

The Lutheran Home, Inc.

Financial Statements and Supplementary
Information

Years Ended December 31, 2021 and 2020



WIPFLI

Independent Auditor's Report

Board of Directors
The Lutheran Home, Inc.
Wauwatosa, WI

Opinion

We have audited the accompanying financial statements (the "financial statements") of The Lutheran Home, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in net assets, 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 The Lutheran Home, 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 The Lutheran Home, 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 The Lutheran Home, 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 The Lutheran Home, 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 The Lutheran Home, 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

The Lutheran Home, Inc.

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,327,139	\$ 4,587,323
Resident trust funds	23,764	18,772
Resident receivables - Net	2,825,055	1,728,179
Other accounts receivable	47,560	63,353
Due from Harwood Place, Inc.	387,212	400,812
Due from Lutheran Home Foundation, Inc.	327,075	-
Prepaid expenses and other	536,181	534,642
Total current assets	5,473,986	7,333,081
Investments	997,799	-
Property and equipment - Net	25,711,092	27,005,216
Other assets:		
Interest in net assets of Lutheran Home Foundation, Inc.	101,242	109,134
Unemployment compensation deposit	242,504	234,801
Total other assets	343,746	343,935
TOTAL ASSETS	\$ 32,526,623	\$ 34,682,232

The Lutheran Home, Inc.

Balance Sheets (Continued)

December 31, 2021 and 2020

	2021	2020
Liabilities and Net Assets		
Current liabilities:		
Current portion of Paycheck Protection Program loan payable	\$ -	\$ 2,647,622
Accounts payable	413,681	368,826
Reservation deposits	2,000	2,000
Resident trust funds	24,518	19,272
Refundable advance	294,860	843,500
Due to Lutheran Home Foundation, Inc.	-	177,224
Accrued expenses:		
Payroll and compensated absences	1,326,407	1,288,090
Other accrued liabilities	554,967	590,941
Unearned revenue	236,976	176,208
Total current liabilities	2,853,409	6,113,683
Long-term liabilities:		
Due to Lutheran Home Foundation, Inc.	1,500,000	1,500,000
Paycheck Protection Program loan payable, less current portion	-	812,378
Total liabilities	4,353,409	8,426,061
Net assets:		
Without donor restrictions	28,071,972	26,147,037
With donor restrictions	101,242	109,134
Total net assets	28,173,214	26,256,171
TOTAL LIABILITIES AND NET ASSETS	\$ 32,526,623	\$ 34,682,232

See accompanying notes to financial statements.

The Lutheran Home, Inc.

Statements of Operations

Years Ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Net resident service revenue	\$ 21,993,459	\$ 20,113,601
Other operating income	2,364,295	4,794,287
Rental revenue	437,776	424,644
Contributions	302,275	1,979,541
Management service fees	765,164	753,862
Net investment income	1,280	3,469
Total revenue	25,864,249	28,069,404
Operating expenses:		
Salaries and wages	15,717,154	15,990,303
Employee benefits	3,126,270	3,183,495
Purchased services	1,882,431	1,821,194
Supplies and other	4,212,472	4,083,218
Depreciation	2,140,140	1,856,322
Interest (forgiven interest)	(24,600)	37,663
Provision for bad debts	255,614	154,007
Total operating expenses	27,309,481	27,126,202
Total operating income (loss)	(1,445,232)	943,202
Nonoperating income (expense):		
Forgiveness of Paycheck Protection Program loan payable	3,460,000	-
Loss on early extinguishment of debt	(109,674)	-
Total nonoperating income	3,350,326	-
Excess of revenue over expenses	1,905,094	943,202
Other changes in net assets without donor restrictions:		
Contributions received for capital expenditures	19,841	125,431
Increase in net assets without donor restrictions	\$ 1,924,935	\$ 1,068,633

See accompanying notes to financial statements.

The Lutheran Home, Inc.

Statements of Changes in Net Assets

Years Ended December 31, 2021 and 2020

	2021	2020
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 1,905,094	\$ 943,202
Contributions received for capital expenditures	19,841	125,431
Increase in net assets without donor restrictions	1,924,935	1,068,633
Net assets with donor restrictions:		
Change in interest in net assets of Lutheran Home Foundation, Inc.	(7,892)	16,467
Increase (decrease) in net assets with donor restrictions	(7,892)	16,467
Increase in net assets	1,917,043	1,085,100
Net assets at beginning	26,256,171	25,171,071
Net assets at end	\$ 28,173,214	\$ 26,256,171

See accompanying notes to financial statements.

The Lutheran Home, 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:		
Increase in net assets	\$ 1,917,043	\$ 1,085,100
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,140,140	1,856,322
Amortization of deferred financing costs	-	8,658
Loss on early extinguishment of debt	109,674	
Change in interest in net assets of Lutheran Home Foundation, Inc.	(18,377)	(61,758)
Net realized and unrealized losses on investments	4,665	-
Forgiveness of Paycheck Protection Program loan payable	(3,460,000)	-
Provision for bad debts	255,614	154,007
Changes in operating assets and liabilities:		
Resident receivables	(1,352,490)	287,416
Other accounts receivable	15,793	33,411
Due from/to Harwood Place, Inc.	13,600	(716,108)
Due from/to Lutheran Home Foundation, Inc.	(504,299)	123,079
Prepaid expenses and other	(5,850)	(9,046)
Accounts payable	(3,499)	(338,855)
Reservation deposits	-	(750)
Resident trust funds	5,246	3,899
Refundable advance	(548,640)	843,500
Accrued expenses	2,343	256,297
Deferred revenue	60,768	68,713
Net cash provided by operating activities	(1,368,269)	3,593,885
Cash flows from investing activities:		
Purchase of property and equipment	(797,662)	(3,062,041)
Purchase of investments	(1,002,464)	-
Distributions received from Lutheran Home Foundation, Inc.	26,269	45,291
Change in unemployment compensation deposit	(7,703)	(3,469)
Net cash used in investing activities	(1,781,560)	(3,020,219)

The Lutheran Home, Inc.

Statements of Cash Flows (Continued)

Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from financing activities:		
Proceeds from issuance of Paycheck Protection Program loan payable	\$ -	\$ 3,460,000
Principal payments on long-term debt (see Note 5)	(105,363)	(1,319)
Net cash provided by (used in) financing activities	(105,363)	3,458,681
Net increase (decrease) in cash and cash equivalents	(3,255,192)	4,032,347
Cash and cash equivalents at beginning	4,606,095	573,748
Cash and cash equivalents at end	\$ 1,350,903	\$ 4,606,095
Supplemental cash flow information:		
Cash paid for interest	\$ 39,344	\$ 4,063
Noncash Investing and financing activities:		
Property and equipment purchases in accounts payable	\$ 59,635	\$ 11,281
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 1,327,139	\$ 4,587,323
Resident trust funds	23,764	18,772
Total cash and cash equivalents	\$ 1,350,903	\$ 4,606,095

See accompanying notes to financial statements

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Business

The Lutheran Home, Inc. (the "Home"), located in Wauwatosa, Wisconsin, is a nonstock, nonprofit organization incorporated under the laws of the state of Wisconsin. The Home's operations include a 187-bed skilled nursing facility and a 66-unit memory care assisted living facility that provide for the long-term care of the aged, infirmed, injured, and sick; a child day care facility for the children of employees and the community; and an adult day care facility.

LutheranLiving Services, Inc. is the sole corporate member of the Home and Harwood Place, Inc. ("Harwood"), a senior housing complex consisting of independent living apartments and assisted living units in Wauwatosa, Wisconsin.

Financial Statement Presentation

The Home 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

The Home considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Resident Receivables and Credit Policy

Resident receivables are reported at the amount that reflects the consideration to which the Home expects to be entitled in exchange for providing resident care services. Resident receivables are recorded in the accompanying balance sheets net of contractual adjustments based on negotiated contractual agreements, historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by 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 the change. Management estimates probable uncollectible amounts for residents through a charge to operations and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. The Home does not have a policy to charge interest on past due accounts.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 5 to 15 years for furniture, equipment, and vehicles and from 10 to 40 years for buildings and building and land 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

The Home reviews its property and equipment periodically to determine potential impairment by comparing the carrying value 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, the Home would recognize an impairment loss at that time. No impairment loss was recognized in 2021 or 2020.

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 the Home are financially interrelated organizations, and accordingly the Home 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

The Home 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 \$242,504 and \$234,801 at December 31, 2021 and 2020, respectively. Unemployment compensation expense is charged to operations at the time a claim is paid or 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.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Refundable Advance

In April of 2020, the Home received \$843,500 from the Centers for Medicare & Medicaid Services (CMS) related to the Medicare Accelerated and Advance Payments Program. The payment was designed to help healthcare providers facing cash flow disruptions during an emergency. Repayments are made by CMS reducing the reimbursement on future Medicare services owed to the Home. These repayments began in April 2021, and the Home repaid \$548,640 in 2021. The Home recorded the amount owed of \$294,860 and \$843,500 as a refundable advance in the accompanying balance sheets as of December 31, 2021 and 2020, respectively.

Net Assets

Net assets of the Home and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets 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 the Home and/or the passage of time. At December 31, 2021 and 2020, net assets with donor restrictions consisted of amount held by the Foundation.

Net Resident Service Revenue

The Home operates a skilled nursing facility and a memory care assisted living facility. The monthly fees to occupy a unit in the memory care assisted living facility 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 entitle the resident to the use of the memory care assisted living facility. The Home recognizes the monthly fee over the month the resident occupies the unit. Monthly fees paid in advance of the month due are recorded as unearned revenue.

Resident service revenue also includes nursing services provided in the skilled nursing facility, as well as nursing and activities of daily living services provided in the memory care assisted living facility. These amounts are due from residents and third-party payors (including health insurers and government programs). For residents with third-party insurance, the Home bills the third-party payors after the end of the month when the services were performed or when the resident is discharged from the facility.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Resident Service Revenue (Continued)

Performance obligations are determined based on the nature of the resident services provided. Revenue from performance obligations satisfied over time is recognized based on a predetermined rate formula under a contractual arrangement with the third-party payor or the uninsured resident. Generally, performance obligations satisfied over time relate to residents receiving nursing services as the residents simultaneously receive and consume the benefits of the services provided. In this case, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. The Home believes this method provides faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Each day a resident receives services is a separate contract and performance obligation based on the fact that the resident has a unilateral right to terminate the contract after each day with no penalty or compensation due. 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 services transferred up to the termination date), the duration of the contract does not extend beyond the services already transferred.

The Home determined there is not a material right performance obligation for the daily option to renew the contract as the price of the renewal is a price consistent with the daily rate charged to other residents. Because the Home's performance obligations relate to contracts with a duration of less than one year, the Home 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.

The determination of the transaction price for nursing and activities of daily living services involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors based on contractual agreements. The Home has agreements with third-party payors that typically provide for payments at amounts less than established charges.

A summary of the payment arrangements with major third-party payors follows:

Medicare - The Home's reimbursement for Part A residents under the Medicare program is based on a predetermined rate per resident day and varies depending on the resident's level of care and the types of services provided. Medicare Part B services are paid based on predetermined fee schedules. For the years ended December 31, 2021 and 2020, approximately 30% and 32%, respectively, of the Home's total resident service revenue was provided by Medicare.

Medicaid - The Home's reimbursement is based on a predetermined rate formula under a contractual arrangement with the Medical Assistance program under Title XIX of the Social Security Act. Rate adjustments under this program are reflected in income when determinable. Approximately 35% and 32% of the Home's total net resident service revenue for the years ended December 31, 2021 and 2020, respectively, was provided by Medicaid.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Resident Service Revenue (Continued)

Other - The Home also has agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations for the reimbursement of various healthcare services provided to residents. The basis for payment under these agreements is primarily a discount from the established charge.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Home assesses a resident's ability to pay for the services prior to admission. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as provision for bad debts.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violation by healthcare providers of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from resident services.

CMS uses recovery audit contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that might have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Home will then have the opportunity to appeal the adjustment before final settlement of the claim is made. The Home has not received any notices from the RACs.

Charity Care

The Home provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net resident service revenue in the accompanying statements of operations.

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 and 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

The Lutheran Home, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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 contributions 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 and changes in net assets 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 fiscal year in which the contributions are recognized.

Grant Revenue

The Home receives certain governmental grants for a variety of purposes. Revenue from grants is considered earned when the Home 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 2020, the Home 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, the Home earns the grant by incurring COVID-related expenses or by incurring lost revenues related to this program. In 2021 and 2020, the Home received and earned approximately \$639,000 and \$1,288,000 of HHS grants, respectively.

During 2021 and 2020, the Home also received other grants, including approximately \$11,000 and \$1,933,000 of state grant funds as part of the CARES Act and other miscellaneous grants of approximately \$257,000 and \$302,000, respectively. Of the total amount received from the state and other grants, approximately \$233,000 and \$2,222,000 has been recorded as grant revenue in 2021 and 2020, respectively.

Advertising Costs

Advertising costs are expensed as incurred.

The Lutheran Home, 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.

Tax Status

The Home 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. The Home is also exempt from state income taxes on related income.

Operating Income

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

Excess (deficiency) of Revenue Over Expenses

The accompanying statements of operations and changes in net assets include excess (deficiency) of revenue over expenses, which is considered the operating indicator. Changes in net assets without donor restrictions, which are excluded from the operating indicator, include contributions received for capital expenditures and 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 the Home in 2022. The Home 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.

The Lutheran Home, Inc.

Notes to Financial Statements

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	\$ 1,327,139	\$ 4,587,323
Resident receivables - Net	2,825,055	1,728,179
Other accounts receivable	47,560	63,353
Investments	997,799	-
Totals	\$ 5,197,553	\$ 6,378,855

The Home does not have a formal liquidity policy but generally maintains financial assets in liquid form, such as cash and cash equivalents, for approximately one month of operating expenses. Investments

Note 3: Investments and Net Investment Income

Investments consisted of the following at December 31, 2021:

Cash equivalents	\$ 101,297	
Fixed-income mutual funds	896,502	
Total	\$ 997,799	

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

	2021	2020
Interest and dividend income - net of fees	\$ 5,945	\$ 3,469
Net realized losses on sales of investments	(565)	-
Change in unrealized losses on investments	(4,100)	-
Total	\$ 1,280	\$ 3,469

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 values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Lutheran Home, 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.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Home 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 table sets forth by level, within the fair value hierarchy, the Home's assets at fair value as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 101,297	\$ -	\$ 101,297
Fixed-income mutual funds	896,502	-	-	896,502
Totals	\$ 896,502	\$ 101,297	\$ -	\$ 997,799

Note 5: Resident Receivables

Resident accounts receivable consisted of the following at December 31:

	2021	2020
Resident receivables	\$ 3,125,055	\$ 1,943,179
Less - Allowance for doubtful accounts	300,000	215,000
Resident receivables - Net	\$ 2,825,055	\$ 1,728,179

The Lutheran Home, Inc.

Notes to Financial Statements

Note 6: Property and Equipment

Property and equipment consisted of the following at December 31:

	2021	2020
Land	\$ 834,780	\$ 834,780
Land improvements	1,203,140	1,186,802
Buildings and improvements	48,212,826	49,185,328
Furniture and equipment	10,157,479	10,488,797
Vehicles	280,964	280,964
Software	14,400	5,000
Construction in progress	47,189	3,906
Total property and equipment	60,750,778	61,985,577
Less - Accumulated depreciation	35,039,686	34,980,361
Totals	\$ 25,711,092	\$ 27,005,216

The majority of construction in progress at December 31, 2021, relates to renovation project that is expected to be completed in 2022.

Note 7: Long-Term Debt

On September 1, 2018, the Home entered into a bond agreement with the Community Development Authority of the City of Wauwatosa, Wisconsin, and Bank First National to borrow up to \$5,000,000 for the purpose of financing a portion of a memory care and assisted living project (the "MCAL Project"). The bonds were direct-placement bonds with Bank First National. The Home was using its own internal resources and certain funds from the Foundation before utilizing any of the long-term debt. The parties to the bond agreement agreed that certain costs of issuance of the bonds could be paid with bond proceeds. The Home borrowed \$105,363 and paid \$129,873 of bond issuance costs with bond proceeds. The Home recorded \$105,363 of long-term debt, along with \$109,674 of bond issuance costs (net of accumulated amortization) at December 31, 2020. The unamortized bond issuance costs are netted against the long-term debt, therefore being shown as \$0 in the accompanying balance sheets. The amount over the long-term debt of \$4,311 is included in prepaid expenses and other in the accompanying balance sheets as of December 31, 2020.

In January of 2021, the Board agreed to pay off the remaining amount of the debt and also decided that no further amounts will be withdrawn on the debt. The unamortized portion of the deferred financing costs were written off in January 2020, and recorded as loss on early extinguishment of debt in the accompanying statements of operations.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 8: Paycheck Protection Loan Payable

On March 27, 2020, the CARES Act was enacted to, amongst other provisions, provide emergency assistance for individuals, families, and businesses affected by the COVID-19 crisis. Under the provisions of the CARES Act, in April 2020, the Home secured funding under the Paycheck Protection Program (PPP) provisions of the Small Business Administration (SBA) of \$3,460,000. The loan was fully forgiven in June 2021, and is recorded as nonoperating income in the accompanying statements of operations.

Note 9: Leases

The Home leased a portion of its facility to a hospice provider. Future minimum lease payments are approximately \$292,000 in 2022. Rental revenue was approximately \$310,000 in 2021 and \$300,000 in 2020 and included an allocation of certain occupancy costs.

Other rental revenue relates to leasing of rooftop space for a cellular tower. Revenue of approximately \$128,000 in 2021 and \$125,000 in 2020 was recorded.

Note 10: Transactions With Affiliate and Lutheran Home Foundation, Inc.

Through December 31, 2021 and 2020, the Foundation received \$101,242 and \$109,134, respectively, of contributions that were for the specific benefit of the Home that had not yet been provided to the Home. The Home's interest in the net assets of the Foundation is recorded as a noncurrent asset in the accompanying balance sheets.

The Home charged Harwood \$553,045 and \$589,236 and the Foundation \$203,442 and \$149,878, primarily for administrative and development services for the years ended December 31, 2021 and 2020, respectively, included in management service fees in the accompanying statements of operations.

During 2021 and 2020, the Foundation distributed to the Home \$26,269 and \$45,291, respectively, of its net assets, which were restricted by donors for use by the Home. In addition, the Foundation contributed \$296,246 in 2021 and \$2,060,029 in 2020 to the Home which were not restricted by donors.

The following is a summary of the amounts due to/from Harwood and the Foundation as of December 31:

	2021	2020
Due from Harwood	\$ 387,212	\$ 400,812
Due from (to) the Foundation, not including loan from the Foundation	327,075	(177,224)
Net	\$ 714,287	\$ 223,588

The Lutheran Home, Inc.

Notes to Financial Statements

Note 10: Transactions With Affiliate and Lutheran Home Foundation, Inc. (Continued)

The Home borrowed \$1,500,000 from the Foundation to cover costs incurred during the MCAL Project. Annual payments of \$500,000 are due on December 31, 2025, 2026, and 2027. The Home can, at any time, prepay the note without incurring any prepayment penalties. The loan is recorded as a long-term liability in the accompanying balance sheets.

The Home had various business transactions with members of the Board of Directors or organizations that employ a Board member. These transactions include insurance brokerage services and other professional services. The Home has a conflict-of-interest policy in place as part of its governance process. In 2020, the Home paid approximately \$2,400,000 in costs related to the MCAL project to an organization of which a board member has a top-level management position.

Note 11: Retirement Plan

The Home 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 the Home was approximately \$177,700 in 2021 and \$177,900 in 2020.

Note 12: Commitments and Contingencies

In accordance with ASC 410, *Accounting for Conditional Asset Retirement Obligations*, the current recognition of a liability is required when a legal obligation exists to perform an asset retirement obligation in which the timing or method of settlement is conditional on a future event that may or may not be under the control of the entity.

The Home has identified the presence of asbestos in its facilities, which if removed will ultimately require remediation. However, management cannot reasonably estimate the fair value of the liability because of the indeterminate settlement date for the asset retirement obligation, since the range of time over which the Home may settle the obligation is unknown or cannot be estimated. Therefore, no provision has been made for any material loss that may result from environmental remediation liabilities associated with the Home.

The Lutheran Home, Inc.

Notes to Financial Statements

Note 13: Professional Liability Insurance

LutheranLiving Services, Inc. has professional liability insurance for the Home and Harwood 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 \$3,00,000 per year in the aggregate. In addition, LutheranLiving Services, Inc. maintains umbrella coverage for claims in excess of professional liability limits up to \$10,000,000 per occurrence and \$10,000,000 aggregate per year. The Home 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 the Home. The liability insurance policy is renewable annually and has been renewed by the insurance carrier for the Home for the annual period extending through December 1, 2022.

At December 31, 2021 and 2020, the Home recognized a liability for outstanding professional liability claims in the amount of \$250,000 with a corresponding receivable for the amounts of these claims expected to be recovered from insurance, included in other accrued liabilities and prepaid expenses and other in the accompanying balance sheets.

Note 14: Net Resident Service Revenue

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

	2021	2020
Skilled nursing:		
Medicare	\$ 6,583,451	\$ 6,532,537
Medicaid	7,767,924	7,041,851
Private pay and other	3,186,104	3,506,448
Memory care assisted living - Private pay and other	4,455,980	3,032,765
Total	\$ 21,993,459	\$ 20,113,601

The Lutheran Home, Inc.

Notes to Financial Statements

Note 15: Functional Expenses

Expenses, presented by nature and function, for the year ended December 31, are as follows:

2021	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 13,392,452	\$ 2,324,702	\$ -	\$ 15,717,154
Employee benefits	2,663,868	462,402	-	3,126,270
Purchased services	1,645,088	237,343	-	1,882,431
Supplies and other	3,123,482	1,088,990	-	4,212,472
Forgiven interest	(24,600)	-	-	(24,600)
Depreciation	1,926,126	214,014	-	2,140,140
Provision for bad debts	-	255,614	-	255,614
Totals	\$ 22,726,416	\$ 4,583,065	\$ -	\$ 27,309,481

2020	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 13,837,558	\$ 2,152,745	\$ -	\$ 15,990,303
Employee benefits	2,754,907	428,588	-	3,183,495
Purchased services	1,566,833	254,361	-	1,821,194
Supplies and other	3,048,479	1,034,739	-	4,083,218
Interest	37,663	-	-	37,663
Depreciation	1,670,690	185,632	-	1,856,322
Provision for bad debts	-	154,007	-	154,007
Totals	\$ 22,916,130	\$ 4,210,072	\$ -	\$ 27,126,202

The Lutheran Home, Inc.

Notes to Financial Statements

Note 16: Concentration of Credit Risk

Financial instruments that potentially subject the Home to credit risk consist principally of resident receivables and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from residents and third-party payors was as follows at December 31:

	2021	2020
Medicare	56 %	61 %
Medicaid	34	32
Private pay and other	10	7
Totals	100 %	100 %

The Home maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. The Home maintains cash in accounts at these institutions, and these accounts are insured by the FDIC up to \$250,000. At December 31, 2021, the Home's deposits exceeded the insured limits by approximately \$1,420,000.

Note 17: Reclassification

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 classifications.

The \$1,500,000 due to Lutheran Home Foundation, Inc. in 2020 has been reclassified to a long-term liability to conform to the 2021 presentation.

Independent Auditor's Report on Supplementary Information

Board of Directors
The Lutheran Home, Inc.
Wauwatosa, Wisconsin

We have audited the financial statements of The Lutheran Home, Inc. as of and for the years ended December 31, 2021 and 2020, and our report thereon 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 25 and 26, 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 black ink that reads "Wipfli LLP".

Wipfli LLP
Milwaukee, Wisconsin

April 28, 2022

The Lutheran Home, Inc.
Statement of Operations by Division
Year Ended December 31, 2021

	Lutheran Home - SNF	Lutheran Home - AL	Child Care	Adult Day Services	Total
Revenue:					
Net resident service revenue	\$ 17,537,479	\$ 4,455,980	\$ -	\$ -	\$ 21,993,459
Other operating income	1,320,696	(52,912)	1,084,329	12,182	2,364,295
Rental revenue	437,776	-	-	-	437,776
Contributions	302,275	-	-	-	302,275
Management service fees	765,164	-	-	-	765,164
Net investment income	1,280	-	-	-	1,280
Total revenue	20,364,670	4,403,068	1,084,329	12,182	25,864,249
Expenses:					
Salaries and wages	13,348,035	1,749,256	593,176	26,687	15,717,154
Employee benefits	2,726,898	280,798	112,270	6,304	3,126,270
Purchased services	1,796,169	77,354	8,908	-	1,882,431
Supplies and other	2,005,739	1,905,496	296,372	4,865	4,212,472
Depreciation	1,587,246	489,676	42,616	20,602	2,140,140
Interest (forgiven interest)	(24,942)	342	-	-	(24,600)
Provision for bad debts	240,614	15,000	-	-	255,614
Total operating expenses	21,679,759	4,517,922	1,053,342	58,458	27,309,481
Total operating income (loss)	(1,315,089)	(114,854)	30,987	(46,276)	(1,445,232)
Nonoperating income (loss):					
Forgiveness of Paycheck Protection Program loan payable	3,460,000	-	-	-	3,460,000
Loss on early extinguishment of debt		(109,674)	-	-	(109,674)
Total nonoperating income	3,460,000	(109,674)	-	-	3,350,326
Excess (deficiency) of revenue over expenses	2,144,911	(224,528)	30,987	(46,276)	1,905,094
Other changes in net assets without donor restrictions:					
Contributions received for capital expenditures	19,841	-	-	-	19,841
Increase (decrease) in net assets without donor restrictions	\$ 2,164,752	\$ (224,528)	\$ 30,987	\$ (46,276)	\$ 1,924,935

See Independent Auditor's Report on Supplementary Information.

The Lutheran Home, Inc.

Statement of Operations by Division

Year Ended December 31, 2020

	Lutheran Home - SNF	Lutheran Home - AL	Child Care	Adult Day Services	Total
Revenue:					
Net resident service revenue	\$ 17,080,836	\$ 3,032,765	\$ -	\$ -	\$ 20,113,601
Other operating income	3,676,758	158,453	862,926	96,150	4,794,287
Rental revenue	424,644	-	-	-	424,644
Contributions	1,979,541	-	-	-	1,979,541
Management service fees	753,862	-	-	-	753,862
Net investment income	3,469	-	-	-	3,469
Total revenue	23,919,110	3,191,218	862,926	96,150	28,069,404
Expenses:					
Salaries and wages	13,811,062	1,501,786	577,732	99,723	15,990,303
Employee benefits	2,836,119	205,935	121,104	20,337	3,183,495
Purchased services	1,737,008	69,014	8,468	6,704	1,821,194
Supplies and other	1,759,872	1,876,667	295,635	151,044	4,083,218
Depreciation	1,353,832	442,911	38,644	20,935	1,856,322
Interest	24,942	12,721	-	-	37,663
Provision for bad debts	151,801	4,992	-	(2,786)	154,007
Total operating expenses	21,674,636	4,114,026	1,041,583	295,957	27,126,202
Excess (deficiency) of revenue over expenses	2,244,474	(922,808)	(178,657)	(199,807)	943,202
Other changes in net assets without donor restrictions:					
Contributions received for capital expenditures	125,431	-	-	-	125,431
Increase (decrease) in net assets without donor restrictions	\$ 2,369,905	\$ (922,808)	\$ (178,657)	\$ (199,807)	\$ 1,068,633

See Independent Auditor's Report on Supplementary Information.