

Harwood Place, Inc.

Financial Statements and Supplementary
Information

Years Ended December 31, 2021 and 2020

A large, abstract, 3D geometric graphic in shades of gray, resembling a stylized arrow or a modern architectural structure, pointing towards the top right. It is located on the left side of the page.

WIPFLI

Independent Auditor's Report

Board of Directors
Harwood Place, Inc.
Wauwatosa, WI

Opinion

We have audited the accompanying financial statements of Harwood Place, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in net deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Harwood Place, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harwood Place, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harwood Place, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued..

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Harwood Place, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harwood Place, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

April 28, 2022

Harwood Place, Inc.

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 585,675	\$ 80,530
Resident receivables - Net	44,649	59,252
Due from Lutheran Home Foundation, Inc.	2,886	-
Prepaid expenses and other	12,585	11,445
Total current assets	645,795	151,227
Investments	5,413,807	4,946,001
Property and equipment - Net	11,807,790	12,395,022
Other assets:		
Interest in net assets of Lutheran Home Foundation, Inc.	300	400
Unemployment compensation deposit	51,964	48,751
Total other assets	52,264	49,151
TOTAL ASSETS	\$ 17,919,656	\$ 17,541,401

Harwood Place, Inc.
Balance Sheets (Continued)
December 31, 2021 and 2020

	2021	2020
Liabilities and Net Deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 738,037	\$ 647,821
Accounts payable	72,182	87,679
Reservation deposits	83,250	81,250
Due to The Lutheran Home, Inc.	387,212	400,812
Due to Lutheran Home Foundation, Inc.	-	2,124
Resident trust funds	422	598
Accrued expenses:		
Payroll and compensated absences	219,335	224,097
Other accrued liabilities	183,299	164,489
Unearned revenue	51,403	23,870
Total current liabilities	1,735,140	1,632,740
Long-term liabilities:		
Long-term debt, less current maturities - less deferred financing costs	9,474,526	10,335,767
Refundable entrance fees	20,217,200	20,024,150
Contract liability - Deferred revenue on resident entrance fees	1,424,673	1,348,617
Total long-term liabilities	31,116,399	31,708,534
Total liabilities	32,851,539	33,341,274
Net assets (deficit):		
Without donor restrictions	(14,932,183)	(15,800,273)
With donor restrictions	300	400
Total net deficit	(14,931,883)	(15,799,873)
TOTAL LIABILITIES AND NET DEFICIT	\$ 17,919,656	\$ 17,541,401

See accompanying notes to financial statements.

Harwood Place, Inc.

Statements of Operations

Years Ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Net resident service revenue	\$ 7,138,234	\$ 7,083,315
Amortization of nonrefundable entrance fees	454,444	376,432
Other operating income	797,443	693,505
Net investment income	490,067	747,872
Contributions	3,409	9,688
Total revenue	8,883,597	8,910,812
Operating expenses:		
Salaries and wages	2,846,811	2,885,965
Employee benefits	572,153	578,746
Purchased services	502,752	357,315
Supplies and other	1,487,439	1,428,972
Management service fees	553,045	589,236
Interest	391,818	470,746
Depreciation	1,661,489	1,537,839
Total operating expenses	8,015,507	7,848,819
Operating income	868,090	1,061,993
Nonoperating expense - Grant to Lutheran Home Foundation, Inc.	-	1,972,969
Excess (deficiency) of revenue over expenses - Change in net deficit without donor restrictions	\$ 868,090	\$ (910,976)

See accompanying notes to financial statements.

Harwood Place, Inc.

Statements of Changes in Net Deficit

Years Ended December 31, 2021 and 2020

	2021	2020
Net deficit without donor restrictions		
Excess (deficiency) of revenue over expenses - Change in net deficit without donor restrictions	\$ 868,090	\$ (910,976)
Change in net deficit without donor restrictions	868,090	(910,976)
Net assets with donor restrictions - Change in interest in net assets of Lutheran Home Foundation, Inc.	(100)	(1,261)
Change in net deficit	867,990	(912,237)
Net deficit at beginning	(15,799,873)	(14,887,636)
Net deficit at end	\$ (14,931,883)	\$ (15,799,873)

See accompanying notes to financial statements.

Harwood Place, Inc.

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net deficit	\$ 867,990	\$ (912,237)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	1,661,489	1,537,839
Amortization of deferred financing costs	8,482	10,268
Change in interest in net assets of Lutheran Home Foundation, Inc.	100	1,261
Net realized and unrealized (gains) losses on investments	(350,672)	(619,586)
Amortization of nonrefundable entrance fees	(454,444)	(376,432)
Changes in operating assets and liabilities:		
Resident receivables	14,603	(688)
Due from/to The Lutheran Home, Inc.	(16,486)	716,108
Prepaid expenses and other assets	(1,140)	6,264
Accounts payable	(29,359)	(119,827)
Reservation deposits	2,000	32,250
Due from/to Lutheran Home Foundation, Inc.	(2,124)	(2,733)
Resident trust funds	(176)	(832)
Accrued expenses	14,048	49,941
Unearned revenue	27,533	(23,951)
Net cash provided by operating activities	1,741,844	297,645
Cash flows from investing activities:		
Purchase of property and equipment	(1,060,395)	(1,738,805)
Change in unemployment compensation deposit	(3,213)	(721)
Proceeds from sale of assets limited as to use and investments	-	1,959,045
Purchases of assets limited as to use and investments	(117,134)	-
Net cash provided by (used in) investing activities	(1,180,742)	219,519

Harwood Place, Inc.
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from financing activities:		
Principal payments on long-term debt	\$ (727,836)	\$ (649,814)
Payments of deferred financing costs	(51,671)	-
Proceeds from entrance fees	3,310,000	1,926,060
Refunds of entrance fees	(2,586,450)	(1,831,551)
Net cash used in financing activities	(55,957)	(555,305)
Net increase (decrease) in cash and cash equivalents	505,145	(38,120)
Cash and cash equivalents at beginning	80,530	118,650
Cash and cash equivalents at end	\$ 585,675	\$ 80,530
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ 383,336	\$ 460,477
Noncash Investment and financing activities:		
Property and equipment purchases in accounts payable	\$ 13,862	\$ 17,093

See accompanying notes to financial statements.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Business

Harwood Place, Inc. ("Harwood"), located in Wauwatosa, Wisconsin, is a senior housing complex consisting of 170 independent living apartments and 32 assisted living units.

Lutheran Living Services, Inc. is the sole corporate member of Harwood and The Lutheran Home, Inc., a skilled nursing facility and memory care assisted living facility in Wauwatosa, Wisconsin.

Financial Statement Presentation

Harwood follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that directly 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 may differ from these estimates.

Cash Equivalents

Harwood considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts held as short-term investments in Harwood's investment portfolio and amounts whose use is limited or restricted.

Resident Receivables and Credit Policy

Resident receivables are reported at the amount that reflects the consideration to which Harwood expects to be entitled, in exchange for providing resident care services. Resident receivables are recorded net of an allowance for doubtful accounts. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments and discounts and is recorded through a reduction of gross revenue and a credit to resident receivables. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of change. Management estimates probable uncollectible amounts for residents through a charge to operations and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Based on information available to Harwood, management believes the allowance for doubtful accounts of \$5,000 at both December 31, 2021 and 2020, to be adequate.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments and Net Investment Income

Investments are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess (deficiency) of revenue over expenses unless the income is restricted by donor or law. Realized gains and losses are determined by specific identification.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 3 to 20 years for furniture, equipment, and vehicles, from 8 to 25 years for land improvements, and from 5 to 40 years for buildings and improvements.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Harwood reviews its property and equipment periodically to determine potential impairment by comparing the carrying value of the property and equipment with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, Harwood would recognize an impairment loss at that time. No impairment loss was recognized in 2021 or 2020.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Interest in Net Assets of Lutheran Home Foundation, Inc.

GAAP establishes standards for transactions in which an entity makes contributions to another entity or an entity accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. Lutheran Home Foundation, Inc. (the "Foundation"), a nonprofit corporation organized to raise funds to support the operation of LutheranLiving Services, Inc. and its affiliates, and Harwood are financially interrelated organizations, and accordingly Harwood recognizes its interest in the net assets of the Foundation in the accompanying balance sheets and adjusts that interest for its share of the change in net assets of the Foundation.

Unemployment Compensation Deposit

Harwood has elected the reimbursement method to finance the cost of unemployment compensation benefits. Certificates of deposit have been placed in escrow, as required by the state of Wisconsin, to guarantee payment of benefits. The certificates of deposit were \$51,964 and \$48,751 at December 31, 2021 and 2020, respectively. Unemployment compensation expense is charged to operations at the time a claim is established.

Deferred Financing Costs

Deferred financing costs, which are netted against long-term debt in the accompanying balance sheets, relate to amounts incurred in connection with the issuance of long-term debt. These costs are being amortized to interest expense using the effective-interest method over the terms of the related financing.

Entrance Fees

Upon admission to an independent living apartment, residents pay a one-time entrance fee that varies by type of unit. Up to 100% of such fee is refundable to the resident or to their estate upon vacancy and the admission of the next resident to the unit, limited to the re-occupancy proceeds. Entrance fees were generally 100% refundable for admissions prior to May 2009. For admissions thereafter, entrance fees are 90% to 85% refundable, with 10% to 15% being nonrefundable, respectively. The resident is also required to pay a monthly service fee that varies by type of unit.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Assets (Deficit)

Net assets (deficit) of Harwood and changes therein are classified and reported as follows:

Net assets (deficit) without donor restrictions - Net assets (deficit) available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met by either actions of Harwood and/or the passage of time. At December 31, 2021, net assets with donor restrictions consists entirely of amounts held by the Foundation.

Net Resident Service Revenue

Harwood operates a senior housing complex consisting of independent living apartments and assisted living units. For residents entering the independent living facilities, the terms of the agreement between Harwood and the residents contain two forms of payment: an entrance fee and monthly fees. The entrance fee, which may vary in amount depending on the accommodations selected in the agreement, is paid at the time the contract is signed. Based on the agreement, the entrance fee or a portion of the entrance fee may be nonrefundable. The refundable portion of the resident agreement is not part of the transaction price and is recorded as a liability in the accompanying balance sheets. The nonrefundable entrance fee entitles the resident to the use of the independent living facilities until the resident permanently moves to an assisted living or skilled nursing unit or until the contract is terminated.

Harwood recognizes the nonrefundable entrance fee using a time-based measurement (i.e., resident's life expectancy as an approximation for the period the resident resides in the independent living unit). This results in equal amounts allocated to each month because the nature of Harwood's performance is to provide access to the independent living facility. Recognizing the material right performance obligation over the resident's life expectancy, using the most currently available life tables, provides a faithful depiction of the transfer of services over the term of the performance obligation. At the end of the reporting periods, management's estimate of the unsatisfied performance obligation of the nonrefundable entrance fee is reported as a contract liability in the accompanying balance sheets. Subsequent changes to management's estimate of the transaction price, including changes in the resident's life expectancy, are recognized as adjustments to resident revenue in the period in which the change occurs.

The monthly fees are specified in the resident agreement and are generally fixed, with periodic changes based on increases in inflation, operating costs, or other factors as defined in the resident agreement. The monthly fees are billed at the beginning of the month and entitle the residents to the use of the independent and assisted living facilities. Harwood recognizes the monthly fee over the month the services are provided as the resident simultaneously receives and consumes the benefits of occupying the unit. In this case, the recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. Harwood believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation. Each month the resident occupies the unit is a separate contract and performance obligation based on the fact that the resident has a unilateral right to terminate the contract after each month with no penalty or compensation due.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Resident Service Revenue (Continued)

Since the contract can be terminated by either party at any time without compensating the other party for the termination (that is, other than paying amounts due as a result of the services transferred up to the termination date), the duration of the contract does not extend beyond the services already transferred. Harwood determined there is not a material right performance obligation for the daily option to renew the contract because the price of the renewal is a price consistent with the daily rate charged to other residents. Because Harwood's performance obligations relate to contracts with a duration of less than one year, Harwood has elected to apply the optional exemption and therefore is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Monthly fees collected in advance of the service date are recorded as unearned revenue in the accompanying balance sheets.

Nursing services include nursing and activities of daily living services provided in the independent living and assisted living facilities. These amounts are due from residents. Harwood bills the resident after the end of the month when the services were performed or when the resident is discharged from the facility if prior to month-end.

Grant Revenue

Harwood receives certain governmental grants for a variety of purposes. Revenue from grants is considered earned when Harwood incurs the related expenditures or otherwise meets the terms and conditions of the grant. Grant income is included with other operating income in the accompanying statements of operations. Grants earned but not received are recorded as other receivables, and any amounts received but not yet earned are recorded as unearned revenue in the accompanying balance sheets.

During 2021 and 2020, Harwood agreed to the terms and conditions to participate in a portion of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) program issued through the U.S. Department of Health and Human Services ("HHS"). Based on the terms and conditions of the grant, Harwood earns the grant by incurring COVID-related expenses or by incurring lost revenues related to this program. In 2021 and 2020, Harwood received approximately \$101,000 and \$42,000 of HHS grants. As of December 31, 2021 and 2020, Harwood has incurred COVID-related expenses and lost revenue exceeding the grants; therefore, this full amount has been recorded as grant revenue in 2021 and 2020, and is included in other operating income in the accompanying statements of operations.

During 2020, Harwood also received other grants, including approximately \$46,400 of state grant funds as part of the CARES Act. This amount has been recorded as grant revenue in 2020 and is included in other operating income in the accompanying statements of operations. No such grants were received during the year ended December 31, 2021.

Advertising Costs

Advertising costs are expensed as incurred.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits which are allocated on the basis of estimates of time and effort, and purchased services and supplies and other, which are allocated on the basis of use by functional category.

Contributions

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identification of a barrier that is more than trivial and that must be overcome before the revenue can be earned or recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised if the condition is not met

Conditional contributions are recognized at fair value when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized at fair value the date the gift is received.

Unconditional or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions depending on the existence and nature of any donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or barrier to entitlement is overcome, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized.

Tax Status

Harwood is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Harwood is also exempt from state income taxes on related income.

Operating Income

The statements of operations include an intermediate measure of operations, operating income (loss), which represents the activity of the ongoing operations of Harwood. Other income and expense, excluded from operating income, consists of gains or losses on disposal of property and equipment and any other transactions management views as outside Harwood's primary resident-related services.

Harwood Place, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Excess (Deficiency) of Revenue Over Expenses

The accompanying statements of operations and changes in net deficit include excess (deficiency) of revenue over expenses, which is considered the operating indicator. Changes in net deficit without donor restrictions, which are excluded from the operating indicator may include net assets released from restrictions for purchases of property and equipment.

New Accounting Pronouncements

In 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The objective of this ASU is to assist organizations in recognizing the right to the use of an asset and its related liability or obligation when a contract that includes the right to control or direct the use of an identifiable asset is in place. This ASU also includes provisions whereby the majority of leases that have lease terms greater than one year are to be recorded as capital leases on the balance sheet, whereas in the past these leases might have been recorded as either capital leases or operating leases. This ASU is effective for Harwood in 2022. Harwood is currently evaluating the impact this ASU will have on its financial statements and disclosures.

Subsequent Events

Subsequent events have been evaluated through April 28, 2022, which is the date the financial statements were available to be issued.

Note 2: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within 12 months of the balance sheet date, comprised the following as of December 31:

	2021	2020
Cash and cash equivalents	\$ 585,675	\$ 80,530
Resident receivables - Net	44,649	59,252
Due from Lutheran Home Foundation, Inc.	2,886	-
Totals	\$ 633,210	\$ 139,782

As part of Harwood's liquidity management, cash in excess of daily requirements is invested in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs. Harwood does not have a formal liquidity policy but generally maintains financial assets in liquid form, such as cash and cash equivalents, for approximately two to three months of operating expenses.

Harwood Place, Inc.

Notes to Financial Statements

Note 3: Investments and Net Investment Income

Investments consisted of the following at December 31:

	2021	2020
Cash equivalents	\$ 50,740	\$ 112,750
U.S. government and agency securities	387,734	397,453
Corporate obligations	770,322	785,474
Preferred stocks	379,769	390,757
Common stocks	2,155,436	2,041,656
Equity mutual funds	942,437	658,319
Fixed-income mutual funds	727,369	559,592
Totals	\$ 5,413,807	\$ 4,946,001

The total return on investments consisted of the following for the years ended December 31:

	2021	2020
Interest and dividend income - net of fees	\$ 139,395	\$ 128,286
Net realized losses on sales of investments	(11,106)	(129,902)
Change in unrealized gains on investments	361,778	749,488
Total net investment income	\$ 490,067	\$ 747,872

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Harwood Place, Inc.

Notes to Financial Statements

Note 4: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash equivalents consist of money market funds, which are valued using \$1 as the net asset value (NAV). Mutual funds are valued at the daily closing price as reported by the fund. These funds are registered with the U.S. Securities and Exchange Commission and are required to publish their daily NAV and to transact at that price. These funds are deemed to be actively traded. Common stocks are valued at quoted market prices from the active market where the securities are traded. U.S. government and agency securities, corporate obligations, and preferred stocks are valued using pricing models maximizing the use of observable inputs for similar securities. These include basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Harwood believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, Harwood's assets at fair value as of December 31:

	2021			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ -	\$ 50,740	\$ -	\$ 50,740
U.S. government and agency securities	-	387,734	-	387,734
Corporate obligations	-	770,322	-	770,322
Preferred stocks	-	379,769	-	379,769
Common stocks	2,155,436	-	-	2,155,436
Equity mutual funds	942,437	-	-	942,437
Fixed-income mutual funds	727,369	-	-	727,369
Totals	\$ 3,825,242	\$ 1,588,565	\$ -	\$ 5,413,807

Harwood Place, Inc.

Notes to Financial Statements

Note 4: Fair Value Measurements (Continued)

	2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 112,750	\$ -	\$ 112,750
U.S. government and agency securities	-	397,453	-	397,453
Corporate obligations	-	785,474	-	785,474
Preferred stocks	-	390,757	-	390,757
Common stocks	2,041,656	-	-	2,041,656
Equity mutual funds	658,319	-	-	658,319
Fixed-income mutual funds	559,592	-	-	559,592
Totals	\$ 3,259,567	\$ 1,686,434	\$ -	\$ 4,946,001

Note 5: Property and Equipment

Property and equipment consisted of the following at December 31:

	2021	2020
Land	\$ 1,153,911	\$ 1,153,911
Land improvements	1,041,790	1,041,790
Building and improvements	36,002,007	35,128,614
Furniture and equipment	4,721,665	4,612,340
Vehicles	322,762	277,510
Construction in progress	9,152	1,500
Total property and equipment	43,251,287	42,215,665
Less - Accumulated depreciation	31,443,497	29,820,643
Property and equipment - Net	\$ 11,807,790	\$ 12,395,022

Note 6: Transactions With Affiliate and Lutheran Home Foundation, Inc.

The Lutheran Home, Inc. charged Harwood \$553,045 and \$589,236, primarily for administrative services, for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, Harwood owed The Lutheran Home \$387,212 and \$400,812, respectively, for invoices The Lutheran Home, Inc. paid on behalf of Harwood. At December 31, 2021, Harwood had amounts due from the Foundation of \$2,886, and owed the Foundation \$2,124 at December 31, 2020.

Harwood Place, Inc.

Notes to Financial Statements

Note 6: Transactions With Affiliate and Lutheran Home Foundation, Inc. (Continued)

The Foundation donated \$400 and \$3,227 to Harwood for the years ended December 31, 2021 and 2020, respectively, included in contributions. In 2020, Harwood donated \$1,972,969 to the Foundation, included in nonoperating expenses.

Harwood had various business transactions with members of the Board of Directors or organizations that employ a Board member. These transactions include other professional services. Harwood has a conflict-of-interest policy in place as part of its governance process.

Note 7: Long-Term Debt

At December 31, long-term debt consisted of the following:

	2021	2020
Public Finance Authority Revenue Refunding Bonds, Series 2018, principal due monthly beginning December 2018 with interest at 3.12% due September 2033	\$ 10,398,060	\$ 11,125,896
Subtotals	10,398,060	11,125,896
Less:		
Current maturities of long-term debt	738,037	647,821
Deferred financing costs	185,497	142,308
Long-term debt, less current maturities	\$ 9,474,526	\$ 10,335,767

Maturities of long-term debt for the next five years and thereafter are as follows:

2022	\$	738,037
2023		761,725
2024		785,392
2025		811,381
2026		837,423
Thereafter		6,464,102
Total	\$	10,398,060

In October 2018, Harwood entered into a loan agreement with the Public Finance Authority (the "Authority") for the issuance of \$12,500,000 of revenue bonds. Proceeds of the bonds were used for retirement of the Series 2002 and Series 2012 revenue bonds. Bank First, N.A. purchased the 2018 revenue bonds. During 2021, the interest rate on the bonds were reset for a new interest rate of 3.12%. The bonds are collateralized by substantially all of the revenue and assets of Harwood.

Harwood Place, Inc.

Notes to Financial Statements

Note 7: Long-Term Debt (Continued)

The loans and related agreements with the Authority provide, among other things, that Harwood is obligated for the debt service on all obligations issued thereunder, that Harwood maintain certain financial ratios, and place restrictions on various activities as of December 31, 2021.

Note 8: Retirement Plan

Harwood participates in the LutheranLiving Services, Inc. Tax Deferred Annuity Plan. Employees are eligible for participation in the plan through employee elective deferral contributions immediately upon employment. In addition, employees who meet certain criteria are eligible for employer matching contributions equal to 100% of the employee's contribution, up to 3% of the employee's eligible compensation. Criteria for employer matching contributions include employees reaching age 21 or older, completing one year of employment, and working at least 900 hours annually. Participants are fully vested after three years. Retirement plan expense recorded by Harwood was approximately \$28,500 in 2021 and \$27,900 in 2020.

Note 9: Concentration of Credit Risk

Financial instruments that potentially subject Harwood to credit risk consist principally of cash deposits in excess of insured limits in financial institutions.

Harwood maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Harwood maintains cash in accounts at these institutions, and these accounts are insured by the FDIC up to \$250,000. At December 31, 2021, Harwood's deposits exceed the insured limits by approximately \$533,000.

Note 10: Property Taxes

Harwood and the City of Wauwatosa (the "City") have been in a dispute as to whether the independent living facilities at Harwood are exempt from property taxation. Under an agreement with the City, the parties agreed to remove Harwood's independent living facilities from the City's tax rolls for the 2007 and 2008 tax years.

The City intended to file an action in an appropriate court in the state of Wisconsin, asking the court to determine whether the independent living facilities qualify for exemption from property taxation. Harwood agreed to cooperate in developing a stipulation of facts and seeking a final resolution of the issue in such an action. Because no court action was taken, Harwood remained exempt from property taxes in 2009. Subsequently, under Wisconsin Act 2, the biennial budget, independent living facilities with values below a certain value threshold have been granted property tax exemptions effective for the January 1, 2010, assessment year. Management believes the independent living facilities at Harwood are below this threshold and, as a result, will be exempt from property taxation. Should Harwood be subject to property taxes, it is management's intent to recoup this cost through an increase in monthly service fees charged to the residents. Harwood is currently subject to a payment in lieu of taxes (PILOT) in an amount approximating the cost of services provided by the City. PILOT expense of \$142,235 and \$122,293 for the years ended December 31, 2021 and 2020, respectively, is included in supplies and other expenses in the accompanying statements of operations.

Harwood Place, Inc.

Notes to Financial Statements

Note 11: Professional Liability Insurance

LutheranLiving Services, Inc. has professional liability insurance for Harwood and The Lutheran Home, Inc. for claims incurred during a policy year regardless of when claims are reported (occurrence coverage). The policy limits are \$1,000,000 per occurrence and \$3,000,000 per year in the aggregate. In addition, LutheranLiving Services, Inc. maintains umbrella coverage for claims in excess of professional liability limits up to \$7,000,000 per occurrence and \$7,000,000 aggregate per year. Harwood is involved in legal and administrative proceedings and claims that arise in the ordinary course of business, which are believed to be covered by the professional liability policy. Management defends these claims vigorously, and while any litigation or claim contains an element of uncertainty, management presently believes that the ultimate resolution of these claims will not have a material adverse effect on Harwood. The professional liability and umbrella insurance policies are renewable annually and have been renewed by the insurance carrier for Harwood for the annual period extending through December 1, 2022.

Note 12: Net Resident Service Revenue

The composition of net resident service revenue, based on Harwood's lines of business, for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Assisted living	\$ 2,217,121	\$ 2,097,258
Independent living	4,921,113	4,986,057
Net resident service revenue	\$ 7,138,234	\$ 7,083,315

Note 13: Functional Expenses

Operating expenses, presented by nature and function, for the years ended December 31, are as follows:

	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 2,284,200	\$ 562,611	\$ -	\$ 2,846,811
Employee benefits	459,079	113,074	-	572,153
Purchased services	462,431	40,321	-	502,752
Supplies and other	993,743	493,696	-	1,487,439
Management service fees	-	553,045	-	553,045
Interest	391,818	-	-	391,818
Depreciation	1,578,415	83,074	-	1,661,489
Totals	\$ 6,169,686	\$ 1,845,821	\$ -	\$ 8,015,507

Harwood Place, Inc.

Notes to Financial Statements

Note 13: Functional Expenses (Continued)

2020	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 2,242,759	\$ 643,206	\$ -	\$ 2,885,965
Employee benefits	449,759	128,987	-	578,746
Purchased services	324,122	33,193	-	357,315
Supplies and other	960,845	468,127	-	1,428,972
Management service fees	-	589,236	-	589,236
Interest	470,746	-	-	470,746
Depreciation	1,460,947	76,892	-	1,537,839
Totals	\$ 5,909,178	\$ 1,939,641	\$ -	\$ 7,848,819

Independent Auditor's Report on Supplementary Information

Board of Directors
Harwood Place, Inc.
Wauwatosa, Wisconsin

We have audited the financial statements of Harwood Place, Inc. as of and for the years ended December 31, 2021 and 2020, and our report there on dated April 28, 2022, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary statements of operations by division, appearing on pages 24 and 25, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary statements of operations by division are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP
Milwaukee, Wisconsin

April 28, 2022

Harwood Place, Inc.

Statement of Operations by Division

Year Ended December 31, 2021

	Independent Living	Assisted Living	Totals
Revenue:			
Net resident service revenue	\$ 4,921,113	\$ 2,217,121	\$ 7,138,234
Amortization of nonrefundable entrance fees	454,444	-	454,444
Other operating income	671,114	126,329	797,443
Net investment income	490,067	-	490,067
Contributions	3,409	-	3,409
Total revenue	6,540,147	2,343,450	8,883,597
Operating expenses:			
Salaries and wages	2,068,956	777,855	2,846,811
Employee benefits	414,527	157,626	572,153
Purchased services	502,533	219	502,752
Supplies and other	303,703	1,183,736	1,487,439
Management service fees	553,045	-	553,045
Interest	391,818	-	391,818
Depreciation	1,661,489	-	1,661,489
Total operating expenses	5,896,071	2,119,436	8,015,507
Excess of revenue over expenses - Change in net deficit without donor restrictions	\$ 644,076	\$ 224,014	\$ 868,090

See Independent Auditor's Report on Supplementary Information.

Harwood Place, Inc.

Statement of Operations by Division

Year Ended December 31, 2020

	Independent Living	Assisted Living	Totals
Revenue:			
Net resident service revenue	\$ 4,986,057	\$ 2,097,258	\$ 7,083,315
Amortization of nonrefundable entrance fees	376,432	-	376,432
Other operating income	586,021	107,484	693,505
Net investment income	747,872	-	747,872
Contributions	9,688	-	9,688
Total revenue	6,706,070	2,204,742	8,910,812
Operating expenses:			
Salaries and wages	1,985,506	900,459	2,885,965
Employee benefits	410,538	168,208	578,746
Purchased services	356,725	590	357,315
Supplies and other	503,170	925,802	1,428,972
Management service fees	589,236	-	589,236
Interest	470,746	-	470,746
Depreciation	1,537,839	-	1,537,839
Total operating expenses	5,853,760	1,995,059	7,848,819
Operating income	852,310	209,683	1,061,993
Nonoperating expense - Grant to Lutheran Home Foundaiton, Inc.	1,972,969	-	1,972,969
Excess (deficiency) of revenue over expenses - Change in net deficit without donor restrictions	\$ (1,120,659)	\$ 209,683	\$ (910,976)

See Independent Auditor's Report on Supplementary Information.