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

Consolidated Financial Statements

December 31, 2022 and 2021

C O N T E N T S

## INDEPENDENT AUDITORS' REPORT

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

**Report on the Audits of the Consolidated Financial Statements**

***Opinion***

We have audited the consolidated financial statements of National Lutheran, Inc. d/b/a National Lutheran Communities & Services (Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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.

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

***Basis for Opinion***

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

***Emphasis of a Matter***

As described in Note 7, the Organization did not meet the unrestricted and unencumbered cash and investment liquidity agreement related to the Organization's debt covenants as of December 31, 2022. Subsequent to year end, the Organization obtained a waiver as of December 31, 2022, and entered into an agreement (Note 17) that modified the liquidity agreement's requirements, dated May 3, 2023, through December 31, 2024.

***Responsibilities of Management for the Consolidated Financial Statements***

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

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

### ***Auditors' Responsibilities for the Audits of the Consolidated Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.

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

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

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

### ***Supplementary Information***

Our audits were 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 information has been subjected to the auditing procedures applied in the audits 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

New Castle, Pennsylvania
May 9, 2023

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

**CONSOLIDATED BALANCE SHEETS**
**December 31, 2022 and 2021**

| ASSETS | 2022 | 2021 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 5,546,261 | $ 6,362,913 |
| Accounts receivable, net | 4,856,431 | 3,435,671 |
| Prepaid expenses and other assets | 1,676,382 | 1,705,704 |
| Current portion of pledges receivable | 283,790 | 80,556 |
| Current portion of assets whose use is limited | 7,118,872 | 13,831,923 |
| **Total current assets** | 19,481,736 | 25,416,767 |
| ASSETS WHOSE USE IS LIMITED, net | 25,022,453 | 19,224,351 |
| INVESTMENTS | 72,128,989 | 93,187,740 |
| PROPERTY AND EQUIPMENT, net | 304,574,971 | 312,009,010 |
| FUNDS HELD IN TRUST BY OTHERS | 3,006,882 | 2,810,476 |
| GOODWILL | 2,000,000 | 2,000,000 |
| FINANCE RIGHT-OF-USE ASSETS | 354,160 | 40,358 |
| OPERATING RIGHT-OF-USE ASSETS | 1,104,803 | 1,487,361 |
| PLEDGES RECEIVABLE, net | 40,500 | 25,453 |
| **Total assets** | $ 427,714,494 | $ 456,201,516 |

*See Notes to Consolidated Financial Statements*

| LIABILITIES AND NET ASSETS | 2022 | 2021 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable, trade | **$ 3,070,356** | $ 3,074,977 |
| Accrued interest | **4,582,708** | 4,833,423 |
| Accrued expenses | **7,318,977** | 7,690,737 |
| Line of credit | **10,479,268** | 7,194,363 |
| Current portion of long-term debt | **3,396,000** | 12,810,525 |
| Current portion of finance lease liabilities | **90,644** | 38,424 |
| Current portion of operating lease liabilties | **394,728** | 399,121 |
| Refundable advances | **-** | 4,198 |
| **Total current liabilities** | **29,332,681** | 36,045,768 |
| RESIDENT DEPOSITS | **8,866,010** | 4,690,166 |
| DEFERRED REVENUE FROM ENTRANCE FEES | **64,043,279** | 60,482,482 |
| REFUNDABLE ENTRANCE FEES | **109,637,672** | 97,034,383 |
| LONG-TERM DEBT, net | **167,453,016** | 173,704,362 |
| FINANCE LEASE LIABILITIES | **263,516** | 1,934 |
| OPERATING LEASE LIABILITIES | **710,075** | 1,088,240 |
| ANNUITIES PAYABLE, net | **63,137** | 65,015 |
| **Total liabilities** | **380,369,386** | 373,112,350 |
| NET ASSETS | | |
| Without donor restrictions | **39,636,138** | 76,222,526 |
| With donor restrictions | **7,708,970** | 6,866,640 |
| **Total net assets** | **47,345,108** | 83,089,166 |
| **Total liabilities and net assets** | **$ 427,714,494** | $ 456,201,516 |

*See Notes to Consolidated Financial Statements*

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Years Ended December 31, 2022 and 2021**

| | **2022** | 2021 |
|---|---|---|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenue: | | |
| Net resident service revenue, including amortization of entrance fees 2022 $10,164,500; 2021 $7,583,917 | **$ 80,641,907** | $ 74,813,688 |
| Provider Relief Funds | **-** | 2,242,185 |
| Other grant funding | **912,113** | 241,305 |
| (Loss) on sale or disposal of property and equipment | **(508,258)** | (83,345) |
| Net assets released from restrictions, operations | **153,611** | 50,276 |
| **Total operating revenue** | **81,199,373** | 77,264,109 |
| Operating expenses: | | |
| Salaries and wages | **38,823,364** | 37,543,751 |
| Employee benefits and payroll taxes | **7,957,142** | 8,598,127 |
| Professional fees | **11,184,822** | 8,564,979 |
| Ancillary and medical | **4,338,898** | 4,878,844 |
| Supplies | **1,962,699** | 1,922,066 |
| Food services | **3,471,824** | 3,143,294 |
| Utilities | **3,756,966** | 3,382,316 |
| Depreciation | **17,555,578** | 17,242,655 |
| Interest | **10,440,078** | 11,917,552 |
| Insurance | **1,499,482** | 1,425,647 |
| Real estate taxes | **1,717,896** | 1,928,421 |
| Repairs and maintenance | **1,910,714** | 1,580,685 |
| Advertising and marketing | **2,292,001** | 1,441,842 |
| Licenses, dues, and subscriptions | **2,081,508** | 2,115,068 |
| Other operating expenses | **1,938,801** | 1,488,000 |
| Bad debt expense | **370,098** | 243,865 |
| **Total operating expenses** | **111,301,871** | 107,417,112 |
| **(Deficiency) of operating revenue over expenses** | **(30,102,498)** | (30,153,003) |
| Nonoperating revenue (expenses): | | |
| Contributions | **357,867** | 239,653 |
| Other income | **909,280** | 844,460 |
| Interest and dividends | **2,177,851** | 2,243,156 |
| Realized gains | **4,558,018** | 4,219,418 |
| Unrealized gains (losses) | **(14,296,444)** | 6,627,509 |
| (Loss) on extinguishment of debt | **(361,695)** | (905,487) |
| **Total nonoperating revenue (expenses)** | **(6,655,123)** | 13,268,709 |
| **(Deficiency) of operating and nonoperating revenue over expenses** | **(36,757,621)** | (16,884,294) |
| Other changes: | | |
| Unrealized gains | **184,670** | 460,312 |
| (Loss) on discontinued operations | **(13,437)** | (147,939) |
| Net assets released from restriction, capital purchases | **-** | 9,365 |
| **Total other changes** | **171,233** | 321,738 |
| **Change in net assets without donor restrictions** | **$ (36,586,388)** | $ (16,562,556) |

*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, 2022 and 2021**

| | **2022** | 2021 |
|---|---|---|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| (Deficiency) of operating and nonoperating revenue over expenses | **$ (36,757,621)** | $ (16,884,294) |
| Unrealized gains | **184,670** | 460,312 |
| (Loss) on discontinued operations | **(13,437)** | (147,939) |
| Net assets released from restriction, capital purchases | **-** | 9,365 |
| **Change in net assets without donor restrictions** | **(36,586,388)** | (16,562,556) |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions | **1,331,155** | 803,564 |
| Funds held in trust income | **13,280** | 15,466 |
| Change in value of funds held in trust by others | **(348,494)** | 56,469 |
| Net assets released from restriction | **(153,611)** | (59,641) |
| **Change in net assets with donor restrictions** | **842,330** | 815,858 |
| **Change in net assets** | **(35,744,058)** | (15,746,698) |
| Net assets: | | |
| Beginning | **83,089,166** | 98,835,864 |
| Ending | **$ 47,345,108** | $ 83,089,166 |

*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, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | **$ (35,744,058)** | $ (15,746,698) |
| Adjustments to reconcile change in net assets to net cash (used in) operating activities: | | |
| Depreciation | **17,555,578** | 17,242,655 |
| Provision for bad debts | **370,098** | 243,865 |
| Amortization of deferred financing costs | **407,377** | 539,096 |
| Amortization of entrance fees | **(10,164,500)** | (7,583,917) |
| Proceeds from non-refundable entrance fees, turnover units | **9,350,392** | 4,540,268 |
| Loss on extinguishment of debt | **361,695** | 905,487 |
| Realized (gains) | **(4,558,018)** | (4,219,418) |
| Unrealized (gains) losses | **14,111,774** | (7,087,821) |
| Change in valuation of funds held in trust by others | **348,494** | (56,469) |
| Change in annuities payable, net | **(1,878)** | (5,030) |
| Loss on sale or disposal of property and equipment | **508,258** | 83,345 |
| Changes in assets and liabilities: | | |
| Accounts receivable | **(1,790,858)** | (421,619) |
| Prepaid expenses and other assets | **29,322** | (8,384) |
| Accounts payable and accrued expenses | **(627,096)** | (1,101,053) |
| Refundable advances | **(4,198)** | (486,330) |
| **Net cash (used in) operating activities** | **(9,847,618)** | (13,162,023) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net proceeds from investments and assets whose use is limited | **10,883,060** | 2,621,948 |
| Purchases of property and equipment | **(10,484,215)** | (14,034,662) |
| **Net cash provided by (used in) investing activities** | **398,845** | (11,412,714) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds (payments) on line of credit | **3,284,905** | (336,371) |
| Proceeds from issuance of long-term debt | **-** | 13,565,000 |
| Principal payments on long-term debt | **(16,580,525)** | (45,847,118) |
| Payments for financing costs | **-** | (510,510) |
| Net change in resident deposits | **4,175,844** | (1,541,807) |
| Proceeds from refundable entrance fees, turnover units | **7,707,863** | 4,445,131 |
| Proceeds from refundable and non-refundable entrance fees, new units | **14,257,285** | 58,769,559 |
| Refunds of entrance fees | **(4,986,954)** | (6,214,340) |
| Change in pledges receivable, net | **(218,281)** | 43,872 |
| **Net cash provided by financing activities** | **7,640,137** | 22,373,416 |

*See Notes to Consolidated Financial Statements*

| | 2022 | 2021 |
|---|---|---|
| **Net (decrease) in cash and cash equivalents and restricted cash** | **$ (1,808,636)** | $ (2,201,321) |
| Cash and cash equivalents and restricted cash: | | |
| Beginning | **33,399,437** | 35,600,758 |
| Ending | **$ 31,590,801** | $ 33,399,437 |
| Cash and cash equivalents and restricted cash include: | | |
| Cash and cash equivalents | **$ 5,546,261** | $ 6,362,913 |
| Resident deposits | **8,268,829** | 4,264,899 |
| Assets held under trust indenture | **16,439,336** | 21,510,997 |
| Cash, restricted by donors or grantors for specific purposes | **1,336,375** | 1,260,628 |
| | **$ 31,590,801** | $ 33,399,437 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid, net of interest capitalized | **$ 10,283,416** | $ 11,264,331 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Capitalized interest expense | **$ 498,750** | $ 135,771 |
| Capitalized deferred financing costs | **$ 145,582** | $ 36,395 |

*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).

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

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 308 independent living units, 20 skilled nursing units, and 17 assisted living units, and 18 assisted living memory care 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 121 dual-purpose assisted living and independent living units.

The Village at Providence Point, Inc. (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 project 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 National Lutheran, Inc. During July 2020, TVPP received approvals from the Maryland Department of Aging and began marketing the project. In March 2022, TVPP received unanimous approval from the City of Annapolis planning and zoning commission.

Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg (TVAA), a not-for-profit corporation, operates a retirement community in Baltimore, Maryland, which includes 134 independent living units, 64 assisted living units, and 131 skilled nursing beds (of which 107 were operational during 2022).

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. Impact 1890, LLC's grantmaking was paused as of December 2022.

NLI was 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. Petalo, LLC is no longer an operating entity as of December 31, 2020. The entity was dissolved in June 2021.

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 operated a community clinic for the benefit of seniors. Rockville Clinic is no longer an operating entity as of October 2021.

**Principles of consolidation:** The consolidated financial statements include the accounts of NLI and its subsidiaries, NLHA, TVAR, TVOR, TLNA, TVPP, TVAA, 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 Organization has included a reserve within the estimated implicit price concessions of $363,529 and $242,687 as of December 31, 2022 and 2021, respectively, which have been recorded as reductions to resident accounts receivable.

**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 consolidated 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.

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.

**Property and equipment:** Property and equipment are reported at cost or, if donated, at fair value. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives (3 - 40 years). The Organization's capitalization policy is to review invoices in excess of $5,000 to determine if they should be capitalized. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building 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 $41,580 and $26,995 as of December 31, 2022 and 2021, 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 is based upon a calculation of the present value of the estimated future benefits to be received when the trust's assets are distributed and are recorded as net assets with donor restrictions.

**Goodwill:** Goodwill was recorded as a result of the Organization's affiliation with TVAA using the acquisition method of accounting. The Organization tests for goodwill impairment upon the occurrence of an event or circumstance that may indicate the fair value of the entity is less than its carrying amount and has elected to perform this test at the entity level. If events or circumstances are present that may indicate the fair value of the entity is less than its carrying value, the estimated fair value of the entity is compared to its carrying amount and an impairment loss is recognized for the excess of the carrying amount over fair value (if any), not to exceed the carrying amount of goodwill. No indicators of impairment were identified during the years ended December 31, 2022 or 2021.

**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:** TVAR'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 a 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.

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 90% guaranteed refund entrance fee option. The refundable portion of the traditional entrance fee, not offered in the Cottages, 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 90% entrance fee is fully refundable, less an initial 10% administrative charge. Contracts containing varying refund provisions no longer offered by TVOR to new residents remain in force.

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.

TVAA'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 50% guaranteed refund and an 80% guaranteed refund entrance fee option. Should the resident terminate the residence agreement after a designated trial period of six months, a refund (either 50% or 80%) will be made only after the Organization has entered into a new residence agreement with a new resident for that unit. Termination of the residence agreement prior to the completion of the trial period results in a 100% refund of the entrance fee.

The Organization's 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 $109,637,672 and $97,034,383 as of December 31, 2022 and 2021, respectively.

**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 $407,377 and $539,096 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization was $3,217,331 and $2,664,372 as of December 31, 2022 and 2021, respectively. Capitalized deferred financing costs equaled $145,582 and $36,395, as of December 31, 2022 and 2021, respectively. The Organization redeemed in full its 2018D and 2018C Revenue Bonds (TVAR) during 2022 and 2021, respectively. Accordingly, the Organization recognized a loss of $361,695 and $905,487 on unamortized debt issuance costs for the years ended December 31, 2022 and 2021, respectively.

**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 $10,164,500 in 2022 and $7,583,917 in 2021.

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

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

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | **Skilled Nursing** | **Assisted Living** | **Independent Living** | **Home Care / Home Health** | **Other Resident Services** | **Total** |
| Self-pay | **$ 8,263,673** | **$ 13,952,290** | **$ 20,500,565** | **$ 1,297,114** | **$ 1,146,912** | **$ 45,160,554** |
| Medicare | **10,413,506** | **-** | **-** | **-** | **-** | **10,413,506** |
| Medical Assistance | **13,073,475** | **-** | **-** | **-** | **-** | **13,073,475** |
| Commercial insurance | **1,829,872** | **-** | **-** | **-** | **-** | **1,829,872** |
| Amortization of nonrefundable entrance fees | **-** | **18,316** | **10,146,184** | **-** | **-** | **10,164,500** |
| **Total** | **$ 33,580,526** | **$ 13,970,606** | **$ 30,646,749** | **$ 1,297,114** | **$ 1,146,912** | **$ 80,641,907** |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **Skilled Nursing** | **Assisted Living** | **Independent Living** | **Home Care / Home Health** | **Other Resident Services** | **Total** |
| Self-pay | $ 7,472,057 | $ 13,201,491 | $ 18,971,090 | $ 1,224,417 | $ 864,712 | $ 41,733,767 |
| Medicare | 10,921,966 | - | - | - | - | 10,921,966 |
| Medical Assistance | 12,917,357 | - | - | - | - | 12,917,357 |
| Commercial insurance | 1,656,681 | - | - | - | - | 1,656,681 |
| Amortization of nonrefundable entrance fees | - | 39,644 | 7,544,273 | - | - | 7,583,917 |
| **Total** | $ 32,968,061 | $ 13,241,135 | $ 26,515,363 | $ 1,224,417 | $ 864,712 | $ 74,813,688 |

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 $2,292,001 and $1,441,842 for the years ended December 31, 2022 and 2021, 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 on alternative investments measured at NAV, loss on discontinued operations, and net assets released from restrictions for capital purchases.

**Tax status:** NLI, NLHA, TVAR, TVOR, TLNA, TVAA, 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.

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the consolidated financial statements. Generally, tax returns for years ended December 31, 2019, and thereafter remain subject to examination by federal and state tax authorities.

**Reclassifications:** Certain items in the 2021 consolidated financial statements have been reclassified to conform to the 2022 consolidated financial statement presentation.

**Subsequent events:** The Organization has evaluated subsequent events for recognition and disclosure through May 9, 2023, which is the date the consolidated financial statements were issued (Note 18).

**Recent Accounting Pronouncements**

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

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

**ASU No. 2017-04—Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment**

During January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." ASU No. 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU No. 2017-04 (as amended) is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Organization does not believe that the adoption of ASU No. 2017-04 (as amended) will have a material effect on its results of operations, financial position, or cash flows.

**ASU 2020-04—Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting**

During March 2020, the FASB issued ASU No. 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. For all entities: Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020, and through December 31, 2024. The Organization does not believe that the adoption of ASU No. 2021-08 will have a material effect on its results of operations, financial position, or cash flows.

## 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.

| | **2022** | 2021 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | **$ 5,546,261** | $ 6,362,913 |
| Accounts receivable, net | **4,856,431** | 3,435,671 |
| Investments | **72,128,989** | 93,187,740 |
| **Total** | **$ 82,531,681** | $ 102,986,324 |

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 5, 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 line of credit of $14,000,000 with a local financial institution, of which $3,520,732 remains undrawn as of December 31, 2022 (Note 7).

## Note 3. Concentrations of Credit Risk

The Organization grants credit without collateral to its residents, most of whom are local residents and are insured under third-party agreements. The mix of receivables from third-party payors is as follows as of December 31:

| | **2022** | 2021 |
|---|---|---|
| Medicaid | **34 %** | 31 % |
| Medicare | **28** | 34 |
| Self-pay | **19** | 17 |
| Commercial | **19** | 18 |
| | **100 %** | 100 % |

## Note 4. Fair Value Measurements

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

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

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

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

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

| | 2022 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 32,265,066 | $ 32,265,066 | $ 32,265,066 | $ - | $ - |
| Equity securities: | | | | | |
| Consumer discretionary | 6,279,509 | 6,279,509 | 6,279,509 | - | - |
| Consumer staples | 4,534,692 | 4,534,692 | 4,534,692 | - | - |
| Energy | 4,291,929 | 4,291,929 | 4,291,929 | - | - |
| Financial | 6,008,756 | 6,008,756 | 6,008,756 | - | - |
| Health care | 3,903,381 | 3,903,381 | 3,903,381 | - | - |
| Industrials | 4,612,347 | 4,612,347 | 4,612,347 | - | - |
| Information technology | 4,068,636 | 4,068,636 | 4,068,636 | - | - |
| Materials | 1,144,729 | 1,144,729 | 1,144,729 | - | - |
| Real estate | 1,487,404 | 1,487,404 | 1,487,404 | - | - |
| Utilities | 1,229,534 | 1,229,534 | 1,229,534 | - | - |
| Other | 124,321 | 124,321 | 124,321 | - | - |
| Mutual funds: | | | | | |
| Equity | 2,285,502 | 2,285,502 | 2,285,502 | - | - |
| Fixed income | 2,382,471 | 2,382,471 | 2,382,471 | - | - |
| Exchange-traded and closed-end funds | 128,896 | 128,896 | - | 128,896 | - |
| Fixed income securities: | | | | | |
| Corporate bonds | 10,821,774 | 10,821,774 | 493,633 | 10,328,141 | - |
| U.S. government and agency bonds | 13,511,212 | 13,511,212 | 21,639 | 13,489,573 | - |
| **Subtotal** | 99,080,159 | 99,080,159 | 75,133,549 | 23,946,610 | - |
| Alternative investment measured at NAV | 5,190,155 | 5,190,155 | | | |
| **Total** | 104,270,314 | 104,270,314 | | | |
| Funds held in trust by others | 3,006,882 | 3,006,882 | - | - | 3,006,882 |
| **Total assets** | $ 107,277,196 | $ 107,277,196 | $ 75,133,549 | $ 23,946,610 | $ 3,006,882 |
| Disclosed at fair value: | | | | | |
| Pledges receivable, net | $ 324,290 | $ 324,290 | $ - | $ 324,290 | $ - |

| | 2021 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 29,711,469 | $ 29,711,469 | $ 29,711,469 | $ - | $ - |
| Equity securities: | | | | | |
| Consumer discretionary | 13,209,009 | 13,209,009 | 13,209,009 | - | - |
| Consumer staples | 4,525,119 | 4,525,119 | 4,525,119 | - | - |
| Energy | 4,015,453 | 4,015,453 | 4,015,453 | - | - |
| Financial | 7,601,572 | 7,601,572 | 7,601,572 | - | - |
| Health care | 6,811,177 | 6,811,177 | 6,811,177 | - | - |
| Industrials | 4,836,799 | 4,836,799 | 4,836,799 | - | - |
| Information technology | 9,578,090 | 9,578,090 | 9,578,090 | - | - |
| Materials | 3,698,400 | 3,698,400 | 3,698,400 | - | - |
| Real estate | 3,855,731 | 3,855,731 | 3,855,731 | - | - |
| Utilities | 1,889,233 | 1,889,233 | 1,889,233 | - | - |
| Other | 101,219 | 101,219 | 101,219 | - | - |
| Mutual funds: | | | | | |
| Equity | 6,298,041 | 6,298,041 | 6,298,041 | - | - |
| Fixed income | 7,100,593 | 7,100,593 | 7,100,593 | - | - |
| Exchange-traded and closed-end funds | 152,107 | 152,107 | - | 152,107 | - |
| Fixed income securities: | | | | | |
| Corporate bonds | 10,085,611 | 10,085,611 | - | 10,085,611 | - |
| U.S. government and agency bonds | 8,586,026 | 8,586,026 | - | 8,586,026 | - |
| **Subtotal** | 122,055,649 | 122,055,649 | 103,231,905 | 18,823,744 | - |
| Alternative investment measured at NAV | 4,188,365 | 4,188,365 | | | |
| **Total** | 126,244,014 | 126,244,014 | | | |
| Funds held in trust by others | 2,810,476 | 2,810,476 | - | - | 2,810,476 |
| **Total assets** | $ 129,054,490 | $ 129,054,490 | $ 103,231,905 | $ 18,823,744 | $ 2,810,476 |
| Disclosed at fair value: | | | | | |
| Pledges receivable, net | $ 106,009 | $ 106,009 | $ - | $ 106,009 | $ - |

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 financial assets or liabilities that are recorded at fair value on a nonrecurring basis.

There were no transfers between Level I, Level II, or Level III during the years ended December 31, 2022 or 2021.

The following methods have been used by the Organization in estimating the fair value on a recurring basis of its financial instruments. There have been no changes in the methodologies used as of December 31, 2022 or 2021:

**Cash and cash equivalents:** Fair values, which are the amounts reported on the 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:** 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, 2022 and 2021, was $5,190,155 and $4,188,365, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (Fund) is capital appreciation with limited variability of returns. The Fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies. There were no unfunded commitments as of December 31, 2022 or 2021, and there is a monthly or quarterly redemption notice of 15 - 120 days.

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

**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.

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

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

## Note 5. 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:

| | 2022 | 2021 |
|---|---|---|
| Investments | $ 72,128,989 | $ 93,187,740 |
| Assets whose use is limited: | | |
| Refundable deposits | $ 8,268,829 | $ 4,264,899 |
| Operating reserves required by the Maryland DOA | 7,379,691 | 7,257,690 |
| Cash, restricted by donors or grantors for specific purposes | 53,469 | 22,688 |
| Assets held under trust indentures: | | |
| Debt service reserves | 9,067,385 | 8,942,208 |
| Principal and interest | 6,438,361 | 6,376,242 |
| Entrance fee fund | 1,826 | 3,972,938 |
| Construction | 661,567 | 1,953,101 |
| Other | 270,197 | 266,508 |
| **Total assets whose use is limited** | 32,141,325 | 33,056,274 |
| Less current portion of assets whose use is limited | (7,118,872) | (13,831,923) |
| **Assets whose use is limited, net** | $ 25,022,453 | $ 19,224,351 |

In accordance with Maryland law governing continuing care retirement communities, TVAR and TVAA are required to set aside operating reserves totaling 15% of the facility's net operating expenses (as defined) for the most recent audited fiscal year. The reserve required is calculated as $7,379,691 and $7,257,690 as of December 31, 2022 and 2021, respectively. Beginning January 1, 2023, the reserve requirement will be equal to 25% of TVAR and TVAA's net operating expenses based on the most recent audited financial statements. As of January 1, 2023, the most recently available audited financial statements are for the year ended December 31, 2021. The reserve, based on the 25% requirement, amounts to approximately $12,300,000, an increase of over $4,900,000 from the 2022 reserve requirement. The Organization has adequate liquid funds to maintain the future reserve requirements.

## Note 6. Property and Equipment

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

| | 2022 | 2021 |
|---|---|---|
| Land | $ 24,049,367 | $ 24,049,367 |
| Land improvements | 16,516,023 | 16,407,673 |
| Buildings and building improvements | 373,321,753 | 370,044,393 |
| Furniture and equipment | 44,884,080 | 43,641,870 |
| Construction in progress | 22,599,919 | 17,966,965 |
| | 481,371,142 | 472,110,268 |
| Less accumulated depreciation | (176,796,171) | (160,101,258) |
| | $ 304,574,971 | $ 312,009,010 |

Construction in progress consists primarily of the following:

> Planning and pre-development costs for TVPP are approximately $20,463,000. TVPP has various development and purchase agreements in place subject to future project approvals. The Organization received planning commission approval of its planned unit development application in February 2022. TVPP continues to work with the City of Annapolis planning and zoning commission on final approvals relative to certain zoning requirements.

NLI charges a development fee for developing projects for the subsidiaries. Total capitalized developed fees were approximately $4,025,000 and $4,400,000 for the years ended December 31, 2022 and 2021, respectively.

In December 2022, TVOR incurred water damages as a result of inclement weather. The damages resulted in a loss on disposal of assets amounting to $508,258, which is included on the consolidated statements of operations for the year ended December 31, 2022.

## Note 7. Long-Term Debt and Line of Credit

The Organization maintains a variable rate line of credit, bearing interest at a variable rate of 6.39% as of December 31, 2022, totaling $14,000,000 with a local financial institution, collateralized by a portion of its investments and real property. Borrowings on the line of credit amounted to $10,479,268 and $7,194,363 as of December 31, 2022 and 2021, respectively.

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

| | **2022** | 2021 |
|---|---|---|
| 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 percent 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. | **$ 15,130,000** | $ 15,390,000 |
| 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 a fixed rate of 6.50 percent through maturity. | **37,125,000** | 37,635,000 |
| Series 2012A Economic Development Revenue Bonds (TVAR), payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at a fixed rate of 6.15 percent through maturity. | **11,355,000** | 11,545,000 |

| | 2022 | 2021 |
|---|---|---|
| Series 2012B Economic Development Revenue Bonds (TVAR), payable in monthly installments to satisfy annual debt service requirements through February 2042. Interest is payable at a fixed rate of 5.04 percent through maturity. | **$ 7,630,000** | $ 7,790,000 |
| Series 2013 A and B Maryland Health and Higher Educational Facility Authority Revenue Bonds (TVAA), payable in monthly installments to satisfy annual debt service requirements through December 2035. Series A interest is payable at variable rates of 5.02 percent and 1.62 percent as of December 31, 2022 and 2021, respectively. Series B interest is payable at a fixed rate of 3.95 percent. The bonds are secured by property and and certain other assets of the Organization. | **12,668,000** | 13,454,000 |
| Note payable (TVAA) with Truist Bank, due in monthly installments of principal and interest totalling $1,493, at 3.00 percent interest, secured by assets of the Organization. Paid in full in 2022. | **-** | 4,525 |
| Series 2014A Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2049. Interest is payable at a fixed rate of 6.00 percent through maturity. | **34,150,000** | 34,655,000 |
| Series 2014B Residential Care Facility Revenue Bonds (TVOR), payable in monthly installments to satisfy annual debt service requirements through July 2049. Interest is payable at a fixed rate of 4.63 percent through maturity. | **9,245,000** | 9,440,000 |
| Series 2018A Fixed Rate Economic Development Revenue Bonds (TVAR), at fixed rates of 5.75 to 6.50 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through November 2048 to satisfy annual debt service requirements. | **17,915,000** | 17,970,000 |
| Series 2018B Adjustable Rate Economic Development Revenue Bonds (TVAR), at fixed rates of 5.00 to 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018B Bonds interest rate adjusts February 2028 as defined in the debt agreements. | **13,645,000** | 13,690,000 |

| | 2022 | 2021 |
|---|---|---|
| Series 2018D Adjustable Rate Economic Development Revenue Bonds (TVAR), at fixed rates of 5.00 to 5.66 percent, payable in monthly installments of interest only through February 2022, and then monthly principal and interest payments begin through February 2049 to satisfy annual debt service requirements. The 2018D Bonds interest rate adjusts in February 2028 as defined in the debt agreements. Paid in full during 2022. | **$ -** | $ 13,715,000 |
| Series 2019A Residential Care Facility Revenue Bonds (TLNA), payable in monthly installments to satisfy annual debt service requirements through June 30, 2024. Interest is payable at a fixed rate of 5.25 percent. | **8,915,000** | 9,070,000 |
| Series 2021 Fixed Rate Taxable Bonds (TVPP), at 5.25 percent, payable in semiannual installments of interest only, beginning January 2022 to satisfy annual debt service requirements with a final payment of principal due September 2024. | **9,500,000** | 9,500,000 |
| | **177,278,000** | 193,858,525 |
| Less current portion | **3,396,000** | 12,810,525 |
| Less deferred financing costs | **6,428,984** | 7,343,638 |
| **Long-term debt, net** | **$ 167,453,016** | $ 173,704,362 |

The TVAR Series 2018 Bonds are draw down bonds to fund a construction project, with the total bond issuance being $87,500,000, consisting of $17,970,000 of Series 2018A, $13,690,000 of Series 2018B, $40,000,000 of Series 2018C, and $15,840,000 of Series 2018D. An additional $4,065,000 was drawn down from the Series 2018 bonds in 2021. There were no draws during 2022.

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. There were no draws during 2022 or 2021.

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. The Organization did not meet a covenant requirement for the year ended December 31, 2022; however, a waiver was obtained from the financial institution on April 27, 2023, in relation to this requirement.

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

| Years Ending December 31: | |
|---|---|
| 2023 | $ 3,396,000 |
| 2024 | 21,649,000 |
| 2025 | 3,555,000 |
| 2026 | 3,759,000 |
| 2027 | 3,975,000 |
| Thereafter | 140,944,000 |
| | $ 177,278,000 |

Interest expense on long-term debt totaled $10,032,701 and $11,378,456 for the years ended December 31, 2022 and 2021, net of capitalized interest of $498,750 and $135,771, respectively.

During 2021, debt modifications of the TVAR 2012 A and B bonds and TVOR 2014 A and B bonds were executed. The debt modifications lowered interest rates and modified the future amortization of the debts.

For the year ended December 31, 2024, TLNA and TVPP have debt obligations of $9,040,000 and $9,500,000, respectively. For TLNA, management is working with the bondholder representative to extend the debt for an additional two years from June 30, 2024. For TVPP, management's intention is to repay the taxable loan with proceeds from tax-exempt permanent financing for the project on or before June 30, 2024. This will be dependent upon the timing of a favorable resolution to the appeal related to entitlements.

## Note 8. 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 finance and operating leases is listed in the asset section of the accompanying consolidated balance sheets net of accumulated amortization. The related lease liabilities for finance and 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 finance leases as of December 31, 2022, follows:

| Years Ending December 31: | |
|---|---|
| 2023 | $ 90,644 |
| 2024 | 90,644 |
| 2025 | 87,720 |
| 2026 | 78,950 |
| 2027 | 65,792 |
| Total finance lease payments | 413,750 |
| Less effects of discounting | (59,590) |
| Total finance lease obligation | $ 354,160 |

As of December 31, 2022, the weighted-average remaining lease term for all finance leases was 4.59 years.

The Organization utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with finance leases as of December 31, 2022, was 6.68%.

A schedule of future minimum lease payments due under operating leases as of December 31, 2022, follows:

| Years Ending December 31: | |
|---|---|
| 2023 | $ 394,728 |
| 2024 | 364,424 |
| 2025 | 250,448 |
| 2026 | 133,623 |
| 2027 | 22,592 |
| Total operating lease payments | 1,165,815 |
| Less effects of discounting | (61,012) |
| Total operating lease obligation | $ 1,104,803 |

As of December 31, 2022, the weighted-average remaining lease term for all operating leases was 3.21 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, 2022, was 3.29%.

### Note 9. 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.

| | **2022** | 2021 |
|---|---|---|
| Net assets without donor restrictions: | | |
| Undesignated | **$ 32,256,447** | $ 68,964,836 |
| Maryland Department of Aging reserve requirements | **7,379,691** | 7,257,690 |
| **Total net assets without donor restrictions** | **39,636,138** | 76,222,526 |
| Net assets with donor restrictions: | | |
| Purpose restricted for: | | |
| Operations | **1,382,120** | 928,941 |
| Capital projects | **529,297** | 529,365 |
| Charitable remainder trusts | **350,298** | 393,630 |
| Perpetual trusts | **2,632,774** | 2,396,035 |
| Restricted in perpetuity | **2,814,481** | 2,618,669 |
| **Total net assets with donor restrictions** | **7,708,970** | 6,866,640 |
| **Total net assets** | **$ 47,345,108** | $ 83,089,166 |

During the years ended December 31, 2022 and 2021, net assets of $153,611 and $59,641, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

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

## Note 10. 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:

| | 2022 | | | |
|---|---|---|---|---|
| | Resident Services | General and Administrative | Fundraising | Total |
| Salaries and wages | **$ 32,057,192** | **$ 6,164,660** | **$ 601,512** | **$ 38,823,364** |
| Employee benefits and payroll taxes | **6,631,057** | **1,190,252** | **135,833** | **7,957,142** |
| Professional fees | **8,722,962** | **2,461,860** | **-** | **11,184,822** |
| Ancillary and medical | **4,338,898** | **-** | **-** | **4,338,898** |
| Supplies | **1,772,372** | **155,476** | **34,851** | **1,962,699** |
| Food services | **3,366,561** | **96,587** | **8,676** | **3,471,824** |
| Utilities | **3,709,787** | **43,019** | **4,160** | **3,756,966** |
| Depreciation | **17,159,506** | **396,072** | **-** | **17,555,578** |
| Interest | **10,032,704** | **407,374** | **-** | **10,440,078** |
| Insurance | **831,156** | **668,326** | **-** | **1,499,482** |
| Real estate taxes | **1,717,674** | **222** | **-** | **1,717,896** |
| Repairs and maintenance | **1,715,693** | **195,021** | **-** | **1,910,714** |
| Advertising and marketing | **631,195** | **1,652,034** | **8,772** | **2,292,001** |
| Licenses, dues, and subscriptions | **704,088** | **1,363,090** | **14,330** | **2,081,508** |
| Other operating expenses | **928,697** | **999,218** | **10,886** | **1,938,801** |
| Bad debt expense | **370,092** | **6** | **-** | **370,098** |
| **Total** | **$ 94,689,634** | **$ 15,793,217** | **$ 819,020** | **$ 111,301,871** |

| | 2021 | | | |
|---|---|---|---|---|
| | Resident Services | General and Administrative | Fundraising | Total |
| Salaries and wages | $ 30,460,544 | $ 6,466,149 | $ 617,058 | $ 37,543,751 |
| Employee benefits and payroll taxes | 7,330,288 | 1,133,601 | 134,238 | 8,598,127 |
| Professional fees | 6,196,646 | 2,368,313 | 20 | 8,564,979 |
| Ancillary and medical | 4,878,844 | - | - | 4,878,844 |
| Supplies | 1,691,050 | 179,940 | 51,076 | 1,922,066 |
| Food services | 3,096,572 | 45,335 | 1,387 | 3,143,294 |
| Utilities | 3,326,066 | 52,190 | 4,060 | 3,382,316 |
| Depreciation | 17,218,314 | 24,341 | - | 17,242,655 |
| Interest | 11,368,490 | 549,062 | - | 11,917,552 |
| Insurance | 850,597 | 575,050 | - | 1,425,647 |
| Real estate taxes | 1,927,346 | 1,075 | - | 1,928,421 |
| Repairs and maintenance | 1,456,543 | 124,142 | - | 1,580,685 |
| Advertising and marketing | 741,149 | 684,404 | 16,289 | 1,441,842 |
| Licenses, dues, and subscriptions | 719,462 | 1,388,257 | 7,349 | 2,115,068 |
| Other operating expenses | 660,181 | 821,120 | 6,699 | 1,488,000 |
| Bad debt expense | 243,865 | - | - | 243,865 |
| **Total** | $ 92,165,957 | $ 14,412,979 | $ 838,176 | $ 107,417,112 |

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 11. Pension Plan

The Organization participates in a 403(b) defined contribution plan (Plan). The Plan states the Organization shall make a safe harbor contribution in an amount equal to 100% of each employee's contribution, up to a maximum of 3% of such participant's compensation. In addition, the Organization will contribute 50% of each employee's contribution up to the next 2% of such participant's compensation for each payroll period. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $666,091 and $657,367 for the years ended December 31, 2022 and 2021, respectively, and are included in employee benefits and payroll taxes on the consolidated statements of operations.

## Note 12. Benevolent Care

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

The Organization maintains records to identify and monitor the level of benevolent care it provides. The estimated cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided amounted to approximately $1,098,000 and $1,134,000 for the years ended December 31, 2022 and 2021, respectively. Benevolent care related to the Medicaid program amounted to approximately $3,900,000 and $3,491,000 for the years ended December 31, 2022 and 2021, respectively. The Organization received contributions of approximately $217,000 and $596,000 for the years ended December 31, 2022 and 2021, respectively, to offset or subsidize benevolent care services provided.

## Note 13. Medical Malpractice and General Liability Claims Coverage

The Organization participates in a reciprocal risk retention group (RRRG). The coverage is provided on a claims-made basis. Medical malpractice and general liability coverages were provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. Each claim has a $50,000 self-insured retention, prior to the primary insurance coverage. The Organization also has an excess umbrella policy for general liability coverage. The excess umbrella limit is $15,000,000 in the aggregate. The Organization funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRRG. As of December 31, 2022, no such adjustments to premiums are deemed necessary.

## Note 14. 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 potential future financial effects of this matter on the Organization, if any, are not presently determinable.

The Organization entered into certain commitments in March 2022, relative to a Solar Project that management believes will deliver energy savings to the Organization. Site development and other construction was completed as of December 31, 2022. Utility interconnection was completed during the first quarter of 2023. The future impact in savings is currently unknown.

## Note 15. Loss on Discontinued Operations

The Organization terminated operations of subsidiaries and segments of subsidiaries as part of a strategic shift. Petalo, LLC ceased operations in 2020 and was subsequently dissolved in June 2021. Operations were ceased at myPotential Clinic-Rockville, LLC in October 2021. The home health services segment at myPotential VA ceased operations in March 2021 and terminated their Medicare agreement effective July 2021. As a result of these transactions, the Organization recorded a loss on discontinued operations of $13,437 and $147,939 for the years ended December 31, 2022 and 2021, respectively, which is included in other changes on the consolidated statement of operations.

## Note 16. COVID-19 Pandemic

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The response to the pandemic had severely impacted the level of economic activity around the world and has had wide ranging effects on the Organization, including lost revenue, changing workforce dynamics, decreases in patient census, increases in expenses related to supply chain and other expenses, as well as increased funding sources.

Federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, which included, among other programs, the Provider Relief Fund (PRF).

The material government funding received by the Organization, and the corresponding accounting for the funding, is outlined below.

**U.S. Department of Health and Human Services (HHS) Provider Relief Fund:** During the year ended December 31, 2021, the Organization received in funding through the HHS PRF program established by the CARES Act $2,187,434, of which $313,080 was receivable and recognized as revenue as of and for the year ended December 31, 2020. No such funds were received in 2022. According to guidance provided by the HHS, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by the HHS, when spending the funds. If the health care provider is unable to justify utilization of the funds through lost revenue or COVID-19 expenses, the funds must be returned to the HHS.

The balance of advanced PRF funds unused to offset lost revenue and qualified expenditure is reported in refundable advances on the consolidated balance sheets and amounted to $0 and $4,198 as of December 31, 2022 and 2021, respectively. The $4,198 was subsequently rejected and returned to the HHS. Based on the Organization's calculation of lost revenue and COVID-19 expenses, the Organization has recognized $2,242,185 as Provider Relief Funds revenue during the year ended December 31, 2021, which included $490,528 of advanced PRF funds included as refundable advances as of December 31, 2020. No such revenue was recognized in 2022. Of the total recognized in 2021, $122,697 is related to myPotential VA and is recorded as part of the loss on discontinued operations. The Organization has utilized all available information in determining the proper utilization and accounting for these funds.

Also, included on the consolidated statements of operations for the years ended December 31, 2022 and 2021, in other grant funding, is $369,815 and $241,305, respectively, related to a two percent rate supplement passed through to the Maryland state Medicaid program from the American Rescue Plan Act (ARPA). Payments received subsequent to year end are included in accounts receivable on the consolidated balance sheets and totaled $184,907 and $121,257 as of December 31, 2022 and 2021, respectively. These funds were allocated based on the Organization's Medicaid revenues for the previous two fiscal years, which was intended to provide assistance with maintaining operations and keeping residents and staff safe during the pandemic. Additionally, through the ARPA, the Organization was awarded and recognized other grant funding amounting to $535,228 and $0, for the years ended December 31, 2022 and 2021, respectively, through the Maryland State and Local Fiscal Grant program, of which $219,662, is included in accounts receivable on the consolidated balance sheets as of December 31, 2022. No such receivable existed in 2021. The funds are to address the urgent needs of the facility for additional staffing, supplies, testing, and therapeutics. The Organization also was awarded and recognized various state grants amounting to $7,070 for the year ended December 31, 2022. No such funding was received or recognized in 2021.

**The Centers for Medicare and Medicaid Services (CMS) Accelerated/Advance Payments:** In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the CMS expanded its current Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. The expansion of this program is only for the duration of the public health emergency. An accelerated/advance payment is a payment intended to provide necessary funds when there is a disruption in claims submissions and/or claims processing. These expedited payments can also be offered in circumstances such as national emergencies, or natural disasters, in order to accelerate cash flow to the impacted health care provider and suppliers. The CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier who submits a request to the appropriate Medicare Administrative Contractor (MAC) and meet the required qualifications. The Eligibility & Process includes the following areas: Eligibility, Amount of Payment, Processing Time, Repayment, and Recoupment and Reconciliation. The Organization applied for and received $2,868,892 in 2020, which was included in accounts payable on the consolidated balance sheet. Due to the recoupment and reconciliation process of this program, takebacks during 2022 and 2021 amounted to $1,107,157 and $1,761,735, respectively, leaving a remaining balance of $0 as of December 31, 2022.

## Note 17. Modified Liquidity Agreement

On May 3, 2023 the Organization entered into a modified unrestricted and unencumbered cash and investment liquidity support agreement as it relates to the Organization's debt covenants. The modified liquidity support agreement sets updated liquidity requirements as of June 30, 2023, December 31, 2023, June 30, 2024, and December 31, 2024. Management expects to meet the modified terms of the liquidity agreement.

## Note 18. Subsequent Events

As stated in Note 6, TVOR incurred damages as a result of inclement weather in December 2022. The total loss was recognized in 2022; however, there will be additional costs incurred during 2023 related to water and mold remediation services, as well as capital expenditures to rebuild damaged units. The assessment is on-going, but current estimates are approaching total costs of $3 million. The Organization's insurance is expected to cover all costs in excess of their $50,000 deductible.

As described in Note 7 and Note 17, subsequent to year end, a waiver and modified agreement was obtained relative to the liquidity support agreement.

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

## CONSOLIDATING BALANCE SHEET
## December 31, 2022

| | TVAR | TVOR | TLNA | TVPP | TVAA | NLHA | NLI | myPotential VA | myPotential MD | Rockville Clinic | Impact 1890 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | | | | |
| Cash and cash equivalents | $ 21,465 | $ 1,901 | $ - | $ - | $ 4,808,771 | $ - | $ 714,124 | $ - | $ - | $ - | $ - | $ - | $ 5,546,261 |
| Accounts receivable, net | 3,006,415 | 338,207 | 4,797 | - | 1,402,889 | - | 2,500 | 38,375 | 63,248 | - | - | - | 4,856,431 |
| Prepaid expenses and other assets | 444,489 | 80,319 | 2,765 | 18,585 | 169,281 | - | 960,943 | - | - | - | - | - | 1,676,382 |
| Current portion of pledges receivable | - | 225,390 | 17,400 | - | 41,000 | - | - | - | - | - | - | - | 283,790 |
| Current portion of assets whose use is limited | 2,043,232 | 3,740,084 | 1,086,181 | 249,375 | - | - | - | - | - | - | - | - | 7,118,872 |
| **Total current assets** | 5,515,601 | 4,385,901 | 1,111,143 | 267,960 | 6,421,941 | - | 1,677,567 | 38,375 | 63,248 | - | - | - | 19,481,736 |
| ASSETS WHOSE USE IS LIMITED, net | 9,133,720 | 3,301,318 | 1,193,816 | 8,678,744 | 2,714,855 | - | - | - | - | - | - | - | 25,022,453 |
| INVESTMENTS | 4,274,133 | 1,973,249 | 104,080 | - | 5,209,213 | 15,735,628 | 899,037 | - | - | - | - | 43,933,649 | 72,128,989 |
| BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION | 31,428,690 | 8,521,759 | 4,733,637 | - | - | - | - | - | - | - | - | (44,684,086) | - |
| PROPERTY AND EQUIPMENT, net | 107,774,575 | 129,610,776 | 17,543,360 | 21,587,726 | 27,988,975 | - | 67,251 | 2,308 | - | - | - | - | 304,574,971 |
| FUNDS HELD IN TRUST BY OTHERS | 2,447,836 | 23,810 | - | - | 535,236 | - | - | - | - | - | - | - | 3,006,882 |
| GOODWILL | - | - | - | - | 2,000,000 | - | - | - | - | - | - | - | 2,000,000 |
| FINANCE RIGHT-OF-USE ASSETS | - | - | - | - | - | - | 354,160 | - | - | - | - | - | 354,160 |
| OPERATING RIGHT-OF-USE ASSETS | - | - | - | 564,532 | - | - | 540,271 | - | - | - | - | - | 1,104,803 |
| PLEDGES RECEIVABLE, net | - | - | - | - | 40,500 | - | - | - | - | - | - | - | 40,500 |
| **Total assets** | $ 160,574,555 | $ 147,816,813 | $ 24,686,036 | $ 31,098,962 | $ 44,910,720 | $ 15,735,628 | $ 3,538,286 | $ 40,683 | $ 63,248 | $ - | $ - | $ (750,437) | $ 427,714,494 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | | | | | |
| Accounts payable, trade | $ 179,818 | $ 22,577 | $ 3,147 | $ - | $ 116,436 | $ - | $ 2,746,083 | $ 2,182 | $ 113 | $ - | $ - | $ - | $ 3,070,356 |
| Accrued interest | 1,208,232 | 2,445,084 | 631,181 | 249,375 | 48,836 | - | - | - | - | - | - | - | 4,582,708 |
| Accrued expenses | 3,377,307 | 961,954 | 437,743 | 82,523 | 1,279,358 | 39,001 | 1,015,923 | 48,134 | 77,034 | - | - | - | 7,318,977 |
| Line of credit | - | - | - | - | - | 10,479,268 | - | - | - | - | - | - | 10,479,268 |
| Current portion of long-term debt | 835,000 | 1,295,000 | 455,000 | - | 811,000 | - | - | - | - | - | - | - | 3,396,000 |
| Current portion of finance lease liabilities | - | - | - | - | - | - | 90,644 | - | - | - | - | - | 90,644 |
| Current portion of operating lease liabilities | - | - | - | 231,453 | - | - | 163,275 | - | - | - | - | - | 394,728 |
| **Total current liabilities** | 5,600,357 | 4,724,615 | 1,527,071 | 563,351 | 2,255,630 | 10,518,269 | 4,015,925 | 50,316 | 77,147 | - | - | - | 29,332,681 |
| RESIDENT DEPOSITS | 448,767 | 136,005 | 7,000 | 8,153,804 | 120,434 | - | - | - | - | - | - | - | 8,866,010 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 32,844,292 | 28,459,533 | - | - | 2,739,454 | - | - | - | - | - | - | - | 64,043,279 |
| REFUNDABLE ENTRANCE FEES | 48,195,439 | 51,519,272 | - | - | 9,922,961 | - | - | - | - | - | - | - | 109,637,672 |
| LONG-TERM DEBT, net | 48,280,582 | 75,431,969 | 23,053,341 | 9,257,364 | 11,429,760 | - | - | - | - | - | - | - | 167,453,016 |
| FINANCE LEASE LIABILITIES | - | - | - | - | - | - | 263,516 | - | - | - | - | - | 263,516 |
| OPERATING LEASE LIABILITIES | - | - | - | 333,079 | - | - | 376,996 | - | - | - | - | - | 710,075 |
| ANNUITIES PAYABLE, net | 63,137 | - | - | - | - | - | - | - | - | - | - | - | 63,137 |
| DUE TO (FROM) AFFILIATES, net | 21,687,316 | 2,683,364 | 15,896,686 | 26,526,036 | 4,877,692 | (78,395,804) | (478,243) | 4,895,249 | 2,307,704 | - | - | - | - |
| **Total liabilities** | 157,119,890 | 162,954,758 | 40,484,098 | 44,833,634 | 31,345,931 | (67,877,535) | 4,178,194 | 4,945,565 | 2,384,851 | - | - | - | 380,369,386 |
| NET ASSETS (DEFICIT) | | | | | | | | | | | | | |
| Without donor restrictions | (890,934) | (17,274,875) | (16,061,378) | (13,740,772) | 12,894,584 | 83,613,163 | (1,014,012) | (4,904,882) | (2,321,603) | - | - | (663,153) | 39,636,138 |
| With donor restrictions | 4,345,599 | 2,136,930 | 263,316 | 6,100 | 670,205 | - | 374,104 | - | - | - | - | (87,284) | 7,708,970 |
| **Total net assets (deficit)** | 3,454,665 | (15,137,945) | (15,798,062) | (13,734,672) | 13,564,789 | 83,613,163 | (639,908) | (4,904,882) | (2,321,603) | - | - | (750,437) | 47,345,108 |
| **Total liabilities and net assets (deficit)** | $ 160,574,555 | $ 147,816,813 | $ 24,686,036 | $ 31,098,962 | $ 44,910,720 | $ 15,735,628 | $ 3,538,286 | $ 40,683 | $ 63,248 | $ - | $ - | $ (750,437) | $ 427,714,494 |

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

## CONSOLIDATING BALANCE SHEET
## December 31, 2021

| | TVAR | TVOR | TLNA | TVPP | TVAA | NLHA | NLI | myPotential VA | myPotential MD | Rockville Clinic | Petalo | Impact 1890 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | | | | | |
| Cash and cash equivalents | $ 6,456 | $ 35,616 | $ - | $ - | $ 3,736,241 | $ - | $ 2,574,868 | $ - | $ - | $ 9,732 | $ - | $ - | $ - | $ 6,362,913 |
| Accounts receivable, net | 1,788,222 | 382,487 | 44,844 | - | 1,054,859 | - | 32,730 | 62,968 | 66,754 | 2,807 | - | - | - | 3,435,671 |
| Prepaid expenses and other assets | 374,157 | 80,831 | 3,204 | 25,760 | 198,764 | - | 1,020,025 | - | - | - | - | 2,963 | - | 1,705,704 |
| Current portion of pledges receivable | 3,000 | 20,500 | 16,969 | - | 12,396 | - | 27,691 | - | - | - | - | - | - | 80,556 |
| Current portion of assets whose use is limited | 8,947,755 | 3,691,322 | 1,057,075 | 135,771 | - | - | - | - | - | - | - | - | - | 13,831,923 |
| **Total current assets** | 11,119,590 | 4,210,756 | 1,122,092 | 161,531 | 5,002,260 | - | 3,655,314 | 62,968 | 66,754 | 12,539 | - | 2,963 | - | 25,416,767 |
| ASSETS WHOSE USE IS LIMITED, net | 7,002,948 | 3,405,269 | 1,188,471 | 4,365,859 | 3,012,891 | - | 248,913 | - | - | - | - | - | - | 19,224,351 |
| INVESTMENTS | 5,110,800 | 2,155,689 | 116,149 | - | 5,932,189 | 25,147,240 | 853,314 | - | - | - | - | - | 53,872,359 | 93,187,740 |
| BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION | 38,600,397 | 10,839,719 | 5,182,680 | - | - | - | - | - | - | - | - | - | (54,622,796) | - |
| PROPERTY AND EQUIPMENT, net | 112,064,322 | 135,105,603 | 18,458,585 | 16,481,754 | 29,824,294 | - | 69,104 | 5,093 | - | 255 | - | - | - | 312,009,010 |
| FUNDS HELD IN TRUST BY OTHERS | 2,094,490 | 23,810 | - | - | 692,176 | - | - | - | - | - | - | - | - | 2,810,476 |
| GOODWILL | - | - | - | - | 2,000,000 | - | - | - | - | - | - | - | - | 2,000,000 |
| FINANCE RIGHT-OF-USE ASSETS | - | - | - | - | - | - | 40,358 | - | - | - | - | - | - | 40,358 |
| OPERATING RIGHT-OF-USE ASSETS | - | - | - | 768,364 | - | - | 692,565 | 26,432 | - | - | - | - | - | 1,487,361 |
| PLEDGES RECEIVABLE, net | - | 25,453 | - | - | - | - | - | - | - | - | - | - | - | 25,453 |
| **Total assets** | $ 175,992,547 | $ 155,766,299 | $ 26,067,977 | $ 21,777,508 | $ 46,463,810 | $ 25,147,240 | $ 5,559,568 | $ 94,493 | $ 66,754 | $ 12,794 | $ - | $ 2,963 | $ (750,437) | $ 456,201,516 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | | | | | | |
| Accounts payable, trade | $ 962,495 | $ 143,829 | $ 3,389 | $ - | $ 256,596 | $ - | $ 1,649,880 | $ 1,128 | $ - | $ - | $ - | $ 57,660 | $ - | $ 3,074,977 |
| Accrued interest | 1,542,755 | 2,481,322 | 642,075 | 135,771 | 31,500 | - | - | - | - | - | - | - | - | 4,833,423 |
| Accrued expenses | 3,012,341 | 1,082,462 | 436,346 | 8,125 | 1,557,469 | 45,000 | 1,364,022 | 93,895 | 80,119 | 10,958 | - | - | - | 7,690,737 |
| Line of credit | - | - | - | - | - | 7,194,363 | - | - | - | - | - | - | - | 7,194,363 |
| Current portion of long-term debt | 10,395,000 | 1,210,000 | 415,000 | - | 790,525 | - | - | - | - | - | - | - | - | 12,810,525 |
| Current portion of finance lease liabilities | - | - | - | - | - | - | 38,424 | - | - | - | - | - | - | 38,424 |
| Current portion of operating lease liabilities | - | - | - | 225,808 | - | - | 173,313 | - | - | - | - | - | - | 399,121 |
| Refundable advances | - | - | - | - | - | - | - | 3,698 | - | 500 | - | - | - | 4,198 |
| **Total current liabilities** | 15,912,591 | 4,917,613 | 1,496,810 | 369,704 | 2,636,090 | 7,239,363 | 3,225,639 | 98,721 | 80,119 | 11,458 | - | 57,660 | - | 36,045,768 |
| RESIDENT DEPOSITS | 436,831 | 228,363 | 20,550 | 3,867,797 | 136,625 | - | - | - | - | - | - | - | - | 4,690,166 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 29,579,175 | 28,560,152 | - | - | 2,343,155 | - | - | - | - | - | - | - | - | 60,482,482 |
| REFUNDABLE ENTRANCE FEES | 37,577,591 | 49,407,677 | - | - | 10,049,115 | - | - | - | - | - | - | - | - | 97,034,383 |
| LONG-TERM DEBT, net | 52,445,807 | 76,558,264 | 23,382,427 | 9,111,782 | 12,206,082 | - | - | - | - | - | - | - | - | 173,704,362 |
| FINANCE LEASE LIABILITIES | - | - | - | - | - | - | 1,934 | - | - | - | - | - | - | 1,934 |
| OPERATING LEASE LIABILITIES | - | - | - | 542,556 | - | - | 519,252 | 26,432 | - | - | - | - | - | 1,088,240 |
| ANNUITIES PAYABLE | 65,015 | - | - | - | - | - | - | - | - | - | - | - | - | 65,015 |
| DUE TO (FROM) AFFILIATES, net | 24,331,844 | 5,808,784 | 13,523,331 | 18,526,499 | 1,521,313 | (66,828,090) | (5,796,294) | 4,482,392 | 1,918,513 | 936,903 | - | 1,574,805 | - | - |
| **Total liabilities** | 160,348,854 | 165,480,853 | 38,423,118 | 32,418,338 | 28,892,380 | (59,588,727) | (2,049,469) | 4,607,545 | 1,998,632 | 948,361 | - | 1,632,465 | - | 373,112,350 |
| NET ASSETS (DEFICIT) | | | | | | | | | | | | | | |
| Without donor restrictions | 11,703,560 | (11,461,539) | (12,601,437) | (10,640,830) | 16,829,426 | 84,735,967 | 7,330,531 | (4,513,052) | (1,931,878) | (935,567) | - | (1,629,502) | (663,153) | 76,222,526 |
| With donor restrictions | 3,940,133 | 1,746,985 | 246,296 | - | 742,004 | - | 278,506 | - | - | - | - | - | (87,284) | 6,866,640 |
| **Total net assets (deficit)** | 15,643,693 | (9,714,554) | (12,355,141) | (10,640,830) | 17,571,430 | 84,735,967 | 7,609,037 | (4,513,052) | (1,931,878) | (935,567) | - | (1,629,502) | (750,437) | 83,089,166 |
| **Total liabilities and net assets (deficit)** | $ 175,992,547 | $ 155,766,299 | $ 26,067,977 | $ 21,777,508 | $ 46,463,810 | $ 25,147,240 | $ 5,559,568 | $ 94,493 | $ 66,754 | $ 12,794 | $ - | $ 2,963 | $ (750,437) | $ 456,201,516 |

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

## CONSOLIDATING STATEMENT OF OPERATIONS
### Year Ended December 31, 2022

| | TVAR | TVOR | TLNA | TVPP | TVAA | NLHA | NLI | myPotential VA | myPotential MD | Rockville Clinic | Impact 1890 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGES IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | | | | | | | | | | | | | |
| Revenue: | | | | | | | | | | | | | |
| Net resident service revenue, including amortization of entrance fees $10,164,500 | $ 33,127,989 | $ 23,742,809 | $ 6,654,634 | $ 2,300 | $ 15,817,061 | $ - | $ - | $ 579,827 | $ 739,657 | $ - | $ - | $ (22,370) | $ 80,641,907 |
| Other grant funding | 466,388 | 5,670 | 1,400 | - | 438,655 | - | - | - | - | - | - | - | 912,113 |
| Management fee | - | - | - | - | - | - | 5,274,420 | - | - | - | - | (5,274,420) | - |
| (Loss) on disposal of property and equipment | - | (508,258) | - | - | - | - | - | - | - | - | - | - | (508,258) |
| Net assets released from restriction, operations | 25,493 | 8,599 | - | - | 119,019 | - | 500 | - | - | - | - | - | 153,611 |
| **Total operating revenue** | 33,619,870 | 23,248,820 | 6,656,034 | 2,300 | 16,374,735 | - | 5,274,920 | 579,827 | 739,657 | - | - | (5,296,790) | 81,199,373 |
| Operating expenses: | | | | | | | | | | | | | |
| Salaries and wages | 14,161,325 | 5,200,593 | 2,616,165 | 393,104 | 9,082,195 | - | 5,907,623 | 681,775 | 780,584 | - | - | - | 38,823,364 |
| Employee benefits and payroll taxes | 3,028,686 | 1,099,364 | 610,205 | 73,624 | 1,790,575 | - | 1,066,865 | 164,531 | 123,292 | - | - | - | 7,957,142 |
| Professional fees | 3,469,276 | 2,358,791 | 2,022,652 | 305,839 | 2,339,663 | - | 691,606 | (74,921) | 94,286 | - | - | (22,370) | 11,184,822 |
| Ancillary and medical | 2,405,335 | 978,208 | 50,526 | - | 904,829 | - | - | - | - | - | - | - | 4,338,898 |
| Supplies | 649,986 | 561,776 | 103,865 | 7,931 | 506,520 | - | 121,931 | 7,412 | 3,278 | - | - | - | 1,962,699 |
| Food services | 1,315,109 | 939,826 | 383,057 | 1,910 | 797,105 | - | 32,968 | 819 | 1,030 | - | - | - | 3,471,824 |
| Utilities | 1,592,758 | 996,886 | 199,626 | 1,760 | 916,863 | - | 38,254 | 5,447 | 5,372 | - | - | - | 3,756,966 |
| Depreciation | 6,367,709 | 6,742,157 | 973,950 | 370,043 | 3,075,690 | - | 23,242 | 2,787 | - | - | - | - | 17,555,578 |
| Interest | 3,289,818 | 5,136,890 | 1,518,820 | - | 494,550 | - | - | - | - | - | - | - | 10,440,078 |
| Insurance | 231,722 | 179,249 | 27,574 | 646 | 392,611 | - | 665,383 | 1,849 | 448 | - | - | - | 1,499,482 |
| Real estate taxes | 885,046 | 563,190 | 123,281 | - | 146,157 | - | 222 | - | - | - | - | - | 1,717,896 |
| Repairs and maintenance | 686,261 | 637,727 | 102,627 | 6,298 | 462,699 | - | 11,505 | 3,227 | 370 | - | - | - | 1,910,714 |
| Advertising and marketing | 227,870 | 119,716 | 79,111 | 1,651,318 | 159,807 | - | 42,340 | 7,694 | 4,145 | - | - | - | 2,292,001 |
| Licenses, dues, and subscriptions | 655,857 | 348,364 | 173,110 | 44,679 | 352,131 | - | 457,506 | 21,149 | 25,449 | - | 3,263 | - | 2,081,508 |
| Other operating expenses | 430,889 | 407,277 | 154,764 | 246,090 | 225,589 | - | 429,105 | 43,122 | 21,563 | - | (15,158) | (4,440) | 1,938,801 |
| Bad debt expense | 163,621 | 52,572 | - | - | 153,335 | - | - | 570 | - | - | - | - | 370,098 |
| Management fee | 2,793,747 | 1,716,805 | 596,937 | - | - | - | - | 97,366 | 69,565 | - | - | (5,274,420) | - |
| **Total operating expenses** | 42,355,015 | 28,039,391 | 9,736,270 | 3,103,242 | 21,800,319 | - | 9,488,550 | 962,827 | 1,129,382 | - | (11,895) | (5,301,230) | 111,301,871 |
| **Excess (deficiency) of operating revenue over expenses** | (8,735,145) | (4,790,571) | (3,080,236) | (3,100,942) | (5,425,584) | - | (4,213,630) | (383,000) | (389,725) | - | 11,895 | 4,440 | (30,102,498) |
| Nonoperating revenue (expenses): | | | | | | | | | | | | | |
| Contributions | 110,702 | 18,217 | 2,923 | 1,000 | 203,444 | - | 21,581 | - | - | - | - | - | 357,867 |
| Other income | 146,915 | 76,264 | 3,530 | - | 92,313 | - | 594,698 | - | - | - | - | (4,440) | 909,280 |
| Interest and dividends, net fees | 1,091,521 | 364,225 | 151,703 | - | 69,990 | 489,823 | 10,589 | - | - | - | - | - | 2,177,851 |
| Realized gains | 2,078,654 | 617,958 | 259,246 | - | 720,536 | 881,624 | - | - | - | - | - | - | 4,558,018 |
| Unrealized (losses) | (7,028,329) | (2,123,602) | (810,534) | - | (1,795,541) | (2,538,438) | - | - | - | - | - | - | (14,296,444) |
| (Loss) on extinguishment of debt | (361,695) | - | - | - | - | - | - | - | - | - | - | - | (361,695) |
| **Total nonoperating revenue (expenses)** | (3,962,232) | (1,046,938) | (393,132) | 1,000 | (709,258) | (1,166,991) | 626,868 | - | - | - | - | (4,440) | (6,655,123) |
| **Excess (deficiency) of operating and nonoperating revenue over expenses** | (12,697,377) | (5,837,509) | (3,473,368) | (3,099,942) | (6,134,842) | (1,166,991) | (3,586,762) | (383,000) | (389,725) | - | 11,895 | - | (36,757,621) |
| Other changes: | | | | | | | | | | | | | |
| Unrealized gains | 102,883 | 24,173 | 13,427 | - | - | 44,187 | - | - | - | - | - | - | 184,670 |
| Equity transfer | - | - | - | - | 2,200,000 | - | (2,200,000) | - | - | - | - | - | - |
| (Loss) on discontinued operations | - | - | - | - | - | - | - | (8,830) | - | (4,607) | - | - | (13,437) |
| Gain (loss) on forgiveness of due to (from) affiliates | - | - | - | - | - | - | (2,557,781) | - | - | 940,174 | 1,617,607 | - | - |
| **Total other changes** | 102,883 | 24,173 | 13,427 | - | 2,200,000 | 44,187 | (4,757,781) | (8,830) | - | 935,567 | 1,617,607 | - | 171,233 |
| **Change in net assets (deficit) without donor restrictions** | $ (12,594,494) | $ (5,813,336) | $ (3,459,941) | $ (3,099,942) | $ (3,934,842) | $ (1,122,804) | $ (8,344,543) | $ (391,830) | $ (389,725) | $ 935,567 | $ 1,629,502 | $ - | $ (36,586,388) |

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

## CONSOLIDATING STATEMENT OF OPERATIONS
## Year Ended December 31, 2021

| | TVAR | TVOR | TLNA | TVPP | TVAA | NLHA | NLI | myPotential VA | myPotential MD | Rockville Clinic | Petalo | Impact 1890 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGES IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | | | | | | | | | | | | | | |
| Revenue: | | | | | | | | | | | | | | |
| Net resident service revenue, including amortization of entrance fees $7,583,917 | $ 30,136,124 | $ 21,389,904 | $ 6,229,366 | $ - | $ 15,833,877 | $ - | $ - | $ 654,731 | $ 609,208 | $ - | $ - | $ - | $ (39,522) | $ 74,813,688 |
| Provider Relief Funds | 286,965 | 30,245 | 1,058,423 | - | 866,552 | - | - | - | - | - | - | - | - | 2,242,185 |
| Other grant funding | 115,830 | - | - | - | 125,475 | - | - | - | - | - | - | - | - | 241,305 |
| Management fee | - | - | - | - | - | - | 5,321,553 | - | - | - | - | - | (5,321,553) | - |
| (Loss) on sale or disposal of property and equipment | - | - | - | - | - | - | (83,345) | - | - | - | - | - | - | (83,345) |
| Net assets released from restriction, operations | 14,204 | 19,072 | - | - | 4,000 | - | 13,000 | - | - | - | - | - | - | 50,276 |
| **Total operating revenue** | 30,553,123 | 21,439,221 | 7,287,789 | - | 16,829,904 | - | 5,251,208 | 654,731 | 609,208 | - | - | - | (5,361,075) | 77,264,109 |
| Operating expenses: | | | | | | | | | | | | | | |
| Salaries and wages | 13,611,958 | 4,734,152 | 2,606,746 | 308,068 | 8,606,897 | - | 6,131,457 | 836,971 | 707,502 | - | - | - | - | 37,543,751 |
| Employee benefits and payroll taxes | 3,372,917 | 1,050,580 | 699,828 | 60,196 | 1,780,418 | - | 1,286,753 | 208,225 | 139,210 | - | - | - | - | 8,598,127 |
| Professional fees | 3,159,582 | 2,193,959 | 459,817 | 65,317 | 1,654,113 | - | 947,325 | (77,090) | 130,053 | - | - | 71,425 | (39,522) | 8,564,979 |
| Ancillary and medical | 2,669,424 | 947,199 | 24,093 | - | 1,238,128 | - | - | - | - | - | - | - | - | 4,878,844 |
| Supplies | 665,171 | 467,513 | 144,544 | 12,334 | 471,369 | - | 147,521 | 8,365 | 5,309 | - | - | (60) | - | 1,922,066 |
| Food services | 1,190,617 | 903,898 | 296,420 | 788 | 727,874 | - | 21,920 | 979 | 798 | - | - | - | - | 3,143,294 |
| Utilities | 1,445,087 | 949,753 | 181,227 | 1,920 | 743,359 | - | 43,058 | 13,203 | 4,709 | - | - | - | - | 3,382,316 |
| Depreciation | 6,333,695 | 6,868,664 | 975,123 | - | 3,040,832 | - | 20,397 | 3,944 | - | - | - | - | - | 17,242,655 |
| Interest | 4,706,019 | 5,247,196 | 1,499,833 | - | 454,539 | - | - | - | 9,965 | - | - | - | - | 11,917,552 |
| Insurance | 190,249 | 165,812 | 25,847 | - | 468,689 | - | 569,364 | 5,063 | 546 | - | - | 77 | - | 1,425,647 |
| Real estate taxes | 1,052,532 | 597,878 | 122,686 | - | 154,250 | - | - | 1,101 | (26) | - | - | - | - | 1,928,421 |
| Repairs and maintenance | 558,199 | 520,044 | 94,910 | - | 390,994 | - | 10,582 | 5,956 | - | - | - | - | - | 1,580,685 |
| Advertising and marketing | 358,558 | 195,242 | 63,357 | 621,047 | 106,014 | - | 64,644 | 25,316 | 7,664 | - | - | - | - | 1,441,842 |
| Licenses, dues, and subscriptions | 684,805 | 377,744 | 187,496 | 22,275 | 327,478 | - | 430,210 | 53,880 | 24,052 | - | - | 7,128 | - | 2,115,068 |
| Other operating expenses | 294,700 | 301,752 | 97,090 | 220,112 | 166,820 | - | 397,548 | 64,887 | 21,251 | - | - | - | (76,160) | 1,488,000 |
| Bad debt expense | 111,859 | 28,732 | - | - | 103,274 | - | - | - | - | - | - | - | - | 243,865 |
| Management fee | 2,892,600 | 1,693,918 | 501,750 | - | - | - | - | 149,505 | 42,758 | - | - | 30,000 | (5,310,531) | - |
| **Total operating expenses** | 43,297,972 | 27,244,036 | 7,980,767 | 1,312,057 | 20,435,048 | - | 10,070,779 | 1,300,305 | 1,093,791 | - | - | 108,570 | (5,426,213) | 107,417,112 |
| **(Deficiency) of operating revenue over expenses** | (12,744,849) | (5,804,815) | (692,978) | (1,312,057) | (3,605,144) | - | (4,819,571) | (645,574) | (484,583) | - | - | (108,570) | 65,138 | (30,153,003) |
| Nonoperating revenue (expenses): | | | | | | | | | | | | | | |
| Contributions | 73,819 | 5,162 | 6,432 | - | 153,487 | - | 753 | - | - | - | - | - | - | 239,653 |
| Other income | 219,303 | 109,375 | 3,857 | - | 33,914 | - | 530,172 | - | - | - | - | - | (52,161) | 844,460 |
| Interest and dividends | 990,954 | 341,368 | 114,034 | - | 120,882 | 640,062 | 35,856 | - | - | - | - | - | - | 2,243,156 |
| Realized gains (losses) | 1,543,722 | 652,411 | 168,307 | - | 773,737 | 1,081,241 | (750,000) | - | - | - | - | - | 750,000 | 4,219,418 |
| Unrealized gains | 2,555,984 | 1,113,919 | 310,665 | - | 713,729 | 1,933,212 | - | - | - | - | - | - | - | 6,627,509 |
| (Loss) on extinguishment of debt | (905,487) | - | - | - | - | - | - | - | - | - | - | - | - | (905,487) |
| **Total nonoperating revenue (expenses)** | 4,478,295 | 2,222,235 | 603,295 | - | 1,795,749 | 3,654,515 | (183,219) | - | - | - | - | - | 697,839 | 13,268,709 |
| **Excess (deficiency) of operating and nonoperating revenue over expenses** | (8,266,554) | (3,582,580) | (89,683) | (1,312,057) | (1,809,395) | 3,654,515 | (5,002,790) | (645,574) | (484,583) | - | - | (108,570) | 762,977 | (16,884,294) |
| Other changes: | | | | | | | | | | | | | | |
| Unrealized gains | 235,542 | 59,334 | 28,355 | - | - | 137,081 | - | - | - | - | - | - | - | 460,312 |
| Equity transfer | - | - | - | - | 1,200,000 | - | (1,200,000) | - | - | - | - | - | - | - |
| Gain (loss) on discontinued operations | - | - | - | - | - | - | (1,020,924) | 95,767 | - | (207,098) | 997,293 | - | (12,977) | (147,939) |
| Net assets released from restriction, capital purchases | - | 9,365 | - | - | - | - | - | - | - | - | - | - | - | 9,365 |
| **Total other changes** | 235,542 | 68,699 | 28,355 | - | 1,200,000 | 137,081 | (2,220,924) | 95,767 | - | (207,098) | 997,293 | - | (12,977) | 321,738 |
| **Change in net assets (deficit) without donor restrictions** | $ (8,031,012) | $ (3,513,881) | $ (61,328) | $ (1,312,057) | $ (609,395) | $ 3,791,596 | $ (7,223,714) | $ (549,807) | $ (484,583) | $ (207,098) | $ 997,293 | $ (108,570) | $ 750,000 | $ (16,562,556) |

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

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)
## Year Ended December 31, 2022

| | TVAR | TVOR | TLNA | TVPP | TVAA | NLHA | NLI | myPotential VA | myPotential MD | Rockville Clinic | Impact 1890 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHANGES IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS | | | | | | | | | | | | | |
| Excess (deficiency) of operating and nonoperating revenue over expenses | $ (12,697,377) | $ (5,837,509) | $ (3,473,368) | $ (3,099,942) | $ (6,134,842) | $ (1,166,991) | $ (3,586,762) | $ (383,000) | $ (389,725) | $ - | $ 11,895 | $ - | $ (36,757,621) |
| Unrealized gains | 102,883 | 24,173 | 13,427 | - | - | 44,187 | - | - | - | - | - | - | 184,670 |
| Equity transfer | - | - | - | - | 2,200,000 | - | (2,200,000) | - | - | - | - | - | - |
| (Loss) on discontinued operations | - | - | - | - | - | - | - | (8,830) | - | (4,607) | - | - | (13,437) |
| Gain (loss) on forgiveness of due to (from) affiliates | - | - | - | - | - | - | (2,557,781) | - | - | 940,174 | 1,617,607 | - | - |
| **Change in net assets (deficit) without donor restrictions** | (12,594,494) | (5,813,336) | (3,459,941) | (3,099,942) | (3,934,842) | (1,122,804) | (8,344,543) | (391,830) | (389,725) | 935,567 | 1,629,502 | - | (36,586,388) |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | | | | | | | | | | | | |
| Contributions | 609,233 | 398,544 | 17,020 | 6,100 | 204,160 | - | 96,098 | - | - | - | - | - | 1,331,155 |
| Funds held in trust income | 13,280 | - | - | - | - | - | - | - | - | - | - | - | 13,280 |
| Change in value of funds held in trust by others | (191,554) | - | - | - | (156,940) | - | - | - | - | - | - | - | (348,494) |
| Net assets released from restriction | (25,493) | (8,599) | - | - | (119,019) | - | (500) | - | - | - | - | - | (153,611) |
| **Change in net assets with donor restrictions** | 405,466 | 389,945 | 17,020 | 6,100 | (71,799) | - | 95,598 | - | - | - | - | - | 842,330 |
| **Change in net assets (deficit)** | (12,189,028) | (5,423,391) | (3,442,921) | (3,093,842) | (4,006,641) | (1,122,804) | (8,248,945) | (391,830) | (389,725) | 935,567 | 1,629,502 | - | (35,744,058) |
| Net assets (deficit): | | | | | | | | | | | | | |
| Beginning | 15,643,693 | (9,714,554) | (12,355,141) | (10,640,830) | 17,571,430 | 84,735,967 | 7,609,037 | (4,513,052) | (1,931,878) | (935,567) | (1,629,502) | (750,437) | 83,089,166 |
| Ending | $ 3,454,665 | $ (15,137,945) | $ (15,798,062) | $ (13,734,672) | $ 13,564,789 | $ 83,613,163 | $ (639,908) | $ (4,904,882) | $ (2,321,603) | $ - | $ - | $ (750,437) | $ 47,345,108 |

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

## CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)
## Year Ended December 31, 2021

| | TVAR | TVOR | TLNA | TVPP | TVAA | 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 | $ (8,266,554) | $ (3,582,580) | $ (89,683) | $ (1,312,057) | $ (1,809,395) | $ 3,654,515 | $ (5,002,790) | $ (645,574) | $ (484,583) | $ - | $ - | $ (108,570) | $ 762,977 | $ (16,884,294) |
| Unrealized gains | 235,542 | 59,334 | 28,355 | - | - | 137,081 | - | - | - | - | - | - | - | 460,312 |
| Equity transfer | - | - | - | - | 1,200,000 | - | (1,200,000) | - | - | - | - | - | - | - |
| Gain (loss) on discontinued operations | - | - | - | - | - | - | (1,020,924) | 95,767 | - | (207,098) | 997,293 | - | (12,977) | (147,939) |
| Net assets released from restriction, capital purchases | - | 9,365 | - | - | - | - | - | - | - | - | - | - | - | 9,365 |
| **Change in net assets (deficit) without donor restrictions** | (8,031,012) | (3,513,881) | (61,328) | (1,312,057) | (609,395) | 3,791,596 | (7,223,714) | (549,807) | (484,583) | (207,098) | 997,293 | (108,570) | 750,000 | (16,562,556) |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | | | | | | | | | | | | | |
| Contributions | 342,481 | 266,909 | 97,290 | - | 54,162 | - | 42,722 | - | - | - | - | - | - | 803,564 |
| Funds held in trust income | 15,466 | - | - | - | - | - | - | - | - | - | - | - | - | 15,466 |
| Change in value of funds held in trust by others | 56,469 | - | - | - | - | - | - | - | - | - | - | - | - | 56,469 |
| Net assets released from restriction | (14,204) | (28,437) | - | - | (4,000) | - | (13,000) | - | - | - | - | - | - | (59,641) |
| **Change in net assets with donor restrictions** | 400,212 | 238,472 | 97,290 | - | 50,162 | - | 29,722 | - | - | - | - | - | - | 815,858 |
| **Change in net assets (deficit)** | (7,630,800) | (3,275,409) | 35,962 | (1,312,057) | (559,233) | 3,791,596 | (7,193,992) | (549,807) | (484,583) | (207,098) | 997,293 | (108,570) | 750,000 | (15,746,698) |
| Net assets (deficit): | | | | | | | | | | | | | | |
| Beginning | 23,274,493 | (6,439,145) | (12,391,103) | (9,328,773) | 18,130,663 | 80,944,371 | 14,803,029 | (3,963,245) | (1,447,295) | (728,469) | (997,293) | (1,520,932) | (1,500,437) | 98,835,864 |
| Ending | $ 15,643,693 | $ (9,714,554) | $ (12,355,141) | $ (10,640,830) | $ 17,571,430 | $ 84,735,967 | $ 7,609,037 | $ (4,513,052) | $ (1,931,878) | $ (935,567) | $ - | $ (1,629,502) | $ (750,437) | $ 83,089,166 |