

**Lutheran Homes and Health Services
Foundation, Inc.**

Fond du Lac, Wisconsin

Financial Statements

Years Ended December 31, 2010 and 2009

Lutheran Homes and Health Services Foundation, Inc.

Financial Statements

Years Ended December 31, 2010 and 2009

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Independent Accountant's Review Report

To the Board of Directors
Lutheran Homes and Health Services Foundation, Inc.
Fond du Lac, Wisconsin

We have reviewed the accompanying statements of financial position of Lutheran Homes and Health Services Foundation, Inc. (the "Foundation") as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

April 5, 2011
Wausau, Wisconsin

Lutheran Homes and Health Services Foundation, Inc.

Statements of Financial Position

December 31, 2010 and 2009

<i>Assets</i>	2010	2009
Cash and cash equivalents	\$ 27,376	\$ 107,694
Investments	1,042,383	1,006,701
Due from The Hills at Courtland Ridge	127,575	55,556
TOTAL ASSETS	\$ 1,197,334	\$ 1,169,951
<i>Liabilities and Net Assets</i>		
Liabilities - Due to affiliates:		
Lutheran Homes and Health Services	\$ 116,900	\$ 116,900
Fond du Lac Lutheran Home, Inc.	124,911	124,043
Total 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

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Lutheran Homes and Health Services Foundation, Inc.

Statements of Activities

Years Ended December 31, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support:			
Contributions and bequests	\$ 50,157	\$ 9,563	\$ 59,720
Investment income	24,094	-	24,094
Realized gain (loss) on investments	11,838	-	11,838
Unrealized gain on investments	119,514	-	119,514
Net assets released from restrictions - Satisfaction of program requirements	5,973	(5,973)	-
Total revenue, gains, and other support	211,576	3,590	215,166
Expenses:			
Program services and support - Contributions	14,245	-	14,245
Management and general	136,672	-	136,672
Marketing and public relations	1,424	-	1,424
Fund-raising	16,444	-	16,444
Professional services	8,789	-	8,789
Other	11,077	-	11,077
Total expenses	188,651	-	188,651
Increase (decrease) in net assets	22,925	3,590	26,515
Net assets at beginning	833,430	95,578	929,008
Net assets at end	\$ 856,355	\$ 99,168	\$ 955,523

2009		
Unrestricted	Temporarily Restricted	Total
\$ 206,216	\$ 10,047	\$ 216,263
22,235	-	22,235
(3,298)	-	(3,298)
164,637	-	164,637
14,071	(14,071)	-
403,861	(4,024)	399,837
4,330	-	4,330
101,938	-	101,938
7,592	-	7,592
16,782	-	16,782
7,964	-	7,964
18,190	-	18,190
156,796	-	156,796
247,065	(4,024)	243,041
586,365	99,602	685,967
\$ 833,430	\$ 95,578	\$ 929,008

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Lutheran Homes and Health Services Foundation, 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:		
Contributions received	\$ 59,720	\$ 216,263
Cash paid to affiliate	(173,538)	(55,752)
Contributions paid	(14,245)	(4,330)
Interest received	24,094	22,235
Net cash provided by (used in) operating activities	(103,969)	178,416
Cash flows from investing activities:		
Payment for purchase of investments	(404,138)	(389,339)
Proceeds from sale of investments	499,808	151,844
Repayment of advances from affiliates	-	143,585
Advances to The Hills at Courtland Ridge	(72,019)	(9,197)
Net cash provided by (used in) investing activities	23,651	(103,107)
Net increase (decrease) in cash and cash equivalents	(80,318)	75,309
Cash and cash equivalents at beginning	107,694	32,385
Cash and cash equivalents at end	\$ 27,376	\$ 107,694
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
Increase in net assets	\$ 26,515	\$ 243,041
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Realized (gain) loss on investments	(11,838)	3,298
Unrealized gain on investments	(119,514)	(164,637)
Changes in operating assets and liabilities - Due to affiliates	868	96,714
Total adjustments	(130,484)	(64,625)
Net cash provided by (used in) operating activities	\$ (103,969)	\$ 178,416

See Independent Accountant's Review Report.
See accompanying notes to financial statements.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

Note 1 **Summary of Significant Accounting Policies**

The Entity

Lutheran Homes and Health Services Foundation, Inc. (the "Foundation"), a Wisconsin nonstock, not-for-profit corporation, was established to assist in the delivery of quality health care by raising funds to support Lutheran Homes and Health Services, Inc. (LHHS) and its affiliates.

Basis of Accounting

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

Net Assets

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

For 2010 and 2009, the Foundation has no permanently restricted net assets.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

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

Use of Estimates in Preparation of Financial Statements

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

Cash Equivalents

The Foundation 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.

Investments and Investment Income

Investments are measured at fair value in the accompanying balance sheets.

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in unrestricted revenue unless the income or loss is restricted by donor or law.

Fair Value Measurements

The Foundation measures fair value of its financial instruments using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

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

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs, other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

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

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted uses 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 and adjustments to present value. 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 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 statements of activities as net assets released from restrictions. Donor-restricted contributions that have the restrictions met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Advertising Costs

Advertising costs are expensed as incurred.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

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

Tax Status

The Foundation is a tax-exempt organization 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. The Foundation 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 the Foundation has any material uncertain tax positions or unrecognized tax benefits.

The Foundation'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 available to be issued.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

Note 2 Investments

Investments consisted of the following at December 31:

	2010	2009
Cash and cash equivalents	\$ 23,246	\$ 101,138
Equity mutual funds	699,554	522,868
Fixed income bond funds	319,583	382,695
Totals	\$ 1,042,383	\$ 1,006,701

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Note 3 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value.

Cash equivalents are valued at cost which approximates fair value.

Quoted market prices are used to determine the fair value of investments in equity mutual funds and fixed income bond funds which represents the net asset value (NAV) of shares held by the Foundation at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

Note 3 Fair Value Measurements (Continued)

Information regarding assets measured at fair value on a recurring basis as of December 31, 2010, is as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Cash equivalents	\$ -	\$ 23,246	\$ -	\$ 23,246
Equity mutual funds	699,554	-	-	699,554
Fixed income bond mutual funds	319,583	-	-	319,583
Total assets	\$ 1,019,137	\$ 23,246	\$ -	\$ 1,042,383

Information regarding assets measured at fair value on a recurring basis as of December 31, 2009, is as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Cash equivalents	\$ -	\$ 101,138	\$ -	\$ 101,138
Equity mutual funds	522,868	-	-	522,868
Fixed income bond funds	382,695	-	-	382,695
Total assets	\$ 905,563	\$ 101,138	\$ -	\$ 1,006,701

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

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Note 4 Related-Party Transactions

In 2007, the Foundation's Board of Directors approved Foundation support of the development of the entity, The Hills at Courtland Ridge ("The Hills"), a not-for-profit corporation. LHHS is the sole corporate member of The Hills. The Hills was formed to develop, build, and operate a continuing care retirement community. During 2010, The Hills purchased land and incurred related debt, guaranteed by LHHS, of \$750,000. In 2010, the Foundation made \$15,298 of debt payments on behalf of The Hills. As of December 31, 2010 and 2009, the Foundation has expended \$483,291 and \$397,786, respectively, including the debt payments discussed above, on the development. The Foundation had amounts receivable from The Hills totaling \$127,575 and \$55,556 at December 31, 2010 and 2009, respectively. These amounts are expected to be paid with funds from project-related financing when project development occurs. The remainder of the development costs have been expensed by the Foundation.

The Foundation was charged \$132,000 and \$98,988 in management fees by LHHS in 2010 and 2009, respectively. The Foundation had accounts payable due to LHHS totaling \$116,900 as of December 31, 2010 and 2009.

Lutheran Home paid payroll and benefit related expenses for the Foundation in 2010 and 2009. The Foundation had accounts payable due to Lutheran Home totaling \$124,911 and \$124,043 at December 31, 2010 and 2009, respectively.

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

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Note 5 Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts 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 6 Functional Expenses

The Foundation's functional expense categories are as follows:

	2010	2009
Program services and support	\$ 14,245	\$ 4,330
Fund-raising	17,868	24,374
Administrative and general	156,538	128,092
Total	\$ 188,651	\$ 156,796

Lutheran Homes and Health Services Foundation, Inc.

Notes to Financial Statements

See Independent Accountant's Review Report

Note 7 **Concentration of Credit Risk**

Financial instruments that subject the Foundation to possible credit risk consist principally of cash deposits in excess of insured limits and investments which are uninsured.

The Foundation 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, the Foundation maintains cash in interest-bearing accounts at these institutions which are insured by the FDIC up to \$250,000. At December 31, 2010, the Foundation did not exceed the insured limits. In addition, investments are uninsured.