NATIONAL LUTHERAN, INC.
d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

Consolidated Financial Report
December 31, 2019

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CONTENTS

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INDEPENDENT AUDITOR'S 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 (Organization) which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Lutheran, Inc. d/b/a National Lutheran Communities & Services as of December 31, 2019, and the results of their operations, changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of National Lutheran, Inc. d/b/a National Lutheran Communities & Services as of and for the year ended December 31, 2018, were audited by other auditors, whose report, dated April 24, 2019, expressed an unmodified opinion on those statements.

Report on Consolidating Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analyses rather than to present the financial position, results of operations, and cash flows of the individual companies and is 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 23, 2020

NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	**2019**	2018
CURRENT ASSETS		
Cash and cash equivalents	**$ 3,461,288**	$ 2,623,293
Accounts receivable, net	**2,977,882**	2,515,873
Prepaid expenses and other assets	**894,962**	793,892
Current portion of pledges receivable	**33,380**	42,844
Current portion of assets whose use is limited	**11,017,030**	6,158,864
Total current assets	**18,384,542**	12,134,766
ASSETS WHOSE USE IS LIMITED, net	**27,469,499**	20,651,404
INVESTMENTS	**69,757,941**	71,378,462
PROPERTY AND EQUIPMENT, net	**269,083,029**	235,892,395
FUNDS HELD IN TRUST BY OTHERS	**2,019,554**	1,928,796
RIGHT-OF-USE ASSETS	**572,865**	-
PLEDGES RECEIVABLE, net	**59,751**	25,100
Total assets	**$ 387,347,181**	$ 342,010,923

See Notes to Consolidated Financial Statements

LIABILITIES AND NET ASSETS	**2019**	2018
CURRENT LIABILITIES		
Accounts payable, trade	**$ 1,927,004**	$ 2,050,408
Accounts payable, construction	**5,785,019**	644,000
Accrued interest	**4,328,245**	3,659,874
Accrued expenses	**3,952,635**	3,721,491
Line of credit	**5,944,972**	7,907,323
Current portion of long-term debt	**1,985,000**	1,855,000
Current portion of annuities payable	**16,671**	32,540
Total current liabilities	**23,939,546**	19,870,636
RESIDENT DEPOSITS	**6,816,730**	6,001,758
DEFERRED REVENUE FROM ENTRANCE FEES	**38,524,460**	40,973,591
REFUNDABLE ENTRANCE FEES	**52,528,463**	48,134,616
LONG-TERM DEBT, net	**173,250,898**	126,697,597
LEASE LIABILITY	**572,865**	-
ANNUITIES PAYABLE, net	**64,730**	96,623
Total liabilities	**295,697,692**	241,774,821
NET ASSETS		
Without donor restrictions	**86,868,647**	96,154,712
With donor restrictions	**4,780,842**	4,081,390
Total net assets	**91,649,489**	100,236,102
Total liabilities and net assets	**$ 387,347,181**	$ 342,010,923

See Notes to Consolidated Financial Statements

NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	$ 58,442,695	$ 56,494,922
Gain (loss) on sale or disposal of property and equipment	6,000	(810,542)
Net assets released from restrictions, operations	157,445	1,380,222
Total operating revenue	58,606,140	57,064,602
Operating expenses:		
Salaries and wages	29,091,467	29,952,527
Employee benefits and payroll taxes	6,944,943	6,903,973
Professional fees	4,511,163	4,279,300
Ancillary and medical	4,795,835	4,651,828
Supplies	1,312,349	1,607,428
Food services	2,361,340	2,488,773
Utilities	2,357,051	2,427,917
Depreciation	11,672,055	11,765,170
Interest	7,903,730	7,907,242
Insurance	611,270	526,019
Real estate taxes	898,807	865,549
Repairs and maintenance	1,330,300	1,192,205
Advertising and marketing	1,544,939	1,261,538
Licenses, dues, and subscriptions	1,501,367	1,608,530
Other operating expenses	1,591,607	1,345,557
Bad debt expense	464,747	624,168
Grants awarded to others	282,324	519,592
Total operating expenses	79,175,294	79,927,316
(Deficiency) of operating revenue over expenses	(20,569,154)	(22,862,714)
Nonoperating revenue (expenses):		
Contributions	43,899	310,932
Other income (expense)	(194,540)	119,183
Interest and dividends	2,298,556	2,147,342
Realized gains	325,817	716,036
Unrealized gains (losses)	8,078,473	(6,706,950)
Total nonoperating revenue (expenses)	10,552,205	(3,413,457)
(Deficiency) of operating and nonoperating revenue over expenses	(10,016,949)	(26,276,171)
Other changes:		
Unrealized gains (lossses)	730,884	(368,313)
Net assets released from restriction, capital purchases	-	566,456
Total other changes	730,884	198,143
Change in net assets without donor restrictions	$ (9,286,065)	$ (26,078,028)

See Notes to Consolidated Financial Statements

NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (10,016,949)**	$ (26,276,171)
Unrealized gains (losses)	**730,884**	(368,313)
Net assets released restriction, capital purchases	**-**	566,456
Change in net assets without donor restrictions	**(9,286,065)**	(26,078,028)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**712,221**	439,748
Funds held in trust income	**6,246**	-
Change in value of funds held in trust by others	**138,430**	(55,994)
Net assets released from restriction, operations	**(157,445)**	(1,380,222)
Net assets released from restriction, capital purchases	**-**	(566,456)
Change in net assets with donor restrictions	**699,452**	(1,562,924)
Change in net assets	**(8,586,613)**	(27,640,952)
Net assets:		
Beginning	**100,236,102**	127,877,054
Ending	**$ 91,649,489**	$ 100,236,102

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (8,586,613)**	$ (27,640,952)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**11,672,055**	11,765,170
Provision for bad debts	**464,747**	624,168
Amortization of deferred financing costs	**237,990**	205,675
Amortization of entrance fees	**(5,718,274)**	(6,753,968)
Proceeds from non-refundable entrance fees, turnover units	**2,968,989**	3,759,807
Realized gains	**(325,817)**	(716,036)
Unrealized (gains) losses	**(8,809,357)**	7,075,263
Change in annuities payable, net	**(47,762)**	(37,677)
(Gain) loss on sale or disposal of property and equipment	**(6,000)**	810,542
Changes in assets and liabilities:		
Accounts receivable	**(926,756)**	(1,105,199)
Prepaid expenses and other assets	**(101,070)**	317,989
Accounts payable and accrued expenses	**(32,980)**	1,336,612
Net cash (used in) operating activities	**(9,210,848)**	(10,358,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (purchases) of investments and assets whose use is limited	**11,591,755**	(7,173,741)
Purchases of property and equipment	**(38,702,983)**	(7,895,290)
Net cash (used in) investing activities	**(27,111,228)**	(15,069,031)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	**49,100,000**	13,500,000
Net proceeds (payments) on line of credit	**(1,962,351)**	7,907,323
Principal payments on long-term debt	**(1,855,000)**	(1,760,000)
Payments for financing costs	**(1,003,285)**	(1,756,800)
Net change in resident deposits	**1,425,608**	5,777,115
Proceeds from refundable entrance fees, turnover units	**7,064,035**	5,116,658
Refunds of entrance fees	**(2,980,670)**	(4,679,506)
Change in pledges receivable, net	**(25,187)**	70,992
Net cash provided by financing activities	**49,763,150**	24,175,782
Net increase (decrease) in cash, cash equivalents, and restricted cash	**13,441,074**	(1,251,855)
Cash, cash equivalents, and restricted cash:		
Beginning	**28,800,935**	30,052,790
Ending	**$ 42,242,009**	$ 28,800,935

See Notes to Consolidated Financial Statements

		2019		2018
Cash, cash equivalents, and restricted cash includes:				
Cash and cash equivalents	**$**	**3,461,288**	$	2,623,293
Resident deposits		**6,451,174**		5,676,330
Assets held under trust indenture		**27,548,705**		16,419,922
Cash, restricted by donors or grantors for specific purposes		**4,780,842**		4,081,390
	$	**42,242,009**	$	28,800,935
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION				
Interest paid, net of interest capitalized	**$**	**8,334,111**	$	7,787,406
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Accounts payable, construction	**$**	**5,141,019**	$	644,000
Accrued expense, capitalized interest	**$**	**809,091**	$	88,238

See Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization: National Lutheran, Inc. (NLI), a Maryland not-for-profit corporation, is the parent corporation of a system doing business as National Lutheran Communities & Services (NLCS). NLI is affiliated with the Evangelical Lutheran Church in America (ELCA). The members of NLI are the Delaware-Maryland Synod, Metropolitan Washington, DC Synod, and the Virginia Synod of the ELCA. 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 subsidiaries:

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 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. The Organization will offer independent living apartments, cottages, and health care suites. TVPP has entered into a land purchase option and developer agreements related to the project. The development is in its planning and development stages and TVPP began incurring costs related to this project in 2019 while in previous years costs were funded by NLI. During February 2019, TVPP received approvals from the Maryland Department of Aging and began marketing the project, and is waiting for municipal approvals to begin 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.

NLI is a 90 percent owner of Petalo, LLC. Petalo, LLC was established as a for-profit entity for the purposes of developing and marketing software and other technology solutions for providers of care to senior citizens.

Community Services, LLC was incorporated as a Maryland limited liability corporation 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 which 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, Petalo, LLC, Impact 1890, LLC, 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.

Basis of accounting: The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

Use of estimates: The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported assets, liabilities, and disclosures at the date of the consolidated financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk: The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding those classified as investments and assets whose use is limited. In the normal course of business, the Organization may have deposits with a local financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable from residents are reported at estimated net realizable value taking into account estimated implicit and explicit price concessions. The estimated implicit price concessions are based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in health care coverage, and other collection indicators. For receivables associated with services provided to residents, who have third-party coverage (which includes deductible and payment balances for which third-party coverage exists for part of the bill), the Organization analyzes contractually due amounts and provides an allowance for explicit price concessions, if necessary. Throughout the year, management assesses the adequacy of the estimated price concessions based upon its review of accounts receivable payor composition and aging, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to resident service revenue and to establish an appropriate estimate for price concessions. The allowance for doubtful accounts was $448,107 and $432,288 as of December 31, 2019 and 2018, respectively.

Assets whose use is limited and investments: Assets held as operating reserves, resident deposits, and assets held under indenture agreements are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited and investments are reported on the accompanying consolidated balance sheets at fair value, based on quoted market prices as provided by a national exchange, excluding an alternative investment which is valued at net asset value (NAV) per share. 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 on the consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the consolidated balance sheets could change materially in the near term.

Beneficial interest in supporting organization: TVAR, TVOR, and TLNA (supported affiliates) maintain a support agreement with NLI and NLHA relative to their long-term debt. NLI is the parent to the supported affiliates and NLHA. The support agreement outlines that NLI and NLHA will provide access to capital to maintain the supported affiliates' long-term debt requirements. Although the support agreement is with both NLI and NLHA, NLHA holds the investments that are providing the beneficial interest to the supported affiliates. See Note 3 for the percent allocated to the supported affiliates.

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 uncollectable pledges is based on management's assessment of the collectability of pledges receivable and was $25,050 and $16,986 as of December 31, 2019 and 2018, respectively.

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

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

Gift annuities: Liabilities related to gift annuities issued by the Organization are recorded at the present value of the future payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as contributions without donor restrictions on the consolidated statements 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 percent to 7.50 percent to determine the present value of the actuarially determined liability.

Entrance fees: The Organization’s policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. The Organization currently offers a traditional entrance fee, 50% guaranteed refund, and 90% guaranteed refund entrance fee option. The refundable portion of the traditional entrance fee is calculated based on a 60 month amortization period after applying a 10% administrative fee. After 60 months of occupancy, no refund is payable to the resident. The refundable portion of the 50% entrance fee is calculated based on a 30 month amortization period after applying a 10% administrative fee. After 30 months of occupancy, the refund payable to the resident is limited to 50% of the entrance fee. The 90% entrance fee guarantees a refund of the entrance fee paid less a 10% administrative fee. Contracts containing varying refund provisions no longer offered by the Organization to new residents remain in force. The non-refundable portion of the entrance fees are accounted for as deferred revenue from entrance fees and are amortized into earned revenue using the straight-line method over the estimated remaining life of the residents over the contractual term of the contract. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the entrance fees is not amortized into income and is reported as refundable entrance fees liability. Contractual refund obligations amounted to $52,528,463 and $48,134,616 as of December 31, 2019 and 2018, respectively.

TVAR also has a rental agreement requiring no entrance fee.

TVOR's policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. TVOR currently offers a traditional entrance fee, 50% guaranteed refund, and a 100% guaranteed refund entrance fee option. The refundable portion of the traditional entrance fee is calculated based on an 18 month amortization period after applying a 10% administrative fee. After 18 months of occupancy, no refund is payable to the resident. The refundable portion of the 50% entrance fee is calculated based on an 8 month amortization period after applying a 10% administrative fee. After 8 months of occupancy, the refund payable to the resident is limited to 50% of the entrance fee. The 100% entrance fee guarantees a 100% refund of the entrance fee paid. Contracts containing varying refund provisions no longer offered by TVOR to new residents remain in force.

The non-refundable portion of the entrance fees are accounted for as deferred revenue from entrance fees and are amortized into earned revenue using the straight-line method over the estimated remaining life of the residents over the contractual term of the contract. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the entrance fees is not amortized into income and is reported as refundable entrance fees liability. Contractual refund obligations amounted to $48,976,643 and $46,205,303 as of December 31, 2019 and 2018, respectively.

TVOR also has a rental agreement requiring no entrance fee on select independent living units, but a one-time community fee of $3,000 applies.

At TLNA, each resident executes a Resident's Admission and Service 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 their 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 were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying consolidated 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 consolidated statements of operations, totaled $237,990 and $205,675 for the years ended December 31, 2019 and 2018, respectively. Accumulated amortization was $1,285,962 and $1,047,972 as of December 31, 2019 and 2018, respectively.

Net assets: Net assets, revenue, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions: Net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net resident service revenue: Net resident service revenue is reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenue is recognized as performance obligations are satisfied.

Net resident service revenue is primarily comprised of the following revenue streams:

Skilled nursing: Skilled nursing revenue is primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. The Organization has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenue is recognized on a daily basis as services are rendered.

Assisted living: Assisted living revenue is primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenue is recognized on a month-to-month basis.

Independent living: Independent living revenue is primarily derived from providing housing and services to residents. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees on the accompanying consolidated balance sheets.

Home Care/Home Health: Revenue consists of home care services and home health services. Home care revenue includes services provided by caregivers to assist with activities of daily living and other services. Home health revenue includes medical care provided by skilled medical professionals and is often prescribed as part of a care plan. The Organization has determined that home care agency revenue is considered one performance obligation which is satisfied over time as services are provided. Therefore, home care agency revenue is recognized on a daily basis as services are rendered.

Other resident services: Other resident services revenue includes services such as housekeeping, laundry, transportation, medical supplies, and other revenue from residents. The Organization has determined that other resident services revenue is considered one performance obligation which is satisfied over time as services are provided. Therefore, other resident services revenue is recognized on a daily basis as services are rendered.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the consolidated balance sheets. Amortization of nonrefundable entrance fees included in independent living revenue was $5,718,274 in 2019 and $6,753,968 in 2018.

The Organization receives revenue for services under third-party payor programs, including Medicare, Medicaid, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Organization estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

The Organization disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenue consists of the following for the years ended December 31:

	2019					
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Home Care / Home Health**	**Other Resident Services**	**Total**
Self-pay	**$ 6,157,497**	**$ 11,505,744**	**$ 13,411,068**	**$ 1,497,814**	**$ 725,447**	**$ 33,297,570**
Medicare	**12,276,686**	**-**	**-**	**699,114**	**-**	**12,975,800**
Medical Assistance	**5,507,868**	**-**	**-**	**-**	**-**	**5,507,868**
Commercial insurance	**943,183**	**-**	**-**	**-**	**-**	**943,183**
Amortization of nonrefundable entrance fees	**-**	**-**	**5,718,274**	**-**	**-**	**5,718,274**
Total	**$ 24,885,234**	**$ 11,505,744**	**$ 19,129,342**	**$ 2,196,928**	**$ 725,447**	**$ 58,442,695**

	2018					
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Home Care / Home Health**	**Other Resident Services**	**Total**
Self-pay	$ 6,353,429	$ 10,442,260	$ 13,622,153	$ 1,187,385	$ 784,967	$ 32,390,194
Medicare	10,688,935	-	-	519,736	-	11,208,671
Medical Assistance	5,104,256	-	-	-	-	5,104,256
Commercial insurance	1,037,833	-	-	-	-	1,037,833
Amortization of nonrefundable entrance fees	-	-	6,753,968	-	-	6,753,968
Total	$ 23,184,453	$ 10,442,260	$ 20,376,121	$ 1,707,121	$ 784,967	$ 56,494,922

The Organization has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

- Medical Assistance: Under the 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), 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 ADL.

- Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Organization's clinical assessment of its residents. The Organization is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

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

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $1,545,000 and $1,262,000 for the years ended December 31, 2019 and 2018, respectively.

(Deficiency) of operating and nonoperating revenue over expenses: The consolidated statements of operations include the determination of (deficiency) of operating and nonoperating revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include net unrealized gains (losses) on alternative investments measured at NAV and debt securities and net assets released from restrictions for capital purchases.

Tax status: NLI, NLHA, TVAR, TVOR, TLNA, and TVPP 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. Impact 1890, LLC, and 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. Petalo, LLC is treated as a partnership for tax purposes, and creates unrelated business income for NLI. Petalo, LLC had approximately $1,100,000 in carryforward losses as of December 31, 2019. Any deferred tax asset related to the carryforward losses would be valued at $0 as of December 31, 2019 and 2018, as the future losses may not be able to be used to offset future income.

Reclassifications: Certain items in the 2018 consolidated financial statements have been reclassified to conform to the 2019 consolidated financial statement presentation.

Subsequent events: The Organization has evaluated subsequent events for recognition and disclosure through April 23, 2020, which is the date the consolidated financial statements were issued.

Recent Accounting Pronouncements

Financial Instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, 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 adopted this guidance during the year ended December 31, 2019. Adoption of this guidance resulted in a reclassification of unrealized gains (losses) on equity securities to be included within the performance indicator. Total unrealized gains (losses) on equity securities amounted to $8,078,473 and $(6,706,950) for the years ended December 31, 2019 and 2018, respectively.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. Along with ASU 2016-02, the Organization will also be required to adopt the codification improvements will also be required to adopt codification improvements to Topic 842 which include ASU 2018-10 and 2018-11. The Organization adopted this guidance during the year ended December 31, 2019. The Organization also adopted the following Practical Expedients relative to Topic 842, for the year ended December 31, 2019: Relief package allowing to not reassess whether a contract contains a lease, lease classification and whether initial direct costs should be capitalized. The Organization elects the short-term lease exemption for leases less than 12 months. The Organization elects not to separate lease and non-lease components. Adoption of this guidance did not have a material impact on the Organization’s consolidated financial statements.

Statement of Cash Flows: In August 2016, the FASB issued ASU 2016-15, (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which clarifies how organizations present and classify certain cash receipts and cash payments on the statement of cash flows. Early adoption is permitted. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance did not have a material impact on the Organization's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230) *Restricted Cash*, which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The Organization adopted this guidance during the year ended December 31, 2019. See consolidated statements of cash flows for inclusion of restricted cash.

Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities: In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*, to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Early adoption is permitted. The Organization is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, consolidated financial statements.

Not-for-Profit Entities: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance did not have a material impact on the Organization's consolidated financial statements.

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Organization is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, consolidated financial statements.

Note 2. Liquidity and Availability of Resources

The following table reflects the Organization's financial assets available for general expenditure within one year as of December 31. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of: resident deposits, assets whose use is limited, debt service reserves, operating reserves, resident deposits, and donor restricted funds.

	2019	2018
Financial assets:		
Cash and cash equivalents	**$ 3,461,288**	$ 2,623,293
Accounts receivable, net	**2,977,882**	2,515,873
Investments	**69,757,941**	71,378,462
Total	**$ 76,197,111**	$ 76,517,628

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied. As stated in Note 4, the Organization designated a portion of its investments as an operating reserve to comply with the requirements of the Maryland Department of Aging Reserve Requirements and thus they are not included in the schedule above.

Although the Organization does not intend to utilize the operating reserve for general expenditures as part of its annual budget and approval process, amounts designated as operating reserves could be made available as necessary. The operating reserves are included in assets whose use is limited on the consolidated balance sheets and do not have third party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

To assist management in satisfying any unanticipated liquidity needs, the Organization has a $10,000,000 line of credit with a bank that can be drawn upon (Note 6).

Note 3. Fair Value Measurements

Authoritative guidance regarding *Fair Value Measurements* establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value, and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The levels of the fair value hierarchy are as follows:

Level I — Quoted prices in active markets for identical assets or liabilities.

Level II — Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables present financial instruments measured at fair value as of December 31 by caption on the consolidated balance sheets:

	2019				
	Carrying Value	Fair Value	Level I	Level II	Level III
Reported at fair value:					
Assets:					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 36,947,425	$ 36,947,425	$ 36,947,425	$ -	$ -
Equity securities:					
Consumer discretionary	11,296,094	11,296,094	11,296,094	-	-
Consumer staples	1,779,703	1,779,703	1,779,703	-	-
Energy	3,471,288	3,471,288	3,471,288	-	-
Financial	4,671,250	4,671,250	4,671,250	-	-
Health care	5,995,361	5,995,361	5,995,361	-	-
Industrials	2,276,451	2,276,451	2,276,451	-	-
Information technology	4,497,635	4,497,635	4,497,635	-	-
Materials	1,252,240	1,252,240	1,252,240	-	-
Real estate	4,158,488	4,158,488	4,158,488	-	-
Utilities	1,200,461	1,200,461	1,200,461	-	-
Other	89,666	89,666	89,666	-	-
Mutual funds:					
Equity	6,502,615	6,502,615	6,502,615	-	-
Fixed income	6,333,800	6,333,800	6,333,800	-	-
Exchange-traded and closed-end funds	92,323	92,323	92,323	-	-
Other	78,501	78,501	-	78,501	-
Fixed income securities:					
Corporate bonds	7,376,166	7,376,166	-	7,376,166	-
U.S. government and agency bonds	6,774,757	6,774,757	-	6,774,757	-
Subtotal	104,794,224	104,794,224	90,564,800	14,229,424	-
Alternative investment measured at NAV	3,450,246				
Total	108,244,470				
Funds held in trust by others	2,019,554	2,019,554	-	-	2,019,554
Total assets	$ 110,264,024	$ 106,813,778	$ 90,564,800	$ 14,229,424	$ 2,019,554
Disclosed at fair value:					
Cash and cash equivalents	$ 3,461,288	$ 3,461,288	$ 3,461,288	$ -	$ -
Pledges receivable, net	$ 93,131	$ 93,131	$ -	$ 93,131	$ -
Long-term debt	$ 183,160,000	$ 184,990,399	$ -	$ 184,990,399	$ -

	2018				
	Carrying Value	Fair Value	Level I	Level II	Level III
Reported at fair value:					
Assets:					
Investments and assets whose use is limited:					
Cash and cash equivalents	$ 26,977,766	$ 26,977,766	$ 26,977,766	$ -	$ -
Equity securities:					
Consumer discretionary	9,818,721	9,818,721	9,818,721	-	-
Consumer staples	2,113,430	2,113,430	2,113,430	-	-
Energy	3,287,314	3,287,314	3,287,314	-	-
Financial	3,378,585	3,378,585	3,378,585	-	-
Health care	4,552,958	4,552,958	4,552,958	-	-
Industrials	2,529,053	2,529,053	2,529,053	-	-
Information technology	3,751,897	3,751,897	3,751,897	-	-
Materials	767,115	767,115	767,115	-	-
Real estate	1,572,852	1,572,852	1,572,852	-	-
Utilities	1,177,591	1,177,591	1,177,591	-	-
Other	1,357,604	1,357,604	1,357,604	-	-
Mutual funds:					
Equity	10,966,547	10,966,547	10,966,547	-	-
Fixed income	6,326,906	6,326,906	6,326,906	-	-
Exchange-traded and closed-end funds	84,593	84,593	84,593	-	-
Other	81,313	81,313	-	81,313	-
Fixed income securities:					
Corporate bonds	8,916,188	8,916,188	-	8,916,188	-
U.S. government and agency bonds	7,238,280	7,238,280	-	7,238,280	-
Subtotal	94,898,713	94,898,713	78,662,932	16,235,781	-
Alternative investment measured at NAV	3,290,017				
Total	98,188,730				
Funds held in trust by others	1,928,796	1,928,796	-	-	1,928,796
Total assets	$ 100,117,526	$ 96,827,509	$ 78,662,932	$ 16,235,781	$ 1,928,796
Disclosed at fair value:					
Cash and cash equivalents	$ 2,623,293	$ 2,623,293	$ 2,623,293	$ -	$ -
Pledges receivable, net	$ 67,944	$ 67,944	$ -	$ 67,944	$ -
Long-term debt	$ 135,915,000	$ 134,810,092	$ -	$ 134,810,092	$ -

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 investments and assets whose use is limited lines on the consolidated balance sheets.

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

There were no transfers between Level I, Level II, or Level III during the years ended December 31, 2019 or 2018.

The following methods have been used by the Organization in estimating the fair value on a recurring basis of its financial instruments. There have been no changes in the methodologies used as of December 31, 2019 or 2018:

Cash and cash equivalents: Fair values, which are the amounts reported on the consolidated balance sheets, are based on multiplying number of units held by $1 per unit.

Equity securities, exchange traded funds, and mutual funds: Valued at the closing price reported in the active market on which the individual securities are traded for equity securities and fixed income mutual funds and quoted market prices in active markets.

Fixed income securities and other: Fair values of these items, which are the amounts reported on the consolidated balance sheets, are estimated using quoted prices for similar securities.

Alternative investment is comprised of a hedge fund. The Organization measures the fair value of the alternative investment based on net asset value (NAV) as calculated on the reporting entity's measurement date. The Organization measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the Organization as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. The alternative investment as of December 31, 2019 and 2018, was $3,450,246 and $3,290,217, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (Fund) is capital appreciation with limited variability of returns. The Fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies. There were no unfunded commitments as of December 31, 2019 or 2018, and there is a monthly or quarterly redemption notice of 15 - 120 days.

Funds held in trust by others: Valued based on the fair value of the trusts' underlying assets, which approximates the discounted present value of future cash flows.

Pledges receivable: Valued based on the original pledge amounts, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectable pledges.

Long-term debt: Valued based on current rates offered for similar issues with similar terms and maturities, or estimated based using a discount rate a market participant would demand.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	Funds Held in Trust by Others
Balance, as of December 31, 2017	$ 1,984,790
Change in value	(55,994)
Balance, as of December 31, 2018	1,928,796
Change in value	138,430
Released from restriction	(47,672)
Balance, as of December 31, 2019	$ 2,019,554

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

Note 4. Investments and Assets Whose Use is Limited

The investments and assets whose use is limited are presented on the consolidated balance sheets as follows as of December 31:

	2019	2018
Investments	**$ 69,757,941**	$ 71,378,462
Assets whose use is limited:		
Refundable deposits	**$ 6,451,174**	$ 5,676,330
Operating reserves	**4,486,650**	4,714,016
Assets held under trust indentures:		
Debt service reserves	**8,288,273**	6,453,551
Principal and interest	**8,827,389**	5,977,573
Construction	**9,944,630**	3,746,260
Other	**488,413**	242,538
Total assets whose use is limited	**38,486,529**	26,810,268
Less current portion of assets whose use is limited	**(11,017,030)**	(6,158,864)
Assets whose use is limited, net	**$ 27,469,499**	$ 20,651,404

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 $4,486,650 and $4,714,016 as of December 31, 2019 and 2018, respectively. Beginning January 1, 2023, the reserve requirement will be equal to 25% of TVAR's net operating expenses.

Note 5. Property and Equipment

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

	2019	2018
Land	**$ 19,050,712**	$ 19,050,712
Land improvements	**12,066,721**	12,052,638
Buildings and building improvements	**240,214,541**	239,191,113
Furniture and equipment	**24,315,369**	23,654,443
Construction in progress	**65,067,937**	21,916,972
	360,715,280	315,865,878
Less accumulated depreciation	**(91,632,251)**	(79,973,483)
	$ 269,083,029	$ 235,892,395

During the year ended December 31, 2018, the Organization determined that several projects were not deemed reasonable to complete and, therefore, were terminated. The total write off of these costs was approximately $810,000 and is included in loss on disposal of property and equipment on the accompanying consolidated statements of operations.

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. A construction contract exists in the amount of approximately $54,800,000 of which $32,874,954 was completed as of December 31, 2019.

Initial planning costs for future expansion/renovation projects at TLNA. A construction contract exists in the amount of approximately $6,171,000, of which $5,032,445 was completed as of December 31, 2019.

Planning and pre-development costs for TVPP are approximately $17,000,000. TVPP has various development and purchase agreements in place subject to future project approvals. The Organization expects to receive construction approval in 2020.

Note 6. Long-Term Debt and Line of Credit

During March 2018, the Organization entered into a variable rate line of credit (4.05% as of December 31, 2019) for $10,000,000 with Morgan Stanley Bank, N.A., collateralized by a portion of its investments. The balance outstanding on this line of credit as of December 31, 2019, was $5,944,972.

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

	2019	2018
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 June 30, 2024, and then from July 1, 2024, through maturity a rate equal to the 24 year MMD plus 275 basis points, calculated on the third business day before July 1, 2024.	**$ 16,000,000**	$ 16,275,000
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 percent to 7.80 percent. Beginning July 2018 through maturity, interest is payable at a fixed rate of 6.50 percent.	**38,550,000**	38,955,000
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 percent.	**12,030,000**	12,250,000
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 percent to 5.61 percent through January 2022. Beginning in February 2022 through maturity, the interest rate will become a variable rate.	**8,180,000**	8,360,000

	2019	2018
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 percent to 6.83 percent.	**$ 35,865,000**	$ 36,415,000
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 percent to 5.04 percent. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate.	**9,935,000**	10,160,000
Series 2018A Fixed Rate Economic Development Revenue Bonds (TVAR), at 6.50 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through November 2048 to satisfy annual debt service requirements.	**6,865,000**	2,705,000
Series 2018B Adjustable Rate Economic Development Revenue Bonds (TVAR), at 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018B Bonds interest rate adjusts February 2028 as defined in the debt agreements.	**6,375,000**	2,215,000
Series 2018C Floating Rate Economic Development Revenue Bonds, payable in monthly installments of interest only with a final payment of principal due February 2029. Interest is payable at a variable interest rate of 75 percent of LIBOR plus 2.45 percent (4.14 percent as of December 31, 2019).	**35,265,000**	6,145,000
Series 2018D Adjustable Rate Economic Development Revenue Bonds (TVAR), at 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018B Bonds interest rate adjusts in February 2028 as defined in the debt agreements.	**6,595,000**	2,435,000
Series 2019A Residential Care Facility Revenue Bonds (TLNA), payable in monthly installments to satisfy annual debt service requirements through July 2024. Interest is payable at a fixed rate of 5.25%.	**7,500,000**	-
	183,160,000	135,915,000
Less current portion	**1,985,000**	1,855,000
Less deferred financing costs	**7,924,102**	7,362,403
Long-term debt, net	**$ 173,250,898**	$ 126,697,597

The TVAR Series 2018 Bonds are draw down bonds to fund the TVAR construction project described in Note 5, with the total bond issuance being $87,500,000, consisting of $17,970,000 of Series 2018A, $13,690,000 of Series 2018B, $40,000,000 of Series 2018C, and $15,840,000 of Series 2018D. An additional $41,600,000 was drawn down from the Series 2018 bonds in 2019.

On March 1, 2019, the Economic Development Authority of the City of Staunton, Virginia, issued the 2019 Legacy at North Augusta 2019A Residential Care Facility Revenue Bonds for $9,890,000, whereas the proceeds were loaned to the Organization. The bonds are labeled as draw down bonds, and are for the purpose of capital improvements, along with new construction of additional housing for assisted living, and the construction of an assisted living memory care unit. As of December 31, 2019, there have been three draw downs, March 21, July 19, and October 17, 2019. Each draw was for $2,500,000, for a total of $7,500,000. The draw down bonds have a fixed rate of 5.25%, with a maturity date of July 1, 2024. The Organization expects to draw on the remaining $2,390,000 in calendar year 2020.

As security for the payment of the bonds, TVOR, TLNA, and TVAR each has granted 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 and NLHA entered into support agreements guaranteeing the repayment of the bonds as additional security. The support agreements will terminate upon the achievement of certain financial performance targets as defined in the agreements.

The Organization is required to comply with certain debt covenants in connection with the aforementioned long-term debt. Management believes they are in compliance with all covenants as of December 31, 2019 and 2018.

The long-term debt maturing in the next five years and thereafter is as follows as of December 31, 2019:

Years Ending December 31:	
2020	$ 1,985,000
2021	2,275,000
2022	2,510,000
2023	3,235,000
2024	10,300,000
Thereafter	162,855,000
	$ 183,160,000

Interest expense totaled $7,665,740 and $7,701,567 for the years ended December 31, 2019 and 2018, net of capitalized interest of $809,082 and $88,238, respectively.

Note 7. Leases

The Organization has entered into several non-cancelable lease arrangements under which the Organization is the lessee.

The amounts recognized as right-of-use (ROU) assets related to operating leases is listed in the asset section of the accompanying consolidated balance sheets. The amount recognized as a right-of-use asset related to the operating leases is listed in the assets section of the accompanying consolidated balance sheets net of accumulated amortization. The related lease liabilities for operating leases are listed in the liabilities section of the accompanying consolidated balance sheets. The Organization does not have variable lease payments, options required to be recognized as part of a lease ROU asset, or residual value guarantees. The Organization’s leases do not contain non-lease components.

A schedule of future minimum lease payments due under operating leases as of December 31, 2019, follows:

Years Ending December 31:		
2020	$	341,130
2021		229,705
2022		26,730
Total lease payments		597,565
Less effects of discounting		(24,700)
Total lease obligation	$	572,865

As of December 31, 2019, the weighted-average remaining lease term for all operating leases was 2.5 years.

The Organization utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with operating leases as of December 31, 2019, was 4.50%.

Note 8. Net Assets

Net asset presentation on the consolidated balance sheets with expanded disclosure for the amount and purpose of designations is as follows as of December 31

	2019	2018
Net assets without donor restrictions:		
Undesignated	**$ 82,381,997**	$ 91,440,696
Maryland Department of Aging reserve requirements	**4,486,650**	4,714,016
Total net assets without donor restrictions	**86,868,647**	96,154,712
Net assets with donor restrictions:		
Purpose restricted for:		
Operations	**598,422**	328,783
Capital projects	**538,808**	689,631
Charitable remainder trusts	**366,972**	394,268
Perpetual trusts	**1,652,582**	1,534,528
Restricted in perpetuity	**1,624,058**	1,134,180
Total net assets with donor restrictions	**4,780,842**	4,081,390
Total net assets	**$ 91,649,489**	$ 100,236,102

During the years ended December 31, 2019 and 2018, net assets of $157,445 and $1,380,222, respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purposes. During 2018, net assets of $566,456 were released from donor restrictions relating to capital projects satisfying the restricted purposes.

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

Note 9. Expenses by Nature and Function

The Organization's expenses for resident services (including skilled nursing, assisted living, independent living, homecare agency, and other resident services), general and administrative, and fundraising are as follows for the years ended December 31:

	2019			
	Resident Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	**$ 23,531,723**	**$ 5,050,546**	**$ 509,198**	**$ 29,091,467**
Employee benefits and payroll taxes	**5,688,248**	**1,131,725**	**124,970**	**6,944,943**
Professional fees	**2,959,183**	**1,546,255**	**5,725**	**4,511,163**
Ancillary and medical	**4,795,835**	**-**	**-**	**4,795,835**
Supplies	**1,059,196**	**235,822**	**17,331**	**1,312,349**
Food services	**2,285,669**	**75,671**	**-**	**2,361,340**
Utilities	**2,305,817**	**51,234**	**-**	**2,357,051**
Depreciation	**11,645,461**	**26,594**	**-**	**11,672,055**
Interest	**7,903,730**	**-**	**-**	**7,903,730**
Insurance	**225,228**	**386,042**	**-**	**611,270**
Real estate taxes	**898,807**	**-**	**-**	**898,807**
Repairs and maintenance	**1,213,281**	**117,019**	**-**	**1,330,300**
Advertising and marketing	**932,118**	**571,055**	**41,766**	**1,544,939**
Licenses, dues, and subscriptions	**1,028,650**	**424,840**	**47,877**	**1,501,367**
Other operating expenses	**759,705**	**811,488**	**20,414**	**1,591,607**
Bad debt expense	**464,747**	**-**	**-**	**464,747**
Grants awarded to others	**282,324**	**-**	**-**	**282,324**
Total	**$ 67,979,722**	**$ 10,428,291**	**$ 767,281**	**$ 79,175,294**

	2018			
	Resident Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and wages	$ 23,722,140	$ 5,551,504	$ 678,883	$ 29,952,527
Employee benefits and payroll taxes	5,793,483	942,029	168,461	6,903,973
Professional fees	2,527,585	1,734,894	16,821	4,279,300
Ancillary and medical	4,651,828	-	-	4,651,828
Supplies	909,844	681,786	15,798	1,607,428
Food services	2,418,800	69,973	-	2,488,773
Utilities	2,350,007	77,910	-	2,427,917
Depreciation	11,725,219	39,951	-	11,765,170
Interest	7,749,919	157,323	-	7,907,242
Insurance	230,505	295,514	-	526,019
Real estate taxes	865,549	-	-	865,549
Repairs and maintenance	891,172	301,033	-	1,192,205
Advertising and marketing	547,655	658,480	55,403	1,261,538
Licenses, dues, and subscriptions	1,059,406	516,313	32,811	1,608,530
Other operating expenses	136,224	1,209,333	-	1,345,557
Bad debt expense	624,168	-	-	624,168
Grants awarded to others	519,592	-	-	519,592
Total	$ 66,723,096	$ 12,236,043	$ 968,177	$ 79,927,316

The consolidated financial statements report certain expense categories that are attributable to more than one health care or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and interest, are allocated to a function on a square footage basis.

Note 10. Pension Plan

The Organization has a 403(b) defined contribution plan. The Organization contributes 2% of each eligible employee's salary 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 five years. Employer contributions totaled $973,127 and $902,765 for the years ended December 31, 2019 and 2018, respectively.

Note 11. Benevolent Care

The Organization extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

The Organization maintains records to identify and monitor the level of benevolent care it provides. The estimated cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided amounted to approximately $3,124,600 in 2019 and $3,682,100 in 2018, including approximately $2,565,000 in 2019 and $3,430,100 in 2018 related to the Medicaid program.

Note 12. Medical Malpractice and General Liability Claims Coverage

The Organization purchases medical malpractice insurance coverages from a commercial insurance carrier via an insurance broker. These coverages are provided on a claims-made basis. As of December 31, 2019 and 2018, professional and general liability coverages are provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. The Organization has evaluated claims incurred but not reported and has deemed it not necessary to record a liability based on the Organization's history of claims.

Note 13. Commitments and Contingencies

The health care industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local government agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayment for patient services previously billed. The Organization is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

Note 14. Subsequent Events

On January 1, 2020, with the approval of the Maryland Department of Aging and with consent from the Board of Trustees at both National Lutheran, Inc. d/b/a National Lutheran Communities & Services (NLCS) and Augsburg Lutheran Home of Maryland, Inc. (Augsburg), Augsburg became an affiliated entity of NLCS known as “The Village at Augsburg, a National Lutheran Community” (TVAA).

The transaction will be accounted for under the acquisition method in accordance with accounting principles generally accepted in the United States of America. Transaction costs associated with the transaction, including professional, consulting services, and legal fees, amounted to approximately $69,855.

Such costs were included on the consolidated statement of operations in professional fees expenses. The following table summarizes the amounts of fair value of the assets received on the affiliation date:

Market value of fee simple estate	$	35,500,000
Real property allocation:		
Real property	$	32,430,000
Furniture, fixtures, and equipment		1,070,000
Business value (goodwill)		2,000,000
Market value of the going concern	$	35,500,000

As a result of the affiliation, goodwill resulted from the excess of the market value of the going concern over the identifiable assets of TVAA. Goodwill resulted from NLCS’ right to use website registration information, phone and facsimile numbers, the resident referral list, current residents receiving services and care, care plans and medical records associated with those residents, a staffed work force, managed care and other contracts, permits, licenses and agreements, reputation in TVAA’s geographic market area, and other intangible business assets.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts related to the pandemic may include disruptions or restrictions on the Organization’s employees’ ability to work, census, and residents’ ability to pay monthly rents or daily fees. Operating functions that may be affected include, but are not limited to: admissions, dining, environmental services, and delivery of services and care. Changes to the Organization’s operating environment may increase operating costs. Although the Organization has disaster plans in place and operates pursuant to infectious disease protocols, the potential impacts of the pandemic, including economic impacts, are unknown.

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NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATING BALANCE SHEET
December 31, 2019

	TVAR	TVOR	TLNA	TVPP	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Petalo	Impact 1890	Eliminations	Total
ASSETS													
CURRENT ASSETS													
Cash and cash equivalents	$ 104,763	$ 26,930	$ -	$ -	$ -	$ 3,045,849	$ -	$ -	$ 10,151	$ 273,595	$ -	$ -	$ 3,461,288
Accounts receivable, net	2,202,282	430,518	2,150	-	-	892,544	183,088	35,968	3,294	-	-	(771,962)	2,977,882
Prepaid expenses and other assets	298,188	140,356	21,192	23,337	-	394,090	2,492	-	-	12,807	2,500	-	894,962
Current portion of pledges receivable	380	33,000	-	-	-	-	-	-	-	-	-	-	33,380
Current portion of assets whose use is limited	5,188,369	3,869,695	1,958,966	-	-	-	-	-	-	-	-	-	11,017,030
Total current assets	7,793,982	4,500,499	1,982,308	23,337	-	4,332,483	185,580	35,968	13,445	286,402	2,500	(771,962)	18,384,542
ASSETS WHOSE USE IS LIMITED, net	22,197,332	3,114,375	2,024,709	133,083	-	-	-	-	-	-	-	-	27,469,499
INVESTMENTS	3,631,290	1,396,748	61,420	-	22,312,387	772,443	-	-	-	-	-	41,583,653	69,757,941
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	18,793,773	21,453,822	2,086,058	-	-	-	-	-	-	-	-	(42,333,653)	-
PROPERTY AND EQUIPMENT, net	86,515,332	147,458,750	18,367,880	17,128,075	-	91,513	12,982	23,258	3,321	4,234	-	(522,316)	269,083,029
FUNDS HELD IN TRUST BY OTHERS	2,019,554	-	-	-	-	-	-	-	-	-	-	-	2,019,554
RIGHT-OF-USE ASSETS	-	-	-	-	-	429,533	143,332	-	-	-	-	-	572,865
PLEDGES RECEIVABLE, net	-	59,751	-	-	-	-	-	-	-	-	-	-	59,751
Total assets	$ 140,951,263	$ 177,983,945	$ 24,522,375	$ 17,284,495	$ 22,312,387	$ 5,625,972	$ 341,894	$ 59,226	$ 16,766	$ 290,636	$ 2,500	$ (2,044,278)	$ 387,347,181
LIABILITIES AND NET ASSETS (DEFICIT)													
CURRENT ASSETS													
Accounts payable, trade	$ 1,044,631	$ 495,260	$ 51,716	$ -	$ -	$ -	$ 13,010	$ 252	$ 7,112	$ 4,526	$ 310,497	$ -	$ 1,927,004
Accounts payable, construction	3,656,692	-	1,047,091	-	-	1,081,236	-	-	-	-	-	-	5,785,019
Accrued interest	1,106,677	2,604,693	616,875	-	-	-	-	-	-	-	-	-	4,328,245
Accrued expenses	1,837,178	749,903	233,230	3,002	30,000	890,011	129,429	54,176	18,518	29,151	-	(21,963)	3,952,635
Line of credit	-	-	-	-	5,944,972	-	-	-	-	-	-	-	5,944,972
Current portion of long-term debt	425,000	1,265,000	295,000	-	-	-	-	-	-	-	-	-	1,985,000
Current portion of annuities payable	16,671	-	-	-	-	-	-	-	-	-	-	-	16,671
Total current liabilities	8,086,849	5,114,856	2,243,912	3,002	5,974,972	1,971,247	142,439	54,428	25,630	33,677	310,497	(21,963)	23,939,546
RESIDENT DEPOSITS	6,307,436	373,179	-	136,115	-	-	-	-	-	-	-	-	6,816,730
DEFERRED REVENUE FROM ENTRANCE FEES	8,342,714	30,181,746	-	-	-	-	-	-	-	-	-	-	38,524,460
REFUNDABLE ENTRANCE FEES	3,551,820	48,976,643	-	-	-	-	-	-	-	-	-	-	52,528,463
LONG-TERM DEBT, net	72,098,961	78,826,579	22,325,358	-	-	-	-	-	-	750,000	-	(750,000)	173,250,898
LEASE LIABILITY	-	-	-	-	-	429,533	143,332	-	-	-	-	-	572,865
ANNUITIES PAYABLE, net	64,730	-	-	-	-	-	-	-	-	-	-	-	64,730
DUE TO (FROM) AFFILIATES, net	22,459,723	20,088,551	11,080,297	18,220,529	(64,633,467)	(13,237,062)	3,419,961	1,187,946	537,949	-	875,573	-	-
Total liabilities	120,912,233	183,561,554	35,649,567	18,359,646	(58,658,495)	(10,836,282)	3,705,732	1,242,374	563,579	783,677	1,186,070	(771,963)	295,697,692
NET ASSETS (DEFICIT)	20,039,030	(5,577,609)	(11,127,192)	(1,075,151)	80,970,882	16,462,254	(3,363,838)	(1,183,148)	(546,813)	(493,041)	(1,183,570)	(1,272,315)	91,649,489
Total liabilities and net assets (deficit)	$ 140,951,263	$ 177,983,945	$ 24,522,375	$ 17,284,495	$ 22,312,387	$ 5,625,972	$ 341,894	$ 59,226	$ 16,766	$ 290,636	$ 2,500	$ (2,044,278)	$ 387,347,181

See Independent Auditor's Report

NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2019

	TVAR	TVOR	TLNA	TVPP	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Petalo	Impact 1890	Eliminations	Total
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS													
Revenue:													
Net resident service revenue	$ 28,822,071	$ 21,976,652	$ 5,446,909	$ -	$ -	$ 135	$ 1,719,532	$ 417,924	$ 127,689	$ -	$ -	$ (68,217)	$ 58,442,695
Gain on sale or disposal of property and equipment	-	-	-	-	-	6,000	-	-	-	-	-	-	6,000
Net assets released from restriction, operations	67,621	85,889	2,335	-	-	1,600	-	-	-	-	-	-	157,445
Total operating revenue	28,889,692	22,062,541	5,449,244	-	-	7,735	1,719,532	417,924	127,689	-	-	(68,217)	58,606,140
Operating expenses:													
Salaries and wages	13,897,248	5,349,376	2,303,673	203,024	-	4,870,222	1,564,186	557,677	154,929	191,132	-	-	29,091,467
Employee benefits and payroll taxes	3,429,395	1,377,094	682,659	29,655	-	921,804	361,010	102,738	21,574	19,014	-	-	6,944,943
Professional fees	1,509,562	1,071,654	223,526	47,819	-	1,312,678	50,246	7,445	(2,544)	185,714	137,281	(32,218)	4,511,163
Ancillary and medical	3,628,429	1,127,844	13,751	-	-	-	-	-	25,811	-	-	-	4,795,835
Supplies	547,722	454,594	136,441	5,071	-	130,716	27,580	6,474	-	3,582	169	-	1,312,349
Food services	1,022,717	1,013,893	282,446	523	-	40,899	668	194	-	-	-	-	2,361,340
Utilities	1,027,624	1,034,362	162,499	680	-	39,172	88,255	3,499	960	-	-	-	2,357,051
Depreciation	4,200,429	6,846,926	579,041	-	-	26,594	3,265	13,287	1,533	980	-	-	11,672,055
Interest	1,479,819	5,505,290	918,621	-	-	-	-	-	-	21,962	-	(21,962)	7,903,730
Insurance	80,301	105,051	13,907	-	-	386,042	24,785	125	-	1,059	-	-	611,270
Real estate taxes	276,398	548,654	73,474	-	-	-	-	281	-	-	-	-	898,807
Repairs and maintenance	572,713	659,225	65,527	-	-	26,268	5,526	479	562	-	-	-	1,330,300
Advertising and marketing	259,192	125,546	40,414	684,470	-	252,021	43,242	4,190	-	134,142	1,722	-	1,544,939
Licenses, dues and subscriptions	598,032	311,873	177,163	23,369	-	275,531	65,926	34,757	3,331	6,921	4,464	-	1,501,367
Other operating expenses	529,730	233,633	69,054	80,540	-	559,814	99,061	21,354	60,633	29,319	6,173	(97,704)	1,591,607
Bad debt expense	204,885	34,113	33,963	-	-	-	156,495	(745)	36,036	-	-	-	464,747
Management fee	2,327,052	1,573,271	475,687	-	-	-	156,916	40,558	15,862	-	30,048	(4,619,394)	-
Grants awarded to others	-	-	-	-	-	-	-	-	-	-	282,324	-	282,324
Total operating expenses	35,591,248	27,372,399	6,251,846	1,075,151	-	8,841,761	2,647,161	792,313	318,687	593,825	462,181	(4,771,278)	79,175,294
(Deficiency) of operating revenue over expenses	(6,701,556)	(5,309,858)	(802,602)	(1,075,151)	-	(8,834,026)	(927,629)	(374,389)	(190,998)	(593,825)	(462,181)	4,703,061	(20,569,154)
Nonoperating revenue (expenses):													
Contributions	30,386	8,678	3,026	-	-	1,809	-	-	-	-	-	-	43,899
Other income (expense)	109,762	65,881	274	-	-	453,062	-	-	-	(239,499)	-	(584,020)	(194,540)
Management fee	-	-	-	-	-	4,619,394	-	-	-	-	-	(4,619,394)	-
Interest and dividends	798,674	682,843	89,376	-	686,311	64,877	(412)	(20)	(939)	(192)	-	(21,962)	2,298,556
Realized gains	167,875	118,638	8,009	-	31,295	-	-	-	-	-	-	-	325,817
Unrealized gains	2,988,552	2,621,936	223,991	-	2,243,994	-	-	-	-	-	-	-	8,078,473
Total nonoperating revenue	4,095,249	3,497,976	324,676	-	2,961,600	5,139,142	(412)	(20)	(939)	(239,691)	-	(5,225,376)	10,552,205
Excess (deficiency) of operating and nonoperating revenue over expenses	(2,606,307)	(1,811,882)	(477,926)	(1,075,151)	2,961,600	(3,694,884)	(928,041)	(374,409)	(191,937)	(833,516)	(462,181)	(522,315)	(10,016,949)
Other changes:													
Unrealized gains	268,925	217,263	20,871	-	223,825	-	-	-	-	-	-	-	730,884
Change in net assets (deficit) without donor restrictions	$ (2,337,382)	$ (1,594,619)	$ (457,055)	$ (1,075,151)	$ 3,185,425	$ (3,694,884)	$ (928,041)	$ (374,409)	$ (191,937)	$ (833,516)	$ (462,181)	$ (522,315)	$ (9,286,065)

See Independent Auditor's Report

NATIONAL LUTHERAN, INC. d/b/a NATIONAL LUTHERAN COMMUNITIES & SERVICES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)
Year Ended December 31, 2019

	TVAR	TVOR	TLNA	TVPP	NLHA	NLI	myPotential VA	myPotential MD	Rockville Clinic	Petalo	Impact 1890	Eliminations	Total
CHANGES IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS													
Excess (deficiency) of operating and nonoperating revenue over expenses	$ (2,606,307)	$ (1,811,882)	$ (477,926)	$ (1,075,151)	$ 2,961,600	$ (3,694,884)	$ (928,041)	$ (374,409)	$ (191,937)	$ (833,516)	$ (462,181)	$ (522,315)	$ (10,016,949)
Unrealized gains	268,925	217,263	20,871	-	223,825	-	-	-	-	-	-	-	730,884
Change in net assets (deficit) without donor restrictions	(2,337,382)	(1,594,619)	(457,055)	(1,075,151)	3,185,425	(3,694,884)	(928,041)	(374,409)	(191,937)	(833,516)	(462,181)	(522,315)	(9,286,065)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS													
Contributions	345,901	309,933	30,991	-	-	25,396	-	-	-	-	-	-	712,221
Funds held in trust income	6,246	-	-	-	-	-	-	-	-	-	-	-	6,246
Change in value of funds held in trust by others	138,430	-	-	-	-	-	-	-	-	-	-	-	138,430
Net assets released from restriction, operations	(67,621)	(85,889)	(2,335)	-	-	(1,600)	-	-	-	-	-	-	(157,445)
Change in net assets with donor restrictions	422,956	224,044	28,656	-	-	23,796	-	-	-	-	-	-	699,452
Change in net assets (deficit)	(1,914,426)	(1,370,575)	(428,399)	(1,075,151)	3,185,425	(3,671,088)	(928,041)	(374,409)	(191,937)	(833,516)	(462,181)	(522,315)	(8,586,613)
Net assets (deficit):													
Beginning	21,953,456	(4,207,034)	(10,698,793)	-	77,785,457	20,133,342	(2,435,797)	(808,739)	(354,876)	340,475	(721,389)	(750,000)	100,236,102
Ending	$ 20,039,030	$ (5,577,609)	$ (11,127,192)	$ (1,075,151)	$ 80,970,882	$ 16,462,254	$ (3,363,838)	$ (1,183,148)	$ (546,813)	$ (493,041)	$ (1,183,570)	$ (1,272,315)	$ 91,649,489

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