THE VILLAGE AT ROCKVILLE, INC.

Financial Report
December 31, 2020

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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 sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in net assets, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 16 to the financial statements, The Village at Rockville, Inc. received government funding through the Small Business Administration (SBA) Paycheck Protection Program (PPP), and the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF) consequent to the operating conditions created by the COVID-19 pandemic. Our opinion is not modified with respect to these matters.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 15, 2021

THE VILLAGE AT ROCKVILLE, INC.

BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	**2020**	2019
CURRENT ASSETS		
Cash and cash equivalents	**$ 111,500**	$ 104,763
Accounts receivable, net	**1,558,785**	2,202,282
Prepaid expenses and other assets	**404,183**	298,188
Pledges receivable, net	**-**	380
Current portion of assets whose use is limited	**5,191,383**	5,188,369
Total current assets	**7,265,851**	7,793,982
ASSETS WHOSE USE IS LIMITED, net	**15,210,305**	22,197,332
INVESTMENTS	**4,470,791**	3,631,290
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**25,772,948**	18,793,773
PROPERTY AND EQUIPMENT, net	**116,164,278**	86,515,332
FUNDS HELD IN TRUST BY OTHERS	**2,038,020**	2,019,554
Total assets	**$ 170,922,193**	$ 140,951,263

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	**2020**	2019
CURRENT LIABILITIES		
Accounts payable, trade	**$ 2,184,074**	$ 1,044,631
Accounts payable, construction	**3,076,205**	3,656,692
Accrued interest	**1,665,178**	1,106,677
Accrued expenses	**2,419,851**	1,837,178
Current portion of long-term debt	**450,000**	425,000
Current portion of annuities payable	**-**	16,671
Total current liabilities	**9,795,308**	8,086,849
DEFERRED REVENUE FROM ENTRANCE FEES	**6,684,689**	8,342,714
REFUNDABLE ENTRANCE FEES	**4,399,636**	3,551,820
RESIDENT DEPOSITS	**5,451,630**	6,307,436
LONG-TERM DEBT, net	**99,846,814**	72,098,961
DUE TO AFFILIATES, net	**21,399,578**	22,459,723
ANNUITIES PAYABLE, net	**70,045**	64,730
Total liabilities	**147,647,700**	120,912,233
NET ASSETS		
Without donor restrictions	**19,734,572**	16,762,646
With donor restrictions	**3,539,921**	3,276,384
Total net assets	**23,274,493**	20,039,030
Total liabilities and net assets	**$ 170,922,193**	$ 140,951,263

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue, including amortization of entrance fees 2020 $1,530,620; 2019 $1,079,689	**$ 27,175,662**	$ 28,822,071
Provider Relief Funds	**1,514,407**	-
Paycheck Protection Program contribution	**3,293,200**	-
Net assets released from restrictions, operations	**67,712**	67,621
Total operating revenue	**32,050,981**	28,889,692
Operating expenses:		
Salaries and wages	**13,758,166**	13,897,248
Employee benefits and payroll taxes	**3,667,343**	3,429,395
Professional fees	**1,578,085**	1,509,562
Ancillary and medical	**3,267,687**	3,628,429
Supplies	**678,553**	547,722
Food services	**900,223**	1,022,717
Utilities	**924,311**	1,027,624
Depreciation	**3,901,986**	4,200,429
Interest	**1,259,702**	1,479,819
Insurance	**95,950**	80,301
Real estate taxes	**274,861**	276,398
Repairs and maintenance	**564,815**	572,713
Advertising and marketing	**206,371**	259,192
Licenses, dues, and subscriptions	**621,879**	598,032
Other operating expenses	**220,495**	529,730
Bad debt expense	**195,907**	204,885
Management fee	**2,504,395**	2,327,052
Total operating expenses	**34,620,729**	35,591,248
(Deficiency) of operating revenue over expenses	**(2,569,748)**	(6,701,556)
Nonoperating revenue:		
Contributions	**1,335,612**	30,386
Interest and dividends	**914,882**	798,674
Other income	**189,328**	109,762
Realized gains	**18,468**	167,875
Unrealized gains	**2,455,349**	2,988,552
Total nonoperating revenue	**4,913,639**	4,095,249
Excess (deficiency) of operating and nonoperating revenue over expenses	**2,343,891**	(2,606,307)
Other changes:		
Unrealized gains	**628,035**	268,925
Change in net assets without donor restrictions	**$ 2,971,926**	$ (2,337,382)

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (deficiency) of operating and nonoperating revenue over expenses	**$ 2,343,891**	$ (2,606,307)
Unrealized gains	**628,035**	268,925
Change in net assets without donor restrictions	**2,971,926**	(2,337,382)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**283,675**	345,901
Funds held in trust income	**-**	6,246
Change in value of funds held in trust by others	**47,574**	138,430
Net assets released from restriction, operations	**(67,712)**	(67,621)
Change in net assets with donor restrictions	**263,537**	422,956
Change in net assets	**3,235,463**	(1,914,426)
Net assets:		
Beginning	**20,039,030**	21,953,456
Ending	**$ 23,274,493**	$ 20,039,030

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 3,235,463**	$ (1,914,426)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**3,901,986**	4,200,429
Provision for bad debts	**195,907**	204,885
Amortization of deferred financing costs	**31,542**	31,233
Amortization of entrance fees	**(1,530,620)**	(1,079,689)
Proceeds from entrance fees	**391,307**	543,722
Realized gains	**(18,468)**	(167,875)
Unrealized gains	**(3,083,384)**	(3,229,490)
Change in value of funds held in trust by others	**(18,466)**	90,758
Change in annuities payable	**(11,356)**	(47,762)
Changes in assets and liabilities:		
Accounts receivable	**447,590**	(471,492)
Prepaid expenses and other assets	**(105,995)**	(53,866)
Accounts payable, trade and accrued expenses	**1,711,846**	97,196
Net cash provided by (used in) operating activities	**5,147,352**	(1,796,377)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds (purchases) from sales of investments and assets whose use is limited	**(843,354)**	(3,445,936)
Purchases of property and equipment	**(33,401,825)**	(33,247,361)
Net cash (used in) investing activities	**(34,245,179)**	(36,693,297)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(425,000)**	(400,000)
Proceeds from issuance of long-term debt	**28,335,000**	41,600,000
Payments for financing costs	**(329,512)**	(478,217)
Net change in resident deposits	**(1,435,192)**	1,214,384
Proceeds from refundable entrance fees, turnover units	**1,260,907**	1,687,457
Refunds of entrance fees	**(352,417)**	(83,162)
Change in pledges receivable, net	**380**	7,964
Change in due to affiliates, net	**(4,890,145)**	1,487,572
Net cash provided by financing activities	**22,164,021**	45,035,998
Net increase in cash, cash equivalents, and restricted cash	**(6,933,806)**	6,546,324
Cash, cash equivalents, and restricted cash:		
Beginning	**23,227,314**	16,680,990
Ending	**$ 16,293,508**	$ 23,227,314

See Notes to Financial Statements

	2020	2019
Cash, cash equivalents, and restricted cash include:		
Cash and cash equivalents	**$ 111,500**	$ 104,763
Resident deposits	**5,346,561**	6,318,091
Assets held under trust indenture	**10,636,271**	16,580,960
Cash, restricted by donors or grantors for specific purposes	**199,176**	223,500
	$ 16,293,508	$ 23,227,314
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**$ 1,786,661**	$ 1,962,879
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable, construction	**$ 3,076,205**	$ 3,656,692
Beneficial interest in supporting organization	**$ 3,830,000**	$ 366,897
Accrued capitalized interest	**$ 1,180,977**	$ 612,216

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 244 independent living units, 50 assisted living units, and 160 skilled nursing beds. The Organization received a certificate of occupancy for 130 independent living units in December 2020 for the Glenmere expansion.

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 Organization has included a reserve within the estimated implicit price concessions of $127,889 and $165,836 as of December 31, 2020 and 2019, respectively, which have been recorded as reductions to resident accounts receivable.

Beneficial interest in supporting organization: The Organization maintains a support agreement with National Lutheran, Inc. 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 4 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.

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 or, if donated, at fair value. 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 $0 and $50 as of December 31, 2020 and 2019, 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 $4,399,636 and $3,551,820 as of December 31, 2020 and 2019, 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 $31,542 and $31,233 for the years ended December 31, 2020 and 2019, respectively. Accumulated amortization was $391,070 and $198,560 as of December 31, 2020 and 2019, respectively. Capitalized deferred financing costs equaled approximately $160,968 and $126,900, as of December 31, 2020 and 2019, 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 $1,530,620 in 2020 and $1,079,689 in 2019.

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:

	2020				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	**$ 4,450,360**	**$ 4,227,073**	**$ 2,110,671**	**$ 52,803**	**$ 10,840,907**
Medicare	**8,051,119**	**-**	**-**	**-**	**8,051,119**
Medical Assistance	**6,085,148**	**-**	**-**	**-**	**6,085,148**
Commercial insurance	**667,868**	**-**	**-**	**-**	**667,868**
Amortization of nonrefundable entrance fees	**-**	**-**	**1,530,620**	**-**	**1,530,620**
Total	**$ 19,254,495**	**$ 4,227,073**	**$ 3,641,291**	**$ 52,803**	**$ 27,175,662**

	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

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 $206,400 and $259,200 for the years ended December 31, 2020 and 2019, respectively.

Excess (deficiency) of operating and nonoperating revenue over expenses: The statements of operations include the determination of excess (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.

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, 2020 and 2019, 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, 2017, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain items in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through April 15, 2021, the date the financial statements were issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities: In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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. The Organization adopted this guidance during the year ended December 31, 2020. 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. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization’s financial statements.

Consolidation: In October 2018, the FASB issued ASU 2018-17, *Consolidation* (Topic 810): *Targeted Improvements to Related Party Guidance for Variable Interest Entities,* in response to stakeholders' observations that Topic 810, *Consolidation*, could be improved in the following areas: 1) applying the variable interest entity (VIE) guidance to private companies under common control, and 2) considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and services providers are variable interests. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization's 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 sheets dates, comprise the following as of December 31:

	2020	2019
Financial assets:		
Cash and cash equivalents	**$ 111,500**	$ 104,763
Accounts receivable, net	**1,558,785**	2,202,282
Investments	**4,470,791**	3,631,290
Beneficial interest in supporting organization	**25,772,948**	18,793,773
Total financial assets	**$ 31,914,024**	$ 24,732,108

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 4, 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. Concentrations of Credit Risk

The Organization grants credit without collateral to its residents, most of whom are local residents and are insured under third-party agreements. The mix of gross receivables from third-party payors is as follows as of December 31:

	2020	2019
Medicare	**33 %**	41 %
Medicaid	**32**	21
Commercial	**20**	26
Self-pay	**15**	12
	100 %	100 %

Note 4. 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 financial assets and liabilities measured at fair value on a recurring basis as of December 31:

	2020				
	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	$ 16,217,309	$ 16,217,309	$ 16,217,309	$ -	$ -
Equity securities	1,439,814	1,439,814	1,439,814	-	-
Mutual funds	2,473,577	2,473,577	2,473,577	-	-
Fixed income securities	247,354	247,354	-	247,354	-
Other	75,569	75,569	-	75,569	-
Beneficial interest in supporting organization	28,618,443	28,618,443	21,543,600	7,074,843	-
Total	49,072,066	49,072,066	41,674,300	7,397,766	-
Beneficial interest in supporting organization alternative investment measured at NAV	1,573,361	1,573,361			
Total	50,645,427	50,645,427			
Funds held in trust by others	2,038,020	2,038,020	-	-	2,038,020
Total assets	$ 52,683,447	$ 52,683,447	$ 41,674,300	$ 7,397,766	$ 2,038,020
Disclosed at fair value:					
Cash and cash equivalents	$ 111,500	$ 111,500	$ 111,500	$ -	$ -
Long-term debt	$ 103,220,000	$ 103,658,664	$ -	$ 103,658,664	$ -

	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	$ 23,026,611	$ 23,026,611	$ 23,026,611	$ -	$ -
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	22,118,064	22,118,064	17,441,711	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	1,162,359			
Total	49,810,764	49,810,764			
Funds held in trust by others	2,019,554	2,019,554	-	-	2,019,554
Total assets	$ 51,830,318	$ 51,830,318	$ 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	$ -

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 6), 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 41.24% and 33.69% of the combined investments are attributable to the Organization as of December 31, 2020 and 2019, 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 on a recurring basis as of December 31:

	2020			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 1,635,014	$ 1,635,014	$ 1,635,014	$ -
Equity securities:				
Consumer discretionary	4,192,671	4,192,671	4,192,671	-
Consumer staples	877,080	877,080	877,080	-
Energy	600,181	600,181	600,181	-
Financial	1,850,174	1,850,174	1,850,174	-
Health care	1,765,901	1,765,901	1,765,901	-
Industrials	1,646,799	1,646,799	1,646,799	-
Information technology	2,773,591	2,773,591	2,773,591	-
Materials	1,032,199	1,032,199	1,032,199	-
Real estate	1,132,622	1,132,622	1,132,622	-
Utilities	473,155	473,155	473,155	-
Other	33,312	33,312	33,312	-
Mutual funds:				
Fixed income	1,797,097	1,797,097	1,797,097	-
Equity	1,733,804	1,733,804	1,733,804	-
Fixed income securities:				
Corporate bonds	4,323,939	4,323,939	-	4,323,939
U.S. government and agency bonds	2,750,904	2,750,904	-	2,750,904
Subtotal	28,618,443	28,618,443	$ 21,543,600	$ 7,074,843
Alternative investment measured at NAV	1,573,361	1,573,361		
Total	$ 30,191,804	$ 30,191,804		

	2019			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 927,689	$ 927,689	$ 927,689	$ -
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	22,118,064	22,118,064	$ 17,441,711	$ 4,676,353
Alternative investment measured at NAV	1,162,359	1,162,359		
Total	$ 23,280,423	$ 23,280,423		

The Organization has no financial 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, 2020 or 2019.

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, 2020 or 2019:

Cash and cash equivalents: Fair values, which are the amounts reported on the 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 valued 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, 2020 and 2019, was $1,573,361 and $1,162,359, 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, 2020 or 2019, 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.

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.

Note 5. 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:

	2020	2019
Investments	$ 4,470,791	$ 3,631,290
Beneficial interest in supporting organization	$ 25,772,948	$ 18,793,773
Assets whose use is limited:		
Operating reserve	$ 4,418,856	$ 4,486,650
Resident deposits	5,346,561	6,318,091
Assets held under trust indenture (2012 bonds):		
Debt service reserve	793,593	791,353
Interest	484,208	411,635
Principal	437,173	753,910
Replacement reserves	44,788	44,661
Assets held under trust indenture (2018 bonds):		
Debt service reserve	2,765,918	2,758,109
Interest	2,695,526	3,200,467
Construction	3,406,616	8,612,002
Cost of issuance	8,449	8,823
	20,401,688	27,385,701
Less current portion	(5,191,383)	(5,188,369)
Assets whose use is limited, net	$ 15,210,305	$ 22,197,332

Note 6. 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, 2020, is as follows:

Total operating expenses for fiscal year ended December 31, 2020	$ 34,620,729
Less:	
Depreciation	(3,901,986)
Interest	(1,259,702)
Adjusted operating expense	$ 29,459,041
Funding requirement (15% of operating expenses)	$ 4,418,856

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 7. Property and Equipment

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

	2020	2019
Land	**$ 3,255,295**	$ 3,255,295
Land improvements	**278,625**	278,625
Buildings and building improvements	**80,389,856**	80,018,932
Furniture and equipment	**10,493,293**	10,395,105
Construction in progress	**75,067,499**	41,985,679
	169,484,568	135,933,636
Less accumulated depreciation	**(53,320,290)**	(49,418,304)
	$ 116,164,278	$ 86,515,332

Construction in progress as of December 31, 2020, consists of initial project development and construction costs for an expansion and repositioning project to consist of an addition of 130 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 $5,451,630 in resident deposits as of December 31, 2020, primarily related to the project. The final construction payment due relative to the project has been accrued as a liability as of December 31, 2020.

Note 8. Long-Term Debt

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

	2020	2019
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.	**$ 16,120,000**	$ 6,865,000
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.	**12,765,000**	6,375,000
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 (2.56 percent as of December 31, 2020).	**40,000,000**	35,265,000

	2020	2019
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.	**$ 14,550,000**	$ 6,595,000
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.	**11,795,000**	12,030,000
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.	**7,990,000**	8,180,000
	103,220,000	75,310,000
Less current portion	**450,000**	425,000
Less deferred financing costs	**2,923,186**	2,786,039
Total long-term debt	**$ 99,846,814**	$ 72,098,961

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 $28,335,000 was drawn down from the 2018 Series Bonds in 2020.

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, 2020 and 2019.

The long-term debt maturing in the next five years and thereafter is as follows as of December 31, 2020:

Years Ending December 31:	
2021	$ 450,000
2022	645,000
2023	1,235,000
2024	1,320,000
2025	1,395,000
Thereafter	98,175,000
	$ 103,220,000

Interest expense totaled $1,228,160 in 2020 and $1,448,586 in 2019, net of capitalized interest of $1,160,978 and $612,207 in 2020 and 2019, respectively. Subsequent to the year ended December 31, 2020 a debt modification of the 2012 A and B bonds was executed. The debt modification lowered interest rates, and modified the future amortization of the debt.

Note 9. 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:

	2020	2019
Net assets:		
Without donor restrictions:		
Undesignated	**$ 15,315,716**	$ 12,275,996
Maryland Department of Aging reserve requirements	**4,418,856**	4,486,650
	19,734,572	16,762,646
With donor restrictions:		
Purpose restricted for:		
Operations	**199,176**	223,500
Charitable remainder trusts	**378,670**	366,972
Perpetual trusts	**1,659,350**	1,652,582
Restricted in perpetuity	**1,302,725**	1,033,330
	3,539,921	3,276,384
Total net assets	**$ 23,274,493**	$ 20,039,030

For the years ended December 31, 2020 and 2019, net assets of $67,712 and $67,621, respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purposes.

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

Note 10. 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 $2,504,395 and $2,327,052 for the years ended December 31, 2020 and 2019, 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:

	2020	2019
NLI	$ 20,749,578	$ 23,600,991
NLHA	650,000	375,990
The Village at Providence Point, Inc.	-	(18,129)
myPotential Maryland, LLC	-	(47,270)
myPotential Clinic-Rockville, LLC	-	(131,042)
myPotential Virginia, LLC	-	(152,013)
The Legacy at North Augusta, Inc.	-	(514,976)
The Village at Orchard Ridge, Inc.	-	(653,828)
	$ 21,399,578	$ 22,459,723

Note 11. 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:

	2020		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 12,972,009	$ 786,157	$ 13,758,166
Employee benefits and payroll taxes	3,522,544	144,799	3,667,343
Professional fees	1,103,298	474,787	1,578,085
Ancillary and medical	3,267,687	-	3,267,687
Supplies	596,575	81,978	678,553
Food services	880,317	19,906	900,223
Utilities	917,734	6,577	924,311
Depreciation	3,901,986	-	3,901,986
Interest	1,228,160	31,542	1,259,702
Insurance	95,950	-	95,950
Real estate taxes	274,861	-	274,861
Repairs and maintenance	504,727	60,088	564,815
Advertising and marketing	206,371	-	206,371
Licenses, dues, and subscriptions	182,513	439,366	621,879
Other operating expenses	153,263	67,232	220,495
Bad debt expense	195,907	-	195,907
Management fee	-	2,504,395	2,504,395
Total	$ 30,003,902	$ 4,616,827	$ 34,620,729

	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

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 12. 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 $342,000 and $282,000 for the years ended December 31, 2020 and 2019, respectively. Benevolent care related to the Medicaid program amounted to approximately $3,275,000 and $2,510,000 for the years ended December 31, 2020 and 2019, respectively.

Note 13. Pension Plan

The Organization participates in a 403(b) defined contribution plan. The plan was amended on January 1 2020. Prior to January 1, 2020, the Organization contributed 2% of each eligible employees' salary and matched 50% of each employee's contribution up to 8% after 90 days of service for a maximum contribution of 6%. On and after January 1, 2020, the amended plan states the Organization shall make a Safe Harbor contribution in an amount equal to 100% of each employee’s contribution, up to a maximum of 3% of such participant’s compensation. In addition, the Organization will contribution 50% of each employee’s contribution up to the next 2% of such participant’s compensation for each payroll period. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $323,811 and $502,107 for the years ended December 31, 2020 and 2019, respectively, and are recorded in employee benefits and payroll taxes on the statements of operations.

Note 14. Medical Malpractice and General Liability Claims Coverage

The Organization purchased medical malpractice and general liability coverage from a commercial insurance carrier via an insurance broker until August 3, 2020. This coverage was provided on a claims-made basis. As of December 31, 2019, and through August 3, 2020, general liability coverages were 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 through August 3, 2020, and has deemed it not necessary to record a liability based on the Organization’s lack of history of claims.

Beginning on August 4, 2020, the Organization joined a reciprocal risk retention group (RRRG). The coverage is provided on a claims-made basis. Medical malpractice and general liability coverages were provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. Each claim has a $50,000 self-insured retention, prior to the primary insurance coverage. The Organization also has an excess umbrella policy for general liability coverage. The excess umbrella limit is $15,000,000 in the aggregate. The Organization funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRRG. As of December 31, 2020, no such adjustments to premiums are deemed necessary.

Note 15. 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 16. COVID-19 Pandemic

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. The pandemic has significantly impacted both the world and U.S. economies. Since March 2020, many state and local governments, in addition to the federal government, reacted to the public health crisis, creating significant uncertainties in the U.S. economy. In response to this coronavirus outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In certain geographic regions in which the Organization operates, temporary closures of businesses have been ordered or suggested and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of travel-related businesses.

As a result of the COVID-19 pandemic, the Organization has experienced a decline in residents and revenue which has contributed to decreases in total operating revenue and increases in expenses related to supply chain and other expenditures.

Federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other residents during the public health emergency. Sources of relief include the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, which included, among other programs, the Paycheck Protection Program (PPP) and the Provider Relief Fund (PRF).

The material government funding received by the Organization, and the corresponding accounting for the funding, is outlined below:

U.S. Department of Health and Human Services (HHS) Provider Relief Fund: During the year ended December 31, 2020, the Organization received $1,514,407 in funding through the HHS PRF program established by the CARES Act. According to guidance provided by the HHS, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by the HHS, when spending the funds. If the health care provider is unable to justify utilization of the funds through lost revenue or COVID-19 expenses, the funds must be returned to the HHS.

Based on the Organization’s calculation of lost revenue and COVID-19 expenses, the Organization has recognized $1,514,407 as Provider Relief Funds during the year ended December 31, 2020. While the Organization has utilized all available current information in determining the proper utilization and accounting for these funds, additional guidance is expected that could have a material impact on how the Organization has recognized PRF.

Paycheck Protection Program Loan: In April 2020, the Organization obtained a loan totaling $3,293,200 under the Paycheck Protection Program pursuant to the CARES Act. The Organization initially elected to account for the PPP loan as a liability when received.

The proceeds from the loans must be spent on qualifying expenses such as covered payroll costs, mortgage interest on real or personal property, rental obligations on real or personal property, and covered utility costs allowed under the CARES Act. The Organization had selected the twenty-four week covered period as allowed under the CARES Act. The Organization used the loan proceeds in accordance with the terms of the PPP and applied for forgiveness from the financial institution once the proceeds were fully expended. The Organization applied for forgiveness on October 21, 2020. While the Organization is still pending approval from the Small Business Administration (SBA), the financial institution has recommended to the SBA that forgiveness be granted. The Organization has maintained adequate records and believes that all requirements under the PPP guidelines have been met to achieve loan forgiveness. As such, the total loan amount was recognized as revenue and included in Paycheck Protection Program contribution on the statements of operations for the year ended December 31, 2020.

The Centers for Medicare and Medicaid Services Accelerated/Advance Payments: In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the CMS has expanded its current Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. The expansion of this program is only for the duration of the public health emergency. An accelerated/advance payment is a payment intended to provide necessary funds when there is a disruption in claims submissions and/or claims processing. These expedited payments can also be offered in circumstances such as national emergencies, or natural disasters, in order to accelerate cash flow to the impacted health care provider and suppliers. The CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier who submits a request to the appropriate Medicare Administrative Contractor (MAC) and meets the required qualifications. The Eligibility & Process includes the following areas: Eligibility, Amount of Payment, Processing Time, Repayment, and Recoupment and Reconciliation.

The Organization took advantage of this program and applied and received $2,011,952. Due to the Recoupment and Reconciliation process of this program, the full balance is on the balance sheet as a current liability as of December 31, 2020.