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The Village at Rockville, Inc.

Financial Statements

December 31, 2024 and 2023

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of The Village at Rockville, Inc. (TVAR), which comprise the balance sheets as of December 31, 2024 and 2023, 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 TVAR as of December 31, 2024 and 2023, 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 TVAR 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 TVAR'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 TVAR'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 TVAR'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
April 30, 2025

The Village at Rockville, Inc.

Balance Sheets
December 31, 2024 and 2023

Assets	2024	2023
Current Assets		
Cash and cash equivalents	$ 18	$ 1,853
Accounts receivable, net	2,109,199	1,859,352
Prepaid expenses and other assets	511,436	449,807
Current portion of pledges receivable	-	5,000
Current portion of assets whose use is limited	2,102,010	2,083,332
Total current assets	4,722,663	4,399,344
Assets Whose Use is Limited, Net	12,092,502	11,992,608
Investments	6,570,950	5,574,208
Beneficial Interest in Supporting Organization	15,893,650	18,378,369
Property and Equipment, Net	103,304,274	103,469,538
Funds Held in Trust by Others	1,624,981	2,305,729
Pledges Receivable, Net	85,087	15,000
Total assets	$ 144,294,107	$ 146,134,796

Liabilities and Net Assets	2024	2023
Current Liabilities		
Accounts payable, trade	$ 240,056	$ 49,536
Accrued interest	1,167,010	1,188,332
Accrued expenses	4,403,278	3,839,293
Current portion of long-term debt	935,000	895,000
Total current liabilities	6,745,344	5,972,161
Deferred Revenue From Entrance Fees	28,754,162	30,344,231
Refundable Entrance Fees	54,954,926	51,207,414
Resident Deposits	1,286,149	642,504
Long-Term Debt, Net	46,577,575	47,449,079
Due to Affiliates, Net	-	6,100,111
Annuities Payable, Net	77,277	61,903
Total liabilities	138,395,433	141,777,403
Net Assets (Deficit)		
Without donor restrictions	173,174	(885,003)
With donor restrictions	5,725,500	5,242,396
Total net assets	5,898,674	4,357,393
Total liabilities and net assets	$ 144,294,107	$ 146,134,796

See notes to financial statements

The Village at Rockville, Inc.

Statements of Operations
Years Ended December 31, 2024 and 2023

	2024	2023
Changes in Net Assets Without Donor Restrictions		
Revenue:		
Net resident service revenue, including amortization of entrance fees 2024 $4,663,135; 2023 $4,341,330	$ 41,898,713	$ 36,423,664
Net assets released from restrictions, operations	183,806	328,026
Credit loss expense		
Total operating revenue	42,082,519	36,751,690
Operating expenses:		
Salaries and wages	16,192,102	14,066,852
Employee benefits and payroll taxes	2,964,717	2,855,332
Professional fees	3,813,189	3,111,911
Ancillary and medical	2,830,458	2,426,619
Supplies	536,117	734,836
Food services	1,469,693	1,253,227
Utilities	1,863,696	1,957,910
Depreciation	6,209,277	6,257,563
Interest	2,876,702	3,287,893
Insurance	355,159	250,162
Real estate taxes	518,643	942,043
Repairs and maintenance	700,019	531,977
Advertising and marketing	239,723	239,192
Licenses, dues and subscriptions	665,514	606,461
Other operating expenses	510,973	495,535
Credit loss expense	190,130	216,525
Management fees	2,841,790	2,655,168
Total operating expenses	44,777,902	41,889,206
Deficiency of operating revenue over expenses	(2,695,383)	(5,137,516)
Nonoperating revenue:		
Contributions	322,431	869,707
Interest and dividends	1,184,012	1,570,820
Other income	111,006	116,485
Realized gains	857,171	1,015,832
Unrealized gains	1,278,940	1,508,424
Total nonoperating revenue	3,753,560	5,081,268
Excess (deficiency) of operating and nonoperating revenue over expenses	1,058,177	(56,248)
Other changes:		
Unrealized gains	-	62,179
Change in net assets without donor restrictions	$ 1,058,177	$ 5,931

See notes to financial statements

Statements of Changes in Net Assets
Years Ended December 31, 2024 and 2023

	2024	2023
Changes in Net Assets Without Donor Restrictions		
Excess (deficiency) of operating and nonoperating revenue over expenses	$ 1,058,177	$ (56,248)
Unrealized gains	-	62,179
Credit loss expense		
Change in net assets without donor restrictions	1,058,177	5,931
Changes in Net Assets With Donor Restrictions		
Contributions	682,865	1,051,954
Funds held in trust income	13,820	13,432
Change in value of funds held in trust by others	(29,775)	159,437
Net assets released from restriction, operations	(183,806)	(328,026)
Change in net assets with donor restrictions	483,104	896,797
Change in net assets	1,541,281	902,728
Net Assets, Beginning	4,357,393	3,454,665
Net Assets, Ending	$ 5,898,674	$ 4,357,393

See notes to financial statements

The Village at Rockville, Inc.

Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net assets	$ 1,541,281	$ 902,728
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,209,277	6,257,563
Credit loss expense	190,130	216,525
Amortization of deferred financing costs	63,496	63,497
Amortization of entrance fees	(4,663,135)	(4,341,330)
Proceeds from nonrefundable entrance fees	3,073,066	2,439,728
Realized gains	(857,171)	(1,015,832)
Unrealized gains	(1,278,940)	(1,570,603)
Change in value of funds held in trust by others	29,775	(159,437)
Change in annuities payable	15,374	(1,234)
Changes in assets and liabilities:		
Accounts receivable	(439,977)	930,538
Prepaid expenses and other assets	(61,629)	(5,318)
Accounts payable, trade and accrued expenses	733,183	311,804
Net cash provided by operating activities	4,554,730	4,028,629
Cash Flows From Investing Activities		
Net purchases of investments and assets whose use is limited	(877,037)	(897,408)
Purchases of property and equipment	(6,044,013)	(1,952,526)
Net cash used in investing activities	(6,921,050)	(2,849,934)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(895,000)	(835,000)
Net change in resident deposits	643,645	193,737
Proceeds from refundable entrance fees, turnover units	7,621,747	4,442,106
Refunds of entrance fees	(3,874,235)	(2,028,590)
Change in pledges receivable, net	(65,087)	(20,000)
Change in due to affiliates, net	(859,579)	(3,387,205)
Net cash provided by (used in) financing activities	2,571,491	(1,634,952)
Net change in cash and cash equivalents and restricted cash	205,171	(456,257)
Cash and Cash Equivalents and Restricted Cash, Beginning	5,903,421	6,359,678
Cash and Cash Equivalents and Restricted Cash, Ending	$ 6,108,592	$ 5,903,421

See notes to financial statements

	2024	2023
Cash and Cash Equivalents and Restricted Cash Include		
Cash and cash equivalents	$ 18	$ 1,853
Assets held under trust indenture	6,108,574	5,901,568
	$ 6,108,592	$ 5,903,421
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 2,834,528	$ 3,244,296
Supplemental Schedule of Noncash Investing and Financing Activities		
Change in beneficial interest in supporting organization through due to affiliates	$ (5,240,532)	$ (12,200,000)

See notes to financial statements

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Village at Rockville, Inc. (TVAR) 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. TVAR operates a retirement community in Rockville, Maryland, which includes approximately 240 independent living units, 50 assisted living units and 160 skilled nursing beds.

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

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

Basis of Accounting

The financial statements of TVAR 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

TVAR 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.

Accounts Receivable

Accounts receivable are reported net of an allowance for credit losses, which represents TVAR's estimate of expected losses at the balance sheet date. Accounts are written off when they are determined to be uncollectible. The adequacy of the TVAR's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, a review of specific accounts and expected future economic conditions and market trends. Adjustments are made to the allowance as necessary. The allowance for credit losses was $240,825 and $243,343 as of December 31, 2024 and 2023, respectively.

Contract Balances

Contract assets represent TVAR's right to consideration in exchange for goods or services that TVAR has transferred to a patient when that right is conditioned on something other than the passage of time (for example, TVAR's future performance). Contract liabilities represent the Organization's obligation to transfer goods or services to a resident for which the Organization has received consideration (or the amount is due) from the patient.

TVAR's beginning and ending contract assets and liabilities are separately presented on the balance sheets as of December 31, 2024 and 2023. Contract assets and liabilities as of December 31, 2022 are as follows:

Contract asset:	
Patient accounts receivable	$ 3,006,415
Contract liability:	
Deferred revenue from entrance fees	(48,195,439)

Beneficial Interest in Supporting Organization

TVAR maintains a support agreement with National Lutheran, Inc. and National Lutheran Home for the Aged, Inc. (NLHA) relative to TVAR's long-term debt. NLI is the parent to both TVAR and NLHA; NLHA is an affiliate of TVAR. The support agreement outlines that NLI and NLHA will provide access to capital to maintain TVAR'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 TVAR. As of December 31, 2024, the investments held by NLHA are comprised of cash and cash equivalents (5%), Marketable equity securities (50%), mutual funds (15%), and fixed income securities (30%). Approximately 36.32% and 51.43% of the combined investments are attributable to TVAR as of December 31, 2024 and 2023, respectively. The percentage of combined investments is calculated based on a monthly allocation, adjusted for any necessary reallocations specific to TVAR. Investment income is also based on this allocation.

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 and investments are reported on the accompanying balance sheets at fair value, based on quoted market prices as provided by a national exchange, and beneficial interest in supporting organization is valued at net asset value (NAV) based on the TVAR's percent interest.

Investment income (including realized and unrealized gains and interest and dividends) is included in nonoperating revenue (expense) unless the income or loss is restricted by donor or law or related to unrealized gains or losses on alternative investments. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

TVAR'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). TVAR's capitalization policy is to capitalize amounts in excess of $5,000. 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 $23,000 and $0 as of December 31, 2024 and 2023, respectively.

Funds Held in Trust by Others

TVAR 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 TVAR is notified of the trust's existence. TVAR 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, TVAR 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 TVAR 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. TVAR uses published mortality tables adopted by the United States Internal Revenue Service (IRS) 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 TVAR maintains in compliance with this requirement.

Entrance Fees

TVAR's policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. TVAR currently offers traditional, 50% guaranteed refund, and 90% guaranteed refund entrance fee options. Agreements feature an amortization provision whereby the nonrefundable component of the entrance fee is earned ratably over a future time period following the initial date of occupancy. After this time period has ended, no refund is due to the resident. The nonrefundable component is contractually earned by TVAR as follows:

Traditional entrance fee - After applying the 10% administrative fee, the remaining entrance fee is contractually earned by TVAR over 60 months, at which time no refund will be payable to the resident.

50% entrance fee - Guarantees a refund amount that is the greater of either 50% of the entrance fee paid, or an amount equal to the entrance fee paid less a 10% administrative fee, and less than a sum equal to 1.5% of 90% of the entrance fee paid for each month between the occupancy date and the termination date.

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 TVAR to new residents remain in force.

The nonrefundable 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 approximately $67,038,000 as of December 31, 2024.

TVAR 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 $63,496 and $63,497 for the years ended December 31, 2024 and 2023, 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 TVAR 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. TVAR 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. TVAR 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. TVAR 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. TVAR 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 $4,663,135 in 2024 and $4,341,330 in 2023.

TVAR 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. TVAR 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.

TVAR 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:

	2024				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	$ 5,293,840	$ 5,306,660	$ 7,157,568	$ 1,321,340	$ 19,079,408
Medicare	8,292,149	-	-	-	8,292,149
Medical Assistance	8,883,614	-	-	-	8,883,614
Commercial insurance	980,407	-	-	-	980,407
Amortization of nonrefundable entrance fees	-	-	4,663,135	-	4,663,135
Total	$ 23,450,010	$ 5,306,660	$ 11,820,703	$ 1,321,340	$ 41,898,713

	2023				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	$ 4,135,610	$ 4,870,363	$ 6,449,664	$ 1,209,096	$ 16,664,733
Medicare	7,094,255	-	-	-	7,094,255
Medical Assistance	7,199,716	-	-	-	7,199,716
Commercial insurance	1,123,630	-	-	-	1,123,630
Amortization of nonrefundable entrance fees	-	-	4,341,330	-	4,341,330
Total	$ 19,553,211	$ 4,870,363	$ 10,790,994	$ 1,209,096	$ 36,423,664

TVAR 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 TVAR's clinical assessment of its residents. TVAR 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.

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

Payment terms and conditions for TVAR'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

TVAR expenses advertising costs as incurred. Advertising expense totaled $239,723 and $239,192 for the years ended December 31, 2024 and 2023, 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. 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

TVAR is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and has been recognized as tax exempt under Section 501(a) of the IRC. 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 TVAR and recognize a tax liability or asset if TVAR has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. TVAR has concluded that as of December 31, 2024 and 2023, 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, 2021, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the presentation used in 2024.

Subsequent Events

In preparing these financial statements, TVAR evaluated events that occurred through April 30, 2025, the date the financial statements were issued, for potential recognition or disclosure.

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:

	2024	2023
Financial assets:		
Cash and cash equivalents	$ 18	$ 1,853
Accounts receivable, net	2,109,199	1,859,352
Investments	6,570,950	5,574,208
Beneficial interest in supporting organization	15,893,525	18,378,369
Total financial assets	$ 24,573,692	$ 25,813,782

As part of TVAR'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. TVAR 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, TVAR 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 TVAR 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.

3. Concentrations of Credit Risk

TVAR grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies. TVAR maintains cash, restricted cash and cash equivalents accounts, which, at times, may exceed federally insured limits. TVAR has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash, restricted cash and cash equivalents.

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 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 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 3 - 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:

	2024				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Reported at fair value:					
Assets:					
Assets whose use is limited:					
Cash equivalents	$ 6,108,574	$ 6,108,574	$ 6,108,574	$ -	$ -
Investments:					
Cash equivalents	405,944	405,944	405,944	-	-
Equity securities	1,865,720	1,865,720	1,865,720	-	-
Mutual funds	2,507,968	2,507,968	2,501,689	6,279	-
Fixed income securities	703,290	703,290	543,558	159,732	-
Exchange traded funds	1,088,028	1,088,028	1,088,028	-	-
Total investments	6,570,950	6,570,950	6,404,939	166,011	-
Total assets	12,679,524	12,679,524	12,513,513	166,011	-
Beneficial interest in supporting organization measured at NAV	23,979,588	23,979,588			
Total	36,659,112	36,659,112			
Funds held in trust by others	1,624,981	1,624,981	-	-	1,624,981
Total assets	$ 38,284,093	$ 38,284,093	$ 12,513,513	$ 166,011	$ 1,624,981

	2023				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Reported at fair value:					
Assets:					
Assets whose use is limited:					
Cash equivalents	$ 5,901,568	$ 5,901,568	$ 5,901,568	$ -	$ -
Investments:					
Cash equivalents	372,349	372,349	372,349	-	-
Equity securities	1,565,018	1,565,018	1,562,472	2,546	-
Mutual funds	2,104,380	2,104,380	2,104,380	-	-
Fixed income securities	579,571	579,571	557,932	21,639	-
Exchange traded funds	952,890	952,890	952,890	-	-
Total investments	5,574,208	5,574,208	5,550,023	24,185	-
Total assets	11,475,776	11,475,776	11,451,591	24,185	-
Beneficial interest in supporting organization measured at NAV	26,552,741	26,552,741			
Total	38,028,517	38,028,517			
Funds held in trust by others	2,305,729	2,305,729	-	-	2,305,729
Total assets	$ 40,334,246	$ 40,334,246	$ 11,451,591	$ 24,185	$ 2,305,729

In accordance with the Maryland Department of Aging reserve requirements governing continuing care retirement communities (Note 6), TVAR 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.

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

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2024 or 2023.

The following methods have been used by TVAR 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, 2024 or 2023:

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, Mutual Funds and Exchange Traded 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 TVAR'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.

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 TVAR 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 following is a reconciliation of activity for Level 3 assets at fair value based upon significant unobservable (nonmarket) information as of December 31:

	2024	2023
Balance, beginning of year	$ 2,305,729	$ 2,447,836
Valuation gain (loss)	(29,775)	159,437
Distributions	(650,973)	(301,544)
Balance, end of year	$ 1,624,981	$ 2,305,729

The change in value in Level 3 assets is recorded on the statements changes in net assets as an increase or decrease in net assets with donor restrictions.

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:

	2024	2023
Assets whose use is limited:		
Operating reserve	$ 8,085,938	$ 8,174,372
Assets held under trust indenture (2012 bonds):		
Debt service reserve	885,909	843,676
Interest	452,027	455,510
Principal	369,721	356,239
Replacement reserves	50,318	47,614
Assets held under trust indenture (2018 bonds):		
Entrance fee fund	519,030	512,883
Debt service reserve	3,087,665	2,940,472
Interest	743,321	744,619
Construction	583	555
	14,194,512	14,075,940
Less current portion	(2,102,010)	(2,083,332)
Assets whose use is limited, net	$ 12,092,502	$ 11,992,608

6. Maryland Department of Aging Reserve Requirements

In accordance with Maryland law governing continuing care retirement communities, TVAR is required to set aside operating reserves totaling 25% 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, 2024, is as follows:

Total operating expenses for fiscal year ended December 31, 2023	$ 41,889,206
Less:	
Depreciation	(6,257,563)
Interest	(3,287,893)
Adjusted operating expenses	$ 32,343,750
Funding requirement (25% of operating expenses)	$ 8,085,938

TVAR has reserved this amount in assets whose use is limited to satisfy the minimum statutory operating reserve requirement.

7. Property and Equipment

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

	2024	2023
Land	$ 3,255,294	$ 3,255,294
Land improvements	1,364,323	1,278,079
Buildings and building improvements	154,541,739	151,267,481
Furniture and equipment	19,948,982	16,730,302
Construction in progress	2,141,995	2,677,164
	181,252,333	175,208,320
Less accumulated depreciation	(77,948,059)	(71,738,782)
	$ 103,304,274	$ 103,469,538

8. Long-Term Debt

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

	2024	2023
Series 2018A Fixed Rate Economic Development Revenue Bonds were payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments through November 2048 to satisfy annual debt service requirements. Interest is fixed at 6.07% through maturity.	$ 17,385,000	$ 17,660,000
Series 2018B Adjustable Rate Economic Development Revenue Bonds were payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments through November 2048 to satisfy annual debt service requirements. Interest is fixed at 5.23% and adjusts in February 2028 as defined in the debt agreements.	13,185,000	13,425,000
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% through maturity.	10,935,000	11,150,000
Series 2012B 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 5.04% through maturity.	7,310,000	7,475,000
	48,815,000	49,710,000
Less current portion	935,000	895,000
Less deferred financing costs	1,302,425	1,365,921
Total long-term debt	$ 46,577,575	$ 47,449,079

As security for the payment of the bonds, TVAR 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.

TVAR 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, 2024 and 2023.

Scheduled principal payments on long-term debt as of December 31, 2024, are as follows:

Years ending December 31:	
2025	$ 935,000
2026	995,000
2027	1,050,000
2028	1,125,000
2029	1,175,000
Thereafter	43,535,000
	$ 48,815,000

Interest expense in connection with long-term debt totaled $2,805,063 in 2024 and $2,855,972 in 2023.

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:

	2024	2023
Net assets:		
Without donor restrictions:		
Undesignated	$ (7,912,764)	$ (9,059,375)
Maryland Department of Aging reserve requirements	8,085,938	8,174,372
	173,174	(885,003)
With donor restrictions:		
Purpose restricted for:		
Operations	416,556	273,950
Charitable remainder trusts	14,582	37,738
Perpetual trusts	1,610,399	2,267,992
Restricted in perpetuity	3,683,963	2,662,716
	5,725,500	5,242,396
	$ 5,898,674	$ 4,357,393

For the years ended December 31, 2024 and 2023, net assets of $183,806 and $328,026, 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 TVAR.

10. Related-Party Transactions

NLI is the sole member of TVAR and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. TVAR incurred management fees to NLI totaling $2,841,790 and $2,655,168 for the years ended December 31, 2024 and 2023, 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 affiliated organizations as of December 31:

	2024	2023
National Lutheran, Inc. (Parent)	$ -	$ 6,100,111

11. Expenses by Nature and Function

TVAR'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:

	2024		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	$ 15,083,748	$ $1,108,354	$ 16,192,102
Employee benefits and payroll taxes	2,803,682	161,035	2,964,717
Professional fees	3,538,158	109,761	3,647,919
Ancillary and medical	2,830,458	-	2,830,458
Supplies	674,490	26,897	701,387
Food services	1,452,674	17,019	1,469,693
Utilities	1,438,281	425,415	1,863,696
Depreciation	6,209,277	-	6,209,277
Interest	2,813,206	63,496	2,876,702
Insurance	355,159	-	355,159
Real estate taxes	518,643	-	518,643
Repairs and maintenance	609,984	90,035	700,019
Advertising and marketing	239,723	-	239,723
Licenses, dues and subscriptions	224,952	440,562	665,514
Other operating expenses	400,970	110,003	510,973
Credit loss expense	190,130	-	190,130
Management fees	-	2,841,790	2,841,790
Total	$ 39,383,535	$ 5,394,367	$ 44,777,902

	2023		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	$ 13,305,345	$ 761,507	$ 14,066,852
Employee benefits and payroll taxes	2,709,720	145,612	2,855,332
Professional fees	3,006,332	105,579	3,111,911
Ancillary and medical	2,426,619	-	2,426,619
Supplies	618,447	116,389	734,836
Food services	1,229,213	24,014	1,253,227
Utilities	1,756,032	201,878	1,957,910
Depreciation	6,257,563	-	6,257,563
Interest	3,224,396	63,497	3,287,893
Insurance	250,162	-	250,162
Real estate taxes	942,043	-	942,043
Repairs and maintenance	444,290	87,687	531,977
Advertising and marketing	239,192	-	239,192
Licenses, dues and subscriptions	212,344	394,117	606,461
Other operating expenses	378,650	116,885	495,535
Credit loss expense	216,525	-	216,525
Management fees	-	2,655,168	2,655,168
Total	$ 37,216,873	$ 4,672,333	$ 41,889,206

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.

12. Benevolent Care

TVAR 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 TVAR does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

TVAR 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 to assisted living residents amounted to approximately $317,000 and $167,000 for the years ended December 31, 2024 and 2023, respectively. The amount by which costs exceeded revenues for the Medicaid program amounted to approximately $1,690,000 and $2,056,000 for the years ended December 31, 2024 and 2023, respectively. TVAR received contributions of approximately $340,000 and $964,000 for the years ended December 31, 2024 and 2023, respectively, to offset or subsidize benevolent care services provided.

13. Pension Plan

TVAR participates in a 403(b) defined contribution plan. The Plan states TVAR 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, TVAR will contribute 50% of each employee's contribution up to the next 2% of such participant's compensation for each payroll period. The Safe Harbor employer matching contribution is immediately vested. Discretionary employer contributions are vested at 20% per year to 100% after five years. All participating employees' contributions are 100% vested. Employer contributions totaled $330,561 and $308,684 for the years ended December 31, 2024 and 2023, respectively, and are recorded in employee benefits and payroll taxes on the statements of operations. There were no discretionary employer contributions in 2024 or 2023.

14. Medical Malpractice and General Liability Claims Coverage

TVAR participates in a reciprocal risk retention group (RRG) through NLI. The coverage is provided on a claims-made basis. Medical malpractice and general liability coverages were provided for TVAR in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. Each claim has a $75,000 self-insured retention, prior to the primary insurance coverage. TVAR also has an excess umbrella policy for general liability coverage. The excess umbrella limit is $15,000,000 in the aggregate. TVAR funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRG. As of December 31, 2024, no such adjustments to premiums are deemed necessary.

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. TVAR is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on TVAR, if any, are not presently determinable.