THE VILLAGE AT ROCKVILLE, INC.

Financial Report
December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Village at Rockville, Inc.
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of The Village at Rockville, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Village at Rockville, Inc. as of December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Village at Rockville, Inc., as of and for the year ended December 31, 2018, were audited by other auditors, whose report, dated April 24, 2019, expressed an unmodified opinion on those statements.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 23, 2020

THE VILLAGE AT ROCKVILLE, INC.

BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	**2019**	2018
CURRENT ASSETS		
Cash and cash equivalents	**$ 104,763**	$ 210,152
Accounts receivable, net	**2,202,282**	1,935,675
Prepaid expenses and other assets	**298,188**	244,322
Pledges receivable, net	**380**	8,344
Current portion of assets whose use is limited	**5,188,369**	1,636,384
Total current assets	**7,793,982**	4,034,877
ASSETS WHOSE USE IS LIMITED, net	**22,197,332**	16,695,043
INVESTMENTS	**3,631,290**	2,798,745
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**18,793,773**	15,000,197
PROPERTY AND EQUIPMENT, net	**86,515,332**	53,707,399
FUNDS HELD IN TRUST BY OTHERS	**2,019,554**	1,928,796
Total assets	**$ 140,951,263**	$ 94,165,057

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	**2019**	2018
CURRENT LIABILITIES		
Accounts payable, trade	**$ 1,044,631**	$ 975,093
Accounts payable, construction	**3,656,692**	644,000
Accrued interest	**1,106,677**	592,384
Accrued expenses	**1,837,178**	1,711,597
Current portion of long-term debt	**425,000**	400,000
Current portion of annuities payable	**16,671**	32,540
Total current liabilities	**8,086,849**	4,355,614
DEFERRED REVENUE FROM ENTRANCE FEES	**8,342,714**	8,286,257
REFUNDABLE ENTRANCE FEES	**3,551,820**	1,929,313
RESIDENT DEPOSITS	**6,307,436**	5,703,688
LONG-TERM DEBT, net	**72,098,961**	31,234,852
DUE TO AFFILIATES, net	**22,459,723**	20,605,254
ANNUITIES PAYABLE, net	**64,730**	96,623
Total liabilities	**120,912,233**	72,211,601
NET ASSETS		
Without donor restrictions	**16,762,646**	19,100,028
With donor restrictions	**3,276,384**	2,853,428
Total net assets	**20,039,030**	21,953,456
Total liabilities and net assets	**$ 140,951,263**	$ 94,165,057

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	**$ 28,822,071**	$ 27,575,262
Net assets released from restrictions, operations	**67,621**	441,972
Total operating revenue	**28,889,692**	28,017,234
Operating expenses:		
Salaries and wages	**13,897,248**	14,633,483
Employee benefits and payroll taxes	**3,429,395**	3,567,943
Professional fees	**1,509,562**	1,291,037
Ancillary and medical	**3,628,429**	3,602,751
Supplies	**547,722**	652,930
Food services	**1,022,717**	1,071,859
Utilities	**1,027,624**	1,141,400
Depreciation	**4,200,429**	4,162,713
Interest	**1,479,819**	1,235,470
Insurance	**80,301**	58,700
Real estate taxes	**276,398**	273,714
Repairs and maintenance	**572,713**	536,924
Advertising and marketing	**259,192**	724,410
Licenses, dues, and subscriptions	**598,032**	617,553
Other operating expenses	**529,730**	359,802
Bad debt expense	**204,885**	419,927
Management fee	**2,327,052**	2,440,001
Total operating expenses	**35,591,248**	36,790,617
(Deficiency) of operating revenue over expenses	**(6,701,556)**	(8,773,383)
Nonoperating revenue (expense):		
Contributions	**30,386**	223,938
Interest and dividends	**798,674**	549,059
Other income	**109,762**	154,086
Realized gains	**167,875**	200,216
Unrealized gains (losses)	**2,988,552**	(1,757,974)
Total nonoperating revenue (expense)	**4,095,249**	(630,675)
(Deficiency) of operating and nonoperating revenue over expenses	**(2,606,307)**	(9,404,058)
Other changes:		
Unrealized gains (losses)	**268,925**	(100,698)
Net assets released from restriction, capital	**-**	566,456
Total other changes	**268,925**	465,758
Change in net assets without donor restrictions	**$ (2,337,382)**	$ (8,938,300)

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	$ (2,606,307)	$ (9,404,058)
Unrealized gains (losses)	268,925	(100,698)
Net assets released from restriction, capital	-	566,456
Change in net assets without donor restrictions	(2,337,382)	(8,938,300)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	345,901	173,256
Funds held in trust income	6,246	-
Change in value of funds held in trust by others	138,430	(55,994)
Net assets released from restriction, operations	(67,621)	(441,972)
Net assets released from restriction, capital	-	(566,456)
Change in net assets with donor restrictions	422,956	(891,166)
Change in net assets	(1,914,426)	(9,829,466)
Net assets:		
Beginning	21,953,456	31,782,922
Ending	$ 20,039,030	$ 21,953,456

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (1,914,426)**	$ (9,829,466)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**4,200,429**	4,162,713
Provision for bad debts	**204,885**	419,927
Amortization of deferred financing costs	**31,233**	31,233
Amortization of entrance fees	**(1,079,689)**	(1,475,114)
Proceeds from entrance fees	**543,722**	944,756
Realized gains	**(167,875)**	(200,216)
Unrealized (gains) losses	**(3,229,490)**	1,914,745
Change in annuities payable	**(47,762)**	(93,750)
Changes in assets and liabilities:		
Accounts receivable	**(471,492)**	(527,672)
Prepaid expenses and other assets	**(53,866)**	102,492
Accounts payable and accrued expenses	**97,196**	341,093
Net cash (used in) operating activities	**(1,887,135)**	(4,209,259)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds (purchases) from sales of investments and assets whose use is limited	**(302,294)**	(2,764,478)
Purchases of property and equipment	**(33,247,361)**	(4,761,171)
Net cash (used in) investing activities	**(33,549,655)**	(7,525,649)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(400,000)**	(375,000)
Proceeds from issuance of long-term debt	**41,600,000**	13,500,000
Payments for financing costs	**(478,217)**	(1,756,800)
Net change in resident deposits	**1,214,384**	3,572,105
Proceeds from refundable entrance fees, turnover units	**1,687,457**	1,929,313
Refunds of entrance fees	**(83,162)**	(344,372)
Change in pledges receivable, net	**7,964**	31,853
Change in due to affiliates, net	**1,487,572**	5,046,666
Net cash provided by financing activities	**45,035,998**	21,603,765
Net increase in cash, cash equivalents, and restricted cash	**9,599,208**	9,868,857
Cash, cash equivalents, and restricted cash:		
Beginning	**16,680,990**	6,812,133
Ending	**$ 26,280,198**	$ 16,680,990

See Notes to Financial Statements

		2019		2018
Cash, cash equivalents, and restricted cash includes:				
Cash and cash equivalents	**$**	**104,763**	$	210,152
Resident deposits		**6,318,091**		5,676,330
Assets held under trust indenture		**16,580,960**		7,941,080
Cash, restricted by donors or grantors for specific purposes		**3,276,384**		2,853,428
	$	**26,280,198**	$	16,680,990
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION				
Interest paid	**$**	**1,962,879**	$	1,132,595
SUPPLEMENTARY DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Accounts payable, construction	**$**	**3,012,692**	$	644,000
Beneficial interest in supporting organization	**$**	**366,897**	$	300,458
Accrued capitalized interest	**$**	**612,216**	$	88,238

See Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization: The Village at Rockville, Inc. (Organization) is a not-for-profit corporation, originally incorporated in the District of Columbia in 1890 and moved to its present location of Rockville, Maryland, in 1980. The Organization operates a retirement community in Rockville, Maryland, which includes 144 independent living units, 50 assisted living units, and 160 skilled nursing beds.

National Lutheran, Inc. (NLI) is a not-for-profit Maryland corporation affiliated with the Evangelical Lutheran Church in America (ELCA). The Members of NLI are the Delaware-Maryland Synod, Metropolitan Washington, DC Synod, and the Virginia Synod of the ELCA.

NLI is the parent corporation and sole member of the Organization, which is a member of a system doing business as National Lutheran Communities and Services (NLCS). As a member of NLCS, the Organization shares in the control, support, and services of NLCS.

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported assets, liabilities, and disclosures at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk: The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding those classified as investments and assets whose use is limited. In the normal course of business, the Organization may have deposits with a local financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable from residents are reported at estimated net realizable value taking into account estimated implicit and explicit price concessions. The estimated implicit price concessions are based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in health care coverage, and other collection indicators. For receivables associated with services provided to residents who have third-party coverage (which includes deductible and payment balances for which third-party coverage exists for part of the bill), the Organization analyzes contractually due amounts and provides an allowance for explicit price concessions, if necessary. Throughout the year, management assesses the adequacy of the estimated price concessions based upon its review of accounts receivable payor composition and aging, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to resident service revenue and to establish an appropriate estimate for price concessions. The allowance for uncollectable accounts was $165,836 and $327,613 as of December 31, 2019 and 2018, respectively.

Beneficial interest in supporting organization: The Organization maintains a support agreement with National Lutheran, Inc. (NLI) and National Lutheran Home for the Aged, Inc. (NLHA) relative to the Organization's long-term debt. NLI is the parent to both the Organization and NLHA; NLHA is an affiliate of the Organization. The support agreement outlines that NLI and NLHA will provide access to capital to maintain the Organization's long-term debt requirements. Although the support agreement is with both NLI and NLHA, NLHA holds the investments that are providing the beneficial interest to the Organization. See Note 3 for the percent allocated to the Organization.

Assets whose use is limited, investments, and beneficial interest in supporting organization: Assets held as operating reserves, resident deposits, and assets held under indenture agreements are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited, investments, and beneficial interest in supporting organization are reported on the accompanying balance sheets at fair value, based on quoted market prices as provided by a national exchange, excluding an alternative investment which is valued at net asset value (NAV) per share. A decline in market value of any investment below cost that is deemed to be other-than-temporary results in a reduction in carrying value to fair value. The impairment is charged to other-than-temporary losses and a new cost basis for the investment is established.

The Organization's investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported on the balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the balance sheets could change materially in the near term.

Property and equipment: Property and equipment are reported at cost. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives. The Organization's capitalization policy is to review invoices in excess of $5,000 to determine if they should be capitalized. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building and land improvements. Expenditures that extend the useful lives of the asset or significantly increase their capacity are capitalized. Interest expense from borrowings to fund construction projects is capitalized.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

Pledges receivable: Pledges receivable are stated at outstanding balances and are discounted for their present value. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for uncollectable pledges is based on management's assessment of the collectability of pledges receivable and was $50 and $2,086 as of December 31, 2019 and 2018, respectively.

Funds held in trust by others: The Organization has been named as a beneficiary of a number of perpetual and charitable remainder trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the Organization is notified of the trust's existence. The Organization receives the distributions of earnings from perpetual trusts whose principal is to be held in perpetuity. The earnings from these trusts are recorded as investment income. Depending upon the terms of the remainder trusts, the Organization may receive payments over a specified period of time or at a future date.

Perpetual trusts are valued based upon the fair value of the underlying investments. The change in the fair value of perpetual trusts is reported as a change in net assets with donor restrictions. The fair value of remainder trusts is based upon a calculation of the present value of the estimated future benefits to be received when the trust's assets are distributed and are recorded as net assets with donor restrictions.

Gift annuities: Liabilities related to gift annuities issued by the Organization are recorded at the present value of the future payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as contributions without restrictions on the statements of operations. The Organization uses published mortality tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 0.05% to 7.50% to determine the present value of the actuarially determined liability. Maryland regulations require a segregated reserve fund with assets at least equal to fund adequate reserves on its outstanding annuity agreement which the Organization maintains in compliance with this requirement.

Entrance fees: The Organization's policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. The Organization currently offers a traditional entrance fee, 50% guaranteed refund, and 90% guaranteed refund entrance fee option. The refundable portion of the traditional entrance fee is calculated based on a 60 month amortization period after applying a 10% administrative fee. After 60 months of occupancy, no refund is payable to the resident. The refundable portion of the 50% entrance fee is calculated based on a 30 month amortization period after applying a 10% administrative fee. After 30 months of occupancy, the refund payable to the resident is limited to 50% of the entrance fee. The 90% entrance fee guarantees a refund of the entrance fee paid less a 10% administrative fee. Contracts containing varying refund provisions no longer offered by the Organization to new residents remain in force.

The non-refundable portion of the entrance fees are accounted for as deferred revenue from entrance fees and are amortized into earned revenue using the straight-line method over the estimated remaining life of the residents over the contractual term of the contract. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the entrance fees is not amortized into income and is reported as refundable entrance fees liability. Contractual refund obligations amounted to $3,551,820 and $1,929,313 as of December 31, 2019 and 2018, respectively.

The Organization also has a rental agreement requiring no entrance fee.

Deferred financing costs: Financing costs were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled $31,233 for each of the years ending December 31, 2019 and 2018. Accumulated amortization was $206,679 and $175,446 as of December 31, 2019 and 2018, respectively. Capitalized deferred financing costs equaled approximately $126,900 and $0, as of December 31, 2019 and 2018, respectively.

Net assets: Net assets, revenue, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.
>
> Net assets with donor restrictions: Net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net resident service revenue: Net resident service revenue is reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenue is recognized as performance obligations are satisfied.

Net resident service revenue is primarily comprised of the following revenue streams:

Skilled nursing: Skilled nursing revenue is primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. The Organization has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenue is recognized on a daily basis as services are rendered.

Assisted living: Assisted living revenue is primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenue is recognized on a month-to-month basis.

Independent living: Independent living revenue is primarily derived from providing housing and services to residents. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees on the accompanying balance sheets.

Other resident services: Other resident services revenue includes services such as housekeeping, laundry, transportation, medical supplies, and other revenue from residents. The Organization has determined that other resident services revenue is considered one performance obligation which is satisfied over time as services are provided. Therefore, other resident services revenue is recognized on a daily basis as services are rendered.

Revenue from nonrefundable entrance fees received is recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the balance sheets. Amortization of nonrefundable entrance fees included in net resident service revenue was $1,079,689 in 2019 and $1,475,114 in 2018.

The Organization receives revenue for services under third-party payor programs, including Medicare, Medicaid, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Organization estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

The Organization disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenue consists of the following for the years ended December 31:

	2019				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	**$ 4,950,484**	**$ 4,442,896**	**$ 1,321,964**	**$ 376,060**	**$ 11,091,404**
Medicare	**10,437,652**	**-**	**-**	**-**	**10,437,652**
Medical Assistance	**5,396,218**	**-**	**-**	**-**	**5,396,218**
Commercial insurance	**817,108**	**-**	**-**	**-**	**817,108**
Amortization of nonrefundable entrance fees	**-**	**-**	**1,079,689**	**-**	**1,079,689**
Total	**$ 21,601,462**	**$ 4,442,896**	**$ 2,401,653**	**$ 376,060**	**$ 28,822,071**

	2018				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	$ 5,105,844	$ 4,423,281	$ 992,754	$ 416,879	$ 10,938,758
Medicare	9,128,635	-	-	-	9,128,635
Medical Assistance	5,104,256	-	-	-	5,104,256
Commercial insurance	928,499	-	-	-	928,499
Amortization of nonrefundable entrance fees	-	-	1,475,114	-	1,475,114
Total	$ 20,267,234	$ 4,423,281	$ 2,467,868	$ 416,879	$ 27,575,262

The Organization has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

- Medical Assistance: Under the Maryland Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (ADLs), and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.

- Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Organization's clinical assessment of its residents. The Organization is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

The Organization also has entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to the Organization under these agreements includes prospectively determined rates per day or discounts from established charges.

Payment terms and conditions for the Organization's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenue for recurring and routine monthly services is generally billed monthly in advance. Net resident service fee revenue for ancillary services is generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenue collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenue from entrance fees on the accompanying balance sheets.

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $259,000 and $724,000 for the years ended December 31, 2019 and 2018, respectively.

(Deficiency) of operating and nonoperating revenue over expenses: The statements of operations include the determination of (deficiency) of operating and nonoperating revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include net unrealized gains (losses) on alternative investments measured at NAV and debt securities and net assets released from restriction for capital purchases.

Income tax status: The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Generally, tax returns for years ended December 31, 2016, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain items in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through April 23, 2020, the date the financial statements were issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

Financial Instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance resulted in a reclassification of unrealized gains (losses) on equity securities to be included within the performance indicator. Total unrealized gains (losses) on equity securities amounted to $2,988,552 and $(1,757,974) for the years ended December 31, 2019 and 2018, respectively.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. Along with ASU 2016-02, the Organization will also be required to adopt the codification improvements will also be required to adopt codification improvements to Topic 842 which include ASU 2018-10 and 2018-11. The Organization adopted this guidance during the year ended December 31, 2019. The Organization also adopted the following Practical Expedients relative to Topic 842, for the year ended December 31, 2019: Relief package allowing to not reassess whether a contract contains a lease, lease classification, and whether initial direct costs should be capitalized. The Organization elects the short-term lease exemption for leases less than 12 months. The Organization elects not to separate lease and non-lease components. Adoption of this guidance did not have a material impact on the Organization’s financial statements.

Statement of Cash Flows: In August 2016, the FASB issued ASU 2016-15, (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which clarifies how organizations present and classify certain cash receipts and cash payments on the statement of cash flows. Early adoption is permitted. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance did not have a material impact on the Organization's financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230) *Restricted Cash*, which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The Organization adopted this guidance during the year ended December 31, 2019. See cash flow statements for inclusion of restricted cash.

Nonrefundable Fess and Other Costs: Premium Amortization on Purchased Callable Debt Securities: In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*, to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Early adoption is permitted. The Organization is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, financial statements.

Not-for-Profit Entities: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance did not have a material impact on the Organization's financial statements.

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Organization is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, financial statements.

Note 2. Liquidity and Availability of Resources

Financial assets are considered liquid and available when convertible into cash within a year. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet dates, comprise the following as of December 31:

		2019		2018
Financial assets:				
Cash and cash equivalents	**$**	**104,763**	$	210,152
Accounts receivable, net		**2,202,282**		1,935,675
Investments		**3,631,290**		2,798,745
Beneficial interest in supporting organization		**18,793,773**		15,000,197
Total financial assets	**$**	**24,732,108**	$	19,944,769

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied. As stated in Note 3, the Organization designated a portion of its beneficial interest in supporting organization as an operating reserve to comply with the requirements of the Maryland Department of Aging Reserve Requirements and thus they are not included in the schedule above. Although the Organization does not intend to utilize the operating reserve for general expenditures as part of its annual budget and approval process, amounts designated as operating reserves could be made available as necessary. The operating reserves are included in assets whose use is limited on the balance sheets and do not have third-party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

Note 3. Fair Value Measurements

Authoritative guidance regarding *Fair Value Measurements* establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value, and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The levels of the fair value hierarchy are as follows:

Level I — Quoted prices in active markets for identical assets or liabilities.

Level II — Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The tables below present the balances of assets measured at fair value as of December 31:

	2019				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Reported at fair value:					
Assets:					
Investments, beneficial interest in supporting organization, and assets whose use is limited:					
Cash and cash equivalents	**$ 23,026,130**	**$ 23,026,130**	**$ 23,026,130**	**$ -**	**$ -**
Equity securities	**1,132,433**	**1,132,433**	**1,132,433**	**-**	**-**
Mutual funds	**2,021,536**	**2,021,536**	**2,021,536**	**-**	**-**
Fixed income securities	**271,259**	**271,259**	**-**	**271,259**	**-**
Other	**78,502**	**78,502**	**-**	**78,502**	**-**
Beneficial interest in supporting organization	**22,118,545**	**22,118,545**	**17,442,192**	**4,676,353**	**-**
Total	**48,648,405**	**48,648,405**	**43,622,291**	**5,026,114**	**-**
Beneficial interest in supporting organization alternative investment measured at NAV	**1,162,359**				
Total	**49,810,764**				
Funds held in trust by others	**2,019,554**	**2,019,554**	**-**	**-**	**2,019,554**
Total assets	**$ 51,830,318**	**$ 50,667,959**	**$ 43,622,291**	**$ 5,026,114**	**$ 2,019,554**
Disclosed at fair value:					
Cash and cash equivalents	**$ 104,763**	**$ 104,763**	**$ 104,763**	**$ -**	**$ -**
Long-term debt	**$ 75,310,000**	**$ 75,621,169**	**$ -**	**$ 75,621,169**	**$ -**

	2018				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Reported at fair value:					
Assets:					
Investments, beneficial interest in supporting organization, and assets whose use is limited:					
Cash and cash equivalents	$ 13,713,065	$ 13,713,065	$ 13,713,065	$ -	$ -
Equity securities	804,114	804,114	804,114	-	-
Mutual funds	1,589,805	1,589,805	1,589,805	-	-
Fixed income securities	227,860	227,860	-	227,860	-
Other	81,313	81,313	-	81,313	-
Beneficial interest in supporting organization	18,814,811	18,814,811	14,460,251	4,354,560	-
Total	35,230,968	35,230,968	30,567,235	4,663,733	-
Beneficial interest in supporting organization alternative investment measured at NAV	899,401				
Total	36,130,369				
Funds held in trust by others	1,928,796	1,928,796	-	-	1,928,796
Total assets	$ 38,059,165	$ 37,159,764	$ 30,567,235	$ 4,663,733	$ 1,928,796
Disclosed at fair value:					
Cash and cash equivalents	$ 210,152	$ 210,152	$ 210,152	$ -	$ -
Long-term debt	$ 34,110,000	$ 33,649,409	$ -	$ 33,649,409	$ -

Beneficial interest in supporting organization and assets whose use is limited are presented together in the tables above as there are various investment and cash accounts that are allocated between the beneficial interest in supporting organization and assets whose use is limited lines on the balance sheets.

In accordance with the Maryland Department of Aging reserve requirements governing continuing care retirement communities (Note 5), the Organization maintains an operating reserve totaling 15% of the facility's net operating expenses for the most recent fiscal year. These funds have been reclassed from the beneficial interest in supporting organization and reserved in assets whose use is limited on the balance sheets.

Certain investments are combined with related organizations and are referred to as beneficial interest in supporting organization investments. For the purpose of the fair value disclosure, these funds are referred to as the Consolidated Fund. Approximately 33.69% and 27.34% of the combined investments are attributable to the Organization as of December 31, 2019 and 2018, respectively. The percentage of the investments is calculated based on a monthly allocation percentage, adjusted for necessary reallocations specific to the Organization. Investment income is also based on this allocation.

The following tables present the Organization's share of the consolidated investments that are represented as beneficial interest in supporting organization, measured at fair value as of December 31:

	2019			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	**$ 928,170**	**$ 928,170**	**$ 928,170**	**$ -**
Equity securities:				
Consumer discretionary	**3,659,249**	**3,659,249**	**3,659,249**	**-**
Consumer staples	**582,177**	**582,177**	**582,177**	**-**
Energy	**1,163,714**	**1,163,714**	**1,163,714**	**-**
Financial	**1,536,922**	**1,536,922**	**1,536,922**	**-**
Health care	**1,951,997**	**1,951,997**	**1,951,997**	**-**
Industrials	**735,129**	**735,129**	**735,129**	**-**
Information technology	**1,381,546**	**1,381,546**	**1,381,546**	**-**
Materials	**411,886**	**411,886**	**411,886**	**-**
Real estate	**1,400,960**	**1,400,960**	**1,400,960**	**-**
Utilities	**404,425**	**404,425**	**404,425**	**-**
Other	**23,744**	**23,744**	**23,744**	**-**
Mutual funds:				
Fixed income	**1,633,841**	**1,633,841**	**1,633,841**	**-**
Equity	**1,628,432**	**1,628,432**	**1,628,432**	**-**
Fixed income securities:				
Corporate bonds	**2,444,100**	**2,444,100**	**-**	**2,444,100**
U.S. government and agency bonds	**2,232,253**	**2,232,253**	**-**	**2,232,253**
Subtotal	**22,118,545**	**$ 22,118,545**	**$ 17,442,192**	**$ 4,676,353**
Alternative investment measured at NAV	**1,162,359**			
Total	**$ 23,280,904**			

	2018			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 1,292,196	$ 1,292,196	$ 1,292,196	$ -
Equity securities:				
Consumer discretionary	2,641,761	2,641,761	2,641,761	-
Consumer staples	565,613	565,613	565,613	-
Energy	884,748	884,748	884,748	-
Financial	893,062	893,062	893,062	-
Health care	1,206,188	1,206,188	1,206,188	-
Industrials	661,785	661,785	661,785	-
Information technology	985,792	985,792	985,792	-
Materials	198,049	198,049	198,049	-
Real estate	429,975	429,975	429,975	-
Utilities	319,716	319,716	319,716	-
Other	325,346	325,346	325,346	-
Mutual funds:				
Fixed income	1,433,359	1,433,359	1,433,359	-
Equity	2,622,661	2,622,661	2,622,661	-
Fixed income securities:				
Corporate bonds	2,407,214	2,407,214	-	2,407,214
U.S. government and agency bonds	1,947,346	1,947,346	-	1,947,346
Subtotal	18,814,811	$ 18,814,811	$ 14,460,251	$ 4,354,560
Alternative investment measured at NAV	899,401			
Total	$ 19,714,212			

The Organization has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

There were no transfers between Level I, Level II, or Level III during the years ended December 31, 2019 or 2018.

The following methods have been used by the Organization in estimating the fair value on a recurring basis of its financial instruments. There have been no changes in the methodologies used as of December 31, 2019 or 2018:

Cash and cash equivalents: Fair values, which are the amounts reported on the consolidated balance sheets, are based on multiplying number of units held by $1 per unit.

Equity securities and mutual funds: Valued at the closing price reported in the active market on which the individual securities are traded for equity securities and fixed income mutual funds and quoted market prices in active markets.

Fixed income securities and other: Fair values of these items, which are the amounts reported on the balance sheets, are estimated using quoted prices for similar securities.

Beneficial interest in supporting organization: Based on the fair values of the investments held in the fund at the Organization's percentage of holdings, which include the following:

Investments within the beneficial interest in supporting organization are values at fair value based on quoted market prices in active markets for cash and cash equivalents, equity securities, mutual funds, and exchange-traded and closed-end funds, and based on quoted prices for the same or similar securities for fixed income securities.

Alternative investment is comprised of a hedge fund. The Organization measures the fair value of the alternative investment based on net asset value (NAV) as calculated on the reporting entity's measurement date. The Organization measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the Organization as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. The Organization’s share of the Consolidated Fund's alternative investments as of December 31, 2019 and 2018, was $1,162,359 and $899,401, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (Fund) is capital appreciation with limited variability of returns. The Fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies. There were no unfunded commitments as of December 31, 2019 or 2018, and there is a monthly or quarterly redemption notice of 15 - 120 days.

Long-term debt: Valued based on current rates offered for similar issues with similar terms and maturities, or estimated based using a discount rate a market participant would demand.

Funds held in trust by others: Valued based on the fair value of the trusts’ underlying assets, which approximates the discounted present value of future cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies 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.

For assets falling within Level III in the fair value hierarchy, the activity recognized during the years ended December 31 is as follows:

	Funds Held in Trust by Others
Balance, as of December 31, 2017	$ 1,984,790
Change in value	(55,994)
Balance, as of December 31, 2018	1,928,796
Change in value	138,430
Released from restriction	(47,672)
Balance, as of December 31, 2019	$ 2,019,554

The change in value in Level III assets is recorded on the statements changes in net assets as an increase or decrease in net assets with donor restrictions.

The following table summarizes the gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities in a loss position for the Organization's share in the beneficial interest in supporting organization. Individual securities totaling 0 and 158 had unrealized losses for the years ended December 31, 2019 and 2018, respectively. Management believes that these holding losses are not permanently impaired as they reflect general market conditions instead of a permanent decline in value.

	2018					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities	$ 1,903,401	$ (58,533)	$ 1,658,288	$ (51,164)	$ 3,561,689	$ (109,697)

Note 4. Investments, Beneficial Interest in Supporting Organization, and Assets Whose Use is Limited

The investments, beneficial interest in supporting organization, and assets whose use is limited are presented on the balance sheets as follows as of December 31:

	2019	2018
Investments	**$ 3,631,290**	$ 2,798,745
Beneficial interest in supporting organization	**$ 18,793,773**	$ 15,000,197
Assets whose use is limited:		
Operating reserve	**$ 4,486,650**	$ 4,714,016
Resident deposits	**6,318,091**	5,676,330
Assets held under trust indenture (2012 bonds):		
Debt service reserve	**791,353**	763,888
Interest	**411,635**	607,137
Principal	**753,910**	402,592
Replacement reserves	**44,661**	43,767
Assets held under trust indenture (2018 bonds):		
Debt service reserve	**2,758,109**	1,350,000
Interest	**3,200,467**	1,026,284
Construction	**8,612,002**	3,746,260
Cost of issuance	**8,823**	1,153
	27,385,701	18,331,427
Less current portion	**(5,188,369)**	(1,636,384)
Assets whose use is limited, net	**$ 22,197,332**	$ 16,695,043

Note 5. Maryland Department of Aging Reserve Requirements

In accordance with Maryland law governing continuing care retirement communities, the Organization is required to set aside operating reserves totaling 15% of the facility's net operating expenses (as defined) for the most recent fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2019, is as follows:

Total operating expenses for fiscal year ended December 31, 2019	$	35,591,248
Less:		
Depreciation		(4,200,429)
Interest		(1,479,819)
Adjusted operating expense	$	29,911,000
Funding requirement (15% of operating expenses)	$	4,486,650

The Organization has reserved this amount in assets whose use is limited to satisfy the minimum statutory operating reserve requirement. Beginning January 1, 2023, the reserve requirement will be equal to 25% of the facility's net operating expenses.

Note 6. Property and Equipment

A summary of property and equipment and the related accumulated depreciation is as follows as of December 31:

		2019		2018
Land	**$**	**3,255,295**	$	3,255,295
Land improvements		**278,625**		264,541
Buildings and building improvements		**80,018,932**		79,422,581
Furniture and equipment		**10,395,105**		10,066,388
Construction in progress		**41,985,679**		5,916,469
		135,933,636		98,925,274
Less accumulated depreciation		**(49,418,304)**		(45,217,875)
	$	**86,515,332**	$	53,707,399

Construction in progress as of December 31, 2019, consists of initial project development and construction costs for an expansion and repositioning project to consist of an addition of 132 independent living units in place of 33 of its existing independent living units. In addition, the expansion phase will add additional common space, dining rooms, and underground parking. The Organization is currently marketing the new independent living units and has received $6,307,436 in resident deposits as of December 31, 2019, primarily related to the project. A construction contract exists in the amount of approximately $ 54,800,000 of which $32,874,954 was completed as of December 31, 2019.

Note 7. Long-Term Debt

Long-term debt consists of the following as of December 31:

	2019	2018
Series 2018A Fixed Rate Economic Development Revenue Bonds, at 6.50 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through November 2048 to satisfy annual debt service requirements.	**$ 6,865,000**	$ 2,705,000
Series 2018B Adjustable Rate Economic Development Revenue Bonds, at 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018B Bonds interest rate adjusts February 2028 as defined in the debt agreements.	**6,375,000**	2,215,000
Series 2018C Floating Rate Economic Development Revenue Bonds, payable in monthly installments of interest only with a final payment of principal due February 2029. Interest is payable at a variable interest rate of 75 percent of LIBOR plus 2.45 percent (4.14 percent as of December 31, 2019).	**35,265,000**	6,145,000
Series 2018D Adjustable Rate Economic Development Revenue Bonds, at 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018B Bonds interest rate adjusts in February 2028 as defined in the debt agreements.	**6,595,000**	2,435,000
Series 2012A Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at fixed rates ranging from 5.96 percent to 7.23 percent.	**12,030,000**	12,250,000
Series 2012B Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at fixed rates ranging from 4.70 percent to 5.61 percent through January 2022. Beginning in February 2022 through maturity, the interest rate will become a variable rate.	**8,180,000**	8,360,000
	75,310,000	34,110,000
Less current portion	**425,000**	400,000
Less deferred financing costs	**2,786,039**	2,475,148
Total long-term debt	**$ 72,098,961**	$ 31,234,852

The Series 2018 Bonds are draw down bonds to fund the construction project described in Note 6, with the total bond issuance being $87,500,000, consisting of $17,970,000 of Series 2018A, $13,690,000 of Series 2018B, $40,000,000 of Series 2018C, and $15,840,000 of Series 2018D. An additional $41,600,000 was drawn down from the 2018 Series Bonds in 2019.

As security for the payment of the bonds, the Organization has granted a lien and security interest in the mortgaged premises and assigned a security interest in the pledged assets to the master trustee. Pledged assets include present and future accounts receivable, contract rights, general intangibles, and the proceeds of all the foregoing. Additionally, NLI and National Lutheran Home for the Aged, Inc. entered into support agreements guaranteeing the repayment of the bonds as additional security. The support agreements will terminate upon the achievement of certain financial performance targets as defined in the agreements.

The Organization is required to comply with certain debt covenants in connection with the aforementioned long-term debt. Management believes they are in compliance with all covenants as of December 31, 2019 and 2018.

The long-term debt maturing in the next five years and thereafter is as follows as of December 31, 2019:

Years Ending December 31:	
2020	$ 425,000
2021	450,000
2022	645,000
2023	1,235,000
2024	1,320,000
Thereafter	71,235,000
	$ 75,310,000

Interest expense totaled $1,448,586 in 2019 and $1,204,637 in 2018, net of capitalized interest of $612,207 and $88,238 in 2019 and 2018, respectively.

Note 8. Net Assets

Net assets presentation on the balance sheets with expanded disclosure for the amount and purpose of designations is as follows as of December 31:

	2019	2018
Net assets:		
Without donor restrictions:		
Undesignated	**$ 12,275,996**	$ 14,386,012
Maryland Department of Aging reserve requirements	**4,486,650**	4,714,016
	16,762,646	19,100,028
With donor restrictions:		
Purpose restricted for:		
Operations	**223,500**	125,149
Charitable remainder trusts	**366,972**	394,268
Perpetual trusts	**1,652,582**	1,534,528
Restricted in perpetuity	**1,033,330**	799,483
	3,276,384	2,853,428
Total net assets	**$ 20,039,030**	$ 21,953,456

For the years ended December 31, 2019 and 2018, net assets of $67,621 and $441,972, respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purposes. For the years ended December 31, 2019 and 2018, net assets of $0 and $566,456, respectively, were released from donor restrictions relating to capital projects satisfying the restricted purposes.

Earnings from net assets restricted in perpetuity are available to support charitable and benevolent care provided by the Organization.

Note 9. Related Party Transactions

NLI is the sole member of the Organization and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. The Organization incurred management fees to NLI totaling $2,327,052 and $2,440,001 for the years ended December 31, 2019 and 2018, respectively.

Various entities that are part of the NLCS system make working capital advances to each other as needed. Related party transactions bear no interest and have no stated repayment terms.

The following represents net amounts due to (from) affiliated organizations as of December 31:

	2019	2018
NLI	**$ 23,600,991**	$ 20,869,988
National Lutheran Home for the Aged, Inc.	**375,990**	1,398
The Village at Providence Point	**(18,129)**	-
myPotential Maryland, LLC	**(47,270)**	(19,337)
myPotential Clinic-Rockville, LLC	**(131,042)**	(11,254)
myPotential Virginia, LLC	**(152,013)**	(88,658)
The Legacy at North Augusta, Inc.	**(514,976)**	(290,511)
The Village at Orchard Ridge, Inc.	**(653,828)**	143,628
	$ 22,459,723	$ 20,605,254

Note 10. Expenses by Nature and Function

The Organization's expenses for resident services (including skilled nursing, assisted living, independent living, and other resident services) and general and administrative are as follows for the years ended December 31:

	2019		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	**$ 13,154,560**	**$ 742,688**	**$ 13,897,248**
Employee benefits and payroll taxes	**3,156,284**	**273,111**	**3,429,395**
Professional fees	**1,347,693**	**161,869**	**1,509,562**
Ancillary and medical	**3,628,429**	**-**	**3,628,429**
Supplies	**459,615**	**88,107**	**547,722**
Food services	**994,544**	**28,173**	**1,022,717**
Utilities	**1,020,424**	**7,200**	**1,027,624**
Depreciation	**4,200,429**	**-**	**4,200,429**
Interest	**1,479,819**	**-**	**1,479,819**
Insurance	**80,301**	**-**	**80,301**
Real estate taxes	**276,398**	**-**	**276,398**
Repairs and maintenance	**523,609**	**49,104**	**572,713**
Advertising and marketing	**232,832**	**26,360**	**259,192**
Licenses, dues, and subscriptions	**441,592**	**156,440**	**598,032**
Other operating expenses	**262,517**	**267,213**	**529,730**
Bad debt expense	**204,885**	**-**	**204,885**
Management fee	**-**	**2,327,052**	**2,327,052**
Total	**$ 31,463,931**	**$ 4,127,317**	**$ 35,591,248**

	2018		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	$ 13,726,593	$ 906,890	$ 14,633,483
Employee benefits and payroll taxes	3,339,812	228,131	3,567,943
Professional fees	1,118,338	172,699	1,291,037
Ancillary and medical	3,602,751	-	3,602,751
Supplies	351,137	301,793	652,930
Food services	1,048,965	22,894	1,071,859
Utilities	1,118,999	22,401	1,141,400
Depreciation	4,162,713	-	4,162,713
Interest	1,235,470	-	1,235,470
Insurance	58,700	-	58,700
Real estate taxes	273,714	-	273,714
Repairs and maintenance	447,810	89,114	536,924
Advertising and marketing	176,624	547,786	724,410
Licenses, dues, and subscriptions	460,151	157,402	617,553
Other operating expenses	300,703	59,099	359,802
Bad debt expense	419,927	-	419,927
Management fee	-	2,440,001	2,440,001
Total	$ 31,842,407	$ 4,948,210	$ 36,790,617

The financial statements report certain expense categories that are attributable to more than one health care or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to the functions based on square footage basis. Fundraising expenses are incurred through NLI.

Note 11. Benevolent Care

The Organization extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

The Organization maintains records to identify and monitor the level of benevolent care it provides. The estimated cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided amounted to approximately $2,790,000 and $3,357,000, including approximately $2,510,000 and $3,105,000 related to the Medicaid program, for the years ended December 31, 2019 and 2018, respectively.

Note 12. Pension Plan

The Organization has a 403(b) defined contribution plan. The Organization contributes 2% of each eligible employee’s salary and matches 50% of each employee's contribution up to 8% after 90 days of service for a maximum contribution of 6%. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $502,107 in 2019 and $523,477 in 2018.

Note 13. Medical Malpractice and General Liability Claims Coverage

The Organization purchases medical malpractice insurance coverages from a commercial insurance carrier via an insurance broker. These coverages are provided on a claims-made basis. As of December 31, 2019 and 2018, professional and general liability coverages are provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. The Organization has evaluated claims incurred but not reported and has deemed it not necessary to record a liability based on the Organization’s history of claims.

Note 14. Commitments and Contingencies

The health care industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local government agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayment for patient services previously billed. The Organization is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

Note 15. Subsequent Event

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts related to the pandemic may include disruptions or restrictions on the Organization's employees' ability to work, census, and residents' ability to pay monthly rents or daily fees. Operating functions that may be affected include, but are not limited to: admissions, dining, environmental services, and delivery of services and care. Changes to the Organization's operating environment may increase operating costs. Although the Organization has disaster plans in place and operates pursuant to infectious disease protocols, the potential impacts of the pandemic, including economic impacts, are unknown.