents who fill the vacated units. Most entrance fee contracts allow for a certain amount of time (6 months to a year) to make this sale and refund, which is what requires it to be shown as current.

Practically, these would never be paid all at one time and in most cases, due to the strength of occupancy history at each Lutheran Life facility, these would never need to be paid by current assets on the balance sheet at any point in time.

If these amounts were removed from Current Liabilities, the adjusted current ratio for Lutheran Life Communities would be 1.93 and 1.12 for the fiscal years ended June 30, 2007 and 2006, respectively. Current Liabilities in FY07 include amounts related to the startup of a new CCRC in Bloomington Illinois which are funded from Non-Current assets until stabilization (expected in 2011). The current ratio would meet expectations if these liabilities were removed from the calculation.

8229209.1





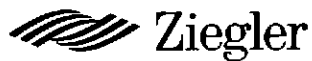
As Chief Financial Officer for Lutheran Life Communities I wish to document the Availability of Funds for the Project for purposes of the § 1120. 210 (b) review criterion. The availability of our debt financing is evidenced by the attached letter of Ziegler, our Financial Advisor on this project. Ziegler has also previously advised us in several previous issuances of tax-exempt revenue bonds.

As to the cash and securities portion of the financing, I draw to your attention our balance sheet in the attached audited financial statements as of June 30, 2007.

This balance sheet shows funds are available within the Cash and Unrestricted Investments lines. There is cash available from Lutheran Life Communities of (approximately) \$5.2 million, Board Designated Investments of \$7.0 million and Investments of \$17.7 million.

A handwritten signature in cursive script, reading "Carl W. Moellenkamp", is written over a horizontal line.

Carl W. Moellenkamp  
VP Corporate Financial Relations/CFO



200 South Wacker Drive  
Suite 2000  
Chicago, IL 60606

Phone: 312-263-0110  
Toll-free: 800-366-8899  
Fax: 312-263-5217

Stephen W. Johnson  
Managing Director  
Senior Living Finance

October 1, 2008

Mr. Jeffery S. Mark  
Illinois Department of Public Health  
Health Facilities Planning Board  
525 West Jefferson Street, Second Floor  
Springfield, Illinois 62761

Dear Mr. Mark,

This letter is to advise you that Ziegler Capital Markets Group is currently engaged as underwriter by Pleasant View, a Lutheran Life Community. The proceeds from the proposed bond issue will be utilized to finance the redevelopment of their existing campus located in Ottawa, Illinois.

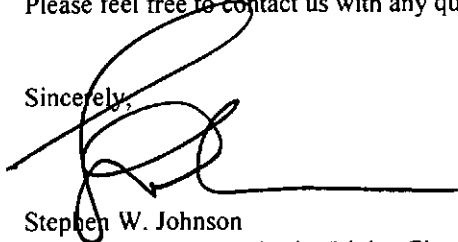
Ziegler Capital Markets Group is in the process of developing with Pleasant View and Lutheran Life Management (the "Borrower"), a plan for the issuance of Revenue Bonds for the purposes of funding the campus redevelopment. It is contemplated that the Financing will be structured principally with the tax-exempt bonds and is currently expected to include serial bonds, an intermediate term bond and a final term bond, as well as Variable Rate Demand Bonds ("VRDB"). It is anticipated that the fixed rate, tax-exempt bonds will be unrated and unenhanced, while the VRDBs will be backed by a Letter of Credit. Financing proceeds are expected to range between \$25 million and \$35 million. The par amount of the bonds issued under the Financing, bond maturity, as well as other structural features of the Financing, will be agreed upon as other material details of the Financing are established.

The market for non-rated senior living credits continues to be very efficient and access to capital in the non-rated markets very strong. Ziegler Capital Markets Group maintains substantial relationships with high-yield bond investors.

*Pleasant View – A Lutheran Life Community*  
*October 1, 2008*  
*Page 2 of 2*

Please feel free to contact us with any questions, or if you should require further information.

Sincerely,

A handwritten signature in black ink, appearing to be 'S. Johnson', written over a horizontal line. The signature is stylized and cursive.

Stephen W. Johnson  
Managing Director – Senior Living Finance

Cc: Daniel J. Hermann

**SECTION XXVI. REVIEW CRITERIA RELATING TO ECONOMIC FEASIBILITY  
(ECON)**

This section is applicable to all projects subject to Part 1120.

**A. Criterion 1120.310(a), Reasonableness of Financing Arrangements**

Is the project classified as a Category B project? Yes  No  If no is indicated this criterion is not applicable. If yes is indicated, has proof of a bond rating of "A" or better been provided?

Yes  No . If yes is indicated this criterion is not applicable, go to item B. If no is indicated, read the criterion and address the following:

Are all available cash and equivalents being used for project funding prior to borrowing?

Yes  No

If no is checked, provide a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to the following:

1. a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
2. borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

**APPEND DOCUMENTATION AS ATTACHMENT ECON-1 AFTER THE LAST PAGE OF THIS SECTION.**

**B. Criterion 1120.310(b), Conditions of Debt Financing**

Read the criterion and provide a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to the following as applicable:

1. The selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional debt, term (years) financing costs, and other factors;
2. All or part of the project involves the leasing of equipment or facilities and the expenses incurred with such leasing are less costly than constructing a new facility or purchasing new equipment.

**APPEND DOCUMENTATION AS ATTACHMENT ECON-2 AFTER THE LAST PAGE OF THIS SECTION.**

**C. Criterion 1120.310(c), Reasonableness of Project and Related Costs**

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

| COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE |                              |   |                             |   |                              |   |                      |                    |                       |
|---|------------------------------|---|-----------------------------|---|------------------------------|---|----------------------|--------------------|-----------------------|
| Department<br>(list below)                          | A                            | B | C                           | D | E                            | F | G                    | H                  | Total Cost<br>(G + H) |
|   | Cost/Square Foot<br>New Mod. |   | Gross Sq. Ft.<br>New Circ.* |   | Gross Sq. Ft.<br>Mod. Circ.* |   | Const. \$<br>(A x C) | Mod. \$<br>(B x E) |                       |
|   |                              |   |                             |   |                              |   |                      |                    |                       |
| Contingency   |                              |   |                             |   |                              |   |                      |                    |                       |
| TOTALS  |                              |   |                             |   |                              |   |                      |                    |                       |

\* Include the percentage (%) of space for circulation

2. For each piece of major medical equipment included in the proposed project, the applicant must certify one of the following:
  - a. that the lowest net cost available has been selected; or
  - b. that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.

**APPEND DOCUMENTATION AS ATTACHMENT ECON-3 AFTER THE LAST PAGE OF THIS SECTION.**

3. List the items and costs included in preplanning, site survey, site preparation, off-site work, consulting, and other costs to be capitalized. If any project line item component includes costs attributable to extraordinary or unusual circumstances, explain the circumstances and provide the associated dollar amount. When fair market value has been provided for any component of project costs, submit documentation of the value in accordance with the requirements of Part 1190.40.

**APPEND DOCUMENTATION AS ATTACHMENT ECON-4 AFTER THE LAST PAGE OF THIS SECTION.**

**D. Criterion 1120.310(d), Projected Operating Costs**

Read the criterion and provide in the space below the facility's projected direct annual operating costs (in current dollars per equivalent patient day or unit of service, as applicable) for the first full fiscal year of operation after project completion or for the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. If the project involves a new category of service, also provide the annual operating costs for the service. Direct costs are the fully allocated costs of salaries, benefits, and supplies. Indicate the year for which the projected operating costs are provided.

**E. Criterion 1120.310(e), Total Effect of the Project on Capital Costs**

Is the project classified as a category B project? Yes  No . If no is indicated, go to item F. If yes is indicated, provide in the space below the facility's total projected annual capital costs as defined in Part 1120.130(f) (in current dollars per equivalent patient day) for the first full fiscal year of operation after project completion or for the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Indicate the year for which the projected capital costs are provided.

**F. Criterion 1120.310(f), Non-patient Related Services**

Is the project classified as a category B project and involve non-patient related services? Yes  No . If no is indicated, this criterion is not applicable. If yes is indicated, read the criterion and document that the project will be self-supporting and not result in increased charges to patients/residents or that increased charges are justified based upon such factors as, but not limited to, a cost benefit or other analysis that demonstrates the project will improve the applicant's financial viability.

**APPEND DOCUMENTATION AS ATTACHMENT ECON-5 AFTER THE LAST PAGE  
OF THIS ILLINOIS HEALTH FACILITIES PLANNING BOARD  
APPLICATION FOR PERMIT  
JUNE 2008 EDITION**

September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Pleasant View Permit Application

Dear Mr. Mark:

In compliance with Section 1120.310(a) of the Planning Board Rules, we hereby certify that:

- 1) A portion or all of the cash and equivalents will be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
- 2) Borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

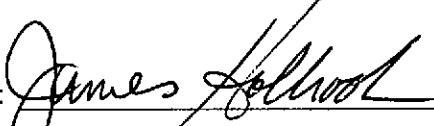
Sincerely,

PLEASANT VIEW LUTHER HOME, INC.

Signature: 

Print Name: ROGER W. PAULSBERG

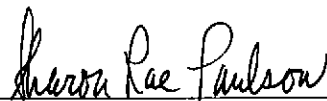
Title: PRESIDENT/CEO  
& CHAIRMAN OF THE BOARD OF DIRECTORS

Signature: 

Print Name: JAMES HOLBROOK

Title: SECRETARY  
& VICE CHAIRMAN OF THE BOARD OF DIRECTORS

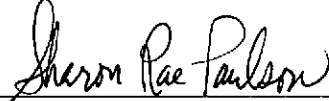
Notarization:  
Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008

  
Signature of Notary Public

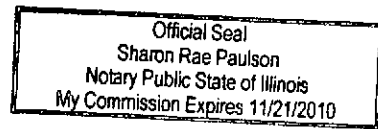
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Notarization:  
Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008

  
Signature of Notary Public

Seal



September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Lutheran Life Communities Permit Application

Dear Mr. Mark:

In compliance with Section 1120.310(a) of the Planning Board Rules, we hereby certify that:

- 1) A portion or all of the cash and equivalents will be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
- 2) Borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

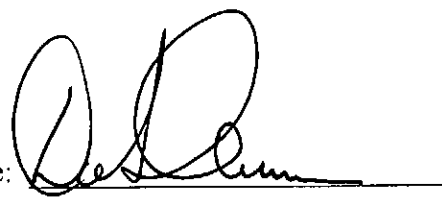
Sincerely,

LUTHERAN LIFE COMMUNITIES

Signature: 

Print Name: ROGER W. PAULSBERG

Title: PRESIDENT/CEO  
& MEMBER OF THE BOARD OF DIRECTORS

Signature: 

Print Name: DAVID G. ABRAHAMSON

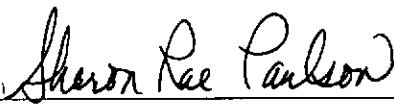
Title: CHAIRMAN OF THE BOARD OF DIRECTORS

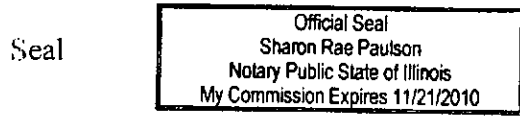
Notarization:  
Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008

  
Signature of Notary Public



Notarization:  
Subscribed and sworn to before me  
this 19<sup>th</sup> day of September, 2008

  
Signature of Notary Public





September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Pleasant View Permit Application

Dear Mr. Mark:

In compliance with Section 1120.310(b) of the Planning Board Rules, we have explored various alternatives for financing the project and determined that the proposed plan of debt financing provides the lowest net cost form of debt available for the project.

The project involves no lease of equipment or facilities.

Sincerely,

PLEASANT-VIEW LUTHER HOME, INC.

Signature: [Handwritten Signature]  
Print Name: ROGER W. PAULSBERG  
Title: PRESIDENT/CEO & CHAIRMAN OF THE BOARD OF DIRECTORS

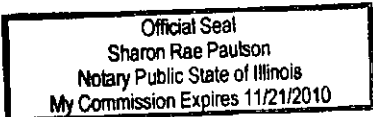
Signature: [Handwritten Signature]  
Print Name: JAMES HOLBROOK  
Title: SECRETARY & VICE CHAIRMAN OF THE BOARD OF DIRECTORS

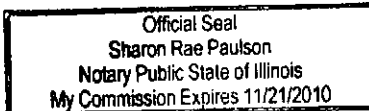
Notarization:  
Subscribed and sworn to before me  
this 16th day of September, 2008

Notarization:  
Subscribed and sworn to before me  
this 16th day of September, 2008

[Handwritten Signature]  
Signature of Notary Public

[Handwritten Signature]  
Signature of Notary Public

Seal 

Seal 

September 16, 2008

Mr. Jeffrey S. Mark  
Executive Secretary  
Illinois Health Facilities Planning Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Lutheran Life Communities Permit Application

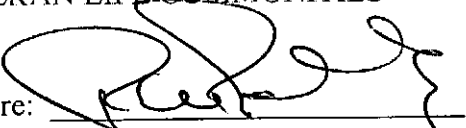
Dear Mr. Mark:

In compliance with Section 1120.310(b) of the Planning Board Rules, we have explored various alternatives for financing the project and determined that the proposed plan of debt financing provides the lowest net cost form of debt available for the project.

The project involves no lease of equipment or facilities.


Sincerely,

LUTHERAN LIFE COMMUNITIES

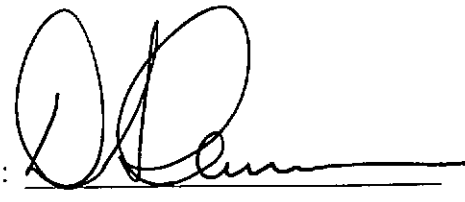
Signature: 

Print Name: ROGER W PAULSBERG  
PRESIDENT/CEO  
Title: MEMBER OF THE BOARD OF DIRECTORS

Notarization:  
Subscribed and sworn to before me  
this 16<sup>th</sup> day of September, 2008

  
Signature of Notary Public

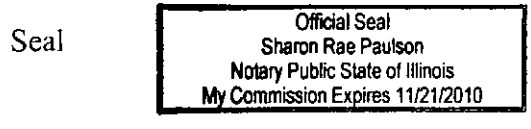


Signature: 

Print Name: DAVID G. ABRAHAMSON  
Title: CHAIRMAN OF THE BOARD OF DIRECTORS

Notarization:  
Subscribed and sworn to before me  
this 19<sup>th</sup> day of September, 2008

  
Signature of Notary Public



Review Criterion 1120.310(c) - Reasonableness of Project and Related Costs

| Department/Area           | SKILLED NURSING FACILITY |              |              |              |             |              |                         |                 |       |                  | Total Cost         |                    | Grand Total \$ |
|---------------------------|--------------------------|--------------|--------------|--------------|-------------|--------------|-------------------------|-----------------|-------|------------------|--------------------|--------------------|----------------|
|                           | Existing                 |              | Proposed     |              |             | Existing     |                         | New             |       | Total Cost       |                    |                    |                |
|                           | Total                    | Vacated**    | New+         | Mod.*        | As-Is       | Total        | Sqft/Bed                | New             | Mod.* | New              | Mod.*              |                    |                |
| Resident Units            | 37576                    | 15810        |              | 20346        |             | 20346        | 207.6                   | \$162           | \$122 | \$0              | \$2,482,212        | \$2,482,212        |                |
| Resident Baths (SNF)      | 5484                     | 1985         |              | 4200         |             | 4200         | 30.3                    | \$0             | \$134 | \$0              | \$562,800          | \$562,800          |                |
| Administrative            | 4869                     | 4081         | 1131         | 372          |             | 1503         | 26.9                    | \$166           | \$120 | \$187,746        | \$44,640           | \$232,386          |                |
| Laundry                   | 1991                     |              |              | 1548         | 1306        | 2854         | 11                      | \$0             | \$95  | \$0              | \$147,060          | \$147,060          |                |
| Kitchen/Food Prep         | 3158                     |              |              | 509          | 954         | 1463         | 17.4                    | \$0             | \$115 | \$0              | \$58,535           | \$58,535           |                |
| Chapel                    | 1267                     | 1267         | 451          | n/a          |             | 451          | 7                       | \$198           | \$0   | \$89,298         | \$0                | \$89,298           |                |
| Fitness                   | 1364                     | 742          | 149          | n/a          |             | 149          | 7.5                     | \$159           | \$0   | \$23,691         | \$0                | \$23,691           |                |
| Activity                  | 5434                     | 1103         | 193          | 2059.5       |             | 2252.5       | 30                      | \$159           | \$114 | \$30,687         | \$234,783          | \$265,470          |                |
| Dining                    | 5611                     | 1284         |              | 2059.5       |             | 2059.5       | 31                      | \$0             | \$128 | \$0              | \$263,616          | \$263,616          |                |
| Sitting / Living / Parlor | 6307                     | 1504         |              | 945          |             | 945          | 34.8                    | \$167           | \$128 | \$0              | \$120,960          | \$120,960          |                |
| Physical Therapy / Exam   | 2623                     | 812          |              | 380          |             | 380          | 14.5                    | \$0             | \$100 | \$0              | \$38,000           | \$38,000           |                |
| Spa / Restrooms           | 2205                     | 683          |              | 1593         |             | 1593         | 12.2                    | \$160           | \$115 | \$0              | \$183,195          | \$183,195          |                |
| Staff Support / Maint.    | 4863                     | 1762         | 902          | 4211         |             | 5113         | 26.9                    | \$150           | \$95  | \$135,300        | \$400,045          | \$535,345          |                |
| Storage                   | 3125                     | 2597         |              | 1689         |             | 1689         | 17.3                    | \$0             | \$90  | \$0              | \$150,210          | \$150,210          |                |
| Mechanical / Chase        | 3128                     | 844          |              | 2577         |             | 2577         | 17.3                    | \$0             | \$90  | \$0              | \$231,930          | \$231,930          |                |
| Circulation               | 27223                    | 9302         |              | 11928        | 318         | 12246        | 150.4                   | \$150           | \$100 | \$0              | \$1,192,800        | \$1,192,800        |                |
| Beauty                    | 502                      | 502          | 100          | n/a          |             | 100          | 2.8                     | \$168           | \$0   | \$16,800         | \$0                | \$16,800           |                |
| Country Store             | 1485                     | 1485         |              | 172          |             | 172          | 8.2                     | \$0             | \$125 | \$0              | \$21,500           | \$21,500           |                |
| Bistro                    |                          |              |              |              |             | 0            | 0                       | \$174           | \$125 | \$0              | \$0                | \$0                |                |
| Balcony/Canopy            | 2234                     | 2234         | 749          | n/a          |             | 749          | 12.3                    | \$155           | \$0   | \$116,095        | \$0                | \$116,095          |                |
| <b>Totals</b>             | <b>120449</b>            | <b>47997</b> | <b>36751</b> | <b>54569</b> | <b>2578</b> | <b>60822</b> | <b>665.4</b>            | <b>Subtotal</b> |       | <b>\$599,617</b> | <b>\$6,132,286</b> | <b>\$6,731,903</b> |                |
|                           |                          |              |              |              |             |              | <b>10 % Contingency</b> |                 |       | <b>\$59,962</b>  | <b>\$613,229</b>   | <b>\$673,190</b>   |                |
|                           |                          |              |              |              |             |              | <b>Total</b>            |                 |       | <b>\$659,579</b> | <b>\$6,745,515</b> | <b>\$7,405,093</b> |                |

Skilled Nursing Facility SF Cost (not including contingency) \$163.16 \$112.38 \$115.58  
 Skilled Nursing Facility SF Cost (including contingency) \$179.48 \$123.61 \$127.14

Pleasant View Luther Home - Assisted/Independent Living Services  
 Certificate of Need Application  
 Table Q



Review Criterion 1120.310(c) - Reasonableness of Project and Related Costs

| Department/Area           | ASSISTED/INDEPENDENT LIVING SERVICES |         |          |       |       |             |       |                  |             |           | Total Cost |             | Grand Total \$ |
|---------------------------|--------------------------------------|---------|----------|-------|-------|-------------|-------|------------------|-------------|-----------|------------|-------------|----------------|
|                           | Existing                             |         | Proposed |       |       | Cost / sqft |       | New              |             | Mod.*     |            |             |                |
|                           | Total                                | Vacated | New+     | Mod.* | As-ls | Total       | New   | Mod.*            | New         | Mod.*     |            |             |                |
| Resident Units            | 38836                                |         | 15532    |       |       | 15532       | \$162 | \$122            | \$2,516,184 | \$0       | \$0        | \$2,516,184 |                |
| Resident Baths (SNF)      |                                      |         | 0        |       |       | 0           | \$0   | \$134            | \$0         | \$0       | \$0        | \$0         |                |
| Administrative            |                                      |         | 2408     |       |       | 2408        | \$166 | \$120            | \$399,728   | \$0       | \$0        | \$399,728   |                |
| Laundry                   |                                      |         | 0        |       |       | 0           | \$0   | \$95             | \$0         | \$0       | \$0        | \$0         |                |
| Kitchen/Food Prep         |                                      |         |          | 293   | 2031  | 2324        | \$0   | \$115            | \$0         | \$33,695  | \$0        | \$33,695    |                |
| Chapel                    |                                      |         | 960      |       |       | 960         | \$198 | \$0              | \$190,080   | \$0       | \$0        | \$190,080   |                |
| Fitness                   |                                      |         | 467      |       |       | 467         | \$159 | \$0              | \$74,253    | \$0       | \$0        | \$74,253    |                |
| Activity                  |                                      |         | 345      |       |       | 345         | \$159 | \$114            | \$54,855    | \$0       | \$0        | \$54,855    |                |
| Dining                    |                                      |         |          | 3053  |       | 3053        | \$0   | \$128            | \$0         | \$390,784 | \$0        | \$390,784   |                |
| Sitting / Living / Parlor |                                      |         | 1425     |       |       | 1425        | \$167 | \$128            | \$237,975   | \$0       | \$0        | \$237,975   |                |
| Physical Therapy / Exam   |                                      |         |          | 809   |       | 809         | \$0   | \$100            | \$0         | \$80,900  | \$0        | \$80,900    |                |
| Spa / Restrooms           |                                      |         | 267      | 154   |       | 421         | \$160 | \$115            | \$42,720    | \$17,710  | \$0        | \$60,430    |                |
| Staff Support / Maint.    |                                      |         | 2323     |       |       | 2323        | \$150 | \$95             | \$348,450   | \$0       | \$0        | \$348,450   |                |
| Storage                   |                                      |         | 0        |       |       | 0           | \$0   | \$90             | \$0         | \$0       | \$0        | \$0         |                |
| Mechanical / Chase        |                                      |         | 0        |       |       | 0           | \$0   | \$90             | \$0         | \$0       | \$0        | \$0         |                |
| Circulation               |                                      |         | 7028     |       |       | 7028        | \$150 | \$100            | \$1,054,200 | \$0       | \$0        | \$1,054,200 |                |
| Beauty                    |                                      |         | 213      |       |       | 213         | \$168 | \$0              | \$35,784    | \$0       | \$0        | \$35,784    |                |
| Country Store             |                                      |         |          | 366   |       | 366         | \$0   | \$125            | \$0         | \$45,750  | \$0        | \$45,750    |                |
| Bistro                    |                                      |         | 527      | 635   |       | 1162        | \$174 | \$125            | \$91,698    | \$79,375  | \$0        | \$171,073   |                |
| Balcony/Canopy            |                                      |         | 1593     |       |       | 1593        | \$155 | \$0              | \$246,915   | \$0       | \$0        | \$246,915   |                |
| Totals                    | 38836                                | 0       | 33088    | 5310  | 2031  | 40429       |       | Subtotal         | \$5,292,842 | \$648,214 | \$0        | \$5,941,056 |                |
|                           |                                      |         |          |       |       |             |       | 10 % Contingency | \$529,284   | \$64,821  | \$0        | \$594,106   |                |
|                           |                                      |         |          |       |       |             |       | Total            | \$5,822,126 | \$713,035 | \$0        | \$6,535,162 |                |

AL/IL SF Cost (not including contingency) \$159.96 \$122.07 \$154.72  
 AL/IL SF Cost (including contingency) \$175.96 \$134.28 \$170.20

**Pleasant View  
Certificate of Need Application**

**Explanation of Site Preparation Costs**

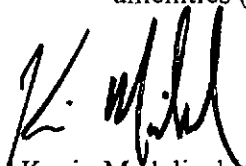
October 3, 2009

Our review of the costs for this project indicates that all of the Project Costs, except one, are in compliance with the Planning Board's standards. The exception is the line item for Site Preparation. Pursuant to Section 1120.310 of the Planning Board's rules, we wish to document the constraints and complexities associated with the Site Preparation from this project.

Hoffman LLC is providing architectural and project management services for the Pleasant View project. We have been integrally involved with both the design and cost estimation for this project and provide to the Planning Board the following explanation of the complexities causing the Site Preparation cost to exceed the State standard on this line item.

In review of the project costs associated with site preparation, the total is higher than the typical allowable limit. There are several factors that cause this result:

1. A large amount of hazardous material will be remediated from the site. The hazardous material will be removed from the property. The hazardous material can be found in the buildings scheduled to be demolished and in buildings scheduled to be renovated.
2. A large section of building is scheduled to be demolished. This reason for this demolition is due to the poor condition of the existing facility. Updates and system replacements are not feasible nor do they meet the desired program.
3. Due to the complexity of systems, condition of existing systems, and current utility locations, new utilities are being installed across the site for the renovations and additions.
4. Due to the poor drainage of the site, there is a large amount of grading and storm water management systems being implemented as a part of the project.
5. With the complexity of the phased construction and demolition, nearly all site amenities (i.e. paving, sidewalks, driving lanes) are being replaced.



Kevin Madalinski  
Senior Project Manager

8227986.2  
800.236.2370  
www.hoffman.net

122 East College Avenue Suite 1G  
Appleton, Wisconsin 54911  
PO Box 8034 Appleton, Wisconsin 54912  
main 920.731.2322 fax 920.731.4236

  
PROJECT MANAGEMENT  
\* \* \* \* \*

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**ATTACHMENT  
ECON-3**

**Pleasant View**  
**A Lutheran Life Community**  
 Ottawa, Illinois  
 Project No. 07684



October 7, 2008

**Project Costs**

| <b>USE OF FUNDS</b>   | <b>Other</b>        | <b>Health Center</b> | <b>Total</b>        |
|---|---------------------|----------------------|---------------------|
| <b>Pre-Planning Costs</b>   |                     |                      |                     |
| Architectural Masterplanning                                      | \$0                 | \$46,300             | \$46,300            |
| Development Management  | \$23,625            | \$29,761             | \$53,386            |
| Financial Feasibility   | \$0                 | \$35,072             | \$35,072            |
| Market Analysis   | \$5,420             | \$10,841             | \$16,261            |
| <b>Site Survey and Soil Investigation</b>                         |                     |                      |                     |
| Geotechnical Testing  | \$3,500             | \$4,750              | \$8,250             |
| <b>Site Preparation</b>   |                     |                      |                     |
| Demolition  | \$340,000           | \$170,000            | \$510,000           |
| Earthwork and Utilities   | \$300,000           | \$700,000            | \$1,000,000         |
| Hazardous Material Abatement                                      | \$132,000           | \$68,000             | \$200,000           |
| <b>Off Site Work</b>  | n/a                 | n/a                  | n/a                 |
| <b>New Construction Contracts</b>                                 |                     |                      |                     |
| Construction  | \$5,292,842         | \$599,617            | \$5,892,459         |
| <b>Modernization Contracts</b>                                    |                     |                      |                     |
| Construction  | \$648,214           | \$6,132,286          | \$6,780,500         |
| <b>Contingencies</b>  | \$594,106           | \$673,190            | \$1,267,296         |
| <b>Architectural / Engineering Fees</b>                           |                     |                      |                     |
| Architectural Design  | \$571,827           | \$647,946            | \$1,219,772         |
| <b>Consulting and Other Fees</b>                                  |                     |                      |                     |
| Civil Consultant  | \$4,000             | \$6,000              | \$10,000            |
| Legal   | \$12,000            | \$18,000             | \$30,000            |
| CON consultant  | \$16,000            | \$24,000             | \$40,000            |
| Hazardous Materials Assessment                                    | \$4,800             | \$7,200              | \$12,000            |
| Interior Design   | \$34,000            | \$51,000             | \$85,000            |
| <b>Movable or Other Equipment (not in construction contracts)</b> |                     |                      |                     |
| Furniture, Fixtures, and Equipment                                | \$355,349           | \$402,652            | \$758,001           |
| Technology  | \$130,703           | \$148,102            | \$278,805           |
| <b>Bond Issuance Expense (project related)</b>                    |                     |                      |                     |
| Financing Costs   | \$475,869           | \$541,335            | \$1,017,204         |
| <b>Net Interest Expense During Construction (project related)</b> |                     |                      |                     |
| Capitalized Interest  | \$704,991           | \$801,977            | \$1,506,968         |
| <b>Fair Market Value of Leased Space or Equipment</b>             | n/a                 | n/a                  | n/a                 |
| <b>Other Costs To Be Capitalized</b>                              |                     |                      |                     |
| Development Management  | \$80,000            | \$100,000            | \$180,000           |
| Performance & Payment Bond  | \$40,000            | \$100,000            | \$140,000           |
| Municipal impact fees and permits                                 | \$80,000            | \$50,000             | \$130,000           |
| Sales and Marketing Fees  | \$144,000           | \$0                  | \$144,000           |
| Working Capital   | \$352,495           | \$400,989            | \$753,484           |
| IDPH Review Fee   | \$7,200             | \$8,800              | \$16,000            |
| CON Application Fee   | \$11,388            | \$25,911             | \$37,299            |
| <b>Acquisition of Building or Other Property (excluding land)</b> | n/a                 | n/a                  | n/a                 |
| <b>Total</b>  | <b>\$10,364,330</b> | <b>\$11,803,728</b>  | <b>\$22,168,058</b> |

**Pleasant View Home**

|                                   | <b>First Stabilized<br/>Yr<br/>FY 2011<br/>(\$ in 000s)</b> |
|-----------------------------------|---|
| Revenue                           |   |
| Medicare                          | \$ 2,579  |
| Private                           | 2,957   |
| Public Aide                       | 1,065   |
| Other Revenue                     | 160   |
| Total Revenue                     | \$ 6,761  |
| Expense                           |   |
| Administrative                    | \$ 701  |
| Activities                        | 128   |
| Assisted Living Services          | -   |
| Memory Support                    | -   |
| Nursing Services                  | 2,419   |
| Building and Maintenance          | 225   |
| Dining Services                   | 895   |
| Emergency Systems Services        | 83  |
| Grounds Maintenance Services      | 57  |
| Housekeeping and Laundry Services | 524   |
| Transportation Services           | 53  |
| Utilities                         | 239   |
| Insurance                         | 99  |
| Management Fees                   | 63  |
| Marketing                         | 127   |
| Pastoral Services                 | 58  |
| Total Expense                     | \$ 5,671  |
| Salaries                          | \$ 3,169  |
| Benefits                          | \$ 792  |
| Interest                          | \$ 967  |
| Depreciation and Amortization     | \$ 380  |
| Days                              | 31,208  |

Lutheran Life Communities  
 PVLH CON - Capital Cost per Resident day after stabilization  
 10/6/2008

| Entity                | Annual Capital<br>after Stabilization | Total projected<br>resident days | Capital Cost Per<br>Resident Day |
|-----------------------|---------------------------------------|----------------------------------|----------------------------------|
| Health Center         | \$ 73,000                             | 31,208                           | \$ 2.34                          |
| Assisted Living/Other | \$ 30,000                             | 8,322                            | \$ 3.60                          |
| <b>Total</b>          | <b>\$ 103,000</b>                     | <b>39,530</b>                    | <b>\$ 2.61</b>                   |

| Average Residents per day | Capacity |
|---------------------------|----------|
| 85.50                     | 90       |
| 22.8                      | 24       |



**Statement regarding Lutheran Home and Services for the Aged, Inc. and Affiliates**  
**Financial Statement Inclusion**

The financial statements included for FY06 and FY07 are labeled Lutheran Home and Services for the Aged, Inc. and Affiliates. This reflects the fact that Lutheran Life Communities was a new parent entity created in August 2005 (FY06). During these fiscal years, Lutheran Home and Services was still the controlling entity for all entities as it retained the ability to revoke and elect the Board Members of Lutheran Life Communities. During these years, a restructuring occurred which resulted in the full installation of Lutheran Life Communities as Parent in November 2007. As such, Lutheran Life Communities has full control of all the entities as of the date of this application and is consequently the Applicant here. With Lutheran Life Communities becoming the new parent organization, the consolidated financial statements attached are representative of Lutheran Life Care. Audited financial statements beginning with FY 08 will be in the name of Lutheran Life Communities.

Pleasant View Luther Home, Inc.  
Ottawa, Illinois

Financial Statements  
And Supplementary Schedules

Year Ended August 31, 2005

Pleasant View Luther Home, Inc.  
Index To Report On Examination  
August 31, 2005

INDEPENDENT AUDITORS' REPORT

EXHIBIT A - Balance Sheet, August 31, 2005

Schedule 1 - Schedule Of Land, Buildings And Equipment, August 31, 2005

EXHIBIT B - Statement Of Activities And Changes In Net Assets,  
Year Ended August 31, 2005

EXHIBIT C - Statement Of Cash Flows, Year Ended August 31, 2005

Schedule 1 - Cash Balance, August 31, 2005

NOTES TO FINANCIAL STATEMENTS

SUPPLEMENTARY DATA

Schedule 1 - Balance Sheets, August 31, 2005 And 2004

Schedule 2 - Schedule Of Operating Fund Expenses

Schedule 3 - Luther Place Account - Balance Sheet, August 31, 2005

Schedule 4 - Luther Place Account - Statement of Revenue, Expenses And  
Changes In Fund Balance, Year Ended August 31, 2005

Schedule 5 - Luther Estates Account - Balance Sheet, August 31, 2005

Schedule 6 - Luther Estates Account - Statement of Revenue, Expenses And Changes  
In Fund Balance, Year Ended August 31, 2005

Schedule 7 - Schedule Of Costs Per Patient Day

ROENFELDT & LOCKAS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

610 CLINTON STREET  
OTTAWA, ILLINOIS 61350

RICHARD L. ROENFELDT, C.P.A.  
DUANE K. LOCKAS, C.P.A.

TEL. (815) 433-0464  
FAX (815) 433-6464

Independent Auditors' Report

Board Of Directors  
Pleasant View Luther Home, Inc.  
Ottawa, Illinois 61350

We have audited the accompanying balance sheet of Pleasant View Luther Home, Inc. as of August 31, 2005, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Home's Board Of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pleasant View Luther Home, Inc. as of August 31, 2005, and the results of its operations, changes in equity and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 16 to the financial statements, Pleasant View Luther Home, Inc. has experienced declines in revenue and cash receipts that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information in Supplementary Schedules 1 - 7 inclusive is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Roefeldt & Lockas, P.C.*

Roefeldt & Lockas, P.C.  
Ottawa, Illinois  
November 4, 2005

Pleasant View Luther Home, Inc.  
Balance Sheet  
August 31, 2005

| <u>ASSETS</u>                              |    |                       |
|--|----|-----------------------|
| Current Assets                             |    |                       |
| Petty Cash                                 | \$ | 700.00                |
| Cash In Bank                               |    | 409,103.90            |
| Investments                                |    | 226,334.08            |
| Marketable Securities                      |    | 834.50                |
| Assets Whose Use Is Limited:               |    |                       |
| Cash Held For Custodial Purposes           |    | 13,605.47             |
| Patient Receivable - Residents             |    | 169,873.14            |
| - I.P.A.                                   |    | 584,814.10            |
| - Medicare Contractual                     |    | 121,275.04            |
| Other Receivables                          |    |                       |
| Wallace Trust                              |    | 3,666.18              |
| Due From Luther Estates                    |    | 7,921.80              |
| Inventories - Linen                        |    | 16,841.99             |
| - Nursing Supplies                         |    | 24,598.75             |
| - Food                                     |    | 12,000.00             |
| Prepaid Expenses                           |    | 79,087.50             |
| Cash Advances                              |    | <u>347.40</u>         |
| Total Current Assets                       |    | \$1,671,003.85        |
| Assets Whose Use Is Limited                |    |                       |
| Cash In Bank - Restricted Gifts            |    | 22,281.18             |
| Land, Buildings And Equipment (Schedule 1) |    | 2,698,276.00          |
| New Project Costs                          |    | 460,576.14            |
| Other Assets                               |    |                       |
| Equity In Luther Place And Luther Estates  |    | (631,845.31)          |
| Due From Luther Estates                    |    | 117,761.16            |
| Due From Luther Estates - Resident Reserve |    | <u>62,000.00</u>      |
| TOTAL ASSETS                               |    | <u>\$4,400,053.02</u> |

The Notes To Financial Statements Are An Integral Part Of This Statement

Pleasant View Luther Home, Inc.  
Balance Sheet  
August 31, 2005

LIABILITIES AND NET ASSETS

|   |                  |                       |
|---|------------------|-----------------------|
| Current Liabilities                         |                  |                       |
| Withheld and Accrued Payroll Taxes          | \$ 6,675.41      |                       |
| Bank Overdrafts                             | 26,197.58        |                       |
| Accounts Payable                            | 353,908.20       |                       |
| Accrued Interest                            | 4,017.00         |                       |
| Accrued Payroll                             | 247,487.27       |                       |
| Accrued State License Fee                   | 19,530.00        |                       |
| Other Payroll Withholdings                  | 715.74           |                       |
| Due to Priority Waiting List                | 56,000.00        |                       |
| Reserve For Personal Allowance Funds        | 13,605.47        |                       |
| Reserve For Employee Health Insurance       | 12,122.20        |                       |
| Accrued Pension                             | 29,867.05        |                       |
| Mortgage Payable - Wallace Trust            | 31,120.75        |                       |
| Mortgage Payable - Old Second               | 967,304.03       |                       |
| Mortgage Payable - Morris                   | <u>34,743.75</u> |                       |
| Total Current Liabilities                   |                  | \$1,803,294.45        |
| Long-Term Debt - Net Of Current Liabilities |                  |                       |
| Mortgage Payable - Morris                   |                  | 557,684.62            |
| Mortgage Payable - Wallace Trust            |                  | <u>752,987.24</u>     |
| Total Liabilities                           |                  | <u>\$3,113,966.31</u> |
| Net Assets                                  |                  |                       |
| Unrestricted                                |                  | \$1,263,805.53        |
| Temporarily Restricted                      |                  | <u>22,281.18</u>      |
| Total Net Assets                            |                  | <u>\$1,286,086.71</u> |
| TOTAL LIABILITIES AND NET ASSETS            |                  | <u>\$4,400,053.02</u> |

The Notes To Financial Statements Are An Integral Part Of This Statement

EXHIBIT A  
Schedule 1

Pleasant View Luther Home, Inc.  
Schedule Of Land, Buildings And Equipment  
August 31, 2005

|   | <u>Cost</u>           | <u>Less<br/>Accumulated<br/>Depreciation</u> | <u>Net<br/>Book<br/>Value</u> |
|---|-----------------------|--|-------------------------------|
| Land  | \$ 19,606.00          | \$ ---                                       | \$ 19,606.00                  |
| Land & Buildings - Monson Estate                | 90,787.00             | ---  | 90,787.00                     |
| Buildings                                       |                       |  |                               |
| Alumni Building                                 | 171,457.00            | 147,993.00                                   | 23,464.00                     |
| House - 311 Willard Avenue                      | 72,500.00             | 54,133.00                                    | 18,367.00                     |
| Administrator's Residence                       | 25,262.00             | 22,392.00                                    | 2,870.00                      |
| Buildings - B & C Sections And<br>Health Center | 6,731,436.00          | 4,439,550.00                                 | 2,291,886.00                  |
| Furniture, Fixtures And Equipment               |                       |  |                               |
| General   | 486,655.00            | 423,265.00                                   | 63,390.00                     |
| Alumni Building                                 | 10,106.00             | 10,106.00                                    | ---                           |
| B & C Sections                                  | 320,673.00            | 299,177.00                                   | 21,496.00                     |
| Laundry   | 58,766.00             | 46,185.00                                    | 12,581.00                     |
| Building And Grounds                            | 113,659.00            | 93,126.00                                    | 20,533.00                     |
| Infirmary                                       | 26,170.00             | 26,170.00                                    | ---                           |
| Health Center                                   | 532,546.00            | 438,079.00                                   | 94,467.00                     |
| Dietary   | 192,521.00            | 155,668.00                                   | 36,853.00                     |
| Housekeeping                                    | 23,686.00             | 21,710.00                                    | 1,976.00                      |
| Vehicles  | 87,332.00             | 87,332.00                                    | ---                           |
|   | <u>\$8,963,162.00</u> | <u>\$6,264,886.00</u>                        | <u>\$2,698,276.00</u>         |

The Notes To Financial Statements Are An Integral Part Of This Statement

Pleasant View Luther Home, Inc.  
Statement Of Activities And Changes In Net Assets  
Year Ended August 31, 2005

|                                |                        |
|--------------------------------|------------------------|
| Operating Revenue              |                        |
| Direct From Residents          | \$ 4,341,908.75        |
| Illinois Public Aid            | 1,683,393.87           |
| Patient Revenue - Medicare     | 1,709,718.11           |
| Pharmacy and Medical Supplies  | 448,097.64             |
| Dietary Supplement             | 31,633.55              |
| Miscellaneous Patient Charges  | 39,122.63              |
| Other Income                   | 8,147.09               |
|                                | <u>\$ 8,262,021.64</u> |
| Operating Expenses             |                        |
| Administration                 | \$ 552,598.22          |
| Chaplaincy And Social Services | 204,014.52             |
| Activities                     | 183,489.15             |
| Dietary                        | 1,152,179.96           |
| Nursing Care                   | 4,159,519.17           |
| MDS, Care Plans And In-Service | 127,274.48             |
| Rehabilitation                 | 229,227.86             |
| Skilled Therapy                | 304,573.00             |
| Physician Service              | 13,892.50              |
| Marketing/Fund Development     | 129,923.12             |
| Environmental Services         | 1,258,402.38           |
| Other Operating Expenses       | <u>619,278.56</u>      |
|                                | <u>\$ 8,934,372.92</u> |
| Net Operating Revenue          | \$ ( 672,351.28)       |

The Notes To Financial Statements Are An Integral Part Of This Statement



Pleasant View Luther Home, Inc.  
Statement Of Activities And Changes In Net Assets  
Year Ended August 31, 2005

|   |    |                        |
|---|----|------------------------|
| Support And Other Revenue   |    |                        |
| Maintenance Income - Luther Place                                       | \$ | 16,500.00              |
| Interest Income   |    | 13,300.99              |
| Gifts And Memorials   |    | 206,301.98             |
| Meals - Guests And Employees  |    | 32,983.33              |
| Good Samaritan Fund Donations   |    | 38,096.43              |
| Restricted Gifts  |    | 30,299.39              |
| Founders Gifts  |    | 24,000.00              |
| Capital Fund Drive  |    | 16,990.12              |
| Farm Income   |    | <u>937.49</u>          |
|   |    | \$ 379,409.73          |
| Other Expenses  |    |                        |
| Restricted Gifts Expense  |    | <u>27,414.92</u>       |
|   |    | <u>351,994.81</u>      |
| Total Support And Other Revenue Less Expenses                           |    | \$( 320,356.47)        |
| Excess (Deficit) Of Revenue And Support Over Expenses                   |    |                        |
| Other Changes In Net Assets   |    |                        |
| Excess (Deficit) Of Revenue Over Expenses And Other Changes In Equity - |    |                        |
| Luther Place  | (  | 80,870.76)             |
| Luther Estates  | (  | 70,980.20)             |
| Write Off Of Loan To Luther Place                                       |    | 120,000.00             |
| Write Off Of Loan To Luther Estates                                     |    | 11,000.00              |
|   |    | <u>1,627,294.14</u>    |
| Net Assets, Beginning Of Year   |    | <u>\$ 1,286,086.71</u> |
| Net Assets, End Of Year   |    |                        |

## EXHIBIT C

Pleasant View Luther Home, Inc.  
Statement Of Cash Flows  
Year Ended August 31, 2005

## CASH FLOWS FROM OPERATING ACTIVITIES

|   |                   |                   |
|---|-------------------|-------------------|
| Excess (Defecit) Of Revenue And Support Over Expenses |                   | \$ ( 320,356.47)  |
| Adjustments To Reconcile Net Income To Net Cash       |                   |                   |
| Provided By Operating Activities:                     |                   |                   |
| Depreciation  | \$ 262,161.00     |                   |
| Increase In Accounts Receivable                       | (218,771.54)      |                   |
| Increase In Inventories                               | ( 32,949.37)      |                   |
| Increase In Prepaid Expenses                          | ( 65,775.05)      |                   |
| Decrease In Cash Advances                             | 52.60             |                   |
| Decrease In Withheld And Accrued Payroll Taxes        | ( 11,168.21)      |                   |
| Decrease In Accounts Payable                          | (148,513.36)      |                   |
| Increase In Other Payroll Withholdings                | 715.74            |                   |
| Increase In Accrued Payroll                           | 6,632.69          |                   |
| Increase In Due To Priority Waiting List              | 56,000.00         |                   |
| Decrease In Accrued Interest Payable                  | ( 139.94)         |                   |
| Increase In Reserve For Personal Allowance Funds      | 3,992.84          |                   |
| Increase In Reserve For Employee Health Insurance     | 20,967.33         |                   |
| Decrease In Accrued Pension                           | ( 8,596.93)       |                   |
| Increase In Mortgages Payable                         | <u>973,001.17</u> |                   |
| Total Adjustments                                     |                   | <u>837,608.97</u> |

## NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 517,252.50

## CASH FLOWS FROM INVESTING ACTIVITIES

|                               |  |               |
|-------------------------------|--|---------------|
| Purchase Of Equipment         |  | ( 62,536.00)  |
| Increase In New Project Costs |  | ( 228,556.54) |

## CASH FLOWS FROM FINANCING ACTIVITIES

|   |  |                   |
|---|--|-------------------|
| Decrease In Line Of Credit - Old Second                 |  | ( 145,000.00)     |
| Decrease In Long-Term Debt                              |  | (1,045,569.17)    |
| Decrease In Other Assets                                |  | 7,921.80          |
| Write Off Of Loans From Luther Place And Luther Estates |  | <u>131,000.00</u> |

## NET INCREASE (DECREASE) IN CASH

\$( 825,487.41)

## CASH BALANCE, AUGUST 31, 2004

1,471,314.46

## CASH BALANCE, AUGUST 31, 2005 (Schedule I)

\$ 645,827.05

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

## Cash Paid During The Year For:

|          |  |               |
|----------|--|---------------|
| Interest |  | \$ 178,793.04 |
|----------|--|---------------|

The Notes To Financial Statements Are An Integral Part Of This Statement

EXHIBIT C  
Schedule 1

Pleasant View Luther Home, Inc.  
Cash Balance  
August 31, 2005

|                               |                      |
|-------------------------------|----------------------|
| Petty Cash                    | \$ 700.00            |
| Personal Funds                | 556.22               |
| Cash In Bank                  |                      |
| Regular Checking              | ( 26,197.58)         |
| Capital Fund Drive            | 169,851.06           |
| Special Checking              | 4,605.57             |
| Investment Checking           | 6,341.36             |
| Restricted Gifts              | 22,281.18            |
| Personal Funds                | 13,049.25            |
| Payroll                       | 126,662.23           |
| Health Insurance              | 12,122.20            |
| Endowment Checking            | 2,080.37             |
| Employer's 403(b)             | 30,230.12            |
| Priority Waiting List         | 57,210.99            |
| Investments                   |                      |
| Larson And Sawyer             | <u>226,334.08</u>    |
| Cash Balance, August 31, 2005 | <u>\$ 645,827.05</u> |

The Notes To Financial Statements Are An Integral Part Of This Statement

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 1 - Description of Organization

Pleasant View Luther Home, Inc. is a nonprofit corporation located in Ottawa, Illinois. Pleasant View operates a 210 bed skilled nursing facility. The Home is dedicated to improving the health care of the citizens of Ottawa and surrounding areas.

Pleasant View Luther Home, Inc. is organized under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Note 2 - Basis of Financial Reporting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with guidelines recommended by the Committee on Health Care Institutions of the American Institute of Certified Public Accountants.

The accounting policies relative to the valuation of property and equipment are included with the caption on the Balance Sheets.

Cash

For the purposes of the Statement of Cash Flows, cash consists of bank demand deposits and certificates of deposit with maturities of less than ninety days.

Patient Receivables

Patient receivables are disclosed net of an allowance for uncollectibles. Pleasant View Luther Home, Inc. provides nursing home services primarily to residents of Ottawa and surrounding areas. Patient receivables resulting from these services are due from these residents. Several residents have Medicare and/or Medicaid coverage which will assume responsibility for the outstanding balance.

Adoption of FASB Nos. 116 & 117

For the year ended August 31, 2005 Pleasant View Luther Home, Inc. has prepared its financial statements in accordance with Financial Accounting Standards Board (FASB) Statement Number 116, *Accounting for Contributions Received and Made* and FASB Statement Number 117, *Financial Statements of Not-For-Profit Organizations*. These standards require that assets, liabilities and net assets be classified in the following three categories:

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 2 - Basis of Financial Reporting (Continued)

Unrestricted

Unrestricted net assets consists of resources available for current operations. Pleasant View Luther Home, Inc. has elected to show its property and equipment in this classification because there are no time restrictions on the use of the assets.

Temporarily Restricted

Temporarily restricted consists of resources whose use has been restricted by donors as to how the funds will be spent.

Permanently Restricted

Permanently restricted consists of resources whose use has been permanently restricted by donors. Pleasant View Luther Home, Inc. currently has no permanently restricted assets.

Inventory

Supplies inventory is valued at cost using the first-in, first-out method.

Depreciation

Depreciation is computed by the straight-line method based on estimated service lives by guidelines set by the Illinois Department of Public Aid established by the American Hospital Association.

Compensated Absences

Pleasant View Luther Home, Inc. does not record the amount of accrued compensated absences. While this compensation is attributable to employees' services already rendered and the rights accumulate and payment is probable, the amount cannot be reasonably estimated.

Interest

All interest costs incurred have been expensed.

Note 3 - Cash And Investments

(a) Cash Deposits

The total cash of Pleasant View Luther Home, Inc. at August 31, 2005, includes \$305,187.50 in monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 3 - Cash And Investments (Continued)

(b) Investments

The only investment of Pleasant View Luther Home, Inc. is an agency account administered by Union Financial Services and Trust, Inc. Separate insurance provided by the trust company covers the assets held.

Note 4 - Assets Whose Use Is Limited

The Home maintains residents' funds in a separate checking account for the convenience and protection of the residents. These funds are available at the residents' requests. The balance as of August 31, 2005 plus residents' cash on hand is \$13,605.47.

The Home maintains a separate checking and money market account for monetary donations to the Home which are restricted for specific purposes. The balance in these restricted gift accounts is \$22,281.18 at August 31, 2005.

Note 5 - Patient and Resident Service Revenues

Revenues from services to patients and residents are recorded at full established rates with estimated amounts uncollectible by reason of contractual allowances being recorded to derive net patient revenues. Revenue by payer source was as follows:

|                               | Year Ended<br><u>August 31, 2005</u> |
|-------------------------------|--------------------------------------|
| Medicare                      | \$1,709,718.11                       |
| Medicaid                      | 1,683,393.87                         |
| Other                         | <u>4,341,908.75</u>                  |
| Patient and Resident Services | <u>\$7,735,020.73</u>                |

Note 6 - Contractuals

Revenues generated from services to patients are recorded at full established billing rates. Amounts received from Medicare and Medicaid programs are generally less than the established billing rates, and the difference is reported as contractual adjustments and deducted from operating revenue. Pleasant View Luther Home, Inc. has various contractual agreements which determine the amount to be received. The major agreement provides that the Home receives payment for Medicare patients based upon rates determined by a RUGS score. The agreement with Medicaid provides that the Home receives payments for Medicaid

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 6 - Contractuals (Continued)

patients according to an Illinois payment system. Final determination of amounts earned is subject to audit by the intermediaries who handle the various payment arrangements.

Note 7 - Provision for Bad Debts

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Home has established credit and collection policies to hold this cost to a minimum. Provision for bad debts of \$57,417.43 for the year ended August 31, 2005, has been recorded as an operating expense on the financial statements.

Note 8 - Pension Plans

Pleasant View Luther Home, Inc. maintains a tax sheltered annuity program under Internal Revenue Code 403(b). Under this plan, all employees over the age of 18 who work at least 1,000 hours per year, are eligible after one year of service. At that time, Pleasant View Luther Home, Inc. pays 3% of the employee's salary into the plan. This plan is a defined contribution plan and is administered by Manulife. Total costs recognized for the year ended August 31, 2005 were \$85,584.35.

Note 9 - Fair Value of Financial Instruments

The following methods and assumptions were used by the Home in estimating the fair value of its financial instruments:

Cash

The carrying amount reported in the balance sheet for cash approximates its fair value.

Investments

The Home has adopted SFAS No. 124, Accounting For Certain Investments Held By Not-For-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values are reported at their fair values on the balance sheet. Unrealized gains and losses are included in the change in net assets.

Assets Limited as to Use

These assets consist primarily of cash and short-term investments. The carrying amount reported in the balance sheet approximates fair value.

Long-Term Debt

It was not practicable to estimate the fair value on the mortgage payables and FMHA loan based on the limited trading of the loan.

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 10 - Mortgage Notes Payable

- A. The Health Center was placed in operation during 1977. It is being paid for through a note from Morris Savings & Loan Association and bears an interest rate of 6.50%. It is to be paid in monthly installments over a 30 year period. The balance of the note as of August 31, 2005, is \$592,428.37. The Home has no current mortgage payable liability as it is paid more than one year in advance of the due date.
- B. The Home borrowed \$1,100,000 on June 8, 2001 for various improvements. The note bears an interest rate of 6.50% for five years. Monthly payments are \$8,000.00 with a balloon due on June 8, 2006. Balance of the note at August 31, 2005, is \$967,304.03.
- C. The Home borrowed \$900,000 from the H. Jane Wallace Trust. This note bears an interest rate of 6.50% for 20 years. Monthly payments are \$6,764.29. The balance of the note as of August 31, 2005, is \$784,107.99.

The following is a summary of the long-term debt transactions of Pleasant View Luther Home, Inc. for the year ended August 31, 2005:

|   |                       |
|---|-----------------------|
| Long-Term Debt Payable, Including Current Portion |                       |
| At September 1, 2004                              | \$2,416,408.39        |
| Long-Term Debt Issued                             | ---                   |
| Long-Term Debt Retired                            | <u>( 72,568.00)</u>   |
| Long-Term Debt Payable, Including Current Portion |                       |
| At August 31, 2005                                | <u>\$2,343,840.39</u> |

Debt service requirements to maturity are as follows:

|                   |                       |
|-------------------|-----------------------|
| Year              |                       |
| Ending            |                       |
| <u>August 31,</u> |                       |
| 2006              | \$1,033,168.53        |
| 2007              | 253,757.19            |
| 2008              | 270,751.78            |
| 2009              | 139,610.91            |
| 2010              | 40,333.12             |
| 2011 and later    | <u>606,218.86</u>     |
|                   | <u>\$2,343,840.39</u> |



Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 11 - Contingencies

As of August 31, 2005, Pleasant View Luther Home, Inc. has been named as a beneficiary of several decedents' estates. These estates are pending and Pleasant View Luther Home, Inc. expects distributions from these estates sometime during the next fiscal year. No effect is given these estates on the current financial statements.

Note 12 - Equity In Related Funds

Pleasant View Luther Home, Inc. has an equity in two related funds, Pleasant View Luther Estates and Pleasant View Luther Place. These are independent living units owned by Pleasant View Luther Home, Inc. and rented. As of August 31, 2005, the equity in these funds are as follows:

|                |                       |
|----------------|-----------------------|
| Luther Estates | \$(302,403.23)        |
| Luther Place   | <u>(329,442.08)</u>   |
| Total Equity   | <u>\$(631,845.31)</u> |

Note 13 - Trust Beneficiary

The Home is an income beneficiary of the H. Jane Wallace Trust. Pursuant to the terms of this trust, the Home will receive annual income distributions. The Home has no residual interest in this trust which is approximately \$1.370 million.

Note 14 - Self-Insurance Plan

The Home has adopted a self-insurance plan for its health insurance. This plan is administered by Benefit Administrators Systems. The plan is funded through deposits in restricted funds at Old Second Bank, Ottawa, Illinois. These funds are used solely for premiums and claims made on the self-insurance plan.

The Home has purchased a stop loss insurance policy which limits its liability to \$40,000 per eligible participant per year with a maximum aggregate reimbursement of \$1,000,000.

Note 15 - Commitments

On September 20, 2005, the Board of Directors approved an affiliation agreement with Lutheran Home & Services of Arlington Heights, Illinois. If approved at the Home's annual corporate meeting, the current Board will resign and be replaced with a new board of five

Pleasant View Luther Home, Inc.  
Notes To Financial Statements  
August 31, 2005

Note 15 – Commitments (continued)

persons. The new Board will be comprised of three directors of Lutheran Home & Services senior management and two members of the prior Pleasant View Luther Home, Inc. board. The remaining members of the prior Pleasant View Luther Home, Inc. board shall continue to serve the Home as an Advisory Board. Per advice of counsel, Pleasant View Luther Home, Inc. will continue to be a separate organization under IRC Code Sec. 501(c)(3).

The new management of the Home is intent on using the architect's drawings and repositioning plans secured in the past year in determining the scope and plan of a building program. The Home has accumulated capitalized costs in this program as of August 31, 2005 of \$460,576.14.

Note 16 - Going Concern

During the past fiscal year, the Home has experienced census declines, and a change in the mix of residents to a higher percent of residents on Illinois Public Aid, which pays less than other residents pay. The Home has been unable to secure financing for these cash flow needs and is having difficulty paying vendors when due with operating cash.

Management of the Home expects cash flow and income to improve by maintaining census at higher levels, attracting more Medicare patients, continued monitoring of expenses in all departments, and a repositioning plan along with an affiliation with Lutheran Home & Services of Arlington Heights, Illinois.

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Balance Sheets  
 August 31, 2005 And 2004

|  | August 31,<br>2005     | August 31,<br>2004     | August 31,<br>2005     | August 31,<br>2004     |
|--|------------------------|------------------------|------------------------|------------------------|
| <b>ASSETS</b>                              |                        |                        |                        |                        |
| Current Assets                             | \$ 700.00              | \$ 700.00              | \$ 26,197.58           | \$ 63,049.91           |
| Petty Cash                                 | 556.22                 | 320.26                 | 6,675.41               | 17,843.62              |
| Personal Funds                             | ---                    | ---                    | 353,908.20             | 502,421.56             |
| Cash In Bank                               | ---                    | ---                    | 715.74                 | ---                    |
| Regular Checking                           | 169,851.06             | 80,801.87              | 247,487.27             | 240,854.58             |
| Capital Fund Drive                         | 4,603.57               | 90,004.68              | 19,530.00              | 19,530.00              |
| Special Checking                           | 6,341.36               | 7,158.14               | ---                    | ---                    |
| Investment Checking                        | 22,281.18              | 16,090.20              | 13,605.47              | 9,612.63               |
| Restricted Gifts                           | 13,049.25              | 9,292.37               | 12,122.20              | (8,845.13)             |
| Personal Funds                             | 126,662.23             | ---                    | 56,000.00              | ---                    |
| Payroll                                    | 12,122.20              | ---                    | 29,867.05              | ---                    |
| Health Insurance                           | 2,080.37               | 7,080.37               | ---                    | 38,463.98              |
| Endowment Checking                         | 30,230.12              | 38,488.09              | ---                    | 145,000.00             |
| Employer's 403(b)                          | 57,210.99              | ---                    | 31,120.75              | 29,167.36              |
| Priority Waiting List                      | 226,334.08             | 1,284,428.39           | 967,304.03             | 31,000.00              |
| Investment - Larson And Sawyer             | 834.50                 | 834.50                 | 34,743.75              | ---                    |
| Marketable Securities, At Cost             | ---                    | ---                    | 4,017.00               | 4,156.94               |
| Accounts Receivable                        | 169,873.14             | 229,480.20             | \$ 1,803,294.45        | \$ 1,092,255.45        |
| Residents                                  | 584,814.10             | 313,949.51             | ---                    | ---                    |
| Illinois Public Aid                        | 121,275.04             | 88,202.61              | ---                    | ---                    |
| Medicare Contractual                       | 3,666.18               | 29,903.95              | ---                    | ---                    |
| Wallace Trust                              | 7,921.80               | 7,242.45               | ---                    | ---                    |
| Due From Luther Estates                    | ---                    | ---                    | ---                    | ---                    |
| Inventories, At Cost                       | 16,841.99              | 8,503.14               | 557,684.62             | 602,131.00             |
| Linen                                      | 24,598.75              | 11,988.23              | 752,987.24             | 784,107.99             |
| Nursing Supplies                           | 12,000.00              | ---                    | ---                    | 970,002.04             |
| Food                                       | 79,087.50              | 13,312.45              | ---                    | ---                    |
| Prepaid Expenses                           | 347.40                 | 400.00                 | ---                    | ---                    |
| Cash Advances                              | \$ 1,693,285.03        | \$ 2,238,181.41        | \$ 3,113,966.31        | \$ 3,448,496.48        |
| Total Current Assets                       | 2,698,276.00           | 2,897,901.00           | \$ 1,263,805.53        | \$ 1,611,203.94        |
| Land, Buildings And Equipment              | 460,576.14             | 232,019.60             | 22,281.18              | 16,090.20              |
| New Project Costs                          | ---                    | ---                    | \$ 1,286,086.71        | \$ 1,627,294.14        |
| Other Assets                               | (329,442.08)           | (248,571.32)           | ---                    | ---                    |
| Equity (DEFICIT) In Luther Place           | (302,403.23)           | (231,423.03)           | ---                    | ---                    |
| Equity (DEFICIT) In Luther Estates         | 117,761.16             | 125,682.96             | ---                    | ---                    |
| Due From Luther Estates                    | 62,000.00              | 62,000.00              | ---                    | ---                    |
| Due From Luther Estates - Resident Reserve | ---                    | ---                    | ---                    | ---                    |
| <b>TOTAL ASSETS</b>                        | <u>\$ 4,400,053.02</u> | <u>\$ 5,075,790.62</u> | <u>\$ 4,400,053.02</u> | <u>\$ 5,075,790.62</u> |
| <b>LIABILITIES AND NET ASSETS</b>          |                        |                        |                        |                        |
| Current Liabilities                        |                        |                        |                        |                        |
| Bank Overdrafts                            |                        |                        |                        |                        |
| Withheld And Accrued                       |                        |                        |                        |                        |
| Payroll Taxes                              |                        |                        |                        |                        |
| Accounts Payable                           |                        |                        |                        |                        |
| Other Payroll Withholdings                 |                        |                        |                        |                        |
| Accrued Payroll                            |                        |                        |                        |                        |
| Accrued Illinois State License Fee         |                        |                        |                        |                        |
| Reserve For Personal                       |                        |                        |                        |                        |
| Allowance Funds                            |                        |                        |                        |                        |
| Reserve For Employee                       |                        |                        |                        |                        |
| Health Insurance                           |                        |                        |                        |                        |
| Due to Priority Waiting List               |                        |                        |                        |                        |
| Accrued Pension                            |                        |                        |                        |                        |
| Line Of Credit - Old Second                |                        |                        |                        |                        |
| Mortgage Payable - Wallace Trust           |                        |                        |                        |                        |
| Mortgage Payable - Old Second              |                        |                        |                        |                        |
| Mortgage Payable - Morris                  |                        |                        |                        |                        |
| Accrued Interest                           |                        |                        |                        |                        |
| Total Current Liabilities                  |                        |                        |                        |                        |
| Long-Term Liabilities                      |                        |                        |                        |                        |
| Mortgage Payable - Morris                  |                        |                        |                        |                        |
| Mortgage Payable - Wallace Trust           |                        |                        |                        |                        |
| Mortgage Payable - Old Second              |                        |                        |                        |                        |
| Total Liabilities                          |                        |                        |                        |                        |
| Net Assets                                 |                        |                        |                        |                        |
| Unrestricted                               |                        |                        |                        |                        |
| Temporarily Restricted                     |                        |                        |                        |                        |
| Total Net Assets                           |                        |                        |                        |                        |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>    | <u>\$ 4,400,053.02</u> | <u>\$ 5,075,790.62</u> | <u>\$ 4,400,053.02</u> | <u>\$ 5,075,790.62</u> |

Pleasant View Luther Home, Inc.  
Supplementary Data  
Schedule Of Operating Fund Expenses  
Year Ended August 31, 2005

ADMINISTRATION

|                                  |                 |               |
|----------------------------------|-----------------|---------------|
| Salaries                         | \$ 328,918.95   |               |
| Supplies And Office Expense      | 23,789.53       |               |
| F.I.C.A.                         | 22,305.01       |               |
| Pensions                         | 7,354.51        |               |
| Health Insurance                 | 38,355.62       |               |
| Workmen's Compensation           | 682.18          |               |
| Telephone                        | 39,225.91       |               |
| Conferences And Institutes       | 2,097.12        |               |
| Computer Support                 | 5,917.82        |               |
| Dues And Memberships             | 8,475.45        |               |
| Adm. Residence - House Allowance | 782.34          |               |
| Legal And Professional Fees      | 71,054.39       |               |
| Wellspring Program Expense       | <u>3,639.39</u> | \$ 552,598.22 |

CHAPLAINCY AND SOCIAL SERVICES

|                            |                 |            |
|----------------------------|-----------------|------------|
| Salaries                   | \$ 142,865.24   |            |
| Chaplain's Residence       | 3,425.99        |            |
| F.I.C.A.                   | 10,399.99       |            |
| Pension                    | 6,342.91        |            |
| Life And Health Insurance  | 25,688.22       |            |
| Workmen's Compensation     | 620.25          |            |
| Supplies                   | 5,477.53        |            |
| Conferences And Institutes | 1,229.14        |            |
| Consultants                | 4,768.75        |            |
| Dues and Memberships       | 1,291.50        |            |
| Unemployment Compensation  | <u>1,905.00</u> | 204,014.52 |

ACTIVITIES

|                             |               |            |
|-----------------------------|---------------|------------|
| Salaries                    | \$ 125,517.12 |            |
| Supplies And Other Expenses | 9,965.91      |            |
| F.I.C.A.                    | 8,549.85      |            |
| Pension                     | 2,717.93      |            |
| Employee Health Insurance   | 29,829.46     |            |
| Workmen's Compensation      | 6,568.21      |            |
| Conferences And Institutes  | 190.67        |            |
| Consultants                 | <u>150.00</u> | 183,489.15 |

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Schedule Of Operating Fund Expenses  
 Year Ended August 31, 2005

DIETARY

|                            |               |              |
|----------------------------|---------------|--------------|
| Salaries                   | \$ 159,965.49 |              |
| Supplies                   | 30,765.14     |              |
| F.I.C.A.                   | 11,066.28     |              |
| Unemployment Compensation  | 4,160.00      |              |
| Food and Nutrition Expense | 931,941.11    |              |
| Consultants                | 2,677.85      |              |
| Conferences and Institutes | 822.48        |              |
| Health Insurance           | 10,069.61     |              |
| Workmen's Compensation     | <u>712.00</u> | 1,152,179.96 |

NURSING CARE

|                           |                  |              |
|---------------------------|------------------|--------------|
| Salaries                  | \$2,908,861.91   |              |
| Supplies                  | 196,815.45       |              |
| F.I.C.A.                  | 205,917.60       |              |
| Pension                   | 48,012.91        |              |
| Health Insurance          | 424,594.24       |              |
| Workmen's Compensation    | 91,953.18        |              |
| Unemployment Compensation | 8,760.00         |              |
| Liability Insurance       | 287.37           |              |
| Consultants               | 5,751.80         |              |
| Pharmacy                  | 168,853.65       |              |
| Education                 | 2,535.86         |              |
| Laboratory                | 21,210.68        |              |
| Radiology                 | 7,701.79         |              |
| Registry Services         | <u>68,262.73</u> | 4,159,519.17 |

MDS, CARE PLANS AND IN-SERVICE

|                            |                 |            |
|----------------------------|-----------------|------------|
| Salaries                   | \$ 104,116.32   |            |
| Supplies                   | 3,997.55        |            |
| F.I.C.A.                   | 8,297.50        |            |
| Pension                    | 1,715.47        |            |
| Health Insurance           | 1,917.52        |            |
| Workmen's Compensation     | 310.11          |            |
| Conferences And Institutes | 847.35          |            |
| Computer Service           | <u>6,072.66</u> | 127,274.48 |

Pleasant View Luther Home, Inc.  
Supplementary Data  
Schedule Of Operating Fund Expenses  
Year Ended August 31, 2005

REHABILITATION

|                            |               |            |
|----------------------------|---------------|------------|
| Salaries                   | \$ 170,102.20 |            |
| Supplies                   | 17,115.17     |            |
| F.I.C.A.                   | 11,163.38     |            |
| Pension                    | 3,692.25      |            |
| Health Insurance           | 23,378.34     |            |
| Workmen's Compensation     | 3,284.22      |            |
| Conferences And Institutes | <u>492.30</u> | 229,227.86 |

SKILLED THERAPY

|                            |                 |            |
|----------------------------|-----------------|------------|
| Salaries                   | \$ 243,964.36   |            |
| Supplies                   | 7,790.04        |            |
| F.I.C.A.                   | 17,236.43       |            |
| Health Insurance           | 21,168.91       |            |
| Workmen's Compensation     | 8,210.30        |            |
| Pension                    | 3,468.24        |            |
| Conferences and Institutes | 1,342.72        |            |
| Unemployment Compensation  | <u>1,392.00</u> | 304,573.00 |

PHYSICIAN SERVICE

|                    |                 |           |
|--------------------|-----------------|-----------|
| Medical Director   | \$ 10,200.00    |           |
| Employee Physicals | <u>3,692.50</u> | 13,892.50 |

MARKETING/FUND DEVELOPMENT

|                            |                 |            |
|----------------------------|-----------------|------------|
| Salaries                   | \$ 54,393.31    |            |
| Services - Pastors         | 1,450.00        |            |
| Supplies                   | 11,353.56       |            |
| F.I.C.A.                   | 3,647.62        |            |
| Pension                    | 1,263.76        |            |
| Health Insurance           | 5,874.60        |            |
| Workmen's Compensation     | 123.93          |            |
| Conferences And Institutes | 154.21          |            |
| Promotional Printing       | 12,099.00       |            |
| Promotional Marketing      | 16,177.01       |            |
| Staff Recruitment          | 8,148.09        |            |
| Staff Recognition          | 11,571.03       |            |
| Unemployment Compensation  | <u>3,667.00</u> | 129,923.12 |

Pleasant View Luther Home, Inc.  
Supplementary Data  
Schedule Of Operating Fund Expenses  
Year Ended August 31, 2005

ENVIRONMENTAL SERVICES

**Housekeeping And Laundry**

|                            |                      |
|----------------------------|----------------------|
| Salaries                   | \$ 307,859.56        |
| Supplies                   | 96,089.54            |
| F.I.C.A.                   | 24,673.78            |
| Pension                    | 7,229.59             |
| Health Insurance           | 63,576.10            |
| Workmen's Compensation     | 9,852.67             |
| Linens Replacement         | 15,579.68            |
| Furnishings Replacement    | 27,255.29            |
| Conferences And Institutes | 50.00                |
| Unemployment Compensation  | <u>1,218.00</u>      |
|                            | <u>\$ 553,384.21</u> |

**Maintenance**

|                                     |                      |
|-------------------------------------|----------------------|
| Salaries                            | \$ 164,334.36        |
| Supplies - Tools, Paint, Parts      | 22,193.78            |
| F.I.C.A.                            | 11,438.99            |
| Pension                             | 3,786.78             |
| Health Insurance                    | 25,461.10            |
| Workmen's Compensation              | 4,926.27             |
| Repairs - Equipment                 | 25,531.23            |
| T.V. Cable                          | 17,163.14            |
| Utilities - Gas                     | 51,744.24            |
| Utilities - Electricity             | 177,659.55           |
| Utilities - Water                   | 22,292.13            |
| Utilities - Garbage                 | 19,350.58            |
| Exterminator                        | 854.21               |
| Truck And Van Expense - Gas, Oil    | 5,346.04             |
| Insurance - Fire, Extended Coverage | 148,977.22           |
| Grounds Upkeep                      | <u>3,958.55</u>      |
|                                     | <u>\$ 705,018.17</u> |

Total Environmental Services

1,258,402.38

Pleasant View Luther Home, Inc.  
Supplementary Data  
Schedule Of Operating Fund Expenses  
Year Ended August 31, 2005

| <u>OTHER OPERATING EXPENSES</u> |                  |                       |
|---------------------------------|------------------|-----------------------|
| Taxes And Appraisals            | \$ 4,311.73      |                       |
| Illinois State License Bed Fec  | 114,975.00       |                       |
| Interest Expense                | 178,932.98       |                       |
| Depreciation                    | 262,161.00       |                       |
| Bad Debt Expense                | <u>58,897.85</u> | <u>619,278.56</u>     |
| Total Operating Expenses        |                  | <u>\$8,934,372.92</u> |
| Total Patient Days              |                  | 63,714                |
| Cost Per Patient Day            |                  | <u>\$ 140.23</u>      |



Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Luther Place Account  
 Balance Sheet  
 August 31, 2005

| <u>ASSETS</u>                       |                     |                             |
|-------------------------------------|---------------------|-----------------------------|
| Cash In Bank                        |                     | \$ 6,783.99                 |
| Investments                         |                     |                             |
| Due From Luther Estates             |                     | 1,400.00                    |
| Land                                |                     | 3,739.84                    |
| Furniture And Fixtures              | \$222,763.55        |                             |
| Less Accumulated Depreciation       | <u>(175,857.00)</u> | 46,906.55                   |
| Duplexes                            | \$964,440.87        |                             |
| Less Accumulated Depreciation       | <u>(576,229.00)</u> | 388,211.87                  |
| Land Improvements                   | \$ 33,579.62        |                             |
| Less Accumulated Depreciation       | <u>( 17,933.00)</u> | 15,646.62                   |
| Other Assets                        |                     |                             |
| Rents Receivable                    |                     | 1,069.00                    |
| Due From Luther Estates             |                     | <u>13,999.84</u>            |
| <b>TOTAL ASSETS</b>                 |                     | <u><b>\$ 477,757.71</b></u> |
| <u>LIABILITIES AND EQUITY</u>       |                     |                             |
| Liabilities                         |                     |                             |
| Accounts Payable                    |                     | \$ 3,275.79                 |
| Rents Received In Advance           |                     | 1,924.00                    |
| Resident Reserve                    |                     | <u>802,000.00</u>           |
| Total Liabilities                   |                     | \$ 807,199.79               |
| Equity                              |                     |                             |
| Fund Deficit                        |                     | <u>(329,442.08)</u>         |
| <b>TOTAL LIABILITIES AND EQUITY</b> |                     | <u><b>\$ 477,757.71</b></u> |

## Schedule 4

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Luther Place Account  
 Statement Of Revenue, Expenses And Changes In Fund Balance  
 Year Ended August 31, 2005

|  |                  |                              |
|--|------------------|------------------------------|
| Revenue                                      |                  |                              |
| Rental Income                                | \$103,533.00     |                              |
| Interest Income                              | 47.67            |                              |
| Upgrades                                     | <u>6,700.00</u>  |                              |
| Total Revenue                                |                  | \$ 110,280.67                |
| <br>Expenses                                 |                  |                              |
| Communications                               | \$ 5,304.25      |                              |
| Maintenance - Pleasant View Luther Home      | 16,500.00        |                              |
| Utilities                                    | 14,340.12        |                              |
| Water And Sewer                              | 4,299.00         |                              |
| Supplies                                     | 2,981.33         |                              |
| Repairs And Maintenance                      | 2,409.73         |                              |
| Depreciation                                 | <u>35,317.00</u> |                              |
| Total Expenses                               |                  | <u>81,151.43</u>             |
| Excess Of Revenue Over Expenses              |                  | \$ 29,129.24                 |
| Luther Place Fund Deficit, Beginning Of Year |                  | (248,571.32)                 |
| Other Change In Fund Balance                 |                  |                              |
| Transfer From Luther Estates                 |                  | 10,000.00                    |
| Transfer To Pleasant View Luther Home        |                  | <u>(120,000.00)</u>          |
| Luther Place Fund Deficit, End Of Year       |                  | <u><u>\$(329,442.08)</u></u> |

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Luther Estates Account  
 Balance Sheet  
 August 31, 2005

| <u>ASSETS</u>                        |                      |                              |
|--------------------------------------|----------------------|------------------------------|
| Cash In Bank                         |                      | \$ 8,782.31                  |
| Rent Receivable                      |                      | 440.00                       |
| Land                                 |                      | 3,384.55                     |
| Furniture And Fixtures               | \$ 89,622.93         |                              |
| Less Accumulated Depreciation        | <u>( 78,109.00)</u>  | 11,513.93                    |
| Duplexes                             | \$1,164,539.65       |                              |
| Less Accumulated Depreciation        | <u>( 445,890.00)</u> | 718,649.65                   |
| Land Improvements                    | \$ 109,281.49        |                              |
| Less Accumulated Depreciation        | <u>( 75,514.00)</u>  | <u>33,767.49</u>             |
| <b>TOTAL ASSETS</b>                  |                      | <u><b>\$ 776,537.93</b></u>  |
| <u>LIABILITIES AND EQUITY</u>        |                      |                              |
| <b>Current Liabilities</b>           |                      |                              |
| Accounts Payable                     |                      | \$ 20,178.36                 |
| Due To Luther Place                  |                      | 1,400.00                     |
| Resident Reserve                     |                      | 853,040.00                   |
| Rents Received In Advance            |                      | 2,640.00                     |
| Due To Luther Home                   |                      | 7,921.80                     |
| Due To Luther Home - Hampson Reserve |                      | <u>62,000.00</u>             |
| <b>Total Current Liabilities</b>     |                      | <u><b>\$ 947,180.16</b></u>  |
| <b>Long-Term Liabilities</b>         |                      |                              |
| Due To Luther Place                  |                      | \$ 13,999.84                 |
| Mortgage Payable                     |                      | <u>117,761.16</u>            |
| <b>Total Long-Term Liabilities</b>   |                      | <u><b>\$ 131,761.00</b></u>  |
| Equity                               |                      | <u><b>\$(302,403.23)</b></u> |
| Fund Deficit                         |                      |                              |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |                      | <u><b>\$ 776,537.93</b></u>  |

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Luther Estates Account  
 Statement Of Revenue, Expenses And Changes In Fund Balance  
 Year Ended August 31, 2005

|  |              |                       |
|--|--------------|-----------------------|
| Revenue  |              |                       |
| Rental Income                                  | \$72,488.00  |                       |
| Interest Income                                | <u>19.56</u> |                       |
| Total Revenue                                  |              | \$ 72,507.56          |
| Expenses                                       |              |                       |
| Supplies                                       | \$ 332.75    |                       |
| Real Estate Taxes                              | 39,253.82    |                       |
| Interest Expense                               | 11,669.31    |                       |
| Depreciation                                   | 62,594.00    |                       |
| T.V. Cable                                     | 3,555.55     |                       |
| Water And Sewer                                | 3,054.78     |                       |
| Repairs  | 2,013.31     |                       |
| Utilities                                      | <u>14.24</u> |                       |
| Total Expenses                                 |              | <u>122,487.76</u>     |
| Excess (Deficit) Of Revenue Over Expenses      |              | \$( 49,980.20)        |
| Luther Estates Fund Deficit, Beginning Of Year |              | (231,423.03)          |
| Other Change In Fund Balance                   |              |                       |
| Transfer To Luther Place                       |              | ( 10,000.00)          |
| Transfer To Pleasant View Luther Home          |              | <u>( 11,000.00)</u>   |
| Luther Estates Fund Deficit, End Of Year       |              | <u>\$(302,403.23)</u> |

Pleasant View Luther Home, Inc.  
 Supplementary Data  
 Schedule Of Costs Per Patient Day  
 August 31, 2005

Per patient day costs are presented below for the following periods:

|                                | Year<br>Ended<br>August 31,<br><u>2005</u> | Year<br>Ended<br>August 31,<br><u>2004</u> | Year<br>Ended<br>August 31,<br><u>2003</u> | Year<br>Ended<br>August 31,<br><u>2002</u> |
|--------------------------------|--|--|--|--|
| Patron Days                    | 63,714                                     | 68,774                                     | 67,751                                     | 67,554                                     |
| Before Depreciation<br>Expense | \$ 136.11                                  | \$ 138.97                                  | \$ 140.02                                  | \$ 136.41                                  |
| After Depreciation<br>Expense  | \$ 140.23                                  | \$ 142.90                                  | \$ 144.09                                  | \$ 140.72                                  |

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Financial Statements and Schedules

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

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KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## Independent Auditors' Report

The Boards of Directors  
Lutheran Home and Services for the  
Aged, Inc. and Consolidated Affiliates:

We have audited the accompanying consolidated balance sheets of Lutheran Home and Services for the Aged, Inc. and consolidated affiliates (the Corporations) as of June 30, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporations' management. 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 Corporations' 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporations as of June 30, 2007 and 2006, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual corporations. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

October 25, 2007



**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Balance Sheets

June 30, 2007 and 2006

| Assets   | <u>2007</u>           | <u>2006</u>        |
|--|-----------------------|--------------------|
| Current assets:  |                       |                    |
| Cash and cash equivalents  | \$ 5,160,092          | 7,707,661          |
| Assets whose use is limited or restricted – required for<br>current liabilities  | 3,445,238             | 3,325,686          |
| Resident accounts receivable, net of allowance for<br>doubtful accounts of \$637,800 and \$340,600 in<br>2007 and 2006, respectively | 5,235,309             | 3,889,409          |
| Other receivables  | 449,771               | 468,634            |
| Inventory of supplies and other  | 906,622               | 748,906            |
| Total current assets   | <u>15,197,032</u>     | <u>16,140,296</u>  |
| Assets whose use is limited or restricted, net of amounts required<br>for current liabilities:                                       |                       |                    |
| Board designated for endowment   | 7,000,962             | 7,276,309          |
| Contributions receivable, net of allowance for doubtful<br>contributions of \$0 and \$16,000 in<br>2007 and 2006, respectively       | 20                    | 48,405             |
| Held by trustee under bond indenture agreement   | 12,069,434            | 26,395,942         |
| Donor restricted investments   | 3,325,532             | 3,088,901          |
| Total noncurrent assets whose use is limited<br>or restricted  | <u>22,395,948</u>     | <u>36,809,557</u>  |
| Land, buildings, and equipment, net of accumulated<br>depreciation and amortization  | 81,341,299            | 52,852,611         |
| Costs to acquire initial continuing care contracts   | 1,620,102             | 640,212            |
| Investments  | 17,690,525            | 14,246,670         |
| Agency funds   | 53,153                | 70,010             |
| Deferred financing costs, net  | 1,688,522             | 1,490,015          |
| Other assets   | 159,630               | 348,464            |
| Total assets   | <u>\$ 140,146,211</u> | <u>122,597,835</u> |

See accompanying notes to consolidated financial statements.

| <b>Liabilities and Net Assets</b>   | <b>2007</b>           | <b>2006</b>        |
|---|-----------------------|--------------------|
| <b>Current liabilities:</b>   |                       |                    |
| Current installments of long-term debt  | \$ 1,202,175          | 924,948            |
| Current portion of obligations under capital leases   | 274,370               | 303,680            |
| Accounts payable  | 3,179,037             | 1,878,784          |
| Accrued interest payable  | 633,640               | 366,676            |
| Accrued compensation and other liabilities  | 6,726,202             | 3,544,799          |
| Refundable deposits and entrance fees   | 5,617,243             | 6,185,652          |
| Estimated payables under third-party reimbursement programs                                     | 175,987               | 162,968            |
| Resident deposits   | 1,335,926             | 1,144,965          |
| <b>Total current liabilities</b>  | <b>19,144,580</b>     | <b>14,512,472</b>  |
| <b>Long-term debt, excluding current installments and unamortized bond discount and premium</b> | <b>70,898,393</b>     | <b>63,609,605</b>  |
| Obligations under capital leases, net of current portion  | 108,213               | 228,365            |
| Deferred revenue from nonrefundable entrance fees   | 297,463               | 270,084            |
| Residents' custodial assets   | 331,604               | 164,407            |
| Reserve for funeral expenses  | 48,754                | 60,122             |
| Charitable gift annuity contracts   | 599,053               | 641,553            |
| Agency funds  | 53,153                | 70,010             |
| Other long term liabilities   | —                     | 1,320              |
| <b>Total liabilities</b>  | <b>91,481,213</b>     | <b>79,557,938</b>  |
| <b>Net assets:</b>  |                       |                    |
| Unrestricted  | 45,249,521            | 39,670,837         |
| Temporarily restricted  | 267,174               | 280,159            |
| Permanently restricted  | 3,148,303             | 3,088,901          |
| <b>Total net assets</b>   | <b>48,664,998</b>     | <b>43,039,897</b>  |
| <b>Commitments and contingencies</b>  |                       |                    |
| <b>Total liabilities and net assets</b>   | <b>\$ 140,146,211</b> | <b>122,597,835</b> |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Operations

Years ended June 30, 2007 and 2006

|   | 2007          | 2006        |
|---|---------------|-------------|
| Operating revenue:  |               |             |
| Net resident service revenue  | \$ 55,974,486 | 49,016,164  |
| Other revenue   | 7,264,760     | 6,329,707   |
| Total operating revenue   | 63,239,246    | 55,345,871  |
| Operating expenses:   |               |             |
| Salaries and wages  | 33,728,721    | 27,626,577  |
| Employee benefits   | 8,348,824     | 7,053,624   |
| Support services  | 8,847,535     | 7,283,069   |
| Dietary services  | 3,038,327     | 2,471,580   |
| Program services  | 2,479,236     | 1,403,015   |
| Administrative services   | 5,207,608     | 4,771,736   |
| Community services  | 1,477,038     | 1,215,964   |
| Fund-raising  | 241,272       | 287,757     |
| Interest  | 1,993,213     | 1,570,052   |
| Depreciation and amortization   | 4,067,346     | 3,459,355   |
| Provision for bad debts   | 271,547       | 282,024     |
| Total operating expenses  | 69,700,667    | 57,424,753  |
| Loss from operations  | (6,461,421)   | (2,078,882) |
| Nonoperating gains and losses:  |               |             |
| Investment income   | 4,238,329     | 1,543,753   |
| Unrestricted contributions  | 736,265       | 704,464     |
| Bequests and legacies   | 1,616,539     | 2,572,793   |
| Net change in unrealized gains and losses on trading securities during the holding period | 1,005,423     | —           |
| Other, net  | 1,507,820     | 1,306,291   |
| Total nonoperating gains, net   | 9,104,376     | 6,127,301   |
| Excess of revenue and gains over expenses and losses                                      | 2,642,955     | 4,048,419   |
| Other changes in unrestricted net assets:   |               |             |
| Change in fair value of derivative instruments  | (96,429)      | 732,533     |
| Net unrealized gains and losses on other than trading securities                          | (1,547,415)   | (367,960)   |
| Change in actuarial value of gift annuity obligations                                     | (92,226)      | (278,935)   |
| Unrestricted net assets (deficit) of new affiliate as of date of change of control        | 4,160,188     | (517,896)   |
| Net assets released from restriction for land, buildings, and equipment acquisitions      | 511,611       | 620,657     |
| Increase in unrestricted net assets   | \$ 5,578,684  | 4,236,818   |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2007 and 2006

|  | <u>2007</u>          | <u>2006</u>       |
|--|----------------------|-------------------|
| Increase in unrestricted net assets  | \$ 5,578,684         | 4,236,818         |
| Temporarily restricted net assets:   |                      |                   |
| Contributions for specific purposes  | 498,626              | 533,833           |
| Temporarily restricted net assets of new affiliate as of<br>date of change of control  | —                    | 59,199            |
| Net assets released from restriction for land, building, and<br>equipment acquisitions | <u>(511,611)</u>     | <u>(620,657)</u>  |
| Decrease in temporarily restricted net assets  | <u>(12,985)</u>      | <u>(27,625)</u>   |
| Permanently restricted net assets:   |                      |                   |
| Contributions  | 166,792              | 102,010           |
| Change in net unrealized gains and losses on investments                               | <u>(107,390)</u>     | <u>—</u>          |
| Increase in permanently restricted<br>net assets                                       | <u>59,402</u>        | <u>102,010</u>    |
| Change in net assets   | 5,625,101            | 4,311,203         |
| Net assets at beginning of year  | <u>43,039,897</u>    | <u>38,728,694</u> |
| Net assets at end of year  | <u>\$ 48,664,998</u> | <u>43,039,897</u> |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

|   | 2007         | 2006         |
|---|--------------|--------------|
| Cash flows from operating activities and gains:   |              |              |
| Change in net assets  | \$ 5,625,101 | 4,311,203    |
| Adjustments to reconcile change in net assets to net cash provided by operating activities and gains: |              |              |
| Depreciation and amortization   | 4,067,346    | 3,459,355    |
| Amortization of entrance fees and refundable deposits   | (332,783)    | (389,600)    |
| Provision for bad debts   | 271,547      | 282,024      |
| Change in fair value of derivative instruments  | 96,429       | (732,533)    |
| Change in net unrealized gains and losses   | 541,992      | 367,960      |
| Change in actuarial value of gift annuity obligations   | 92,226       | 278,935      |
| Net assets (deficit) of new affiliate as of date of change of control                                 | (4,160,188)  | 458,697      |
| Contributions of permanently restricted net assets  | (166,792)    | (102,010)    |
| Changes in assets and liabilities:  |              |              |
| Resident accounts receivable  | (351,104)    | (647,055)    |
| Other receivables   | 67,248       | (292,108)    |
| Inventory of supplies and other   | 124,117      | 142,992      |
| Accounts payable  | 574,243      | (852,320)    |
| Accrued interest payable  | 266,964      | 299,578      |
| Accrued compensation and other liabilities  | 3,313,444    | 223,044      |
| Estimated payables under third-party reimbursement programs   | (515,048)    | (151,378)    |
| Deferred occupancy and care revenue and refundable deposits   | 45,347       | 41,992       |
| Net cash provided by operating activities and gains   | 9,560,089    | 6,698,776    |
| Cash flows from investing activities:   |              |              |
| Net sales (purchases) of assets whose use is limited or restricted                                    | 14,249,129   | (27,720,919) |
| Net purchases of investments  | (2,599,043)  | (430,288)    |
| Acquisition of land, buildings, and equipment, net  | (24,892,785) | (5,583,522)  |
| Costs to acquire initial continuing care contracts  | (979,890)    | (640,212)    |
| Increase in resident deposits   | 43,021       | 1,144,965    |
| Cash acquired as part of change in control of new affiliate   | 180,704      | 755,584      |
| Net cash used in investing activities   | (13,998,864) | (32,474,392) |
| Cash flows from financing activities:   |              |              |
| Proceeds from issuance of long-term debt  | 5,442,854    | 33,376,826   |
| Repayment of long-term debt   | (3,146,839)  | (818,858)    |
| Net repayment of obligations under capital leases   | (185,495)    | (337,486)    |
| Proceeds from entrance fees and refundable deposits   | 757,355      | 557,030      |
| Refunds paid on entrance fees and refundable deposits   | (1,010,949)  | (653,875)    |
| Payments for deferred financing costs   | 2,214        | (872,725)    |
| Net repayments on line of credit  | —            | (2,041,466)  |
| Contributions of permanently restricted net assets  | 166,792      | 102,010      |
| Net repayments of charitable gift annuity contracts   | (134,726)    | (45,091)     |
| Net cash provided by (used in) financing activities   | 1,891,206    | 29,266,365   |
| Net increase (decrease) in cash and cash equivalents  | (2,547,569)  | 3,490,749    |
| Cash and cash equivalents at beginning of year  | 7,707,661    | 4,216,912    |
| Cash and cash equivalents at end of year  | \$ 5,160,092 | 7,707,661    |
| Supplemental disclosure of cash flow information:   |              |              |
| Cash paid for interest, net of amounts capitalized  | \$ 1,977,370 | 1,570,686    |
| Supplemental disclosures of noncash transactions:   |              |              |
| Assets acquired under capital lease   | \$ 182,488   | 285,008      |
| Assumption of long-term debt  | 5,270,000    | 2,325,046    |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

**(1) Organization and Purpose**

Lutheran Home and Services for the Aged, Inc. (the Parent) and its consolidated affiliates were established through a common religious heritage with the Lutheran Church-Missouri Synod to provide nursing and residential living arrangements for the aged. Lutheran Home and Services for the Aged, Inc. is a recognized social ministry organization of the Lutheran Church-Missouri Synod and is affiliated with the Evangelical Lutheran Church of America. The Parent and its consolidated affiliates also sponsor programs and activities that provide counseling, education, outreach, day care, and other support services to the community. The affiliated organizations (collectively with the Parent to be referred to as the Corporations) are under the common control of the Parent, and include the following entities:

- Lutheran Home and Services for the Aged, Inc. provides management services to its consolidated affiliates and other affiliated entities in Illinois and also operates a 100 unit senior congregate housing facility.
- Lutheran Home for the Aged, Inc. (the Home), located in Arlington Heights, Illinois, is composed of 262 skilled and 60 intermediate licensed nursing care beds, as well as 70 licensed sheltered care units, providing nursing and other services associated with daily living to residents of the Home.
- Lutheran Community Services for the Aged, Inc. (LCSA) offers family support services, child care services, home health services, and counseling to residents of the Home, their families, staff, and the surrounding community.
- Lutheran Foundation for the Aged, Inc. (the Foundation) coordinates fund-raising activities that support the benevolent care and other programs at the Home.
- Wittenberg Lutheran Village, Inc. (WLV), located in Crown Point, Indiana, is composed of 155 skilled nursing care beds providing nursing and other services to its residents.
- Wittenberg Lutheran Village Endowment Corporation (WLVEC), located in Crown Point, Indiana, is composed of a 72 cottage retirement community and a 33 unit assisted living facility providing senior living and community based services to its residents.
- Lutheran Life Communities (LLC) is an Illinois not-for-profit corporation formed in 2005 for the purpose of developing new and innovative services for seniors, managing future senior living facilities, and providing day-to-day supervision and management to the facilities. Lutheran Senior Living of Illinois, Inc. (LSLI) was incorporated for the purpose of developing future senior living facilities in conjunction with Lutheran Church congregations. A continuing care retirement community (CCRC) consisting of 90 independent living units and 58 assisted living units is currently under development in Bloomington, Illinois, which is scheduled to open in fiscal year 2008. In 2005, the Parent entered into a services agreement with Greystone Development Company, LLC (Greystone) to develop the new retirement community. LLC will provide management services for pre-opening and ongoing management of the community under an agreement entered into by LSLI in February 2006.
- Effective December 1, 2005, the Parent entered into an affiliation agreement with Pleasant View Luther Home, Inc. (Pleasant View). Pursuant to the affiliation agreement, the Parent became the sole corporate member of Pleasant View. The transaction was accounted for using the as if

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pooling of interests method of accounting with the activities of the aforementioned entity included in the accompanying consolidated financial statements only for periods subsequent to the change of control. The net assets of Pleasant View as of the date of change of control have been reported as direct additions to the appropriate class of net assets. Pleasant View operates a retirement facility in Ottawa, Illinois, consisting of 36 independent living units and a 248 bed skilled nursing facility.

The following table sets forth the composition of the financial position of Pleasant View as of the effective date of the change of control:

| Assets  | <u>December 1,<br/>2005</u> |
|---|-----------------------------|
| Current assets  | \$ 1,295,473                |
| Land, buildings, and equipment, net   | 3,774,455                   |
| Other assets  | <u>90,787</u>               |
| Total assets  | <u>\$ 5,160,715</u>         |
| <b>Liabilities and Net Assets</b>   |                             |
| Current liabilities   | \$ 2,137,526                |
| Refundable entrance fees  | 1,857,458                   |
| Deferred revenue from nonrefundable<br>entrance fees                            | 303,771                     |
| Long-term debt, excluding current installments<br>and unamortized bond discount | <u>1,320,657</u>            |
| Total liabilities   | <u>5,619,412</u>            |
| Unrestricted net deficit  | (517,896)                   |
| Temporarily restricted net assets   | <u>59,199</u>               |
| Total net deficit   | <u>(458,697)</u>            |
| Total liabilities and net assets  | <u>\$ 5,160,715</u>         |

For the seven months ended June 30, 2006, Pleasant View generated approximately \$4,471,000 of revenues and \$4,719,000 of expenses, which are reported as net resident service revenue and operating expenses, respectively, in the accompanying 2006 consolidated statement of operations.

- VeriSpring, Inc. is a for-profit corporation and was incorporated in 2006 to develop new innovation in senior care that meets the desires of seniors wanting to remain in their homes as they age and helping them to maintain their independence while improving their well-being.
- Effective December 29, 2006, LLC entered into an affiliation agreement with St Pauls House and Health Care Center and St Pauls House Foundation (St Pauls). Pursuant to the affiliation agreement, the Parent became the sole corporate member of St Pauls. The transaction was accounted for using the as if pooling of interests method of accounting with the activities of St Pauls included in the

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accompanying consolidated financial statements only for periods subsequent to the change of control. The net assets of St Pauls as of the date of change of control have been reported as direct additions to the appropriate class of net assets. St Pauls operates a retirement facility in Chicago, Illinois, consisting of 68 assisted living units and a 110 bed skilled nursing facility.

The following table sets forth the composition of the financial position of St Pauls as of the effective date of the change of control:

| <b>Assets</b>   | <b>December 29,<br/>2006</b> |
|---|------------------------------|
| Current assets  | \$ 1,526,647                 |
| Land, buildings, and equipment, net   | 7,627,809                    |
| Other assets  | <u>1,622,965</u>             |
| Total assets  | <u>\$ 10,777,421</u>         |
| <b>Liabilities and Net Assets</b>   |                              |
| Current liabilities   | \$ 1,522,233                 |
| Long-term debt, excluding current installments<br>and unamortized bond discount | <u>5,095,000</u>             |
| Total liabilities   | <u>6,617,233</u>             |
| Unrestricted net assets   | <u>4,160,188</u>             |
| Total liabilities and net assets  | <u>\$ 10,777,421</u>         |

For the six months ended June 30, 2007, St Pauls generated approximately \$3,348,000 of operating revenues, \$4,068,000 of operating expenses, and \$1,247,000 of nonoperating gains, which are included in the accompanying 2007 consolidated statement of operations.

- During fiscal 2006, LLC became the sole corporate member and serves as the parent corporation to WLTV, WLVEC, LSLI, VeriSpring, Inc., and St Pauls.

The Corporations (other than VeriSpring, Inc.) are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

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



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**(2) Summary of Significant Accounting Policies**

The following significant accounting policies of the Corporations are utilized in presenting the consolidated financial statements:

- The consolidated statements of operations include excess of revenue and gains over expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of resident care and community support services are reported as revenue and expenses. Transactions incidental to the provision of resident care and community support services are reported as gains and losses. Changes in unrestricted net assets which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include change in fair value of derivative instruments, changes in unrealized gains (losses) on other than trading securities, transfers of assets among affiliated not-for-profit entities for other than goods or services, the change in actuarial valuation of gift annuity obligations, contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets), and net assets of entities acquired through change in control accounted for using the as if pooling of interests method of accounting.
- Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unrestricted contributions, bequests, and legacies are recorded as other revenue of the Home and LCSA and as nonoperating gains of the Foundation and WLVEC. Contributions 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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Net assets released from restriction for operating purposes are included with other revenue. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Temporarily restricted net assets are those whose use has been limited by donors for a specific time period or purpose. Permanently restricted net assets are those whose use has been restricted by donors in perpetuity. Temporarily restricted net assets at June 30, 2007 and 2006 principally represent amounts restricted for the purpose of acquiring long-lived assets or for specific operating purposes. Permanently restricted net assets represent investments to be held in perpetuity, the income from which is unrestricted and is expendable to support operations.
- Investment income, realized gains (losses), and unrealized gains and losses on trading securities on unrestricted and temporarily restricted investments are recorded as other revenue of the Home, WL V, and Pleasant View (the Homes) and nonoperating gains of the Foundation. Investment income and realized gains (losses) from permanently restricted investments are recorded as nonoperating gains since such income is unrestricted by the donors. Changes in net unrealized gains and losses in investments are excluded from excess of revenue and gains over expenses and losses unless the investments are trading securities. On June 30, 2007, management of the Corporation redesignated their entire investment portfolio from an other than trading portfolio to a trading portfolio.

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- The Corporations provide care to residents who meet certain criteria under their benevolent care policies at amounts less than established rates.
- Net resident service revenue is reported at the estimated net realizable amounts from residents and third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.
- Assets whose use is limited or restricted include: resident deposits; assets assigned to the Corporations by residents to cover the cost of their future care and services, including refundable deposits; assets held by a trustee under bond indenture agreements; assets designated by the Foundation board of directors for endowment development, over which the Board retains control and may, at its discretion, use for other purposes; and all donor restricted assets. Resident deposits represent escrow deposits received for the new CCRC being developed by LSLI. Deposits received by LSLI upon the commitment of prospective residents to enter into a residency agreement for the CCRC are \$1,241,372 at June 30, 2007 and are included in assets whose use is limited or restricted – required for current liabilities. These funds, which are refundable to the residents on demand, are placed in an interest bearing escrow account, as required by the State of Illinois, and are available to LSLI once certain conditions are met. Such escrow deposits are reported as current assets within the accompanying 2007 balance sheet. LSLI pays interest on escrow deposits based on the 30-day average treasury rate for the period beginning with the date of deposit and ending with the date the resident executes their residency agreement or when the deposit agreement is terminated under certain conditions. Upon execution of their residency agreement, residents are required to apply the balance of their deposit and related earned interest against their entire balance due under the residency agreement. For the year ended June 30, 2007, LSLI has recorded \$63,950 of interest cost associated with these deposits. Assets held by a trustee under bond indenture agreements include debt service reserve and development project funds arising from the issuance of Series 2006 debt (note 11). Such funds are held by the bond trustee and may only be expended in accordance with the provisions of the related bond trust indentures, primarily to pay for the construction and related costs of the CCRC and as additional security on the Series 2006 bonds.
- For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and money market funds.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation, less accumulated depreciation. Assets acquired under capital lease are recorded at the net present value of minimum lease payments. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Amortization of assets under capital lease is over the lesser of the estimated useful life of the asset or the respective lease term.
- Inventory of supplies is reported at the lower of cost (first-in, first-out) or market.
- Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts related to the new CCRC being developed by LSLI. In accordance with Statement of Position 93-7, Reporting on Advertising Costs, LSLI capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure deposits from residents who are shown to have

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responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs will be amortized using the straight-line method over the expected stay at the CCRC of the first resident group, beginning in the first period in which revenues associated with the Costs are earned. Upon occupancy of the first resident group, additional Costs are expensed as incurred.

- Entrance fees which are nonrefundable are reported as deferred revenue from nonrefundable entrance fees and are amortized over the life expectancy of the residents. Entrance fees are received by Pleasant View under residency contracts and are refundable at various amounts per the terms of the individual contracts. Pleasant View is required to repay the refundable entrance fee less amounts owed by the resident to Pleasant View following the termination of occupancy under the residency contract.
- Deferred financing costs represent issuance costs for outstanding long-term debt. Deferred financing costs are being amortized on the straight-line method over the life of the bonds. Bond discount and premium are being amortized on the straight-line basis over the life of the respective bonds.
- 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- The Corporations account for derivatives and hedging activities in accordance with Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded in the consolidated balance sheets at their respective fair values.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded directly to unrestricted net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Any ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported as a component of interest expense in the consolidated statements of operations.

- Certain 2006 amounts have been reclassified to conform with the 2007 consolidated financial statement presentation.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

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**(3) Investments**

The Corporations report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of the Corporations' investment portfolio at June 30, 2007 and 2006 follows:

|   | 2007          | 2006       |
|---|---------------|------------|
| Cash and cash equivalents                         | \$ 4,516,078  | 2,023,264  |
| Common stocks and mutual funds                    | 17,635,280    | 17,098,766 |
| Corporate bonds and notes                         | 19,983,272    | 34,724,780 |
| U.S. government agency securities                 | 390,692       | —          |
| Cash surrender value of life insurance policies   | 25,146        | 37,146     |
| Investment in MSCN (note 17)                      | 877,502       | 313,606    |
| Investment in captive insurance company (note 17) | 156,874       | 205,956    |
| Contributions receivable                          | 20            | 48,405     |
|   | \$ 43,584,864 | 54,451,923 |

Investments are reported in the accompanying consolidated balance sheets as follows:

|  | June 30       |            |
|--|---------------|------------|
|  | 2007          | 2006       |
| Assets whose use is limited or restricted – required for current liabilities               | \$ 3,445,238  | 3,325,686  |
| Assets whose use is limited or restricted, net of amounts required for current liabilities | 22,395,948    | 36,809,557 |
| Investments  | 17,690,525    | 14,246,670 |
| Agency funds   | 53,153        | 70,010     |
|  | \$ 43,584,864 | 54,451,923 |

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The composition of investment return on the Corporations' investment portfolio for the years ended June 30, 2007 and 2006 is as follows:

|   | 2007         | 2006      |
|---|--------------|-----------|
| Interest and dividend income  | \$ 2,233,858 | 1,097,450 |
| Net realized gains (losses) on sale of investments                                | 3,304,503    | 1,175,934 |
| Joint venture income  | 301,607      | 126,582   |
| Realized gains on redemption of insurance policies                                | 16,730       | 990       |
| Net change in net unrealized gains and losses on<br>other than trading securities | (541,992)    | (367,960) |
|   | \$ 5,314,706 | 2,032,996 |

On June 30, 2007, management of the Corporation redesignated all of their investment portfolio to a trading portfolio. Upon the date of such redesignation, cumulative amounts of net unrealized gains included in unrestricted net assets of \$1,005,423 were reflected as nonoperating gains with a corresponding charge of the same amount to unrestricted net assets. Investment returns are included in the accompanying consolidated statements of operations for the years ended June 30, 2007 and 2006 as follows:

|  | 2007         | 2006      |
|--|--------------|-----------|
| Investment income  | \$ 4,238,329 | 1,543,753 |
| Other revenue  | 272,857      | 575,287   |
| Changes in unrestricted and permanently restricted net assets:                               |              |           |
| Net unrealized gains and losses on<br>other than trading securities                          | (1,547,415)  | (367,960) |
| Interest income offset against capitalized interest cost                                     | 1,345,512    | 281,916   |
| Net change in unrealized gains and losses on trading securities<br>during the holding period | 1,005,423    | —         |
|  | \$ 5,314,706 | 2,032,996 |

Gross unrealized losses on other-than-trading securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2006 were as follows:

| June 30, 2006                        | Less than<br>twelve months |                      | Twelve months<br>or longer |                      | Total         |                      |
|--------------------------------------|----------------------------|----------------------|----------------------------|----------------------|---------------|----------------------|
|                                      | Fair<br>value              | Unrealized<br>losses | Fair<br>value              | Unrealized<br>losses | Fair<br>value | Unrealized<br>losses |
| Corporate bonds and notes            | \$ 29,513                  | 983                  | 347,501                    | 19,884               | 377,014       | 20,867               |
| U.S. government<br>agency securities | 1,340,294                  | 55,033               | 1,510,716                  | 65,005               | 2,851,010     | 120,038              |
| Mutual equity funds                  | 541,145                    | 17,855               | —                          | —                    | 541,145       | 17,855               |
| Common stocks                        | 478,523                    | 33,094               | 35,483                     | 1,033                | 514,006       | 34,127               |
|                                      | \$ 2,389,475               | 106,965              | 1,893,700                  | 85,922               | 4,283,175     | 192,887              |

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Temporarily impaired investments are in temporarily impaired positions primarily due to general market conditions and interest rate levels. Management of the Corporations believes the impairments are temporary in nature due to such market conditions and has the intent and ability to hold these investments until a market price recovery or maturity and therefore these investments are not considered other-than-temporarily impaired.

**(4) Custodial Assets**

The Corporations offer custodial services for the personal funds of their residents. Certain residents also maintain deposits with the Corporations for the cost of future care. Should residents' assigned assets be depleted (note 8), the Corporations may utilize the residents' custodial assets to pay for the provision of their occupancy and care. Interest earned on custodial assets is recorded as additions to custodial assets and the related residents' assets noncurrent liability in the accompanying consolidated balance sheets.

**(5) Agency Funds**

The Corporations maintain certain assets arising from various projects, fund drives, and programs sponsored by other organizations or the Corporations' residents. Changes in agency funds are related to cash receipts and disbursements made in compliance with the stated purposes of the projects, fund drives, or programs designated by the sponsors.

**(6) Concentration of Credit Risk**

The Corporations grant credit to their self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from residents and third-party payors as of June 30, 2007 and 2006 is as follows:

|                                   | 2007 | 2006 |
|-----------------------------------|------|------|
| Medicare                          | 18%  | 32%  |
| Medicaid                          | 32   | 41   |
| Self pay and commercial insurance | 50   | 27   |
|                                   | 100% | 100% |

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**(7) Land, Buildings, and Equipment**

A summary of land, buildings, and equipment at June 30, 2007 and 2006 is as follows:

|                                    | <u>2007</u>           |                                     | <u>2006</u>       |                                     |
|------------------------------------|-----------------------|-------------------------------------|-------------------|-------------------------------------|
|                                    | <u>Cost</u>           | <u>Accumulated<br/>depreciation</u> | <u>Cost</u>       | <u>Accumulated<br/>depreciation</u> |
| Land and land improvements         | \$ 3,637,451          | 1,239,070                           | 1,705,393         | 608,002                             |
| Buildings                          | 83,393,780            | 38,343,676                          | 67,707,455        | 27,612,673                          |
| Furniture, fixtures, and equipment | 25,141,522            | 14,854,629                          | 20,159,097        | 13,148,082                          |
| Construction in progress           | 23,605,920            | —                                   | 4,649,423         | —                                   |
|                                    | <u>\$ 135,778,673</u> | <u>54,437,375</u>                   | <u>94,221,368</u> | <u>41,368,757</u>                   |

Construction in progress primarily consists of costs incurred by LSLI related to the new CCRC. The remaining estimated costs associated with the CCRC project at June 30, 2007 and 2006, respectively, are approximately \$3,926,000 and \$19,700,000, substantially all of which have been contractually committed. Interest cost is capitalized as a component cost of significant capital projects to the extent that such interest expense exceeds interest income earned on any project specific borrowed funds. LSLI capitalized interest cost of \$2,110,101 and \$327,840 at June 30, 2007 and 2006, respectively, and offset such capitalized interest cost by \$1,345,512 and \$281,916 of interest income earned on unexpended project specific borrowed funds at June 30, 2007 and 2006, respectively.

**(8) Deferred Occupancy and Care Revenue and Refundable Deposits**

Residents moving into the Corporation may elect to assign their assets to an irrevocable trust maintained by an independent third party. The Corporation may draw against the assets of the trust to pay for the cost of care provided to the residents. When a resident expires, the remaining assets in the trust, if any, are distributed in accordance with the resident's agreement. These assets are not reflected in the accompanying consolidated financial statements as they are not under the control of the Corporation.

The following table represents refundable deposits by entity of the Corporation

|  | <u>2007</u>         | <u>2006</u>      |
|--|---------------------|------------------|
| Lutheran Home for the Aged, Inc.                           | \$ 1,514,011        | 1,485,622        |
| Lutheran Community Services for the Aged, Inc.             | 121,861             | 122,370          |
| Wittenberg Lutheran Village, Inc. and Endowment Corp, Inc. | 1,858,945           | 2,530,190        |
| Pleasant View Luther Home, Inc.                            | 2,122,426           | 2,047,470        |
|  | <u>\$ 5,617,243</u> | <u>6,185,652</u> |

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**(9) Reserve for Funeral Expenses**

Certain residents entering the Home are required to deposit sufficient assets to pay for estimated funeral expenses, which are reflected as reserve for funeral expenses. These assets comprise of both requisite cash deposits and life insurance policies naming the Home as beneficiary, and are included as assets whose use is limited or restricted.

**(10) Net Resident Service Revenue**

The Corporations have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs represent the differences between the Corporations' billings at established rates and the amounts reimbursed by third-party payors, principally Medicaid and Medicare; they also include any differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements.

The Corporations have obtained Medicaid certification for a portion of their nursing beds and receive all-inclusive per diem rates for Medicaid-eligible residents. To the extent that charges or related costs incurred for services rendered to Medicaid beneficiaries exceed the per diem rates, they are not recoverable from the Medicaid program or its beneficiaries. Medicaid reimbursement methodologies and payment rates are subject to change based on the amount of funding available to the States of Illinois and Indiana Medicaid programs and any such changes could have a significant effect on the Corporations' revenues.

The Corporations have also obtained Medicare certification for a portion of their nursing beds. The Corporations are reimbursed by Medicare under a prospective payment system based primarily upon a clinical classification system for Medicare residents. To the extent that charges or related costs incurred for services rendered to Medicare beneficiaries exceed the per diem rates, they are not recoverable from the Medicare program or its beneficiaries.

A summary of gross and net resident service revenue for the years ended June 30, 2007 and 2006 follows:

|  | 2007          | 2006       |
|--|---------------|------------|
| Gross resident service revenue   | \$ 68,848,417 | 59,050,150 |
| Less provisions for:   |               |            |
| Estimated contractual adjustments arising under third-party reimbursement programs | 11,476,186    | 9,052,754  |
| Benevolent care and other allowances   | 1,397,745     | 981,232    |
| Net resident service revenue   | \$ 55,974,486 | 49,016,164 |



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**(11) Long-term Debt**

A summary of long-term debt at June 30, 2007 and 2006 is as follows:

|   | 2007          | 2006       |
|---|---------------|------------|
| Revenue Bonds, Series 1997, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$20,000 through January 15, 2014, effective interest rate of 5.74% in 2007 and 4.87% in 2006 | \$ 1,218,615  | 1,391,293  |
| Revenue Bonds, Series 1998, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$18,000 through January 15, 2014, effective interest rate of 5.86% in 2007 and 4.95% in 2006 | 942,920       | 1,104,222  |
| Revenue Bonds, Series 2001, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through August 15, 2031, effective interest rate of 3.82% in 2007 and 2.90% in 2006                           | 12,760,000    | 12,880,000 |
| Revenue Refunding Bonds, Series 2003, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through November 1, 2033, effective interest rate of 3.54% in 2007 and 1.81% in 2006                | 13,355,000    | 13,695,000 |
| Illinois Finance Authority Revenue Bonds, Series 2006A, at varying fixed interest rates ranging from 5.20% to 5.75%, depending upon date of maturity through 2040   | 23,460,000    | 23,460,000 |
| Illinois Finance Authority Extendable Rate Adjustable Securities Revenue Bonds, Series 2006B, at an effective adjustable long-term rate of 4.80%  | 500,000       | 500,000    |
| Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2006C, effective interest rate of 3.98% in 2007 and 2006  | 6,500,000     | 6,500,000  |
| Illinois Finance Authority Bonds, Series 1995, effective interest rate of 4.15%   | 5,095,000     | —          |
| Mortgage loan, at a fixed interest rate of 6.375%   | 2,426,946     | 2,491,466  |
| Mortgage loan, at a fixed interest rate of 5.875%   | 2,543,738     | —          |
| Mortgage loan, at a fixed interest rate of 6.25%  | 3,074,116     | —          |
| Mortgage loan, at a fixed interest rate of 6.50%  | —             | 584,142    |
| Notes payable, at a fixed rate of 6.50%   | —             | 758,315    |
| Promissory note, at a fixed interest rate of 6.50%  | —             | 937,448    |
|   | 71,876,335    | 64,301,886 |
| Less:   |               |            |
| Current installments of long-term debt  | 1,202,175     | 924,948    |
| Unamortized bond discount and premium   | (224,233)     | (232,667)  |
|   | \$ 70,898,393 | 63,609,605 |

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On September 12, 2001, the Illinois Health Facilities Authority issued weekly adjustable rate revenue bonds, Series 2001, in the amount of \$13,200,000 on behalf of the Parent, the Home, LCSA, and the Foundation (the LHSA Obligated Group). The Series 2001 bonds were issued pursuant to a Master Trust Indenture. Principal payments are due each August 15, and interest is payable monthly. The LHSA Obligated Group has obtained a letter of credit which expires August 15, 2009 in the amount of \$13,074,082 as collateral for the Series 2001 bonds. Certain assets of the LHSA Obligated Group are pledged as collateral for the bonds and the letter of credit. Holders of the Series 2001 bonds have a put option that allows them to redeem the bonds prior to maturity. The LHSA Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2001 bonds are accelerable in the event the LHSA Obligated Group is unable to extend or replace the letter of credit securitizing the bonds.

On November 10, 2003, the Illinois Health Facilities Authority issued variable rate demand revenue refunding bonds, Series 2003, in the amount of \$14,350,000 on behalf of the LHSA Obligated Group. The Series 2003 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each November 1, and interest is payable monthly. The Series 2003 bonds were issued principally to advance refund the then-outstanding Series 1996A bonds. The LHSA Obligated Group has obtained a letter of credit which expires November 15, 2009 in the amount of \$14,150,597 as collateral for the Series 2003 bonds. Certain assets of the LHSA Obligated Group are pledged as collateral for the bonds and letter of credit. Holders of the Series 2003 bonds have a put option that allows them to redeem the bonds prior to maturity. The LHSA Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2003 bonds are accelerable in the event the LHSA Obligated Group is unable to extend or replace the letter of credit securitizing the bonds.

For bonds issued under the Master Trust Indenture, the LHSA Obligated Group is required to maintain certain reserves and sinking funds with their bond trustee. The LHSA Obligated Group is also required to be in compliance with specified debt covenants and financial ratios. Bonds issued under the Master Trust Indenture are also secured by the unrestricted receivables of the LHSA Obligated Group as well as certain real property of the Home.

On April 19, 2006, LSLI entered into a Master Trust Indenture under which LSLI is the only Obligated Group member (the LSLI Obligated Group). The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by the LSLI Obligated Group member. The Master Trust Indenture requires the member of the LSLI Obligated Group to make principal and interest payments on notes issued for its benefit and to pay such amounts as are otherwise necessary to enable the LSLI Obligated Group to satisfy all obligations issued under the Master Trust Indenture.

On April 19, 2006, the Illinois Finance Authority issued Series 2006A Fixed Rate Revenue Bonds, Series 2006B Extendable Rate Adjustable Securities Revenue Bonds, and Series 2006C Variable Rate Demand Revenue Bonds (collectively referred to as the Series 2006 bonds), in the aggregate amount of \$30,460,000 on behalf of LSLI. The proceeds were used to finance the construction of the new CCRC, provide working capital and debt service reserve funds, pay a portion of the interest on the Series 2006 bonds, and reimburse LSLI for costs of issuance. Principal on the bonds is payable annually commencing on August 15, 2008. The Series 2006 bonds are secured by a leasehold mortgage in the property, the new CCRC under construction, and future revenue streams to be provided by the CCRC. The Series 2006C

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bonds are also secured by an irrevocable transferable letter of credit issued by a commercial bank, in an amount equal to the principal amount of the bonds and accrued interest on such principal. Holders of the Series 2006 bonds have a put option that allows them to redeem the bonds prior to maturity. The LSLI Obligated Group member has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The loan agreements currently contain quarterly covenants related to the number of presales. The loan agreements also maintain financial covenants which are initially effective the earlier of the first full year after stabilized occupancy is obtained for the new CCRC or 2011.

During December 1997 and January 1998, WLV and WLVEC entered into an Economic Development Commission loan for a total commitment of \$4,800,000. Under the Series 1997 and 1998 bond indentures, WLV and WLVEC are required to maintain certain reserve funds with their bond trustee. The Series 1997 and 1998 bonds are secured by certain property and real estate of WLV and WLVEC. Pursuant to the transfer of sponsorship agreement with LHSMO, the LHSA Obligated Group has not pledged any of its assets or guaranteed any of the debt of WLV and WLVEC.

Pleasant View had \$584,142 outstanding at June 30, 2006 under a mortgage agreement. Pleasant View had \$758,315 outstanding at June 30, 2006 under notes payable with the H. Jane Wallace Trust. Pleasant View had \$937,448 outstanding at June 30, 2006 under a promissory note with a commercial bank. Pleasant View entered into a 20 year promissory note agreement with the Mission Investment Fund of The Evangelical Lutheran Church in America to refinance the three notes outstanding (above). The promissory note is secured by certain property and real estate related to the nursing facility on the Pleasant View campus. Pleasant View borrowed \$2,600,000 under the agreement. The proceeds of the promissory note were used to pay off Pleasant View's existing debt balances as of July 2006. Interest on the promissory note is payable monthly at a fixed rate of 5.875% through June 30, 2011. Principal and interest are payable monthly, commencing September 1, 2006, at a fixed amount of \$18,441 through July 1, 2011. The Evangelical Lutheran Church in America has the right to review and adjust the interest rate on July 1, 2011, July 1, 2016, and July 1, 2021. The promissory note matures on July 1, 2026.

WLV maintained a \$2,800,000 revolving line of credit and permanent loan agreement with the Lutheran Church Extension Fund-Missouri Synod, which expires July 1, 2026. Interest is payable monthly on draws under the line of credit at a variable interest rate determined by the lender monthly (6.375% at June 30, 2006) based on the lender's cost of capital plus 2%. On July 1, 2006, the then-outstanding principal balance converted to a 20-year term loan with monthly payments of principal and interest at the lender's cost of capital plus 2% which was 6.375%. The loan agreement is secured by certain WLV real estate. Outstanding draws under the term loan agreement totaled \$2,426,946 at June 30, 2007.

In March, 1995, St Pauls issued \$6,500,000 of Variable Rate Demand Revenue Bonds (the 1995 Bonds) under the provisions of a Bond Trust Indenture (St Pauls Indenture). The 1995 Bonds were issued to refinance certain outstanding indebtedness and to fund a rehabilitation of the St Pauls facility. The 1995 Bonds mature on February 1, 2025, and pay interest at a weekly rate as defined by the agreement as determined by William Blair & Company as remarketing agent for the 1995 Bonds. The 1995 Bonds are secured by a transferable irrevocable direct pay letter of credit issued by LaSalle National Bank which expires in February 2008 and is required to be replaced with another letter of credit upon expiration. The letter of credit is secured by the real and personal property of St Pauls. St Pauls is required to be in compliance with specified debt covenants and financial ratios based on the 1995 bond agreement.

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St Pauls has access to a line of credit through a revolving note with LaSalle National Bank in the amount of \$750,000. The balance at June 30, 2007 was \$0. Payments of interest only are payable at prime plus 2%. The line of credit matures February 2008 and is secured by the same assets as the 1995 Bonds.

In November 2006, LLC entered into a 25 year promissory note agreement with the Mission Investment Fund of The Evangelical Lutheran Church in America to finance the purchase of real estate to be used for corporate offices. LLC borrowed \$3,100,000 under the agreement. Principal and interest, at 6.25%, are payable monthly, commencing December 1, 2006, at a fixed amount of \$20,450 through November 30, 2011. The Evangelical Lutheran Church in America has the right to review and adjust the interest rate on December 1, 2011, December 1, 2016, December 1, 2021, and December 1, 2026. The promissory note matures on December 1, 2031. The note is guaranteed by the Parent.

The fair value of the Corporations' long-term debt approximated its carrying value at June 30, 2007 and 2006.

Scheduled annual principal payments on long-term debt for the ensuing five years and thereafter are as follows:

|            | <b>Amount</b> |
|------------|---------------|
| Year:      |               |
| 2008       | \$ 1,202,175  |
| 2009       | 2,571,175     |
| 2010       | 7,021,304     |
| 2011       | 1,403,581     |
| 2012       | 1,454,302     |
| Thereafter | 58,223,798    |
|            | \$ 71,876,335 |

The Obligated Groups have interest-rate related derivative instruments to manage their exposure on their variable rate Series 2003 debt and variable rate Series 2006C bonds. By using derivative financial instruments to hedge exposures to changes in interest rates, the Obligated Groups expose themselves to credit risk and market risk. Credit risk is the failure of the counterparties to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparties owe the Obligated Groups, which creates credit risk for the Obligated Groups. When the fair value of a derivative contract is negative, the Obligated Groups owe the counterparty and, therefore, it does not possess credit risk. The Obligated Groups minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates.

Management entered into interest rate swap agreements in November 2003 and April 2006 to manage fluctuations in cash flows resulting from interest rate risk on its variable rate Series 2003 and Series 2006C debt, respectively. The swap agreements change the variable-rate cash flow exposure on the Series 2003 and Series 2006C debt to fixed cash flows. Under the terms of the interest rate swap agreements, the Corporations receive variable interest rate payments and make fixed interest rate payments, thereby

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creating the equivalent of fixed-rate debt. The interest rate swap derivatives are designated as hedge instruments and, therefore, the changes in fair value of the derivative instruments are recognized directly to unrestricted net assets for the effective portion of the hedges. A summary of outstanding positions under the floating to fixed rate swap agreements for the Corporations at June 30, 2007 follows:

|    | <u>Notional<br/>amount</u> | <u>Maturity date</u> | <u>Rate received</u>            | <u>Rate paid</u> |
|----|----------------------------|----------------------|---------------------------------|------------------|
| \$ | 14,350,000                 | November 2013        | BMA Index, reset monthly        | 3.385%           |
|    | 6,500,000                  | June 2009            | Weekly BMA Municipal Swap Index | 3.900            |

Payments equal to the differential to be paid or (received) under the interest rate swap agreements are recognized monthly and amounted to approximately \$(26,000) and \$71,000 included in interest expense in 2007 and 2006, respectively. The fair value of the interest rate swap agreements of \$159,630 and \$256,059 at June 30, 2007 and 2006, respectively, is included with other assets. The change in fair value of the interest rate swap agreements of \$(96,429) in 2007 and \$732,533 in 2006 has been recognized as a direct addition (reduction) of unrestricted net assets.

**(12) Capital Leases**

The Corporations lease certain equipment under capital leases. Included with land, buildings, and equipment is \$782,970 and \$885,490 at June 30, 2007 and 2006, respectively, of assets held under capital leases and \$252,899 and \$353,445 of related accumulated amortization at June 30, 2007 and 2006, respectively. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases as of June 30, 2007 are as follows:

|  | <u>Amount</u>     |
|--|-------------------|
| Year:  |                   |
| 2008   | \$ 289,549        |
| 2009   | 110,978           |
| Total future minimum lease payments                                  | <u>400,527</u>    |
| Less amount representing interest at rates ranging from 2.72% to 10% | <u>17,944</u>     |
| Present value of future minimum lease payments                       | 382,583           |
| Less current portion of obligations under capital leases             | <u>274,370</u>    |
| Obligations under capital leases, excluding current portion          | <u>\$ 108,213</u> |

**(13) Employees' Pension Plans**

The Parent, Home, LCSA, and the Foundation participate in a multi-employer noncontributory defined benefit pension plan (the Plan) sponsored by the Lutheran Church Missouri Synod which provides retirement and disability benefits to substantially all qualifying full-time employees. Contributions are based on a percentage of each eligible participant's gross salary and are submitted to the Plan quarterly.

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Expense recognized under the terms of the Plan amounted to \$1,215,989 and \$987,271 for the years ended June 30, 2007 and 2006, respectively.

WLV and WLVEC sponsor a noncontributory profit sharing plan covering substantially all full time employees. Employer contributions to the profit sharing plan are discretionary. The employers did not elect to make any contributions for the years ended June 30, 2007 or 2006.

Pleasant View sponsors a noncontributory profit sharing plan covering substantially all full time employees. Employer contributions to the profit sharing plan are discretionary. Expense recognized under the terms of the profit sharing plan amounted to \$1,316 for the year ended June 30, 2007 and \$20,741 for the seven months ended June 30, 2006.

St Pauls sponsors a contributory profit sharing plan (money purchase plan) covering substantially all full time employees. St Pauls is required to contribute 2% of the eligible compensation of all covered employees to the plan. In addition, each participant can elect salary reduction under the Tax Deferred Annuity Plan from 1% to 5% of eligible compensation. St Pauls will then match from 0% to 100% of that amount based on participant's years of service (from 0 to 10 years or more). Expense recognized under the terms of the profit sharing plan amounted to \$40,174 for the six months ended June 30, 2007.

**(14) Luther Village Limited Partnership**

The Parent has a land lease agreement with Luther Village Limited Partnership (the Partnership), an unrelated party. A portion of land owned by the Home has been leased to the Partnership for a term of 99 years with an option to renew for a second term of 99 years. The Partnership has constructed a number of cooperative apartment and townhome units that may be purchased by individuals at least 55 years of age. Owners pay a monthly ground rent to the Partnership, in addition to the initial cost of their unit.

In exchange for the land lease, the Partnership makes the following payments to the Home:

- 0.5% of the sales price of units purchased by initial buyers; and
- The entire amount of the monthly ground rent submitted to the Partnership.

The fees earned by the Home related to the land lease totaled \$1,045,000 for both years ended June 30, 2007 and 2006, respectively, and are included with other nonoperating gains in the accompanying consolidated statements of operations. In addition, the Home performs certain medical and other support services for the Partnership in exchange for service fees. The service fees earned related to the provision of such services amounted to \$113,229 and \$85,118 for the years ended June 30, 2007 and 2006, respectively, and have been reflected as other revenue in the accompanying consolidated statements of operations.

**(15) Planned Gifts**

Various donors have agreed to bequeath assets through wills, estate plans, and other planned gift instruments at some point in the future to the Foundation and WLVEC. As the realization and valuation of assets are not assured at the time of agreement, no amounts have been recognized for bequests in the accompanying consolidated financial statements until the realization and valuation of such assets are determinable.

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**(16) Charitable Gift Annuities**

The Corporations are the recipient of various charitable gift annuities. Such gifts are recognized as contribution revenue in the period received, net of any estimated liability for amounts payable to the annuitant in future periods pursuant to the terms of the respective charitable gift annuity contract.

**(17) Commitments and Contingencies**

*Professional and General Liability Self-Insurance*

Through December 31, 2001, the Corporations maintained professional liability coverage through commercial insurance carriers. Effective January 1, 2002, the Corporations entered into a contractual agreement to form Caring Communities Insurance Company (Caring Communities), a self-insurance administrator which, through its risk-sharing provisions, provides the Corporations with insurance coverage for professional and comprehensive general liability exposure. Caring Communities is a multi-organization insurance company for long-term care organizations incorporated under the laws of the Cayman Islands.

Caring Communities provides the Corporations with claims made insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. Caring Communities has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. As a self-insurance administrator, Caring Communities enables risk sharing among participating long-term care organizations. The Corporations are required to pay assessed premiums and are subject to a per claim self-insured retention. Insurance expense under the Caring Communities program amounted to \$569,532 and \$577,617 in 2007 and 2006, respectively. Caring Communities may retroactively assess participants for up to twice their annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on the Corporations' historical claims experience and exposure to date with Caring Communities, no reserves were established at June 30, 2007 or 2006 for either retroactive premium assessments or tail exposures. The capital investment in Caring Communities is being accounted for using the equity method and included in investments in the accompanying consolidated balance sheets (note 3). Accordingly, the Corporations have included their proportionate share of Caring Communities net income in the amounts of \$22,748 and \$58,031 as nonoperating investment income in the accompanying 2007 and 2006 consolidated statements of operations, respectively.

*Workers' Compensation*

The Corporations' workers' compensation program includes various levels of per claim self-insured retentions and excess commercial insurance coverages. Provisions of \$761,771 in 2007 and \$656,587 in 2006 for the ultimate cost of reported self insured workers' compensation claims, as well as estimates of incurred but not reported claims, are included in operating expenses.

*Medicare Reimbursement Changes*

The Federal Balanced Budget Act of 1997 implemented various changes to the methods in which Medicare reimburses providers of long-term care services. Changes made for skilled nursing facility reimbursement included a prospective payment system for skilled nursing services and a consolidated billing requirement.

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Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of these and other provisions of Medicare legislation may have an adverse effect on the Corporations' net resident service revenue.

***Litigation***

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

***Regulatory Investigations***

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Corporations' financial position or results from operations.

***Health Resources Alliance, Inc.***

The Home has provided Health Resources Alliance, Inc., of which the Home is a founding member, with a \$190,000 letter of credit, draws on which are guaranteed by the Home. No amounts have been accrued or paid pursuant to this agreement as of June 30, 2007. St Pauls is also a founding member of Health Resources Alliance, Inc.

Effective April 1, 2003, Midwest Senior Care Network (MSCN), a wholly owned subsidiary of Health Resources Alliance, Inc., converted a \$60,000 prepaid service deposit of the Home into equity of MSCN. Health Resource Alliance, Inc. also converted a \$60,000 prepaid service deposit of St Pauls into equity of MSCN on this date. St Pauls was not related to the Home as of this date. Simultaneous with the equity conversion, Health Resources Alliance, Inc. distributed the outstanding common stock of MSCN in equal shares to its members including the Home and St Pauls. The Home and St Pauls each have a 1/15th equity interest in MSCN. The investments in MSCN are included in investments in the accompanying consolidated balance sheets and are being accounted for using the equity method. The Home and St Pauls have included their proportionate shares of MSCN net income of \$278,859 in 2007 as nonoperating investment income in the accompanying consolidated statement of operations for 2007. The Home has included its proportionate share of MSCN income of \$68,551 in 2006 as nonoperating investment income in the accompanying consolidated statement of operations for 2006.



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***Ground Lease***

During 2006, LSLI entered into a 99-year ground lease agreement with Trinity Lutheran Church (Lessor). The lease calls for annual rent to be based on 10% of the appraised land value which will be reset every five years. The lease commencement date is set as the beginning of the month in which the first resident moves into the facility, which is scheduled for the fall of 2007. In April 2006, LSLI also agreed to fund a \$120,000 deposit account for the benefit of the Lessor as required by the ground lease agreement upon commencement of the lease.

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| Assets   | Lutheran Home and Services for the Aged, Inc. | Lutheran Home for the Aged, Inc. | Lutheran Community Services for the Aged, Inc. | Lutheran Foundation for the Aged, Inc. | Eliminations |                   | LHSA Obligated Group Members | Wittenberg Lutheran Village, Inc. and Endowment Corp. Inc. | Pleasant View Luther Home, Inc. |
|--|---|----------------------------------|--|--|--------------|-------------------|------------------------------|--|---------------------------------|
|  |   |                                  |  |  | Debit        | Credit            |                              |  |                                 |
| <b>Current assets:</b>   |   |                                  |  |  |              |                   |                              |  |                                 |
| Cash and cash equivalents  | \$ —  | 2,931,144                        | 64,566   | 71,319                                 | —            | —                 | 3,067,029                    | 439,633  | 283,233                         |
| Assets whose use is limited or restricted – required for current liabilities                       | —   | 2,042,765                        | 121,861  | —                                      | —            | —                 | 2,164,626                    | —  | 39,240                          |
| Resident accounts receivable net of allowance for doubtful accounts of \$637,800                   | 41,857  | 2,058,278                        | —  | —                                      | —            | —                 | 2,100,135                    | 1,361,377  | 816,543                         |
| Other receivable:  | —   | —                                | 290,069  | —                                      | —            | —                 | 290,069                      | —  | —                               |
| Inventory of supplies and other  | —   | 457,328                          | —  | —                                      | —            | —                 | 457,328                      | 88,303   | 55,748                          |
| Due from affiliates  | 22,047,693                                    | 1,148,209                        | 3,467,996                                      | 1,328,698                              | —            | 20,958,690        | 7,033,906                    | —  | —                               |
| <b>Total current assets</b>  | <b>22,089,550</b>                             | <b>8,637,724</b>                 | <b>3,944,492</b>                               | <b>1,400,017</b>                       | <b>—</b>     | <b>20,958,690</b> | <b>15,113,093</b>            | <b>1,889,313</b>   | <b>1,214,764</b>                |
| <b>Assets whose use is limited or restricted, net of amounts required for current liabilities:</b> |   |                                  |  |  |              |                   |                              |  |                                 |
| Board designated for endowment   | —   | —                                | —  | 7,000,962                              | —            | —                 | 7,000,962                    | —  | —                               |
| Contributions receivable net of allowance for doubtful contributions of \$0                        | —   | —                                | —  | 20                                     | —            | —                 | 20                           | —  | —                               |
| Held by trustee under bond indenture agreements  | —   | 163,757                          | —  | —                                      | —            | —                 | 163,757                      | 91,547   | —                               |
| Donor restricted investment  | —   | —                                | —  | 3,325,532                              | —            | —                 | 3,325,532                    | —  | —                               |
| <b>Total noncurrent assets whose use is limited or restricted</b>                                  | <b>—</b>                                      | <b>163,757</b>                   | <b>—</b>                                       | <b>10,326,514</b>                      | <b>—</b>     | <b>—</b>          | <b>10,490,271</b>            | <b>91,547</b>  | <b>—</b>                        |
| Land, buildings, and equipment, net of accumulated depreciation and amortization                   | —   | 34,866,762                       | —  | —                                      | —            | —                 | 34,866,762                   | 8,848,737  | 4,025,282                       |
| Costs to acquire initial continuing care contracts   | —   | —                                | —  | —                                      | —            | —                 | —                            | —  | —                               |
| Investments  | —   | 3,658,109                        | —  | 11,533,179                             | —            | —                 | 15,191,288                   | —  | —                               |
| Agency funds   | —   | 53,153                           | —  | —                                      | —            | —                 | 53,153                       | —  | —                               |
| Deferred financing costs, net  | —   | 538,929                          | —  | —                                      | —            | —                 | 538,929                      | 45,205   | —                               |
| Other assets   | —   | 159,630                          | —  | —                                      | —            | —                 | 159,630                      | —  | —                               |
| <b>Total assets</b>  | <b>\$ 22,089,550</b>                          | <b>48,078,064</b>                | <b>3,944,492</b>                               | <b>23,259,710</b>                      | <b>—</b>     | <b>20,958,690</b> | <b>76,413,126</b>            | <b>10,874,802</b>  | <b>5,240,046</b>                |

See accompanying independent auditors' report.

| VeriSpring,<br>Inc. | Lutheran<br>Sealor Living<br>of Illinois, Inc. | St Pauls House<br>and Health<br>Care Center<br>and<br>Foundation | Lutheran<br>Life<br>Communities | Elimination: |           | Non-LHSA<br>Obligated<br>Group<br>Members | Elimination: |           | Consolidated |
|---------------------|--|--|---------------------------------|--------------|-----------|---|--------------|-----------|--------------|
|                     |  |  |                                 | Debit        | Credit    |   | Debit        | Credit    |              |
| —                   | 1,013,374                                      | 356,823  | —                               | —            | —         | 2,093,063                                 | —            | —         | 5,160,092    |
| —                   | 1,241,372                                      | —  | —                               | —            | —         | 1,280,612                                 | —            | —         | 3,445,238    |
| (2,629)             | —  | 939,883  | —                               | —            | —         | 3,135,174                                 | —            | —         | 5,235,309    |
| —                   | 271,521  | 7,390  | —                               | —            | —         | 278,911                                   | —            | 119,209   | 449,771      |
| —                   | —  | 104,020  | 201,223                         | —            | —         | 449,294                                   | —            | —         | 906,622      |
| —                   | —  | —  | 1,158,958                       | —            | 1,337,591 | (178,633)                                 | —            | 6,855,273 | —            |
| (2,629)             | 2,526,267                                      | 1,408,116  | 1,360,181                       | —            | 1,337,591 | 7,058,421                                 | —            | 6,974,482 | 15,197,032   |
| —                   | —  | —  | —                               | —            | —         | —   | —            | —         | 7,000,962    |
| —                   | —  | —  | —                               | —            | —         | —   | —            | —         | 20           |
| —                   | 10,775,108                                     | —  | 1,039,022                       | —            | —         | 11,905,677                                | —            | —         | 12,069,434   |
| —                   | —  | —  | —                               | —            | —         | —   | —            | —         | 3,325,532    |
| —                   | 10,775,108                                     | —  | 1,039,022                       | —            | —         | 11,905,677                                | —            | —         | 22,395,948   |
| —                   | 21,651,291                                     | 7,402,594  | 4,546,633                       | —            | —         | 46,474,537                                | —            | —         | 81,341,299   |
| —                   | 1,620,102                                      | —  | —                               | —            | —         | 1,620,102                                 | —            | —         | 1,620,102    |
| —                   | —  | 2,499,237  | —                               | —            | —         | 2,499,237                                 | —            | —         | 17,690,525   |
| —                   | —  | —  | —                               | —            | —         | —   | —            | —         | 53,153       |
| —                   | 874,725  | 229,663  | —                               | —            | —         | 1,149,593                                 | —            | —         | 1,688,522    |
| —                   | —  | —  | —                               | —            | —         | —   | —            | —         | 159,630      |
| (2,629)             | 37,447,493                                     | 11,539,610   | 6,945,836                       | —            | 1,337,591 | 70,707,567                                | —            | 6,974,482 | 140,146,211  |

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| Liabilities and Net Assets   | Lutheran Home and Services for the Aged, Inc. | Lutheran Home for the Aged, Inc. | Lutheran Community Services for the Aged, Inc. | Lutheran Foundation for the Aged, Inc. | Eliminations      |          | LHSA Obligated Group Members | Wittenberg Lutheran Village, Inc. and Endowment Corp, Inc. | Pleasant View Luther Home, Inc. |
|--|---|----------------------------------|--|--|-------------------|----------|------------------------------|--|---------------------------------|
|  |   |                                  |  |  | Debit             | Credit   |                              |  |                                 |
| <b>Current liabilities:</b>  |   |                                  |  |  |                   |          |                              |  |                                 |
| Current installments of long-term debt   | \$ —  | 480,000                          | —  | —                                      | —                 | —        | 480,000                      | 414,196  | 73,694                          |
| Current portion of obligations under capital leases                                  | —   | 231,755                          | —  | —                                      | —                 | —        | 231,755                      | 42,615   | —                               |
| Accounts payable   | 63,666  | 1,309,084                        | 45,373   | 12,479                                 | —                 | —        | 1,430,602                    | 763,805  | 231,846                         |
| Accrued interest payable   | —   | 65,478                           | —  | —                                      | —                 | —        | 65,478                       | —  | 1,025                           |
| Accrued compensation and other liabilities:  | 366,579                                       | 1,804,764                        | 126,656  | 27,102                                 | —                 | —        | 2,325,101                    | 666,596  | 507,773                         |
| Refundable deposits and entrance fee   | —   | 1,514,011                        | 121,861  | —                                      | —                 | —        | 1,635,872                    | 1,858,945  | 2,122,426                       |
| Estimated payables under third-party reimbursement program:                          | —   | 175,987                          | —  | —                                      | —                 | —        | 175,987                      | —  | —                               |
| Resident deposits:   | —   | —                                | —  | —                                      | —                 | —        | —                            | 34,814   | 36,000                          |
| Due to affiliates  | —   | 14,998,459                       | 4,741,849                                      | —                                      | 20,958,690        | —        | (1,218,382)                  | 4,148,500  | 679,989                         |
| <b>Total current liabilities</b>   | <b>430,245</b>                                | <b>20,579,538</b>                | <b>5,035,739</b>                               | <b>39,581</b>                          | <b>20,958,690</b> | <b>—</b> | <b>5,126,413</b>             | <b>7,929,471</b>   | <b>3,652,753</b>                |
| <b>Long-term debt, excluding current installments and unamortized bond discounts</b> | <b>—</b>                                      | <b>25,449,627</b>                | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>25,449,627</b>            | <b>4,174,285</b>   | <b>2,470,044</b>                |
| Obligations under capital leases, net of current portion                             | —   | 73,348                           | —  | —                                      | —                 | —        | 73,348                       | 34,865   | —                               |
| Deferred revenue from nonrefundable entrance fees:                                   | —   | —                                | —  | —                                      | —                 | —        | —                            | —  | 297,463                         |
| Residents' custodial assets:   | —   | 140,828                          | —  | —                                      | —                 | —        | 140,828                      | 38,981   | —                               |
| Reserve for funeral expense:   | —   | 48,754                           | —  | —                                      | —                 | —        | 48,754                       | —  | —                               |
| Charitable gift annuity contracts:   | —   | —                                | —  | 599,053                                | —                 | —        | 599,053                      | —  | —                               |
| Agency funds:  | —   | 53,153                           | —  | —                                      | —                 | —        | 53,153                       | —  | —                               |
| <b>Total liabilities</b>   | <b>430,245</b>                                | <b>46,345,248</b>                | <b>5,035,739</b>                               | <b>638,634</b>                         | <b>20,958,690</b> | <b>—</b> | <b>31,491,176</b>            | <b>12,177,602</b>  | <b>6,420,260</b>                |
| <b>Net assets (deficit):</b>   |   |                                  |  |  |                   |          |                              |  |                                 |
| Unrestricted   | 21,659,305                                    | 1,732,816                        | (1,091,247)                                    | 19,295,544                             | —                 | —        | 41,596,418                   | (1,312,126)  | (1,233,718)                     |
| Temporarily restricted   | —   | —                                | —  | 177,229                                | —                 | —        | 177,229                      | 9,326  | 53,504                          |
| Permanently restricted   | —   | —                                | —  | 3,148,303                              | —                 | —        | 3,148,303                    | —  | —                               |
| <b>Total net assets (deficit)</b>  | <b>21,659,305</b>                             | <b>1,732,816</b>                 | <b>(1,091,247)</b>                             | <b>22,621,076</b>                      | <b>—</b>          | <b>—</b> | <b>44,921,950</b>            | <b>(1,302,800)</b>   | <b>(1,180,214)</b>              |
| <b>Total liabilities and net assets</b>  | <b>\$ 22,089,550</b>                          | <b>48,078,064</b>                | <b>3,944,492</b>                               | <b>23,259,710</b>                      | <b>20,958,690</b> | <b>—</b> | <b>76,413,126</b>            | <b>10,874,802</b>  | <b>5,240,046</b>                |

| VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | St Paul House<br>and Health<br>Care Center<br>and<br>Foundation | Lutheran<br>Life<br>Communities | Elimination: |        | Non-LHSA<br>Obligated<br>Group<br>Members | Elimination: |        | Consolidated |
|---------------------|--|---|---------------------------------|--------------|--------|---|--------------|--------|--------------|
|                     |  |   |                                 | Debit        | Credit |   | Debit        | Credit |              |
| —                   | —  | 180,000   | 54,285                          | —            | —      | 722,175                                   | —            | —      | 1,202,175    |
| —                   | —  | —   | —                               | —            | —      | 42,615                                    | —            | —      | 274,370      |
| 3,897               | 130,901  | 504,972   | 113,014                         | —            | —      | 1,748,435                                 | —            | —      | 3,179,037    |
| —                   | 551,333  | 15,804  | —                               | —            | —      | 568,162                                   | —            | —      | 633,640      |
| 3,879               | 2,550,700                                      | 427,045   | 245,108                         | —            | —      | 4,401,101                                 | —            | —      | 6,726,202    |
| —                   | —  | —   | —                               | —            | —      | 3,981,371                                 | —            | —      | 5,617,243    |
| —                   | —  | —   | —                               | —            | —      | —   | —            | —      | 175,987      |
| —                   | 1,265,112                                      | —   | —                               | —            | —      | 1,335,926                                 | —            | —      | 1,335,926    |
| 707,614             | 68,534   | 657,602   | 3,268,216                       | 1,337,591    | —      | 8,192,864                                 | 6,974,482    | —      | —            |
| 715,390             | 4,566,580                                      | 1,785,423   | 3,680,623                       | 1,337,591    | —      | 20,992,649                                | 6,974,482    | —      | 19,144,580   |
| —                   | 30,869,606                                     | 4,915,000   | 3,019,831                       | —            | —      | 45,448,766                                | —            | —      | 70,898,393   |
| —                   | —  | —   | —                               | —            | —      | 34,865                                    | —            | —      | 108,213      |
| —                   | —  | —   | —                               | —            | —      | 297,463                                   | —            | —      | 297,463      |
| —                   | —  | 151,795   | —                               | —            | —      | 190,776                                   | —            | —      | 331,604      |
| —                   | —  | —   | —                               | —            | —      | —   | —            | —      | 48,754       |
| —                   | —  | —   | —                               | —            | —      | —   | —            | —      | 599,053      |
| —                   | —  | —   | —                               | —            | —      | —   | —            | —      | 53,153       |
| 715,390             | 35,436,186                                     | 6,852,218   | 6,700,454                       | 1,337,591    | —      | 66,964,519                                | 6,974,482    | —      | 91,481,213   |
| (718,019)           | 2,011,307                                      | 4,660,277   | 245,382                         | —            | —      | 3,653,103                                 | —            | —      | 45,249,521   |
| —                   | —  | 27,115  | —                               | —            | —      | 89,945                                    | —            | —      | 267,174      |
| —                   | —  | —   | —                               | —            | —      | —   | —            | —      | 3,148,303    |
| (718,019)           | 2,011,307                                      | 4,687,392   | 245,382                         | —            | —      | 3,743,048                                 | —            | —      | 48,664,998   |
| (2,629)             | 37,447,493                                     | 11,539,610  | 6,945,836                       | 1,337,591    | —      | 70,707,567                                | 6,974,482    | —      | 140,146,211  |

LUTHERAN HOME AND SERVICES FOR THE AGED, INC. AND CONSOLIDATED AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2007

|   | Lutheran Home and Services for the Aged, Inc. | Lutheran Home for the Aged, Inc. | Lutheran Community Services for the Aged, Inc. | Lutheran Foundation for the Aged, Inc. | Eliminations |          | LHSA Obligated Group Members | Wittenberg Lutheran Village, Inc. and Endowment Corp., Inc. | Pleasant View Lutheran Home, Inc. |
|---|---|----------------------------------|--|--|--------------|----------|------------------------------|---|-----------------------------------|
|   |   |                                  |  |  | Debit        | Credit   |                              |   |                                   |
| <b>Operating revenue:</b>   |   |                                  |  |  |              |          |                              |   |                                   |
| Net resident service revenue  | \$ 4,020,235                                  | 31,044,759                       | —  | —                                      | —            | —        | 35,064,994                   | 10,006,593  | 7,687,531                         |
| Other revenue   | 23,150  | 766,952                          | 4,408,192                                      | —                                      | —            | —        | 5,198,294                    | 1,476,882   | 225,882                           |
| <b>Total operating revenue</b>  | <b>4,043,385</b>                              | <b>31,811,711</b>                | <b>4,408,192</b>                               | <b>—</b>                               | <b>—</b>     | <b>—</b> | <b>40,263,288</b>            | <b>11,483,475</b>   | <b>7,913,413</b>                  |
| <b>Operating expenses:</b>  |   |                                  |  |  |              |          |                              |   |                                   |
| Salaries and wages  | 444,933                                       | 17,238,603                       | 2,427,588                                      | 589,728                                | —            | —        | 20,700,852                   | 5,859,453   | 4,374,596                         |
| Employee benefit  | 452,525                                       | 4,497,493                        | 473,618  | 300,561                                | —            | —        | 5,724,197                    | 1,194,730   | 1,009,548                         |
| Support services  | —   | 4,630,995                        | —  | —                                      | —            | —        | 4,630,995                    | 2,528,729   | 1,143,809                         |
| Dietary services  | —   | 1,825,155                        | —  | —                                      | —            | —        | 1,825,155                    | 453,711   | 570,836                           |
| Program services  | 42,565  | 1,237,018                        | —  | —                                      | —            | —        | 1,279,583                    | 59,239  | 587,683                           |
| Administrative service:   | 295,819                                       | 2,591,690                        | 228,003  | 189,883                                | —            | —        | 3,305,395                    | 518,896   | 511,664                           |
| Community service:  | —   | —                                | 1,476,715                                      | —                                      | —            | —        | 1,476,715                    | 323   | —                                 |
| Fund-raising  | —   | —                                | —  | 274,837                                | —            | —        | 274,837                      | —   | —                                 |
| Interest  | —   | 1,224,182                        | —  | —                                      | —            | —        | 1,224,182                    | 302,774   | 207,868                           |
| Depreciation and amortization   | —   | 2,827,334                        | —  | —                                      | —            | —        | 2,827,334                    | 563,253   | 348,607                           |
| Provision for bad debts   | —   | 117,400                          | 1,015  | —                                      | —            | —        | 118,415                      | 128,334   | (1,251)                           |
| <b>Total operating expenses</b>   | <b>1,235,842</b>                              | <b>36,189,870</b>                | <b>4,606,939</b>                               | <b>1,355,009</b>                       | <b>—</b>     | <b>—</b> | <b>43,387,660</b>            | <b>11,609,462</b>   | <b>8,753,360</b>                  |
| <b>Income (loss) from operations</b>  | <b>2,807,543</b>                              | <b>(4,378,159)</b>               | <b>(198,747)</b>                               | <b>(1,355,009)</b>                     | <b>—</b>     | <b>—</b> | <b>(3,124,372)</b>           | <b>(125,987)</b>  | <b>(839,947)</b>                  |
| <b>Nonoperating gains and losses:</b>   |   |                                  |  |  |              |          |                              |   |                                   |
| Investment income   | —   | 874,128                          | 1,900  | 3,194,198                              | —            | —        | 4,070,226                    | 150   | 41,167                            |
| Unrestricted contributions  | —   | —                                | —  | 569,546                                | —            | —        | 569,546                      | 73,215  | 39,998                            |
| Bequests and legacies   | —   | —                                | —  | 177,284                                | —            | —        | 177,284                      | 500,000   | 114,123                           |
| Net change in unrealized gains and losses on trading securities:                    | —   | 197,491                          | —  | 697,498                                | —            | —        | 894,989                      | —   | —                                 |
| Other, net  | —   | 1,143,407                        | —  | 35,112                                 | —            | —        | 1,178,519                    | 21,405  | —                                 |
| <b>Total nonoperating gains, net</b>  | <b>—</b>                                      | <b>2,215,026</b>                 | <b>1,900</b>                                   | <b>4,673,638</b>                       | <b>—</b>     | <b>—</b> | <b>6,890,364</b>             | <b>594,770</b>  | <b>195,288</b>                    |
| <b>Excess (deficiency) of revenue and gains over expenses and losses</b>            | <b>2,807,543</b>                              | <b>(2,163,133)</b>               | <b>(196,847)</b>                               | <b>3,318,629</b>                       | <b>—</b>     | <b>—</b> | <b>3,766,192</b>             | <b>468,783</b>  | <b>(644,659)</b>                  |
| <b>Other changes in unrestricted net assets:</b>                                    |   |                                  |  |  |              |          |                              |   |                                   |
| Change in fair value of derivative instruments                                      | —   | (96,429)                         | —  | —                                      | —            | —        | (96,429)                     | —   | —                                 |
| Transfers between affiliates  | —   | —                                | —  | (400,000)                              | —            | —        | (400,000)                    | —   | —                                 |
| Change in net unrealized gains and losses on other than trading securities:         | —   | (148,998)                        | —  | (1,283,731)                            | —            | —        | (1,432,729)                  | —   | —                                 |
| Change in actuarial value of gift annuity obligations:                              | —   | —                                | —  | (92,226)                               | —            | —        | (92,226)                     | —   | —                                 |
| Unrestricted net assets of new affiliates as of date of change of control           | —   | —                                | —  | —                                      | —            | —        | —                            | —   | —                                 |
| Net assets released from restriction for land, building, and equipment acquisition: | —   | 415,914                          | —  | —                                      | —            | —        | 415,914                      | 122,812   | —                                 |
| <b>Increase (decrease) in unrestricted net assets</b>                               | <b>\$ 2,807,543</b>                           | <b>(1,992,646)</b>               | <b>(196,847)</b>                               | <b>1,542,672</b>                       | <b>—</b>     | <b>—</b> | <b>2,160,722</b>             | <b>591,595</b>  | <b>(644,659)</b>                  |

See accompanying independent auditors' report.

| VeriSpring, Inc. | Lutheran Senior Living of Illinois, Inc. | St Pauls House and Health Care Center and Foundation | Lutheran Life Communities | Eliminations: |        | Non-LIISA Obligated Group Members | Eliminations: |        | Consolidated |
|------------------|--|--|---------------------------|---------------|--------|-----------------------------------|---------------|--------|--------------|
|                  |  |  |                           | Debit         | Credit |                                   | Debit         | Credit |              |
| 12,795           | --                                       | 3,202,573  | --                        | --            | --     | 20,909,492                        | --            | --     | 55,974,486   |
| --               | --                                       | 145,685  | 218,017                   | --            | --     | 2,066,466                         | --            | --     | 7,264,760    |
| 12,795           | --                                       | 3,348,258  | 218,017                   | --            | --     | 22,975,958                        | --            | --     | 63,239,246   |
| 100,509          | --                                       | 1,815,035  | 878,276                   | --            | --     | 13,027,869                        | --            | --     | 33,728,721   |
| 17,593           | --                                       | 372,964  | 29,792                    | --            | --     | 2,624,627                         | --            | --     | 6,348,824    |
| --               | --                                       | 386,833  | 157,169                   | --            | --     | 4,216,540                         | --            | --     | 8,847,535    |
| --               | --                                       | 188,625  | --                        | --            | --     | 1,213,172                         | --            | --     | 3,038,327    |
| 3,248            | --                                       | 549,483  | --                        | --            | --     | 1,199,653                         | --            | --     | 2,479,236    |
| 320,208          | --                                       | 307,042  | 244,403                   | --            | --     | 1,902,213                         | --            | --     | 5,207,608    |
| --               | --                                       | --   | --                        | --            | --     | 323                               | --            | --     | 1,477,038    |
| --               | --                                       | (33,565)   | --                        | --            | --     | (33,565)                          | --            | --     | 241,272      |
| --               | --                                       | 161,573  | 96,816                    | --            | --     | 769,031                           | --            | --     | 1,993,213    |
| --               | --                                       | 293,581  | 34,571                    | --            | --     | 1,240,012                         | --            | --     | 4,067,346    |
| --               | --                                       | 26,029   | --                        | --            | --     | 153,132                           | --            | --     | 271,547      |
| 441,558          | --                                       | 4,067,600  | 1,441,027                 | --            | --     | 26,313,007                        | --            | --     | 69,700,667   |
| (428,763)        | --                                       | (719,342)  | (1,223,010)               | --            | --     | (3,337,049)                       | --            | --     | (6,461,421)  |
| 204              | --                                       | 64,264   | 62,318                    | --            | --     | 168,103                           | --            | --     | 4,238,329    |
| --               | --                                       | 53,506   | --                        | --            | --     | 166,719                           | --            | --     | 736,265      |
| --               | --                                       | 825,132  | --                        | --            | --     | 1,439,255                         | --            | --     | 1,616,539    |
| --               | 109                                      | 110,325  | --                        | --            | --     | 110,434                           | --            | --     | 1,005,423    |
| --               | --                                       | 307,896  | --                        | --            | --     | 329,301                           | --            | --     | 1,507,820    |
| 204              | 109                                      | 1,361,123  | 62,318                    | --            | --     | 2,213,812                         | --            | --     | 9,104,376    |
| (428,559)        | 109                                      | 641,781  | (1,160,692)               | --            | --     | (1,123,237)                       | --            | --     | 2,642,955    |
| --               | --                                       | --   | --                        | --            | --     | --                                | --            | --     | (96,429)     |
| --               | --                                       | --   | 400,000                   | --            | --     | 400,000                           | --            | --     | --           |
| --               | (109)                                    | (114,577)  | --                        | --            | --     | (114,686)                         | --            | --     | (1,547,415)  |
| --               | --                                       | --   | --                        | --            | --     | --                                | --            | --     | (92,226)     |
| --               | --                                       | --   | 4,160,188                 | --            | --     | 4,160,188                         | --            | --     | 4,160,188    |
| --               | --                                       | (27,115)   | --                        | --            | --     | 95,697                            | --            | --     | 511,611      |
| (428,559)        | --                                       | 500,089  | 3,399,496                 | --            | --     | 3,417,962                         | --            | --     | 5,578,684    |

LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES

Consolidating Balance Sheet Information

June 30, 2006

| Assets  | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |            | LHSA<br>Obligated<br>Group<br>Members | Wittenberg<br>Lutheran<br>Village, Inc.<br>and<br>Endowment<br>Corp, Inc. |
|---|---|---|--|---|--------------|------------|---------------------------------------|---|
|   |   |   |  |   | Debit        | Credit     |                                       |   |
| Current assets:   |   |   |  |   |              |            |                                       |   |
| Cash and cash equivalents   | \$ —  | 3,195,518                                 | 62,477   | 1,357,137                                       | —            | —          | 4,615,132                             | 915,350   |
| Assets whose use is limited or<br>restricted – required for current<br>liabilities  | —   | 2,071,299                                 | 122,371  | —   | —            | —          | 2,193,670                             | —   |
| Resident accounts receivable,<br>net of allowance for<br>doubtful accounts of \$340,600                                   | 41,881  | 1,856,376                                 | —  | —   | —            | —          | 1,898,257                             | 1,080,801   |
| Other receivables   | —   | 915,000                                   | 3,788,508  | —   | —            | —          | 4,703,508                             | —   |
| Inventory of supplies and other<br>Due from affiliates  | 19,195,639  | 617,326                                   | —  | —   | —            | 18,903,602 | 617,326                               | 49,522  |
|   |   |   |  |   |              |            | 292,037                               | —   |
| Total current assets  | 19,237,520  | 8,655,519                                 | 3,973,356  | 1,357,137                                       | —            | 18,903,602 | 14,319,930                            | 2,045,673   |
| Assets whose use is limited or restricted,<br>net of amounts required for current<br>liabilities:                         |   |   |  |   |              |            |                                       |   |
| Board designated for endowment<br>Contributions receivable,<br>net of allowance for doubtful<br>contributions of \$16,000 | —   | —   | —  | 7,276,309                                       | —            | —          | 7,276,309                             | —   |
| Held by trustee under bond<br>indenture agreement   | —   | 90,673                                    | —  | —   | —            | —          | 90,673                                | 91,337  |
| Donor restricted investments  | —   | —   | —  | 3,088,901                                       | —            | —          | 3,088,901                             | —   |
| Total noncurrent assets<br>whose use is limited<br>or restricted  | —   | 90,673                                    | —  | 10,413,615                                      | —            | —          | 10,504,288                            | 91,337  |
| Land, buildings, and equipment, net of<br>accumulated depreciation  | —   | 35,697,104                                | —  | —   | —            | —          | 35,697,104                            | 8,767,153   |
| Costs to acquire initial continuing<br>care contracts   | —   | —   | —  | —   | —            | —          | —                                     | —   |
| Investments   | —   | 3,298,321                                 | —  | 10,948,349                                      | —            | —          | 14,246,670                            | —   |
| Agency funds  | —   | 70,010                                    | —  | —   | —            | —          | 70,010                                | —   |
| Deferred financing costs, net   | —   | 560,548                                   | —  | —   | —            | —          | 560,548                               | 56,742  |
| Other assets  | —   | 256,059                                   | —  | —   | —            | —          | 256,059                               | 1,618   |
| Total assets  | \$ 19,237,520   | 48,628,234                                | 3,973,356  | 22,719,101                                      | —            | 18,903,602 | 75,654,609                            | 10,962,523  |

See accompanying independent auditors' report.



| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |                | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |                  | Consolidated       |
|---------------------------------------|---------------------|--|---------------------------------|--------------|----------------|---|--------------|------------------|--------------------|
|                                       |                     |  |                                 | Debit        | Credit         |   | Debit        | Credit           |                    |
| 363,086                               | 10,052              | 1,104,041                                      | 700,000                         | —            | —              | 3,092,529                                 | —            | —                | 7,707,661          |
| 45,274                                | —                   | 1,086,742                                      | —                               | —            | —              | 1,132,016                                 | —            | —                | 3,325,686          |
| 873,410                               | 2,875               | —  | 34,066                          | —            | —              | 1,991,152                                 | —            | —                | 3,889,409          |
| 14,001                                | —                   | 258,767  | —                               | —            | —              | 272,768                                   | —            | 4,507,642        | 468,634            |
| 81,812                                | —                   | 246  | —                               | —            | —              | 131,580                                   | —            | —                | 748,906            |
| —                                     | —                   | —  | 278,654                         | —            | 300,000        | (21,346)                                  | —            | 270,691          | —                  |
| <u>1,377,583</u>                      | <u>12,927</u>       | <u>2,449,796</u>                               | <u>1,012,720</u>                | <u>—</u>     | <u>300,000</u> | <u>6,598,699</u>                          | <u>—</u>     | <u>4,778,333</u> | <u>16,140,296</u>  |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 7,276,309          |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 48,405             |
| —                                     | —                   | 26,213,932                                     | —                               | —            | —              | 26,305,269                                | —            | —                | 26,395,942         |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 3,088,901          |
| —                                     | —                   | <u>26,213,932</u>                              | <u>—</u>                        | <u>—</u>     | <u>—</u>       | <u>26,305,269</u>                         | <u>—</u>     | <u>—</u>         | <u>36,809,557</u>  |
| 3,738,931                             | —                   | 4,649,423                                      | —                               | —            | —              | 17,155,507                                | —            | —                | 52,852,611         |
| —                                     | —                   | 640,212  | —                               | —            | —              | 640,212                                   | —            | —                | 640,212            |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 14,246,670         |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 70,010             |
| —                                     | —                   | 872,725  | —                               | —            | —              | 929,467                                   | —            | —                | 1,490,015          |
| 90,787                                | —                   | —  | —                               | —            | —              | 92,405                                    | —            | —                | 348,464            |
| <u>5,207,301</u>                      | <u>12,927</u>       | <u>34,826,088</u>                              | <u>1,012,720</u>                | <u>—</u>     | <u>300,000</u> | <u>51,721,559</u>                         | <u>—</u>     | <u>4,778,333</u> | <u>122,597,835</u> |

LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES

Consolidating Balance Sheet Information

June 30, 2006

| Liabilities and Net Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |        | LHSA<br>Obligated<br>Group<br>Members | Wittenberg<br>Lutheran<br>Village, Inc.<br>and<br>Endowment<br>Corp. Inc. |
|--|---|---|--|---|--------------|--------|---------------------------------------|---|
|  |   |   |  |   | Debit        | Credit |                                       |   |
| Current liabilities:   |   |   |  |   |              |        |                                       |   |
| Current installments of long-term debt   | \$ —  | 460,000                                   | —  | —   | —            | —      | 460,000                               | 406,563   |
| Current portion of obligations<br>under capital leases:                            |   | 303,680                                   | —  | —   | —            | —      | 303,680                               | —   |
| Accounts payable   | 122,960   | 934,312                                   | 45,076   | 23,954  | —            | —      | 1,126,302                             | 402,076   |
| Accrued interest payable   | —   | 65,478                                    | —  | —   | —            | —      | 65,478                                | —   |
| Accrued compensation and<br>other liabilities:                                     | 262,797   | 1,859,980                                 | 109,583  | 33,278  | —            | —      | 2,265,638                             | 505,553   |
| Refundable deposits and entrance fees:   | —   | 1,485,622                                 | 122,370  | —   | —            | —      | 1,607,992                             | 2,530,190   |
| Estimated payables under third-party<br>reimbursement programs                     | —   | 162,968                                   | —  | —   | —            | —      | 162,968                               | —   |
| Resident deposits  | —   | —   | —  | —   | —            | —      | —                                     | —   |
| Due to affiliates  | —   | 13,250,267                                | 4,590,729  | 1,062,606                                       | 18,903,602   | —      | —                                     | 4,265,978   |
| Total current liabilities  | 385,757   | 18,522,307                                | 4,867,758  | 1,119,838                                       | 18,903,602   | —      | 5,992,058                             | 8,110,360   |
| Long-term debt, excluding current<br>installments and unamortized<br>bond discount | —   | 25,922,306                                | —  | —   | —            | —      | 25,922,306                            | 4,580,419   |
| Obligations under capital leases, net<br>of current portion                        | —   | 228,365                                   | —  | —   | —            | —      | 228,365                               | —   |
| Deferred revenue from nonrefundable<br>entrance fees                               | —   | —   | —  | —   | —            | —      | —                                     | —   |
| Residents' custodial assets  | —   | 99,661                                    | —  | —   | —            | —      | 99,661                                | 64,746  |
| Reserve for funeral expenses:  | —   | 60,122                                    | —  | —   | —            | —      | 60,122                                | —   |
| Charitable gift annuity contracts:   | —   | —   | —  | 641,553   | —            | —      | 641,553                               | —   |
| Agency funds:  | —   | 70,010                                    | —  | —   | —            | —      | 70,010                                | —   |
| Other long term liabilities:   | —   | —   | —  | —   | —            | —      | —                                     | —   |
| Total liabilities  | 385,757   | 44,902,771                                | 4,867,758  | 1,761,391                                       | 18,903,602   | —      | 33,014,075                            | 12,755,525  |
| Net assets (deficit):  |   |   |  |   |              |        |                                       |   |
| Unrestricted   | 18,851,763  | 3,725,463                                 | (894,402)  | 17,752,873                                      | —            | —      | 39,435,697                            | (1,903,721)   |
| Temporarily restricted   | —   | —   | —  | 115,936   | —            | —      | 115,936                               | 110,719   |
| Permanently restricted   | —   | —   | —  | 3,088,901                                       | —            | —      | 3,088,901                             | —   |
| Total net assets (deficit)   | 18,851,763  | 3,725,463                                 | (894,402)  | 20,957,710                                      | —            | —      | 42,640,534                            | (1,793,002)   |
| Total liabilities and net assets   | \$ 19,237,520   | 48,628,234                                | 3,973,356  | 22,719,101                                      | 18,903,602   | —      | 75,654,609                            | 10,962,523  |

| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |        | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---------------------------------------|---------------------|--|---------------------------------|--------------|--------|---|--------------|--------|--------------|
|                                       |                     |  |                                 | Debit        | Credit |   | Debit        | Credit |              |
| 58,385                                | —                   | —  | —                               | —            | —      | 464,948                                   | —            | —      | 924,948      |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 303,680      |
| 273,502                               | 9,951               | 60,306   | 6,647                           | —            | —      | 752,482                                   | —            | —      | 1,878,784    |
| 986                                   | —                   | 300,212  | —                               | —            | —      | 301,198                                   | —            | —      | 366,676      |
| 365,204                               | —                   | 408,404  | —                               | —            | —      | 1,279,161                                 | —            | —      | 3,544,799    |
| 2,047,470                             | —                   | —  | —                               | —            | —      | 4,577,660                                 | —            | —      | 6,185,652    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 162,968      |
| 43,000                                | 10,000              | 1,091,965                                      | —                               | —            | —      | 1,144,965                                 | —            | —      | 1,144,965    |
| 461,385                               | 282,436             | 68,534   | —                               | 300,000      | —      | 4,778,333                                 | 4,778,333    | —      | —            |
| 1,249,932                             | 302,387             | 1,929,421                                      | 6,647                           | 300,000      | —      | 13,298,747                                | 4,778,333    | —      | 14,512,472   |
| 2,221,520                             | —                   | 30,885,360                                     | —                               | —            | —      | 37,687,299                                | —            | —      | 63,609,605   |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 228,365      |
| 270,084                               | —                   | —  | —                               | —            | —      | 270,084                                   | —            | —      | 270,084      |
| —                                     | —                   | —  | —                               | —            | —      | 64,746                                    | —            | —      | 164,407      |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 60,122       |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 641,553      |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 70,010       |
| 1,320                                 | —                   | —  | —                               | —            | —      | 1,320                                     | —            | —      | 1,320        |
| 5,742,856                             | 302,387             | 32,814,781                                     | 6,647                           | 300,000      | —      | 51,322,196                                | 4,778,333    | —      | 79,557,938   |
| (589,059)                             | (289,460)           | 2,011,307                                      | 1,006,073                       | —            | —      | 235,140                                   | —            | —      | 39,670,837   |
| 53,504                                | —                   | —  | —                               | —            | —      | 164,223                                   | —            | —      | 280,159      |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 3,088,901    |
| (535,535)                             | (289,460)           | 2,011,307                                      | 1,006,073                       | —            | —      | 399,363                                   | —            | —      | 43,039,897   |
| 5,207,301                             | 12,927              | 34,826,088                                     | 1,012,720                       | 300,000      | —      | 51,721,559                                | 4,778,333    | —      | 122,597,835  |

LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2006

|   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |        | LHSA<br>Obligated<br>Group<br>Members | Wittenberg<br>Lutheran<br>Village, Inc.<br>and<br>Endowment<br>Corp, Inc. |
|---|---|---|--|---|--------------|--------|---------------------------------------|---|
|   |   |   |  |   | Debit        | Credit |                                       |   |
| <b>Operating revenue:</b>   |   |   |  |   |              |        |                                       |   |
| Net resident service revenue  | \$ 3,788,174  | 30,265,730                                | —  | —   | —            | —      | 34,053,904                            | 10,641,419  |
| Other revenue   | (3,576)   | 1,118,046                                 | 3,601,900  | —   | —            | —      | 4,716,370                             | 1,426,402   |
| Total operating revenue   | 3,784,598   | 31,383,776                                | 3,601,900  | —   | —            | —      | 38,770,274                            | 12,067,821  |
| <b>Operating expenses:</b>  |   |   |  |   |              |        |                                       |   |
| Salaries and wages  | 511,054   | 16,342,244                                | 2,155,794  | 412,385   | —            | —      | 19,421,477                            | 5,519,040   |
| Employee benefits   | 418,329   | 4,124,239                                 | 422,820  | 261,484   | —            | —      | 5,226,872                             | 1,211,229   |
| Support services  | —   | 4,729,276                                 | —  | —   | —            | —      | 4,729,276                             | 2,138,214   |
| Dietary services  | —   | 1,756,556                                 | —  | —   | —            | —      | 1,756,556                             | 454,161   |
| Program services  | 47,351  | 1,084,612                                 | —  | —   | —            | —      | 1,131,963                             | 72,677  |
| Administrative services   | 393,579   | 3,036,984                                 | 238,540  | 194,360   | —            | —      | 3,863,463                             | 386,895   |
| Community services  | —   | —   | 1,213,617  | —   | —            | —      | 1,213,617                             | 2,347   |
| Fund-raising  | —   | —   | —  | 287,757   | —            | —      | 287,757                               | —   |
| Interest  | —   | 1,204,371                                 | —  | —   | —            | —      | 1,204,371                             | 253,927   |
| Depreciation and amortization   | —   | 2,638,225                                 | —  | —   | —            | —      | 2,638,225                             | 595,869   |
| Provision for bad debts   | —   | 80,240                                    | —  | —   | —            | —      | 80,240                                | 191,214   |
| Total operating expenses  | 1,370,313   | 34,996,747                                | 4,030,771  | 1,155,986                                       | —            | —      | 41,553,817                            | 10,825,573  |
| Income (loss) from operations   | 2,414,285   | (3,612,971)                               | (428,871)  | (1,155,986)                                     | —            | —      | (2,783,543)                           | 1,242,248   |
| <b>Nonoperating gains and losses:</b>   |   |   |  |   |              |        |                                       |   |
| Investment income   | —   | 126,582                                   | 1,628  | 1,382,533                                       | —            | —      | 1,510,743                             | 172   |
| Unrestricted contributions  | —   | —   | —  | 619,384   | —            | —      | 619,384                               | 33,349  |
| Bequests and legacies   | —   | —   | —  | 2,454,887                                       | —            | —      | 2,454,887                             | —   |
| Other, net  | —   | 1,179,692                                 | (17,985)   | 140,796   | —            | —      | 1,302,503                             | 3,788   |
| Total nonoperating gains (losses), net  | —   | 1,306,274                                 | (16,357)   | 4,597,600                                       | —            | —      | 5,887,517                             | 37,309  |
| Excess (deficiency) of revenue and gains over expenses and losses                   | 2,414,285   | (2,306,697)                               | (445,228)  | 3,441,614                                       | —            | —      | 3,103,974                             | 1,279,557   |
| <b>Other changes in unrestricted net assets:</b>                                    |   |   |  |   |              |        |                                       |   |
| Change in fair value of derivative instruments                                      | —   | 732,533                                   | —  | —   | —            | —      | 732,533                               | —   |
| Transfers between affiliates  | —   | —   | —  | (2,119,190)                                     | —            | —      | (2,119,190)                           | —   |
| Change in net unrealized gains and losses on other than trading securities          | —   | (78,575)                                  | —  | (269,941)                                       | —            | —      | (348,516)                             | —   |
| Change in actuarial value of gift annuity obligations                               | —   | —   | —  | (278,935)                                       | —            | —      | (278,935)                             | —   |
| Unrestricted net assets of new affiliate as of date of change of control            | —   | —   | —  | —   | —            | —      | —                                     | —   |
| Net assets released from restriction for land, building, and equipment acquisitions | —   | 620,657                                   | —  | —   | —            | —      | 620,657                               | —   |
| Increase (decrease) in unrestricted net assets                                      | \$ 2,414,285  | (1,032,082)                               | (445,228)  | 773,548   | —            | —      | 1,710,523                             | 1,279,557   |

See accompanying independent auditors' report.

| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |        | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---------------------------------------|---------------------|--|---------------------------------|--------------|--------|---|--------------|--------|--------------|
|                                       |                     |  |                                 | Debit        | Credit |   | Debit        | Credit |              |
| 4,320,841                             | —                   | —  | —                               | —            | —      | 14,962,260                                | —            | —      | 49,016,164   |
| 149,954                               | 2,915               | —  | 34,066                          | —            | —      | 1,613,337                                 | —            | —      | 6,329,707    |
| 4,470,795                             | 2,915               | —  | 34,066                          | —            | —      | 16,575,597                                | —            | —      | 55,345,871   |
| 2,641,556                             | 44,504              | —  | —                               | —            | —      | 8,205,100                                 | —            | —      | 27,626,577   |
| 607,240                               | 8,283               | —  | —                               | —            | —      | 1,826,752                                 | —            | —      | 7,053,624    |
| 415,579                               | —                   | —  | —                               | —            | —      | 2,553,793                                 | —            | —      | 7,283,069    |
| 260,863                               | —                   | —  | —                               | —            | —      | 715,024                                   | —            | —      | 2,471,580    |
| 195,535                               | 2,840               | —  | —                               | —            | —      | 271,052                                   | —            | —      | 1,403,015    |
| 250,601                               | 236,800             | —  | 33,977                          | —            | —      | 908,273                                   | —            | —      | 4,771,736    |
| —                                     | —                   | —  | —                               | —            | —      | 2,347                                     | —            | —      | 1,215,964    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 287,757      |
| 111,754                               | —                   | —  | —                               | —            | —      | 365,681                                   | —            | —      | 1,570,052    |
| 225,261                               | —                   | —  | —                               | —            | —      | 821,130                                   | —            | —      | 3,459,355    |
| 10,570                                | —                   | —  | —                               | —            | —      | 201,784                                   | —            | —      | 282,024      |
| 4,718,959                             | 292,427             | —  | 33,977                          | —            | —      | 15,870,936                                | —            | —      | 57,424,753   |
| (248,164)                             | (289,512)           | —  | 89                              | —            | —      | 704,661                                   | —            | —      | (2,078,882)  |
| 26,802                                | 52                  | —  | 5,984                           | —            | —      | 33,010                                    | —            | —      | 1,543,753    |
| 51,731                                | —                   | —  | —                               | —            | —      | 85,080                                    | —            | —      | 704,464      |
| 117,906                               | —                   | —  | —                               | —            | —      | 117,906                                   | —            | —      | 2,572,793    |
| —                                     | —                   | —  | —                               | —            | —      | 3,788                                     | —            | —      | 1,306,291    |
| 196,439                               | 52                  | —  | 5,984                           | —            | —      | 239,784                                   | —            | —      | 6,127,301    |
| (51,725)                              | (289,460)           | —  | 6,073                           | —            | —      | 944,445                                   | —            | —      | 4,048,419    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 732,533      |
| —                                     | —                   | 1,119,190                                      | 1,000,000                       | —            | —      | 2,119,190                                 | —            | —      | —            |
| (19,444)                              | —                   | —  | —                               | —            | —      | (19,444)                                  | —            | —      | (367,960)    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | (278,935)    |
| (517,896)                             | —                   | —  | —                               | —            | —      | (517,896)                                 | —            | —      | (517,896)    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 620,657      |
| (589,065)                             | (289,460)           | 1,119,190                                      | 1,006,073                       | —            | —      | 2,526,295                                 | —            | —      | 4,236,818    |

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Financial Statements and Schedules

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

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## Independent Auditors' Report

The Boards of Directors  
Lutheran Home and Services for the  
Aged, Inc. and Consolidated Affiliates:

We have audited the accompanying consolidated balance sheets of Lutheran Home and Services for the Aged, Inc. and consolidated affiliates (the Corporations) as of June 30, 2006 and 2005, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporations' management. 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 Corporations' 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporations as of June 30, 2006 and 2005, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual corporations. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

September 25, 2006



**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Balance Sheets

June 30, 2006 and 2005

| Assets   | <u>2006</u>           | <u>2005</u>       |
|--|-----------------------|-------------------|
| Current assets:  |                       |                   |
| Cash and cash equivalents  | \$ 7,608,000          | 4,216,912         |
| Assets whose use is limited or restricted – required for<br>current liabilities  | 1,657,494             | 507,098           |
| Resident accounts receivable, net of allowance for<br>doubtful accounts of \$340,600 and \$166,600 in<br>2006 and 2005, respectively | 3,889,409             | 3,061,599         |
| Other receivables  | 468,634               | 176,526           |
| Inventory of supplies and other  | 748,906               | 802,860           |
| Total current assets   | <u>14,372,443</u>     | <u>8,764,995</u>  |
| Assets whose use is limited or restricted, net of amounts required<br>for current liabilities:                                       |                       |                   |
| Board designated for endowment   | 7,276,309             | 7,324,072         |
| Resident deposits for future funeral, occupancy, and care costs  | 1,668,192             | 1,611,123         |
| Contributions receivable, net of allowance for doubtful<br>contributions of \$16,000 in 2006 and 2005                                | 48,405                | 53,276            |
| Held by trustee under bond indenture agreement   | 26,395,942            | 200,163           |
| Donor restricted investments   | 3,088,901             | 2,986,891         |
| Total noncurrent assets whose use is limited<br>or restricted  | <u>38,477,749</u>     | <u>12,175,525</u> |
| Land, buildings, and equipment, net of accumulated depreciation  | 52,852,611            | 46,668,981        |
| Costs to acquire initial continuing care contracts   | 640,212               | —                 |
| Investments  | 14,246,670            | 13,816,382        |
| Custodial assets   | 99,661                | 114,242           |
| Agency funds   | 70,010                | 72,696            |
| Deferred financing costs, net  | 1,490,015             | 621,154           |
| Other assets   | 348,464               | —                 |
| Total assets   | <u>\$ 122,597,835</u> | <u>82,233,975</u> |

See accompanying notes to consolidated financial statements.

| <b>Liabilities and Net Assets</b>   | <b>2006</b>    | <b>2005</b> |
|---|----------------|-------------|
| <b>Current liabilities:</b>   |                |             |
| Current installments of long-term debt  | \$ 924,948     | 810,743     |
| Line of credit payable  | —              | 2,041,466   |
| Current portion of obligations under capital leases   | 303,680        | 177,694     |
| Accounts payable  | 1,878,784      | 2,432,956   |
| Accrued interest payable  | 366,676        | 67,098      |
| Accrued compensation and other liabilities  | 3,544,799      | 2,811,746   |
| Refundable deposits and entrance fees   | 6,185,652      | 4,448,587   |
| Estimated payables under third-party reimbursement programs                                     | 162,968        | 314,346     |
| Resident deposits   | 1,144,965      | —           |
| Total current liabilities   | 14,512,472     | 13,104,636  |
| <b>Long-term debt, excluding current installments and unamortized bond discount and premium</b> | 63,609,605     | 28,840,796  |
| Obligations under capital leases, net of current portion  | 228,365        | 406,829     |
| Deferred revenue from nonrefundable entrance fees   | 270,084        | —           |
| Residents' custodial assets   | 164,407        | 114,242     |
| Reserve for funeral expenses  | 60,122         | 81,899      |
| Charitable gift annuity contracts   | 641,553        | 407,709     |
| Agency funds  | 70,010         | 72,696      |
| Other long term liabilities   | 1,320          | 476,474     |
| Total liabilities   | 79,557,938     | 43,505,281  |
| <b>Net assets:</b>  |                |             |
| Unrestricted  | 39,670,837     | 35,434,019  |
| Temporarily restricted  | 280,159        | 307,784     |
| Permanently restricted  | 3,088,901      | 2,986,891   |
| Total net assets  | 43,039,897     | 38,728,694  |
| <b>Commitments and contingencies</b>  |                |             |
| Total liabilities and net assets  | \$ 122,597,835 | 82,233,975  |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Operations

Years ended June 30, 2006 and 2005

|  | 2006          | 2005        |
|--|---------------|-------------|
| Operating revenue:   |               |             |
| Net resident service revenue   | \$ 49,016,164 | 42,364,200  |
| Other revenue  | 6,329,707     | 5,043,715   |
| Total operating revenue  | 55,345,871    | 47,407,915  |
| Operating expenses:  |               |             |
| Salaries and wages   | 27,626,577    | 23,875,459  |
| Employee benefits  | 7,053,624     | 6,002,221   |
| Support services   | 7,283,069     | 7,794,828   |
| Dietary services   | 2,471,580     | 2,521,730   |
| Program services   | 1,403,015     | 1,117,711   |
| Administrative services  | 4,771,736     | 3,026,884   |
| Community services   | 1,215,964     | 1,096,513   |
| Fund-raising   | 287,757       | 161,584     |
| Interest   | 1,570,052     | 1,317,061   |
| Depreciation and amortization  | 3,459,355     | 3,021,009   |
| Provision for bad debts  | 282,024       | 216,049     |
| Total operating expenses   | 57,424,753    | 50,151,049  |
| Loss from operations   | (2,078,882)   | (2,743,134) |
| Nonoperating gains and losses:   |               |             |
| Investment income  | 1,543,753     | 754,387     |
| Unrestricted contributions   | 704,464       | 225,812     |
| Bequests and legacies  | 2,572,793     | 989,494     |
| Other, net   | 1,306,291     | 1,314,490   |
| Total nonoperating gains, net  | 6,127,301     | 3,284,183   |
| Excess of revenue and gains over<br>expenses and losses                                | 4,048,419     | 541,049     |
| Other changes in unrestricted net assets:  |               |             |
| Change in fair value of derivative instruments   | 732,533       | (410,919)   |
| Change in net unrealized gains and losses on other than<br>trading securities          | (367,960)     | 509,003     |
| Change in actuarial value of gift annuity obligations                                  | (278,935)     | —           |
| Unrestricted net assets (deficit) of new affiliate as of date of<br>change of control  | (517,896)     | —           |
| Net assets released from restriction for land, building, and<br>equipment acquisitions | 620,657       | 673,854     |
| Increase in unrestricted net assets  | \$ 4,236,818  | 1,312,987   |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2006 and 2005

|  | <u>2006</u>          | <u>2005</u>       |
|--|----------------------|-------------------|
| Increase in unrestricted net assets  | \$ 4,236,818         | 1,312,987         |
| Temporarily restricted net assets:   |                      |                   |
| Contributions for specific purposes  | 533,833              | 546,084           |
| Temporarily restricted net assets of new affiliate as of<br>date of change of control  | 59,199               | —                 |
| Net assets released from restriction for land, building, and<br>equipment acquisitions | <u>(620,657)</u>     | <u>(673,854)</u>  |
| Decrease in temporarily restricted net assets  | <u>(27,625)</u>      | <u>(127,770)</u>  |
| Permanently restricted net assets:   |                      |                   |
| Contributions  | 102,010              | 140,664           |
| Change in net unrealized gains and losses on investments                               | <u>—</u>             | <u>25,581</u>     |
| Increase in permanently restricted<br>net assets                                       | <u>102,010</u>       | <u>166,245</u>    |
| Change in net assets   | 4,311,203            | 1,351,462         |
| Net assets at beginning of year  | <u>38,728,694</u>    | <u>37,377,232</u> |
| Net assets at end of year  | <u>\$ 43,039,897</u> | <u>38,728,694</u> |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005

|   | 2006         | 2005        |
|---|--------------|-------------|
| Cash flows from operating activities and gains:   |              |             |
| Change in net assets  | \$ 4,311,203 | 1,351,462   |
| Adjustments to reconcile change in net assets to net cash provided by operating activities and gains: |              |             |
| Depreciation and amortization   | 3,459,355    | 3,021,009   |
| Amortization of entrance fees and refundable deposits   | (389,600)    | (320,876)   |
| Provision for bad debts   | 282,024      | 216,049     |
| Change in fair value of derivative instruments  | (732,533)    | 410,919     |
| Change in net unrealized gains and losses   | 367,960      | (534,584)   |
| Change in actuarial value of gift annuity obligations   | 278,935      | —           |
| Net deficit of new affiliate as of date of change of control  | 458,697      | —           |
| Contributions of permanently restricted net assets  | (102,010)    | (140,664)   |
| Changes in assets and liabilities:  |              |             |
| Resident accounts receivable  | (647,055)    | (948,954)   |
| Other receivables   | (292,108)    | 178,936     |
| Inventory of supplies and other   | 142,992      | (429,283)   |
| Accounts payable  | (852,320)    | 390,189     |
| Accrued interest payable  | 299,578      | 14,295      |
| Accrued compensation and other liabilities  | 223,044      | 270,689     |
| Estimated payables under third-party reimbursement programs   | (151,378)    | (84,883)    |
| Deferred occupancy and care revenue and refundable deposits   | 41,992       | (16,888)    |
| Net cash provided by operating activities and gains   | 6,698,776    | 3,377,416   |
| Cash flows from investing activities:   |              |             |
| Net sales (purchases) of assets whose use is limited or restricted                                    | (27,820,580) | 452,752     |
| Net purchases of investments  | (430,288)    | (2,418,292) |
| Acquisition of land, buildings, and equipment, net  | (5,583,522)  | (3,468,337) |
| Costs to acquire initial continuing care contracts  | (640,212)    | —           |
| Increase in resident deposits   | 1,144,965    | —           |
| Cash acquired as part of change in control of new affiliate   | 755,584      | —           |
| Net cash used in investing activities   | (32,574,053) | (5,433,877) |
| Cash flows from financing activities:   |              |             |
| Proceeds from issuance of long-term debt  | 33,376,826   | —           |
| Repayment of long-term debt   | (818,858)    | (785,587)   |
| Net repayment of obligations under capital leases   | (337,486)    | (15,959)    |
| Proceeds from entrance fees and refundable deposits   | 557,030      | 383,160     |
| Refunds paid on entrance fees and refundable deposits   | (653,875)    | (329,897)   |
| Payments for deferred financing costs   | (872,725)    | —           |
| Net draws (repayments) on line of credit  | (2,041,465)  | 294,761     |
| Contributions of permanently restricted net assets  | 102,010      | 140,664     |
| Net repayments of charitable gift annuity contracts   | (45,091)     | (104,459)   |
| Net cash provided by (used in) financing activities   | 29,266,365   | (417,317)   |
| Net increase (decrease) in cash and cash equivalents  | 3,391,088    | (2,473,778) |
| Cash and cash equivalents at beginning of year  | 4,216,912    | 6,690,690   |
| Cash and cash equivalents at end of year  | \$ 7,608,000 | 4,216,912   |
| Supplemental disclosure of cash flow information:   |              |             |
| Cash paid for interest, net of amounts capitalized  | \$ 1,570,686 | 1,302,766   |
| Supplemental disclosure of noncash transactions:  |              |             |
| Assets acquired under capital lease   | \$ 285,008   | 600,482     |
| Assumption of long-term debt  | 2,325,046    | —           |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(1) Organization and Purpose**

Lutheran Home and Services for the Aged, Inc. (the Parent) and its consolidated affiliates were established through a common religious heritage with the Lutheran Church-Missouri Synod to provide nursing and residential living arrangements for the aged. Lutheran Home and Services for the Aged, Inc. is a recognized social ministry organization of the Lutheran Church-Missouri Synod and is affiliated with the Evangelical Lutheran Church of America. The Parent and its consolidated affiliates also sponsor programs and activities that provide counseling, education, outreach, day care, and other support services to the community. The affiliated organizations (collectively with the Parent to be referred to as the Corporations) are under the common control of the Parent, and include the following entities:

- Lutheran Home and Services for the Aged, Inc. provides management services to its consolidated affiliates and other affiliated entities in Illinois and also operates a 100 unit senior congregate housing facility.
- Lutheran Home for the Aged, Inc. (the Home), located in Arlington Heights, Illinois, is composed of 262 skilled and 60 intermediate licensed nursing care beds, as well as 70 licensed sheltered care units, providing nursing and other services associated with daily living to residents of the Home.
- Lutheran Community Services for the Aged, Inc. (LCSA) offers family support services, child care services, home health services, and counseling to residents of the Home, their families, staff, and the surrounding community.
- Lutheran Foundation for the Aged, Inc. (the Foundation) coordinates fund-raising activities that support the benevolent care and other programs at the Home.
- Lutheran Home Services and Mission Outreach, Inc. (LHSMO) was the sole corporate member and serves as the parent corporation to the following entities through August 2005:
  - Wittenberg Lutheran Village, Inc. (WLV), located in Crown Point, Indiana, is composed of 155 skilled nursing care beds providing nursing and other services to its residents.
  - Wittenberg Lutheran Village Endowment Corporation (WLVEC), located in Crown Point, Indiana, is composed of a 72 cottage retirement community and a 33 unit assisted living facility providing senior living and community based services to its residents.
- Lutheran Senior Living of Illinois, Inc. (LSLI) was incorporated for the purpose of developing future senior living facilities in conjunction with Lutheran Church congregations. A retirement community consisting of 90 independent living units and 58 assisted living units is currently under development in Bloomington, Illinois, which is scheduled to open in fiscal year 2008. In 2005, the Parent entered into a services agreement with Greystone Development Company, LLC (Greystone) to develop the new retirement community. Lutheran Life Communities will provide management services for pre-opening and ongoing management of the community under an agreement entered into by LSLI in February, 2006.
- Effective December 1, 2005, the Parent entered into an affiliation agreement with Pleasant View Luther Home, Inc. (Pleasant View). Pursuant to the affiliation agreement, the Parent became the sole corporate member of Pleasant View. The transaction was accounted for using the as if pooling of

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

interests method of accounting with the activities of the aforementioned entity included in the accompanying consolidated financial statements only for periods subsequent to the change of control. The net assets of such corporations as of the date of change of control have been reported as direct additions to the appropriate class of net assets. Pleasant View operates a retirement facility in Ottawa, Illinois, consisting of 36 independent living units and a 248 bed skilled nursing facility.

The following table sets forth the composition of the financial position of Pleasant View as of the effective date of the change of control:

| Assets  | December 1,<br>2005 |
|---|---------------------|
| Current assets  | \$ 1,295,473        |
| Land, buildings, and equipment, net   | 3,774,455           |
| Other assets  | 90,787              |
| Total assets  | \$ 5,160,715        |
| <b>Liabilities and Net Assets</b>   |                     |
| Current liabilities   | \$ 2,137,526        |
| Refundable entrance fees  | 1,857,458           |
| Deferred revenue from nonrefundable<br>entrance fees                            | 303,771             |
| Long-term debt, excluding current installments<br>and unamortized bond discount | 1,320,657           |
| Total liabilities   | 5,619,412           |
| Unrestricted net deficit  | (517,896)           |
| Temporarily restricted net assets   | 59,199              |
| Total net deficit   | (458,697)           |
| Total liabilities and net assets  | \$ 5,160,715        |

For the seven months ended June 30, 2006, Pleasant View generated approximately \$4,471,000 of revenues and \$4,719,000 of expenses which are reported as net resident service revenue and operating expenses, respectively, in the accompanying 2006 consolidated statement of operations.

- VeriSpring, Inc. is a for-profit corporation and was incorporated in 2006 to develop new innovation in senior care that meets the desires of seniors wanting to remain in their homes as they age and helping them to maintain their independence while improving their well-being.
- Lutheran Life Communities (LLC) is an Illinois not-for-profit corporation formed in 2005 for the purpose of developing new and innovative services for seniors, managing future senior living facilities, and providing day-to-day supervision and management to the facilities. During fiscal 2006, LLC became the sole corporate member and serves as the parent corporation to WLTV, WLVEC, LSLI, and VeriSpring, Inc.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The Corporations (other than VeriSpring, Inc.) are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

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

**(2) Summary of Significant Accounting Policies**

The following significant accounting policies of the Corporations are utilized in presenting the consolidated financial statements:

- The consolidated statements of operations include excess of revenue and gains over expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of resident care and community support services are reported as revenue and expenses. Transactions incidental to the provision of resident care and community support services are reported as gains and losses. Changes in unrestricted net assets which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include change in fair value of derivative instruments, changes in unrealized gains (losses) on other than trading securities, transfers of assets among affiliated not-for-profit entities for other than goods or services, the change in actuarial valuation of gift annuity obligations, and contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets).
- Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unrestricted contributions, bequests, and legacies are recorded as other revenue of the Home and LCSA and as nonoperating gains of the Foundation and WLVEC. Contributions 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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Net assets released from restriction for operating purposes are included with other revenue. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Temporarily restricted net assets are those whose use has been limited by donors for a specific time period or purpose. Permanently restricted net assets are those whose use has been restricted by donors in perpetuity. Temporarily restricted net assets at June 30, 2006 and 2005 principally represent amounts restricted for the purpose of acquiring long-lived assets or for specific operating purposes. Permanently restricted net assets represent investments to be held in perpetuity, the income from which is unrestricted and is expendable to support operations.



**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

- Investment income and realized gains (losses) on unrestricted and temporarily restricted investments are recorded as other revenue of the Home, WLV, and Pleasant View (the Homes) and nonoperating gains of the Foundation. Investment income and realized gains (losses) from permanently restricted investments are recorded as nonoperating gains since such income is unrestricted by the donors. Other-than-temporary declines in investments are considered to be realized losses.
- The Homes provide care to residents who meet certain criteria under their benevolent care policies at amounts less than established rates.
- Net resident service revenue is reported at the estimated net realizable amounts from residents and third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.
- Assets whose use is limited or restricted include: resident deposits; assets assigned to the Corporations by residents to cover the cost of their future care and services, including refundable deposits; assets held by a trustee under bond indenture agreements; assets designated by the Foundation board of directors for endowment development, over which the Board retains control and may, at its discretion, use for other purposes; and all donor restricted assets. Resident deposits represent escrow deposits received for the new CCRC being developed by LSLI. Deposits received by LSLI upon the commitment of prospective residents to enter into a residency agreement for the CCRC are \$1,091,965 at June 30, 2006 and are included in assets whose use is limited or restricted—required for current liabilities. These funds, which are refundable to the residents on demand, are placed in an interest bearing escrow account, as required by the State of Illinois, and are available to LSLI once certain conditions are met. Such escrow deposits are reported as current assets within the accompanying 2006 balance sheet. LSLI pays interest on escrow deposits based on the 30-day average treasury rate for the period beginning with the date of deposit and ending with the date the resident executes their residency agreement or when the deposit agreement is terminated under certain conditions. Upon execution of their residency agreement, residents are required to apply the balance of their deposit and related earned interest against their entire balance due under the residency agreement. For the year ended June 30, 2006, LSLI has recorded \$26,566 of interest cost associated with these deposits. Assets held by a trustee under bond indenture agreements include debt service reserve and development project funds arising from the issuance of Series 2006 debt (note 11). Such funds are held by the Series 2006 bond trustee and may only be expended in accordance with the provisions of the related bond trust indentures, primarily to pay for the construction and related costs of the CCRC and as additional security on the Series 2006 bonds.
- For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and money market funds.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation, less accumulated depreciation. Assets acquired under capital lease are recorded at the net present value of minimum lease payments. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Amortization of assets under capital lease is over the lesser of the estimated useful life of the asset or the respective lease term.
- Inventory of supplies is reported at the lower of cost (first-in, first-out) or market.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

- Costs of acquiring initial continuing care contracts (the Costs) consist principally of marketing and advertising costs incurred directly in relation to the initial acquisition of continuing care contracts related to the new CCRC being developed by LSLI. In accordance with Statement of Position 93-7, *Reporting on Advertising Costs*, LSLI capitalizes costs incurred in connection with direct response advertising whose primary purpose is to secure deposits from residents who are shown to have responded specifically to the advertising. Such advertising costs include newspaper, magazine, television, radio, brochures, and other costs. The Costs will be amortized using the straight-line method over the expected stay at the CCRC of the first resident group, beginning in the first period in which revenues associated with the Costs are earned. Upon occupancy of the first resident group, additional Costs are expensed as incurred.
- Entrance fees which are nonrefundable are reported as deferred revenue from entrance fees and are amortized over the life expectancy of the residents. Entrance fees are received by Pleasant View under residency contracts and are refundable at various amounts per the terms of the individual contracts. Pleasant View is required to repay the refundable entrance fee less amounts owed by the resident to Pleasant View following the termination of occupancy under the residency contract.
- Deferred financing costs represent issuance costs for outstanding long-term debt. Deferred financing costs are being amortized on the straight-line method over the life of the bonds. Bond discount and premium are being amortized on the straight-line basis over the life of the respective bonds.
- 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- The Corporations incur expenses for the provision of residential care, community support services, fund-raising, and related general and administrative activities.
- The Corporations account for derivatives and hedging activities in accordance with Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded in the consolidated balance sheets at their respective fair values.  

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded directly to unrestricted net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Any ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported as a component of interest expense in the consolidated statements of operations.
- Certain 2005 amounts have been reclassified to conform with the 2006 consolidated financial statement presentation.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(3) Investments**

The Corporations report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of the Corporations' investment portfolio at June 30, 2006 and 2005 follows:

|   | <u>2006</u>          | <u>2005</u>       |
|---|----------------------|-------------------|
| Cash and cash equivalents                         | \$ 2,122,925         | 2,444,056         |
| Common stocks and mutual funds                    | 17,098,766           | 17,874,440        |
| Corporate bonds and notes                         | 34,724,780           | 5,384,574         |
| U.S. Government agency securities                 | —                    | 497,971           |
| Cash surrender value of life insurance policies   | 37,146               | 38,646            |
| Investment in MSCN (note 17)                      | 313,606              | 245,055           |
| Investment in captive insurance company (note 17) | 205,956              | 147,925           |
| Contributions receivable                          | 48,405               | 53,276            |
|   | <u>\$ 54,551,584</u> | <u>26,685,943</u> |

Investments are reported in the accompanying consolidated balance sheets as follows:

|  | <u>June 30,</u>      |                   |
|--|----------------------|-------------------|
|  | <u>2006</u>          | <u>2005</u>       |
| Assets whose use is limited or restricted – required for current liabilities               | \$ 1,657,494         | 507,098           |
| Assets whose use is limited or restricted, net of amounts required for current liabilities | 38,477,749           | 12,175,525        |
| Investments  | 14,246,670           | 13,816,382        |
| Custodial assets   | 99,661               | 114,242           |
| Agency funds   | 70,010               | 72,696            |
|  | <u>\$ 54,551,584</u> | <u>26,685,943</u> |

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

The composition of investment return on the Corporations' investment portfolio for the years ended June 30, 2006 and 2005 is as follows:

|   | <u>2006</u>         | <u>2005</u>      |
|---|---------------------|------------------|
| Interest and dividend income  | \$ 1,097,450        | 1,330,131        |
| Net realized gains (losses) on sale of investments                  | 1,175,934           | (442,384)        |
| Joint venture income  | 126,582             | 71,446           |
| Realized gains on redemption of insurance policies                  | 990                 | 16,553           |
| Net change in unrealized gains and losses during the holding period | <u>(367,960)</u>    | <u>534,584</u>   |
|   | <u>\$ 2,032,996</u> | <u>1,510,330</u> |

Changes in unrealized gains during the holding period are attributable to other than trading securities and accordingly are excluded from the determination of revenue and gains in excess of expenses and losses. Investment returns are included in the accompanying consolidated financial statements for the years ended June 30, 2006 and 2005 as follows:

|  | <u>2006</u>         | <u>2005</u>      |
|--|---------------------|------------------|
| Investment income  | \$ 1,543,753        | 754,387          |
| Other revenue  | 575,287             | 221,359          |
| Changes in unrestricted and permanently restricted net assets:             |                     |                  |
| Change in net unrealized gains and losses on other than trading securities | (367,960)           | 534,584          |
| Interest income offset against capitalized interest cost                   | <u>281,916</u>      | <u>—</u>         |
|  | <u>\$ 2,032,996</u> | <u>1,510,330</u> |

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The composition of temporarily impaired investments and length of time such investments were in an unrealized loss position as of June 30, 2006 and 2005 follows:

| June 30, 2006                        | Less than<br>twelve months |                      | Twelve months<br>or longer |                      | Total            |                      |
|--------------------------------------|----------------------------|----------------------|----------------------------|----------------------|------------------|----------------------|
|                                      | Fair<br>value              | Unrealized<br>losses | Fair<br>value              | Unrealized<br>losses | Fair<br>value    | Unrealized<br>losses |
| Corporate bonds and notes            | \$ 29,513                  | 983                  | 347,501                    | 19,884               | 377,014          | 20,867               |
| U.S. Government<br>agency securities | 1,340,294                  | 55,033               | 1,510,716                  | 65,005               | 2,851,010        | 120,038              |
| Mutual equity funds                  | 541,145                    | 17,855               | —                          | —                    | 541,145          | 17,855               |
| Common stocks                        | 478,523                    | 33,094               | 35,483                     | 1,033                | 514,006          | 34,127               |
|                                      | <u>\$ 2,389,475</u>        | <u>106,965</u>       | <u>1,893,700</u>           | <u>85,922</u>        | <u>4,283,175</u> | <u>192,887</u>       |

| June 30, 2005                        | Less than<br>twelve months |                      | Twelve months<br>or longer |                      | Total            |                      |
|--------------------------------------|----------------------------|----------------------|----------------------------|----------------------|------------------|----------------------|
|                                      | Fair<br>value              | Unrealized<br>losses | Fair<br>value              | Unrealized<br>losses | Fair<br>value    | Unrealized<br>losses |
| Corporate bonds and notes            | \$ 473,403                 | 12,063               | 20,245                     | 1,478                | 493,648          | 13,541               |
| U.S. Government<br>agency securities | 1,619,952                  | 31,680               | —                          | —                    | 1,619,952        | 31,680               |
| Mutual bond funds                    | —                          | —                    | 81,439                     | 1,561                | 81,439           | 1,561                |
| Common stocks                        | 690,810                    | 36,753               | 170,270                    | 5,758                | 861,080          | 42,511               |
|                                      | <u>\$ 2,784,165</u>        | <u>80,496</u>        | <u>271,954</u>             | <u>8,797</u>         | <u>3,056,119</u> | <u>89,293</u>        |

Temporarily impaired investments at June 30, 2006 and 2005 are in temporarily impaired positions primarily due to general market conditions and interest rate levels. Management of the Corporations believes the impairments are temporary in nature due to such market conditions and has the intent and ability to hold these investments until a market price recovery or maturity and therefore these investments are not considered other-than-temporarily impaired.

**(4) Custodial Assets**

The Corporations offer custodial services for the personal funds of their residents. Certain residents also maintain deposits with the Corporations for the cost of future care. Should residents' assigned assets be depleted (note 8), the Corporations may utilize the residents' custodial assets to pay for the provision of their occupancy and care. Interest earned on custodial assets is recorded as additions to custodial assets and the related residents' assets noncurrent liability in the accompanying consolidated balance sheets.

**(5) Agency Funds**

The Corporations maintain certain assets arising from various projects, fund drives, and programs sponsored by other organizations or the Corporations' residents. Changes in agency funds are related to cash receipts and disbursements made in compliance with the stated purposes of the projects, fund drives, or programs designated by the sponsors.

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**(6) Concentration of Credit Risk**

The Corporations grant credit to their self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from residents and third-party payors as of June 30, 2006 and 2005 is as follows:

|                                   | 2006 | 2005 |
|-----------------------------------|------|------|
| Medicare                          | 32%  | 37%  |
| Medicaid                          | 41   | 31   |
| Self pay and commercial insurance | 27   | 32   |
|                                   | 100% | 100% |

**(7) Land, Buildings, and Equipment**

A summary of land, buildings, and equipment at June 30, 2006 and 2005 is as follows:

|                                    | 2006          |                             | 2005       |                             |
|------------------------------------|---------------|-----------------------------|------------|-----------------------------|
|                                    | Cost          | Accumulated<br>depreciation | Cost       | Accumulated<br>depreciation |
| Land and land improvements         | \$ 1,705,393  | 608,002                     | 1,535,981  | 751,435                     |
| Buildings                          | 67,707,455    | 27,612,673                  | 58,409,644 | 19,464,924                  |
| Furniture, fixtures, and equipment | 20,159,097    | 13,148,082                  | 16,543,659 | 10,851,468                  |
| Construction in progress           | 4,649,423     | —                           | 1,247,524  | —                           |
|                                    | \$ 94,221,368 | 41,368,757                  | 77,736,808 | 31,067,827                  |

Construction in progress primarily consists of costs incurred by LSLI related to the new CCRC. The remaining estimated costs associated with the CCRC project at June 30, 2006 are approximately \$19,700,000, substantially all of which have been contractually committed. Interest cost is capitalized as a component cost of significant capital projects to the extent that such interest expense exceeds interest income earned on any project specific borrowed funds. For the year ended June 30, 2006, LSLI capitalized interest cost of \$327,840 and offset such capitalized interest cost by \$281,916 of interest income earned on unexpended project specific borrowed funds.

**(8) Deferred Occupancy and Care Revenue and Refundable Deposits**

Prior to March 1, 1988, upon entering the Home, each resident was required to assign his or her assets to the Home to the extent of the estimated cost of care expected to be incurred by the Home over the resident's actuarially determined life expectancy. The assets assigned to the Home are reflected as assets of the Home. The related deferred revenue is earned based on the cost of care provided to the resident at existing charges. Upon depletion of assigned assets, the Home is compensated for services provided to such residents under varying methods of reimbursement. When a resident dies, any remaining deferred revenue is distributed in accordance with the resident's agreement.

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Since March 1, 1988, residents moving into the Home may elect to assign their assets to an irrevocable trust maintained by an independent third party. The Home may draw against the assets of the trust to pay for the cost of care provided to the residents. When a resident expires, the remaining assets in the trust, if any, are distributed in accordance with the resident's agreement. These assets are not reflected in the accompanying consolidated financial statements as they are not under the control of the Home.

The Home also requires residents to make deposits as a condition of occupancy for the senior congregate housing facility. Such deposits are fully refundable and amounted to \$294,267 and \$307,526 at June 30, 2006 and 2005, respectively.

WLVEC requires residents to make deposits as a condition of occupancy for its cottage units. An amount specified within the resident's contract is deducted from the original deposit amount on a monthly basis. Should a resident vacate his or her unit within five months of entry, the entire deposit less \$5,000 will be refunded to the resident. After the five month period, the entire remaining balance is distributed to the resident. Fully refundable WLVEC cottage unit deposits amounted to \$2,530,190 and \$2,886,490 at June 30, 2006 and 2005, respectively.

**(9) Reserve for Funeral Expenses**

Certain residents entering the Home are required to deposit sufficient assets to pay for estimated funeral expenses, which are reflected as reserve for funeral expenses. These assets are comprised of both requisite cash deposits and life insurance policies naming the Home as beneficiary, and are included as assets whose use is limited or restricted.

**(10) Net Resident Service Revenue**

The Corporations have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs represent the differences between the Corporations' billings at established rates and the amounts reimbursed by third-party payors, principally Medicaid and Medicare; they also include any differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements.

The Corporations have obtained Medicaid certification for a portion of their nursing beds and receive all-inclusive per diem rates for Medicaid-eligible residents. To the extent that charges or related costs incurred for services rendered to Medicaid beneficiaries exceed the per diem rates, they are not recoverable from the Medicaid program or its beneficiaries. Medicaid reimbursement methodologies and payment rates are subject to change based on the amount of funding available to the States of Illinois and Indiana Medicaid programs and any such changes could have a significant effect on the Corporations' revenues.

The Corporations have also obtained Medicare certification for a portion of their nursing beds. The Corporations are reimbursed by Medicare under a prospective payment system based primarily upon a clinical classification system for Medicare residents. To the extent that charges or related costs incurred for services rendered to Medicare beneficiaries exceed the per diem rates, they are not recoverable from the Medicare program or its beneficiaries.

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A summary of gross and net resident service revenue for the years ended June 30, 2006 and 2005 follows:

|   | <u>2006</u>          | <u>2005</u>       |
|---|----------------------|-------------------|
| Gross resident service revenue  | \$ 59,050,150        | 52,303,364        |
| Less provisions for:  |                      |                   |
| Estimated contractual adjustments arising under third-party<br>reimbursement programs | 9,052,754            | 9,208,286         |
| Benevolent care and other allowances  | <u>981,232</u>       | <u>730,878</u>    |
| Net resident service revenue  | <u>\$ 49,016,164</u> | <u>42,364,200</u> |



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**(11) Long-term Debt**

A summary of long-term debt at June 30, 2006 and 2005 is as follows:

|   | 2006          | 2005       |
|---|---------------|------------|
| Revenue Bonds, Series 1997, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$20,000 through January 15, 2014, effective interest rate of 4.87% in 2006 and 3.13% in 2005 | \$ 1,391,293  | 1,567,498  |
| Revenue Bonds, Series 1998, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$18,000 through January 15, 2014, effective interest rate of 4.95% in 2006 and 3.19% in 2005 | 1,104,222     | 1,267,106  |
| Revenue Bonds, Series 2001, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through August 15, 2031, effective interest rate of 2.90% in 2006 and 1.77% in 2005                           | 12,880,000    | 12,995,000 |
| Revenue Refunding Bonds, Series 2003, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through November 1, 2033, effective interest rate of 2.95% in 2006 and 1.81% in 1997                | 13,695,000    | 14,020,000 |
| Illinois Finance Authority Revenue Bonds, Series 2006A, at varying fixed interest rates ranging from 5.20% to 5.75%, depending upon date of maturity through 2040   | 23,460,000    | —          |
| Illinois Finance Authority Extendable Rate Adjustable Securities Revenue Bonds, Series 2006B, at an effective adjustable long-term rate of 4.80%  | 500,000       | —          |
| Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2006C, effective interest rate of 3.98% in 2006   | 6,500,000     | —          |
| Mortgage loan, at a fixed interest rate of 6.375%   | 2,491,466     | —          |
| Mortgage loan, at a fixed interest rate of 6.50%  | 584,142       | —          |
| Notes payable, at a fixed rate of 6.50%   | 758,315       | —          |
| Promissory note, at a fixed interest rate of 6.50%  | 937,448       | —          |
|   | 64,301,886    | 29,849,604 |
| Less:   |               |            |
| Current installments of long-term debt  | 924,948       | 810,743    |
| Unamortized bond discount and premium   | (232,667)     | 198,065    |
| Long-term debt, net of current installments and unamortized bond discount and premium   | \$ 63,609,605 | 28,840,796 |

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On September 12, 2001, the Illinois Health Facilities Authority issued weekly adjustable rate revenue bonds, Series 2001, in the amount of \$13,200,000 on behalf of the Parent, the Home, LCSA, and the Foundation (the LHSA Obligated Group). The Series 2001 bonds were issued pursuant to a Master Trust Indenture. Principal payments are due each August 15, and interest is payable monthly. The LHSA Obligated Group has obtained a letter of credit which expires August 15, 2009 in the amount of \$13,074,082 as collateral for the Series 2001 bonds. Certain assets of the LHSA Obligated Group are pledged as collateral for the bonds and the letter of credit. Holders of the Series 2001 bonds have a put option that allows them to redeem the bonds prior to maturity. The LHSA Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2001 bonds are accelerable in the event the LHSA Obligated Group is unable to extend or replace the letter of credit securitizing the bonds.

On November 10, 2003, the Illinois Health Facilities Authority issued variable rate demand revenue refunding bonds, Series 2003, in the amount of \$14,350,000 on behalf of the LHSA Obligated Group. The Series 2003 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each November 1, and interest is payable monthly. The Series 2003 bonds were issued principally to advance refund the then-outstanding Series 1996A bonds. The LHSA Obligated Group has obtained a letter of credit which expires November 15, 2006 in the amount of \$14,150,597 as collateral for the Series 2003 bonds. Certain assets of the LHSA Obligated Group are pledged as collateral for the bonds and letter of credit. Holders of the Series 2003 bonds have a put option that allows them to redeem the bonds prior to maturity. The LHSA Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2003 bonds are accelerable in the event the LHSA Obligated Group is unable to extend or replace the letter of credit securitizing the bonds. Subsequent to June 30, 2006, the LHSA Obligated Group extended the existing letter of credit to expire on November 15, 2009.

For bonds issued under the Master Trust Indenture, the LHSA Obligated Group is required to maintain certain reserves and sinking funds with their bond trustee. The LHSA Obligated Group is also required to be in compliance with specified debt covenants and financial ratios. Bonds issued under the Master Trust Indenture are also secured by the unrestricted receivables of the LHSA Obligated Group as well as certain real property of the Home.

On April 19, 2006, LSLI entered into a Master Trust Indenture under which LSLI is the only Obligated Group member (the LSLI Obligated Group). The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by the LSLI Obligated Group member. The Master Trust Indenture requires the member of the LSLI Obligated Group to make principal and interest payments on notes issued for its benefit and to pay such amounts as are otherwise necessary to enable the LSLI Obligated Group to satisfy all obligations issued under the Master Trust Indenture.

On April 19, 2006, the Illinois Finance Authority issued Series 2006A Fixed Rate Revenue Bonds, Series 2006B Extendable Rate Adjustable Securities Revenue Bonds, and Series 2006C Variable Rate Demand Revenue Bonds (collectively referred to as the Series 2006 bonds), in the aggregate amount of \$30,460,000 on behalf of LSLI. The proceeds were used to finance the construction of the new CCRC, provide working capital and debt service reserve funds, pay a portion of the interest on the Series 2006 bonds, and reimburse LSLI for costs of issuance. Principal on the bonds is payable annually commencing on

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August 15, 2008. The Series 2006 bonds are secured by a leasehold mortgage in the property, the new CCRC under construction, and future revenue streams to be provided by the CCRC. The Series 2006C bonds are also secured by an irrevocable transferable letter of credit issued by a commercial bank, in an amount equal to the principal amount of the bonds and accrued interest on such principal. Holders of the Series 2006 bonds have a put option that allows them to redeem the bonds prior to maturity. The LSLI Obligated Group member has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The loan agreements currently contain quarterly covenants related to the number of presales. The loan agreements also maintain financial covenants which are initially effective the earlier of the first full year after stabilized occupancy is obtained for the new CCRC or 2011.

During December 1997 and January 1998, WLW and WLVEC entered into an Economic Development Commission loan for a total commitment of \$4,800,000. Under the Series 1997 and 1998 bond indentures, WLW and WLVEC are required to maintain certain reserve funds with their bond trustee. The Series 1997 and 1998 bonds are secured by certain property and real estate of WLW and WLVEC. Pursuant to the transfer of sponsorship agreement with LHSMO, the LHSOA Obligated Group has not pledged any of its assets or guaranteed any of the debt of WLW and WLVEC.

Pleasant View has \$584,142 outstanding at June 30, 2006 under a mortgage agreement. Principal and interest are payable monthly at a fixed amount of \$4,000. The loan matures in June 2009. The amounts borrowed under the mortgage loan are collateralized by the property.

Pleasant View has \$758,315 outstanding at June 30, 2006 under notes payable with the H. Jane Wallace Trust. Principal on the notes is payable monthly commencing on November 15, 2000 and February 15, 2002. The notes have a maturity date of October 15, 2020 and are unsecured.

Pleasant View has \$937,448 outstanding at June 30, 2006 under a promissory note with a commercial bank. Principal and interest on the note are payable monthly. The promissory note is secured by the townhomes at Pleasant View. The promissory note was initially due on June 8, 2006 and was extended to August 8, 2006 during the fiscal year.

WLW maintains a \$2,800,000 revolving line of credit and permanent loan agreement with the Lutheran Church Extension Fund-Missouri Synod, which expires July 1, 2026. Interest is payable monthly on draws under the line of credit at a variable interest rate determined by the lender monthly (6.375% at June 30, 2006 and 5.300% at June 30, 2005) based on the lender's cost of capital plus 2%. On July 1, 2006, the then-outstanding principal balance converted to a 20-year term loan with monthly payments of principal and interest at the lender's cost of capital plus 2% which was 6.375%. The loan agreement is secured by certain WLW real estate. Outstanding draws under the term loan agreement totaled \$2,491,466 at June 30, 2006.

The fair value of the Corporations' long-term debt approximated its carrying value at June 30, 2006 and 2005.

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Scheduled annual principal payments on long-term debt for the ensuing five years are as follows:

|       | <b>Amount</b> |
|-------|---------------|
| Year: |               |
| 2007  | \$ 924,948    |
| 2008  | 987,363       |
| 2009  | 2,340,302     |
| 2010  | 6,774,794     |
| 2011  | 1,140,927     |

The Obligated Groups have interest-rate related derivative instruments to manage their exposure on their variable rate Series 2003 debt and variable rate Series 2006C bonds. By using derivative financial instruments to hedge exposures to changes in interest rates, the Obligated Groups expose themselves to credit risk and market risk. Credit risk is the failure of the counterparties to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparties owe the Obligated Groups, which creates credit risk for the Obligated Groups. When the fair value of a derivative contract is negative, the Obligated Groups owe the counterparty and, therefore, it does not possess credit risk. The Obligated Groups minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates.

Management entered into interest rate swap agreements in November 2003 and April 2006 to manage fluctuations in cash flows resulting from interest rate risk on its variable rate Series 2003 and Series 2006C debt, respectively. The swap agreements change the variable-rate cash flow exposure on the Series 2003 and Series 2006C debt to fixed cash flows. Under the terms of the interest rate swap agreements, the Corporations receive variable interest rate payments and make fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The interest rate swap derivatives are designated as hedge instruments and, therefore, the changes in fair value of the derivative instruments are recognized directly to unrestricted net assets for the effective portion of the hedges. A summary of outstanding positions under the floating to fixed rate swap agreements for the Corporations at June 30, 2006 follows:

|    | <b>Notional<br/>amount</b> | <b>Maturity date</b> | <b>Rate received</b>            | <b>Rate paid</b> |
|----|----------------------------|----------------------|---------------------------------|------------------|
| \$ | 14,350,000                 | November 2013        | BMA Index, reset monthly        | 3.385%           |
|    | 6,500,000                  | June 2009            | Weekly BMA Municipal Swap Index | 3.900%           |

Payments equal to the differential to be paid or received under the interest rate swap agreements are recognized monthly and amounted to approximately \$71,000 and \$236,000 paid and included in interest expense in 2006 and 2005, respectively. The fair value of the interest rate swap agreements of \$243,403 and \$(476,474) at June 30, 2006 and 2005, respectively, is included with other assets and other long-term liabilities, respectively. The change in fair value of the interest rate swap agreements of \$732,533 in 2006 and \$(410,919) in 2005 has been recognized as a direct addition (reduction) of unrestricted net assets.

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**(12) Capital Leases**

The Corporations lease certain equipment under capital leases. Included with land, buildings, and equipment is \$885,490 of assets held under capital leases and \$353,445 of related accumulated amortization at June 30, 2006. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases as of June 30, 2006 are as follows:

|  | <b>Amount</b> |
|--|---------------|
| Year:  |               |
| 2007   | \$ 313,048    |
| 2008   | 188,498       |
| 2009   | 43,958        |
| Total future minimum lease payments                                    | 545,504       |
| Less amount representing interest at rates ranging from 2.72% to 3.31% | 13,459        |
| Present value of future minimum lease payments                         | 532,045       |
| Less current portion of obligations under capital leases               | 303,680       |
| Obligations under capital leases, excluding current portion            | \$ 228,365    |

**(13) Employees' Pension Plan**

The Parent, Home, LCSA, and the Foundation participate in a multi-employer noncontributory defined benefit pension plan (the Plan) sponsored by the Lutheran Church Missouri Synod which provides retirement and disability benefits to substantially all qualifying full-time employees. Contributions are based on a percentage of each eligible participant's gross salary and are submitted to the Plan quarterly. Expense recognized under the terms of the Plan amounted to \$987,271 and \$835,991 for the years ended June 30, 2006 and 2005, respectively.

WLV and WLVEC sponsor a noncontributory profit sharing plan covering substantially all full time employees. Employer contributions to the profit sharing plan are discretionary. The employers did not elect to make any contributions for the years ended June 30, 2006 or 2005.

Pleasant View sponsors a noncontributory profit sharing plan covering substantially all full time employees. Employer contributions to the profit sharing plan are discretionary. Expense recognized under the terms of the profit sharing plan amounted to \$20,741 for the seven months ended June 30, 2006.

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**(14) Luther Village Limited Partnership**

The Parent has a land lease agreement with Luther Village Limited Partnership (the Partnership), an unrelated party. A portion of land owned by the Home has been leased to the Partnership for a term of 99 years with an option to renew for a second term of 99 years. The Partnership has constructed a number of cooperative apartment and townhome units that may be purchased by individuals at least 55 years of age. Owners pay a monthly ground rent to the Partnership, in addition to the initial cost of their unit.

In exchange for the land lease, the Partnership makes the following payments to the Home:

- 0.5% of the sales price of units purchased by initial buyers; and
- The entire amount of the monthly ground rent submitted to the Partnership.

The fees earned by the Home related to the land lease totaled \$1,045,000 for each of the years ended June 30, 2006 and 2005, and are included with other nonoperating gains in the accompanying consolidated statements of operations. In addition, the Home performs certain medical and other support services for the Partnership in exchange for service fees. The service fees earned related to the provision of such services amounted to \$85,118 and \$104,490 for the years ended June 30, 2006 and 2005, respectively, and have been reflected as other revenue in the accompanying consolidated statements of operations.

**(15) Planned Gifts**

Various donors have agreed to bequeath assets through wills, estate plans, and other planned gift instruments at some point in the future to the Foundation and WLVEC. As the realization and valuation of assets are not assured at the time of agreement, no amounts have been recognized for bequests in the accompanying consolidated financial statements until the realization and valuation of such assets are determinable.

**(16) Charitable Gift Annuities**

The Corporations are the recipient of various charitable gift annuities. Such gifts are recognized as contribution revenue in the period received, net of any estimated liability for amounts payable to the annuitant in future periods pursuant to the terms of the respective charitable gift annuity contract.

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**(17) Commitments and Contingencies**

*Professional and General Liability Self-Insurance*

Through December 31, 2001, the Corporations maintained professional liability coverage through commercial insurance carriers. Effective January 1, 2002, the Corporations entered into a contractual agreement to form Caring Communities Insurance Company (Caring Communities), a self-insurance administrator which, through its risk-sharing provisions, provides the Corporations with insurance coverage for professional and comprehensive general liability exposure. Caring Communities is a multi-organization insurance company for long-term care organizations incorporated under the laws of the Cayman Islands.

Caring Communities provides the Corporations with claims made insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. Caring Communities has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. As a self-insurance administrator, Caring Communities enables risk sharing among participating long-term care organizations. The Corporations are required to pay assessed premiums and are subject to a per claim self-insured retention. Insurance expense under the Caring Communities program amounted to \$577,617 and \$407,971 in 2006 and 2005, respectively. Caring Communities may retroactively assess participants for up to twice their annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on the Corporations' historical claims experience and exposure to date with Caring Communities, no reserves were established at June 30, 2006 or 2005 for either retroactive premium assessments or tail exposures. The capital investment in Caring Communities is being accounted for using the equity method and included in investments in the accompanying consolidated balance sheets (note 3). Accordingly, the Corporations have included their proportionate share of Caring Communities net income in the amounts of \$58,031 and \$4,495 as nonoperating investment income in the accompanying 2006 and 2005 consolidated statements of operations, respectively.

*Workers' Compensation*

The Corporations' workers' compensation program includes various levels of per claim self-insured retentions and excess commercial insurance coverages. Provisions of \$656,587 in 2006 and \$419,868 in 2005 for the ultimate cost of reported self insured workers' compensation claims, as well as estimates of incurred but not reported claims, are included in operating expenses.

*Medicare Reimbursement Changes*

The Federal Balanced Budget Act of 1997 implemented various changes to the methods in which Medicare reimburses providers of long-term care services. Changes made for skilled nursing facility reimbursement included a prospective payment system for skilled nursing services and a consolidated billing requirement. Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of the provisions of Medicare legislation may have an adverse effect on the Corporations' net resident service revenue.

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***Litigation***

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

***Regulatory Investigations***

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Corporations' financial position or results from operations.

***Health Resources Alliance, Inc.***

The Home has provided Health Resources Alliance, Inc., of which the Home is a founding member, with a \$190,000 letter of credit, draws on which are guaranteed by the Home. No amounts have been accrued or paid pursuant to this agreement as of June 30, 2006.

Effective April 1, 2003, Midwest Senior Care Network (MSCN), a wholly owned subsidiary of Health Resources Alliance, Inc., converted a \$60,000 prepaid service deposit of the Home into equity of MSCN. Simultaneous with the equity conversion, Health Resources Alliance, Inc. distributed the outstanding common stock of MSCN in equal shares to its members including the Home. The Home has a 1/15th equity interest in MSCN. The investment in MSCN is included in investments in the accompanying consolidated balance sheets and is being accounted for using the equity method. The Home has included its proportionate share of MSCN net income of \$68,551 in 2006 and \$66,951 in 2005 as nonoperating investment income in the accompanying consolidated statements of operations.

***Ground Lease***

During 2006, LSLI entered into a 99-year ground lease agreement with Trinity Lutheran Church (Lessor). The ground lease will automatically renew each five years after the initial agreement period. The lease calls for annual rent to be based on 10% of the appraised land value and paid in monthly installments. The appraisal of the land shall be performed every five years following the initial five year payment period. Annual rent for the initial payment period has been set at \$35,000. LSLI will receive a credit from the Lessor against the annual rent for the initial five year payment period of \$20,000 per year to offset various construction costs incurred by LSLI. The first lease payment will not be assessed until the first resident moves into the facility which is scheduled for the fall of 2007. In April 2006, LSLI also agreed to fund a \$120,000 deposit account for the benefit of the Lessor as required by the ground lease agreement. The deposit account will be funded at the time that lease payments begin.



**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND CONSOLIDATED AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2006 and 2005

**(18) Subsequent Event**

Effective July 18, 2006, Pleasant View entered into a 20 year promissory note agreement with the Mission Investment Fund of The Evangelical Lutheran Church in America to refinance its promissory note with a commercial bank (note 11). Pleasant View borrowed \$2,600,000 under the agreement. The proceeds of the promissory note were used to pay off Pleasant View's existing debt balances as of July, 2006. Interest on the promissory note is payable monthly at a fixed rate of 5.875% through June 30, 2011. Principal and interest are payable monthly, commencing September 1, 2006, at a fixed amount of \$18,441 through July 1, 2011. The Evangelical Lutheran Church in America has the right to review and adjust the interest rate on July 1, 2011, July 1, 2016, and July 1, 2021. The promissory note matures on July 1, 2026.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidating Balance Sheet Information

June 30, 2006

| Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |                   | LHSA<br>Obligated<br>Group<br>Members | WLV and<br>WLVEC  |
|--|---|---|--|---|--------------|-------------------|---------------------------------------|-------------------|
|  |   |   |  |   | Debit        | Credit            |                                       |                   |
| <b>Current assets:</b>   |   |   |  |   |              |                   |                                       |                   |
| Cash and cash equivalents  | \$ —  | 3,095,857                                 | 62,477   | 1,357,137                                       | —            | —                 | 4,515,471                             | 915,350           |
| Assets whose use is limited or<br>restricted – required for current<br>liabilities                         | —   | 525,478                                   | —  | —   | —            | —                 | 525,478                               | —                 |
| Resident accounts receivable,<br>net of allowance for<br>doubtful accounts of \$340,600                    | 41,881  | 1,856,376                                 | —  | —   | —            | —                 | 1,898,257                             | 1,080,801         |
| Other receivables  | —   | 915,000                                   | 3,788,508  | —   | —            | —                 | 4,703,508                             | —                 |
| Inventory of supplies and other  | —   | 617,326                                   | —  | —   | —            | —                 | 617,326                               | 49,522            |
| Due from affiliates  | 19,195,639  | —   | —  | —   | —            | 18,903,602        | 292,037                               | —                 |
| <b>Total current assets</b>  | <b>19,237,520</b>   | <b>7,010,037</b>                          | <b>3,850,985</b>   | <b>1,357,137</b>                                | <b>—</b>     | <b>18,903,602</b> | <b>12,552,077</b>                     | <b>2,045,673</b>  |
| <b>Assets whose use is limited or restricted,<br/>net of amounts required for current<br/>liabilities:</b> |   |   |  |   |              |                   |                                       |                   |
| Board designated for endowment   | —   | —   | —  | 7,276,309                                       | —            | —                 | 7,276,309                             | —                 |
| Resident deposits for future funeral,<br>occupancy, and care costs   | —   | 1,545,821                                 | 122,371  | —   | —            | —                 | 1,668,192                             | —                 |
| Contributions receivable,<br>net of allowance for doubtful<br>contributions of \$16,000                    | —   | —   | —  | 48,405  | —            | —                 | 48,405                                | —                 |
| Held by trustee under bond<br>indenture agreement  | —   | 90,673                                    | —  | —   | —            | —                 | 90,673                                | 91,337            |
| Donor restricted investments   | —   | —   | —  | 3,088,901                                       | —            | —                 | 3,088,901                             | —                 |
| <b>Total noncurrent assets<br/>whose use is limited<br/>or restricted</b>                                  | <b>—</b>  | <b>1,636,494</b>                          | <b>122,371</b>   | <b>10,413,615</b>                               | <b>—</b>     | <b>—</b>          | <b>12,172,480</b>                     | <b>91,337</b>     |
| Land, buildings, and equipment, net of<br>accumulated depreciation   | —   | 35,697,104                                | —  | —   | —            | —                 | 35,697,104                            | 8,767,153         |
| Costs to acquire initial continuing<br>care contracts  | —   | —   | —  | —   | —            | —                 | —                                     | —                 |
| Investments  | —   | 3,298,321                                 | —  | 10,948,349                                      | —            | —                 | 14,246,670                            | —                 |
| Custodial assets   | —   | 99,661                                    | —  | —   | —            | —                 | 99,661                                | —                 |
| Agency funds   | —   | 70,010                                    | —  | —   | —            | —                 | 70,010                                | —                 |
| Deferred financing costs, net  | —   | 560,548                                   | —  | —   | —            | —                 | 560,548                               | 56,742            |
| Other assets   | —   | 256,059                                   | —  | —   | —            | —                 | 256,059                               | 1,618             |
| <b>Total assets</b>  | <b>\$ 19,237,520</b>                                      | <b>48,628,234</b>                         | <b>3,973,356</b>   | <b>22,719,101</b>                               | <b>—</b>     | <b>18,903,602</b> | <b>75,654,609</b>                     | <b>10,962,523</b> |

| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |                | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |                  | Consolidated       |
|---------------------------------------|---------------------|--|---------------------------------|--------------|----------------|---|--------------|------------------|--------------------|
|                                       |                     |  |                                 | Debit        | Credit         |   | Debit        | Credit           |                    |
| 363,086                               | 10,052              | 1,104,041                                      | 700,000                         | —            | —              | 3,092,529                                 | —            | —                | 7,608,000          |
| 45,274                                | —                   | 1,086,742                                      | —                               | —            | —              | 1,132,016                                 | —            | —                | 1,657,494          |
| 873,410                               | 2,875               | —  | 34,066                          | —            | —              | 1,991,152                                 | —            | —                | 3,889,409          |
| 14,001                                | —                   | 258,767  | —                               | —            | —              | 272,768                                   | —            | 4,507,642        | 468,634            |
| 81,812                                | —                   | 246  | —                               | —            | —              | 131,580                                   | —            | —                | 748,906            |
| —                                     | —                   | —  | 278,654                         | —            | 300,000        | (21,346)                                  | —            | 270,691          | —                  |
| <u>1,377,583</u>                      | <u>12,927</u>       | <u>2,449,796</u>                               | <u>1,012,720</u>                | <u>—</u>     | <u>300,000</u> | <u>6,598,699</u>                          | <u>—</u>     | <u>4,778,333</u> | <u>14,372,443</u>  |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 7,276,309          |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 1,668,192          |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 48,405             |
| —                                     | —                   | 26,213,932                                     | —                               | —            | —              | 26,305,269                                | —            | —                | 26,395,942         |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 3,088,901          |
| —                                     | —                   | <u>26,213,932</u>                              | <u>—</u>                        | <u>—</u>     | <u>—</u>       | <u>26,305,269</u>                         | <u>—</u>     | <u>—</u>         | <u>38,477,749</u>  |
| 3,738,931                             | —                   | 4,649,423                                      | —                               | —            | —              | 17,155,507                                | —            | —                | 52,852,611         |
| —                                     | —                   | 640,212  | —                               | —            | —              | 640,212                                   | —            | —                | 640,212            |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 14,246,670         |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 99,661             |
| —                                     | —                   | —  | —                               | —            | —              | —   | —            | —                | 70,010             |
| —                                     | —                   | 872,725  | —                               | —            | —              | 929,467                                   | —            | —                | 1,490,015          |
| 90,787                                | —                   | —  | —                               | —            | —              | 92,405                                    | —            | —                | 348,464            |
| <u>5,207,301</u>                      | <u>12,927</u>       | <u>34,826,088</u>                              | <u>1,012,720</u>                | <u>—</u>     | <u>300,000</u> | <u>51,721,559</u>                         | <u>—</u>     | <u>4,778,333</u> | <u>122,597,835</u> |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidating Balance Sheet Information

June 30, 2006

| Liabilities and Net Assets  | Lutheran Home and Services for the Aged, Inc. | Lutheran Home for the Aged, Inc. | Lutheran Community Services for the Aged, Inc. | Lutheran Foundation for the Aged, Inc. | Eliminations      |          | LHSA Obligated Group Members | WLV and WLVEC      |
|---|---|----------------------------------|--|--|-------------------|----------|------------------------------|--------------------|
|   |   |                                  |  |  | Debit             | Credit   |                              |                    |
| <b>Current liabilities:</b>   |   |                                  |  |  |                   |          |                              |                    |
| Current installments of long-term debt  | \$ —  | 460,000                          | —  | —                                      | —                 | —        | 460,000                      | 406,563            |
| Current portion of obligations under capital leases                                 | —   | 303,680                          | —  | —                                      | —                 | —        | 303,680                      | —                  |
| Accounts payable  | 122,960                                       | 934,312                          | 45,076   | 23,954                                 | —                 | —        | 1,126,302                    | 402,076            |
| Accrued interest payable  | —   | 65,478                           | —  | —                                      | —                 | —        | 65,478                       | —                  |
| Accrued compensation and other liabilities  | 262,797                                       | 1,859,980                        | 109,583  | 33,278                                 | —                 | —        | 2,265,638                    | 505,553            |
| Refundable deposits and entrance fees   | —   | 1,485,622                        | 122,370  | —                                      | —                 | —        | 1,607,992                    | 2,530,190          |
| Estimated payables under third-party reimbursement programs                         | —   | 162,968                          | —  | —                                      | —                 | —        | 162,968                      | —                  |
| Resident deposits   | —   | —                                | —  | —                                      | —                 | —        | —                            | —                  |
| Due to affiliates   | —   | 13,250,267                       | 4,590,729                                      | 1,062,606                              | 18,903,602        | —        | —                            | 4,265,978          |
| <b>Total current liabilities</b>  | <b>385,757</b>                                | <b>18,522,307</b>                | <b>4,867,758</b>                               | <b>1,119,838</b>                       | <b>18,903,602</b> | <b>—</b> | <b>5,992,058</b>             | <b>8,110,360</b>   |
| <b>Long-term debt, excluding current installments and unamortized bond discount</b> | <b>—</b>                                      | <b>25,922,306</b>                | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>25,922,306</b>            | <b>4,580,419</b>   |
| <b>Obligations under capital leases, net of current portion</b>                     | <b>—</b>                                      | <b>228,365</b>                   | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>228,365</b>               | <b>—</b>           |
| <b>Deferred revenue from nonrefundable entrance fees</b>                            | <b>—</b>                                      | <b>—</b>                         | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>—</b>                     | <b>—</b>           |
| <b>Residents' custodial assets</b>  | <b>—</b>                                      | <b>99,661</b>                    | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>99,661</b>                | <b>64,746</b>      |
| <b>Reserve for funeral expenses</b>   | <b>—</b>                                      | <b>60,122</b>                    | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>60,122</b>                | <b>—</b>           |
| <b>Charitable gift annuity contracts</b>  | <b>—</b>                                      | <b>—</b>                         | <b>—</b>                                       | <b>641,553</b>                         | <b>—</b>          | <b>—</b> | <b>641,553</b>               | <b>—</b>           |
| <b>Agency funds</b>   | <b>—</b>                                      | <b>70,010</b>                    | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>70,010</b>                | <b>—</b>           |
| <b>Other long term liabilities</b>  | <b>—</b>                                      | <b>—</b>                         | <b>—</b>                                       | <b>—</b>                               | <b>—</b>          | <b>—</b> | <b>—</b>                     | <b>—</b>           |
| <b>Total liabilities</b>  | <b>385,757</b>                                | <b>44,902,771</b>                | <b>4,867,758</b>                               | <b>1,761,391</b>                       | <b>18,903,602</b> | <b>—</b> | <b>33,014,075</b>            | <b>12,755,525</b>  |
| <b>Net assets (deficit):</b>  |   |                                  |  |  |                   |          |                              |                    |
| Common stock  | —   | —                                | —  | —                                      | —                 | —        | —                            | —                  |
| Unrestricted  | 18,851,763                                    | 3,725,463                        | (894,402)                                      | 17,752,873                             | —                 | —        | 39,435,697                   | (1,903,721)        |
| Temporarily restricted  | —   | —                                | —  | 115,936                                | —                 | —        | 115,936                      | 110,719            |
| Permanently restricted  | —   | —                                | —  | 3,088,901                              | —                 | —        | 3,088,901                    | —                  |
| <b>Total net assets (deficit)</b>   | <b>18,851,763</b>                             | <b>3,725,463</b>                 | <b>(894,402)</b>                               | <b>20,957,710</b>                      | <b>—</b>          | <b>—</b> | <b>42,640,534</b>            | <b>(1,793,002)</b> |
| <b>Total liabilities and net assets \$</b>  | <b>19,237,520</b>                             | <b>48,628,234</b>                | <b>3,973,356</b>                               | <b>22,719,101</b>                      | <b>18,903,602</b> | <b>—</b> | <b>75,654,609</b>            | <b>10,962,523</b>  |

See accompanying independent auditors' report.

Note: During fiscal years 2004, 2005 and 2006, Lutheran Foundation for the Aged transferred cash of \$2,150,000 to Lutheran Senior Living of Illinois as an equity contribution. In fiscal 2004, management expensed approximately \$138,000 of these cash transfers.

| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |        | Non-LBSA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---------------------------------------|---------------------|--|---------------------------------|--------------|--------|---|--------------|--------|--------------|
|                                       |                     |  |                                 | Debit        | Credit |   | Debit        | Credit |              |
| 58,385                                | --                  | --   | --                              | --           | --     | 464,948                                   | --           | --     | 924,948      |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 303,680      |
| 273,502                               | 9,951               | 60,306   | 6,647                           | --           | --     | 752,482                                   | --           | --     | 1,878,784    |
| 986                                   | --                  | 300,212  | --                              | --           | --     | 301,198                                   | --           | --     | 366,676      |
| 365,204                               | --                  | 408,404  | --                              | --           | --     | 1,279,161                                 | --           | --     | 3,544,799    |
| 2,047,470                             | --                  | --   | --                              | --           | --     | 4,577,660                                 | --           | --     | 6,185,632    |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 162,968      |
| 43,000                                | 10,000              | 1,091,965                                      | --                              | --           | --     | 1,144,965                                 | --           | --     | 1,144,965    |
| 461,385                               | 282,436             | 68,534   | --                              | 300,000      | --     | 4,778,333                                 | 4,778,333    | --     | --           |
| 3,249,932                             | 302,387             | 1,929,421                                      | 6,647                           | 300,000      | --     | 13,298,747                                | 4,778,333    | --     | 14,512,472   |
| 2,221,520                             | --                  | 30,885,360                                     | --                              | --           | --     | 37,687,299                                | --           | --     | 63,609,605   |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 228,365      |
| 270,084                               | --                  | --   | --                              | --           | --     | 270,084                                   | --           | --     | 270,084      |
| --                                    | --                  | --   | --                              | --           | --     | 64,746                                    | --           | --     | 164,407      |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 60,122       |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 641,553      |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 70,010       |
| 1,320                                 | --                  | --   | --                              | --           | --     | 1,320                                     | --           | --     | 1,320        |
| 5,742,856                             | 302,387             | 32,814,781                                     | 6,647                           | 300,000      | --     | 51,322,196                                | 4,778,333    | --     | 79,557,938   |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | --           |
| (589,059)                             | (289,460)           | 2,011,307                                      | 1,006,073                       | --           | --     | 235,140                                   | --           | --     | 39,670,837   |
| 53,504                                | --                  | --   | --                              | --           | --     | 164,223                                   | --           | --     | 280,159      |
| --                                    | --                  | --   | --                              | --           | --     | --  | --           | --     | 3,088,901    |
| (535,555)                             | (289,460)           | 2,011,307                                      | 1,006,073                       | --           | --     | 399,363                                   | --           | --     | 43,039,897   |
| 5,207,301                             | 12,927              | 34,826,088                                     | 1,012,720                       | 300,000      | --     | 51,721,559                                | 4,778,333    | --     | 122,597,835  |

LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2006

|   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |        | LHSA<br>Obligated<br>Group<br>Members | WLV and<br>WLVEC |
|---|---|---|--|---|--------------|--------|---------------------------------------|------------------|
|   |   |   |  |   | Debit        | Credit |                                       |                  |
| <b>Operating revenue:</b>   |   |   |  |   |              |        |                                       |                  |
| Net resident service revenue  | \$ 3,788,174  | 30,265,730                                | —  | —   | —            | —      | 34,053,904                            | 10,641,419       |
| Other revenue   | (3,576)   | 1,118,046                                 | 3,601,900  | —   | —            | —      | 4,716,370                             | 1,426,402        |
| Total operating revenue   | 3,784,598   | 31,383,776                                | 3,601,900  | —   | —            | —      | 38,770,274                            | 12,067,821       |
| <b>Operating expenses:</b>  |   |   |  |   |              |        |                                       |                  |
| Salaries and wages  | 511,054   | 16,342,244                                | 2,155,794  | 412,385   | —            | —      | 19,421,477                            | 5,519,040        |
| Employee benefits   | 418,329   | 4,124,239                                 | 422,820  | 261,484   | —            | —      | 5,226,872                             | 1,211,229        |
| Support services  | —   | 4,729,276                                 | —  | —   | —            | —      | 4,729,276                             | 2,138,214        |
| Dietary services  | —   | 1,756,556                                 | —  | —   | —            | —      | 1,756,556                             | 454,161          |
| Program services  | 47,351  | 1,084,612                                 | —  | —   | —            | —      | 1,131,963                             | 72,677           |
| Administrative services   | 393,579   | 3,036,984                                 | 238,540  | 194,360   | —            | —      | 3,863,463                             | 386,895          |
| Community services  | —   | —   | 1,213,617  | —   | —            | —      | 1,213,617                             | 2,347            |
| Fund-raising  | —   | —   | —  | 287,757   | —            | —      | 287,757                               | —                |
| Interest  | —   | 1,204,371                                 | —  | —   | —            | —      | 1,204,371                             | 253,927          |
| Depreciation and amortization   | —   | 2,638,225                                 | —  | —   | —            | —      | 2,638,225                             | 595,869          |
| Provision for bad debts   | —   | 80,240                                    | —  | —   | —            | —      | 80,240                                | 191,214          |
| Total operating expenses  | 1,370,313   | 34,996,747                                | 4,030,771  | 1,155,986                                       | —            | —      | 41,553,817                            | 10,825,573       |
| Income (loss) from operations   | 2,414,285   | (3,612,971)                               | (428,871)  | (1,155,986)                                     | —            | —      | (2,783,543)                           | 1,242,248        |
| <b>Nonoperating gains and losses:</b>   |   |   |  |   |              |        |                                       |                  |
| Investment income   | —   | 126,582                                   | 1,628  | 1,382,533                                       | —            | —      | 1,510,743                             | 172              |
| Unrestricted contributions  | —   | —   | —  | 619,384   | —            | —      | 619,384                               | 33,349           |
| Bequests and legacies   | —   | —   | —  | 2,454,887                                       | —            | —      | 2,454,887                             | —                |
| Other, net  | —   | 1,179,692                                 | (17,985)   | 140,796   | —            | —      | 1,302,503                             | 3,788            |
| Total nonoperating gains (losses), net  | —   | 1,306,274                                 | (16,357)   | 4,597,600                                       | —            | —      | 5,887,517                             | 37,309           |
| Excess (deficiency) of revenue and gains over expenses and losses                   | 2,414,285   | (2,306,697)                               | (445,228)  | 3,441,614                                       | —            | —      | 3,103,974                             | 1,279,557        |
| <b>Other changes in unrestricted net assets:</b>                                    |   |   |  |   |              |        |                                       |                  |
| Change in fair value of derivative instruments                                      | —   | 732,533                                   | —  | —   | —            | —      | 732,533                               | —                |
| Transfers between affiliates  | —   | —   | —  | (2,119,190)                                     | —            | —      | (2,119,190)                           | —                |
| Change in net unrealized gains and losses on other than trading securities          | —   | (78,575)                                  | —  | (269,941)                                       | —            | —      | (348,516)                             | —                |
| Change in actuarial value of gift annuity obligations                               | —   | —   | —  | (278,935)                                       | —            | —      | (278,935)                             | —                |
| Unrestricted net assets of new affiliate as of date of change of control            | —   | —   | —  | —   | —            | —      | —                                     | —                |
| Net assets released from restriction for land, building, and equipment acquisitions | —   | 620,657                                   | —  | —   | —            | —      | 620,657                               | —                |
| Increase (decrease) in unrestricted net assets                                      | \$ 2,414,285  | (1,032,082)                               | (445,228)  | 773,548   | —            | —      | 1,710,523                             | 1,279,557        |

See accompanying independent auditors' report.

| Pleasant<br>View Luther<br>Home, Inc. | VeriSpring,<br>Inc. | Lutheran<br>Senior Living<br>of Illinois, Inc. | Lutheran<br>Life<br>Communities | Eliminations |        | Non-LESA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---------------------------------------|---------------------|--|---------------------------------|--------------|--------|---|--------------|--------|--------------|
|                                       |                     |  |                                 | Debit        | Credit |   | Debit        | Credit |              |
| 4,320,841                             | —                   | —  | —                               | —            | —      | 14,962,260                                | —            | —      | 49,016,164   |
| 149,954                               | 2,915               | —  | 34,066                          | —            | —      | 1,613,337                                 | —            | —      | 6,329,707    |
| 4,470,795                             | 2,915               | —  | 34,066                          | —            | —      | 16,575,597                                | —            | —      | 55,345,871   |
| 2,641,556                             | 44,504              | —  | —                               | —            | —      | 8,205,100                                 | —            | —      | 27,626,577   |
| 607,240                               | 8,283               | —  | —                               | —            | —      | 1,826,752                                 | —            | —      | 7,053,624    |
| 415,579                               | —                   | —  | —                               | —            | —      | 2,553,793                                 | —            | —      | 7,283,069    |
| 260,863                               | —                   | —  | —                               | —            | —      | 715,024                                   | —            | —      | 2,471,580    |
| 195,535                               | 2,840               | —  | —                               | —            | —      | 271,052                                   | —            | —      | 1,403,015    |
| 250,601                               | 236,800             | —  | 33,977                          | —            | —      | 908,273                                   | —            | —      | 4,771,736    |
| —                                     | —                   | —  | —                               | —            | —      | 2,347                                     | —            | —      | 1,215,964    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 287,757      |
| 111,754                               | —                   | —  | —                               | —            | —      | 365,681                                   | —            | —      | 1,570,052    |
| 225,261                               | —                   | —  | —                               | —            | —      | 821,130                                   | —            | —      | 3,459,355    |
| 10,570                                | —                   | —  | —                               | —            | —      | 201,784                                   | —            | —      | 282,024      |
| 4,718,959                             | 292,427             | —  | 33,977                          | —            | —      | 15,870,936                                | —            | —      | 57,424,753   |
| (248,164)                             | (289,512)           | —  | 89                              | —            | —      | 704,661                                   | —            | —      | (2,078,882)  |
| 26,802                                | 52                  | —  | 5,984                           | —            | —      | 33,010                                    | —            | —      | 1,543,753    |
| 51,731                                | —                   | —  | —                               | —            | —      | 85,080                                    | —            | —      | 704,464      |
| 117,906                               | —                   | —  | —                               | —            | —      | 117,906                                   | —            | —      | 2,572,793    |
| —                                     | —                   | —  | —                               | —            | —      | 3,788                                     | —            | —      | 1,306,291    |
| 196,439                               | 52                  | —  | 5,984                           | —            | —      | 239,784                                   | —            | —      | 6,127,301    |
| (51,725)                              | (289,460)           | —  | 6,073                           | —            | —      | 944,445                                   | —            | —      | 4,048,419    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 732,533      |
| —                                     | —                   | 1,119,190                                      | 1,000,000                       | —            | —      | 2,119,190                                 | —            | —      | —            |
| (19,444)                              | —                   | —  | —                               | —            | —      | (19,444)                                  | —            | —      | (367,960)    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | (278,935)    |
| (517,896)                             | —                   | —  | —                               | —            | —      | (517,896)                                 | —            | —      | (517,896)    |
| —                                     | —                   | —  | —                               | —            | —      | —   | —            | —      | 620,657      |
| (589,065)                             | (289,460)           | 1,119,190                                      | 1,006,073                       | —            | —      | 2,526,295                                 | —            | —      | 4,236,818    |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidating Balance Sheet Information

June 30, 2005

| Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |                   | LIISA<br>Obligated<br>Group<br>Members |
|--|---|---|--|---|--------------|-------------------|--|
|  |   |   |  |   | Debit        | Credit            |  |
| <b>Current assets:</b>   |   |   |  |   |              |                   |  |
| Cash and cash equivalents  | \$ —  | 2,879,115                                 | 210,741  | 129,276   | —            | —                 | 3,219,132                              |
| Assets whose use is limited or<br>restricted – required for current<br>liabilities                         | —   | 507,098                                   | —  | —   | —            | —                 | 507,098                                |
| Resident accounts receivable,<br>net of allowance for<br>doubtful accounts of \$166,600                    | 44,474  | 1,680,478                                 | —  | —   | —            | —                 | 1,724,952                              |
| Other receivables  | —   | 900,000                                   | 4,433,238  | —   | —            | —                 | 5,333,238                              |
| Inventory of supplies and other  | —   | 697,759                                   | —  | —   | —            | —                 | 697,759                                |
| Due from affiliates  | 16,909,480  | —   | —  | —   | —            | 16,909,480        | —                                      |
| <b>Total current assets</b>  | <b>16,953,954</b>   | <b>6,664,450</b>                          | <b>4,643,979</b>   | <b>129,276</b>                                  | <b>—</b>     | <b>16,909,480</b> | <b>11,482,179</b>                      |
| <b>Assets whose use is limited or restricted,<br/>net of amounts required for current<br/>liabilities:</b> |   |   |  |   |              |                   |  |
| Board designated for endowment   | —   | —   | —  | 7,324,072                                       | —            | —                 | 7,324,072                              |
| Resident deposits for future funeral,<br>occupancy, and care costs   | —   | 1,470,497                                 | 140,626  | —   | —            | —                 | 1,611,123                              |
| Contributions receivable,<br>net of allowance for doubtful<br>contributions of \$16,000                    | —   | —   | —  | 53,276  | —            | —                 | 53,276                                 |
| Held by trustee under bond<br>indenture agreement  | —   | 109,053                                   | —  | —   | —            | —                 | 109,053                                |
| Donor restricted investments   | —   | —   | —  | 2,986,891                                       | —            | —                 | 2,986,891                              |
| <b>Total noncurrent assets<br/>whose use is limited<br/>or restricted</b>                                  | <b>—</b>  | <b>1,579,550</b>                          | <b>140,626</b>   | <b>10,364,239</b>                               | <b>—</b>     | <b>—</b>          | <b>12,084,415</b>                      |
| Land, buildings, and equipment, net of<br>accumulated depreciation   | —   | 36,685,155                                | 1,247,524  | —   | —            | —                 | 37,932,679                             |
| Investments  | —   | 3,116,562                                 | —  | 10,699,820                                      | —            | —                 | 13,816,382                             |
| Custodial assets   | —   | 90,520                                    | —  | —   | —            | —                 | 90,520                                 |
| Agency funds   | —   | 72,696                                    | —  | —   | —            | —                 | 72,696                                 |
| Deferred financing costs, net  | —   | 564,411                                   | —  | —   | —            | —                 | 564,411                                |
| <b>Total assets</b>  | <b>\$ 16,953,954</b>                                      | <b>48,773,344</b>                         | <b>6,032,129</b>   | <b>21,193,335</b>                               | <b>—</b>     | <b>16,909,480</b> | <b>76,043,282</b>                      |



| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |                  | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |                  | Consolidated      |
|---|---|--------------|------------------|---|--------------|------------------|-------------------|
|   |   | Debit        | Credit           |   | Debit        | Credit           |                   |
| 996,118                                 | 1,662   | —            | —                | 997,780                                   | —            | —                | 4,216,912         |
| —                                       | —   | —            | —                | —   | —            | —                | 507,098           |
| 1,332,749                               | 3,898   | —            | —                | 1,336,647                                 | —            | —                | 3,061,599         |
| —                                       | 12,366  | —            | —                | 12,366                                    | —            | 5,169,078        | 176,526           |
| 103,539                                 | 1,562   | —            | —                | 105,101                                   | —            | —                | 802,860           |
| —                                       | 4,217,023   | —            | 4,217,023        | —   | —            | —                | —                 |
| <u>2,432,406</u>                        | <u>4,236,511</u>  | <u>—</u>     | <u>4,217,023</u> | <u>2,451,894</u>                          | <u>—</u>     | <u>5,169,078</u> | <u>8,764,995</u>  |
| —                                       | —   | —            | —                | —   | —            | —                | 7,324,072         |
| —                                       | —   | —            | —                | —   | —            | —                | 1,611,123         |
| —                                       | —   | —            | —                | —   | —            | —                | 53,276            |
| 60,740                                  | 30,370  | —            | —                | 91,110                                    | —            | —                | 200,163           |
| <u>—</u>                                | <u>—</u>  | <u>—</u>     | <u>—</u>         | <u>—</u>                                  | <u>—</u>     | <u>—</u>         | <u>2,986,891</u>  |
| 60,740                                  | 30,370  | —            | —                | 91,110                                    | —            | —                | 12,175,525        |
| 2,396,121                               | 6,340,181   | —            | —                | 8,736,302                                 | —            | —                | 46,668,981        |
| —                                       | —   | —            | —                | —   | —            | —                | 13,816,382        |
| 23,722                                  | —   | —            | —                | 23,722                                    | —            | —                | 114,242           |
| —                                       | —   | —            | —                | —   | —            | —                | 72,696            |
| 30,541                                  | 26,202  | —            | —                | 56,743                                    | —            | —                | 621,154           |
| <u>4,943,530</u>                        | <u>10,633,264</u>   | <u>—</u>     | <u>4,217,023</u> | <u>11,359,771</u>                         | <u>—</u>     | <u>5,169,078</u> | <u>82,233,975</u> |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidating Balance Sheet Information

June 30, 2005

| Liabilities and Net Assets  | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations      |          | LHSA<br>Obligated<br>Group<br>Members |
|---|---|---|--|---|-------------------|----------|---------------------------------------|
|   |   |   |  |   | Debit             | Credit   |                                       |
| <b>Current liabilities:</b>   |   |   |  |   |                   |          |                                       |
| Current installments of long-term debt  | \$ —  | 440,000                                   | —  | —   | —                 | —        | 440,000                               |
| Line of credit payable  | —   | —   | —  | —   | —                 | —        | —                                     |
| Current portion of obligations<br>under capital leases                                      | —   | 177,694                                   | —  | —   | —                 | —        | 177,694                               |
| Accounts payable  | 188,102   | 1,048,664                                 | 366,571  | 13,310  | —                 | —        | 1,616,647                             |
| Accrued interest payable  | —   | 67,098                                    | —  | —   | —                 | —        | 67,098                                |
| Accrued compensation and<br>other liabilities   | 328,372   | 1,658,881                                 | 147,405  | 25,841  | —                 | —        | 2,160,499                             |
| Refundable deposits   | —   | 1,388,599                                 | 140,626  | —   | —                 | —        | 1,529,225                             |
| Estimated payables under third-party<br>reimbursement programs                              | —   | 314,346                                   | —  | —   | —                 | —        | 314,346                               |
| Due to affiliates   | —   | 11,415,159                                | 4,934,584  | 559,737   | 16,909,480        | —        | —                                     |
| <b>Total current liabilities</b>  | <b>516,474</b>  | <b>16,510,441</b>                         | <b>5,589,186</b>   | <b>598,888</b>                                  | <b>16,909,480</b> | <b>—</b> | <b>6,305,509</b>                      |
| <b>Long-term debt, excluding current<br/>installments and unamortized<br/>bond discount</b> | <b>—</b>  | <b>26,376,936</b>                         | <b>—</b>   | <b>—</b>  | <b>—</b>          | <b>—</b> | <b>26,376,936</b>                     |
| <b>Obligations under capital leases, net<br/>of current portion</b>                         | <b>—</b>  | <b>406,829</b>                            | <b>—</b>   | <b>—</b>  | <b>—</b>          | <b>—</b> | <b>406,829</b>                        |
| Residents' custodial assets   | —   | 90,520                                    | —  | —   | —                 | —        | 90,520                                |
| Reserve for funeral expenses  | —   | 81,899                                    | —  | —   | —                 | —        | 81,899                                |
| Charitable gift annuity contracts   | —   | —   | —  | 407,709   | —                 | —        | 407,709                               |
| Other long term liabilities   | —   | 476,474                                   | —  | —   | —                 | —        | 476,474                               |
| Agency funds  | —   | 72,696                                    | —  | —   | —                 | —        | 72,696                                |
| <b>Total liabilities</b>  | <b>516,474</b>  | <b>44,015,795</b>                         | <b>5,589,186</b>   | <b>1,006,597</b>                                | <b>16,909,480</b> | <b>—</b> | <b>34,218,572</b>                     |
| <b>Net assets (deficit):</b>  |   |   |  |   |                   |          |                                       |
| Unrestricted  | 16,437,480  | 4,757,549                                 | 442,943  | 16,979,325                                      | —                 | —        | 38,617,297                            |
| Temporarily restricted  | —   | —   | —  | 220,522   | —                 | —        | 220,522                               |
| Permanently restricted  | —   | —   | —  | 2,986,891                                       | —                 | —        | 2,986,891                             |
| <b>Total net assets (deficit)</b>   | <b>16,437,480</b>   | <b>4,757,549</b>                          | <b>442,943</b>   | <b>20,186,738</b>                               | <b>—</b>          | <b>—</b> | <b>41,824,710</b>                     |
| <b>Total liabilities and net assets \$</b>  | <b>16,953,954</b>   | <b>48,773,344</b>                         | <b>6,032,129</b>   | <b>21,193,335</b>                               | <b>16,909,480</b> | <b>—</b> | <b>76,043,282</b>                     |

See accompanying independent auditors' report.

Schedule J, Cont.

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-LHSA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|---|--------------|--------|--------------|
|   |   | Debit        | Credit |   | Debit        | Credit |              |
| 177,821                                 | 192,922   | —            | —      | 370,743                                   | —            | —      | 810,743      |
| 2,041,466                               | —   | —            | —      | 2,041,466                                 | —            | —      | 2,041,466    |
| —                                       | —   | —            | —      | —   | —            | —      | 177,694      |
| 787,469                                 | 28,840  | —            | —      | 816,309                                   | —            | —      | 2,432,956    |
| —                                       | —   | —            | —      | —   | —            | —      | 67,098       |
| 622,867                                 | 28,380  | —            | —      | 651,247                                   | —            | —      | 2,811,746    |
| 2,700                                   | 2,916,662   | —            | —      | 2,919,362                                 | —            | —      | 4,448,587    |
| —                                       | —   | —            | —      | —   | —            | —      | 314,346      |
| 8,942,652                               | 443,449   | 4,217,023    | —      | 5,169,078                                 | 5,169,078    | —      | —            |
| 12,574,975                              | 3,610,253   | 4,217,023    | —      | 11,968,205                                | 5,169,078    | —      | 13,104,636   |
| 1,089,286                               | 1,374,574   | —            | —      | 2,463,860                                 | —            | —      | 28,840,796   |
| —                                       | —   | —            | —      | —   | —            | —      | 406,829      |
| 23,722                                  | —   | —            | —      | 23,722                                    | —            | —      | 114,242      |
| —                                       | —   | —            | —      | —   | —            | —      | 81,899       |
| —                                       | —   | —            | —      | —   | —            | —      | 407,709      |
| —                                       | —   | —            | —      | —   | —            | —      | 476,474      |
| —                                       | —   | —            | —      | —   | —            | —      | 72,696       |
| 13,687,983                              | 4,984,827   | 4,217,023    | —      | 14,455,787                                | 5,169,078    | —      | 43,505,281   |
| (8,744,453)                             | 5,561,175   | —            | —      | (3,183,278)                               | —            | —      | 35,434,019   |
| —                                       | 87,262  | —            | —      | 87,262                                    | —            | —      | 307,784      |
| —                                       | —   | —            | —      | —   | —            | —      | 2,986,891    |
| (8,744,453)                             | 5,648,437   | —            | —      | (3,096,016)                               | —            | —      | 38,728,694   |
| 4,943,530                               | 10,633,264  | 4,217,023    | —      | 11,359,771                                | 5,169,078    | —      | 82,233,975   |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND CONSOLIDATED AFFILIATES**

Consolidating Statement of Operations Information

Year ended June 30, 2005

|   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |          | LHSA<br>Obligated<br>Group<br>Members |
|---|---|---|--|---|--------------|----------|---------------------------------------|
|   |   |   |  |   | Debit        | Credit   |                                       |
| Operating revenue:  |   |   |  |   |              |          |                                       |
| Net resident service revenue  | \$ 3,679,449  | 29,552,177                                | —  | —   | —            | —        | 33,231,626                            |
| Other revenue   | —   | 711,728                                   | 2,964,448  | —   | —            | —        | 3,676,176                             |
| Total operating revenue   | <u>3,679,449</u>  | <u>30,263,905</u>                         | <u>2,964,448</u>   | <u>—</u>  | <u>—</u>     | <u>—</u> | <u>36,907,802</u>                     |
| Operating expenses:   |   |   |  |   |              |          |                                       |
| Salaries and wages  | 380,596   | 15,620,219                                | 1,766,167  | 382,240   | —            | —        | 18,149,222                            |
| Employee benefits   | 387,393   | 3,892,489                                 | 368,906  | 265,722   | —            | —        | 4,914,510                             |
| Support services  | —   | 5,314,591                                 | —  | —   | —            | —        | 5,314,591                             |
| Dietary services  | —   | 1,886,505                                 | —  | —   | —            | —        | 1,886,505                             |
| Program services  | 50,219  | 940,601                                   | —  | —   | —            | —        | 990,820                               |
| Administrative services   | 183,652   | 2,146,621                                 | 16,085   | 130,644   | —            | —        | 2,477,002                             |
| Community services  | —   | —   | 1,096,513  | —   | —            | —        | 1,096,513                             |
| Fund-raising  | —   | —   | —  | 161,584   | —            | —        | 161,584                               |
| Interest  | 9,812   | 1,052,950                                 | —  | —   | —            | —        | 1,062,762                             |
| Depreciation and amortization   | —   | 2,454,269                                 | —  | —   | —            | —        | 2,454,269                             |
| Provision for bad debts   | —   | 67,596                                    | 356  | —   | —            | —        | 67,952                                |
| Total operating expenses  | <u>1,011,672</u>  | <u>33,375,841</u>                         | <u>3,248,027</u>   | <u>940,190</u>                                  | <u>—</u>     | <u>—</u> | <u>38,575,730</u>                     |
| Income (loss) from operations   | <u>2,667,777</u>  | <u>(3,111,936)</u>                        | <u>(283,579)</u>   | <u>(940,190)</u>                                | <u>—</u>     | <u>—</u> | <u>(1,667,928)</u>                    |
| Nonoperating gains and losses:  |   |   |  |   |              |          |                                       |
| Investment income   | —   | 71,446                                    | —  | 682,826   | —            | —        | 754,272                               |
| Unrestricted contributions  | —   | —   | 850  | 150,528   | —            | —        | 151,378                               |
| Bequests and legacies   | —   | —   | —  | 989,494   | —            | —        | 989,494                               |
| Other, net  | —   | 1,247,196                                 | (86,223)   | 153,517   | —            | —        | 1,314,490                             |
| Total nonoperating gains<br>(losses), net   | <u>—</u>  | <u>1,318,642</u>                          | <u>(85,373)</u>  | <u>1,976,365</u>                                | <u>—</u>     | <u>—</u> | <u>3,209,634</u>                      |
| Excess (deficiency) of<br>revenue and gains over<br>expenses and losses                   | <u>2,667,777</u>  | <u>(1,793,294)</u>                        | <u>(368,952)</u>   | <u>1,036,175</u>                                | <u>—</u>     | <u>—</u> | <u>1,541,706</u>                      |
| Other changes in unrestricted net assets:   |   |   |  |   |              |          |                                       |
| Change in fair value of derivative<br>instruments   | —   | (410,919)                                 | —  | —   | —            | —        | (410,919)                             |
| Transfers between affiliates  | —   | —   | 892,117  | (892,117)                                       | —            | —        | —                                     |
| Change in net unrealized gains and losses<br>on other than trading securities             | —   | 154,182                                   | —  | 354,821   | —            | —        | 509,003                               |
| Net assets released from restriction<br>for land, building, and<br>equipment acquisitions | —   | 673,854                                   | —  | —   | —            | —        | 673,854                               |
| Increase (decrease) in<br>unrestricted net assets   | <u>\$ 2,667,777</u>                                       | <u>(1,376,177)</u>                        | <u>523,165</u>   | <u>498,879</u>                                  | <u>—</u>     | <u>—</u> | <u>2,313,644</u>                      |

See accompanying independent auditors' report.

## Schedule 4

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-LIISA<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|--|--------------|--------|--------------|
|   |   | Debit        | Credit |  | Debit        | Credit |              |
| 9,132,574                               | —   | —            | —      | 9,132,574                                  | —            | —      | 42,364,200   |
| 23,928                                  | 1,343,611   | —            | —      | 1,367,539                                  | —            | —      | 5,043,715    |
| 9,156,502                               | 1,343,611   | —            | —      | 10,500,113                                 | —            | —      | 47,407,915   |
| 5,471,759                               | 254,478   | —            | —      | 5,726,237                                  | —            | —      | 23,875,459   |
| 1,068,778                               | 18,933  | —            | —      | 1,087,711                                  | —            | —      | 6,002,221    |
| 2,297,991                               | 182,246   | —            | —      | 2,480,237                                  | —            | —      | 7,794,828    |
| 632,888                                 | 2,337   | —            | —      | 635,225                                    | —            | —      | 2,521,730    |
| 126,528                                 | 363   | —            | —      | 126,891                                    | —            | —      | 1,117,711    |
| 407,887                                 | 141,995   | —            | —      | 549,882                                    | —            | —      | 3,026,884    |
| —                                       | —   | —            | —      | —  | —            | —      | 1,096,513    |
| —                                       | —   | —            | —      | —  | —            | —      | 161,584      |
| 192,970                                 | 61,329  | —            | —      | 254,299                                    | —            | —      | 1,317,061    |
| 298,809                                 | 267,931   | —            | —      | 566,740                                    | —            | —      | 3,021,009    |
| 148,097                                 | —   | —            | —      | 148,097                                    | —            | —      | 216,049      |
| 10,645,707                              | 929,612   | —            | —      | 11,575,319                                 | —            | —      | 50,151,049   |
| (1,489,205)                             | 413,999   | —            | —      | (1,075,206)                                | —            | —      | (2,743,134)  |
| —                                       | 115   | —            | —      | 115  | —            | —      | 754,387      |
| —                                       | 74,434  | —            | —      | 74,434                                     | —            | —      | 225,812      |
| —                                       | —   | —            | —      | —  | —            | —      | 989,494      |
| —                                       | —   | —            | —      | —  | —            | —      | 1,314,490    |
| —                                       | 74,549  | —            | —      | 74,549                                     | —            | —      | 3,284,183    |
| (1,489,205)                             | 488,548   | —            | —      | (1,000,657)                                | —            | —      | 541,049      |
| —                                       | —   | —            | —      | —  | —            | —      | (410,919)    |
| —                                       | —   | —            | —      | —  | —            | —      | 509,003      |
| —                                       | —   | —            | —      | —  | —            | —      | 673,854      |
| (1,489,205)                             | 488,548   | —            | —      | (1,000,657)                                | —            | —      | 1,312,987    |

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

Consolidated Financial Statements and Schedules

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

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## Independent Auditors' Report

The Boards of Directors  
Lutheran Home and Services for the  
Aged, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Lutheran Home and Services for the Aged, Inc. and subsidiaries (the Corporations) as of June 30, 2005 and 2004, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporations' management. 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. Our audits included 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 Corporations' 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporations as of June 30, 2005 and 2004, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual corporations. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

September 2, 2005



**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2005 and 2004

| Assets   | <u>2005</u>          | <u>2004</u>       |
|--|----------------------|-------------------|
| Current assets:  |                      |                   |
| Cash and cash equivalents  | \$ 4,216,912         | 6,690,690         |
| Assets whose use is limited or restricted – required for<br>current liabilities  | 507,098              | 485,479           |
| Resident accounts receivable, net of allowance for<br>doubtful accounts of \$166,600 and \$165,700 in<br>2005 and 2004, respectively | 3,061,599            | 2,328,694         |
| Other receivables  | 176,526              | 355,462           |
| Inventory of supplies and other  | 802,860              | 373,577           |
| Total current assets   | <u>8,764,995</u>     | <u>10,233,902</u> |
| Assets whose use is limited or restricted, net of amounts required<br>for current liabilities:                                       |                      |                   |
| Board designated for endowment   | 5,804,536            | 5,763,474         |
| Resident deposits for future funeral, occupancy, and care costs  | 1,611,123            | 1,646,281         |
| Contributions receivable, net of allowance for doubtful<br>contributions of \$16,000 in 2005 and 2004                                | 53,276               | 48,406            |
| Held by trustee under bond indenture agreement   | 200,163              | 253,931           |
| Donor restricted investments   | 4,506,427            | 4,403,220         |
| Total noncurrent assets whose use is limited<br>or restricted  | <u>12,175,525</u>    | <u>12,115,312</u> |
| Land, buildings, and equipment, net of accumulated depreciation  | 46,668,981           | 45,575,915        |
| Long-term investments  | 13,816,382           | 11,398,090        |
| Custodial assets   | 114,242              | 104,111           |
| Agency funds   | 72,696               | 64,824            |
| Deferred financing costs, net  | 621,154              | 666,410           |
| Total assets   | <u>\$ 82,233,975</u> | <u>80,158,564</u> |

See accompanying notes to consolidated financial statements.

| <b>Liabilities and Net Assets</b>  | <b>2005</b>   | <b>2004</b> |
|--|---------------|-------------|
| <b>Current liabilities:</b>  |               |             |
| Current installments of long-term debt                                       | \$ 810,743    | 802,999     |
| Line of credit payable   | 2,041,466     | 1,746,705   |
| Current portion of obligations under capital leases                          | 177,694       | —           |
| Accounts payable   | 2,432,956     | 2,042,767   |
| Accrued interest payable   | 67,098        | 52,803      |
| Accrued compensation and other liabilities                                   | 2,811,746     | 2,513,457   |
| Refundable deposits  | 4,448,587     | 4,733,088   |
| Estimated payables under third-party reimbursement programs                  | 314,346       | 399,229     |
| Total current liabilities  | 13,104,636    | 12,291,048  |
| Long-term debt, excluding current installments and unamortized bond discount | 28,840,796    | 29,634,127  |
| Obligations under capital leases, net of current portion                     | 406,829       | —           |
| Residents' assets  | 114,242       | 104,111     |
| Reserve for funeral expenses   | 81,899        | 109,499     |
| Charitable gift annuity contracts  | 407,709       | 512,168     |
| Other long term liabilities  | 476,474       | 65,555      |
| Agency funds   | 72,696        | 64,824      |
| Total liabilities  | 43,505,281    | 42,781,332  |
| <b>Net assets:</b>   |               |             |
| Unrestricted   | 35,434,019    | 34,121,032  |
| Temporarily restricted   | 307,784       | 435,554     |
| Permanently restricted   | 2,986,891     | 2,820,646   |
| Total net assets   | 38,728,694    | 37,377,232  |
| <b>Commitments and contingencies</b>   |               |             |
| Total liabilities and net assets   | \$ 82,233,975 | 80,158,564  |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2005 and 2004

|  | 2005          | 2004        |
|--|---------------|-------------|
| Operating revenue:   |               |             |
| Net resident service revenue   | \$ 42,364,200 | 39,513,124  |
| Other revenue  | 5,043,715     | 4,991,637   |
| Total operating revenue  | 47,407,915    | 44,504,761  |
| Operating expenses:  |               |             |
| Salaries and wages   | 23,875,459    | 22,870,381  |
| Employee benefits  | 6,002,221     | 5,556,257   |
| Support services   | 7,794,828     | 7,363,524   |
| Dietary services   | 2,521,730     | 2,487,551   |
| Program services   | 1,117,711     | 1,087,765   |
| Administrative services  | 3,026,884     | 2,297,296   |
| Community services   | 1,096,513     | 843,131     |
| Fund-raising   | 161,584       | 142,845     |
| Interest   | 1,317,061     | 1,289,616   |
| Depreciation and amortization  | 3,021,009     | 2,757,087   |
| Provision for bad debts  | 216,049       | 397,301     |
| Total operating expenses   | 50,151,049    | 47,092,754  |
| Loss from operations   | (2,743,134)   | (2,587,993) |
| Nonoperating gains and losses:   |               |             |
| Investment income  | 754,387       | 1,005,087   |
| Unrestricted contributions   | 225,812       | 774,000     |
| Bequests and legacies  | 989,494       | 2,282,702   |
| Loss on extinguishment of debt   | —             | (1,081,293) |
| Other, net   | 1,314,490     | 1,320,277   |
| Total nonoperating gains, net  | 3,284,183     | 4,300,773   |
| Excess of revenue and gains over<br>expenses and losses                                | 541,049       | 1,712,780   |
| Other changes in unrestricted net assets:  |               |             |
| Change in fair value of derivative instruments   | (410,919)     | (65,555)    |
| Change in net unrealized gains and losses on other than<br>trading securities          | 509,003       | 848,259     |
| Net assets released from restriction for land, building, and<br>equipment acquisitions | 673,854       | 1,089,000   |
| Increase in unrestricted net assets  | \$ 1,312,987  | 3,584,484   |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2005 and 2004

|  | <u>2005</u>          | <u>2004</u>       |
|--|----------------------|-------------------|
| Increase in unrestricted net assets  | \$ 1,312,987         | 3,584,484         |
| Temporarily restricted net assets:   |                      |                   |
| Contributions for specific purposes  | 546,084              | 766,635           |
| Net assets released from restriction for land, building, and<br>equipment acquisitions | (673,854)            | (1,089,000)       |
| Net assets released from restriction for operations                                    | —                    | (172,759)         |
| Decrease in temporarily restricted net assets  | <u>(127,770)</u>     | <u>(495,124)</u>  |
| Permanently restricted net assets:   |                      |                   |
| Contributions  | 140,664              | 124,435           |
| Change in net unrealized gains and losses on investments                               | 25,581               | 72,624            |
| Increase in permanently restricted<br>net assets                                       | <u>166,245</u>       | <u>197,059</u>    |
| Change in net assets   | 1,351,462            | 3,286,419         |
| Net assets at beginning of year  | <u>37,377,232</u>    | <u>34,090,813</u> |
| Net assets at end of year  | <u>\$ 38,728,694</u> | <u>37,377,232</u> |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

|   | 2005         | 2004         |
|---|--------------|--------------|
| Cash flows from operating activities and gains:   |              |              |
| Change in net assets  | \$ 1,351,462 | 3,286,419    |
| Adjustments to reconcile change in net assets to net cash provided by operating activities and gains: |              |              |
| Depreciation and amortization   | 3,021,009    | 2,757,087    |
| Amortization of entrance fees   | (320,876)    | (355,722)    |
| Provision for bad debts   | 216,049      | 397,301      |
| Loss on extinguishment of debt  | —            | 1,081,293    |
| Change in fair value of derivative instruments  | 410,919      | 65,555       |
| Change in net unrealized gains and losses   | (534,584)    | (920,883)    |
| Contributions of permanently restricted net assets  | (140,664)    | (124,435)    |
| Changes in assets and liabilities:  |              |              |
| Resident accounts receivable  | (948,954)    | (37,851)     |
| Other receivables   | 178,936      | (169,596)    |
| Inventory of supplies and other   | (429,283)    | 39,331       |
| Accounts payable  | 390,189      | 641,480      |
| Accrued interest payable  | 14,295       | (384,184)    |
| Accrued compensation and other liabilities  | 270,689      | 501,587      |
| Estimated payables under third-party reimbursement programs   | (84,883)     | (134,766)    |
| Deferred occupancy and care revenue and refundable deposits   | (16,888)     | 122,176      |
| Net cash provided by operating activities and gains   | 3,377,416    | 6,764,792    |
| Cash flows from investing activities:   |              |              |
| Net sales of assets whose use is limited or restricted  | 452,752      | 3,700,895    |
| Net purchases of long-term investments  | (2,418,292)  | (5,184,886)  |
| Acquisition of land, buildings, and equipment, net  | (3,468,337)  | (2,385,640)  |
| Net cash used in investing activities   | (5,433,877)  | (3,869,631)  |
| Cash flows from financing activities:   |              |              |
| Proceeds from issuance of long-term debt, net of bond discount of \$111,212                           | —            | 14,238,788   |
| Repayment of long-term debt   | (785,587)    | (16,528,581) |
| Repayment of obligations under capital leases   | (15,959)     | —            |
| Proceeds from entrance fees   | 383,160      | 628,030      |
| Refunds paid on entrance fees   | (329,897)    | (158,811)    |
| Payments for deferred financing costs   | —            | (186,070)    |
| Net draws (repayments) on line of credit  | 294,761      | (86,559)     |
| Contributions of permanently restricted net assets  | 140,664      | 124,435      |
| Net issuances (repayments) of charitable gift annuity contracts                                       | (104,459)    | 213,515      |
| Net cash used in financing activities   | (417,317)    | (1,755,253)  |
| Net increase (decrease) in cash and cash equivalents  | (2,473,778)  | 1,139,908    |
| Cash and cash equivalents at beginning of year  | 6,690,690    | 5,550,782    |
| Cash and cash equivalents at end of year  | \$ 4,216,912 | 6,690,690    |
| Supplemental disclosure of cash flow information:   |              |              |
| Cash paid for interest  | \$ 1,302,766 | 1,673,800    |
| Supplemental disclosure of noncash transactions:  |              |              |
| Assets acquired under capital lease   | \$ 600,482   | —            |

See accompanying notes to consolidated financial statements.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

**(I) Organization and Purposes**

Lutheran Home and Services for the Aged, Inc. (the Parent) and its subsidiaries were established through a common religious heritage with the Lutheran Church-Missouri Synod to provide nursing and residential living arrangements for the aged. Lutheran Home and Services for the Aged, Inc. is a recognized social ministry organization of the Lutheran Church-Missouri Synod and is affiliated with the Evangelical Lutheran Church of America. The Parent and its subsidiaries also sponsor programs and activities that provide counseling, education, outreach, day care, and other support services to the community. The affiliated organizations (collectively with the Parent to be referred to as the Corporations) are under the common control of the Parent, and include the following entities:

- Lutheran Home for the Aged, Inc. (the Home), located in Arlington Heights, Illinois, is composed of 262 skilled and 60 intermediate licensed nursing care beds, as well as 70 licensed sheltered care units, providing nursing and other services associated with daily living to residents of the Home. In addition, the Home operates a 100 unit senior congregate housing facility.
- Lutheran Community Services for the Aged, Inc. (LCSA) offers family support services and counseling to residents of the Home, their families, staff, and the surrounding community.
- Lutheran Foundation for the Aged, Inc. (the Foundation) coordinates fund-raising activities that support the benevolent care and other programs at the Home.
- Lutheran Home Services and Mission Outreach, Inc. (LHSMO) is the sole corporate member and serves as the parent corporation to the following entities:
  - Wittenberg Lutheran Village, Inc. (WLV), located in Crown Point, Indiana, is composed of 191 skilled nursing care beds providing nursing and other services to its residents.
  - Wittenberg Lutheran Village Endowment Corporation (WLVEC), located in Crown Point, Indiana, is composed of a 72 cottage retirement community and a 33 unit assisted living facility providing senior living and community based services to its residents.
- Lutheran Senior Living of Illinois, Inc. was incorporated in 2004 for the purpose of developing future senior living facilities in conjunction with Lutheran Church congregations.

The Corporations are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

During 2004, the Home entered into an agreement with Trinity Lutheran Church to develop a continuing care retirement community (CCRC) in Bloomington, Illinois. In 2005, the Home entered into a services agreement with Greystone Development Company, LLC (Greystone) to develop the proposed CCRC, which will consist of independent living, assisted living, memory support, and a skilled nursing unit.

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

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

**(2) Summary of Significant Accounting Policies**

The following significant accounting policies of the Corporations are utilized in presenting the consolidated financial statements:

- The consolidated statements of operations include excess of revenue and gains over expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of resident care and community support services are reported as revenue and expenses. Transactions incidental to the provision of resident care and community support services are reported as gains and losses. Changes in unrestricted net assets which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in unrealized gains (losses) on other than trading securities, transfers of assets among affiliated not-for-profit entities for other than goods or services, and contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets).
- Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unrestricted contributions, bequests, and legacies are recorded as other revenue of the Home and LCSA and as nonoperating gains of the Foundation and WLVEC. Contributions 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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Net assets released from restriction for operating purposes are included with other revenue. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.
- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets at June 30, 2005 and 2004 principally represent amounts restricted for the purpose of acquiring long-lived assets or for specific operating purposes. Permanently restricted net assets represent investments to be held in perpetuity, the income from which is unrestricted and is expendable to support operations.
- Investment income and realized gains (losses) on unrestricted and temporarily restricted investments are recorded as other revenue of the Home and WLVC (the Homes) and nonoperating gains of the Foundation. Investment income and realized gains (losses) from permanently restricted investments are recorded as nonoperating gains since such income is unrestricted by the donors. Other-than-temporary declines in investments are considered to be realized losses.
- The Homes provide care to residents who meet certain criteria under their benevolent care policies at amounts less than established rates.
- Net resident service revenue is reported at the estimated net realizable amounts from residents and third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

- Assets whose use is limited or restricted include: assets assigned to the Homes by residents to cover the cost of their future care and services, including refundable deposits; assets held by a bond trustee under bond indenture agreements; assets designated by the Foundation board of directors for endowment development, over which the Board retains control and may, at its discretion, use for other purposes; and all donor restricted assets.
- For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits, and money market funds.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation, less accumulated depreciation. Assets acquired under capital lease are recorded at the net present value of minimum lease payments. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Amortization of assets under capital lease is over the lesser of the estimated useful life of the asset or the respective lease term.
- Inventory of supplies is reported at the lower of cost (first-in, first-out) or market.
- Deferred financing costs represent issuance costs for outstanding long-term debt. Deferred financing costs are being amortized on the straight-line method over the life of the bonds. Bond discount is being amortized on the straight-line basis over the life of the respective bonds.
- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- The Corporations incur expenses for the provision of residential care, community support services, fund-raising, and related general and administrative activities.
- The Home accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded in the consolidated balance sheets at their respective fair values.

The Home formally documents its hedging relationships and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as cash-flow hedges to specific liabilities on the consolidated balance sheets. The Home also formally assesses, both at the hedge's inception and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded directly to unrestricted net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Any ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported as a component of interest expense in the consolidated statements of operations.



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- In 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 143, *Accounting for Asset Retirement Obligations*. Statement 143 requires the Corporations to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Corporations also would record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. In March 2005, FASB issued Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, (FIN 47) an interpretation of Statement No. 143, which requires recognition of a liability for a conditional asset retirement obligation (e.g. asbestos removal) if the liability's fair value can be reasonably estimated. Management is currently evaluating the impact of FIN 47 on the consolidated financial statements.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

**(3) Investments**

The Corporations report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of the Corporations' investment portfolio at June 30, 2005 and 2004 follows:

|   | <u>2005</u>          | <u>2004</u>       |
|---|----------------------|-------------------|
| Cash and cash equivalents                         | \$ 2,444,056         | 892,672           |
| Common stocks and mutual funds                    | 17,874,440           | 14,807,807        |
| Corporate bonds and notes                         | 5,384,574            | 7,562,402         |
| U.S. Treasury securities                          | —                    | 27,683            |
| U.S. Government agency securities                 | 497,971              | 445,166           |
| Cash surrender value of life insurance policies   | 38,646               | 52,146            |
| Investment in MSCN (note 18)                      | 245,055              | 188,104           |
| Investment in captive insurance company (note 18) | 147,925              | 143,430           |
|   | <u>\$ 26,632,667</u> | <u>24,119,410</u> |

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Investments are reported in the accompanying consolidated balance sheets as follows:

|  | June 30,      |            |
|--|---------------|------------|
|  | 2005          | 2004       |
| Assets whose use is limited or restricted – required for current liabilities               | \$ 527,098    | 485,479    |
| Assets whose use is limited or restricted, net of amounts required for current liabilities | 12,102,249    | 12,066,906 |
| Long-term investments  | 13,816,382    | 11,398,090 |
| Custodial assets   | 114,242       | 104,111    |
| Agency funds   | 72,696        | 64,824     |
|  | \$ 26,632,667 | 24,119,410 |

The composition of investment return on the Corporations' investment portfolio for the years ended June 30, 2005 and 2004 is as follows:

|   | 2005         | 2004      |
|---|--------------|-----------|
| Interest and dividend income  | \$ 1,330,131 | 2,446,434 |
| Net realized losses on sale of investments                          | (442,384)    | (348,726) |
| Joint venture income  | 71,446       | 80,848    |
| Realized gains on redemption of insurance policies                  | 16,553       | 19,146    |
| Net change in unrealized gains and losses during the holding period | 534,584      | 920,883   |
|   | \$ 1,510,330 | 3,118,585 |

Changes in unrealized gains during the holding period are attributable to other than trading securities and accordingly are excluded from the determination of revenue and gains in excess of expenses and losses. Investment returns are included in the accompanying consolidated financial statements for the years ended June 30, 2005 and 2004 as follows:

|  | 2005         | 2004      |
|--|--------------|-----------|
| Investment income  | \$ 754,387   | 1,005,087 |
| Other revenue  | 221,359      | 1,192,615 |
| Changes in unrestricted and permanently restricted net assets: |              |           |
| Change in net unrealized gains and losses on investments       | 534,584      | 920,883   |
|  | \$ 1,510,330 | 3,118,585 |

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The composition of temporarily impaired investments and length of time such investments were in an unrealized loss position as of June 30, 2005 and 2004 follows:

| June 30, 2005                                     | Less than<br>twelve months |                      | Twelve months<br>or longer |                      | Total            |                      |
|---|----------------------------|----------------------|----------------------------|----------------------|------------------|----------------------|
|   | Fair<br>value              | Unrealized<br>losses | Fair<br>value              | Unrealized<br>losses | Fair<br>value    | Unrealized<br>losses |
| Corporate bonds and notes                         | \$ 473,403                 | 12,063               | 20,245                     | 1,478                | 493,648          | 13,541               |
| U.S. Treasury and government<br>agency securities | 1,619,952                  | 31,680               | —                          | —                    | 1,619,952        | 31,680               |
| Mutual bond funds                                 | —                          | —                    | 81,439                     | 1,561                | 81,439           | 1,561                |
| Common stocks                                     | 690,810                    | 36,753               | 170,270                    | 5,758                | 861,080          | 42,511               |
|   | <u>\$ 2,784,165</u>        | <u>80,496</u>        | <u>271,954</u>             | <u>8,797</u>         | <u>3,056,119</u> | <u>89,293</u>        |

| June 30, 2004                                     | Less than<br>twelve months |                      | Twelve months<br>or longer |                      | Total            |                      |
|---|----------------------------|----------------------|----------------------------|----------------------|------------------|----------------------|
|   | Fair<br>value              | Unrealized<br>losses | Fair<br>value              | Unrealized<br>losses | Fair<br>value    | Unrealized<br>losses |
| Corporate bonds and notes                         | \$ 98,389                  | 1,744                | 140,139                    | 9,659                | 238,528          | 11,403               |
| U.S. Treasury and government<br>agency securities | 147,562                    | 2,555                | 75,601                     | 7,349                | 223,163          | 9,904                |
| Mutual bond funds                                 | 1,065,737                  | 22,263               | —                          | —                    | 1,065,737        | 22,263               |
| Common stocks                                     | 539,145                    | 32,981               | 145,784                    | 8,562                | 684,929          | 41,543               |
|   | <u>\$ 1,850,833</u>        | <u>59,543</u>        | <u>361,524</u>             | <u>25,570</u>        | <u>2,212,357</u> | <u>85,113</u>        |

Temporarily impaired investments at June 30, 2005 and 2004 are in temporarily impaired positions primarily due to general market conditions and interest rate levels. Management of the Corporations believes the impairments are temporary in nature due to such market conditions and has the intent and ability to hold these investments until a market price recovery or maturity and therefore these investments are not considered other-than-temporarily impaired.

**(4) Custodial Assets**

The Homes offer custodial services for the personal funds of their residents. Certain residents also maintain deposits with the Homes for the cost of future care. Should residents' assigned assets be depleted (note 8), the Homes may utilize their custodial assets to pay for the provision of their occupancy and care. Interest earned on custodial assets is recorded as additions to custodial assets and the related residents' assets noncurrent liability in the accompanying consolidated balance sheets.

**(5) Agency Funds**

The Home maintains certain assets arising from various projects, fund drives, and programs sponsored by other organizations or the Homes' residents. Changes in agency funds are related to cash receipts and disbursements made in compliance with the stated purposes of the projects, fund drives, or programs designated by the sponsors.

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**(6) Concentration of Credit Risk**

The Homes grant credit to their self-pay residents as well as those that are insured under third-party payor agreements. The mix of receivables from residents and third-party payors as of June 30, 2005 and 2004 is as follows:

|                                   | 2005 | 2004 |
|-----------------------------------|------|------|
| Medicare                          | 37%  | 35%  |
| Medicaid                          | 31   | 29   |
| Self pay and commercial insurance | 32   | 36   |
|                                   | 100% | 100% |

**(7) Land, Buildings, and Equipment**

A summary of land, buildings, and equipment at June 30, 2005 and 2004 is as follows:

|                                    | 2005          |                             | 2004       |                             |
|------------------------------------|---------------|-----------------------------|------------|-----------------------------|
|                                    | Cost          | Accumulated<br>depreciation | Cost       | Accumulated<br>depreciation |
| Land and land improvements         | \$ 1,535,981  | 751,435                     | 1,470,860  | 679,611                     |
| Buildings                          | 58,409,644    | 19,464,924                  | 57,247,467 | 17,588,517                  |
| Furniture, fixtures, and equipment | 16,543,659    | 10,851,468                  | 14,404,648 | 9,807,025                   |
| Construction in progress           | 1,247,524     | —                           | 528,093    | —                           |
|                                    | \$ 77,736,808 | 31,067,827                  | 73,651,068 | 28,075,153                  |

There are no significant outstanding construction commitments related to the CCRC project at June 30, 2005. Interest cost is capitalized as a component cost of significant capital projects to the extent that such interest expense exceeds interest income earned on any project specific borrowed funds. During the years ended June 30, 2005 and 2004, the Corporations did not capitalize any interest cost.

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**(8) Deferred Occupancy and Care Revenue and Refundable Deposits**

Prior to March 1, 1988, upon entering the Home, each resident was required to assign their assets to the Home to the extent of the estimated cost of care expected to be incurred by the Home over the resident's actuarially determined life expectancy. The assets assigned to the Home are reflected as assets of the Home. The related deferred revenue is earned based on the cost of care provided to the resident at existing charges. Upon depletion of assigned assets, the Home is compensated for services provided to such residents under varying methods of reimbursement. When a resident dies, any remaining deferred revenue is distributed in accordance with the resident's agreement.

Since March 1, 1988, residents moving into the Home may elect to assign their assets to an irrevocable trust maintained by an independent third party. The Home may draw against the assets of the trust to pay for the cost of care provided to the residents. When a resident expires, the remaining assets in the trust, if any, are distributed in accordance with the resident's agreement. These assets are not reflected in the accompanying consolidated financial statements as they are not under the control of the Home.

The Home also requires residents to make deposits as a condition of occupancy for the senior congregate housing facility. Such deposits are fully refundable and amounted to \$307,526 and \$298,324 at June 30, 2005 and 2004, respectively.

WLVEC requires residents to make deposits as a condition of occupancy for its cottage units. An amount specified within the resident's contract is deducted from the original deposit amount on a monthly basis. Should a resident vacate their unit within five months of entry, the entire deposit less \$5,000 will be refunded to the resident. After the five month period, the entire remaining balance is distributed to the resident. Fully refundable WLVEC cottage unit deposits amounted to \$2,886,490 and \$3,154,103 at June 30, 2005 and 2004, respectively.

Historically, the Home and WLVEC have classified the refundable portion of deposits and deferred occupancy and care revenue income on its consolidated balance sheet as noncurrent. Generally, the residency agreements that are common within the industry can be terminated by residents. In addition, these agreements require the Home and WLVEC to refund a portion of the original refundable deposit amount 6 months after the agreement is terminated and the resident moves out. In July 2005, the American Institute of Certified Public Accountants asked FASB to consider issuing further accounting guidance to clarify the appropriate classification of the liabilities related to these arrangements. Current interpretations of SFAS 78, *Classification of Obligations that are Callable by the Creditor*, have determined that any obligation that is essentially "puttable" within 365 days should be classified as a current liability. Refundable deposits, have by nature, a "puttable" option if refundable regardless of reoccupancy. The Home and WLVEC contracts require refundable deposits to be repaid to the resident 6 months after the agreement is terminated and the resident moves out, regardless of reoccupancy. At June 30, 2005 and 2004, the Home and WLVEC reclassified refundable deposits of \$4,448,587 and \$4,733,088, respectively, as current liabilities from noncurrent in the accompanying consolidated balance sheets.

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**(9) Reserve for Funeral Expenses**

Certain residents entering the Home are required to deposit sufficient assets to pay for estimated funeral expenses, which are reflected as reserve for funeral expenses. These assets are comprised of both requisite cash deposits and life insurance policies naming the Home as beneficiary, and are included as assets whose use is limited or restricted.

**(10) Net Resident Service Revenue**

The Homes have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs represent the differences between the Homes' billings at established rates and the amounts reimbursed by third-party payors, principally Medicaid and Medicare; they also include any differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements.

The Homes have obtained Medicaid certification for a portion of their nursing beds and receive all-inclusive per diem rates for Medicaid-eligible residents. To the extent that charges or related costs incurred for services rendered to Medicaid beneficiaries exceed the per diem rates, they are not recoverable from the Medicaid program or its beneficiaries. Medicaid reimbursement methodologies and payment rates are subject to change based on the amount of funding available to the States of Illinois and Indiana Medicaid programs and any such changes could have a significant effect on the Homes' revenues.

The Homes have also obtained Medicare certification for a portion of their nursing beds. The Homes are reimbursed by Medicare under a prospective payment system based primarily upon a clinical classification system for Medicare residents. To the extent that charges or related costs incurred for services rendered to Medicare beneficiaries exceed the per diem rates, they are not recoverable from the Medicare program or its beneficiaries.

A summary of gross and net resident service revenue for the years ended June 30, 2005 and 2004 follows:

|  | <u>2005</u>          | <u>2004</u>       |
|--|----------------------|-------------------|
| Gross resident service revenue   | \$ 52,437,413        | 49,436,764        |
| Less provisions for:   |                      |                   |
| Estimated contractual adjustments arising under third-party reimbursement programs | 9,550,813            | 9,258,871         |
| Benevolent care and other allowances   | <u>522,400</u>       | <u>664,769</u>    |
| Net resident service revenue   | <u>\$ 42,364,200</u> | <u>39,513,124</u> |

The Homes recognized approximately \$110,000 of net resident service revenue in 2004 attributable to favorable prior year reimbursement settlements with third-party payors.

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**(11) Long-term Debt**

A summary of long-term debt at June 30, 2005 and 2004 is as follows:

|   | 2005          | 2004       |
|---|---------------|------------|
| Revenue Bonds, Series 1997, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$20,000 through January 15, 2014, effective interest rate of 3.13% in 2005 and 3.01% in 2004 | \$ 1,567,498  | 1,754,586  |
| Revenue Bonds, Series 1998, at a variable interest rate of 70% of the prime rate, due in monthly principal and interest payments of \$18,000 through January 15, 2014, effective interest rate of 3.19% in 2005 and 2.99% in 2004 | 1,267,106     | 1,437,937  |
| Revenue Bonds, Series 2001, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through August 15, 2031, effective interest rate of 1.77% in 2005 and 1.06% in 2004                           | 12,995,000    | 13,100,000 |
| Revenue Refunding Bonds, Series 2003, interest at the lesser of 15% or a tax exempt variable rate determined weekly, maturing through November 1, 2033, effective interest rate of 1.81% in 2005 and 1.03% in 2004                | 14,020,000    | 14,350,000 |
|   | 29,849,604    | 30,642,523 |
| Less:   |               |            |
| Current installments of long-term debt  | 810,743       | 802,999    |
| Unamortized bond discount   | 198,065       | 205,397    |
| Long-term debt, net of current installments and unamortized bond discount   | \$ 28,840,796 | 29,634,127 |

On September 12, 2001, the Illinois Health Facilities Authority issued weekly adjustable rate revenue bonds, Series 2001, in the amount of \$13,200,000 on behalf of the Parent, the Home, LCSA, and the Foundation (Obligated Group). The Series 2001 bonds were issued pursuant to a Master Trust Indenture. Principal payments are due each August 15, and interest is payable monthly. The Obligated Group has obtained a letter of credit which expires August 15, 2009 in the amount of \$13,190,815 as collateral for the Series 2001 bonds. Certain assets of the Obligated Group are pledged as collateral for the bonds and the letter of credit. Holders of the Series 2001 bonds have a put option that allows them to redeem the bonds prior to maturity. The Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2001 bonds are accelerable in the event the Obligated Group is unable to extend or replace the letter of credit securitizing the bonds.

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On November 10, 2003, the Illinois Health Facilities Authority issued variable rate demand revenue refunding bonds, Series 2003, in the amount of \$14,350,000 on behalf of the Obligated Group. The Series 2003 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each November 1, and interest is payable monthly. The Series 2003 bonds were issued principally to advance refund the then-outstanding Series 1996A bonds. The transactions to advance refund such debt resulted in a loss of \$1,081,293 which is reflected as a nonoperating loss in the 2004 consolidated statement of operations. The Obligated Group has obtained a letter of credit which expires November 15, 2006 in the amount of \$14,150,597 as collateral for the Series 2003 bonds. Certain assets of the Obligated Group are pledged as collateral for the bonds and letter of credit. Holders of the Series 2003 bonds have a put option that allows them to redeem the bonds prior to maturity. The Obligated Group has an agreement with an underwriter to remarket any bonds redeemed through the exercise of put options. The Series 2003 bonds are accelerable in the event of the Obligated Group is unable to extend or replace the letter of credit securitizing the bonds.

For bonds issued under the Master Trust Indenture, the Obligated Group is required to maintain certain reserve and sinking funds with their bond trustee. The Obligated Group is also required to be in compliance with specified debt covenants and financial ratios. Bonds issued under the Master Trust Indenture are also secured by the unrestricted receivables of the Obligated Group as well as certain real property of the Home.

During December 1997 and January 1998, WLV and WLVEC entered into an Economic Development Commission loan for a total commitment of \$4,800,000. Under the Series 1997 and 1998 bond indentures, WLV and WLVEC are required to maintain certain reserve funds with their bond trustee. The Series 1997 and 1998 bonds are secured by certain property and real estate of WLV and WLVEC. Pursuant to the transfer of sponsorship agreement with LHSMO, the Obligated Group has not pledged any of their assets or guaranteed any of the debt of WLV and WLVEC.

Scheduled annual principal repayments on long-term debt for the ensuing five years are as follows:

|       | <b>Amount</b> |
|-------|---------------|
| Year: |               |
| 2006  | \$ 810,743    |
| 2007  | 846,286       |
| 2008  | 880,528       |
| 2009  | 910,295       |
| 2010  | 950,606       |

The Obligated Group has interest-rate related derivative instruments to manage its exposure on its variable rate Series 2003 debt. By using derivative financial instruments to hedge exposures to changes in interest rates, the Obligated Group exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Obligated Group, which creates credit risk for the Obligated Group. When the fair value of a derivative contract is negative, the Obligated Group owes the counterparty and, therefore, it does not possess credit risk. The Obligated Group minimizes the credit risk in derivative



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instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates.

Management entered into an interest rate swap agreement in November 2003 to manage fluctuations in cash flows resulting from interest rate risk on its variable rate Series 2003 debt. The swap agreement changes the variable-rate cash flow exposure on the Series 2003 debt to fixed cash flows. Under the terms of the interest rate swap agreement, the Obligated Group receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. The interest rate swap derivative was designated as a hedge instrument and, therefore, the change in fair value of the derivative instrument is recognized directly to unrestricted net assets for the effective portion of the hedge.

The interest rate swap agreement has a notional amount of \$14,350,000 and a maturity date of November 2013. The variable interest rate received through September 1, 2006 is the BMA Index, reset monthly. The variable interest rate received from September 1, 2006 to November 11, 2013 is 67% of USD 1-month LIBOR, reset monthly. Lutheran Home is committed to pay a fixed rate of 3.385% for the duration of the swap agreement.

Payments equal to the differential to be paid or received under the interest rate swap agreement are recognized monthly and amounted to approximately \$236,000 and \$191,000 paid and included in interest expense in 2005 and 2004, respectively. The fair value of the interest rate swap agreement of \$476,474 and \$65,555 at June 30, 2005 and 2004, respectively, is reported as other long-term liabilities. The change in fair value of the interest rate swap agreement of \$410,919 in 2005 and \$65,555 in 2004 has been recognized as a direct reduction of unrestricted net assets.

**(12) Line of Credit Arrangement**

WLV maintains a \$2,800,000 revolving line of credit and permanent loan agreement with the Lutheran Church Extension Fund-Missouri Synod, which expires July 1, 2026. The agreement provides for a \$2,800,000 line of credit through June 30, 2006. Interest is payable monthly on draws under the line of credit at a variable interest rate determined by the lender monthly (5.30% at June 30, 2005 and 5.50% at June 30, 2004) based on the lender's cost of capital plus 2%. On July 1, 2006, the then-outstanding principal balance converts to a 20-year term loan with monthly payments of principal and interest at the lender's cost of capital plus 2%. The loan agreement is secured by certain WLV real estate. Outstanding draws under the revolving line of credit agreement totaled \$2,041,466 and \$1,746,705 at June 30, 2005 and 2004, respectively.

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**(13) Capital Leases**

The Home leases certain equipment under capital leases. Included with property and equipment is \$600,482 of assets held under capital leases and \$15,281 of related accumulated amortization at June 30, 2005. A summary of future minimum lease payments and the present value of future minimum lease payments related to capital leases as of June 30, 2005 are as follows:

|  | <b>Amount</b> |
|--|---------------|
| Year:  |               |
| 2006   | \$ 191,497    |
| 2007   | 191,498       |
| 2008   | 184,331       |
| 2009   | 43,958        |
| Total future minimum lease payments                                    | 611,284       |
| Less amount representing interest at rates ranging from 2.72% to 2.85% | 26,761        |
| Present value of future minimum lease payments                         | 584,523       |
| Less current portion of obligations under capital leases               | 177,694       |
| Obligations under capital leases, excluding current portion            | \$ 406,829    |

**(14) Employees' Pension Plan**

The Parent, Home, LCSA, and the Foundation participate in a multi-employer noncontributory defined benefit pension plan (the Plan) sponsored by the Lutheran Church Missouri Synod which provides retirement and disability benefits to substantially all qualifying full-time employees. Contributions are based on a percentage of each eligible participant's gross salary and are submitted to the Plan quarterly. Expense recognized under the terms of the Plan amounted to \$835,991 and \$872,751 for the years ended June 30, 2005 and 2004, respectively.

WLV and WLVEC sponsor a noncontributory profit sharing plan covering substantially all full time employees. Employer contributions to the profit sharing plan are discretionary. The employers did not elect to make any contributions for the years ended June 30, 2005 or 2004.

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**(15) Luther Village Limited Partnership**

The Parent has a land lease agreement with Luther Village Limited Partnership (the Partnership), an unrelated party. A portion of land owned by the Home has been leased to the Partnership for a term of 99 years with an option to renew for a second term of 99 years. The Partnership has constructed a number of cooperative apartment and townhome units that may be purchased by individuals at least 55 years of age. Owners pay a monthly ground rent to the Partnership, in addition to the initial cost of their unit.

In exchange for the land lease, the Partnership makes the following payments to the Home:

- 0.5% of the sales price of units purchased by initial buyers; and
- The entire amount of the monthly ground rent submitted to the Partnership.

The fees earned by the Home related to the land lease totaled \$1,045,004 for each of the years ended June 30, 2005 and 2004, and are included with other nonoperating gains in the accompanying consolidated statements of operations. In addition, the Home performs certain medical and other support services for the Partnership in exchange for service fees. The service fees earned related to the provision of such services amounted to \$104,490 and \$122,436 for the years ended June 30, 2005 and 2004, respectively, and have been reflected as other revenue in the accompanying consolidated statements of operations.

**(16) Planned Gifts**

Various donors have agreed to bequeath assets through wills, estate plans, and other planned gift instruments at some point in the future to the Foundation and WLVEC. As the realization and valuation of assets are not assured at the time of agreement, no amounts have been recognized for bequests in the accompanying consolidated financial statements until the realization and valuation of such assets are determinable.

**(17) Charitable Gift Annuities**

The Home is the recipient of various charitable gift annuities. Such gifts are recognized as contribution revenue in the period received, net of any estimated liability for amounts payable to the annuitant in future periods pursuant to the terms of the respective charitable gift annuity contract.

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**(18) Commitments and Contingencies**

*Professional and General Liability Self-Insurance*

Through December 31, 2001, the Homes maintained professional liability coverage through commercial insurance carriers. Effective January 1, 2002, the Homes entered into a contractual agreement to form Caring Communities Insurance Company (Caring Communities), a self-insurance administrator which, through its risk-sharing provisions, provides the Home with insurance coverage for professional and comprehensive general liability exposure. Caring Communities is a multi-organization insurance company for long-term care organizations incorporated under the laws of the Cayman Islands.

Caring Communities provides the Corporations with claims made insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. Caring Communities has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. As a self-insurance administrator, Caring Communities enables risk sharing among participating long-term care organizations. The Homes are required to pay assessed premiums and are subject to a per claim self-insured retention. Insurance expense under the Caring Communities program amounted to \$285,314 and \$253,664 in 2005 and 2004, respectively. Caring Communities may retroactively assess participants for up to twice their annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on the Homes' historical claims experience and exposure to date with Caring Communities, no reserves were established at June 30, 2005 or 2004 for either retroactive premium assessments or tail exposures. The Homes made their initial capital contribution to Caring Communities in 2002, and made additional contributions in 2004 and 2003 of \$13,434 and \$33,585, respectively, which is included in long-term investments in the accompanying consolidated balance sheets. The capital investment in Caring Communities is being accounted for using the equity method. Accordingly, the Homes have included their proportionate share of Caring Communities net income in the amounts of \$4,495 and \$9,149 as nonoperating investment income in the accompanying 2005 and 2004 consolidated statements of operations, respectively.

*Workers' Compensation*

The Corporations' workers' compensation program includes various levels of per claim self-insured retentions and excess commercial insurance coverages. Provisions of \$419,868 in 2005 and \$508,965 in 2004 for the ultimate cost of reported self insured workers' compensation claims, as well as estimates of incurred but not reported claims, are included in operating expenses.

*Medicare Reimbursement Changes*

The Federal Balanced Budget Act of 1997 implemented various changes to the methods in which Medicare reimburses providers of long-term care services. Changes made for skilled nursing facility reimbursement included a prospective payment system for skilled nursing services and a consolidated billing requirement. Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of the provisions of Medicare legislation may have an adverse effect on the Corporations' net resident service revenue.

**LUTHERAN HOME AND SERVICES FOR  
THE AGED, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

***Litigation***

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

***Regulatory Investigations***

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Corporations' financial position or results from operations.

***Health Resources Alliance, Inc.***

The Home has provided Health Resources Alliance, Inc., of which the Home is a founding member, with a \$190,000 letter of credit, draws on which are guaranteed by the Home. No amounts have been accrued or paid pursuant to this agreement as of June 30, 2005.

Effective April 1, 2003, Midwest Senior Care Network (MSCN), a wholly owned subsidiary of Health Resources Alliance, Inc., converted a \$60,000 prepaid service deposit of the Home into equity of MSCN. Simultaneous with the equity conversion, Health Resources Alliance, Inc. distributed the outstanding common stock of MSCN in equal shares to its members including the Home. The Home has a 1/15th equity interest in MSCN. The Home's proportionate share of MSCN equity in excess of the \$60,000 equity conversion amounted to \$47,119 at the date of the MSCN common stock distribution and was recorded as a direct addition to 2003 unrestricted net assets. The investment in MSCN is included in long-term investments in the accompanying consolidated balance sheets and is being accounted for using the equity method. The Home has included its proportionate share of MSCN net income of \$66,951 in 2005 and \$71,699 in 2004 as nonoperating investment income in the accompanying consolidated statements of operations.

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2004

| Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |                   | Obligated<br>Group<br>Members |
|--|---|---|--|---|--------------|-------------------|-------------------------------|
|  |   |   |  |   | Debit        | Credit            |                               |
| <b>Current assets:</b>   |   |   |  |   |              |                   |                               |
| Cash and cash equivalents  | \$ —  | 5,310,168                                 | —  | 933,302   | —            | —                 | 6,243,470                     |
| Assets whose use is limited or<br>restricted – required for current<br>liabilities                         | —   | 485,479                                   | —  | —   | —            | —                 | 485,479                       |
| Resident accounts receivable,<br>net of allowance for<br>doubtful accounts of \$165,700                    | 52,967  | 1,186,747                                 | —  | —   | —            | —                 | 1,239,714                     |
| Other receivables  | —   | 900,000                                   | 2,938,862  | —   | —            | —                 | 3,838,862                     |
| Inventory of supplies and other  | —   | 208,982                                   | —  | —   | —            | —                 | 208,982                       |
| Due from affiliates  | 14,073,744  | —   | —  | —   | —            | 14,073,744        | —                             |
| <b>Total current assets</b>  | <b>14,126,711</b>   | <b>8,091,376</b>                          | <b>2,938,862</b>   | <b>933,302</b>                                  | <b>—</b>     | <b>14,073,744</b> | <b>12,016,507</b>             |
| <b>Assets whose use is limited or restricted,<br/>net of amounts required for current<br/>liabilities:</b> |   |   |  |   |              |                   |                               |
| Board designated for endowment   | —   | —   | —  | 5,763,474                                       | —            | —                 | 5,763,474                     |
| Resident deposits for future funeral,<br>occupancy, and care costs   | —   | 1,518,409                                 | 127,872  | —   | —            | —                 | 1,646,281                     |
| Contributions receivable,<br>net of allowance for doubtful<br>contributions of \$16,000                    | —   | —   | —  | 48,406  | —            | —                 | 48,406                        |
| Held by trustee under bond<br>indenture agreement  | —   | 163,037                                   | —  | —   | —            | —                 | 163,037                       |
| Donor restricted investments   | —   | —   | —  | 4,403,220                                       | —            | —                 | 4,403,220                     |
| <b>Total noncurrent assets<br/>whose use is limited<br/>or restricted</b>                                  | <b>—</b>  | <b>1,681,446</b>                          | <b>127,872</b>   | <b>10,215,100</b>                               | <b>—</b>     | <b>—</b>          | <b>12,024,418</b>             |
| <b>Land, buildings, and equipment, net of<br/>accumulated depreciation</b>                                 | <b>—</b>  | <b>36,642,697</b>                         | <b>—</b>   | <b>—</b>  | <b>—</b>     | <b>—</b>          | <b>36,642,697</b>             |
| Long-term investments  | —   | 1,603,737                                 | —  | 9,794,353                                       | —            | —                 | 11,398,090                    |
| Custodial assets   | —   | 75,931                                    | —  | —   | —            | —                 | 75,931                        |
| Agency funds   | —   | 64,824                                    | —  | —   | —            | —                 | 64,824                        |
| Deferred financing costs, net  | —   | 603,899                                   | —  | —   | —            | —                 | 603,899                       |
| <b>Total assets</b>  | <b>\$ 14,126,711</b>                                      | <b>48,763,910</b>                         | <b>3,066,734</b>   | <b>20,942,755</b>                               | <b>—</b>     | <b>14,073,744</b> | <b>72,826,366</b>             |

## Schedule I

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |                  | Non-<br>Obligated<br>Group<br>Members | Eliminations |                  | Consolidated      |
|---|---|--------------|------------------|---------------------------------------|--------------|------------------|-------------------|
|   |   | Debit        | Credit           |                                       | Debit        | Credit           |                   |
| 445,563                                 | 1,657   | —            | —                | 447,220                               | —            | —                | 6,690,690         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 485,479           |
| 1,085,368                               | 3,612   | —            | —                | 1,088,980                             | —            | —                | 2,328,694         |
| 1,380                                   | 10,792  | —            | —                | 12,172                                | —            | 3,495,572        | 355,462           |
| 162,368                                 | 2,227   | —            | —                | 164,595                               | —            | —                | 373,577           |
| —                                       | 3,020,984   | —            | 3,020,984        | —                                     | —            | —                | —                 |
| <u>1,694,679</u>                        | <u>3,039,272</u>  | <u>—</u>     | <u>3,020,984</u> | <u>1,712,967</u>                      | <u>—</u>     | <u>3,495,572</u> | <u>10,233,902</u> |
| —                                       | —   | —            | —                | —                                     | —            | —                | 5,763,474         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 1,646,281         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 48,406            |
| 60,596                                  | 30,298  | —            | —                | 90,894                                | —            | —                | 253,931           |
| —                                       | —   | —            | —                | —                                     | —            | —                | 4,403,220         |
| <u>60,596</u>                           | <u>30,298</u>   | <u>—</u>     | <u>—</u>         | <u>90,894</u>                         | <u>—</u>     | <u>—</u>         | <u>12,115,312</u> |
| 2,384,678                               | 6,548,540   | —            | —                | 8,933,218                             | —            | —                | 45,575,915        |
| —                                       | —   | —            | —                | —                                     | —            | —                | 11,398,090        |
| 28,180                                  | —   | —            | —                | 28,180                                | —            | —                | 104,111           |
| —                                       | —   | —            | —                | —                                     | —            | —                | 64,824            |
| 34,305                                  | 28,206  | —            | —                | 62,511                                | —            | —                | 666,410           |
| <u>4,202,438</u>                        | <u>9,646,316</u>  | <u>—</u>     | <u>3,020,984</u> | <u>10,827,770</u>                     | <u>—</u>     | <u>3,495,572</u> | <u>80,158,564</u> |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2004

| Liabilities and Net Assets  | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations      |          | Obligated<br>Group<br>Members |
|---|---|---|--|---|-------------------|----------|-------------------------------|
|   |   |   |  |   | Debit             | Credit   |                               |
| <b>Current liabilities:</b>   |   |   |  |   |                   |          |                               |
| Current installments of long-term debt  | \$ —  | 435,000                                   | —  | —   | —                 | —        | 435,000                       |
| Line of credit payable  | —   | —   | —  | —   | —                 | —        | —                             |
| Current portion of obligations<br>under capital leases                                      | —   | —   | —  | —   | —                 | —        | —                             |
| Accounts payable  | 77,288  | 1,178,516                                 | 94,457   | 17,043  | —                 | —        | 1,367,304                     |
| Accrued interest payable  | —   | 52,803                                    | —  | —   | —                 | —        | 52,803                        |
| Accrued compensation and<br>other liabilities   | 279,720   | 1,475,666                                 | 127,283  | 27,749  | —                 | —        | 1,910,418                     |
| Refundable deposits   | —   | 1,408,911                                 | 127,872  | —   | —                 | —        | 1,536,783                     |
| Estimated payables under third-party<br>reimbursement programs                              | —   | 399,229                                   | —  | —   | —                 | —        | 399,229                       |
| Due to affiliates   | —   | 10,554,647                                | 2,797,344  | 721,753   | 14,073,744        | —        | —                             |
| <b>Total current liabilities</b>  | <b>357,008</b>  | <b>15,504,772</b>                         | <b>3,146,956</b>   | <b>766,545</b>                                  | <b>14,073,744</b> | <b>—</b> | <b>5,701,537</b>              |
| <b>Long-term debt, excluding current<br/>installments and unamortized<br/>bond discount</b> | <b>—</b>  | <b>26,809,603</b>                         | <b>—</b>   | <b>—</b>  | <b>—</b>          | <b>—</b> | <b>26,809,603</b>             |
| <b>Obligations under capital leases, net<br/>of current portion</b>                         | <b>—</b>  | <b>—</b>                                  | <b>—</b>   | <b>—</b>  | <b>—</b>          | <b>—</b> | <b>—</b>                      |
| Residents' assets   | —   | 75,931                                    | —  | —   | —                 | —        | 75,931                        |
| Reserve for funeral expenses  | —   | 109,499                                   | —  | —   | —                 | —        | 109,499                       |
| Charitable gift annuity contracts   | —   | —   | —  | 512,168   | —                 | —        | 512,168                       |
| Other long term liabilities   | —   | 65,555                                    | —  | —   | —                 | —        | 65,555                        |
| Agency funds  | —   | 64,824                                    | —  | —   | —                 | —        | 64,824                        |
| <b>Total liabilities</b>  | <b>357,008</b>  | <b>42,630,184</b>                         | <b>3,146,956</b>   | <b>1,278,713</b>                                | <b>14,073,744</b> | <b>—</b> | <b>33,339,117</b>             |
| <b>Net assets (deficit):</b>  |   |   |  |   |                   |          |                               |
| Unrestricted  | 13,769,703  | 6,133,726                                 | (80,222)   | 16,480,446                                      | —                 | —        | 36,303,653                    |
| Temporarily restricted  | —   | —   | —  | 362,950   | —                 | —        | 362,950                       |
| Permanently restricted  | —   | —   | —  | 2,820,646                                       | —                 | —        | 2,820,646                     |
| <b>Total net assets (deficit)</b>   | <b>13,769,703</b>   | <b>6,133,726</b>                          | <b>(80,222)</b>  | <b>19,664,042</b>                               | <b>—</b>          | <b>—</b> | <b>39,487,249</b>             |
| <b>Total liabilities and net assets</b>   | <b>\$ 14,126,711</b>                                      | <b>48,763,910</b>                         | <b>3,066,734</b>   | <b>20,942,755</b>                               | <b>14,073,744</b> | <b>—</b> | <b>72,826,366</b>             |

See accompanying independent auditors' report.



## Schedule 1, Cont.

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|---------------------------------------|--------------|--------|--------------|
|   |   | Debit        | Credit |                                       | Debit        | Credit |              |
| 175,077                                 | 192,922   | —            | —      | 367,999                               | —            | —      | 802,999      |
| 1,746,705                               | —   | —            | —      | 1,746,705                             | —            | —      | 1,746,705    |
| —                                       | —   | —            | —      | —                                     | —            | —      | —            |
| 636,819                                 | 38,644  | —            | —      | 675,463                               | —            | —      | 2,042,767    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 52,803       |
| 571,977                                 | 31,062  | —            | —      | 603,039                               | —            | —      | 2,513,457    |
| 10,600                                  | 3,185,705   | —            | —      | 3,196,305                             | —            | —      | 4,733,088    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 399,229      |
| 7,025,468                               | (508,912)   | 3,020,984    | —      | 3,495,572                             | 3,495,572    | —      | —            |
| 10,166,646                              | 2,939,421   | 3,020,984    | —      | 10,085,083                            | 3,495,572    | —      | 12,291,048   |
| 1,262,860                               | 1,561,664   | —            | —      | 2,824,524                             | —            | —      | 29,634,127   |
| —                                       | —   | —            | —      | —                                     | —            | —      | —            |
| 28,180                                  | —   | —            | —      | 28,180                                | —            | —      | 104,111      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 109,499      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 512,168      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 65,555       |
| —                                       | —   | —            | —      | —                                     | —            | —      | 64,824       |
| 11,457,686                              | 4,501,085   | 3,020,984    | —      | 12,937,787                            | 3,495,572    | —      | 42,781,332   |
| (7,255,248)                             | 5,072,627   | —            | —      | (2,182,621)                           | —            | —      | 34,121,032   |
| —                                       | 72,604  | —            | —      | 72,604                                | —            | —      | 435,554      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 2,820,646    |
| (7,255,248)                             | 5,145,231   | —            | —      | (2,110,017)                           | —            | —      | 37,377,232   |
| 4,202,438                               | 9,646,316   | 3,020,984    | —      | 10,827,770                            | 3,495,572    | —      | 80,158,564   |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Statement of Operations Information

Year ended June 30, 2004

|   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |        | Obligated<br>Group<br>Members |
|---|---|---|--|---|--------------|--------|-------------------------------|
|   |   |   |  |   | Debit        | Credit |                               |
| <b>Operating revenue:</b>   |   |   |  |   |              |        |                               |
| Net resident service revenue  | \$ 3,503,634  | 27,299,936                                | —  | —   | —            | —      | 30,803,570                    |
| Other revenue   | —   | 794,136                                   | 2,823,077  | —   | —            | —      | 3,617,213                     |
| Total operating revenue   | 3,503,634   | 28,094,072                                | 2,823,077  | —   | —            | —      | 34,420,783                    |
| <b>Operating expenses:</b>  |   |   |  |   |              |        |                               |
| Salaries and wages  | 162,988   | 15,135,701                                | 1,531,468  | 434,609   | —            | —      | 17,264,766                    |
| Employee benefits   | 358,835   | 3,675,592                                 | 255,493  | 273,629   | —            | —      | 4,563,549                     |
| Support services  | —   | 4,983,481                                 | —  | —   | —            | —      | 4,983,481                     |
| Dietary services  | —   | 1,934,595                                 | —  | —   | —            | —      | 1,934,595                     |
| Program services  | 60,718  | 923,082                                   | —  | —   | —            | —      | 983,800                       |
| Administrative services   | 140,764   | 1,332,536                                 | 251,418  | 99,235  | —            | —      | 1,823,953                     |
| Community services  | —   | —   | 843,131  | —   | —            | —      | 843,131                       |
| Fund-raising  | —   | —   | —  | 142,845   | —            | —      | 142,845                       |
| Interest  | —   | 1,066,146                                 | —  | —   | —            | —      | 1,066,146                     |
| Depreciation and amortization   | —   | 2,206,825                                 | —  | —   | —            | —      | 2,206,825                     |
| Provision for bad debts   | 206   | 55,215                                    | —  | —   | —            | —      | 55,421                        |
| Total operating expenses  | 723,511   | 31,313,173                                | 2,881,510  | 950,318   | —            | —      | 35,868,512                    |
| Income (loss) from operations   | 2,780,123   | (3,219,101)                               | (58,433)   | (950,318)                                       | —            | —      | (1,447,729)                   |
| <b>Nonoperating gains and losses:</b>   |   |   |  |   |              |        |                               |
| Investment income   | —   | 80,848                                    | —  | 922,911   | —            | —      | 1,003,759                     |
| Unrestricted contributions  | —   | —   | —  | 477,996   | —            | —      | 477,996                       |
| Bequests and legacies   | —   | —   | —  | 2,282,702                                       | —            | —      | 2,282,702                     |
| Loss on extinguishment of debt  | —   | (1,081,293)                               | —  | —   | —            | —      | (1,081,293)                   |
| Other, net  | —   | 1,213,423                                 | (38,716)   | 145,570   | —            | —      | 1,320,277                     |
| Total nonoperating gains<br>(losses), net   | —   | 212,978                                   | (38,716)   | 3,829,179                                       | —            | —      | 4,003,441                     |
| Excess (deficiency) of<br>revenue and gains over<br>expenses and losses                   | 2,780,123   | (3,006,123)                               | (97,149)   | 2,878,861                                       | —            | —      | 2,555,712                     |
| <b>Other changes in unrestricted net assets:</b>  |   |   |  |   |              |        |                               |
| Change in fair value of derivative<br>instruments   | —   | (65,555)                                  | —  | —   | —            | —      | (65,555)                      |
| Transfers between affiliates  | —   | —   | —  | —   | —            | —      | —                             |
| Change in net unrealized gains and losses<br>on other than trading securities             | —   | 170,240                                   | —  | 678,019   | —            | —      | 848,259                       |
| Net assets released from restriction<br>for land, building, and<br>equipment acquisitions | —   | 1,089,000                                 | —  | —   | —            | —      | 1,089,000                     |
| Increase (decrease) in<br>unrestricted net assets   | \$ 2,780,123  | (1,812,438)                               | (97,149)   | 3,556,880                                       | —            | —      | 4,427,416                     |

See accompanying independent auditors' report.

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|---------------------------------------|--------------|--------|--------------|
|   |   | Debit        | Credit |                                       | Debit        | Credit |              |
| 8,709,554                               | —   | —            | —      | 8,709,554                             | —            | —      | 39,513,124   |
| 11,895                                  | 1,362,529   | —            | —      | 1,374,424                             | —            | —      | 4,991,637    |
| 8,721,449                               | 1,362,529   | —            | —      | 10,083,978                            | —            | —      | 44,504,761   |
| 5,345,375                               | 260,240   | —            | —      | 5,605,615                             | —            | —      | 22,870,381   |
| 973,248                                 | 19,460  | —            | —      | 992,708                               | —            | —      | 5,556,257    |
| 2,179,125                               | 200,918   | —            | —      | 2,380,043                             | —            | —      | 7,363,524    |
| 547,187                                 | 5,769   | —            | —      | 552,956                               | —            | —      | 2,487,551    |
| 103,550                                 | 415   | —            | —      | 103,965                               | —            | —      | 1,087,765    |
| 326,602                                 | 146,741   | —            | —      | 473,343                               | —            | —      | 2,297,296    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 843,131      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 142,845      |
| 171,466                                 | 52,004  | —            | —      | 223,470                               | —            | —      | 1,289,616    |
| 279,880                                 | 270,382   | —            | —      | 550,262                               | —            | —      | 2,757,087    |
| 341,880                                 | —   | —            | —      | 341,880                               | —            | —      | 397,301      |
| 10,268,313                              | 955,929   | —            | —      | 11,224,242                            | —            | —      | 47,092,754   |
| (1,546,864)                             | 406,600   | —            | —      | (1,140,264)                           | —            | —      | (2,587,993)  |
| 1,261                                   | 67  | —            | —      | 1,328                                 | —            | —      | 1,005,087    |
| —                                       | 296,004   | —            | —      | 296,004                               | —            | —      | 774,000      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 2,282,702    |
| —                                       | —   | —            | —      | —                                     | —            | —      | (1,081,293)  |
| —                                       | —   | —            | —      | —                                     | —            | —      | 1,320,277    |
| 1,261                                   | 296,071   | —            | —      | 297,332                               | —            | —      | 4,300,773    |
| (1,545,603)                             | 702,671   | —            | —      | (842,932)                             | —            | —      | 1,712,780    |
| —                                       | —   | —            | —      | —                                     | —            | —      | (65,555)     |
| —                                       | —   | —            | —      | —                                     | —            | —      | —            |
| —                                       | —   | —            | —      | —                                     | —            | —      | 848,259      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 1,089,000    |
| (1,545,603)                             | 702,671   | —            | —      | (842,932)                             | —            | —      | 3,584,484    |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2005

| Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |                   | Obligated<br>Group<br>Members |
|--|---|---|--|---|--------------|-------------------|-------------------------------|
|  |   |   |  |   | Debit        | Credit            |                               |
| <b>Current assets:</b>   |   |   |  |   |              |                   |                               |
| Cash and cash equivalents  | \$ —  | 2,879,115                                 | 210,741  | 129,276   | —            | —                 | 3,219,132                     |
| Assets whose use is limited or<br>restricted – required for current<br>liabilities                         | —   | 507,098                                   | —  | —   | —            | —                 | 507,098                       |
| Resident accounts receivable,<br>net of allowance for<br>doubtful accounts of \$166,600                    | 44,474  | 1,680,478                                 | —  | —   | —            | —                 | 1,724,952                     |
| Other receivables  | —   | 900,000                                   | 4,433,238  | —   | —            | —                 | 5,333,238                     |
| Inventory of supplies and other  | —   | 697,759                                   | —  | —   | —            | —                 | 697,759                       |
| Due from affiliates  | 16,909,480  | —   | —  | —   | —            | 16,909,480        | —                             |
| <b>Total current assets</b>  | <b>16,953,954</b>   | <b>6,664,450</b>                          | <b>4,643,979</b>   | <b>129,276</b>                                  | <b>—</b>     | <b>16,909,480</b> | <b>11,482,179</b>             |
| <b>Assets whose use is limited or restricted,<br/>net of amounts required for current<br/>liabilities:</b> |   |   |  |   |              |                   |                               |
| Board designated for endowment   | —   | —   | —  | 5,804,536                                       | —            | —                 | 5,804,536                     |
| Resident deposits for future funeral,<br>occupancy, and care costs   | —   | 1,470,497                                 | 140,626  | —   | —            | —                 | 1,611,123                     |
| Contributions receivable,<br>net of allowance for doubtful<br>contributions of \$16,000                    | —   | —   | —  | 53,276  | —            | —                 | 53,276                        |
| Held by trustee under bond<br>indenture agreement  | —   | 109,053                                   | —  | —   | —            | —                 | 109,053                       |
| Donor restricted investments   | —   | —   | —  | 4,506,427                                       | —            | —                 | 4,506,427                     |
| <b>Total noncurrent assets<br/>whose use is limited<br/>or restricted</b>                                  | <b>—</b>  | <b>1,579,550</b>                          | <b>140,626</b>   | <b>10,364,239</b>                               | <b>—</b>     | <b>—</b>          | <b>12,084,415</b>             |
| Land, buildings, and equipment, net of<br>accumulated depreciation   | —   | 36,685,155                                | 1,247,524  | —   | —            | —                 | 37,932,679                    |
| Long-term investments  | —   | 3,116,562                                 | —  | 10,699,820                                      | —            | —                 | 13,816,382                    |
| Custodial assets   | —   | 90,520                                    | —  | —   | —            | —                 | 90,520                        |
| Agency funds   | —   | 72,696                                    | —  | —   | —            | —                 | 72,696                        |
| Deferred financing costs, net  | —   | 564,411                                   | —  | —   | —            | —                 | 564,411                       |
| <b>Total assets</b>  | <b>\$ 16,953,954</b>                                      | <b>48,773,344</b>                         | <b>6,032,129</b>   | <b>21,193,335</b>                               | <b>—</b>     | <b>16,909,480</b> | <b>76,043,282</b>             |

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |                  | Non-<br>Obligated<br>Group<br>Members | Eliminations |                  | Consolidated      |
|---|---|--------------|------------------|---------------------------------------|--------------|------------------|-------------------|
|   |   | Debit        | Credit           |                                       | Debit        | Credit           |                   |
| 996,118                                 | 1,662   | —            | —                | 997,780                               | —            | —                | 4,216,912         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 507,098           |
| 1,332,749                               | 3,898   | —            | —                | 1,336,647                             | —            | —                | 3,061,599         |
| —                                       | 12,366  | —            | —                | 12,366                                | —            | 5,169,078        | 176,526           |
| 103,539                                 | 1,562   | —            | —                | 105,101                               | —            | —                | 802,860           |
| —                                       | 4,217,023   | —            | 4,217,023        | —                                     | —            | —                | —                 |
| <u>2,432,406</u>                        | <u>4,236,511</u>  | <u>—</u>     | <u>4,217,023</u> | <u>2,451,894</u>                      | <u>—</u>     | <u>5,169,078</u> | <u>8,764,995</u>  |
| —                                       | —   | —            | —                | —                                     | —            | —                | 5,804,536         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 1,611,123         |
| —                                       | —   | —            | —                | —                                     | —            | —                | 53,276            |
| 60,740                                  | 30,370  | —            | —                | 91,110                                | —            | —                | 200,163           |
| —                                       | —   | —            | —                | —                                     | —            | —                | 4,506,427         |
| <u>60,740</u>                           | <u>30,370</u>   | <u>—</u>     | <u>—</u>         | <u>91,110</u>                         | <u>—</u>     | <u>—</u>         | <u>12,175,525</u> |
| 2,396,121                               | 6,340,181   | —            | —                | 8,736,302                             | —            | —                | 46,668,981        |
| —                                       | —   | —            | —                | —                                     | —            | —                | 13,816,382        |
| 23,722                                  | —   | —            | —                | 23,722                                | —            | —                | 114,242           |
| —                                       | —   | —            | —                | —                                     | —            | —                | 72,696            |
| 30,541                                  | 26,202  | —            | —                | 56,743                                | —            | —                | 621,154           |
| <u>4,943,530</u>                        | <u>10,633,264</u>   | <u>—</u>     | <u>4,217,023</u> | <u>11,359,771</u>                     | <u>—</u>     | <u>5,169,078</u> | <u>82,233,975</u> |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Balance Sheet Information

June 30, 2005

| Liabilities and Net Assets   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations      |          | Obligated<br>Group<br>Members |
|--|---|---|--|---|-------------------|----------|-------------------------------|
|  |   |   |  |   | Debit             | Credit   |                               |
| <b>Current liabilities:</b>  |   |   |  |   |                   |          |                               |
| Current installments of long-term debt   | \$ —  | 440,000                                   | —  | —   | —                 | —        | 440,000                       |
| Line of credit payable   | —   | —   | —  | —   | —                 | —        | —                             |
| Current portion of obligations<br>under capital leases                             | —   | 177,694                                   | —  | —   | —                 | —        | 177,694                       |
| Accounts payable   | 188,102   | 1,048,664                                 | 366,571  | 13,310  | —                 | —        | 1,616,647                     |
| Accrued interest payable   | —   | 67,098                                    | —  | —   | —                 | —        | 67,098                        |
| Accrued compensation and<br>other liabilities                                      | 328,372   | 1,658,881                                 | 147,405  | 25,841  | —                 | —        | 2,160,499                     |
| Refundable deposits  | —   | 1,388,599                                 | 140,626  | —   | —                 | —        | 1,529,225                     |
| Estimated payables under third-party<br>reimbursement programs                     | —   | 314,346                                   | —  | —   | —                 | —        | 314,346                       |
| Due to affiliates  | —   | 11,415,159                                | 4,934,584  | 559,737   | 16,909,480        | —        | —                             |
| <b>Total current liabilities</b>   | <b>516,474</b>  | <b>16,510,441</b>                         | <b>5,589,186</b>   | <b>598,888</b>                                  | <b>16,909,480</b> | <b>—</b> | <b>6,305,509</b>              |
| Long-term debt, excluding current<br>installments and unamortized<br>bond discount | —   | 26,376,936                                | —  | —   | —                 | —        | 26,376,936                    |
| Obligations under capital leases, net<br>of current portion                        | —   | 406,829                                   | —  | —   | —                 | —        | 406,829                       |
| Residents' assets  | —   | 90,520                                    | —  | —   | —                 | —        | 90,520                        |
| Reserve for funeral expenses   | —   | 81,899                                    | —  | —   | —                 | —        | 81,899                        |
| Charitable gift annuity contracts  | —   | —   | —  | 407,709   | —                 | —        | 407,709                       |
| Other long term liabilities  | —   | 476,474                                   | —  | —   | —                 | —        | 476,474                       |
| Agency funds   | —   | 72,696                                    | —  | —   | —                 | —        | 72,696                        |
| <b>Total liabilities</b>   | <b>516,474</b>  | <b>44,015,795</b>                         | <b>5,589,186</b>   | <b>1,006,597</b>                                | <b>16,909,480</b> | <b>—</b> | <b>34,218,572</b>             |
| <b>Net assets (deficit):</b>   |   |   |  |   |                   |          |                               |
| Unrestricted   | 16,437,480  | 4,757,549                                 | 442,943  | 16,979,325                                      | —                 | —        | 38,617,297                    |
| Temporarily restricted   | —   | —   | —  | 220,522   | —                 | —        | 220,522                       |
| Permanently restricted   | —   | —   | —  | 2,986,891                                       | —                 | —        | 2,986,891                     |
| <b>Total net assets (deficit)</b>  | <b>16,437,480</b>   | <b>4,757,549</b>                          | <b>442,943</b>   | <b>20,186,738</b>                               | <b>—</b>          | <b>—</b> | <b>41,824,710</b>             |
| <b>Total liabilities and net assets</b>  | <b>\$ 16,953,954</b>                                      | <b>48,773,344</b>                         | <b>6,032,129</b>   | <b>21,193,335</b>                               | <b>16,909,480</b> | <b>—</b> | <b>76,043,282</b>             |

See accompanying independent auditors' report.

## Schedule 3, Cont.

| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|---------------------------------------|--------------|--------|--------------|
|   |   | Debit        | Credit |                                       | Debit        | Credit |              |
| 177,821                                 | 192,922   | —            | —      | 370,743                               | —            | —      | 810,743      |
| 2,041,466                               | —   | —            | —      | 2,041,466                             | —            | —      | 2,041,466    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 177,694      |
| 787,469                                 | 28,840  | —            | —      | 816,309                               | —            | —      | 2,432,956    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 67,098       |
| 622,867                                 | 28,380  | —            | —      | 651,247                               | —            | —      | 2,811,746    |
| 2,700                                   | 2,916,662   | —            | —      | 2,919,362                             | —            | —      | 4,448,587    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 314,346      |
| 8,942,652                               | 443,449   | 4,217,023    | —      | 5,169,078                             | 5,169,078    | —      | —            |
| 12,574,975                              | 3,610,253   | 4,217,023    | —      | 11,968,205                            | 5,169,078    | —      | 13,104,636   |
| 1,089,286                               | 1,374,574   | —            | —      | 2,463,860                             | —            | —      | 28,840,796   |
| —                                       | —   | —            | —      | —                                     | —            | —      | 406,829      |
| 23,722                                  | —   | —            | —      | 23,722                                | —            | —      | 114,242      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 81,899       |
| —                                       | —   | —            | —      | —                                     | —            | —      | 407,709      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 476,474      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 72,696       |
| 13,687,983                              | 4,984,827   | 4,217,023    | —      | 14,455,787                            | 5,169,078    | —      | 43,505,281   |
| (8,744,453)                             | 5,561,175   | —            | —      | (3,183,278)                           | —            | —      | 35,434,019   |
| —                                       | 87,262  | —            | —      | 87,262                                | —            | —      | 307,784      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 2,986,891    |
| (8,744,453)                             | 5,648,437   | —            | —      | (3,096,016)                           | —            | —      | 38,728,694   |
| 4,943,530                               | 10,633,264  | 4,217,023    | —      | 11,359,771                            | 5,169,078    | —      | 82,233,975   |

**LUTHERAN HOME AND SERVICES FOR THE  
AGED, INC. AND SUBSIDIARIES**

Consolidating Statement of Operations Information

Year ended June 30, 2005

|   | Lutheran<br>Home<br>and Services<br>for the<br>Aged, Inc. | Lutheran<br>Home<br>for the<br>Aged, Inc. | Lutheran<br>Community<br>Services<br>for the<br>Aged, Inc. | Lutheran<br>Foundation<br>for the<br>Aged, Inc. | Eliminations |          | Obligated<br>Group<br>Members |
|---|---|---|--|---|--------------|----------|-------------------------------|
|   |   |   |  |   | Debit        | Credit   |                               |
| <b>Operating revenue:</b>   |   |   |  |   |              |          |                               |
| Net resident service revenue  | \$ 3,679,449  | 29,552,177                                | —  | —   | —            | —        | 33,231,626                    |
| Other revenue   | —   | 711,728                                   | 2,964,448  | —   | —            | —        | 3,676,176                     |
| <b>Total operating revenue</b>  | <b>3,679,449</b>  | <b>30,263,905</b>                         | <b>2,964,448</b>   | <b>—</b>  | <b>—</b>     | <b>—</b> | <b>36,907,802</b>             |
| <b>Operating expenses:</b>  |   |   |  |   |              |          |                               |
| Salaries and wages  | 380,596   | 15,620,219                                | 1,766,167  | 382,240   | —            | —        | 18,149,222                    |
| Employee benefits   | 387,393   | 3,892,489                                 | 368,906  | 265,722   | —            | —        | 4,914,510                     |
| Support services  | —   | 5,314,591                                 | —  | —   | —            | —        | 5,314,591                     |
| Dietary services  | —   | 1,886,505                                 | —  | —   | —            | —        | 1,886,505                     |
| Program services  | 50,219  | 940,601                                   | —  | —   | —            | —        | 990,820                       |
| Administrative services   | 183,652   | 2,146,621                                 | 16,085   | 130,644   | —            | —        | 2,477,002                     |
| Community services  | —   | —   | 1,096,513  | —   | —            | —        | 1,096,513                     |
| Fund-raising  | —   | —   | —  | 161,584   | —            | —        | 161,584                       |
| Interest  | 9,812   | 1,052,950                                 | —  | —   | —            | —        | 1,062,762                     |
| Depreciation and amortization   | —   | 2,454,269                                 | —  | —   | —            | —        | 2,454,269                     |
| Provision for bad debts   | —   | 67,596                                    | 356  | —   | —            | —        | 67,952                        |
| <b>Total operating expenses</b>   | <b>1,011,672</b>  | <b>33,375,841</b>                         | <b>3,248,027</b>   | <b>940,190</b>                                  | <b>—</b>     | <b>—</b> | <b>38,575,730</b>             |
| <b>Income (loss) from operations</b>  | <b>2,667,777</b>  | <b>(3,111,936)</b>                        | <b>(283,579)</b>   | <b>(940,190)</b>                                | <b>—</b>     | <b>—</b> | <b>(1,667,928)</b>            |
| <b>Nonoperating gains and losses:</b>   |   |   |  |   |              |          |                               |
| Investment income   | —   | 71,446                                    | —  | 682,826   | —            | —        | 754,272                       |
| Unrestricted contributions  | —   | —   | 850  | 150,528   | —            | —        | 151,378                       |
| Bequests and legacies   | —   | —   | —  | 989,494   | —            | —        | 989,494                       |
| Other, net  | —   | 1,247,196                                 | (86,223)   | 153,517   | —            | —        | 1,314,490                     |
| <b>Total nonoperating gains<br/>(losses), net</b>   | <b>—</b>  | <b>1,318,642</b>                          | <b>(85,373)</b>  | <b>1,976,365</b>                                | <b>—</b>     | <b>—</b> | <b>3,209,634</b>              |
| <b>Excess (deficiency) of<br/>revenue and gains over<br/>expenses and losses</b>          | <b>2,667,777</b>  | <b>(1,793,294)</b>                        | <b>(368,952)</b>   | <b>1,036,175</b>                                | <b>—</b>     | <b>—</b> | <b>1,541,706</b>              |
| <b>Other changes in unrestricted net assets:</b>  |   |   |  |   |              |          |                               |
| Change in fair value of derivative<br>instruments   | —   | (410,919)                                 | —  | —   | —            | —        | (410,919)                     |
| Transfers between affiliates  | —   | —   | 892,117  | (892,117)                                       | —            | —        | —                             |
| Change in net unrealized gains and losses<br>on other than trading securities             | —   | 154,182                                   | —  | 354,821   | —            | —        | 509,003                       |
| Net assets released from restriction<br>for land, building, and<br>equipment acquisitions | —   | 673,854                                   | —  | —   | —            | —        | 673,854                       |
| <b>Increase (decrease) in<br/>unrestricted net assets</b>                                 | <b>\$ 2,667,777</b>                                       | <b>(1,376,177)</b>                        | <b>523,165</b>   | <b>498,879</b>                                  | <b>—</b>     | <b>—</b> | <b>2,313,644</b>              |

See accompanying independent auditors' report.



| Wittenberg<br>Lutheran<br>Village, Inc. | Wittenberg<br>Lutheran<br>Village<br>Endowment<br>Corporation | Eliminations |        | Non-<br>Obligated<br>Group<br>Members | Eliminations |        | Consolidated |
|---|---|--------------|--------|---------------------------------------|--------------|--------|--------------|
|   |   | Debit        | Credit |                                       | Debit        | Credit |              |
| 9,132,574                               | —   | —            | —      | 9,132,574                             | —            | —      | 42,364,200   |
| 23,928                                  | 1,343,611   | —            | —      | 1,367,539                             | —            | —      | 5,043,715    |
| 9,156,502                               | 1,343,611   | —            | —      | 10,500,113                            | —            | —      | 47,407,915   |
| 5,471,759                               | 254,478   | —            | —      | 5,726,237                             | —            | —      | 23,875,459   |
| 1,068,778                               | 18,933  | —            | —      | 1,087,711                             | —            | —      | 6,002,221    |
| 2,297,991                               | 182,246   | —            | —      | 2,480,237                             | —            | —      | 7,794,828    |
| 632,888                                 | 2,337   | —            | —      | 635,225                               | —            | —      | 2,521,730    |
| 126,528                                 | 363   | —            | —      | 126,891                               | —            | —      | 1,117,711    |
| 407,887                                 | 141,995   | —            | —      | 549,882                               | —            | —      | 3,026,884    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 1,096,513    |
| —                                       | —   | —            | —      | —                                     | —            | —      | 161,584      |
| 192,970                                 | 61,329  | —            | —      | 254,299                               | —            | —      | 1,317,061    |
| 298,809                                 | 267,931   | —            | —      | 566,740                               | —            | —      | 3,021,009    |
| 148,097                                 | —   | —            | —      | 148,097                               | —            | —      | 216,049      |
| 10,645,707                              | 929,612   | —            | —      | 11,575,319                            | —            | —      | 50,151,049   |
| (1,489,205)                             | 413,999   | —            | —      | (1,075,206)                           | —            | —      | (2,743,134)  |
| —                                       | 115   | —            | —      | 115                                   | —            | —      | 754,387      |
| —                                       | 74,434  | —            | —      | 74,434                                | —            | —      | 225,812      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 989,494      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 1,314,490    |
| —                                       | 74,549  | —            | —      | 74,549                                | —            | —      | 3,284,183    |
| (1,489,205)                             | 488,548   | —            | —      | (1,000,657)                           | —            | —      | 541,049      |
| —                                       | —   | —            | —      | —                                     | —            | —      | (410,919)    |
| —                                       | —   | —            | —      | —                                     | —            | —      | —            |
| —                                       | —   | —            | —      | —                                     | —            | —      | 509,003      |
| —                                       | —   | —            | —      | —                                     | —            | —      | 673,854      |
| (1,489,205)                             | 488,548   | —            | —      | (1,000,657)                           | —            | —      | 1,312,987    |

**Illinois Department of Public Health**

Vendor Code: 007603

| Invoice No.   | Description                          | Date       | Amount     | Discount | Withheld | Net Amount |      |          |
|---|--------------------------------------|------------|------------|----------|----------|------------|------|----------|
| 09 15 08  | Permit Application Fee/Pleasant View | 09/15/2008 | 2,500.00   | 0.00     | 0.00     | 2,500.00   |      |          |
| <p><b>RECEIVED</b></p> <p>OCT 10 2008</p> <p>HEALTH FACILITIES<br/>PLANNING BOARD</p> |                                      |            |            |          |          |            |      |          |
| Check Date:   | 09/17/2008                           | Check #:   | 0000055405 | Totals:  | 2,500.00 | 0.00       | 0.00 | 2,500.00 |

PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView - PleasantView



**Pleasant View**  
A Lutheran Life Community

505 College Avenue, Ottawa, IL 61350

Fifth Third Bank  
Chicago, IL

70-2390  
719



September 17, 2008

Pay to the order of

\*\*\*Two thousand five hundred and 00/100 dollars . . . . .

\$\*\*\*\*\*2,500.00

Illinois Department of Public Health

08-081

⑈0000055405⑈ ⑆071923909⑆ 7234249915⑈

Security features included. Details on back.