The Village at Rockville, Inc.

Financial Statements

December 31, 2022 and 2021

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Village at Rockville, Inc.

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of The Village at Rockville, Inc. (Organization), which comprise the balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Baker Tilly US, LLP

New Castle, Pennsylvania
May 9, 2023

THE VILLAGE AT ROCKVILLE, INC.

BALANCE SHEETS
December 31, 2022 and 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	**$ 21,465**	$ 6,456
Accounts receivable, net	**3,006,415**	1,788,222
Prepaid expenses and other assets	**444,489**	374,157
Pledges receivable, net	**-**	3,000
Current portion of assets whose use is limited	**2,043,232**	8,947,755
Total current assets	**5,515,601**	11,119,590
ASSETS WHOSE USE IS LIMITED, net	**9,133,720**	7,002,948
INVESTMENTS	**4,274,133**	5,110,800
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**31,428,690**	38,600,397
PROPERTY AND EQUIPMENT, net	**107,774,575**	112,064,322
FUNDS HELD IN TRUST BY OTHERS	**2,447,836**	2,094,490
Total assets	**$ 160,574,555**	$ 175,992,547

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	**2022**	2021
CURRENT LIABILITIES		
Accounts payable, trade	**$ 179,818**	$ 962,495
Accrued interest	**1,208,232**	1,542,755
Accrued expenses	**3,377,307**	3,012,341
Current portion of long-term debt	**835,000**	10,395,000
Total current liabilities	**5,600,357**	15,912,591
DEFERRED REVENUE FROM ENTRANCE FEES	**32,844,292**	29,579,175
REFUNDABLE ENTRANCE FEES	**48,195,439**	37,577,591
RESIDENT DEPOSITS	**448,767**	436,831
LONG-TERM DEBT, net	**48,280,582**	52,445,807
DUE TO AFFILIATES, net	**21,687,316**	24,331,844
ANNUITIES PAYABLE, net	**63,137**	65,015
Total liabilities	**157,119,890**	160,348,854
NET ASSETS (DEFICIT)		
Without donor restrictions	**(890,934)**	11,703,560
With donor restrictions	**4,345,599**	3,940,133
Total net assets	**3,454,665**	15,643,693
Total liabilities and net assets	**$ 160,574,555**	$ 175,992,547

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue, including amortization of entrance fees 2022 $3,868,329; 2021 $2,665,869	$ 33,127,989	$ 30,136,124
Provider Relief Funds	-	286,965
Other grant funding	466,388	115,830
Net assets released from restrictions, operations	25,493	14,204
Total operating revenue	**33,619,870**	30,553,123
Operating expenses:		
Salaries and wages	14,161,325	13,611,958
Employee benefits and payroll taxes	3,028,686	3,372,917
Professional fees	3,469,276	3,159,582
Ancillary and medical	2,405,335	2,669,424
Supplies	649,986	665,171
Food services	1,315,109	1,190,617
Utilities	1,592,758	1,445,087
Depreciation	6,367,709	6,333,695
Interest	3,289,818	4,706,019
Insurance	231,722	190,249
Real estate taxes	885,046	1,052,532
Repairs and maintenance	686,261	558,199
Advertising and marketing	227,870	358,558
Licenses, dues, and subscriptions	655,857	684,805
Other operating expenses	430,889	294,700
Bad debt expense	163,621	111,859
Management fee	2,793,747	2,892,600
Total operating expenses	**42,355,015**	43,297,972
(Deficiency) of operating revenue over expenses	**(8,735,145)**	(12,744,849)
Nonoperating revenue (expense):		
Contributions	110,702	73,819
Interest and dividends	1,091,521	990,954
Other income	146,915	219,303
Realized gains	2,078,654	1,543,722
Unrealized gains (losses)	(7,028,329)	2,555,984
Loss on extinguishment of debt	(361,695)	(905,487)
Total nonoperating revenue (expense)	**(3,962,232)**	4,478,295
(Deficiency) of operating and nonoperating revenue over expenses	**(12,697,377)**	(8,266,554)
Other changes:		
Unrealized gains	102,883	235,542
Change in net assets without donor restrictions	**$ (12,594,494)**	$ (8,031,012)

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	$ (12,697,377)	$ (8,266,554)
Unrealized gains	102,883	235,542
Change in net assets without donor restrictions	(12,594,494)	(8,031,012)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	609,233	342,481
Funds held in trust income	13,280	15,466
Change in value of funds held in trust by others	(191,554)	56,469
Net assets released from restriction, operations	(25,493)	(14,204)
Change in net assets with donor restrictions	405,466	400,212
Change in net assets	(12,189,028)	(7,630,800)
Net assets:		
Beginning	15,643,693	23,274,493
Ending	$ 3,454,665	$ 15,643,693

See Notes to Financial Statements

THE VILLAGE AT ROCKVILLE, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (12,189,028)**	$ (7,630,800)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**6,367,709**	6,333,695
Provision for bad debts	**163,621**	111,859
Loss on extinguishment of debt	**361,695**	905,487
Amortization of deferred financing costs	**78,080**	198,771
Amortization of entrance fees	**(3,868,329)**	(2,665,869)
Proceeds from non-refundable entrance fees	**2,220,667**	-
Realized (gains)	**(2,078,654)**	(1,543,722)
Unrealized (gains) losses	**6,925,446**	(2,798,348)
Change in value of funds held in trust by others	**191,554**	(56,470)
Change in annuities payable	**(1,878)**	(5,030)
Changes in assets and liabilities:		
Accounts receivable	**(1,381,814)**	(341,296)
Prepaid expenses and other assets	**(70,332)**	30,026
Accounts payable, trade and accrued expenses	**(752,234)**	429,467
Net cash (used in) operating activities	**(4,033,497)**	(7,032,230)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments and assets whose use is limited	**(1,474,632)**	(923,958)
Purchases of property and equipment	**(2,077,962)**	(6,490,922)
Net cash (used in) investing activities	**(3,552,594)**	(7,414,880)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(14,165,000)**	(42,575,000)
Proceeds from issuance of long-term debt	**-**	4,065,000
Payments for financing costs	**-**	(50,265)
Net change in resident deposits	**11,936**	(5,046,049)
Proceeds from entrance fees, new units	**14,257,285**	58,769,559
Proceeds from refundable entrance fees, turnover units	**3,008,375**	-
Refunds of entrance fees	**(1,735,033)**	-
Change in pledges receivable, net	**3,000**	(3,000)
Change in due to affiliates, net	**1,030,472**	(5,267,734)
Net cash provided by financing activities	**2,411,035**	9,892,511
Net change in cash and cash equivalents and restricted cash	**(5,175,056)**	(4,554,599)
Cash and cash equivalents and restricted cash:		
Beginning	**11,738,909**	16,293,508
Ending	**$ 6,563,853**	$ 11,738,909

See Notes to Financial Statements

		2022		2021
Cash and cash equivalents and restricted cash include:				
Cash and cash equivalents	**$**	**21,465**	$	6,456
Assets held under trust indenture		**6,338,213**		11,531,847
Cash, restricted by donors or grantors for specific purposes		**204,175**		200,606
	$	**6,563,853**	$	11,738,909
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	**$**	**3,546,262**	$	4,384,825
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Beneficial interest in supporting organization	**$**	**(3,675,000)**	$	8,200,000

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 241 independent living units, 50 assisted living units, and 160 skilled nursing beds (of which 127 were operational during 2022). The Organization received a certificate of occupancy for 130 independent living units in December 2020 for the Glenmere expansion. The expansion project was placed into service in January 2021.

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 $136,919 and $82,085 as of December 31, 2022 and 2021, 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 (3 – 40 years). 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 as of December 31, 2022 and 2021.

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 $48,195,439 and $37,577,591 as of December 31, 2022 and 2021, 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 Organization redeemed in full its 2018D and 2018C Revenue Bonds during 2022 and 2021, respectively. Accordingly, the Organization recognized a loss of $361,695 and $905,487 on unamortized debt issuance costs for the years ended December 31, 2022 and 2021, respectively. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled $78,080 and $198,771 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization was $667,921 and $589,841 as of December 31, 2022 and 2021, 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 $3,868,329 in 2022 and $2,665,869 in 2021.

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 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:

	2022				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	**$ 4,201,626**	**$ 4,154,636**	**$ 5,407,099**	**$ 1,023,608**	**$ 14,786,969**
Medicare	**7,218,277**	**-**	**-**	**-**	**7,218,277**
Medical Assistance	**6,386,615**	**-**	**-**	**-**	**6,386,615**
Commercial insurance	**867,799**	**-**	**-**	**-**	**867,799**
Amortization of nonrefundable entrance fees	**-**	**-**	**3,868,329**	**-**	**3,868,329**
Total	**$ 18,674,317**	**$ 4,154,636**	**$ 9,275,428**	**$ 1,023,608**	**$ 33,127,989**

	2021				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	$ 4,659,487	$ 3,725,841	$ 3,682,296	$ 626,016	$ 12,693,640
Medicare	7,515,669	-	-	-	7,515,669
Medical Assistance	6,745,379	-	-	-	6,745,379
Commercial insurance	515,567	-	-	-	515,567
Amortization of nonrefundable entrance fees	-	-	2,665,869	-	2,665,869
Total	$ 19,436,102	$ 3,725,841	$ 6,348,165	$ 626,016	$ 30,136,124

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 $227,870 and $358,558 for the years ended December 31, 2022 and 2021, respectively.

Loss on extinguishment of debt: During the years ended December 31, 2022 and 2021, the Organization redeemed its Series 2018D and Series 2018C Revenue Bonds, respectively, (Note 8) with the proceeds from Glenmere entrance fees. This transaction resulted in the recognition of a loss on extinguishment of debt in the amount of $361,695 and $905,487 for the years ended December 31, 2022 and 2021, 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. Other changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include unrealized gains on alternative investments measured at NAV.

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, 2022 and 2021, 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, 2019, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain reclassifications have been made to the 2021 financial statements to conform to the presentation used in 2022.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through May 9, 2023, the date the financial statements were issued, for potential recognition or disclosure.

Recent Accounting Pronouncement

ASU No. 2016-13—Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and Other ASUs Issued Amending Topic 326

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Various clarifications and amendments were issued from 2018 – 2020.. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its balance sheets, results of operations, and cash flows.

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:

		2022		2021
Financial assets:				
Cash and cash equivalents	**$**	**21,465**	$	6,456
Accounts receivable, net		**3,006,415**		1,788,222
Investments		**4,274,133**		5,110,800
Beneficial interest in supporting organization		**31,428,690**		38,600,397
Total financial assets	**$**	**38,730,703**	$	45,505,875

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 receivables from third-party payors is as follows as of December 31:

	2022	2021
Medicare	**34 %**	38 %
Medicaid	**32**	26
Commercial	**21**	20
Self-pay	**13**	16
	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 measured at fair value on a recurring basis as of December 31:

	2022				
	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	**$ 6,668,005**	**$ 6,668,005**	**$ 6,668,005**	**$ -**	**$ -**
Equity securities	**1,288,480**	**1,288,480**	**1,285,934**	**2,546**	**-**
Mutual funds	**2,323,274**	**2,323,274**	**2,323,274**	**-**	**-**
Fixed income securities	**244,245**	**244,245**	**222,606**	**21,639**	**-**
Other	**88,342**	**88,342**	**88,342**	**-**	**-**
Beneficial interest in supporting organization	**33,375,900**	**33,375,900**	**20,404,747**	**12,971,153**	**-**
Total	**43,988,246**	**43,988,246**	**30,992,908**	**12,995,338**	**-**
Beneficial interest in supporting organization alternative investment measured at NAV	**2,891,529**	**2,891,529**			
Total	**46,879,775**	**46,879,775**			
Funds held in trust by others	**2,447,836**	**2,447,836**	**-**	**-**	**2,447,836**
Total assets	**$ 49,327,611**	**$ 49,327,611**	**$ 30,992,908**	**$ 12,995,338**	**$ 2,447,836**

	2021				
	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	$ 11,873,076	$ 11,873,076	$ 11,873,076	$ -	$ -
Equity securities	1,578,180	1,578,180	1,578,180	-	-
Mutual funds	2,777,140	2,777,140	2,777,140	-	-
Fixed income securities	306,331	306,331	-	306,331	-
Other	107,920	107,920	-	107,920	-
Beneficial interest in supporting organization	40,876,177	40,876,177	31,520,850	9,355,327	-
Total	57,518,824	57,518,824	47,749,246	9,769,578	-
Beneficial interest in supporting organization alternative investment measured at NAV	2,143,076	2,143,076			
Total	59,661,900	59,661,900			
Funds held in trust by others	2,094,490	2,094,490	-	-	2,094,490
Total assets	$ 61,756,390	$ 61,756,390	$ 47,749,246	$ 9,769,578	$ 2,094,490

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 based on a percentage of the facility's net operating expenses for the most recent audited 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 55.71% and 51.17% of the combined investments are attributable to the Organization as of December 31, 2022 and 2021, 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:

	2022			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	**$ 2,636,801**	**$ 2,636,801**	**$ 2,636,801**	**$ -**
Equity securities:				
Consumer discretionary	**3,118,939**	**3,118,939**	**3,118,939**	**-**
Consumer staples	**2,267,510**	**2,267,510**	**2,267,510**	**-**
Energy	**1,818,305**	**1,818,305**	**1,818,305**	**-**
Financial	**2,787,535**	**2,787,535**	**2,787,535**	**-**
Health care	**1,785,567**	**1,785,567**	**1,785,567**	**-**
Industrials	**2,504,763**	**2,504,763**	**2,504,763**	**-**
Information technology	**1,813,513**	**1,813,513**	**1,813,513**	**-**
Materials	**113,562**	**113,562**	**113,562**	**-**
Real estate	**774,906**	**774,906**	**774,906**	**-**
Utilities	**673,252**	**673,252**	**673,252**	**-**
Other	**42,180**	**42,180**	**42,180**	**-**
Mutual funds:				
Fixed income	**-**	**-**	**-**	**-**
Equity	**67,914**	**67,914**	**67,914**	**-**
Fixed income securities:				
Corporate bonds	**5,564,774**	**5,564,774**	**-**	**5,564,774**
U.S. government and agency bonds	**7,406,379**	**7,406,379**	**-**	**7,406,379**
Subtotal	**33,375,900**	**33,375,900**	**$ 20,404,747**	**$ 12,971,153**
Alternative investment measured at NAV	**2,891,529**	**2,891,529**		
Total	**$ 36,267,429**	**$ 36,267,429**		

	2021			
	Carrying Value	Fair Value	Level I	Level II
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 1,560,582	$ 1,560,582	$ 1,560,582	$ -
Equity securities:				
Consumer discretionary	5,969,252	5,969,252	5,969,252	-
Consumer staples	1,860,413	1,860,413	1,860,413	-
Energy	1,794,397	1,794,397	1,794,397	-
Financial	3,818,503	3,818,503	3,818,503	-
Health care	2,781,953	2,781,953	2,781,953	-
Industrials	1,748,031	1,748,031	1,748,031	-
Information technology	4,124,200	4,124,200	4,124,200	-
Materials	887,492	887,492	887,492	-
Real estate	1,860,255	1,860,255	1,860,255	-
Utilities	882,631	882,631	882,631	-
Other	30,273	30,273	30,273	-
Mutual funds:				
Fixed income	2,238,007	2,238,007	2,238,007	-
Equity	1,964,861	1,964,861	1,964,861	-
Fixed income securities:				
Corporate bonds	5,087,532	5,087,532	-	5,087,532
U.S. government and agency bonds	4,267,795	4,267,795	-	4,267,795
Subtotal	40,876,177	40,876,177	$ 31,520,850	$ 9,355,327
Alternative investment measured at NAV	2,143,076	2,143,076		
Total	$ 43,019,253	$ 43,019,253		

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, 2022 or 2021.

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, 2022 or 2021:

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: 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, 2022 and 2021, was $2,891,529 and $2,143,076, 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, 2022 or 2021, and there is a monthly or quarterly redemption notice of 15 - 120 days.

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:

	2022	2021
Investments	**$ 4,274,133**	$ 5,110,800
Beneficial interest in supporting organization	**$ 31,428,690**	$ 38,600,397
Assets whose use is limited:		
Operating reserve	**$ 4,838,739**	$ 4,418,856
Assets held under trust indenture (2012 bonds):		
Debt service reserve	**804,786**	793,674
Interest	**460,514**	472,299
Principal	**332,981**	320,846
Replacement reserves	**45,419**	44,738
Assets held under trust indenture (2018 bonds):		
Entrance fee fund	**463,796**	4,110,453
Debt service reserve	**2,804,927**	2,766,197
Interest	**764,294**	1,070,576
Construction	**661,496**	1,953,064
	11,176,952	15,950,703
Less current portion	**(2,043,232)**	(8,947,755)
Assets whose use is limited, net	**$ 9,133,720**	$ 7,002,948

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 audited fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2022, is as follows:

Total operating expenses for fiscal year ended December 31, 2021	$ 43,297,972
Less:	
Depreciation	(6,333,695)
Interest	(4,706,019)
Adjusted operating expenses	$ 32,258,258
Funding requirement (15% of operating expenses)	$ 4,838,739

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 based on the most recent audited financial statements.

As of January 1, 2023, the most recently available audited financial statements are for the year ended December 31, 2021. The reserve, based on the 25% requirement, amounts to approximately $8,064,600, an increase of over $3,226,000 from the 2022 reserve requirement. The Organization has adequate liquid funds to maintain the future reserve requirements.

Note 7. Property and Equipment

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

	2022	2021
Land	$ 3,255,294	$ 3,255,295
Land improvements	1,198,155	1,089,805
Buildings and building improvements	150,534,720	150,242,536
Furniture and equipment	16,642,184	16,298,508
Construction in progress	1,625,441	832,163
	173,255,794	171,718,307
Less accumulated depreciation	(65,481,219)	(59,653,985)
	$ 107,774,575	$ 112,064,322

Note 8. Long-Term Debt

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

	2022	2021
Series 2018A Fixed Rate Economic Development Revenue Bonds, at fixed rates of 5.75 to 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.	$ 17,915,000	$ 17,970,000
Series 2018B Adjustable Rate Economic Development Revenue Bonds, at fixed rates of 5.00 to 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.	13,645,000	13,690,000
Series 2018D Adjustable Rate Economic Development Revenue Bonds, at fixed rates of 5.00 to 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 2018D Bonds were fully redeemed during 2022.	-	13,715,000

	2022	2021
Series 2012A Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at a fixed rate of 6.15 percent through maturity.	**$ 11,355,000**	$ 11,545,000
Series 2012B Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is is payable at a fixed rate of 5.04 percent through maturity.	**7,630,000**	7,790,000
	50,545,000	64,710,000
Less current portion	**835,000**	10,395,000
Less deferred financing costs	**1,429,418**	1,869,193
Total long-term debt	**$ 48,280,582**	$ 52,445,807

The Series 2018 Bonds are draw down bonds to fund a construction project, 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 $4,065,000 was drawn down from the 2018 Series Bonds in 2021. There were no draws during 2022.

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, 2022 and 2021.

The long-term debt maturing in the next five years and thereafter is as follows as of December 31, 2022:

Years Ending December 31:	
2023	$ 835,000
2024	895,000
2025	935,000
2026	995,000
2027	1,050,000
Thereafter	45,835,000
	$ 50,545,000

Interest expense on long-term debt totaled $3,211,738 in 2022 and $4,507,248 in 2021. During 2021, 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:

	2022	2021
Net assets:		
Without donor restrictions:		
Undesignated	$ (5,729,673)	$ 7,284,704
Maryland Department of Aging reserve requirements	4,838,739	4,418,856
	(890,934)	11,703,560
With donor restrictions:		
Purpose restricted for:		
Operations	204,175	200,614
Charitable remainder trusts	350,298	393,630
Perpetual trusts	2,097,538	1,703,859
Restricted in perpetuity	1,693,588	1,642,030
	4,345,599	3,940,133
Total net assets	$ 3,454,665	$ 15,643,693

For the years ended December 31, 2022 and 2021, net assets of $25,493 and $14,204, 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 $2,793,747 and $2,892,600 for the years ended December 31, 2022 and 2021, 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:

	2022	2021
National Lutheran, Inc. (Parent)	$ 19,237,316	$ 24,331,844
National Lutheran Home for the Aged, Inc.	2,450,000	-
	$ 21,687,316	$ 24,331,844

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:

	2022		
	Resident Services	General and Administrative	Total
Salaries and wages	**$ 13,495,056**	**$ 666,269**	**$ 14,161,325**
Employee benefits and payroll taxes	**2,907,245**	**121,441**	**3,028,686**
Professional fees	**2,766,936**	**702,340**	**3,469,276**
Ancillary and medical	**2,405,335**	**-**	**2,405,335**
Supplies	**600,432**	**49,554**	**649,986**
Food services	**1,295,365**	**19,744**	**1,315,109**
Utilities	**1,586,219**	**6,539**	**1,592,758**
Depreciation	**6,367,709**	**-**	**6,367,709**
Interest	**3,211,739**	**78,079**	**3,289,818**
Insurance	**231,722**	**-**	**231,722**
Real estate taxes	**885,046**	**-**	**885,046**
Repairs and maintenance	**615,702**	**70,559**	**686,261**
Advertising and marketing	**227,870**	**-**	**227,870**
Licenses, dues, and subscriptions	**197,386**	**458,471**	**655,857**
Other operating expenses	**239,888**	**191,001**	**430,889**
Bad debt expense	**163,621**	**-**	**163,621**
Management fee	**-**	**2,793,747**	**2,793,747**
Total	**$ 37,197,271**	**$ 5,157,744**	**$ 42,355,015**

	2021		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 12,867,472	$ 744,486	$ 13,611,958
Employee benefits and payroll taxes	3,233,833	139,084	3,372,917
Professional fees	2,577,104	582,478	3,159,582
Ancillary and medical	2,669,424	-	2,669,424
Supplies	605,960	59,211	665,171
Food services	1,181,850	8,767	1,190,617
Utilities	1,435,737	9,350	1,445,087
Depreciation	6,333,695	-	6,333,695
Interest	4,507,247	198,772	4,706,019
Insurance	190,249	-	190,249
Real estate taxes	1,052,532	-	1,052,532
Repairs and maintenance	489,491	68,708	558,199
Advertising and marketing	358,558	-	358,558
Licenses, dues, and subscriptions	237,393	447,412	684,805
Other operating expenses	163,467	131,233	294,700
Bad debt expense	111,859	-	111,859
Management fee	-	2,892,600	2,892,600
Total	$ 38,015,871	$ 5,282,101	$ 43,297,972

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 $289,200 and $469,600 for the years ended December 31, 2022 and 2021, respectively. Benevolent care related to the Medicaid program amounted to approximately $2,615,800 and $2,819,000 for the years ended December 31, 2022 and 2021, respectively. The Organization received contributions of approximately $52,000 and $339,000 for the years ended December 31, 2022 and 2021, respectively, to offset or subsidize benevolent care services provided.

Note 13. Pension Plan

The Organization participates in a 403(b) defined contribution plan. The 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 $293,896 and $309,141 for the years ended December 31, 2022 and 2021, 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 participates in a reciprocal risk retention group (RRRG) through National Lutheran, Inc. (Parent). 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, 2022, 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. The response to the pandemic had severely impacted the level of economic activity around the world and has had wide ranging effects on the Organization, including lost revenue, changing workforce dynamics, decreases in patient census, increases in expenses related to supply chain and other expenses, as well as increased funding sources.

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 patients 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 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, 2021, the Organization received funds through the HHS PRF program established by the CARES Act of $127,686, of which $55,721 was receivable and recognized as revenue as of and for the year ended December 31, 2020. No such funds were received in 2022. Additionally, the Organization received an allocation of HHS funds during 2021 from the parent, NLI, in the amount of $215,000. 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 recognized $286,965 as Provider Relief Funds during the year ended December 31, 2021. The Organization has utilized all available current information in determining the proper utilization and accounting for these funds.

Also, included on the statements of operations for the years ended December 31, 2022 and 2021, in other grant funding, is $187,374 and $115,830, respectively, related to a two percent rate supplement passed through the Maryland state Medicaid program from the American Rescue Plan Act (ARPA). Payments received subsequent to year end are included in accounts receivable on the balance sheets and totaled $93,687 and $58,206, as of December 31, 2022 and 2021, respectively. These funds were allocated based on the Organization's Medicaid revenues for the previous two fiscal years, which was intended to provide assistance with maintaining operations and keeping residents and staff safe during the pandemic. Additionally, through ARPA, the Organization was awarded and recognized other grant funding amounting to $279,014 and $0, for the years ended December 31, 2022 and 2021, respectively, through the Maryland State and Local Fiscal Grant program, of which $116,992, is included in accounts receivable on the balance sheets as of December 31, 2022. No such receivable existed in 2021. The funds are to address the urgent needs of the facility for additional staffing, supplies, testing, and therapeutics.

The Centers for Medicare and Medicaid Services (CMS) Accelerated/Advance Payments: In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the CMS expanded its current Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. 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 applied for and received $2,011,952 during 2020. Due to the recoupment and reconciliation process of this program, takebacks during the year ended December 31, 2022 and 2021, amounted to $802,001 and $1,209,951, respectively, leaving a remaining balance of $0 as of December 31, 2022.