The Lutheran Homes of South Carolina, Inc. and Affiliates (Lutheran Homes of South Carolina Foundation, Inc. and Lutheran Services, Inc.)

Consolidated Financial Statements

Years Ended September 30, 2020 and 2019

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

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, 2020 and 2019, and the related consolidated statements of operations, changes in net assets (deficit), 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.

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, 2020 and 2019, 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.

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New Accounting Pronouncement
As described in Note 1 to the consolidated financial statements, the Organization retrospectively adopted ASU 2016-18 *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to display the change in total cash and cash equivalents, including restricted cash and cash equivalents. Our opinion is not modified with respect to this matter.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities, and is 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

December 10, 2020
Greenville, South Carolina

The Lutheran Homes of South Carolina, Inc. and Affiliates
Consolidated Balance Sheets
September 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,754,417**	$ 9,590,482
Short-term investments	**20,823,908**	21,020,211
Assets limited as to use, current portion	**2,069,820**	1,907,894
Patient and resident accounts receivable, net of allowance for doubtful accounts of approximately $673,000 and $993,000 in 2020 and 2019, respectively	**4,524,398**	6,547,001
Other receivables	**195,641**	379,501
Prepaid expenses and supplies	**1,211,906**	2,113,741
Total current assets	**37,580,090**	41,558,830
Assets limited to use, net of current portion	**6,266,346**	6,481,918
Investments	**20,640,143**	20,962,228
Beneficial interest in perpetual trusts	**1,854,116**	1,768,331
Property and equipment, net	**107,139,227**	104,147,159
Other assets	**88,336**	88,336
Total assets	**$ 173,568,258**	$ 175,006,802

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Short-term notes payable	**$ 1,386,204**	$ 2,275,091
Current portion of long-term debt	**3,734,086**	3,674,916
Accounts payable	**3,356,449**	4,102,985
Accrued payroll and benefits	**3,356,532**	3,622,365
Accrued interest	**892,941**	908,139
Funds held for residents	**202,249**	153,652
Current portion of refundable entrance fees	**2,761,038**	2,329,258
Other liabilities	**2,373,396**	1,938,218
Total current liabilities	**18,062,895**	19,004,624
Long-term liabilities:		
Interest rate swap agreement	**915,075**	510,599
Long-term debt, net of current portion	**58,701,599**	62,385,332
Total long-term liabilities	**59,616,674**	62,895,931
Entrance fees:		
Refundable entrance fee liability	**48,006,011**	45,557,907
Deferred revenue from entrance fees	**19,724,165**	20,199,431
Total entrance fees	**67,730,176**	65,757,338
Asset retirement obligation	**235,996**	215,005
Total liabilities	**145,645,741**	147,872,898
Net assets:		
Without donor restrictions	**3,071,831**	2,143,337
With donor restrictions	**24,850,686**	24,990,567
Total net assets	**27,922,517**	27,133,904
Total liabilities and net assets	**$ 173,568,258**	$ 175,006,802

The Lutheran Homes of South Carolina, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2020 and 2019

	2020	2019
Revenues, gains, and other support:		
Net patient and resident service revenue	**$ 71,522,272**	$ 71,859,422
Amortization of entrance fees	**2,771,590**	2,829,969
Contributions	**389,530**	1,170,218
Other revenue	**724,072**	649,576
Provider relief funding	**1,774,999**	-
Investment income	**1,207,749**	1,297,993
Realized gains on investments	**645,566**	412,940
Net assets released from restrictions	**328,763**	295,573
Total revenue, gains, and other support	**79,364,541**	78,515,691
Expenses:		
Salaries	**35,645,793**	34,306,334
Employee benefits	**7,417,103**	7,127,065
Professional fees	**9,655,598**	10,128,808
Supplies	**7,493,471**	7,719,623
Insurance	**1,549,577**	1,387,530
Utilities	**3,621,746**	3,471,226
Other expenses	**4,539,142**	5,063,269
Interest expense	**3,086,180**	3,094,369
Provision for bad debts, net of recoveries	**554,273**	307,983
Depreciation	**6,533,478**	6,327,306
Total expenses	**80,096,361**	78,933,513
Operating loss	**(731,820)**	(417,822)
Other income (loss):		
Change in unrealized gains (losses) on investments	**1,473,499**	(1,288,053)
Change in fair value of interest rate swap agreement	**(404,476)**	(893,692)
Total other income (loss)	**1,069,023**	(2,181,745)
Excess of revenue over (under) expenses	**337,203**	(2,599,567)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions used for purchases of property and equipment	**591,291**	33,704
Change in net assets (deficit) without donor restrictions	**$ 928,494**	**$ (2,565,863)**

The Lutheran Homes of South Carolina, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets (Deficit)
Years Ended September 30, 2020 and 2019

	2020	2019
Changes in net assets (deficit) without donor restrictions:		
Excess of revenue over (under) expenses	**$ 337,203**	$ (2,599,567)
Net assets released from restrictions used for purchase of property and equipment	**591,291**	33,704
Change in net assets (deficit) without donor restrictions	**928,494**	(2,565,863)
Changes in net assets (deficit) with donor restrictions:		
Contributions	**345,866**	538,889
Change in beneficial interest in perpetual trust	**85,785**	(10,693)
Net assets released from restrictions for operations	**(328,763)**	(295,573)
Investment income	**78,412**	97,455
Realized gains on investments, net	**68,723**	45,510
Change in unrealized gains (losses) on investments	**201,387**	(187,109)
Net assets released from restrictions used for purchases of property and equipment	**(591,291)**	(33,704)
Change in net assets (deficit) with donor restrictions	**(139,881)**	154,775
Changes in net assets (deficit)	**788,613**	(2,411,088)
Net assets, beginning of year	**27,133,904**	29,544,992
Net assets, end of year	**$ 27,922,517**	$ 27,133,904

The Lutheran Homes of South Carolina, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019 (As Adjusted)
Cash flows from operating activities:		
Change in net assets	**$ 788,613**	$ (2,411,088)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	**6,533,478**	6,327,306
Amortization of entrance fees	**(2,771,590)**	(2,829,969)
Amortization of deferred financing costs	**104,134**	106,115
Nonrefundable entrance fees received	**4,523,534**	4,580,376
Provision for bad debts, net of recoveries	**554,273**	307,983
Change in fair value of interest rate swap agreement	**404,476**	893,692
Unrealized (gains) losses on investments	**(1,674,886)**	1,475,162
Realized gains on investments	**(714,289)**	(458,450)
Change in beneficial interest in perpetual trust	**(85,785)**	10,693
Proceeds from restricted contributions	**(345,866)**	(538,889)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	**1,652,190**	(2,039,630)
Prepaid expense, inventories and other assets	**901,835**	(761,009)
Accounts payable, accrued expenses and other liabilities	**(976,463)**	1,456,919
Net cash provided by operating activities	**8,893,654**	6,119,211
Cash flows from investing activities:		
Net sales (purchases) of investments	**2,907,563**	(950,197)
Purchase of property and equipment	**(9,071,884)**	(5,791,260)
Net cash used by investing activities	**(6,164,321)**	(6,741,457)
Cash flows from financing activities:		
Proceeds from restricted contributions	**345,866**	538,889
Proceeds from short-term notes payable	**1,386,204**	2,275,091
Payment of short-term notes payable	**(2,275,091)**	(291,246)
Repayments on long-term debt	**(3,728,697)**	(3,642,151)
Proceeds from entrance fees	**3,949,402**	4,616,248
Refunds of entrance fees	**(3,296,728)**	(3,497,505)
Net cash used by financing activities	**(3,619,044)**	(674)
Net decrease in cash, cash equivalents, and restricted cash	**(889,711)**	(622,920)
Cash, cash equivalents, and restricted cash, beginning of year	**17,980,294**	18,603,214
Cash, cash equivalents, and restricted cash, end of year	**$ 17,090,583**	$ 17,980,294
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 3,101,378**	$ 3,112,789
Purchase of property and equipment included in accounts payable	**$ 453,662**	$ -
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets that sum to the total of the same such amounts in the consolidated statement of cash flows:		
Cash and cash equivalents	**$ 8,754,417**	$ 9,590,482
Assets limited as to use, current portion	**2,069,820**	1,907,894
Assets limited to use, net of current portion	**6,266,346**	6,481,918
Cash, cash equivalents, and restricted cash, end of year	**$ 17,090,583**	$ 17,980,294

Notes to the Consolidated Financial Statements

1. 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 the "Organization"):

Entities	Location	Date Incorporated
The Lutheran Homes of South Carolina, Inc. (Nonprofit) ("Corporate")	Irmo, SC	1924
Affiliate (Nonprofit)		
Lutheran Homes of South Carolina Foundation, Inc. (the "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 homes 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. Corporate has the authority to appoint voting members of the board of trustees of the merged entity and to approve its by-laws.

Lutheran Services

During 1991, Corporate 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. Corporate owns 1,000 shares (100% of the outstanding shares) of Lutheran Services, Inc.

Governing Board

Corporate's Board of Trustees is comprised of a minimum of seven and maximum of twelve members, of which, two members are ratified by the Evangelical Lutheran Church in America (ELCA) South Carolina Synod Council annually, the board members will be Lutheran or of Christian faiths that are in communion with ELCA and the Bishop or designee of the South Carolina Synod serves as a voting member.

Principles of Consolidation

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

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 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 held in investments in contemplation of investment purchases. The Organization places its temporary cash investments with high credit quality financial institutions. Cash balances in each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, amounts on deposit may be in excess of the insured limit. It is management's opinion that the Organization is not exposed to any significant credit risk related to cash.

Assets Limited as to Use

Assets limited as to use include amounts held for bond indenture, endowment funds for the direct benefit of current or future residents and funds restricted for construction. Amounts required to meet current liabilities of the Organization have been reclassified in the consolidated balance sheets at September 30, 2020 and 2019.

Patient and Resident Accounts Receivable

The Organization grants credit without collateral to its residents. The Organization establishes an allowance for doubtful accounts to reduce receivables to 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, 2020 and 2019, accounts receivable are recorded net of allowance for doubtful accounts of approximately $673,000 and $993,000, respectively.

Supplies

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

Investments

Investments including 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 (under) 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 (under) expenses.

Beneficial Interest in Perpetual Trust

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 net assets with donor restrictions. 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. Subsequent changes in the estimated fair value of the perpetual trusts, that have occurred as a result of market fluctuations, were in the amounts of $85,785 and $(10,693), for the years ended September 30, 2020 and 2019, respectively, and are shown on the consolidated statements of changes in net assets as change in beneficial interest in perpetual trust.

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. 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, and equipment are reported as unrestricted support at their estimated fair values at the date of donation, and are excluded from excess of revenue over (under) 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.

When capital assets are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized in the consolidated statement of operations.

Debt Issuance Costs

Long-term debt issuance costs are amortized using the straight-line method over the terms of the related financing agreements and recorded as a contra liability against the outstanding long-term debt on the consolidated balance sheets. Amortization expense was approximately $104,000 and $106,000 for the years ended September 30, 2020 and 2019, respectively.

Interest Rate Swap Agreement

The Organization entered into an 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 consolidated balance sheet at estimated fair value at September 30, 2020 and 2019. The Organization 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 contracts provide for refunds of advance fees on a sliding scale depending on ninety, fifty, or zero percent terms. 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. The gross amount of contractually refundable entrance fees under contracts existing at September 30, 2020 and 2019 is $49,896,774 and $48,992,955, respectively.

Asset Retirement Obligations

This represents obligations to dispose of assets that are legally required to be removed at a future date. They are recorded at the net present value using a risk-free interest rate and inflationary rate.

Net Assets

The Organization reports information regarding its consolidated financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

- Without donor restrictions – resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.
- With donor restrictions – resources that carry a donor-imposed restriction that permits the Organization to use or expend the donated assets as specified and is satisfied by the passage of time or actions of the Organization. This also includes resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Organization to use or expend part or all of the income derived from the donated assets.

Net Patient and Resident Service Revenue

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. 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. 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.

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 the consolidated financial statements.

Excess of Revenue Over (Under) Expenses

The consolidated statements of operations include excess of revenue over (under) expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over (under) 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's unrealized gains and losses on investments are included within the excess of revenue over (under) expenses.

Contributed Services

The Organization 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, the Organization 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 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 has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2020.

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 use 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 to 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 cost for services under the Organization's benevolent assistance policy to be approximately $585,000 and $786,000 for the years ended September 30, 2020 and 2019, respectively.

New Accounting Pronouncements

In 2020, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The accompanying 2019 consolidated financial statements have been adjusted to reflect retrospective application of ASU 2016-18.

A summary follows of the adjustments made to the accompanying consolidated statement of cash flows for the year ended September 30, 2019 as a result of the implementation of ASU 2016-18:

	As Previously Presented	Adjustment	As Adjusted
Net cash, cash equivalents and restricted cash used by investing activities	$ (6,913,171)	$ 171,714	$ (6,741,457)
Net decrease in cash, cash equivalents and restricted cash	$ (794,634)	$ 171,714	$ (622,920)
Cash, cash equivalents, and restricted cash, beginning of year	$ 10,385,116	$ 8,218,098	$ 18,603,214
Cash, cash equivalents, and restricted cash, end of year	$ 9,590,482	$ 8,389,812	$ 17,980,294

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which was amended in June 2020 by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities.* The amendments in ASU 2016-02 revised the accounting related to lessee accounting. Under the new guidance, the Organization will be required to recognize a lease liability and a right-of-use asset for all leases. ASU 2020-05 extended the effective date for the Organization to October 1, 2021, with early adoption permitted, and should be applied through the modified retrospective transition approach for leases existing at, or entered into, after that date. The primary impact of adoption is a gross-up of right of use assets and lease liability for operating leases. The Organization is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

2. Assets Limited as to Use and Investments

Assets limited as to use are restricted for the following at September 30:

	2020	2019
Restricted by donors	**$ 2,112,846**	$ 2,357,478
Residency funds held in trust	**199,443**	151,345
Bond indenture	**6,023,877**	5,880,989
Less current portion	**(2,069,820)**	(1,907,894)
	$ 6,266,346	$ 6,481,918

Assets limited as to use and investments, stated at fair value, at September 30, are set forth below:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash	**$ 11,145,712**	**$ 11,145,712**	$ 8,395,459	$ 8,395,459
Certificate of deposit	**541,000**	**544,092**	1,254,000	1,256,772
Marketable equity securities	**20,762,344**	**24,230,236**	21,491,366	23,546,487
Bonds and fixed income	**9,972,001**	**10,457,778**	13,489,590	13,734,067
Real estate	**3,615,129**	**3,201,149**	3,678,446	3,264,466
Alternative investments	**221,250**	**221,250**	175,000	175,000
	$ 46,257,436	**49,800,217**	$ 48,483,861	50,372,251
Less short-term investments		**(20,823,908)**		(21,020,211)
Less current portion of assets limited as to use		**(2,069,820)**		(1,907,894)
Assets limited as to use and investments		**$ 26,906,489**		$ 27,444,146

The Organization incurred investment fees of approximately $197,000 and $196,000 in 2020 and 2019, respectively.

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

The Foundation's 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.

3. Property and Equipment

Property and equipment at September 30 consists of the following:

	2020	2019
Buildings	**$ 168,418,386**	$ 163,919,273
Furniture and equipment	**21,794,296**	20,938,819
Land improvements	**5,316,737**	5,195,036
Land	**4,601,151**	4,523,807
Motor vehicles	**1,557,662**	1,431,975
Leasehold improvements	**287,875**	287,875
	201,976,107	196,296,785
Less accumulated depreciation	**(99,773,574)**	(93,243,209)
	102,202,533	103,053,576
Construction in progress	**4,936,694**	1,093,583
Total	**$ 107,139,227**	$ 104,147,159

Depreciation expense totaled $6,533,478 and $6,327,306 in 2020 and 2019, respectively. The Organization had no capitalized interest during the years ended September 30, 2020 and 2019.

The Organization entered into, a contract for approximately $4,020,400 for construction of 20 apartments at the Lowman campus. As of September, 30 2020, the Organization had paid approximately $3,450,200. The apartments are planned to be completed in December 2020.

The Organization entered into, a contract for approximately $401,000 for renovations of Apartments at the Franke campus. As of September, 30 2020, the Organization had paid approximately $28,000. The renovations are planned to be completed in February 2021.

4. Short-Term Notes Payable

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

Description	2020	2019
Revolving line of credit for operations, interest rate of LIBOR plus 2%, (2.15% as of September 30, 2020) due in monthly installment payments of interest and principal beginning on March 10, 2020 and maturing March 13, 2021, uncollateralized.	**$ 1,085,051**	$ 1,182,513
Notes to credit corporation for liability insurance, interest rate of 5.9%, principal due in eleven monthly payments beginning on February 1, 2020, uncollateralized, due in January 2021.	**89,505**	-
Notes to credit corporation for liability insurance, interest rate of 5.5%, principal due in eleven monthly payments beginning on May 1, 2020, uncollateralized, due in April 2021.	**211,648**	-
Notes to credit corporation for liability insurance, interest rate of 5.75%, principal due in eleven monthly payments beginning on February 1, 2019, uncollateralized, paid in January 2020.	**-**	92,573
Notes to credit corporation for liability insurance, interest rate of 6.25%, principal due in eleven monthly payments beginning on May 1, 2019, uncollateralized, paid in April 2020.	**-**	1,000,005
Total short-term notes payable	**$ 1,386,204**	$ 2,275,091

The Organization obtained a line of credit with financial institution in June 2020 in the amount of $1,000,000 that expires on December 31, 2020. Interest on any outstanding balance is LIBOR plus 2.5%. As of September 30,2020, there was no outstanding balance.

5. Long-Term Debt

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

Description	2020	2019
2.267% 2012 Tax-Exempt Revenue Refunding Bonds, principal maturing in varying annual amounts, paid off in May 2020.	**$ -**	$ 2,000,000
5% to 5.125% 2013 Tax-Exempt Refunding Bonds, principal maturing in varying annual amounts, due May 2048, collateralized by a pledge of the Organization's 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 the Organization's gross receipt; security interest in all fixtures, furniture and equipment; and first mortgages on land and buildings.	**14,318,069**	15,992,997
5% 2017B Tax-Exempt Revenue Refunding Bonds, principal maturing in varying annual amounts, due May 2042, collateralized by a pledge of the Organization's gross receipts; security interests in all fixtures, furniture and equipment; and first mortgages on land and buildings.	**12,855,000**	12,855,000
Total	**62,623,069**	66,297,997
Unamortized bond premium, net	**1,311,439**	1,365,208
Unamortized bond issuance costs	**(1,498,823)**	(1,602,957)
Less current portion	**(3,734,086)**	(3,674,916)
Total long-term debt	**$ 58,701,599**	$ 62,385,332

In November 2017, the Organization 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. The Series 2017B Bonds were issued to completely defease the previously issued Series 2007 Revenue Bonds.

On April 1, 2017, the Organization 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% (1.13% at September 30, 2020). The Series 2017 Bond was issued to partially defease the previously issued Series 2007 Revenue Bonds and to pay certain expenses incurred in connection with the issuance of the bonds.

Effective January 1, 2018, as a result of the Federal Tax Cuts and Jobs Act and by function of the debt agreements for tax law changes, the effective interest rate charged on the Series 2017 Bonds increasing from 68% of one-month LIBOR plus 0.85% to 80% of one-month LIBOR plus 1.01%.

On May, 1, 2013, the Organization 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% to 5.125% (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, the Organization 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. The Series 2012 Bonds were repaid on May 1, 2020.

Under the most restrictive provisions of the Bond agreements, the Organization 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 to 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, 2020, 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,	2017B Bonds	2017 Bonds	2013 Bonds	Total
2021	-	1,714,086	2,020,000	3,734,086
2022	-	1,761,640	2,120,000	3,881,640
2023	-	1,810,035	2,225,000	4,035,035
2024	-	1,853,784	2,335,000	4,188,784
2025	-	1,896,690	2,450,000	4,346,690
Thereafter	12,855,000	5,281,834	24,300,000	42,436,834
Total	12,855,000	14,318,069	35,450,000	62,623,069
Current portion	-	(1,714,086)	(2,020,000)	(3,734,086)
Unamortized bond premium	632,249	-	679,190	1,311,439
Unamortized bond issuance costs	(336,679)	(269,111)	(893,033)	(1,498,823)
Long-term portion	$ 13,150,570	$ 12,334,872	$ 33,216,157	$ 58,701,599

6. Interest Rate Swap Agreement

In 2017, the Organization entered into a forward interest rate swap agreement with First Horizon 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. The Organization pays a fixed rate of 2.884% and receives a floating amount of 80.8% of one-month LIBOR plus 1.01%.

The following schedule outlines the terms and the change in fair market values of the derivative instruments:

Fixed rate	2.884%
Floating rate (percentage of LIBOR)	80.8%+1.01%
Fair value at September 30, 2019	$ 510,599
Unrealized loss	404,476
Fair value at September 30, 2020	$ 915,075

By using an interest rate swap to hedge exposure to changes in interest rates, the Organization 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).

7. Net Asset Restrictions and Designations

Net assets with donor restrictions restricted by purpose or time of $2,112,846 and $2,357,478 at September 30, 2020 and 2019, respectively, were available for equipment purchases, maintenance and improvements to grounds and communities, and resident aid.

The Organization's endowments consist of funds established for a variety of purposes and are held in perpetuity. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including designated by the Board of Trustees as to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions that are held in perpetuity amounted to $22,737,840 and $22,633,089 at September 30, 2020 and 2019, respectively. Income from these assets was available for resident aid, maintenance and improvement of grounds and communities, and general needs of the Organization.

At September 30, 2020 and 2019, the Organization had the following net assets with donor restrictions that are held in perpetuity:

	2020	2019
Endowment funds	**$ 20,883,724**	$ 20,864,758
Perpetual trusts	**1,854,116**	1,768,331
Total net assets with donor restrictions held in perpetuity	**$ 22,737,840**	$ 22,633,089

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 net assets held in perpetuity (1) the original value of gifts donated and (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets with donor restrictions, time restricted, 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, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies of the fair value of assets associated with individual donor restricted endowment funds below the level the donor or the Act requires the Organization to retain as a fund of perpetual duration as of September 30, 2020 and 2019.

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.

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.

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, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2019	$ 21,020,211	$ 22,011,228	$ 43,031,439
Investment income	664,641	78,412	743,053
Realized gains and change in unrealized gains on investment, net	2,119,063	270,109	2,389,172
Total investment return	2,783,704	348,521	3,132,225
Contributions	-	18,966	18,966
Appropriation of expenditures	(2,980,007)	(110,498)	(3,090,505)
Endowment net assets, September 30, 2020	$ 20,823,908	$ 22,268,217	$ 43,092,125

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2018	$ 22,128,732	$ 21,981,007	$ 44,109,739
Investment income	743,761	97,455	841,216
Realized gains and change in unrealized gains on investment, net	(875,114)	(141,599)	(1,016,713)
Total investment return	(131,353)	(44,144)	(175,497)
Contributions	797,262	124,885	922,147
Correction of net asset classification	(99,416)	99,416	-
Appropriation of expenditures	(1,675,014)	(149,936)	(1,824,950)
Endowment net assets, September 30, 2019	$ 21,020,211	$ 22,011,228	$ 43,031,439

8. Functional Expenses

The Organization provides various health-related and other services through its nursing and residential care facilities and hospice services. The cost of providing various programs and supporting services has been reported on a functional basis below. Accordingly, certain costs have been allocated to program initiatives and supporting services based on estimates made by management.

The tables below report certain categories of expenses that are attributable to one or more program or supporting services of the Organization as of September 30:

2020

	Health Care Services			Support Services		
	CCRC	Hospice	Homecare	General and Administrative	Fundraising	Total
Salaries	$ 24,296,391	$ 2,718,388	$ 2,116,868	$ 6,401,857	$ 112,289	$ 35,645,793
Employee benefits	5,510,469	732,635	306,583	849,632	17,784	7,417,103
Professional fees	7,775,366	1,428,000	26,187	426,045	-	9,655,598
Supplies	6,791,069	422,121	15,221	262,862	2,198	7,493,471
Insurance	1,430,000	25,000	17,000	77,577	-	1,549,577
Utilities	3,256,755	31	4,000	360,960	-	3,621,746
Other expenses	1,657,044	637,728	315,126	1,893,090	36,154	4,539,142
Interest expense	2,905,402	11,000	-	169,778	-	3,086,180
Bad Debt	432,000	66,000	56,000	273	-	554,273
Depreciation	6,393,274	47,000	2,000	91,204	-	6,533,478
Total	$ 60,447,770	$ 6,087,903	$ 2,858,985	$ 10,533,278	$ 168,425	$ 80,096,361

	2019					
	Health Care Services			Support Services		
	CCRC	Hospice	Homecare	General and Administrative	Fundraising	Total
Salaries	$ 23,119,648	$ 2,657,669	$ 2,167,824	$ 6,249,686	$ 111,507	$ 34,306,334
Employee benefits	5,277,936	700,837	350,195	780,205	17,892	7,127,065
Professional fees	8,325,385	1,356,000	18,472	428,951	-	10,128,808
Supplies	7,015,912	401,745	953	301,013	-	7,719,623
Insurance	1,271,000	25,000	6,000	85,530	-	1,387,530
Utilities	3,104,700	16,000	-	350,526	-	3,471,226
Other expenses	1,548,172	637,057	328,838	2,397,497	151,688	5,063,252
Interest expense	2,988,000	11,000	-	95,369	-	3,094,369
Bad Debt	275,000	13,000	20,000	-	-	308,000
Depreciation	6,201,000	40,000	1,000	85,306	-	6,327,306
Total	$ 59,126,753	$ 5,858,308	$ 2,893,282	$ 10,774,083	$ 281,087	$ 78,933,513

9. Fair Value Measurements

Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

The following tables set forth by level within the fair value hierarchy the Organization's assets accounted for at fair value on a recurring basis as of September 30, 2020 and 2019.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Marketable equity securities	$ 24,230,236	$ -	$ -	$ 24,230,236
Bonds and fixed income	-	10,457,778	-	10,457,778
Beneficial interest in perpetual trust	-	-	1,854,116	1,854,116
Real estate	-	-	3,201,149	3,201,149
Total assets measured at fair value	$ 24,230,236	$ 10,457,778	$ 5,055,265	$ 39,743,279
Liabilities				
Interest rate swap	$ -	$ 915,075	$ -	$ 915,075

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Marketable equity securities	$ 23,546,487	$ -	$ -	$ 23,546,487
Bonds and fixed income	-	13,734,067	-	13,734,067
Beneficial interest in perpetual trust	-	-	1,768,331	1,768,331
Real estate	-	-	3,264,466	3,264,466
Total assets measured at fair value	$ 23,546,487	$ 13,734,067	$ 5,032,797	$ 42,313,351
Liabilities				
Interest rate swap	$ -	$ 510,599	$ -	$ 510,599

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:

Level 3 - Beneficial Interest in Perpetual Trust	
Balance at September 30, 2018	$ 1,779,024
Contributions	-
Change in beneficial interest	(10,693)
Balance at September 30, 2019	1,768,331
Contributions	-
Change in beneficial interest	85,785
Balance at September 30, 2020	$ 1,854,116
Level 3 - Real Estate	
Balance at September 30, 2018	$ 4,795,946
Change in value	(31,480)
Sale of real estate	(1,500,000)
Balance at September 30, 2019	3,264,466
Sale of real estate	(63,317)
Balance at September 30, 2020	$ 3,201,149

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 Input
Beneficial Interest in Perpetual Trust	$ 1,854,116	Estimated present value of estimated future cash flows or market value	Future cash flows or by valuation of assets by trustee
Real Estate	$ 3,201,149	Market value	Appraisal

10. Employee Benefit Plans

Retirement Plan

The Organization provides a contributory retirement plan (the Plan) for its employees. The Plan is administered by Portico Benefit Services, a ministry of the Evangelical Lutheran Church in America. Any employee who has completed one year of service with the Organization 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. The Organization matches amounts contributed by the participant up to 2% of their salary. Total costs incurred by the Organization for the Plan for the years ended September 30, 2020 and 2019, were approximately $249,000 and $289,000, respectively.

Deferred Compensation Plan

The Organization 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. The Organization match was changed to 100% for all key employees to the first four percent of their annual compensation and 100% for officers to the first six percent of their annual compensation. Effective February 2017, the Organization 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 4% by the employer of their annual compensation.

Expenses related to both of the Executive Retirement Plans were approximately $127,000 and $123,000 in 2020 and 2019, respectively.

11. Operating Leases

The Organization leases certain office buildings and equipment under noncancelable operating leases that expire on various dates through October 2023.

Total rental expenses on all operating leases were approximately $143,000 and $161,000 for 2020 and 2019, respectively.

Future minimum lease payments under operating leases are as follows:

Year Ending September 30,		
2021	$	143,602
2022		118,620
2023		36,795
2024		7,824
2025		85
	$	306,926

12. Property on Lease

The Lutheran Homes of South Carolina, Inc.

Corporate leases real estate to Prisma Health. This lease was extended, effective October 1, 2018. The future minimum rental of this lease is approximately $83,000 annually which is set to expire on September 30, 2020. Rent is being paid monthly and both entities are actively negotiating the terms.

Foundation

The Foundation leases to Prisma 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 $548,000 through April 2023. The Foundation's net book value in the building and on the land as of September 30, 2020 and 2019 was approximately $1,900,000.

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 $17,000 annually through June 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.

13. Concentration of Credit Risk

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

The mix of receivables from patients and third-party payers at September 30 was as follows:

	2019	**2019**
Medicare	**36%**	40%
Medicaid	**11%**	11%
Private and Other	**53%**	49%
	100%	100%

14. Commitments and Contingencies

The Organization 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. The Organization maintains professional liability (malpractice) coverage of up to $1,000,000 per claim and an aggregate limit of $3,000,000. 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.

15. 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, 2020 and 2019 was approximately $34,000 and $60,000, respectively. This estimate is included in other liabilities on the Organization's consolidated balance sheets.

16. Revenue Recognition

The Organization generates revenues, primarily by providing housing and health services to its residents. The following streams of revenue are recognized as follows:

Monthly service fees:
The contracts that residents select require an advanced fee and monthly fees based upon the type of space they are applying for. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance. Payment terms are usually due within 30 days. The services provided encompass social, recreational, dining along with assisted living and nursing care and these performance obligations are earned each month. Under ASC Topic 606, management has determined that the performance obligation for the standing obligation to provide the appropriate level of care is the predominate component and does not contain a lease component under ASC Topic 840. Resident fee revenue for non-routine or additional services are billed monthly in arrears and recognized when the service is provided.

Entrance fees:
The nonrefundable entrance fees are recognized as deferred revenue upon receipt of the payment and included in liabilities in the consolidated balance sheets until the performance obligations are satisfied. The refundable portion of an entrance fee is not considered part of the transaction price and as such is recorded as a liability in the consolidated balance sheets. Additionally, management has determined the contracts do not contain a significant financing component as the advanced payment assures residents the access to health care in the future. These deferred amounts are then amortized on a straight-line basis into revenue on a monthly basis over the life of the resident as the performance obligation is the material right associated with access to future services as described in FASB ASC 606-10-55 paragraph 42 and 51.

Health care services:
In the facility, the Organization provides assisted and nursing care to residents who are covered by government and commercial payers. The Organization is paid fixed daily rates from government payers. The fixed daily rates and other fees are billed in arrears monthly. The monthly fees represent the most likely amount to be received from the 3rd party payors. Most rates are predetermined from Medicare and Medicaid. Under ASC Topic 606, management has elected to utilize the portfolio approach in aggregating the revenues under these revenue streams.

Home care and Hospice services:
The Organization provides hospice care to patients who are covered by government and commercial payers. The Organization is paid fixed rates from government payers. The fixed rates and other fees are billed in arrears monthly. The monthly fees represent the most likely amount to be received from the 3rd party payors. Most rates are predetermined from Medicare and Medicaid. Under ASC Topic 606, management has elected to utilize the portfolio approach in aggregating the revenues under these revenue streams.

	Year Ended September 30, 2020				
	Independent Living	**Assisted Living**	**Skilled Nursing**	**Home Care & Hospice**	**Total**
Private pay	**$ 10,206,360**	**$ 15,354,684**	**$ 14,973,111**	**$ 2,743,489**	**$ 43,277,644**
Government	**-**	**351,931**	**17,844,110**	**8,161,094**	**26,357,135**
Other/3rd party payors	**-**	**-**	**1,788,727**	**98,766**	**1,887,493**
Total	**$ 10,206,360**	**$ 15,706,615**	**$ 34,605,948**	**$ 11,003,349**	**$ 71,522,272**

	Year Ended September 30, 2019				
	Independent Living	Assisted Living	Skilled Nursing	Home Care & Hospice	Total
Private pay	$ 10,018,986	$ 15,436,012	$ 14,241,388	$ 3,276,048	$ 42,972,434
Government	-	498,715	17,793,129	8,352,989	26,644,833
Other/3rd party payors	-	-	2,131,198	110,957	2,242,155
Total	$ 10,018,986	$ 15,934,727	$ 34,165,715	$ 11,739,994	$ 71,859,422

17. Liquidity and Availability

The Organization monitors and maintains liquidity sufficient to meet operating and capital needs as well as contractual commitments while maximizing any return on available funds. The Organization's financial assets available within one year of September 30 are as follows:

	2020	2019
Cash and cash equivalents	$ **8,754,417**	$ 9,590,482
Patient and resident accounts receivable, net	**4,524,398**	6,547,001
Other receivables	**195,641**	379,501
Investments	**41,464,051**	41,982,439
	54,938,507	58,499,423
Amounts unavailable to management due to donor restrictions	**24,850,686**	24,990,567
Total financial assets available to meet cash needs for general expenditures within one year	**$ 30,087,821**	$ 33,508,856

The Organization's endowment funds consist of donor-restricted endowments specified for a variety of purposes. Income from donor-restricted endowments is restricted for specified purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

18. COVID-19 Pandemic

In response to the global coronavirus disease pandemic across the United States of America, the federal government and a large number of state governments, including South Carolina, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including limitations on public gatherings, wearing of masks in public, and restrictions on restaurant and other businesses operating capacity.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the Organization's service area, could result in an abnormally high demand for health care services. The treatment of this highly contagious disease could also result in a temporary shutdown of areas of the facility or staffing shortages. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the Organization's partners, suppliers, distributors and payors, potentially disrupting or delaying the Organization's supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the significance of the duration of the COVID-19 pandemic, the impact on operating income, the costs associated with responding to this pandemic, or what federal funds may continue be made available to help recover from this crisis. The Organization has implemented various cost saving measures to help mitigate any financial impact.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the Organization expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the Organization has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the Organization’s financial condition, liquidity, and results of operations in the future.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. The Organization received CARES Act Provider Relief Funds general and targeted distributions of approximately $2,950,000 in the year ended September 30, 2020. The Organization recognized approximately $1,775,000 as revenue in fiscal year 2020 to the extent the conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met, resulting in the simultaneous release of restrictions. The remaining CARES Act payments of approximately $1,175,000 are recorded in other liabilities on the accompanying consolidated balance sheet as of September 30, 2020. The Organization has until June 30, 2021 to utilize remaining funds toward expenses attributable to coronavirus but not reimbursed by other sources or to lost revenues per the terms and conditions.

In October and November 2020, HHS issued Post-Payment Notices of Reporting Requirements (PPNRR) which establish the reporting criteria for providers which received Provider Relief Fund (PRF) funding under the CARES Act. The guidance provided in the PPNRR and subsequently issued responses to frequently asked questions is advisory in nature, and subject to change, and it is unknown at the report date what impacts this, and future guidance will have on PRF funding and revenue recognition. As such, amounts recognized as PRF for the year ended September 30, 2020 are subject to change and those changes could be material. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

Additionally, the Organization has elected payroll tax deferrals of approximately $540,000 which are due back to the IRS in fiscal years 2021 and 2022, which are included in accrued payroll and benefits in the accompanying consolidated balance sheets.

19. Subsequent Events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through December 10, 2020, which is date the consolidated financial statements were issued.

Supplementary Information

	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 7,699,119	$ 786,582	$ 268,716	$ -	$ 8,754,417
Short-term investments	-	20,823,908	-	-	20,823,908
Assets limited as to use, current portion	2,069,820	-	-	-	2,069,820
Patient and resident accounts receivable, net of allowance for doubtful accounts of approximately $673,000	4,524,398	-	-	-	4,524,398
Other receivables	195,641	-	-	-	195,641
Prepaid expenses and supplies	1,205,413	6,493	-	-	1,211,906
Total current assets	15,694,391	21,616,983	268,716	-	37,580,090
Assets limited to use, net of current portion	4,153,500	2,112,846	-	-	6,266,346
Investments	544,092	20,096,051	-	-	20,640,143
Beneficial interest in perpetual trusts	-	1,854,116	-	-	1,854,116
Property and equipment, net	107,108,355	25,823	5,049	-	107,139,227
Other assets	86,313	2,023	-	-	88,336
Intercompany:					
Due from affiliate	(2,136,868)	2,251,738	-	(114,870)	-
Investment in subsidiary	225,563	-	-	(225,563)	-
	(1,911,305)	2,251,738	-	(340,433)	-
Total assets	$ 125,675,346	$ 47,959,580	$ 273,765	$ (340,433)	$ 173,568,258

(Continued)

	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities:					
Short-term notes payable	$ 1,386,204	$ -	$ -	$ -	$ 1,386,204
Current portion of long-term debt	3,734,086	-	-	-	3,734,086
Accounts payable	3,318,098	38,351	-	-	3,356,449
Accrued payroll and benefits	3,356,532	-	-	-	3,356,532
Accrued interest	892,941	-	-	-	892,941
Funds held for residents	202,249	-	-	-	202,249
Current portion of refundable entrance fees	2,759,236	-	1,802	-	2,761,038
Other liabilities	2,373,396	-	-	-	2,373,396
Total current liabilities	18,022,742	38,351	1,802	-	18,062,895
Long-term liabilities:					
Interest rate swap agreement	915,075	-	-	-	915,075
Long-term debt, net of current portion	58,701,599	-	-	-	58,701,599
Total long-term liabilities	59,616,674	-	-	-	59,616,674
Due to affiliate	-	68,470	46,400	(114,870)	-
Entrance fees:					
Refundable entrance fee liability	48,006,011	-	-	-	48,006,011
Deferred revenue from entrance fees	19,724,165	-	-	-	19,724,165
Total entrance fees	67,730,176	-	-	-	67,730,176
Asset retirement obligation	235,996	-	-	-	235,996
Total liabilities	145,605,588	106,821	48,202	(114,870)	145,645,741
Net assets:					
Without donor restrictions	(19,930,242)	23,002,073	-	-	3,071,831
With donor restrictions	-	24,850,686	-	-	24,850,686
Total net assets (deficit)	(19,930,242)	47,852,759	-	-	27,922,517
Shareholder's equity					
Common stock, $1 par value; 100,000 authorized; 1,000 shares issued and outstanding	-	-	1,000	(1,000)	-
Additional paid-in capital	-	-	399,000	(399,000)	-
Retained deficit	-	-	(174,437)	174,437	-
Total shareholder's equity	-	-	225,563	(225,563)	-
Total liabilities, net assets (deficit), and shareholder's equity	$ 125,675,346	$ 47,959,580	$ 273,765	$ (340,433)	$ 173,568,258

	The Lutheran Homes of South Carolina, Inc.	Lutheran Homes of South Carolina Foundation, Inc.	Lutheran Services, Inc.	Eliminations	Consolidated
Revenues, gains, and other support:					
Net patient and resident service revenue	$ 71,678,804	$ -	$ -	$ (156,532)	$ 71,522,272
Amortization of entrance fees	2,771,590	-	-	-	2,771,590
Contributions	341,836	395,801	-	(348,107)	389,530
Other revenue	6,588,486	371,086	23,687	(6,259,187)	724,072
Provider relief funding	1,774,999	-	-	-	1,774,999
Foundation resident grants	585,129	-	-	(585,129)	-
Investment income	173,838	1,033,911	-	-	1,207,749
Realized gains on investments, net	-	645,566	-	-	645,566
Net assets released from restrictions	-	328,763	-	-	328,763
Total revenue, gains, and other support	83,914,682	2,775,127	23,687	(7,348,955)	79,364,541
Expenses:					
Salaries	35,236,654	409,139	-	-	35,645,793
Employee benefits	7,352,303	64,800	-	-	7,417,103
Professional fees	9,811,001	1,129	-	(156,532)	9,655,598
Supplies	7,493,471	-	-	-	7,493,471
Insurance	1,549,577	-	-	-	1,549,577
Utilities	3,621,746	-	-	-	3,621,746
Other expenses	4,417,184	489,599	2,039	(369,680)	4,539,142
Interest expense	3,086,180	-	-	-	3,086,180
Provision for bad debts, net of recoveries	554,273	-	-	-	554,273
Depreciation	6,525,816	7,662	246	(246)	6,533,478
Management fees	5,872,761	-	16,500	(5,889,261)	-
Residential grants	-	585,129	-	(585,129)	-
Contribution transfer	-	348,107	-	(348,107)	-
Total expenses	85,520,966	1,905,565	18,785	(7,348,955)	80,096,361
Operating income (loss)	(1,606,284)	869,562	4,902	-	(731,820)
Other income (loss):					
Change in unrealized gains on investments	-	1,473,499	-	-	1,473,499
Change in fair value of interest rate swap agreement	(404,476)	-	-	-	(404,476)
Equity in earnings of subsidiary	4,902	-	-	(4,902)	-
Total other income (loss)	(399,574)	1,473,499	-	(4,902)	1,069,023
Excess of revenue over (under) expenses	(2,005,858)	2,343,061	4,902	(4,902)	337,203
Other changes in net assets (deficit) without donor restrictions:					
Foundation expenditures on behalf of Lutheran Homes	907,742	(907,742)	-	-	-
Net assets released from restrictions used for purchase of property and equipment	-	591,291	-	-	591,291
Change in net assets (deficit) without donor restrictions	(1,098,116)	2,026,610	4,902	(4,902)	928,494
Change in net assets (deficit) with donor restrictions:					
Contributions	-	345,866	-	-	345,866
Change in beneficial interest in perpetual trust	-	85,785	-	-	85,785
Net assets released from restrictions for operations	-	(328,763)	-	-	(328,763)
Investment income	-	78,412	-	-	78,412
Realized gains on investments, net	-	68,723	-	-	68,723
Change in unrealized gains on investments	-	201,387	-	-	201,387
Net assets released from restrictions used for purchase of property and equipment	-	(591,291)	-	-	(591,291)
Change in net asset (deficit) with donor restrictions	-	(139,881)	-	-	(139,881)
Change in net assets (deficit)	$ (1,098,116)	$ 1,886,729	$ 4,902	$ (4,902)	$ 788,613

The Lutheran Homes of South Carolina, Inc. and Affiliates
Consolidating Statement of Operations by Division
Year Ended September 30, 2020

	Home Office	Heritage at Lowman	Franke at Seaside	Lutheran Hospice	Trinity on Laurens	Rice Estate	RoseCrest	Be Well Home Service	Be Well @ Home	Combined
Revenues, gains, and other support:										
Net patient and resident service revenue	$ -	$ 19,834,189	$ 18,524,942	$ 8,389,523	$ 2,683,691	$ 11,076,167	$ 8,065,766	$ 2,804,707	$ 299,819	$ 71,678,804
Amortization of entrance fees	-	464,638	2,039,472	-	-	29,766	87,918	-	149,796	2,771,590
Contributions	2,800	69,105	151,988	20,997	26,871	19,579	37,158	7,290	6,048	341,836
Other revenue	6,002,609	150,762	150,088	1,551	38,383	18,114	226,979	-	-	6,588,486
Provider relief funding	-	625,000	235,000	75,000	130,000	160,000	450,000	99,999	-	1,774,999
Foundation grants	-	45,475	268,542	81,488	46,052	127,426	6,270	9,876	-	585,129
Investment income	173,708	-	62	-	-	-	52	16	-	173,838
Total revenue, gains, and other support	6,179,117	21,189,169	21,370,094	8,568,559	2,924,997	11,431,052	8,874,143	2,921,888	455,663	83,914,682
Expenses:										
Salaries	3,677,929	8,674,937	7,039,228	3,271,758	1,322,697	4,752,084	4,230,706	2,111,766	155,549	35,236,654
Employee benefits	776,118	1,890,339	1,475,150	727,198	315,529	947,124	906,387	300,378	14,080	7,352,303
Professional fees	602,301	2,450,600	2,373,382	1,419,787	79,673	1,855,035	996,081	12,317	21,825	9,811,001
Supplies	76,071	2,104,142	2,134,568	443,189	295,406	1,359,588	1,063,717	15,012	1,778	7,493,471
Insurance	76,725	411,055	641,619	25,344	18,569	189,764	169,128	17,373	-	1,549,577
Utilities	138,887	1,075,124	1,391,205	24,969	137,341	508,203	342,417	3,600	-	3,621,746
Other expenses	1,364,612	475,757	597,547	794,839	119,755	369,029	346,606	113,288	235,751	4,417,184
Interest expense	172,026	501,125	818,119	10,849	164,623	1,007,173	412,265	-	-	3,086,180
Provision for bad debts, net of recoveries	-	(40,453)	231,247	66,193	88	196,129	45,110	56,672	(713)	554,273
Depreciation	56,889	1,741,138	2,643,442	46,994	248,309	1,002,389	785,012	1,643	-	6,525,816
Management fees	-	1,581,386	1,586,099	646,187	221,166	821,364	703,879	280,739	31,941	5,872,761
Total expenses	6,941,558	20,865,150	20,931,606	7,477,307	2,923,156	13,007,882	10,001,308	2,912,788	460,211	85,520,966
Operating income (loss)	$ (762,441)	$ 324,019	$ 438,488	$ 1,091,252	$ 1,841	$ (1,576,830)	$ (1,127,165)	$ 9,100	$ (4,548)	$ (1,606,284)