National Lutheran Home for the Aged, Inc. d/b/a National Lutheran Communities & Services

Financial Statements and
Supplementary Information

December 31, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

Table of Contents
December 31, 2015 and 2014

Baker Tilly Virchow Krause, LLP
1869 Charter Ln, Ste 301
Lancaster, PA 17601-5898
tel 717 393 5696
tel 800 267 9405
fax 888 264 9617
bakertilly.com

Independent Auditors' Report

Board of Trustees
National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Lutheran Home for the Aged, Inc. d/b/a National Lutheran Communities & Services (the "Organization"), which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Lutheran Home for the Aged, Inc. d/b/a National Lutheran Communities & Services as of December 31, 2015 and 2014, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 29 through 32 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual companies, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Lancaster, Pennsylvania
April 7, 2016

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Balance Sheets
December 31, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash and cash equivalents	$ 1,287,931	$ 4,430,608
Accounts receivable	1,939,094	2,171,169
Notes receivable, residents	-	473,162
Inventory	311,109	286,089
Prepaid expenses and other assets	1,236,596	768,518
Pledges receivable	115,353	99,825
Current portion of assets whose use is limited	7,729,351	3,743,009
Total current assets	12,619,434	11,972,380
Assets Whose Use is Limited	18,173,416	18,621,170
Investments	93,493,384	117,500,754
Property and Equipment, Net	222,318,823	195,339,698
Funds Held in Trust by Others	2,125,292	1,840,741
Pledges Receivable, Net	75,465	130,614
Deferred Costs, Net	13,701,558	13,345,698
Total assets	$ 362,507,372	$ 358,751,055

Liabilities and Net Assets	2015	2014
Current Liabilities		
Accounts payable	$ 1,903,212	$ 1,794,782
Accounts payable, construction	3,599,764	2,046,673
Accrued interest	3,084,587	2,592,937
Accrued expenses	2,465,278	2,008,006
Current portion of long-term debt	1,045,000	315,000
Current portion of annuities payable	38,135	38,853
Total current liabilities	12,135,976	8,796,251
Resident Deposits	2,258,288	3,037,863
Monthly Fees Paid in Advance	53,437	42,733
Deferred Revenue from Entrance Fees	37,685,902	35,139,747
Refundable Entrance Fees	28,344,309	24,043,988
Long-Term Debt, Net	115,700,000	99,180,000
Annuities Payable, Net	228,832	245,816
Total liabilities	196,406,744	170,486,398
Net Assets		
Unrestricted	161,387,088	185,287,557
Temporarily restricted	2,725,473	1,091,378
Permanently restricted	1,988,067	1,885,722
Total net assets	166,100,628	188,264,657
Total liabilities and net assets	$ 362,507,372	$ 358,751,055

See notes to consolidated financial statements

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Revenues		
Net resident service revenues	$ 42,473,391	$ 38,491,639
Contributions	177,180	119,910
Management fee	539,955	432,257
Interest and dividends, net of fees of $870,623 in 2015 and $813,962 in 2014	2,812,988	3,117,226
Realized gains	2,294,372	7,452,622
Other income	572,653	102,318
Total unrestricted revenues	48,870,539	49,715,972
Expenses		
Salaries and wages	23,577,918	23,125,930
Employee benefits and payroll taxes	5,608,220	5,041,163
Medicare services	3,542,961	3,461,794
Other resident care	737,318	573,113
Professional fees	3,023,783	3,760,671
Supplies	1,140,099	1,241,651
Food services	2,035,069	1,952,581
Utilities and other occupancy	2,907,414	2,549,799
Depreciation and amortization	9,982,972	9,584,397
Interest	5,126,096	4,711,353
Insurance and licenses	587,244	589,801
Minor equipment	238,960	88,561
Repairs and maintenance	1,482,171	1,575,383
Advertising and recruitment	589,815	600,333
Information technology	1,245,441	1,588,481
Legal and accounting	227,841	229,709
Dues and subscriptions	1,205,597	1,108,717
Miscellaneous	1,665,377	1,070,445
Bad debt expense	636,440	526,815
Annuities	20,545	16,637
Loss on sale or disposal of assets	152,100	-
Total expenses	65,733,381	63,397,334
Operating loss	(16,862,842)	(13,681,362)
Unrealized Losses	(7,037,627)	(3,400,263)
Change in unrestricted net assets	$ (23,900,469)	$ (17,081,625)

See notes to consolidated financial statements

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Change in unrestricted net assets	$ (23,900,469)	$ (17,081,625)
Temporarily Restricted Net Assets		
Contributions	1,373,144	247,218
Trust contributions	271,783	-
Change in value of funds held in trust by others	(10,832)	(493)
Change in temporarily restricted net assets	1,634,095	246,725
Permanently Restricted Net Assets		
Contributions	78,745	372,330
Change in value of funds held in trust by others	23,600	(54,058)
Change in permanently restricted net assets	102,345	318,272
Change in net assets	(22,164,029)	(16,516,628)
Net Assets, Beginning	188,264,657	204,781,285
Net Assets, Ending	$ 166,100,628	$ 188,264,657

See notes to consolidated financial statements

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (22,164,029)	$ (16,516,628)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	9,982,972	9,584,397
Amortization of entrance fees	(5,065,694)	(4,034,328)
Proceeds from non-refundable entrance fees, turnover units	5,436,107	2,971,269
Realized gains	(2,294,372)	(7,452,622)
Unrealized losses	7,037,627	3,400,263
Restricted contributions	(78,745)	(372,330)
Change in allowance for uncollectible accounts receivable	(76,347)	43,662
Change in pledges receivable	39,621	(49,277)
Change in value of funds held in trusts by others	(284,551)	54,551
Change in annuities payable	(17,702)	(21,300)
Loss on sale or disposal of assets	152,100	-
Changes in assets and liabilities:		
Accounts receivable	308,422	(526,439)
Inventory. prepaid expenses and other assets	(493,098)	303,659
Accounts payable and accrued expenses	1,057,352	(1,340,806)
Monthly fees paid in advance	10,704	(47,935)
Resident deposits	(779,575)	2,711,971
Net cash used in operating activities	(7,229,208)	(11,291,893)
Cash Flows from Investing Activities		
Net proceeds from sales of investments and assets whose use is limited	15,725,527	18,669,819
Cash paid for deferred marketing costs	(864,067)	(848,410)
Purchases of property and equipment	(34,608,161)	(21,016,226)
Net cash used in investing activities	(19,746,701)	(3,194,817)

See notes to consolidated financial statements

	2015	2014
Cash Flows from Financing Activities		
Proceeds from entrance fees, new units	$ 8,427,083	$ 2,894,291
Proceeds from refundable entrance fees, turnover units	976,214	1,331,646
Refunds of entrance fees	(2,454,072)	(2,159,620)
Principal payments on long-term debt	(7,650,000)	-
Proceeds from issuance of long-term debt	24,900,000	13,000,000
Restricted contributions	78,745	372,330
Cash paid for deferred financing fees	(444,738)	(1,498,278)
Net cash provided by financing activities	23,833,232	13,940,369
Net change in cash and cash equivalents	(3,142,677)	(546,341)
Cash and Cash Equivalents, Beginning	4,430,608	4,976,949
Cash and Cash Equivalents, Ending	$ 1,287,931	$ 4,430,608
Supplementary Cash Flows Information		
Interest paid, net of interest capitalized of $1,169,708 in 2015 and $490,894 in 2014	$ 4,634,446	$ 4,732,394

Supplementary Disclosure of Noncash Investing and Financing Activities

Property, plant, and equipment additions in the amount of $3,599,764 and $2,046,673 are included in accounts payable at December 31, 2015 and 2014, respectively.

1. Organization and Summary of Significant Accounting Policies

Organization

National Lutheran Home for the Aged, Inc. d/b/a National Lutheran Communities & Services ("NLCS") is a not-for-profit Maryland corporation and is affiliated with the Evangelical Lutheran Church in America ("ELCA") and functions in accordance with Church body criteria and provisions. The Members of NLCS are the Delaware-Maryland Synod, Metropolitan Washington, DC Synod, and the Virginia Synod of the ELCA. As the Members of NLCS, these synods share in the control, support, and services of NLCS.

NLCS provides management and support services and is the sole member of the following affiliates:

National Lutheran Home & Village at Rockville, Inc. d/b/a The Village at Rockville - A National Lutheran Community ("TVAR"), a not-for-profit corporation originally incorporated in the District of Columbia, operates a retirement community in Rockville, Maryland including 144 independent living units, 50 assisted living units, and a 160 skilled nursing beds.

The Village at Orchard Ridge, Inc. ("TVOR"), a Virginia not-for-profit corporation, operates a continuing care retirement community in Winchester, Virginia, which opened during February 2013. The initial phase of construction included 178 independent living units, 25 independent living rental units, 10 skilled nursing units and 18 assisted living units. The campus is currently in the midst of expanding its independent living community in Phase II by adding 118 independent living units (18 of which opened during 2015), adding additional dining space, a Health & Wellness Center and 10 additional skilled nursing units. Completion of this phase of the expansion is projected to occur by December 2016.

The Legacy at North Augusta, Inc. - A National Lutheran Community ("TLNA") - a Virginia not-for-profit corporation, operates independent and assisted living services in Staunton, Virginia and offers 104 dual-purpose assisted living and independent living units.

The Village at Crystal Spring, Inc. ("TVCS") was incorporated during 2010 to acquire and develop approximately 92 acres of property located in Annapolis, Maryland as a continuing care retirement community. TVCS has entered into land purchase option and developer agreements related to the project. The development is in its early stage and TVCS had no operations during 2015 or 2014 as all initial costs are being paid by NLCS. TVCS submitted its plans to the Maryland Department of Aging during 2012 and is awaiting various approvals. TVCS obtained its tax exempt status during June 2014, effective October 8, 2010.

Principles of Consolidation

The consolidated financial statements include the accounts of NLCS, TVAR, TVOR, TLNA, and TVCS after elimination of all significant interrelated balances and transactions, collectively, referred to as the "Organization."

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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.

Accounts Receivable

Accounts receivable for services provided to residents consists of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by the Organization by their contractually stated due date. The provision for uncollectible accounts receivable is based on management's assessment of the collectibility of individual receivables and the aggregate aging of all of the accounts receivable and was $670,462 and $594,116 at December 31, 2015 and 2014, respectively. Losses are charged against the allowance for uncollectible accounts receivable when management believes the uncollectibility of a receivable is confirmed.

Notes Receivable - Residents

The Organization has provided short-term bridge, or promissory notes to residents entering its independent living units. These notes are generally are repaid when the resident is able to sell their home and are considered to be due within one year from the date of the note, but may be extended if the residence is being actively marketed. Interest is charged as stated in the agreements. An allowance for uncollectible notes receivable is based on management's assessment of the collectibility of individual receivables. Losses are charged against the allowance for uncollectible notes receivable when management believes the uncollectibility of a receivable is confirmed. Management believes that notes receivable are fully collectible.

Inventory

Inventory is stated at the lower of cost (determined on a first-in, first-out basis) or market and consists of supplies for the various operating departments.

Assets Whose Use is Limited and Investments

Assets held as operating reserves and assets held under indenture agreements are classified as assets whose use is limited and are reported separately in the accompanying consolidated balance sheet. Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets. Investments and assets whose use is limited are reported in the accompanying consolidated balance sheet at the fair value, based on quoted market prices as provided by a national exchange. A decline in market value of any investment below cost that is deemed to be other-than-temporary results in a reduction in carrying value to fair value. The impairment is charged to other-than-temporary losses and a new cost basis for the investment is established.

The Organization’s investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported in the balance sheet 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 in the balance sheet could change materially in the near term.

Property and Equipment

Property and equipment are reported at cost. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives. The Organization’s capitalization policy is to review invoices in excess of $5,000 to determine if they should be capitalized. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building improvements and land improvements. Expenditures that extend the useful lives of the asset or significantly increase their capacity are 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 uncollectible pledges is based on management’s assessment of the collectability of pledges receivable and was $21,201 and $25,604 at December 31, 2015 and 2014, respectively.

Funds Held in Trust by Others

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

Perpetual trusts are valued based upon the fair value of the underlying investments. The change in the fair value of perpetual trusts is reported as a change in permanently restricted net assets. The fair value of remainder trusts are 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 temporarily restricted net assets.

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 unrestricted contributions in the consolidated statement of operations. The Organization 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.

Entrance Fees

TVAR’s Independent Living admissions policy requires the payment of an entrance fee for admittance. These entrance fees are accounted for as deferred revenue. The entrance fee is a type C fee-for-service contract. Entrance fees are partially refundable upon a resident’s withdrawal from an independent living unit. The refundable portion is calculated based on a ten year amortization period after applying 20% of the initial entrance fee, which is nonrefundable. Deferred revenue from entrance fees is amortized to earned revenue using the straight-line method over the estimated remaining life expectancy of the residents. 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. Contractual refund obligations approximate $7,100,000 and $7,500,000 at December 31, 2015 and 2014, respectively.

TVAR also has a rental agreement requiring no entrance fee.

TVOR's Independent Living admissions policy requires the payment of an entrance fee for admittance. The entrance fee is a type C fee-for-service contract. The Organization has a traditional non-refundable entrance fee with a refund payable on an initial deduction of 10% of the initial fee and less a reduction of 5% per month for the first eighteen months of residency. The Organization also has 100% and 50% refundable entrance fee contracts. The non-refundable portions of the contracts are accounted for as deferred revenue from entrance fees and are amortized to earned revenue using the straight-line method over the estimated remaining life expectancy of the residents. 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 contracts is not amortized into income and is reported as a refundable entrance fee liability. Contractual refund obligations approximate $32,800,000 and $25,000,000 at December 31, 2015, and 2014, respectively.

TVOR also has a rental agreement requiring no entrance fee, but a one-time community fee of $2,500.

Net Assets

There are three classes of net assets - permanently restricted, temporarily restricted, and unrestricted. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions:

Permanently restricted net assets, Net assets subject to donor-imposed stipulations that are required to be maintained permanently by the Organization. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted, Net assets subject to donor-imposed stipulation and/or the passage of time.

Unrestricted net assets, Net assets not subject to donor-imposed stipulations.

Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

A significant number of volunteers annually donate their services to the Organization. The value of these services is not reflected in the consolidated financial statements because they do not meet the criteria to recognize them as requiring specialized skills and knowledge that the Organization would have purchased.

Net Resident Service Revenue

The Independent Living program is a fee-for-service program that requires monthly fee payments based on established rates. These monthly fees are not attributable as prepayment for nursing care. Independent Living residents who wish to transfer to the skilled nursing facility or assisted living may apply for admission. At the date of admission to the assisted living or skilled nursing facility, if there is a remaining entrance fee balance on the resident's independent living unit, that balance is applied as a credit against the monthly fee.

Skilled nursing services revenue at TVAR and TVOR is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated retroactive adjustments, if any, are reported in the year of final determination as an adjustment of skilled nursing services revenue. A summary of the principal payment arrangements with third-party payors is as 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. Approximately 12% of the Organization's net resident service revenues in both 2015 and 2014, were derived from the Medical Assistance program.

  The Maryland Department of Health and Mental Hygiene has transitioned from a retrospective, cost-based system to a prospective Case Mix RUGs based payment system effective January 1, 2015. There will be a "hold harmless" provision that will not allow providers' rates to go below the 2012 cost based rate as adjusted for inflation.

- 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. Approximately 23% and 24% of the Organization's net resident service revenues in 2015 and 2014, respectively, were derived from the Medicare Part A program.

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.

At TLNA, each resident executes a Residency Agreement which includes a one-time fee of $1,000, payable at the time of move-in. The fee is non-refundable except that such a fee would be refundable if a resident gives notice of its intention to terminate the Residency Agreement within 30 days of moving into the residential unit. Monthly service fees and charges, including the room rate are payable in advance.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $347,000 and $497,000 for the years ended December 31, 2015 and 2014, respectively.

Operating Income

The consolidated statement of operations includes operating loss as the performance indicator. Changes in unrestricted net assets which are excluded from such amounts include unrealized gains and losses.

Tax Status

The Organization and its subsidiaries are not-for-profit Organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 509(a) of the Code.

The Organization follows the Financial Accounting Standards Board ("FASB") accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on de-recognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the financial statements.

NLCS, TVAR, TVOR and TLNA's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2014, 2013 and 2012 remain subject to examination by the IRS. TVCS obtained its tax-exempt status during June 2014, effective October 8, 2010, and its federal Exempt Organization Business Income Tax Return for the year ended December 31, 2014 remains subject to examination by the Internal Revenue Service.

New Accounting Standard - Revenue Recognition

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Corporation may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

New Accounting Standard - Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, L*eases* (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Organization's leasing activities. The Organization will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2019. The Organization has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through April 7, 2016, which is the date the consolidated financial statements were available to be issued.

During 2015, National Lutheran, Inc. ("NLI") was formed as a 501(c)(3) not-for-profit organization and is exempt from federal income taxes on related income pursuant to Section 509(a) of the Code. Effective January 1, 2016, NLI is the new parent corporation and will provide management and support services and be the sole member of TVAR, TVOR, TLNA, TVCS, and National Lutheran Home for the Aged, Inc. All employees of National Lutheran Home for the Aged, Inc. were transferred to NLI.

Also effective January 1, 2016. The National Lutheran Home & Village at Rockville, Inc. was renamed The Village at Rockville, Inc. The entire Organization will continue to operate as National Lutheran Community and Services (NLCS).

In addition, two newly formed corporations, myPotential at Home MD, LLC and myPotential at Home VA, LLC were created with NLI as the sole member. myPotential at Home VA, LLC had previously operated under NLCS since 2014, and will begin operating as a separate entity in 2016. myPotential at Home MD, LLC will likely begin operations in 2017.

TLNA renegotiated its interest rate on the Series 2011 Residential Care Facility Revenue Bonds. Effective January 1, 2016, the interest rate shall be reduced from the current rate of 6.625% to 5.250% through January 1, 2018.

2. Fair Value Measurements, Investments and Assets Whose Use is Limited, and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Organization for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present financial instruments measured at fair value at December 31, 2015 and 2014, by caption on the consolidated balance sheet:

	2015				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Reported at fair value:					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 28,335,326	$ 28,335,326	$ 28,335,326	$ -	$ -
Equity securities:					
Consumer discretionary	5,353,130	5,353,130	5,353,130	-	-
Consumer staples	1,910,851	1,910,851	1,910,851	-	-
Energy	1,688,313	1,688,313	1,688,313	-	-
Financial	10,126,394	10,126,394	10,126,394	-	-
Health care	5,718,397	5,718,397	5,718,397	-	-
Industrials	4,523,294	4,523,294	4,523,294	-	-
Information technology	6,479,835	6,479,835	6,479,835	-	-
Materials	2,194,574	2,194,574	2,194,574	-	-
Telecommunication	3,017,910	3,017,910	3,017,910	-	-
Utilities	771,927	771,927	771,927	-	-
Other	424,094	424,094	424,094	-	-
Mutual funds:					-
Equity	7,935,211	7,935,211	7,935,211	-	-
Fixed income	3,996,285	3,996,285	3,996,285	-	-
Other	9,635,982	9,635,982	9,635,982	-	-
Exchange-traded and closed-end funds	16,838	16,838	16,838	-	-
Other	83,241	83,241	-	83,241	-
Fixed income securities:					
Corporate bonds	11,921,981	11,921,981	-	11,921,981	-
U.S. government and agency bonds	10,389,339	10,389,339	-	10,389,339	-
Alternative investments	4,873,229	4,873,229	-	-	4,873,229
Total investments and assets whose use is limited	$ 119,396,151	$ 119,396,151	$ 92,128,361	$ 22,394,561	$ 4,873,229
Funds held in trust by others	$ 2,125,292	$ 2,125,292	$ -	$ -	$ 2,125,292
Disclosed at fair value:					
Cash and cash equivalents	$ 1,287,931	$ 1,287,931	$ 1,287,931	$ -	$ -
Pledges receivable	$ 211,387	$ 211,387	$ -	$ -	$ 211,387
Long-term debt	$ 116,745,000	$ 118,650,000	$ -	$ 118,650,000	$ -

	2014				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Reported at fair value:					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 33,516,079	$ 33,516,079	$ 33,516,079	$ -	$ -
Equity securities:					
Consumer discretionary	7,340,100	7,340,100	7,340,100	-	-
Consumer staples	3,326,920	3,326,920	3,326,920	-	-
Energy	2,877,300	2,877,300	2,877,300	-	-
Financial	14,433,504	14,433,504	14,433,504	-	-
Health care	6,658,797	6,658,797	6,658,797	-	-
Industrials	4,037,902	4,037,902	4,037,902	-	-
Information technology	7,482,699	7,482,699	7,482,699	-	-
Materials	3,840,817	3,840,817	3,840,817	-	-
Telecommunication	3,061,070	3,061,070	3,061,070	-	-
Utilities	1,137,134	1,137,134	1,137,134	-	-
Other	799,468	799,468	799,468	-	-
Mutual funds:					-
Equity	11,210,142	11,210,142	11,210,142	-	-
Fixed income	3,748,156	3,748,156	3,748,156	-	-
Other	6,813,806	6,813,806	6,813,806	-	-
Exchange-traded and closed-end funds	898,398	898,398	898,398	-	-
Other	94,631	94,631	-	94,631	-
Fixed income securities:					
Corporate bonds	11,413,698	11,413,698	-	11,413,698	-
U.S. government and agency bonds	15,166,379	15,166,379	-	15,166,379	-
Alternative investments	2,007,933	2,007,933	-	-	2,007,933
Total investments and assets whose use is limited	$ 139,864,933	$ 139,864,933	$ 111,182,292	$ 26,674,708	$ 2,007,933
Funds held in trust by others	$ 1,840,741	$ 1,840,741	$ -	$ -	$ 1,840,741
Disclosed at fair value:					
Cash and cash equivalents	$ 4,430,608	$ 4,430,608	$ 4,430,608	$ -	$ -
Pledges receivable	$ 230,439	$ 230,439	$ -	$ -	$ 230,439
Long-term debt	$ 99,495,000	$ 101,210,423	$ -	$ 101,210,423	$ -

Investments and assets whose use is limited is presented together in the tables above as there are various investment and cash accounts that are allocated between the investment and assets whose use is limited lines on the consolidated balance sheet.

The investments and assets whose use is limited are presented on the balance sheet as follows:

	2015	2014
Investments	$ 93,493,384	$ 117,500,754
Assets whose use is limited:		
Future project refundable deposits	$ 2,392,823	$ 2,861,141
Operating reserve	4,385,746	3,903,212
Assets held under trust indentures	19,124,198	15,599,826
Total assets whose use is limited	25,902,767	22,364,179
Less current portion of assets whose use is limited	(7,729,351)	(3,743,009)
Assets whose use is limited, less current portion	$ 18,173,416	$ 18,621,170

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31, 2015 and 2014 is as follows:

	Funds Held in Trust by Others	Alternative Investments
Balance as of December 31, 2013	$ 1,895,292	$ 5,400,000
Purchases	-	2,000,000
Redemptions	-	(5,425,012)
Change in value	(54,551)	32,945
Balance as of December 31, 2014	1,840,741	2,007,933
Purchases/contributions	271,783	3,000,000
Change in value	12,768	(134,704)
Balance as of December 31, 2015	$ 2,125,292	$ 4,873,229

The change in Level 3 assets is recorded in the statements of operations and changes in net assets as increases or decreases as follows:

	2015	2014
Unrestricted net assets	$ (134,704)	$ 32,945
Temporarily restricted net assets	260,951	(493)
Permanently restricted net assets	23,600	(54,058)
	$ 149,847	$ (21,606)

Valuation Methodologies

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Equity securities, mutual funds, and exchange-traded and closed-end funds are valued at closing price reported on the active market on which the individual securities are traded.

Fixed income securities are valued at closing price reported on the active market on which the same or similar securities are traded.

Alternative investments are based on net asset value (as a practical expedient) per share as calculated on the reporting entity's measurement date.

Fair value of funds held in trust by others is based on the fair value of the trusts' underlying assets, which approximate the present value of the future distributions expected to be received.

The fair value of promises to give was determined using the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

The fair value of long-term debt is based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

The following table summarizes the gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities in a loss position at December 31, 2015 and 2014. 372 and 320 individual securities had unrealized losses at December 31, 2015 and 2014, respectively. Management believes that these holding losses are not permanently impaired as they reflect general market conditions instead of a permanent decline in value.

A summary of investments with fair values below cost consists of the following as of December 31:

	2015					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities	$ 10,015,726	$ (233,568)	$ 2,272,662	$ (154,675)	$ 12,288,388	$ (388,243)
Equity securities	5,219,012	(993,654)	2,999,522	(1,095,345)	8,218,534	(2,088,999)
Mutual funds	11,728,687	(496,690)	4,835,159	(1,509,630)	16,563,846	(2,006,320)
	$ 26,963,425	$ (1,723,912)	$ 10,107,343	$ (2,759,650)	$ 37,070,768	$ (4,483,562)

	2014					
Fixed income securities	$ 5,556,717	$ (89,841)	$ 605,321	$ (12,884)	$ 6,162,038	$ (102,725)
Equity securities	1,913,527	(327,895)	4,869,712	(862,937)	6,783,239	(1,190,832)
Mutual funds	607,250	(60,666)	6,118,406	(886,849)	6,725,656	(947,515)
	$ 8,077,494	$ (478,402)	$ 11,593,439	$ (1,762,670)	$ 19,670,933	$ (2,241,072)

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 15% of the facility's net operating expenses (as defined) for the most recent fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2015 is as follows:

TVAR's total operating expenses for fiscal year ended December 31, 2014	$ 34,135,981
Less:	
Depreciation and amortization	(3,924,698)
Interest	(972,974)
Adjusted operating expense	$ 29,238,309
Funding requirement (15% of operating expenses)	$ 4,385,746

TVAR 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. TVAR plans to incrementally increase its reserve to fund the increase in the reserve percentage as necessary.

3. Property and Equipment

A summary of property and equipment and the related accumulated depreciation is as follows at December 31, 2015 and 2014:

	2015	2014
Land	$ 19,050,712	$ 19,050,712
Land improvements	8,130,732	6,740,355
Buildings and building improvements	181,775,647	170,676,880
Furniture and equipment	19,536,124	19,616,771
Construction in progress	40,440,294	18,302,401
	268,933,509	234,387,119
Less accumulated depreciation	(46,614,686)	(39,047,421)
	$ 222,318,823	$ 195,339,698

Depreciation expense totaled $9,030,027 and $8,739,851 for the years ended December 31, 2015 and 2014, respectively.

Construction in progress consists primarily of the following:

TVOR's construction in progress consists primarily of Phase II construction and development as described in Note 1. Phase II is anticipated to be completed by December 2016. There is a guaranteed maximum price contract of approximately $43,740,000 (of which approximately $22,581,000 has been completed as of December 31, 2015), with total project costs estimated at $67,500,000, which is being financed with additional debt as described in Note 5.

A sponsor fee of $2,000,000 was paid by NLCS to fund pre-development costs of the TVCS project. Additionally NLCS has spent approximately $7,600,000 on pre-development costs for TVCS (inclusive of marketing costs, development costs, office lease, etc.). There are no material contract commitments at December 31, 2015.

4. Deferred Costs

Deferred costs consist of the following as of December 31, 2015 and 2014:

	2015	2014
Bond issue costs	$ 6,126,271	$ 5,651,533
Costs of acquiring initial continuing care contracts	9,610,126	8,776,059
	15,736,397	14,427,592
Less accumulated amortization	(2,034,839)	(1,081,894)
	$ 13,701,558	$ 13,345,698

Costs associated with marketing the new units at TVOR and TVCS until substantially occupied or one year after completion are being accumulated as costs of acquiring initial continuing care contracts. The costs began amortizing at TVOR Phase I during 2013 as the independent living units were substantially occupied and are being amortized over the weighted average life expectancy of the initial resident population. Phase II marketing costs are currently being capitalized, along with initial marketing associated with TVCS.

Bond issue costs are being amortized over the life of the respective bonds using the straight-line method, which approximate effective interest method.

Amortization expense totaled $952,945 and $844,546 for the years ended December 31, 2015 and 2014, respectively, and is expected to be approximately $1,000,000 for each of the next five years.

5. Long-Term Debt

Long-term debt consists of the following as of December 31, 2015 and 2014:

	2015	2014
Series 2011 Residential Care Facility Revenue Bonds (TLNA), payable in monthly installments to satisfy annual debt service requirements through July 2045. Interest is payable at fixed rate of 5.0% June 2015 and then 6.625% through June 2021. Beginning in July 2021, the interest rate will become a variable rate through maturity. The interest rate was changed to 5.25% effective January 1, 2016 through January 1, 2018 as described in Note 1 as a subsequent event.	$ 17,000,000	$ 17,000,000
Series 2011A Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2045. Interest is payable at fixed rates ranging from 6.46% to 7.80%.	40,000,000	40,000,000
Series 2011B Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2041. Interest is payable at fixed rates ranging from 4.63% to 5.66% through June 2021. Beginning in July 2021 through maturity, the interest rate will become a variable rate.	160,000	7,495,000
Series 2014A Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2044. Interest is payable at fixed rates of 6.26% to 6.83%	19,000,000	3,500,000
Series 2014B Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2024. Interest is payable at an initial rate of 5.04%. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate.	1,500,000	-
Series 2014C Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2024. Interest is payable at a monthly variable rate (3.45% at December 31, 2015).	8,000,000	8,000,000

	2015	2014
Series 2014D Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2044. Interest is payable at an initial fixed rates of 4.93% to 5.32%. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate.	9,400,000	1,500,000
Series 2012A Economic Development Revenue Bonds (TVAR), payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at fixed rates currently ranging from 5.96% to 7.23%.	12,830,000	12,995,000
Series 2012B Economic Development Revenue Bonds (TVAR), payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at fixed rates of 4.70% to 5.61% through January 2022. Beginning in February 2022 through maturity, the interest rate will become a variable rate.	8,855,000	9,005,000
	116,745,000	99,495,000
Less: current portion	(1,045,000)	(315,000)
	$ 115,700,000	$ 99,180,000

The bonds were offered in limited offerings and are not listed on any stock or other securities exchange. As security for the payment of the TVOR, TLNA, and TVAR bonds, each will grant a lien and security interest in their respective mortgaged premises and TVOR and TVAR assign all their respective pledged assets, including gross receipts, inventory, accounts receivables, contracts rights, general intangibles and other as defined in the documents. Additionally, NLCS entered into a support agreement 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 2014 TVOR Bonds were issued during December 2014 to finance the construction of Phase II of the planned expansion of TVOR, fund capitalized interest, and a debt service reserve fund, and pay issuance costs related to the Bonds. The Bonds will be drawn in phases to a total of a maximum of $36,935,000 Series 2014A Fixed Rate Bonds, $12,000,000 of Series 2014B Adjustable Rate Bonds, $8,000,000 Series 2014C Index Floating Rate Bonds, and $10,900,000 Series 2014D Adjustable Rate Bonds. All of the draws on the 2014 Bonds are anticipated to be drawn by December 2016.

The long-term debt maturing in the next five years and thereafter is as follows:

2016	$ 1,045,000
2017	940,000
2018	1,735,000
2019	1,835,000
2020	2,200,000
Thereafter	108,990,000
	$ 116,745,000

The 2016 maturities includes $160,000 from the Series 2011B Bonds (TVOR).

Interest expense totaled $5,126,096 and $4,711,353, net of $1,169,708 and $490,894 of capitalized interest for the years ended December 31, 2015 and 2014, respectively.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following as of December 31, 2015 and 2014:

	2015	2014
Funds held in trust by others	$ 626,674	$ 365,722
Capital campaign, including pledges receivable	633,642	546,844
Other funds	1,465,157	178,812
	$ 2,725,473	$ 1,091,378

Net assets of $323,024 were released from restriction for property and equipment purchases during the year ended December 31, 2015.

Permanently restricted net assets consist of the following as of December 31, 2015 and 2014:

	2015	2014
Funds held in trust by others	$ 1,498,619	$ 1,475,019
Benevolence	489,448	410,703
	$ 1,988,067	$ 1,885,722

7. Classification of Expenses

Expenses by functional classifications for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Program activities	$ 50,441,776	$ 48,367,963
General and administrative	14,933,302	14,067,447
Fundraising	358,303	961,924
	$ 65,733,381	$ 63,397,334

8. Pension Plan

The Organization has a 403(b) defined contribution plan. The Organization contributes 2% of all eligible employees' salaries and matches 50% of each employee's contribution up to 8% after 90 days of service for a maximum contribution of 6%. All participating employees contributions are 100% vested and employer contributions are vested at 20% per year to 100% after 5 years. Employer contributions totaled $703,201 and $646,295 for the years ended December 31, 2015 and 2014, respectively.

9. 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 revenues.

The Organization maintains records to identify and monitor the level of benevolent care it provides. The estimated costs 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 $4,952,000 in 2015 and $5,173,000 in 2014, including approximately $4,740,000 in 2015 and $5,000,000 in 2014, respectively, related to the Medicaid program.

10. Medical Malpractice Claims Coverage

The Organization maintains occurrence based professional liability coverage through a commercial insurance carrier. Management believes no incidents have occurred or will be asserted that will exceed the Organization's insurance coverage or will have a material adverse effect on the consolidated financial statements.

11. Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and 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 healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of these matters on the Organization, if any, are not presently determinable.

12. Risk

Financial instruments which subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and receivables.

The Organization typically maintains cash and cash equivalents in local banks, which at times exceed what is insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

The Organization grants credit to its residents and other third-party payors, primarily Medicare and Medicaid, and various commercial insurance companies. The Organization maintains reserves for potential credit losses and such losses have historically been within management's expectations.

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidating Schedule - Balance Sheet Information
December 31, 2015

	TVAR	TVOR	NLCS	TLNA	Eliminations	Total
Assets						
Current Assets						
Cash and cash equivalents	$ 4,834	$ 864,898	$ 312,496	$ 105,703	$ -	$ 1,287,931
Accounts receivable	1,700,099	90,522	113,844	34,629	-	1,939,094
Inventory	140,618	103,538	49,604	17,349	-	311,109
Prepaid expenses and other assets	556,200	90,759	556,607	33,030	-	1,236,596
Pledges receivable	4,685	110,668	-	-	-	115,353
Current portion of assets whose use is limited	874,180	6,201,616	-	653,555	-	7,729,351
Total current assets	3,280,616	7,462,001	1,032,551	844,266	-	12,619,434
Assets Whose Use is Limited	5,204,788	12,140,136	-	828,492	-	18,173,416
Investments	17,551,633	2,619,735	72,333,401	988,615	-	93,493,384
Property and Equipment, Net	55,441,497	134,852,658	18,560,447	13,464,221	-	222,318,823
Funds Held in Trust by Others	2,125,292	-	-	-	-	2,125,292
Pledges Receivable, Net	-	75,465	-	-	-	75,465
Deferred Costs, Net	819,615	11,890,145	504,096	487,702	-	13,701,558
Due from Affiliates	2,714,797	-	16,609,025	-	(19,448,050)	(124,228)
Total assets	$ 87,138,238	$ 169,040,140	$ 109,039,520	$ 16,613,296	$ (19,448,050)	$ 362,383,144

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidating Schedule - Balance Sheet Information
December 31, 2015

	TVAR	TVOR	NLCS	TLNA	Eliminations	Total
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	$ 843,315	$ 339,520	$ 614,935	$ 105,442	$ -	$ 1,903,212
Accounts payable, construction	-	3,599,764	-	-	-	3,599,764
Accrued interest	534,180	2,121,852	-	428,555	-	3,084,587
Accrued expenses	1,347,671	268,219	701,542	147,846	-	2,465,278
Current portion of long-term debt	340,000	480,000	-	225,000	-	1,045,000
Current portion of annuities payable	38,135	-	-	-	-	38,135
Total current liabilities	3,103,301	6,809,355	1,316,477	906,843	-	12,135,976
Resident Deposits	-	2,258,288	-	-	-	2,258,288
Monthly Fees Paid in Advance	-	-	-	53,437	-	53,437
Deferred Revenue from Entrance Fees	11,222,505	26,463,397	-	-	-	37,685,902
Refundable Entrance Fees	-	28,344,309	-	-	-	28,344,309
Long-Term Debt	21,345,000	77,580,000	-	16,775,000	-	115,700,000
Due to Affiliates	6,268,512	7,134,044	-	5,921,266	(19,448,050)	(124,228)
Annuities Payable, Net	228,832	-	-	-	-	228,832
Total liabilities	42,168,150	148,589,393	1,316,477	23,656,546	(19,448,050)	196,282,516
Net Assets	44,970,088	20,450,747	107,723,043	(7,043,250)	-	166,100,628
Total liabilities and net assets	$ 87,138,238	$ 169,040,140	$ 109,039,520	$ 16,613,296	$ (19,448,050)	$ 362,383,144

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidating Schedule - Statement of Operations Information
Year Ended December 31, 2015

	TVAR	TVOR	NLCS	TLNA	Eliminations	Total
Unrestricted Revenues						
Net resident service revenues	$ 25,153,274	$ 12,844,136	$ 388,382	$ 4,087,599	$ -	$ 42,473,391
Contributions	142,874	-	34,306	-	-	177,180
Management fee	-	-	4,877,881	-	(4,337,926)	539,955
Interest and dividends, net of fees of $870,623 in 2015	568,300	59,109	2,149,068	36,511	-	2,812,988
Realized gains (losses)	506,441	(36,740)	1,806,820	17,851	-	2,294,372
Other income	82,484	48,407	440,780	982		572,653
Total unrestricted revenues	26,453,373	12,914,912	9,697,237	4,142,943	(4,337,926)	48,870,539
Expenses						
Salaries and wages	14,232,976	3,636,567	3,900,287	1,808,088	-	23,577,918
Employee benefits and payroll taxes	3,362,153	893,181	783,762	569,124	-	5,608,220
Medicare services	3,183,025	359,936	-	-	-	3,542,961
Other resident care	600,939	114,736	-	21,643	-	737,318
Professional fees	355,517	675,924	1,943,978	48,364	-	3,023,783
Supplies	619,930	321,886	98,822	99,461	-	1,140,099
Food services	945,150	786,507	46,760	256,652	-	2,035,069
Utilities and other occupancy	1,303,547	1,294,635	40,848	268,384	-	2,907,414
Depreciation and amortization	4,024,471	4,961,747	221,157	775,597	-	9,982,972
Interest	1,275,185	3,001,091	-	849,820	-	5,126,096
Insurance and licenses	121,316	121,865	306,409	37,654	-	587,244
Minor equipment	76,180	106,074	28,667	28,039	-	238,960
Repairs and maintenance	924,623	414,342	37,702	105,504	-	1,482,171
Advertising and recruitment	235,405	60,097	234,583	59,730	-	589,815
Information technology	244,385	-	1,001,056	-	-	1,245,441
Legal and accounting	27,233	14,480	186,128	-	-	227,841
Dues and subscriptions	193,695	236,776	663,926	111,200	-	1,205,597
Miscellaneous	231,556	150,856	1,220,429	62,536	-	1,665,377
Bad debt expense	597,625	42,514	-	(3,699)	-	636,440
Management fee	2,658,106	1,135,910	-	543,910	(4,337,926)	-
Annuities	20,545	-	-	-	-	20,545
Loss on sale or disposal of assets	152,100	-	-	-	-	152,100
Total expenses	35,385,662	18,329,124	10,714,514	5,642,007	(4,337,926)	65,733,381
Operating loss	(8,932,289)	(5,414,212)	(1,017,277)	(1,499,064)	-	(16,862,842)
Unrealized Losses	(1,762,020)	(21,023)	(5,208,887)	(45,697)	-	(7,037,627)
Change in unrestricted net assets	$ (10,694,309)	$ (5,435,235)	$ (6,226,164)	$ (1,544,761)	$ -	$ (23,900,469)

National Lutheran Home for the Aged, Inc.
d/b/a National Lutheran Communities & Services

Consolidating Schedule - Statement of Changes in Net Assets Information
Year Ended December 31, 2015

	TVAR	TVOR	NLCS	TLNA	Eliminations	Total
Unrestricted Net Assets						
Change in unrestricted net assets	$ (10,694,309)	$ (5,435,235)	$ (6,226,164)	$ (1,544,761)	$ -	$ (23,900,469)
Temporarily Restricted Net Assets						
Contributions	203,733	1,147,854	15,857	5,700	-	1,373,144
Trust contributions	271,783	-	-	-	-	271,783
Change in value of funds held in trust by others	(10,832)	-	-	-	-	(10,832)
Change in temporarily restricted net assets	464,684	1,147,854	15,857	5,700	-	1,634,095
Permanently Restricted Net Assets						
Contributions	41,989	28,507	2,600	5,649	-	78,745
Change in value of funds held in trust by others	23,600	-	-	-	-	23,600
Change in permanently restricted net assets	65,589	28,507	2,600	5,649	-	102,345
Change in net assets	(10,164,036)	(4,258,874)	(6,207,707)	(1,533,412)	-	(22,164,029)
Net Assets, Beginning	55,134,124	24,709,621	113,930,750	(5,509,838)	-	188,264,657
Net Assets, Ending	$ 44,970,088	$ 20,450,747	$ 107,723,043	$ (7,043,250)	$ -	$ 166,100,628