Report to the
Board of Trustees

The Lutheran Homes of South Carolina, Inc. and Affiliates

September 30, 2021

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Communication with Those Charged with Governance

December 30, 2021

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

We have audited the consolidated financial statements of Lutheran Homes of South Carolina, Inc. and Affiliates (the “Organization”) for the year ended September 30, 2021, and have issued our report thereon dated December 30, 2021. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 28, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the consolidated financial statements. During the year ended September 30, 2021, one new accounting standard was adopted as more fully described below and in the notes to the consolidated financial statements.

Effective October 1, 2020, the Organization adopted Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use ("ROU") asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. As part of the transition to the new standard, the Organization was required to measure and recognize leases that existed at October 1, 2020 using a modified retrospective approach and chose to adopt the new guidance at the effective date without adjusting the comparative consolidated financial statements.

For leases existing at the effective date, the Organization elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. The Organization also chose the practical expedient to not include short-term leases in the calculation of the lease liability. Additionally, the Organization chose the practical expedient to combine non-lease and lease components in the calculation of the lease liability. The adoption of Topic 842 resulted in the recognition of operating ROU assets and lease liabilities of $180,581 and finance lease ROU assets and lease liabilities of $274,360 and $282,660, respectively. A cumulative effect adjustment of approximately $16,000 was recorded at the initial application date of October 1, 2020. The accounting for finance leases remained substantially unchanged with the adoption of Topic 842. The adoption of ASU 2016-02, *Leases (Topic 842)* is disclosed in Note 11 to the consolidated financial statements.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the consolidated financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

> Management's estimate of the fair value of the interest rate swap and investments is based on current market value and other observable and unobservable inputs. We evaluated the key factors and assumptions used to develop the fair value of the interest rate swap and investments in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimate of the allowance for doubtful accounts is based on management's judgment of the collectability of accounts receivable. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimate of amortization income is based on the expected life of residents. We evaluated the key factors and assumptions used to develop the amortization income in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to consolidated financial statements users. The most sensitive disclosure affecting the consolidated financial statements was:

The disclosure of the COVID-19 Pandemic in Note 18 to the consolidated financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management that are included in the management representation letter included at Appendix A.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's consolidated financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Lutheran Homes of South Carolina, Inc. and Affiliates, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Greenville, SC

Appendix A

Management Representation Letter

Lutheran Homes
of South Carolina
promoting the well-being of older adults

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December 30, 2021

Dixon Hughes Goodman LLP
11 Brendan Way

This representation letter is provided in connection with your audits of the consolidated financial statements of Lutheran Homes of South Carolina, Inc. and Affiliates (the "Organization"), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, 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, for the purpose of expressing an opinion on whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 28, 2021, for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. The following have been properly accounted for and disclosed in the consolidated financial statements:

    a. Related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties

    b. Guarantees, whether written or oral, under which the Organization is contingently liable

    c. Other liabilities or gain or loss contingencies

5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the consolidated financial statements. We understand that "near term" means the period within one year of the date of the consolidated financial statements. In addition, we have no knowledge of concentrations existing at the date of the consolidated financial statements that make the Organization vulnerable to the risk of severe impact that have not been properly disclosed in the consolidated financial statements.

6. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. There are no uncorrected misstatements or omitted disclosures.

9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Organization's accounts.

10. We represent to you the following for the Organization's fair value measurements and disclosures:

    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.

    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the consolidated financial statements.

Information Provided

11. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

13. We have disclosed to you the results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others when the fraud could have a material effect on the consolidated financial statements.

15. We have disclosed to you all information that we are aware of regarding allegations of fraud or suspected fraud affecting the Organization's consolidated financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.

16. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

17. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the consolidated financial statements.

18. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.

19. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

20. We have complied with all aspects of contractual agreements that would have a material effect on the consolidated financial statements in the event of noncompliance.

21. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the consolidated financial statements.

22. The Organization has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except has been made known to you and disclosed in the consolidated financial statements.

23. We acknowledge our responsibility for presenting the consolidating balance sheet, statement of operations and changes in net assets (deficit), and operations by division in accordance with U.S. GAAP, and we believe that the consolidating balance sheet, statement of operations and changes in net assets (deficit), and operations by division, including its form and content is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the consolidating balance sheet, statement of operations and changes in net assets (deficit), and operations by division have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

24. The Organization has properly accounting for its derivatives and hedging activities, including the requirement for contemporaneous documentation of the hedging relationship and the Organization's risk management objective and strategy for entering into the hedge as well as initial and periodic effectiveness assessments.

25. Receivables recorded in the consolidated financial statements represent valid claims against debtors for sales or other charges arising on or before the consolidated balance sheet date and have been appropriately reduced to their estimated net realizable value.

26. Tax-exempt bonds issued have retained their tax-exempt status.

27. The Organization recognizes tax benefits only to the extent that the Organization believes it is more-likely-than-not (i.e. greater than 50 percent) that its tax positions will be sustained upon examination. We have evaluated the Organization's tax positions, including its not-for-profit status, and have determined that the Organization does not have any material uncertain tax positions.

28. There are no instances of noncompliance with laws or regulations with respect to Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects we believe should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency, other than those disclosed or accrued in the consolidated financial statements. This is including, but not limited to, the antikickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987, limitations on certain physician referrals (the Stark law), and the False Claims Act.

29. Billings to third-party payors comply in all material respects with applicable coding guidelines and laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse. Such billings include only those charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

30. There have been no investigations, either internal or external, and there are no investigations in progress, relating to compliance with applicable laws and regulations that would have an effect on the amounts reported or disclosed in the consolidated financial statements.

31. There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, in any jurisdiction, including those related to deficiencies in financial reporting practices; Medicare and Medicaid antifraud and abuse statutes; or other matters that could have a material adverse effect on the consolidated financial statements.

32. We have made adequate provision for estimated adjustments to revenue resulting from issues such as denied claims, changes to home health resource group, resource utilization group, ambulatory payment classification, and diagnostic-related group (DRG) assignments.

33. The valuation allowances we have recorded are necessary, appropriate, and properly supported.

34. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, or noncompliance or deficiencies related to existing laws and regulations governing reimbursement from third-party payors.

35. For cost reports filed with third parties:

    a. We have properly filed all required Medicare, Medicaid, and similar reports with third parties.

    b. We are responsible for the accuracy and propriety of all filed cost reports.

    c. We have given adequate consideration to, and made appropriate provision for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.

    d. We have fully disclosed in the cost report all items required to be disclosed, including disputed costs that are claimed to establish a basis for a subsequent appeal.

    e. We have recorded third-party settlements that include differences between filed (and to-be-filed) cost reports and calculated settlements that We believe are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. Although We believe the entity is entitled to all amounts claimed on the cost reports, We also believe the differences reflected therein are appropriate.

36. We have adopted ASC Topic 842, *Leases* effective October 1, 2020. As part of our implementation, we conducted a thorough review of our existing contracts to identify a complete population of leases, and this complete population of leases was factored into our adjustments to transition from ASC Topic 840, *Leases* to ASC Topic 842, *Leases.* We have provided you with complete documentation of our lease population, including embedded leases, and there are no unrecorded leases that are material to the Organization's financial statements.

    We have elected to use the Organization's incremental borrowing rate when calculating the Company's lease liabilities. The incremental borrowing rate represents the rate of interest that we expect to have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. For purposes of adopting ASC 842, *Leases,* we utilized the Organization's incremental borrowing rate as of the date of initial application. For any new leases entered into subsequent to the effective date, we utilized the Organization's incremental borrowing rate as of the commencement date of the respective lease agreements.

    The Organization adopted ASC Topic 842, *Leases* and elected the following practical expedients: package of three, use of hindsight for purposes of determining lease term, short-term leases, and combined lease and non-lease components. These expedients have been appropriately applied and factored into the transition calculations. The Organization's accounting policies with respect to these expedients have been consistently applied.

37. You have provided the following services:

- Financial statement preparation and advice about appropriate accounting principles and their application as necessary

- Preparation of Form 990 and Form 1120

- Assistance with preparation of the Schedule of Expenditures of Federal Awards, and related notes, and completion of appropriate sections of the Uniform Guidance Data Collection Form.

In regard to these services provided by you, we have:

a. Assumed all management responsibilities.
b. Overseen the service by designating an individual within senior management, who possesses suitable skill, knowledge, or experience.
c. Evaluated the adequacy and results of the services performed.
d. Accepted responsibility for the results of the services.
e. Evaluated and maintained internal controls, including monitoring ongoing activities.

38. With respect to the non-attest services performed by you during this engagement, we have received the deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

39. We evaluated the present value of the net cost of future services and use of facilities to be provided to current residents and compared the amount with the deferred revenue from entrance fees. Based on this evaluation, there is no future service obligation required to be recorded.

40. We are not aware of any debt covenant violations as of September 30, 2021.

41. The methods and assumptions used to allocate the Organization's expenses by nature and function are reasonable and appropriate.

42. Disclosures regarding the Organization's method for managing its liquidity, along with disclosures regarding the availability of liquid resources to meet cash needs for general expenditures within one year of the consolidated balance sheet date are complete and accurate.

43. We have complied with the terms and conditions established by the Department of Health and Human Services related to Provider Relief Funds. The revenues recorded related to Provider Relief Funds are supported by a valid methodology related to lost revenue calculations and qualifying expenses.

44. We have disclosed in Note 18 to the consolidated financial statements all significant matters impacting the Organization related to the COVID-19 pandemic. We believe we will have sufficient cash flows to meet our obligations as they become due though a year from the date of this letter.

We have evaluated subsequent events through the date of this letter, which is the date the consolidated financial statements were issued. No events have occurred subsequent to the consolidated balance sheets and through the date of this letter that would require adjustment to or disclosure in the aforementioned consolidated financial statements.

Lutheran Homes of South Carolina, Inc. and Affiliates

Frank Shepke, President & CEO - LHSC

Parke Horton, CFO - LHSC