

Fond du Lac Lutheran Home, Inc.

Fond du Lac, Wisconsin

Financial Statements and Additional Information

Years Ended December 31, 2010 and 2009

Fond du Lac Lutheran Home, Inc.

Financial Statements and Additional Information

Years Ended December 31, 2010 and 2009

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Independent Auditor's Report

Board of Directors
Fond du Lac Lutheran Home, Inc.
Fond du Lac, Wisconsin

We have audited the accompanying balance sheets of Fond du Lac Lutheran Home, Inc. as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Fond du Lac Lutheran Home, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fond du Lac Lutheran Home, Inc. as of December 31, 2010 and 2009, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

April 5, 2011
Wausau, Wisconsin

Fond du Lac Lutheran Home, Inc.

Balance Sheets

December 31, 2010 and 2009

<i>Assets</i>	2010	2009
Current assets:		
Cash and cash equivalents	\$ 881,853	\$ 561,736
Certificates of deposit	-	378,497
Accounts receivable:		
Residents and tenants - Net	859,441	832,887
Other	10,176	10,446
Inventory	8,098	8,186
Prepaid expenses	52,718	45,546
Due from affiliates - Net	301,388	327,150
Total current assets	2,113,674	2,164,448
Assets limited as to use	177,631	177,631
Property and equipment - Net	3,322,234	3,456,284
Other assets:		
Interest in net assets of Foundation	99,168	95,578
Deferred financing fees	20,596	23,369
Total other assets	119,764	118,947
TOTAL ASSETS	\$ 5,733,303	\$ 5,917,310

<i>Liabilities and Net Assets</i>	2010	2009
Current liabilities:		
Current maturities of long-term debt	\$ 205,407	\$ 340,061
Accounts payable	322,971	172,674
Accrued liabilities:		
Salaries, wages, and benefits	291,357	306,598
Interest	4,492	5,547
Other	16,219	17,325
Total current liabilities	840,446	842,205
Long-term debt	1,415,586	1,483,811
Total liabilities	2,256,032	2,326,016
Net assets:		
Unrestricted	3,378,103	3,495,716
Temporarily restricted	99,168	95,578
Total net assets	3,477,271	3,591,294
TOTAL LIABILITIES AND NET ASSETS	\$ 5,733,303	\$ 5,917,310

Fond du Lac Lutheran Home, Inc.

Statements of Operations and Changes in Net Assets

Years Ended December 31, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Resident service revenue:			
Nursing home	\$ 8,294,388	\$ -	\$ 8,294,388
Residential facility	1,028,066	-	1,028,066
Other revenue	116,436	-	116,436
Total revenue	9,438,890	-	9,438,890
Expenses:			
Resident care	4,641,432	-	4,641,432
Dietary	890,231	-	890,231
Administration	2,113,222	-	2,113,222
Plant operations	681,785	-	681,785
Housekeeping	185,835	-	185,835
Laundry	196,707	-	196,707
Activities	124,903	-	124,903
Social services	114,565	-	114,565
Religious care	73,240	-	73,240
Special services	18,652	-	18,652
Provision for bad debts	20,107	-	20,107
Depreciation and amortization	424,029	-	424,029
Interest	80,812	-	80,812
Total expenses	9,565,520	-	9,565,520
Income (loss) from operations	(126,630)	-	(126,630)
Other income (loss):			
Interest income	10,059	-	10,059
Loss on disposal of equipment	(1,042)	-	(1,042)
Total other income - Net	9,017	-	9,017
Revenue in excess (deficiency) of expenses	(117,613)	-	(117,613)
Change in interest in net assets of Foundation	-	3,590	3,590
Increase (decrease) in net assets	(117,613)	3,590	(114,023)
Net assets at beginning	3,495,716	95,578	3,591,294
Net assets at end	\$ 3,378,103	\$ 99,168	\$ 3,477,271

2009		
Unrestricted	Temporarily Restricted	Total
\$ 8,729,498	\$ -	\$ 8,729,498
975,844	-	975,844
147,755	-	147,755
9,853,097	-	9,853,097
4,792,432	-	4,792,432
884,836	-	884,836
2,070,058	-	2,070,058
705,243	-	705,243
184,193	-	184,193
180,353	-	180,353
117,387	-	117,387
108,370	-	108,370
73,026	-	73,026
18,342	-	18,342
26,072	-	26,072
424,022	-	424,022
83,585	-	83,585
9,667,919	-	9,667,919
185,178	-	185,178
9,017	-	9,017
(2,670)	-	(2,670)
6,347	-	6,347
191,525	-	191,525
-	(4,024)	(4,024)
191,525	(4,024)	187,501
3,304,191	99,602	3,403,793
\$ 3,495,716	\$ 95,578	\$ 3,591,294

See accompanying notes to financial statements.

Fond du Lac Lutheran Home, Inc.

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from residents, tenants, third-party payors, and affiliates	\$ 9,458,474	\$ 9,853,169
Cash paid to employees and suppliers	(8,931,666)	(9,261,843)
Interest received	10,059	9,017
Interest paid	(81,867)	(86,612)
Net cash provided by operating activities	455,000	513,731
Cash flows from investing activities:		
Payments for purchase of certificates of deposit assets limited as to use	-	(453,497)
Proceeds from maturity of certificates of deposit	378,497	-
Capital expenditures	(310,501)	(243,667)
Net cash provided by (used in) investing activities	67,996	(697,164)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	285,300
Principal payments on long-term debt	(202,879)	(196,717)
Repayment of advances to affiliates	-	(143,585)
Net cash used in financing activities	(202,879)	(55,002)
Net increase (decrease) in cash and cash equivalents	320,117	(238,435)
Cash and cash equivalents at beginning	561,736	800,171
Cash and cash equivalents at end	\$ 881,853	\$ 561,736

Fond du Lac Lutheran Home, Inc.

Statements of Cash Flows (Continued)

Years Ended December 31, 2010 and 2009

	2010	2009
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ (114,023)	\$ 187,501
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for bad debts	20,107	26,072
Provision for depreciation and amortization	424,029	424,022
Change in interest in net assets of Foundation	(3,590)	4,024
Loss on disposal of equipment	1,042	2,670
Changes in operating assets and liabilities:		
Accounts receivable	(46,391)	230,440
Inventory	88	3,553
Prepaid expenses	(7,172)	4,539
Due from affiliates - Net	25,762	(182,921)
Accounts payable	172,550	(199,753)
Accrued liabilities	(17,402)	13,584
Total adjustments	569,023	326,230
Net cash provided by operating activities	\$ 455,000	\$ 513,731
Supplemental disclosure of cash flow information:		
Capital expenditures included in accounts payable	\$ 32,305	\$ 54,558

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies**

The Entity

Fond du Lac Lutheran Home, Inc. (“Lutheran Home”), a Wisconsin nonstock, not-for-profit corporation, encompasses the programs and operations of The Lutheran Home, a 133-bed skilled nursing facility; Tarfa Terrace, a 32-bed community-based residential facility (CBRF) for seniors; and the Wellness and Rehab Center, an onsite program that offers services to active seniors, the community, and staff. Lutheran Homes and Health Services, Inc. (LHHS) is the sole member of Lutheran Home.

Financial Statement Presentation

Lutheran Home follows accounting standards contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during that period. Actual results may differ from these estimates.

Cash Equivalents

Lutheran Home considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts limited as to use or restricted. Cash equivalents are carried at cost, which approximates their fair value.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Accounts Receivable and Credit Policy

Accounts receivable are uncollateralized obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from facility residents who are primarily from the Fond du Lac area. Most of the nursing home residents are insured under third-party payor agreements. Lutheran Home bills third-party payors on the residents' behalf or, if a resident is uninsured, the resident is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and residents are billed for copay and deductible amounts that are the residents' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. Lutheran Home's policy is not to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to resident accounts receivable. In addition, management provides for probable uncollectible amounts, primarily from uninsured residents and amounts for which residents are personally responsible, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable are recorded in the accompanying balance sheets net of allowances for doubtful accounts.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Assets Limited as to Use

Assets limited as to use consist of certificates of deposit held under terms of long-term debt agreements and under terms of unemployment requirements of the State of Wisconsin. Certificates of deposit are carried at cost, which approximates their fair value.

Inventory

Inventory is valued at the lower of cost on the first-in, first-out (FIFO) method, or market.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost if purchased, fair value at date received if contributed, or net book value if transferred from a related party.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 8 to 35 years for land improvements, buildings, and building improvements and from 5 to 12 years for equipment.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue in excess of 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, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Impairment

Lutheran Home reviews its property and equipment periodically to determine potential impairment by comparing the carrying value of the property and equipment with the estimated future net discounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, Lutheran Home would recognize an impairment loss at that time. Lutheran Home recognized no impairment losses in 2010 or 2009.

Asset Retirement Obligations

FASB ASC 410, *Accounting for Conditional Asset Retirement Obligations*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Lutheran Home has considered ASC Topic 410, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Lutheran Home believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Lutheran Home may settle the obligation is unknown and cannot be estimated. As a result, Lutheran Home cannot reasonably estimate the liability related to these asset retirement activities as of December 31, 2010 and 2009.

Interest in Net Assets of Foundation

Lutheran Home and Lutheran Homes and Health Services Foundation, Inc. (the "Foundation") are financially interrelated organizations and, accordingly, Lutheran Home recognizes amounts which are held by the Foundation and which are restricted for the benefit of Lutheran Home as interest in the net assets of the Foundation.

Deferred Financing Fees and Amortization

Costs related to issuance of long-term debt are amortized over the life of the related debt using the straight-line method.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Net Assets

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of Lutheran Home. Temporarily restricted net assets are those whose use by Lutheran Home has been limited by donors to a specific time period or purpose. Permanently restricted net assets are restricted by donors to be maintained by Lutheran Home in perpetuity.

For 2010 and 2009, Lutheran Home has no permanently restricted net assets.

Resident Service Revenue

Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered.

Revenue in Excess (Deficiency) of Expenses

The statements of operations and changes in net assets include the classification revenue in excess (deficiency) of expenses, which is considered the operating indicator. Changes in net assets which are excluded from revenue in excess (deficiency) of expenses include unrealized gains and losses on investments other than trading securities, permanent transfer 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.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, less an allowance for promises estimated to be uncollectible. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions for which restrictions are met within the same year as received are reflected as unrestricted contributions.

Advertising Costs

Advertising costs are expensed as incurred.

Unemployment Compensation

Lutheran Home has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. Unemployment claims are paid to the State of Wisconsin as incurred. Lutheran Home has pledged a certificate of deposit to meet state funding requirements.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Income Taxes

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

In order to account for any uncertain tax positions, ASC Topic 740, *Income Taxes*, requires an organization to assess whether it is more likely than not that a tax position will be sustained upon examination of the technical merits or the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of the tax position is not recognized in the financial statements. Management does not believe Lutheran Home has any material uncertain tax positions or unrecognized tax benefits.

Lutheran Home's federal returns for tax years 2007 and beyond remain subject to examination by the Internal Revenue Service.

Subsequent Events

Subsequent events have been evaluated through April 5, 2011, which is the date the financial statements were issued.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 2 **Reimbursement Arrangements With Third-Party Payors**

A summary of the basis of reimbursement with major third-party payors and percentage of revenue from those payors follows:

Medical Assistance

Reimbursement is based on a predetermined rate formula under a contractual arrangement with the Medical Assistance program under Title XIX of the Social Security Act. Rate adjustments under this program are reflected in income when determinable. Approximately 47% and 46% of Lutheran Home's revenue was for services provided to residents whose bills are paid in whole or in part by the Medical Assistance program in 2010 and 2009, respectively.

Medicare

Medicare pays Lutheran Home for nursing home Part A services based on a predetermined rate per resident day, which varies depending on a resident's level of care and the types of services provided. Medicare pays Lutheran Home for nursing home Part B services based on predetermined fee schedules. Approximately 21% of Lutheran Home's revenue was for services provided to residents under contractual arrangements with the Medicare program in 2010 and 2009.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violations of these laws and regulations can result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services. Management believes Lutheran Home is in substantial compliance with current laws and regulations.

The Centers of Medicare & Medicaid Services (CMS) has implemented a new project using recovery audit contractors (RACs) as part of its further efforts to ensure accurate payments under the Medicare program. The project uses RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of December 31, 2010, Lutheran Home has not been notified by the RAC of any potential significant reimbursement adjustments.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 3 Accounts Receivable – Residents and Tenants

Accounts receivable from residents and tenants consisted of the following at December 31:

	2010	2009
Accounts receivable	\$ 924,441	\$ 897,887
Less - Allowance for doubtful accounts	65,000	65,000
Accounts receivable - Residents and tenants - Net	<u>\$ 859,441</u>	<u>\$ 832,887</u>

Note 4 Property and Equipment

Property and equipment consisted of the following at December 31:

	2010	2009
Land	\$ 60,413	\$ 60,413
Land improvements	119,732	111,227
Buildings and fixed equipment	8,451,718	8,246,005
Furniture and equipment	3,348,731	3,286,295
Total property and equipment	11,980,594	11,703,940
Less - Accumulated depreciation	8,658,360	8,247,656
Property and equipment - Net	<u>\$ 3,322,234</u>	<u>\$ 3,456,284</u>

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 5 Interest in Net Assets of the Foundation

The Foundation was established to raise funds to support LHHS and its affiliates.

A summary of the Foundation's assets, liabilities and net assets, and changes in net assets, as of and for the years ended December 31, follows:

	2010	2009
Assets, principally cash and investments	\$ 1,197,334	\$ 1,169,951
Liabilities	\$ 241,811	\$ 240,943
Net assets:		
Unrestricted	856,355	833,430
Temporarily restricted	99,168	95,578
Total net assets	955,523	929,008
Total liabilities and net assets	\$ 1,197,334	\$ 1,169,951
Support and revenue:		
Contributions	\$ 59,720	\$ 216,263
Investment income	24,094	22,235
Net realized and unrealized gain on investments	131,352	161,339
Total support and revenue	215,166	399,837
Expenses	188,651	156,796
Increase in net assets	26,515	243,041
Net assets at beginning	929,008	685,967
Net assets at end	\$ 955,523	\$ 929,008

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 6 Long-Term Debt

Long-term debt consisted of the following at December 31:

	2010	2009
Series 1992 Nursing Home Facility Revenue Bonds issued by the City of Fond du Lac for the benefit of Lutheran Home, interest at 6.0%, payable in monthly principal installments of \$6,000 plus interest through December 2017, secured by property and receivables	\$ 504,000	\$ 576,000
Series 1993 Nursing Home Facility Revenue Bonds issued by the City of Fond du Lac for the benefit of Lutheran Home, interest at 6.0%, payable in monthly principal installments of \$2,799 plus interest through December 2017, secured by property and receivables	235,072	268,656
Series 1998 Housing Revenue Bonds issued by the County of Fond du Lac Housing Authority for the benefit of Lutheran Home, interest at 2.94%, payable in monthly installments of \$6,740, including interest through November 2018, secured by property and receivables	494,931	559,984
Single Payment Note, interest at 5.15%, payable in monthly installments of \$1,650, including interest, through August 2015, secured by property	136,984	-

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

	2010	2009
Single Payment Note, interest at 5.30%, payable in monthly installments of \$1,730, including interest, through August 30, 2010, secured by property, refinanced in 2010	\$ -	\$ 150,382
Small Business Association loan, interest at 4.0%, payable in monthly installments of \$2,440, including interest, through November 2021, secured by certain property of Lutheran Home	250,006	268,850
Totals	1,620,993	1,823,872
Less - Current maturities	205,407	340,061
Long-term portion	\$ 1,415,586	\$ 1,483,811

Required payments of principal for the long-term debt, including current maturities, are as follows:

2011	\$ 205,407
2012	208,894
2013	212,509
2014	216,256
2015	219,844
Thereafter	558,083
Total	\$ 1,620,993

The bond indentures provide for various restrictive covenants, among which are limitations on net revenue available for debt service and capital expenditures and other measures of financial performance. Management believes Lutheran Home is in compliance with these restrictive covenants at December 31, 2010.

Based on the borrowing rates currently available to Lutheran Home for bonds with similar terms and maturities, the recorded value of the bonds approximates the estimated fair value at December 31, 2010.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 7 Bank Line of Credit

At December 31, 2010 and 2009, Lutheran Home had a \$300,000 line of credit with a bank. The line of credit bears interest at an annual rate equal to the higher of 5.0% or the prime rate, as quoted by *The Wall Street Journal*. There were no draws on the line of credit at December 31, 2010 or 2009.

Note 8 Restrictions on Net Assets

Temporarily restricted net assets represent amounts held by the Foundation restricted by donors for the following purposes at December 31:

	2010	2009
Care assurance	\$ 33,805	\$ 33,700
Building/capital	21,469	21,454
Special services	12,160	9,164
Education fund	3,629	3,629
Other	28,105	27,631
Total temporarily restricted net assets	\$ 99,168	\$ 95,578

Note 9 Functional Expenses

Lutheran Home provides nursing home care and housing and health care services to the elderly and disabled within its geographic location. Expenses related to providing these services are as follows:

	2010	2009
Health care services	\$ 7,452,298	\$ 7,581,859
General and administrative services	2,113,222	2,086,060
Totals	\$ 9,565,520	\$ 9,667,919

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 10 **Retirement Plan**

Lutheran Home has a defined contribution retirement plan covering substantially all employees who meet certain eligibility requirements. Lutheran Home matches up to one-half of the first 6% of each participant's contribution. Contributions by Lutheran Home on behalf of the participant vest annually in 20% increments after an employee's first year of service. Participants are fully vested after five years of service. Retirement plan expense was \$89,000 and \$73,000 in 2010 and 2009, respectively.

Note 11 **Malpractice Insurance**

Lutheran Home's professional liability insurance covers losses of up to \$1,000,000 per claim and \$3,000,000 per year for claims incurred during a policy year regardless of when the claim was filed ("claims incurred" coverage). Lutheran Home is covered against losses in excess of these amounts through an umbrella insurance policy which covers losses of up to \$5,000,000 per claim and \$5,000,000 per year. The professional and umbrella liability insurance policies are renewable annually and have been renewed by the insurance carrier for the annual period extending through July 1, 2011.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 12 Related-Party Transactions

Lutheran Home was charged \$231,012 and \$180,000 in management fees by LHHS in 2010 and 2009, respectively. In addition, Lutheran Home paid payroll and benefit-related expenses for LHHS in 2010 and 2009. Lutheran Home had accounts receivable from LHHS of \$143,534 and \$153,324 as of December 31, 2010 and 2009, respectively.

Lutheran Home incurred payroll and benefit-related expenses for the Foundation and had accounts receivable from the Foundation of \$124,911 and \$124,043 as of December 31, 2010 and 2009, respectively.

Lutheran Home charged Fond du Lac Senior Housing, an affiliate of LHHS, \$22,373 in management fees in 2009. Lutheran Home had accounts receivable from Fond du Lac Senior Housing of \$0 and \$16,146 as of December 31, 2010 and 2009, respectively.

Lutheran Home charged St. Peter's Place, an affiliate of LHHS, \$10,905 in management fees in 2009. Lutheran Home also paid for certain other expenses of St. Peter's Place in 2010 and 2009. Lutheran Home had accounts receivable due from St. Peter's Place of \$18,943 and \$33,637 as of December 31, 2010 and 2009, respectively.

During 2010, Lutheran Home advanced Deneveu Creek LLC, an affiliate, funds to assist it with cash flow needs. Lutheran Home has accounts receivable from Deneveu Creek LLC of \$14,000 as of December 31, 2010.

Fond du Lac Lutheran Home, Inc.

Notes to Financial Statements

Note 13 Concentrations of Credit Risk

Financial instruments that potentially subject Lutheran Home to credit risk consist principally of cash deposits in excess of insured limits and accounts receivable.

Lutheran Home maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of non-interest-bearing transaction accounts through December 31, 2012. In addition, Lutheran Home maintains cash in interest-bearing accounts at these institutions which are insured by the FDIC up to \$250,000. At December 31, 2010, Lutheran Homes exceeded the insured limits by \$208,000.

Accounts receivable consist of amounts due from residents, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to patients. The mix of receivables from patients and third-party payors was as follows at December 31:

	2010	2009
Medicare	45%	26%
Medicaid	27%	35%
Commercial and managed care insurance	8%	8%
Patients	20%	31%
Totals	100%	100%

Additional Information



Independent Auditor's Report on Additional Information

Board of Directors
Fond du Lac Lutheran Home, Inc.
Fond du Lac, Wisconsin

Our report on our audits of the financial statements of Fond du Lac Lutheran Home, Inc. for the years ended December 31, 2010 and 2009, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information appearing on pages 26 and 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

April 5, 2011
Wausau, Wisconsin

Fond du Lac Lutheran Home, Inc.

Statements of Operations – Nursing Home

Years Ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Resident service revenue	\$ 8,294,388	\$ 8,729,498
Other revenue	116,436	147,755
Total revenue	8,410,824	8,877,253
Expenses:		
Resident care	4,342,168	4,504,876
Dietary	714,215	721,382
Administration	1,849,389	1,820,539
Plant operations	559,243	580,470
Housekeeping	142,059	139,045
Laundry	152,734	137,842
Activities	116,360	109,737
Social services	105,103	99,553
Religious care	62,280	62,177
Special services	18,652	18,342
Provision for bad debts	20,107	26,072
Depreciation and amortization	352,000	354,401
Interest	64,697	65,621
Total expenses	8,499,007	8,640,057
Income (loss) from operations	(88,183)	237,196
Other income (loss):		
Interest income	10,059	9,017
Loss on disposal of equipment	(1,042)	(2,670)
Total other income - Net	9,017	6,347
Revenue in excess (deficiency) of expenses	\$ (79,166)	\$ 243,543

Fond du Lac Lutheran Home, Inc.

Statements of Operations – Residential Facility

Years Ended December 31, 2010 and 2009

	2010	2009
Resident care revenue	\$ 1,028,066	\$ 975,844
Expenses:		
Resident care	299,264	287,556
Dietary	176,016	163,454
Administration	263,833	249,519
Plant operations	122,542	124,773
Housekeeping	43,776	45,148
Laundry	43,973	42,511
Activities	8,543	7,650
Social services	9,462	8,817
Religious care	10,960	10,849
Depreciation	72,029	69,621
Interest	16,115	17,964
Total expenses	1,066,513	1,027,862
Loss from operations	\$ (38,447)	\$ (52,018)