

**THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND
AFFILIATES (LUTHERAN HOMES OF SOUTH CAROLINA
FOUNDATION, INC. AND LUTHERAN SERVICES, INC.)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Lutheran Homes of South Carolina, Inc. and Affiliates
Irmo, South Carolina

We have audited the accompanying consolidated financial statements of The Lutheran Homes of South Carolina, Inc. and Affiliates (the Organization), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
The Lutheran Homes of South Carolina, Inc. and Affiliates

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Lutheran Homes of South Carolina, Inc. and Affiliates as of September 30, 2017 and 2016, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
December 12, 2017

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,931,081	\$ 6,543,155
Short-Term Investments	21,453,088	18,813,846
Assets Limited as to Use, Current Portion	1,960,123	4,881,197
Patient and Resident Accounts Receivable, Net of Allowance for Doubtful Accounts of Approximately \$977,000 and \$738,000 in 2017 and 2016, Respectively	4,416,099	5,349,423
Other Receivables	634,836	531,317
Prepaid Expenses and Inventory	1,471,226	1,300,040
Total Current Assets	39,866,453	37,418,978
ASSETS LIMITED AS TO USE, NET OF CURRENT PORTION	4,141,338	5,849,453
INVESTMENTS	20,561,247	19,811,360
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	1,658,467	1,519,531
PROPERTY AND EQUIPMENT, NET	105,584,141	106,350,846
OTHER ASSETS	90,891	102,274
Total Assets	\$ 171,902,537	\$ 171,052,442

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Short-Term Notes Payable	\$ 228,009	\$ 286,272
Current Portion of Long-Term Debt	2,914,486	3,180,000
Accounts Payable	3,463,995	2,489,391
Accrued Payroll and Benefits	3,933,749	3,626,941
Accrued Interest	907,878	1,457,582
Funds Held for Residents	131,372	126,196
Current Portion of Refundable Entrance Fees	1,956,311	2,572,507
Other Liabilities	<u>1,938,887</u>	<u>2,491,364</u>
Total Current Liabilities	15,474,687	16,230,253
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	69,638,034	74,058,365
Interest Rate Swap Agreement	<u>138,710</u>	<u>-</u>
Total Long-Term Liabilities	69,776,744	74,058,365
ENTRANCE FEES		
Refundable Entrance Fee Liability	40,405,582	38,994,819
Deferred Revenue from Entrance Fees	<u>17,019,063</u>	<u>14,999,584</u>
Total Entrance Fees	57,424,645	53,994,403
ASSET RETIREMENT OBLIGATION		
	<u>260,621</u>	<u>248,211</u>
Total Liabilities	142,936,697	144,531,232
NET ASSETS		
Unrestricted	5,961,372	3,752,402
Temporarily Restricted	963,872	903,482
Permanently Restricted	<u>22,040,596</u>	<u>21,865,326</u>
Total Net Assets	28,965,840	26,521,210
Total Liabilities and Net Assets	<u>\$ 171,902,537</u>	<u>\$ 171,052,442</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
REVENUE, GAINS, AND OTHER SUPPORT		
Net Patient and Resident Service Revenue	\$ 73,662,097	\$ 69,044,857
Amortization of Entrance Fees	1,951,134	2,073,986
Contributions	669,836	1,243,632
Other Revenue	781,057	898,247
Investment Income	1,255,746	1,334,581
Realized Gains on Investments	1,593,456	450,410
Net Assets Released from Restrictions	160,691	284,495
Total Revenue, Gains, and Other Support	80,074,017	75,330,208
EXPENSES		
Salaries	34,156,426	32,764,430
Employee Benefits	7,482,532	6,946,027
Professional Fees	8,904,323	7,728,797
Supplies	8,105,210	7,627,447
Insurance	1,264,537	1,122,784
Utilities	3,551,761	3,468,189
Other Expenses	4,986,807	5,101,252
Interest Expense	3,668,504	4,080,058
Provision for Bad Debts, Net of Recoveries	765,897	(194,567)
Depreciation	5,800,425	5,627,778
Total Expenses	78,686,422	74,272,195
OPERATING INCOME	1,387,595	1,058,013
OTHER INCOME (LOSS)		
Change in Unrealized Gains on Investments	1,449,537	1,230,505
Change in Fair Value of Interest Rate Swap Agreement	(138,710)	-
Loss on Extinguishment of Debt	(549,492)	-
Total Other Income (Loss)	761,335	1,230,505
Excess of Revenue over Expenses	2,148,930	2,288,518
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Net Assets Released from Restrictions		
Used for Purchase of Property and Equipment	60,040	32,822
	60,040	32,822
INCREASE IN UNRESTRICTED NET ASSETS	\$ 2,208,970	\$ 2,321,340

See accompanying Notes to Consolidated Financial Statements.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Excess of Revenue over Expenses	\$ 2,148,930	\$ 2,288,518
Net Assets Released from Restrictions		
Used for Purchase of Property and Equipment	60,040	32,822
INCREASE IN UNRESTRICTED NET ASSETS	2,208,970	2,321,340
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	281,121	231,296
Net Assets Released from Restrictions	(220,731)	(317,317)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	60,390	(86,021)
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	36,334	93,397
Change in Beneficial Interest in Perpetual Trust	138,936	(603,513)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	175,270	(510,116)
CHANGE IN NET ASSETS	2,444,630	1,725,203
Net Assets - Beginning of Year	26,521,210	24,796,007
NET ASSETS - END OF YEAR	\$ 28,965,840	\$ 26,521,210

See accompanying Notes to Consolidated Financial Statements.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,444,630	\$ 1,725,203
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	5,800,425	5,627,778
Amortization of Entrance Fees	(1,951,134)	(2,073,986)
Amortization of Deferred Financing Costs	87,432	74,613
Provision for Bad Debts, Net of Recoveries	765,897	(194,567)
Loss on Extinguishment of Debt	549,492	-
Change in Fair Value of Interest Rate Swap Agreement	138,710	-
Unrealized Gains on Investments	(1,449,537)	(1,230,505)
Change in Beneficial Interest in Perpetual Trust	(138,936)	603,513
Proceeds from Restricted Contributions	(317,455)	(324,693)
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	63,908	459,769
Unconditional Promises to Give	-	37,500
Prepaid Expenses and Inventory	(159,803)	625,777
Accounts Payable, Retainage Payable, Accrued Expenses, and Other Liabilities	(1,223,510)	(412,631)
Net Cash Provided by Operating Activities	4,610,119	4,917,771
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchases of Investments	(1,939,592)	(2,055,905)
Decrease in Assets Limited as to Use	4,634,365	258,097
Purchase of Capital Assets	(5,021,310)	(2,990,739)
Net Cash Used by Investing Activities	(2,326,537)	(4,788,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Restricted Contributions	317,455	324,693
Proceeds from Short-Term Notes Payable	1,785,030	1,013,631
Payment of Short-Term Notes Payable	(1,843,293)	(1,558,924)
Proceeds from Issuance of Long-Term Debt	19,680,127	-
Repayment on Long-Term Debt	(24,622,240)	(3,060,000)
Cash Paid for Issuance Cost	(380,656)	-
Proceeds from Entrance Fees, Net	6,167,921	7,113,147
Net Cash Provided by Financing Activities	1,104,344	3,832,547
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,387,926	3,961,771
Cash and Cash Equivalents - Beginning of Year	6,543,155	2,581,384
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 9,931,081	\$ 6,543,155
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest, Net of Capitalized Interest	\$ 4,130,776	\$ 4,064,378

See accompanying Notes to Consolidated Financial Statements.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

In 1911, The Lowman Home began operations and was incorporated under the laws of the state of South Carolina as a nonprofit corporation on April 18, 1924. The Lowman Home was recognized as an organization exempt from federal income tax under the Internal Revenue Code in April of 1942. On March 5, 1990, The Lowman Home amended its Certificate of Incorporation to change its name to The Lutheran Homes of South Carolina, Inc. The Lutheran Homes of South Carolina, Inc. and Affiliates consist of the following entities (collectively known as Lutheran Homes or the Organization):

<u>Entities</u>	<u>Location</u>	<u>Date Incorporated</u>
The Lutheran Homes of South Carolina, Inc. (Nonprofit) (Corporate)	Irmo, SC	1924
Affiliate (Nonprofit) Lutheran Homes of South Carolina Foundation, Inc. (Foundation)	Irmo, SC	1892
Affiliate (For-Profit) Lutheran Services, Inc. (Lutheran Services)	White Rock, SC	1991

Corporate

Corporate operates five continuing care retirement communities, three hospice offices and four non-medical in-home services offices located throughout South Carolina. At these communities, Lutheran Homes provides skilled nursing, assisted-living and independent living levels of care. The locations are known as: The Heritage at Lowman, Franke at Seaside, Rice Estate, Trinity on Laurens and Rosecrest. Lutheran Hospice provides comprehensive end of life care to patients in their home and facilities. Be Well Home Services provides supportive services primarily in the client's home. In addition, Lutheran Homes operates a continuing care at home program called Be Well at Home.

Foundation

On October 1, 1998 Lutheran Homes of South Carolina Foundation, Inc. merged with The Evangelical Lutheran Charities Society of Charleston (ELCS). ELCS was chartered in 1892 and managed an endowment fund of approximately \$2,000,000 exclusively for the use of Franke at Seaside. The ELCS was the surviving entity after the merger and subsequently changed its name to Lutheran Homes of South Carolina Foundation, Inc. The Foundation Board of Trustees assumed management responsibility for the merged entity. The Lutheran Homes of South Carolina, Inc. has the authority to appoint voting members of the board of trustees of the merged entity and to approve its by-laws.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Lutheran Services

During 1991, Lutheran Homes formed a for-profit corporation, Lutheran Services, Inc. to provide management services of rental real estate. The corporation is authorized to issue 100,000 shares of common voting stock. The owners of these shares of stock have one vote per share and are entitled to receive the net assets of the corporation upon dissolution. The Lutheran Homes of South Carolina, Inc. owns 1,000 shares (100% of the outstanding shares) of Lutheran Services, Inc.

Governing Board

Lutheran Homes' Board of Trustees is comprised of 15 members, of which, eight members are appointed by the South Carolina Synod, seven members are appointed by the incumbent Lutheran Homes Board of Trustees, and the Bishop of the South Carolina Synod serves as a voting member.

Principles of Consolidation

The consolidated financial statements include the accounts of The Lutheran Homes of South Carolina, Inc. and its wholly-owned affiliates. All inter-company accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less from the date of purchase, excluding amounts included in assets limited as to use and investments which are restricted by donors, grantors, or indenture agreements, and amounts held in investments in contemplation of investment purchases.

Allowance for Doubtful Accounts

Lutheran Homes establishes an allowance for doubtful accounts to reduce its receivables to their net realizable value. The allowances are estimated by management, based on general factors such as payer mix, the aging of the receivables, and historical collection experience. At September 30, 2017 and 2016, accounts receivable are recorded net of allowance for doubtful accounts of approximately \$977,000 and \$738,000, respectively.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on future amounts are computed using an essentially risk-free interest rate applicable to the years in which receipt is expected. Amortization of the discounts is included as contributed revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory

Inventory, consisting principally of food, linens, pharmaceutical drugs, and medical supplies, is valued at average cost.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under indenture agreements as well as residency deposits. Amounts required to meet current liabilities have been reclassified as current assets. Assets limited as to use are carried at fair value.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including interest and dividends and realized gains and losses on investments) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in excess of revenue over expenses due to the Organization's adoption of the fair value option on its investments.

Generally, investments above corpus are maintained in unrestricted accounts and can be fully utilized for designated operations of Lutheran Homes.

Beneficial Interest in Perpetual Trusts

The Organization is a beneficiary of several trusts from which it has the irrevocable right to receive the income earned on the trust assets in perpetuity but never receives the assets held in trust. The beneficial interests in the trusts are classified as permanently restricted net assets. Distributions from the trusts are recorded as contribution income, and the beneficial interest in the trusts are recorded at either fair value based on the present value of the estimated future cash flows or the fair value of the underlying assets included in the trusts. Any changes in the fair value of the trusts are recognized as permanently restricted gains or losses.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Property and Equipment

Property and equipment are recorded at cost and include assets costing greater than \$1,500 individually and \$3,000 in the aggregate at the time of purchase, with a useful life of more than one year. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Buildings are depreciated over 30 to 40 years, land improvements over 10 to 33 years, and furniture and equipment over 3 to 10 years. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Long-lived assets are reviewed for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support at their estimated fair values at the date of donation, and are excluded from excess (deficit) of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Lutheran Homes owns undeveloped land located adjacent to and nearby the Heritage at Lowman campus. This land was donated to the Lowman Home around 1911, and because of its nominal fair value, at such time no value was recorded in the consolidated financial statements. Management believes the land has a market value based on an appraisal performed during 2008 of approximately \$625,000 in excess of its recorded value.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of debt are deferred and amortized over the term of the related indebtedness. Amortization expense was approximately \$87,000 and \$75,000 for the years ended September 30, 2017 and 2016, respectively.

In the prior year, the Organization adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 required organizations to present bond issuance costs as a direct deduction from the face amount of the related borrowings, amortize bond issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Interest Rate Swap Agreement

Lutheran Homes entered into interest rate swap agreement to limit the effect of increases in the interest rate of floating rate debt. This interest rate swap agreement is reported in the accompanying balance sheet at estimated fair value at September 30, 2017. Lutheran Homes does not hold derivative instruments for any purpose other than limiting the effects of interest rate fluctuations and does not hold interest rate swap agreements for speculative or investment purposes.

Deferred Revenue from Entrance Fees

Fees paid by a resident upon entering an independent living unit, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue, and are amortized to income over the estimated remaining life expectancy of the resident. The nonrefundable entrance fee does not provide future benefit to the resident upon their permanent move to health care (assisted living or nursing home). Upon a permanent transfer to health care, the resident pays the per diem or monthly fees then in effect. At such time a permanent transfer occurs, any unamortized nonrefundable entrance fees are recognized as income and are included in Amortization of Entrance Fees in the consolidated statements of operations.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions up to \$5,000 which are undesignated by the donor, other than directing the gift to be used at a specific location, are considered unrestricted by board policy and reflected as unrestricted contributions in these consolidated financial statements. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Temporarily restricted net assets are classified to unrestricted net assets upon satisfaction of the time or purpose restrictions. For restricted contributions in which restrictions are met within the same year as received, these contributions are reported as increases in unrestricted net assets in the consolidated financial statements.

Net Patient and Resident Service Revenue

Nursing homes are reimbursed by Medicare on a prospective payment system and receive a fixed per diem rate for each of their patients. Also included in this per diem rate are ancillary services, such as pharmacy, supplies, and rehabilitation services. Net patient and resident service revenue is reported at estimated net realizable amounts expected from residents, third-party payers, and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payers. The provision for contractual adjustments, which represents the difference between established charges and estimated third-party payer payments, is recognized on an accrual basis and deducted from gross revenue to determine net revenues. Payment arrangements with third-party payers may include prospectively determined rates per discharge, a discount from established charges, per-diem payments, and reimbursed costs. Estimates of contractual adjustments and/or third-party payer settlements are reported in the period during which the services are provided and adjusted in future periods, as the actual amounts become known.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Net Patient and Resident Service Revenue (Continued)

Differences between the amounts accrued and interim and final settlements are reported in operations in the year of settlement, and could be materially different from recorded provisions. The Organization contracts with other nursing homes for room and board services relative to its hospice inpatient and residential services to Medicaid patients. Revenue earned from hospice inpatient and residential services is recorded as Net Patient Service Revenue and the related expense for the contracted room and board service is recorded as Professional Fees in these consolidated financial statements.

Excess (Deficit) of Revenue Over Expenses

The consolidated statements of operations include excess (deficit) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses consistent with industry practice include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets). The Organization follows *Fair Value Option for Financial Assets and Liabilities* for its investment securities; therefore, unrealized gains and losses are included within the excess (deficit) of revenue over expenses.

Contributed Services

Lutheran Homes recognizes revenue for donated services if they: (a) create or enhance nonfinancial assets or require specialized skills, (b) are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. In the ordinary course of activities, Lutheran Homes receives substantial contributions of time, which do not meet the revenue recognition criteria described above. Accordingly, the value of this contributed time is not reported as revenue in the accompanying consolidated financial statements.

Income Taxes

The Lutheran Homes of South Carolina, Inc. and Lutheran Homes of South Carolina Foundation, Inc. as described in Section 501(c)(3) of the Internal Revenue Code (the Code) are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code, and are not classified as a private foundation. Lutheran Services, Inc., a taxable corporation, utilizes the liability method of accounting for income taxes in accordance with standards on accounting for income taxes.

The Organization's income tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Income Taxes (Continued)

The Organization follows the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. This standard had no impact on the Organization's consolidated financial statements for the years ended September 30, 2017 or 2016.

Fair Value of Financial Instruments

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy; the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

Fair Value of Financial Instruments (Continued)

in active over-the-counter markets. Assets valued using Level 2 inputs include bonds and fixed income investments. Liabilities valued using Level 2 inputs include the interest rate swap agreement. Assets valued using Level 3 inputs include investments in real estate and beneficial interest in perpetual trust.

The Organization also follows *The Fair Value Option for Financial Assets and Liabilities*. *The Fair Value Option for Financial Assets and Liabilities*, which allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has elected to measure investments at fair value, as permitted under *The Fair Value Option for Financial Assets and Liabilities*. The Organization may elect to measure newly acquired financial instruments at fair value in the future.

Risk and Uncertainties

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible those changes in the values of the investments will occur in the near term and that such changes could be material.

Benevolent Assistance

The Organization has a benevolent assistance policy to identify residents, patients, and clients who are unable to pay the full cost of their care and uses certain funds designated for benevolent assistance to subsidize the charges for services provided to those residents, patients, and clients. Such individuals are identified based on financial information obtained from the resident, patient or client and subsequent review and analysis. Since the Organization does not charge the individuals who qualify for assistance the full cost of the services provided, estimated charges for benevolent assistance are not included in revenue.

The Organization has estimated its direct and indirect costs of providing benevolent assistance under its benevolent assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the cost to provide services to residents, patients and clients and the amount charged. The cost-to-charge ratio is applied to the charges foregone to calculate the estimated direct and indirect cost of providing benevolent assistance. Using this methodology, the Organization has estimated the costs for services under the Organization's benevolent assistance policy to be approximately \$672,000 and \$664,000 for the years ended September 30, 2017 and 2016, respectively.

The Organization received approximately \$229,000 and \$460,000 to subsidize the costs of providing benevolent assistance under its benevolent assistance policy for the years ended September 30, 2017 and 2016, respectively.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through REPORT DATE, the date the consolidated financial statements were available to be issued. See Note 19 for discussion of the advanced refunding of long-term debt entered into subsequent to year end.

NOTE 2 UNCONDITIONAL PROMISES TO GIVE

Lutheran Homes has received several indications of intentions to give from donors through several revocable agreements. The anticipated gifts are cash and various assets. The value of these intended gifts has not been established, nor have the gifts been recognized as assets.

NOTE 3 ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use, stated at fair value, at September 30 is set forth below:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Under Indenture Agreements:				
Cash and Short-Term Investments	\$ 5,973,210	\$ 5,973,210	\$ 10,605,309	\$ 10,605,309
Under Residency Agreements:				
Cash and Short-Term Investments	128,251	128,251	125,341	125,341
Total Assets Limited as to Use	\$ 6,101,461	6,101,461	\$ 10,730,650	10,730,650
Less: Assets Limited as to Use Required for Current Liabilities		1,960,123		4,881,197
Noncurrent Assets Limited as to Use		\$ 4,141,338		\$ 5,849,453

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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NOTE 4 INVESTMENTS

Investments, stated at fair value, at September 30, are set forth below:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 1,809,081	\$ 1,809,081	\$ 1,951,159	\$ 1,951,159
Certificate of Deposit	500,000	500,000	500,000	500,000
Marketable Equity Securities	20,356,825	24,146,636	19,178,685	21,068,430
Bonds and Fixed Income	10,479,550	10,380,172	9,913,175	9,927,171
Real Estate	5,178,446	5,178,446	5,178,446	5,178,446
	<u>\$ 38,323,902</u>	<u>42,014,335</u>	<u>\$ 36,721,465</u>	<u>38,625,206</u>
Less: Short-Term Investments		21,453,088		18,813,846
Long-Term Investments		<u>\$ 20,561,247</u>		<u>\$ 19,811,360</u>

Lutheran Homes incurred investment fees of approximately \$205,000 and \$185,000 in 2017 and 2016, respectively.

Investment income is comprised of interest and dividend income as well as rental income received on investment properties.

The Foundation Board of Trustees has developed investment policies to assist the trustees in supervising and monitoring its investment activities and to provide guidance to investment advisors employed by the trustees. These policies outline a target asset mix and appropriate variances. The Foundation Board meets with the investment advisors quarterly to review the market environment, asset allocation and performance summary of the investments.

The investment policy allocates investments in a mix of domestic equities, international equities, fixed income, and cash.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 5 PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at September 30 is as follows:

	<u>2017</u>	<u>2016</u>
Buildings	\$155,571,264	\$152,930,148
Furniture and Equipment	18,559,229	17,498,832
Land Improvements	5,075,837	5,043,748
Land	4,501,219	4,499,086
Motor Vehicles	1,274,765	1,181,590
Leasehold Improvements	288,771	288,771
	<u>185,271,085</u>	<u>181,442,175</u>
Less: Accumulated Depreciation	81,199,932	75,456,412
	<u>104,071,153</u>	<u>105,985,763</u>
Construction in Progress	1,512,988	365,083
Total	<u>\$105,584,141</u>	<u>\$106,350,846</u>

Depreciation expense totaled approximately \$5,800,425 and \$5,627,000 in 2017 and 2016, respectively. The Organization had no capitalized interest during the years ended September 30, 2017 and 2016.

Construction in progress at September 30, 2017 and 2016 relates to general improvements.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 6 SHORT-TERM NOTES PAYABLE

A summary of short-term notes payable at September 30 is as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Notes to credit corporation for liability insurance, interest rate of 5%, principal due in eleven monthly payments beginning on February 1, 2017, uncollateralized.	\$ 96,110	\$ -
Notes to credit corporation for liability insurance, interest rate of 5.25%, principal due in eleven monthly payments beginning on May 1, 2017, uncollateralized.	131,899	-
Notes to credit corporation for liability insurance, interest rate of 4.5%, principal due in eleven monthly payments beginning on February 2, 2016, uncollateralized.	-	90,450
Notes to credit corporation for liability insurance, interest rate of 4.75%, principal due in eleven monthly payments beginning on May 1, 2016, uncollateralized.	-	195,822
Total Short-Term Notes Payable	<u>\$ 228,009</u>	<u>\$ 286,272</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 7 LONG-TERM DEBT

A summary of long-term debt at September 30 is as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
4.625% to 5.625% 2007 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due May 2042, collateralized by a pledge of Lutheran Homes gross receipts; security interests in all fixtures, furniture and equipment; and first mortgages on land and buildings.	\$ 13,415,000	\$ 35,670,000
2.267% 2012 Tax-Exempt Revenue Refunding Bonds, principal maturing in varying annual amounts, due May 2020, collateralized by a pledge of Lutheran Homes gross receipts; security interest in all fixtures, furniture and equipment; and first mortgages on land and buildings.	5,860,000	7,725,000
5% 2013 Tax-Exempt Refunding Bonds, principal maturing in varying annual amounts, due May 2048, collateralized by a pledge of Lutheran Homes gross receipts; security interest in all fixtures, furniture and equipment; and first mortgages on land and buildings.	35,450,000	35,450,000
Variable Rate 2017 Tax-Exempt Revenue Refunding Bonds, principle maturing in varying annual amounts, due May 2028, collateralized by a pledge of Lutheran Homes gross receipt; security interest in all fixtures, furniture and equipment; and first mortgages on land and buildings.	19,177,887	-
Total	73,902,887	78,845,000
Unamortized Bond Premium (Discount), Net	570,434	433,153
Unamortized Bond Issuance Costs	(1,920,801)	(2,039,788)
Less: Current Portion	(2,914,486)	(3,180,000)
Total Long-Term Debt	<u>\$ 69,638,034</u>	<u>\$ 74,058,365</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 7 LONG-TERM DEBT (CONTINUED)

On April 1, 2017, Lutheran Homes issued \$19,680,127 South Carolina Jobs-Economic Development Authority Health Facilities Revenue Refunding Bond (The Lutheran Homes of South Carolina, Inc.) Series 2017 Bond with an interest rate equal to 68% of 30-day LIBOR plus 1.25% (the 2017 Bond). The Series 2017 Bond was issued to partially defease the previously issued Series 2007 Revenue Bonds, to fund the Debt Service Reserve Fund, and to pay certain expenses incurred in connection with the issuance of the bonds.

On May, 1, 2013, Lutheran Homes issued \$35,450,000 South Carolina Jobs-Economic Development Authority Health Facilities Revenue Bonds (The Lutheran Homes of South Carolina, Inc.) Series 2013 Bonds with an interest rate of 5.00% (the 2013 Bonds). The 2013 Bonds were issued to provide funds for the Construction of a 44-bed skilled nursing facility on Rice Estate and renovations at the Heritage at Lowman, to defease the previously issued Series 1998 Revenue Bonds and to pay certain expenses incurred in connection with the issuance of the bonds.

On August 23, 2012, Lutheran Homes issued \$14,325,000 South Carolina Jobs-Economic Development Authority Economic Development Revenue Refunding Bonds (The Lutheran Homes of South Carolina, Inc.) Series 2012 Bonds with an interest rate of 2.267% (the 2012 Bonds). The 2012 Bonds were issued to defease a portion of the previously issued Series 1998 Revenue Bonds and to pay certain expenses incurred in connection with the issuance of the bonds.

On July 10, 2007, Lutheran Homes issued \$43,550,000 South Carolina Jobs-Economic Development Authority First Mortgage Health Facilities Revenue Bonds (The Lutheran Homes of South Carolina, Inc.) Series 2007 Bonds with interest rates ranging from 4.625% to 5.625% (the 2007 Bonds). The Series 2007 Bonds were issued to defease the previously issued Series 1999 Revenue Bonds, to refinance short term construction loans, to fund the Debt Service Reserve Fund, the Construction Account, and to pay certain expenses incurred in connection with the issuance of the bonds.

On July 1, 1999, Lutheran Homes issued \$32,405,000 South Carolina Jobs-Economic Development Authority First Mortgage Health Facilities Revenue Bonds (The Lutheran Homes of South Carolina, Inc.) Series 1999 Bonds with interest rates ranging from 5.125% to 6.625% (the 1999 Bonds). The 1999 Bonds were issued to fund the Debt Service Reserve Fund, the Construction Account, the Capitalized Interest Account, the Working Capital Fund, and to pay certain expenses incurred in connection with the issuance of the bonds. These bonds were defeased as of July 10, 2007.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 7 LONG-TERM DEBT (CONTINUED)

On July 1, 1998, Lutheran Homes issued \$47,420,000 South Carolina Jobs-Economic Development Authority First Mortgage Health Facilities Revenue Refunding Bonds (The Lutheran Homes of South Carolina, Inc.) Series 1998 Bonds with interest rates ranging from 4.875% to 5.80% (the 1998 Bonds). The 1998 Bonds were issued to defease previously issued revenue bonds with outstanding principal balances totaling \$40,370,000, to fund the Debt Service Reserve Fund, the Construction Account, and to pay certain expenses incurred in connection with the issuance of the bonds. Approximately \$14,505,000 of these bonds was defeased as of August 23, 2012. During the year ended September 30, 2013, the Organization defeased the remaining outstanding amount of the Series 1998 Bonds.

Under the most restrictive provisions of the Bond agreements, Lutheran Homes is limited on additional borrowings and is required to maintain a long-term debt service coverage ratio, as defined, of 1.20, days cash on hand of 90 days and meet a specified quarterly net operating margin ratio. At September 30, 2014, the Organization reached the Stabilization Date, as defined by the master trust indenture, eliminating the Organization's need to meet certain quarterly net operating margin ratio covenants going forward. At September 30, 2017, management believes it is in compliance with these covenants.

Scheduled principal repayments on long-term debt for the next five years are as follows:

Year Ending September 30.	2017 Bonds	2013 Bonds	2012 Bonds	2007 Bonds	Total
2018	\$ 1,004,486	\$ -	\$ 1,910,000	\$ -	\$ 2,914,486
2019	1,626,054	-	1,950,000	-	3,576,054
2020	1,663,044	-	2,000,000	-	3,663,044
2021	1,698,657	-	-	-	1,698,657
2022	1,744,936	-	-	-	1,744,936
Thereafter	11,440,710	35,450,000	-	13,415,000	60,305,710
Total	<u>19,177,887</u>	<u>35,450,000</u>	<u>5,860,000</u>	<u>13,415,000</u>	<u>73,902,887</u>
Current Portion	(1,004,486)	-	(1,910,000)	-	(2,914,486)
Unamortized Bond Premium (Discount)	-	752,616	-	(182,182)	570,434
Unamortized Bond Issuance Costs	(367,199)	(988,222)	(69,381)	(495,999)	(1,920,801)
Long-Term Portion	<u>\$ 17,806,202</u>	<u>\$ 35,214,394</u>	<u>\$ 3,880,619</u>	<u>\$ 12,736,819</u>	<u>\$ 69,638,034</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 8 INTEREST RATE SWAP AGREEMENT

In 2017, Lutheran Homes entered into a forward interest rate swap agreement with First Tennessee to reduce the volatility of interest rates on the variable rate 2017 Bond. The interest rate swap agreement took effect on April 27, 2017, and continues until May 1, 2028. Lutheran Homes pays a fixed rate of 2.373% and receives a floating amount of 68% of one-month LIBOR plus .85%.

The variable portion of interest on the Series 2017 Bonds is 68% of one-month LIBOR plus 1.25%. This percentage was done in order to better mirror the variable components of the First Tennessee swap that pays a floating rate of 68% of one-month LIBOR plus .85%. As such, it will mitigate much of the risk of interest rate fluctuations on the variable-rate of the outstanding Series 2017 Bonds.

The following schedule outlines the terms and fair market values of the derivative instruments on September 30, 2017:

Fixed Rate	2.37%
Floating Rate (Percentage of LIBOR)	68% + .85%
Fair Value at September 30, 2016	\$ -
Unrealized Loss	<u>(138,710)</u>
Fair Value at September 30, 2017	<u><u>\$ (138,710)</u></u>

By using an interest rate swap to hedge exposure to changes in interest rates, Lutheran Homes exposes itself to credit risk and market risk. Credit risk is the failure of the counter party to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The market risk associated with an interest rate swap is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. An analysis on the effect of the swap was performed, causing the change in the fair value of the interest rate swap to be included with other income (loss).

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

Interpretation of Relevant Law

The state of South Carolina adopted the South Carolina Prudent Management of Institutional Funds Act (the Act). The board of trustees of the Organization has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

Funds with Deficiencies

It is the Organization's policy to maintain the corpus amounts of each individual donor-restricted endowment fund received. If the fair value of assets associated with Individual donor-restricted endowment funds were to fall below the level that the donor or the Act requires the Organization to retain as a fund of perpetual duration, in accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets the Organization's long-term rate of return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

At September 30, 2017 and 2016, the Organization had approximately \$22,041,000 and \$21,865,000 in permanently restricted endowments, respectively. Of these totals, approximately \$1,658,000 and \$1,520,000, respectively, relate to beneficial interest in perpetual trusts that are administered and managed by third parties as trustees at September 30, 2017 and 2016. The Organization does not have the ability to make any investing decisions related to these funds. The remaining \$20,383,000 of permanently restricted net assets as of September 30, 2017 are managed by the Organization. The Organization had no board designated endowment funds for the years ended September 30, 2017 and 2016. Amounts included below as unrestricted endowment assets relate to income earned on Permanently Restricted funds.

The following table outlines the change in endowment net assets and the classification and use of earnings from endowments for the years ended September 30, 2017 and 2016:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ 19,579,209	\$ -	\$ 20,345,795	\$ 39,925,004
Investment Return	854,692	-	-	854,692
Realized Gains (Losses) and Change in Unrealized Gains (Losses) on Investments, Net	3,301,118	-	-	3,301,118
Total Investment Return	4,155,810	-	-	4,155,810
Contributions	-	-	36,334	36,334
Expenditures	(1,566,614)	-	-	(1,566,614)
Endowment Net Assets, End of Year	<u>\$ 22,168,405</u>	<u>\$ -</u>	<u>\$ 20,382,129</u>	<u>\$ 42,550,534</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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NOTE 9 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of the Year	\$ 16,545,232	\$ -	\$ 20,252,398	\$ 36,797,630
Investment Return	864,155	-	-	864,155
Realized Gains (Losses) and Change in Unrealized Gains (Losses) on Investments, Net	1,803,516	-	-	1,803,516
Total Investment Return	2,667,671	-	-	2,667,671
Contributions	-	-	93,397	93,397
Expenditures	366,306	-	-	366,306
Endowment Net Assets, End of Year	<u>\$ 19,579,209</u>	<u>\$ -</u>	<u>\$ 20,345,795</u>	<u>\$ 39,925,004</u>

In accordance with the Organization's policy, for investment income on endowments in which any restrictions are met within the same year as received, these amounts are reported as increases in unrestricted net assets in the tables above.

NOTE 10 FUNCTIONAL EXPENSES

Lutheran Homes provides various health-related and other services through its nursing and residential care facilities and hospice services.

Expenses related to providing these services for the years ended September 30 are as follows:

	2017	2016
Program Services	\$ 70,132,652	\$ 66,173,707
General and Administrative	8,045,676	7,610,502
Fundraising	508,094	487,986
Total	<u>\$ 78,686,422</u>	<u>\$ 74,272,195</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
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NOTE 11 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of September 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
ASSETS				
Marketable Equity Securities	\$ 24,146,636	\$ -	\$ -	\$ 24,146,636
Bonds and Fixed Income	-	10,380,172	-	10,380,172
Beneficial Interest in Perpetual Trust	-	-	1,658,467	1,658,467
Real Estate	-	-	5,178,446	5,178,446
Total Assets Measured at Fair Value	<u>\$ 24,146,636</u>	<u>\$ 10,380,172</u>	<u>\$ 6,836,913</u>	<u>\$ 41,363,721</u>
LIABILITIES				
Interest Rate Swap	<u>\$ -</u>	<u>\$ 138,710</u>	<u>\$ -</u>	<u>\$ 138,710</u>
	2016			
	Level 1	Level 2	Level 3	Total
Marketable Equity Securities	\$ 21,068,430	\$ -	\$ -	\$ 21,068,430
Bonds and Fixed Income	-	9,927,171	-	9,927,171
Beneficial Interest in Perpetual Trust	-	-	1,519,531	1,519,531
Real Estate	-	-	5,178,446	5,178,446
Total Assets Measured at Fair Value	<u>\$ 21,068,430</u>	<u>\$ 9,927,171</u>	<u>\$ 6,697,977</u>	<u>\$ 37,693,578</u>

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the year ended September 30:

<u>Level 3 - Beneficial Interest in Perpetual Trust</u>	
Balance at September 30, 2015	\$ 2,094,169
Contributions	-
Change in Beneficial Interest	(574,638)
Balance at September 30, 2016	<u>1,519,531</u>
Contributions	-
Change in Beneficial Interest	138,936
Balance at September 30, 2017	<u>\$ 1,658,467</u>
<u>Level 3 - Real Estate</u>	
Balance at September 30, 2015	\$ 5,178,446
Change in Value	-
Sale of Real Estate	-
Balance at September 30, 2016	<u>5,178,446</u>
Change in Value	-
Sale of Real Estate	-
Balance at September 30, 2017	<u>\$ 5,178,446</u>

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NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table represents the Organization's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the unobservable inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs
Beneficial Interest in Perpetual Trust	\$ 1,658,467	Present Value of Estimated Future Cash Flows or Market Value	Estimated Future Cash Flows or By Valuation of Assets by Trustee
Real Estate	\$ 5,178,446	Market Value	Appraisal

NOTE 12 EMPLOYEE BENEFIT PLAN

Retirement Plan

Lutheran Homes provides a contributory retirement plan (the Plan) for its employees. The Plan is administered by the Evangelical Lutheran Church in America Board of Pensions. Any employee who has completed one year of service with Lutheran Homes and has attained the age of 21 is eligible to participate in the Plan. Employee participation in the Plan is voluntary. Any participant may contribute up to the Internal Revenue Service maximum annual limitations into the Plan. Lutheran Homes matches amounts contributed by the participant up to 2% of their salary. Total costs incurred by Lutheran Homes for the Plan for the years ended September 30, 2017 and 2016, were approximately \$218,000 and \$241,000, respectively.

Deferred Compensation Plan

Effective October 1, 2004, Lutheran Homes' Board approved the addition of a 457(b) Plan to the Lutheran Homes of South Carolina, Inc. Executive Retirement Plan. The plan allows employees to make pre-tax contributions. Lutheran Homes matches the contributions at 100 percent for the officers on the first six percent and 100 percent for the others on the first four percent of their annual compensation. Effective February 2017, the contribution match was changed to 100 percent for all key employees to the first four percent of their annual compensation. Effective February 2017, Lutheran Homes' Board approved the addition of a 457(f) Plan to the Lutheran Homes of South Carolina, Inc. Executive Retirement Plan for the officers. The plan provides pre-tax contributions of four percent by the employer of their annual compensation.

Expenses related to both of the Executive Retirement Plans were approximately \$97,000 and \$74,000 in 2017 and 2016, respectively.

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NOTE 13 RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Purchase of Equipment and Designated Programs	\$ 453,291	\$ 401,709
Construction/Purchase of:		
Building for a Second Century	479,937	471,277
RoseCrest Chapel	30,644	30,496
	\$ 963,872	\$ 903,482

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support Lutheran Homes' mission.

NOTE 14 OPERATING LEASES

Lutheran Homes leases certain office buildings under noncancelable operating leases that expire on various dates through August 2021.

Total rental expenses on all operating leases were approximately \$576,000 and \$570,000 for 2017 and 2016, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 19,764
2019	19,764
2020	20,760
2021	20,760
	\$ 81,048

NOTE 15 PROPERTY ON LEASE

The Lutheran Homes of South Carolina, Inc.

Corporate leases real estate to Palmetto Health. The future minimum rental of this lease is approximately \$41,000 annually which is set to expire in 2018.

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 15 PROPERTY ON LEASE (CONTINUED)

Foundation

The Foundation leases to Palmetto Health Alliance one building under a noncancelable operating lease. The property located on Hwy 6 in Lexington County is a 10,400 square foot building on 4.42 acres with a minimum future rental on this lease of approximately \$202,000 annually through 2017. The lease contains one three-year renewal clause at the option of Palmetto Health Alliance which has been exercised. The Foundations' net book value in the building and on the land as of September 30, 2017 and 2016 was approximately \$1,900,000. The Foundation also has a building on a lot at 223 Stoneridge Drive in Columbia, South Carolina with 17,058 square feet that was also leased to Palmetto Health Alliance on a monthly arrangement through June 30, 2015. The Foundations' net book value in the building and land as of September 30, 2017 and 2016 was approximately \$1,875,000.

Lutheran Services, Inc.

Lutheran Services, Inc. leases to the United States government a building and approximately two acres of land on which the building is situated under a noncancelable operating lease. The minimum future rental on this lease is approximately \$24,000 annually through 2021. The lease contains two five-year renewal clauses at the option of the United States government. The assets were fully depreciated as of September 30, 2013.

NOTE 16 CONCENTRATION OF CREDIT RISK AND OFF BALANCE SHEET RISK

In the normal course of providing health care and residential services, Lutheran Homes extends credit to patients and residents without requiring collateral. Each individual's ability to pay balances due Lutheran Homes is assessed and reserves are established to provide for management's estimate of uncollectible balances.

In accordance with the Organization's cash management policy, at times, cash balances held by financial institutions are in excess of the FDIC insurance limit per institution.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30 was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	35%	33%
Medicaid	12%	12%
Private and Other	53%	55%
	<u>100%</u>	<u>100%</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 17 COMMITMENTS AND CONTINGENCIES

Lutheran Homes is subject to legal proceedings and claims that arise in the course of providing health care services. The Organization maintains malpractice insurance coverage on the claims-made basis, which provides coverage for claims occurring and reported during the year. Management has determined that no provision is required for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

NOTE 18 DUE TO THIRD-PARTY PAYERS

Amounts due to third-party payers represent estimated liabilities to Medicare and/or Medicaid related to estimated cost report settlements or settlements based upon guidelines inherent in operating under these programs. The estimated amount due to third-party payers as of September 30, 2017 and 2016 was approximately \$159,000 and \$613,000, respectively. This estimate is included in other liabilities on the Organization's consolidated balance sheets.

NOTE 19 SUBSEQUENT EVENTS

In November 2017, Lutheran Homes issued the \$12,855,000 South Carolina Jobs – Economic Development Authority Health Facilities Revenue Refunding Bonds (The Lutheran Homes of South Carolina, Inc.) Series 2017B Bonds. Interest will be accrued and payable semi-annually every May and November at an interest rate of 5% per year. Accelerating principal payments commence on May 1, 2029 with the bonds maturing on May 1, 2042.



CliftonLarsonAllen

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Board of Trustees
The Lutheran Homes of South Carolina, Inc. and Affiliates
Irmo, South Carolina

We have audited the consolidated financial statements of The Lutheran Homes of South Carolina, Inc. and Affiliates as of and for the year ended September 30, 2017, and our report thereon dated December 12, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
December 12, 2017

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ASSETS	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 8,370,019	\$ 1,318,602	\$ 242,460	\$ -	\$ 9,931,081
Short-Term Investments	-	21,453,088	-	-	21,453,088
Assets Limited as to Use, Current Portion	1,960,123	-	-	-	1,960,123
Patient and Resident Accounts Receivable, Net of Allowance for Doubtful Accounts of Approximately \$977,000	4,416,099	-	-	-	4,416,099
Other Receivables	634,836	-	-	-	634,836
Prepaid Expenses and Inventory	1,470,418	672	-	136	1,471,226
Total Current Assets	16,851,495	22,772,362	242,460	136	39,866,453
ASSETS LIMITED AS TO USE, NET OF CURRENT PORTION	4,141,338	-	-	-	4,141,338
INVESTMENTS	-	20,561,247	-	-	20,561,247
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	-	1,658,467	-	-	1,658,467
PROPERTY AND EQUIPMENT, NET	105,571,278	7,214	5,649	-	105,584,141
OTHER ASSETS					
Other Assets	86,313	4,578	-	-	90,891
Other Receivables	-	-	-	-	-
Total Other Assets	86,313	4,578	-	-	90,891
INTERCOMPANY					
Due from Affiliate	551,349	-	-	(551,349)	-
Investment in Subsidiary	209,845	-	-	(209,845)	-
	761,194	-	-	(761,194)	-
Total Assets	\$ 127,411,618	\$ 45,003,868	\$ 248,109	\$ (761,058)	\$ 171,902,537

	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
LIABILITIES, NET ASSETS (DEFICIT), AND SHAREHOLDER'S EQUITY					
CURRENT LIABILITIES					
Short-Term Notes Payable	\$ 228,009	\$ -	\$ -	\$ -	\$ 228,009
Current Portion of Long-Term Debt	2,914,486	-	-	-	2,914,486
Accounts Payable	3,426,105	37,890	-	-	3,463,995
Accrued Payroll and Benefits	3,933,749	-	-	-	3,933,749
Accrued Interest	907,878	-	-	-	907,878
Funds Held for Residents	131,372	-	-	-	131,372
Current Portion of Refundable Entrance Fees	1,956,311	-	-	-	1,956,311
Other Liabilities	1,938,887	-	-	-	1,938,887
Total Current Liabilities	15,436,797	37,890	-	-	15,474,687
LONG-TERM LIABILITIES					
Long-Term Debt, Net of Current Portion	69,638,034	-	-	-	69,638,034
Interest Rate Swap Agreement	138,710	-	-	-	138,710
	69,776,744	-	-	-	69,776,744
DUE TO AFFILIATE	-	512,949	38,400	(551,349)	-
ENTRANCE FEES					
Refundable Entrance Fee Liability	40,405,582	-	-	-	40,405,582
Deferred Revenue from Entrance Fees	17,019,063	-	-	-	17,019,063
Total Entrance Fees	57,424,645	-	-	-	57,424,645
ASSET RETIREMENT OBLIGATION					
	260,621	-	-	-	260,621
Total Liabilities	142,898,807	550,839	38,400	(551,349)	142,936,697
NET ASSETS (DEFICIT)					
Unrestricted	(15,487,189)	21,448,561	-	-	5,961,372
Temporarily Restricted	-	963,872	-	-	963,872
Permanently Restricted	-	22,040,596	-	-	22,040,596
Total Net Assets (Deficit)	(15,487,189)	44,453,029	-	-	28,965,840
SHAREHOLDER'S EQUITY					
Common Stock, \$1 Par Value; 100,000 Shares Authorized; 1,000 Shares Issued and Outstanding	-	-	1,000	(1,000)	-
Additional Paid-In Capital	-	-	399,000	(399,000)	-
Retained Deficit	-	-	(190,291)	190,291	-
Total Shareholder's Equity	-	-	209,709	(209,709)	-
Total Liabilities, Net Assets (Deficit), and Shareholder's Equity	\$ 127,411,618	\$ 45,003,868	\$ 248,109	\$ (761,058)	\$ 171,902,537

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED SEPTEMBER 30, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
REVENUE, GAINS, AND OTHER SUPPORT					
Net Patient and Resident Service Revenue	\$ 73,781,802	\$ -	\$ -	\$ (119,705)	\$ 73,662,097
Amortization of Entrance Fees	1,951,134	-	-	-	1,951,134
Contributions	179,629	679,262	-	(189,055)	669,836
Other Revenue	6,109,734	368,470	23,685	(5,720,832)	781,057
Foundation Resident Grants	671,793	-	-	(671,793)	-
Investment Income	106,474	1,151,892	-	(2,620)	1,255,746
Realized Gain on Investments, Net	-	1,593,456	-	-	1,593,456
Net Assets Released from Restrictions	-	160,691	-	-	160,691
Total Revenue, Gains, and Other Support	<u>82,800,566</u>	<u>3,953,771</u>	<u>23,685</u>	<u>(6,704,005)</u>	<u>80,074,017</u>
EXPENSES					
Salaries	33,830,067	326,359	-	-	34,156,426
Employee Benefits	7,417,732	64,800	-	-	7,482,532
Professional Fees	9,036,426	2,602	-	(134,705)	8,904,323
Supplies	8,105,210	-	-	-	8,105,210
Insurance	1,264,537	-	-	-	1,264,537
Utilities	3,551,761	-	-	-	3,551,761
Other Expenses	4,790,738	548,248	776	(352,955)	4,986,807
Interest Expense	3,671,124	-	-	(2,620)	3,668,504
Provision for Bad Debts, Net of Recoveries	765,897	-	-	-	765,897
Depreciation	5,797,899	2,526	245	(245)	5,800,425
Management Fees	5,323,021	-	15,000	(5,338,021)	-
Operational Grants	-	14,606	-	(14,606)	-
Resident Grants	-	671,792	-	(671,792)	-
Contribution Transfer	-	189,055	-	(189,055)	-
Total Expenses	<u>83,554,412</u>	<u>1,819,988</u>	<u>16,021</u>	<u>(6,703,999)</u>	<u>78,686,422</u>
OPERATING INCOME (LOSS)	(753,846)	2,133,783	7,664	(6)	1,387,595
OTHER INCOME (LOSS)					
Change in Unrealized Gains on Investments	-	1,449,537	-	-	1,449,537
Change in Fair Value of Interest Rate Swap Agreement	(138,710)	-	-	-	(138,710)
Equity in Earnings of Subsidiary	7,664	-	-	(7,664)	-
Loss on Extinguishment of Debt	(549,492)	-	-	-	(549,492)
Total Other Income (Loss)	<u>(680,538)</u>	<u>1,449,537</u>	<u>-</u>	<u>(7,664)</u>	<u>761,335</u>
Excess (Deficit) of Revenue over Expenses	(1,434,384)	3,583,320	7,664	(7,670)	2,148,930
OTHER CHANGES IN UNRESTRICTED NET ASSETS (DEFICIT)					
Foundation Expenditures on Behalf of Lutheran Homes	683,810	(683,810)	-	-	-
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	-	60,040	-	-	60,040
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(750,574)	2,959,550	7,664	(7,670)	2,208,970
TEMPORARILY RESTRICTED NET ASSETS					
Contributions	-	281,121	-	-	281,121
Net Assets Released from Restrictions for Operations	-	(160,691)	-	-	(160,691)
Net Assets Released from Restrictions	-	(60,040)	-	-	(60,040)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	60,390	-	-	60,390
PERMANENTLY RESTRICTED NET ASSETS					
Contributions	-	36,334	-	-	36,334
Change in Beneficial Interest in Perpetual Trust	-	138,936	-	-	138,936
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	175,270	-	-	175,270
CHANGE IN NET ASSETS (DEFICIT)	<u>\$ (750,574)</u>	<u>\$ 3,195,210</u>	<u>\$ 7,664</u>	<u>\$ (7,670)</u>	<u>\$ 2,444,630</u>

THE LUTHERAN HOMES OF SOUTH CAROLINA, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS BY DIVISION
YEAR ENDED SEPTEMBER 30, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Home Office	Heritage at Lowman	Franke at Seaside	Lutheran Hospice	Trinity on Laurens	Rice Estate	RoseCrest	Be Well Home Service	Be Well @ Home	Combined
REVENUE, GAINS, AND OTHER SUPPORT										
Net Patient and Resident Service Revenue	\$ -	18,948,222	\$ 17,563,264	\$ 9,742,197	\$ 2,660,546	\$ 9,784,737	\$ 10,975,631	\$ 4,027,418	\$ 79,787	\$ 73,781,802
Amortization of Entrance Fees	-	371,629	1,383,660	-	-	47,250	98,021	-	50,574	1,951,134
Contributions	-	51,439	83,055	17,657	7,554	8,533	7,647	2,228	1,516	179,629
Other Revenue	5,356,643	446,183	218,165	1,090	41,935	23,702	22,016	-	-	6,109,734
Foundation Resident Grants	-	208,488	168,185	31,857	18,664	199,914	33,504	11,181	-	671,793
Investment Income	106,298	1	19	-	-	-	1	155	-	106,474
Total Revenue, Gains, and Other Support	5,462,941	20,025,962	19,416,348	9,792,801	2,728,699	10,064,136	11,136,820	4,040,982	131,877	82,800,566
EXPENSES										
Salaries	3,045,253	8,849,017	6,195,054	3,337,503	1,164,718	4,288,242	4,050,333	2,861,441	38,506	33,830,067
Employee Benefits	699,261	2,053,450	1,418,615	717,783	313,149	922,861	866,606	423,870	2,137	7,417,732
Professional Fees	670,227	1,528,111	2,240,727	1,462,449	71,501	1,340,414	1,677,732	43,388	1,877	9,036,426
Supplies	120,152	2,121,999	2,114,282	775,372	276,748	1,452,862	1,232,834	10,961	-	8,105,210
Insurance	68,450	295,311	605,806	14,250	15,403	138,495	120,822	6,000	-	1,264,537
Utilities	151,805	1,102,622	1,243,481	27,046	140,488	467,109	418,813	397	-	3,551,761
Other Expense	1,306,562	476,845	732,279	879,915	150,339	360,555	510,155	219,303	154,785	4,790,738
Interest Expense	118,418	570,177	1,140,192	15,989	181,168	1,037,596	607,584	-	-	3,671,124
Provision for Bad Debts	-	359,631	117,989	(37,198)	(863)	218,952	87,178	20,208	-	765,897
Depreciation and Amortization	134,938	1,536,315	2,300,673	26,417	223,620	946,088	625,269	4,579	-	5,797,899
Management Fees	-	1,418,392	1,388,138	591,171	199,628	740,725	687,315	292,092	5,560	5,323,021
Total Expenses	6,315,066	20,311,870	19,497,236	7,810,697	2,735,899	11,913,899	10,884,641	3,882,239	202,865	83,554,412
OPERATING INCOME (LOSS)	\$ (852,125)	\$ (285,908)	\$ (80,888)	\$ 1,982,104	\$ (7,200)	\$ (1,849,763)	\$ 252,179	\$ 158,743	\$ (70,988)	\$ (753,846)