National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Financial Statements and
Supplementary Information

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

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Independent Auditors' Report

Board of Trustees
National Lutheran, 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, Inc. d/b/a National Lutheran Communities & Services, a non-profit organization, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 consolidated financial statements.

Management's Responsibility for the 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, Inc. d/b/a National Lutheran Communities & Services as of December 31, 2017 and 2016, and the results of their operations, changes in net assets, and 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 28 through 31 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

Wyomissing, Pennsylvania
April 19, 2018

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Balance Sheets
December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	$ 3,819,154	$ 5,928,510
Accounts receivable, net	2,034,842	2,391,939
Inventory	315,970	296,433
Prepaid expenses and other assets	795,911	1,144,365
Current portion of pledges receivable	75,074	105,312
Current portion of assets whose use is limited	5,505,713	6,214,672
Total current assets	12,546,664	16,081,231
Assets Whose Use is Limited, Net	14,597,578	20,184,494
Investments	77,326,998	84,747,783
Property and Equipment, Net	241,115,080	244,259,558
Funds Held in Trust by Others	1,984,790	1,939,999
Pledges Receivable, Net	63,862	38,073
Deferred Marketing Costs, Net	9,471,876	8,461,649
Total assets	$ 357,106,848	$ 375,712,787

Liabilities and Net Assets

	2017	2016
Current Liabilities		
Accounts payable	$ 1,411,527	$ 1,384,144
Accounts payable, construction	-	1,499,819
Accrued interest	3,745,713	3,774,853
Accrued expenses	2,904,905	2,910,230
Current portion of long-term debt	1,760,000	5,065,000
Current portion of annuities payable	35,350	38,885
Total current liabilities	9,857,495	14,672,931
Resident Deposits	2,356,226	2,076,230
Deferred Revenue from Entrance Fees	45,850,178	36,765,521
Refundable Entrance Fees	43,683,455	33,536,332
Long-Term Debt, Net	116,603,722	134,558,005
Annuities Payable, Net	187,563	219,431
Total liabilities	218,538,639	221,828,450
Net Assets		
Unrestricted	132,923,895	148,943,402
Temporarily restricted	3,205,749	2,586,671
Permanently restricted	2,438,565	2,354,264
Total net assets	138,568,209	153,884,337
Total liabilities and net assets	$ 357,106,848	$ 375,712,787

See notes to consolidated financial statements

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues		
Net resident service revenues	$ 50,531,288	$ 46,194,372
Contributions	122,586	139,874
Management fee	612,809	500,000
Interest and dividends	2,081,455	1,976,311
Realized gains	2,944,657	550,800
Other income	74,227	463,213
Net assets released from restriction - operations	203,734	50,122
Total unrestricted revenues	56,570,756	49,874,692
Expenses		
Salaries and wages	27,458,655	25,535,465
Employee benefits and payroll taxes	6,498,236	6,134,611
Medicare services	3,182,224	3,325,994
Other resident care	893,681	832,901
Professional fees	1,590,013	1,377,535
Supplies	1,054,540	1,085,362
Food services	2,204,536	1,988,624
Utilities and other occupancy	3,701,557	3,348,071
Depreciation and amortization	12,726,199	10,367,659
Interest	8,462,868	5,103,681
Insurance and licenses	633,749	595,099
Minor equipment	268,042	284,100
Repairs and maintenance	1,435,785	1,214,470
Advertising and recruitment	767,123	757,339
Information technology	1,386,436	1,241,316
Legal and accounting	272,906	235,932
Dues and subscriptions	1,094,040	1,334,552
Miscellaneous	1,148,686	1,283,055
Bad debt expense	1,292,364	762,126
Annuities	7,592	30,192
Loss on sale or disposal of assets	83,293	-
Total expenses	76,162,525	66,838,084
Operating loss	(19,591,769)	(16,963,392)
Net Assets Released from Restriction - Capital Purchases	-	269,135
Unrealized Gains	3,572,262	4,250,571
Change in unrestricted net assets	$ (16,019,507)	$ (12,443,686)

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Operating loss	$ (19,591,769)	$ (16,963,392)
Net assets released from restriction - capital purchases	-	269,135
Unrealized gains	3,572,262	4,250,571
Change in unrestricted net assets	(16,019,507)	(12,443,686)
Temporarily Restricted Net Assets		
Contributions	734,846	474,057
Change in value of funds held in trust by others	87,966	(21,819)
Distributions of funds held in trust by others	-	(271,783)
Net assets released from restriction - operations	(203,734)	(50,122)
Net assets released from restriction - capital purchases	-	(269,135)
Change in temporarily restricted net assets	619,078	(138,802)
Permanently Restricted Net Assets		
Contributions	127,476	332,898
Contributions of funds held in trust by others	-	128,281
Change in value of funds held in trust by others	(43,175)	(19,972)
Uncollectible pledges receivable	-	(75,010)
Change in permanently restricted net assets	84,301	366,197
Change in net assets	(15,316,128)	(12,216,291)
Net Assets, Beginning	153,884,337	166,100,628
Net Assets, Ending	$ 138,568,209	$ 153,884,337

See notes to consolidated financial statements

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ (15,316,128)	$ (12,216,291)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	12,726,199	10,367,659
Amortization of deferred financing costs	200,717	130,236
Amortization of entrance fees	(5,351,793)	(5,453,614)
Proceeds from non-refundable entrance fees, turnover units	1,522,415	3,721,406
Realized gains	(2,944,657)	(550,800)
Unrealized gains	(3,572,262)	(4,250,571)
Contributions permanently restricted by donor	(127,476)	(332,898)
Change in allowance for uncollectible accounts receivable	317,440	25,715
Change in value of funds held in trusts by others	(44,791)	41,791
Contributions of funds held in trust by others	-	(128,281)
Change in annuities payable, net	(35,403)	(8,651)
Loss on sale or disposal of assets	83,293	-
Changes in assets and liabilities:		
Accounts receivable	39,657	(478,560)
Inventory, prepaid expenses and other assets	328,917	106,907
Accounts payable and accrued expenses	(7,082)	616,150
Monthly fees paid in advance	-	(53,437)
Net cash used in operating activities	(12,180,954)	(8,463,239)
Cash Flows from Investing Activities		
Net proceeds from sales of investments and assets whose use is limited	20,233,579	13,050,573
Purchases of property and equipment	(10,273,951)	(33,542,346)
Payment of deferred marketing costs	(1,901,109)	(1,244,011)
Net cash provided by (used in) investing activities	8,058,519	(21,735,784)

See notes to consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	$ -	$ 29,935,000
Principal payments on long-term debt	(21,460,000)	(1,045,000)
Net change in resident deposits	279,996	(182,058)
Proceeds from entrance fees, new units	24,007,203	4,852,660
Proceeds from refundable entrance fees, turnover units	3,216,995	2,428,558
Refunds of entrance fees	(4,163,040)	(1,277,368)
Contributions permanently restricted by donor	127,476	332,898
Cash received from funds held in trust by others	-	271,783
Change in pledges receivable, net	4,449	47,433
Cash paid for financing fees	-	(524,304)
Net cash provided by financing activities	2,013,079	34,839,602
Net change in cash and cash equivalents	(2,109,356)	4,640,579
Cash and Cash Equivalents, Beginning	5,928,510	1,287,931
Cash and Cash Equivalents, Ending	$ 3,819,154	$ 5,928,510
Supplementary Cash Flows Information		
Interest paid, net of interest capitalized of $2,789,364 in 2016	$ 8,291,291	$ 4,283,179

Supplementary Disclosure of Noncash Investing and Financing Activities

Property and equipment additions in the amount of $1,499,819 are included in accounts payable, construction at December 31, 2016.

See notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization

National Lutheran, Inc. ("NLI"), a Maryland not-for-profit corporation, is the parent corporation of a system doing business as National Lutheran Communities and Services ("NLCS"). NLI is affiliated with the Evangelical Lutheran Church in America ("ELCA") and functions in accordance with Church body criteria and provisions. The Members of NLI 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.

NLI provides management and support services and is the sole member or parent of the following affiliates:

National Lutheran Home for the Aged, Inc. ("NLHA") is a Maryland not-for-profit corporation that is a supporting organization to NLCS

The Village at Rockville, Inc. ("TVAR"), a not-for-profit corporation originally incorporated in the District of Columbia, operates a retirement community in Rockville, Maryland which includes 144 independent living units, 50 assisted living units, and 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. The community opened during February 2013 and now consists of 324 independent living units, 20 skilled nursing units and 18 assisted living units.

The Legacy at North Augusta, Inc. ("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 Providence Point ("TVPP"), a Maryland not-for-profit corporation, was formed to acquire and develop property located in Annapolis, Maryland as a continuing care retirement community. TVPP has entered into land purchase option and developer agreements related to the project. The development is in its planning and development stages and TVPP had no operations during 2017 or 2016 as all initial costs are being paid by NLI. TVPP is awaiting various approvals to begin marketing and construction.

Impact 1890, LLC was incorporated as a Maryland limited liability corporation to make grants exclusively for non-profit organizations that promote the health and welfare of senior citizens and plans to begin operations in 2018

Community Services, LLC was incorporated as a Maryland limited liability corporation in to own and manage community clinics and home health organizations for the benefit of seniors. Community Services, LLC is the sole member of the following corporations:

myPotential Maryland, LLC ("myPotential MD") is a Maryland limited liability corporation which operates a home care business for seniors in Maryland.

myPotential Virginia, LLC ("myPotential VA") is a Virginia limited liability corporation which operates a home care business for seniors in Virginia.

myPotential Clinic-Rockville, LLC ("Rockville Clinic") is a Maryland limited liability corporation began operations in 2017 and operates a community clinic for the benefit of seniors.

Principles of Consolidation

The consolidated financial statements include the accounts of NLI and its subsidiaries, NLHA, TVAR, TVOR, TLNA, TVPP, and Community Services, LLC and its subsidiaries, myPotential MD, myPotential VA, and Rockville Clinic, after elimination of all significant interrelated balances and transactions, and are 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 consist 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 $1,013,618 and $696,178 at December 31, 2017 and 2016, respectively. Losses are charged against the allowance for uncollectible accounts receivable when management believes the uncollectibility of a receivable is confirmed.

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, excluding alternative investments which are valued at net asset value per share ("NAV"). 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 consolidated 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 consolidated 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. The Organization follows the policy of capitalizing interest as a component of the cost of the asset acquired or constructed.

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 $15,438 and $15,932 at December 31, 2017 and 2016, respectively.

Deferred Marketing Costs

Costs associated with marketing new independent living units until substantially occupied or one year after completion are being accumulated as costs of acquiring initial continuing care contracts. The costs begin amortizing as the independent living units are substantially occupied and are amortized over the weighted average life expectancy of the initial resident population. Capitalized costs totaled $12,755,090 with accumulated amortization of $3,283,214 at December 31, 2017. Capitalized costs totaled $10,853,981 with accumulated amortization of $2,392,332 at December 31, 2016. Amortization expense totaled $890,882 in 2017 and $795,736 in 2016.

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 $7,194,000 and $6,900,000 at December 31, 2017 and 2016, 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 $52,900,000 and $38,500,000 at December 31, 2017 and 2016, respectively.

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

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.

Deferred Financing Costs

Financing costs of $6,653,575 were incurred in connection with the issuance of long-term debt. These costs are reported in 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 $200,717 in 2017 and $130,236 in 2016. Accumulated amortization was $842,297 and $641,580 at December 31, 2017 and 2016, respectively.

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 in perpetuity 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 are net assets not subject to donor-imposed stipulations. The Board of Trustees may, at its discretion, designate unrestricted funds for mission related purposes.

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. 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

Independent Living 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 ("ADL"s), 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 2017 and 2016 were derived from the Medical Assistance program.

- 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 17% and 21% of the Organization's net resident service revenues in 2017 and 2016, 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.

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

Advertising

The Organization expenses advertising costs as incurred, excluding those capitalized as deferred marketing costs. Advertising expense totaled approximately $422,000 and $558,000 for the years ended December 31, 2017 and 2016, respectively.

Operating Loss

The consolidated statements of operations include the determination of operating loss. Changes in unrestricted net assets, which are excluded from operating loss, consistent with industry practice, include net unrealized gains on investments, net assets released from restrictions for capital purchases, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Tax Status

NLI, NLHA, TVAR, TVOR, TLNA, and TVCS are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on related income pursuant to Section 509(a) of the IRC. Community Services, LLC and its subsidiaries are limited liability corporations and will be treated as disregarded entities for tax purposes with all activity flowing through to NLI.

Recent Accounting Pronouncements

Revenue Recognition

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 in the year ending December 31, 2019. The Organization is currently assessing the effect that ASU No. 2014-09 will have on its consolidated financial statements.

Presentation of Financial Statements

During August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Organization is currently assessing the impact this standard will have on its consolidated financial statements.

Financial Instruments

During January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU No. 2016-01 was issued to enhance the reporting model for financial instruments in financial statements. The provisions of ASU No. 2016-01 require marketable equity securities to be reported at fair value with changes in fair value recognized within the performance indicator, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Organization will be required to prospectively adopt the guidance in ASU No. 2016-01 for years beginning after December 15, 2018. The Organization is currently assessing the impact that ASU No. 2016-01 will have on its consolidated financial statements.

Restricted Cash

During November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU No. 2016-18 is to be applied retroactively with transition provisions. The Organization is currently assessing the impact that ASU No. 2016-18 will have on its consolidated financial statements..

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation. The reclassifications had no effect on the change in net assets.

Subsequent Events

The Organization has evaluated subsequent events for recognition and disclosure through April 19, 2018, which is the date the consolidated financial statements were available to be issued.

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, 2017 and 2016, by caption on the consolidated balance sheets:

	2017				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Reported at fair value:					
Assets,					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 18,477,905	$ 18,477,905	$ 18,477,905	$ -	$ -
Equity securities:					
Consumer discretionary	5,364,053	5,364,053	5,364,053	-	-
Consumer staples	1,216,587	1,216,587	1,216,587	-	-
Energy	2,415,296	2,415,296	2,415,296	-	-
Financial	3,485,408	3,485,408	3,485,408	-	-
Health care	3,846,721	3,846,721	3,846,721	-	-
Industrials	3,019,104	3,019,104	3,019,104	-	-
Information technology	6,072,068	6,072,068	6,072,068	-	-
Materials	1,265,811	1,265,811	1,265,811	-	-
Telecommunication	3,262,983	3,262,983	3,262,983	-	-
Utilities	2,804,327	2,804,327	2,804,327	-	-
Other	3,572,981	3,572,981	3,572,981	-	-
Mutual funds:					-
Equity	12,014,105	12,014,105	12,014,105	-	-
Fixed income	8,436,963	8,436,963	8,436,963	-	-
Exchange-traded and closed-end funds	70,730	70,730	70,730	-	-
Other	81,463	81,463	-	81,463	-
Fixed income securities:					
Corporate bonds	10,450,527	10,450,527	-	10,450,527	-
U.S. government and agency bonds	8,363,071	8,363,071	-	8,363,071	-
Subtotal	94,220,103	94,220,103	75,325,042	18,895,061	-
Alternative investments measured at NAV	3,210,186				
Total	97,430,289				
Funds held in trust by others	1,984,790	1,984,790	-	-	1,984,790
Total Assets	$ 99,415,079	$ 96,204,893	$ 75,325,042	$ 18,895,061	$ 1,984,790
Disclosed at Fair Value					
Cash and cash equivalents	$ 3,819,154	$ 3,819,154	$ 3,819,154	$ -	$ -
Pledges receivable, net	$ 138,936	$ 138,936	$ -	$ 138,936	$ -
Long-term debt	$ 124,175,000	$ 126,727,426	$ -	$ 126,727,426	$ -

	2016				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Reported at fair value:					
Assets,					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 27,070,616	$ 27,070,616	$ 27,070,616	$ -	$ -
Equity securities:					
Consumer discretionary	6,227,063	6,227,063	6,227,063	-	-
Consumer staples	1,755,392	1,755,392	1,755,392	-	-
Energy	3,859,156	3,859,156	3,859,156	-	-
Financial	6,587,613	6,587,613	6,587,613	-	-
Health care	5,256,163	5,256,163	5,256,163	-	-
Industrials	3,780,101	3,780,101	3,780,101	-	-
Information technology	4,326,080	4,326,080	4,326,080	-	-
Materials	1,639,260	1,639,260	1,639,260	-	-
Telecommunication	2,177,509	2,177,509	2,177,509	-	-
Utilities	1,215,759	1,215,759	1,215,759	-	-
Other	1,990,813	1,990,813	1,990,813	-	-
Mutual funds:					-
Equity	3,511,478	3,511,478	3,511,478	-	-
Fixed income	7,935,309	7,935,309	7,935,309	-	-
Other	9,369,360	9,369,360	9,369,360	-	-
Exchange-traded and closed-end funds	440,745	440,745	440,745	-	-
Other	82,541	82,541	-	82,541	-
Fixed income securities:					
Corporate bonds	11,151,414	11,151,414	-	11,151,414	-
U.S. government and agency bonds	7,897,281	7,897,281	-	7,897,281	-
Subtotal	106,273,653	106,273,653	87,142,417	19,131,236	-
Alternative investments measured at NAV	4,873,296				
Total	111,146,949				
Funds held in trust by others	1,939,999	1,939,999	-	-	1,939,999
Total Assets	$ 113,086,948	$ 108,213,652	$ 87,142,417	$ 19,131,236	$ 1,939,999
Disclosed at Fair Value					
Cash and cash equivalents	$ 5,928,510	$ 5,928,510	$ 5,928,510	$ -	$ -
Pledges receivable, net	$ 143,385	$ 143,385	$ -	$ 143,385	$ -
Long-term debt	$ 145,635,000	$ 146,219,000	$ -	$ 146,219,000	$ -

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

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

	2017	2016
Investments	$ 77,326,998	$ 84,747,783
Assets whose use is limited:		
Refundable deposits	$ 2,759,798	$ 2,196,638
Operating reserves	4,438,360	4,512,901
Assets held under trust indentures	12,905,133	19,689,627
Total assets whose use is limited	20,103,291	26,399,166
Less current portion of assets whose use is limited	(5,505,713)	(6,214,672)
Assets whose use is limited, net	$ 14,597,578	$ 20,184,494

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 reserve required is calculated as $4,438,360 and $4,512,901 at December 31, 2017 and 2016, respectively. Beginning January 1, 2023, the reserve requirement will be equal to 25% of TVAR's net operating expenses.

For assets falling within the Level 3 in the fair value hierarchy, the activity recognized during the years ended December 31, 2017 and 2016 is as follows:

	Funds Held in Trust by Others
Balance as of December 31, 2015	$ 2,125,292
Purchases/contributions	128,281
Distributions	(271,783)
Change in value	(41,791)
Balance as of December 31, 2016	1,939,999
Change in value	44,791
Balance as of December 31, 2017	$ 1,984,790

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

	2017	2016
Temporarily restricted net assets	$ 87,966	$ (293,602)
Permanently restricted net assets	(43,175)	108,309
	$ 44,791	$ (185,293)

Valuation Methodologies

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

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

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

Alternative investments are comprised of hedge funds. The Organization measures the fair value of the alternative investments based on NAV as calculated on the reporting entity's measurement date. The Organization measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the Organization as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments.

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.

Pledges receivable are valued based on the original pledge amounts, 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 terms and maturities, or estimated based using a discount rate a market participant would demand.

The following table presents a list of the Organization's alternative investments as of December 31, 2017 and 2016:

Name of Fund	Fair Value December 31, 2017	Fair Value December 31, 2016	Investment Strategy	Unfunded Commitments	Redemption Frequency
Ironwood Institutional Multi Strategy Fund	$ 3,210,186	$ 2,975,972	(a)	N/A	Monthly/Quarterly 15-120 days
Skybridge Multi-Advisor Hedge Fund	-	1,897,324	(b)	N/A	Monthly/Quarterly 15-120 days
	$ 3,210,186	$ 4,873,296			

(a) Investment strategy is capital appreciation with limited variability of returns. This fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies.

(b) The investment strategy of this fund is to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow investment managers the flexibility to use leverage or short-side positions to take advantage of perceived inefficiencies across the global markets, often referred to as alternative strategies. Because investment funds following alternative investment strategies are often described as hedge funds, the investment program of the fund can be described as a fund of hedge funds. The fund was redeemed during 2017.

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, 2017 and 2016. 92 and 204 individual securities had unrealized losses at December 31, 2017 and 2016, 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:

	2017					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 3,786,333	$ (111,722)	$ 2,651,737	$ (410,021)	$ 6,438,070	$ (521,743)
Mutual funds	257,456	(31,783)	7,482,551	(631,924)	7,740,007	(663,708)
Fixed income securities	4,453,185	(34,765)	3,646,812	(53,912)	8,099,997	(88,677)
	$ 8,496,974	$ (178,270)	$ 13,781,100	$ (1,095,857)	$ 22,278,074	$ (1,274,128)

	2016					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 4,794,551	$ (271,320)	$ 3,754,014	$ (955,503)	$ 8,548,565	$ (1,226,823)
Mutual funds	801,184	(33,363)	10,466,514	(888,032)	11,267,698	(921,395)
Fixed income securities	3,580,776	(64,313)	4,816,385	(82,948)	8,397,161	(147,261)
	$ 9,176,511	$ (368,996)	$ 19,036,913	$ (1,926,483)	$ 28,213,424	$ (2,295,479)

3. Property and Equipment

A summary of property and equipment and the related accumulated depreciation is as follows at December 31, 2017 and 2016:

	2017	2016
Land	$ 19,050,712	$ 19,050,712
Land improvements	12,052,638	11,427,056
Buildings and building improvements	233,269,886	231,798,188
Furniture and equipment	23,245,086	21,930,275
Construction in progress	21,718,358	16,195,816
	309,336,680	300,402,047
Less accumulated depreciation	(68,221,600)	(56,142,489)
	$ 241,115,080	$ 244,259,558

Depreciation expense totaled $11,835,317 and $9,571,923 for the years ended December 31, 2017 and 2016, respectively.

Construction in progress consists primarily of the following:

Initial project development costs for a planned expansion and repositioning project at TVAR expecting to consist of an addition of 132 independent living units in place of 33 of its existing independent living units. In addition, the expansion phase will add additional common space, dining rooms and underground parking. TVAR is currently marketing the new independent living units and has received $2,131,583 in resident deposits primarily related to the project. No construction commitments exist as of December 31, 2017.

Initial planning costs for future expansion/renovation projects at TLNA. There are no material commitments on these projects at December 31, 2017.

Planning and pre-development costs for TVPP of approximately $15,000,000. TVCS has various development and purchase agreements in place subject to various approvals and timetables. No construction commitments exist as of December 31, 2017.

4. Long-Term Debt

Long-term debt consists of the following as of December 31, 2017 and 2016:

	2017	2016
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 a fixed rate of 5.25% through January 1, 2018, and then 6.625% through June 2021. Beginning in July 2021, the interest rate will become a variable rate through maturity.	$ 16,535,000	$ 16,775,000
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%.	39,340,000	39,680,000
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 5.64% to 6.83%	36,935,000	36,935,000
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 fixed rates of 4.43% to 5.04%. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate.	10,380,000	12,000,000
Series 2014C and 2014D (TVOR) repaid in 2017	-	18,900,000

	2017	2016
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%.	$ 12,455,000	$ 12,650,000
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.	8,530,000	8,695,000
	124,175,000	145,635,000
Less: current portion	(1,760,000)	(5,065,000)
Long-term debt, excluding deferred financing costs	122,415,000	140,570,000
Deferred financing costs, net of accumulated amortization	(5,811,278)	(6,011,995)
Long-term debt, net	$ 116,603,722	$ 134,558,005

The bonds are limited offerings and are not listed on any stock or other securities exchange. As security for the payment of the bonds, TVOR, TLNA, and TVAR each will grant a lien and security interest in their respective mortgaged premises and TVOR and TVAR will assign all their respective pledged assets, including gross receipts, inventory, accounts receivables, contracts rights, general intangibles and other as defined in the documents. Additionally, NLI 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 long-term debt maturing in the next five years and thereafter is as follows:

2018	$ 1,760,000
2019	,1,855,000
2020	1,985,000
2021	2,120,000
2022	2,190,000
Thereafter	114,265,000
	$ 124,175,000

Interest expense totaled $8,462,868 in 2017 and $5,103,681 in 2016, net of capitalized interest of $2,789,364 in 2016. Amortization of deferred financing costs included in interest expense totaled $200,171 in 2017 and $130,236 in 2016.

5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following as of December 31, 2017 and 2016:

	2017	2016
Funds held in trust by others	$ 421,038	$ 333,072
Capital project funds	981,509	808,128
Operating funds	1,803,202	1,445,471
	$ 3,205,749	$ 2,586,671

Permanently restricted net assets consist of the following as of December 31, 2017 and 2016:

	2017	2016
Funds held in trust by others	$ 1,563,927	$ 1,606,927
Benevolence endowment	874,638	747,337
	$ 2,438,565	$ 2,354,264

6. Classification of Expenses

Expenses by functional classifications for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Program activities	$ 61,648,361	$ 52,899,790
General and administrative	14,076,101	13,483,332
Fundraising	438,063	454,962
	$ 76,162,525	$ 66,838,084

7. 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 $873,643 and $837,356 for the years ended December 31, 2017 and 2016, respectively.

8. 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 cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided amounted to approximately $5,360,000 in 2017 and $4,620,000 in 2016, including approximately $4,839,000 in 2017 and $4,385,000 in 2016, related to the Medicaid program.

9. 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.

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. Contingencies

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.

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services
Consolidating Schedule, Balance Sheet Information
December 31, 2017

	TVAR	TVOR	TLNA	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Eliminations	Total
Assets										
Current Assets										
Cash and cash equivalents	$ 1,364,448	$ 1,767,728	$ 286,739	$ -	$ 303,514	$ 39,191	$ 41,012	$ 16,522	$ -	$ 3,819,154
Accounts receivable, net	1,827,930	72,806	29,378	-	(777)	81,438	24,067	-	-	2,034,842
Inventory	124,649	132,949	21,170	-	28,025	7,918	1,259	-	-	315,970
Prepaid expenses and other assets	222,165	58,726	11,529	-	500,073	3,418	-	-	-	795,911
Current portion of pledges receivable	25,364	49,710	-	-	-	-	-	-	-	75,074
Current portion of assets whose use is limited	895,742	3,862,504	747,467	-	-	-	-	-	-	5,505,713
Total current assets	4,460,298	5,944,423	1,096,283	-	830,835	131,965	66,338	16,522	-	12,546,664
Assets Whose Use is Limited, Net	7,377,292	6,513,747	706,539	-	-	-	-	-	-	14,597,578
Investments	15,427,781	13,043,492	1,696,867	47,158,858	-	-	-	-	-	77,326,998
Property and Equipment, Net	52,431,925	151,963,139	12,925,007	-	23,728,182	10,612	49,828	6,387	-	241,115,080
Funds Held in Trust by Others	1,984,790	-	-	-	-	-	-	-	-	1,984,790
Pledges Receivable, Net	14,833	49,029	-	-	-	-	-	-	-	63,862
Deferred Marketing Costs, Net	1,321,392	7,280,889	-	-	869,595	-	-	-	-	9,471,876
Due from Affiliates, Net	-	-	-	35,090,498	-	-	-	-	(35,090,498)	-
Total assets	$ 83,018,311	$ 184,794,719	$ 16,424,696	$ 82,249,356	$ 25,428,612	$ 142,577	$ 116,166	$ 22,909	$ (35,090,498)	$ 357,106,848

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services

Consolidating Schedule, Balance Sheet Information
December 31, 2017

	TVAR	TVOR	TLNA	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Eliminations	Total
Liabilities and Net Assets										
Current Liabilities										
Accounts payable	$ 703,235	$ 325,157	$ 34,809	$ -	$ 337,101	$ 2,257	$ 382	$ 8,586	$ -	$ 1,411,527
Accrued interest	520,742	2,737,504	487,467	-	-	-	-	-	-	3,745,713
Accrued expenses	1,680,988	491,753	183,244	44,367	390,204	82,437	31,912	-	-	2,904,905
Current portion of long-term debt	375,000	1,125,000	260,000	-	-	-	-	-	-	1,760,000
Current portion of annuities payable	35,350	-	-	-	-	-	-	-	-	35,350
Total current liabilities	3,315,315	4,679,414	965,520	44,367	727,305	84,694	32,294	8,586	-	9,857,495
Resident Deposits	2,131,583	224,643	-	-	-	-	-	-	-	2,356,226
Deferred Revenue from Entrance Fees	9,160,987	36,689,191	-	-	-	-	-	-	-	45,850,178
Refundable Entrance Fees	-	43,683,455	-	-	-	-	-	-	-	43,683,455
Long-Term Debt, Net	19,860,419	80,923,402	15,819,901	-	-	-	-	-	-	116,603,722
Annuities Payable, Net	187,563	-	-	-	-	-	-	-	-	187,563
Due to (From) Affiliates, Net	15,258,130	10,008,594	9,366,114	1,750,000	(3,534,355)	1,620,440	486,215	135,360	(35,090,498)	-
Total liabilities	49,913,997	176,208,699	26,151,535	1,794,367	(2,807,050)	1,705,134	518,509	143,946	(35,090,498)	218,538,639
Net Assets (Liabilities)	33,104,314	8,586,020	(9,726,839)	80,454,989	28,235,662	(1,562,557)	(402,343)	(121,037)	-	138,568,209
Total liabilities and net assets (liabilities)	$ 83,018,311	$ 184,794,719	$ 16,424,696	$ 82,249,356	$ 25,428,612	$ 142,577	$ 116,166	$ 22,909	$ (35,090,498)	$ 357,106,848

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services
Consolidating Schedule, Statement of Operations Information
Year Ended December 31, 2017

	TVAR	TVOR	TLNA	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Eliminations	Total
Unrestricted Revenues										
Net resident service revenues	$ 26,180,223	$ 18,470,400	$ 4,905,061	$ -	$ 74,441	$ 661,686	$ 215,484	$ 23,993	$ -	$ 50,531,288
Contributions	108,042	3,537	2,937	-	8,070	-	-	-	-	122,586
Management fee	-	-	-	-	4,930,654	-	-	-	(4,317,845)	612,809
Interest and dividends	471,024	328,962	58,747	1,224,644	(1,256)	(287)	(331)	(48)	-	2,081,455
Realized gains	763,676	242,543	53,669	1,884,769	-	-	-	-	-	2,944,657
Other income	16,619	56,221	1,387	-	-	-	-	-		74,227
Net assets released from restriction - operations	157,030	45,062	1,642	-	-	-	-	-	-	203,734
Total unrestricted revenues	27,696,614	19,146,725	5,023,443	3,109,413	5,011,909	661,399	215,153	23,945	(4,317,845)	56,570,756
Expenses										
Salaries and wages	13,890,740	5,382,699	2,319,431	-	4,638,625	853,589	373,571	-	-	27,458,655
Employee benefits and payroll taxes	3,378,435	1,335,189	674,228	-	847,924	204,346	58,114	-	-	6,498,236
Medicare services	2,651,395	530,829	-	-	-	-	-	-	-	3,182,224
Other resident care	664,363	183,876	26,399	-	-	(453)	-	19,496	-	893,681
Professional fees	237,084	189,876	143,527	-	949,963	38,547	3,610	27,406	-	1,590,013
Supplies	558,341	291,425	115,389	-	75,130	11,249	3,006	-	-	1,054,540
Food services	1,003,592	866,608	275,298	-	56,607	1,399	1,032	-	-	2,204,536
Utilities and other occupancy	1,455,476	1,763,142	334,813	-	87,854	58,517	1,755	-	-	3,701,557
Depreciation and amortization	4,193,651	7,923,869	553,695	-	39,455	965	13,287	1,277	-	12,726,199
Loss (gain) on sale or disposal of property and equipment	(14,551)	100,344	-	-	(2,500)	-	-	-	-	83,293
Interest	1,264,682	6,085,008	1,113,178	-	-	-	-	-	-	8,462,868
Insurance and licenses	136,340	136,404	30,920	-	273,803	53,162	2,670	450	-	633,749
Minor equipment	84,324	133,886	22,427	-	11,844	15,561	-	-	-	268,042
Repairs and maintenance	605,396	667,139	121,422	-	19,605	11,699	79	10,445	-	1,435,785
Advertising and recruitment	158,537	63,168	47,009	-	386,474	64,775	47,077	83	-	767,123
Information technology	421,168	-	7,571	-	954,105	1,468	2,124	-	-	1,386,436
Legal and accounting	43,422	26,804	153	-	200,314	2,213	-	-	-	272,906
Dues and subscriptions	413,123	250,741	113,192	-	281,700	32,069	2,257	958	-	1,094,040
Miscellaneous	163,451	144,735	47,286	-	602,117	86,792	19,438	84,867	-	1,148,686
Bad debt expense	1,275,243	12,655	4,466	-	-	-	-	-	-	1,292,364
Management fee	2,441,043	1,368,826	443,345	-	-	55,550	9,081	-	(4,317,845)	-
Annuities	7,592	-	-	-	-	-	-	-	-	7,592
Total expenses	35,032,847	27,457,223	6,393,749	-	9,423,020	1,491,448	537,101	144,982	(4,317,845)	76,162,525
Operating (loss) income	(7,336,233)	(8,310,498)	(1,370,306)	3,109,413	(4,411,111)	(830,049)	(321,948)	(121,037)	-	(19,591,769)
Unrealized Gains	1,076,487	836,016	104,762	1,554,997	-	-	-	-	-	3,572,262
Change in unrestricted net assets (liabilities)	$ (6,259,746)	$ (7,474,482)	$ (1,265,544)	$ 4,664,410	$ (4,411,111)	$ (830,049)	$ (321,948)	$ (121,037)	$ -	$ (16,019,507)

National Lutheran, Inc.
d/b/a National Lutheran Communities & Services
Consolidating Schedule, Statement of Changes (Liabilities) in Net Assets Information
Year Ended December 31, 2017

	TVAR	TVOR	TLNA	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Eliminations	Total
Unrestricted Net Assets										
Operating (loss) income	$ (7,336,233)	$ (8,310,498)	$ (1,370,306)	$ 3,109,413	$ (4,411,111)	$ (830,049)	$ (321,948)	$ (121,037)	$ -	$ (19,591,769)
Unrealized gains	1,076,487	836,016	104,762	1,554,997	-	-	-	-	-	3,572,262
Change in unrestricted net assets (liabilities)	(6,259,746)	(7,474,482)	(1,265,544)	4,664,410	(4,411,111)	(830,049)	(321,948)	(121,037)	-	(16,019,507)
Temporarily Restricted Net Assets										
Contributions	570,325	157,726	3,750	-	3,045	-	-	-	-	734,846
Change in value of funds held in trust by others	87,966	-	-	-	-	-	-	-	-	87,966
Net assets released from restriction - operations	(157,030)	(45,062)	(1,642)	-	-	-	-	-	-	(203,734)
Change in temporarily restricted net assets	501,261	112,664	2,108	-	3,045	-	-	-	-	619,078
Permanently Restricted Net Assets										
Contributions	42,625	77,559	6,792	-	500	-	-	-	-	127,476
Change in value of funds held in trust by others	(43,175)	-	-	-	-	-	-	-	-	(43,175)
Change in permanently restricted net assets (liabilities)	(550)	77,559	6,792	-	500	-	-	-	-	84,301
Change in net assets (liabilities)	(5,759,035)	(7,284,259)	(1,256,644)	4,664,410	(4,407,566)	(830,049)	(321,948)	(121,037)	-	(15,316,128)
Net Assets (Liabilities), Beginning	38,863,349	15,870,279	(8,470,195)	75,790,579	32,643,228	(732,508)	(80,395)	-	-	153,884,337
Net Assets (Liabilities), Ending	$ 33,104,314	$ 8,586,020	$ (9,726,839)	$ 80,454,989	$ 28,235,662	$ (1,562,557)	$ (402,343)	$ (121,037)	$ -	$ 138,568,209