AUGSBURG LUTHERAN HOME OF MARYLAND, INC. d/b/a THE VILLAGE AT AUGSBURG

Financial Report
December 31, 2020

Arnett Carbis Toothman llp
CPAs & Advisors

C O N T E N T S

Arnett Carbis Toothman llp
CPAs & Advisors

actcpas.com

2599 Wilmington Road
New Castle, PA 16105
724.658.1565 | 724.658.2402 fax
800.452.3003

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Augsburg Lutheran Home of Maryland, Inc.
d/b/a The Village at Augsburg
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg (Organization), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg as of December 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg as of and for the year ended December 31, 2019, were audited by other auditors, whose report, dated March 6, 2020, expressed an unmodified opinion on those statements.

Emphasis of Matters

As discussed in Note 17 to the financial statements, the Organization received government funding through the Small Business Administration (SBA) Paycheck Protection Program (PPP) and the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF) consequent to the operating conditions created by the COVID-19 pandemic. Our opinion is not modified with respect to these matters.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 15, 2021

AUGSBURG LUTHERAN HOME OF MARYLAND, INC.
d/b/a THE VILLAGE AT AUGSBURG

BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	**2020**	2019
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,892,673**	$ 257,086
Assets whose use is limited, restricted cash	**30,568**	-
Accounts receivable, net	**1,271,575**	1,595,389
Prepaid expenses and other assets	**241,238**	262,447
Total current assets	**3,436,054**	2,114,922
ASSETS WHOSE USE IS LIMITED	**2,983,762**	3,093,070
INVESTMENTS	**9,042,459**	9,587,893
GOODWILL	**2,000,000**	-
PROPERTY AND EQUIPMENT, net	**31,220,484**	18,048,189
FUNDS HELD IN TRUST BY OTHERS	**664,414**	-
Total assets	**$ 49,347,173**	$ 32,844,074

See Notes to Financial Statements

LIABILITIES AND NET ASSETS		**2020**		2019
CURRENT LIABILITIES				
Accounts payable, trade	**$**	**524,842**	$	450,089
Accrued expenses		**1,591,931**		1,870,280
Current portion of long-term debt		**780,232**		719,000
Line of credit		**950,000**		550,000
Refundable advances		**269,083**		-
Total current liabilities		**4,116,088**		3,589,369
DEFERRED REVENUE FROM ENTRANCE FEES		**2,685,334**		3,592,620
REFUNDABLE ENTRANCE FEES		**10,461,781**		11,027,447
RESIDENT DEPOSITS		**117,500**		139,643
LONG-TERM DEBT, net		**12,953,948**		13,744,558
DUE TO AFFILIATE, net		**881,859**		-
Total liabilities		**31,216,510**		32,093,637
NET ASSETS				
Without donor restrictions		**17,438,821**		663,153
With donor restrictions		**691,842**		87,284
Total net assets		**18,130,663**		750,437
Total liabilities and net assets	**$**	**49,347,173**	$	32,844,074

See Notes to Financial Statements

AUGSBURG LUTHERAN HOME OF MARYLAND, INC.
d/b/a THE VILLAGE AT AUGSBURG

STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue; including amortization of entrance fees 2020 $882,895; 2019 $619,008	**$ 17,058,267**	$ 19,638,637
Provider Relief Funds	**1,118,728**	-
Paycheck Protection Program contribution	**2,277,900**	-
Total operating revenue	**20,454,895**	19,638,637
Operating expenses:		
Salaries and wages	**9,700,630**	10,289,525
Employee benefits and payroll taxes	**2,284,073**	2,167,843
Professional fees	**1,012,586**	1,284,068
Ancillary and medical	**1,377,348**	1,186,036
Supplies	**667,668**	321,331
Food services	**738,588**	755,700
Utilities	**560,587**	640,026
Depreciation	**3,113,497**	1,926,999
Interest	**494,456**	621,933
Insurance	**476,672**	482,669
Real estate taxes	**238,528**	264,032
Repairs and maintenance	**487,285**	558,868
Advertising and marketing	**136,523**	229,096
Licenses, dues, and subscriptions	**337,032**	136,212
Other operating expenses	**183,666**	363,239
Bad debt expense	**307,946**	370,000
Management fee	**416,430**	-
Total operating expenses	**22,533,515**	21,597,577
(Deficiency) of operating revenue over expenses	**(2,078,620)**	(1,958,940)
Nonoperating revenue (expenses):		
Loss on impairment	**-**	(361,303)
Contributions	**263,853**	81,061
Interest and dividends	**244,361**	380,547
Other income	**87,384**	14,083
Realized gains (losses)	**(212,420)**	190,166
Unrealized gains	**441,662**	1,271,309
Total nonoperating revenue	**824,840**	1,575,863
(Deficiency) of operating and nonoperating revenue over expenses	**(1,253,780)**	(383,077)
Other changes:		
Unrealized gains	**113,701**	75,635
Net assets released from restrictions, capital purchases	**60,596**	-
Fair value adjustment for affiliation	**17,855,151**	-
Total other changes	**18,029,448**	75,635
Change in net assets without donor restrictions	**$ 16,775,668**	$ (307,442)

See Notes to Financial Statements

AUGSBURG LUTHERAN HOME OF MARYLAND, INC.
d/b/a THE VILLAGE AT AUGSBURG

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (1,253,780)**	$ (383,077)
Unrealized gains	**113,701**	75,635
Net assets released from restriction, capital purchases	**60,596**	-
Fair value adjustment for affiliation	**17,855,151**	-
Change in net assets without donor restrictions	**16,775,668**	(307,442)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**665,154**	234,303
Net assets released from restriction, capital purchases	**(60,596)**	-
Change in net assets with donor restrictions	**604,558**	234,303
Change in net assets	**17,380,226**	(73,139)
Net assets:		
Beginning	**750,437**	823,576
Ending	**$ 18,130,663**	$ 750,437

See Notes to Financial Statements

AUGSBURG LUTHERAN HOME OF MARYLAND, INC.
d/b/a THE VILLAGE AT AUGSBURG

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,380,226	$ (73,139)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,113,497	1,926,999
Provision for bad debts	307,946	370,000
Fair value adjustment for affiliation	(17,855,151)	-
Amortization of deferred financing costs	24,810	34,678
Amortization of entrance fees	(882,895)	(619,008)
Proceeds from entrance fees	70,000	2,681,121
Realized (gains) losses	212,420	(190,166)
Unrealized gains	(555,363)	(1,346,944)
Gain on funds held in trust	(664,414)	-
Loss on impairment	-	361,303
Changes in assets and liabilities:		
Accounts receivable	15,868	(531,840)
Prepaid expenses and other assets	21,209	(7,213)
Accounts payable, trade and accrued expenses	(203,596)	341,125
Refundable advances	269,083	-
Net cash provided by operating activities	1,253,640	2,946,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of investments and assets whose use is limited	915,685	366,788
Purchases of property and equipment	(430,640)	(1,068,003)
Net cash provided by (used in) investing activities	485,045	(701,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(754,188)	(719,000)
Payments on line of credit	-	(320,000)
Borrowings on line of credit	400,000	670,000
Net change in resident deposits	(22,143)	-
Proceeds from refundable entrance fees, turnover units	154,000	-
Refunds of entrance fees	(814,057)	(1,986,965)
Change in due to affiliate, net	881,859	-
Net cash (used in) financing activities	(154,529)	(2,355,965)
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,584,156	(110,264)
Cash, cash equivalents, and restricted cash:		
Beginning	484,013	594,277
Ending	$ 2,068,169	$ 484,013

See Notes to Financial Statements

		2020		2019
Cash, cash equivalents, and restricted cash include:				
Cash and cash equivalents	**$**	**1,892,673**	$	257,086
Resident deposits		**117,500**		139,643
Assets whose use is limited, restricted cash		**30,568**		-
Cash, restricted by donors or grantors for specific purposes		**27,428**		87,284
	$	**2,068,169**	$	484,013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	**$**	**457,929**	$	587,255

See Notes to Financial Statements

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

Nature of Organization: Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg (Organization) is a not-for-profit corporation that was incorporated in the state of Maryland in 1892. The Organization operates a retirement community in Baltimore, Maryland, which includes 134 independent living units, 64 assisted living units, and 131 skilled nursing beds.

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

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

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

Cash and cash equivalents 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 $118,611 and $141,870 as of December 31, 2020 and 2019, 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 restricted cash are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited classified as current assets represents restricted cash associated with unused Provider Relief Funds (PRFs) that will be used in the next six months to offset lost revenue and qualified expenditures associated with the COVID-19 pandemic (Note 17). Investments are reported on the accompanying balance sheets at fair value, based on quoted market prices as provided by a national exchange.

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 balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the balance sheets could change materially in the near term.

Property and equipment: Property and equipment are reported at cost or, if donated or acquired, 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. 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 and land improvements. Expenditures that extend the useful lives of the asset or significantly increase their capacity are capitalized.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. Impairment losses totaled $0 and $361,303 for the years ended December 31, 2020 and 2019, respectively (Note 8).

Funds held in trust by others: The Organization has been named as a beneficiary of a perpetual trust which is administered and controlled by an independent trustee. Perpetual trusts are valued based upon the fair value of the underlying investments. The change in the fair value perpetual trusts are reported as a change in net assets with donor restrictions.

Entrance fees: The Organization’s policy requires payment of an entrance fee for admittance to an independent living and assisted 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 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 $10,461,781 and $11,027,447 as of December 31, 2020 and 2019, respectively.

Deferred financing costs: Financing costs were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled $24,810 and $34,678 for the years ended December 31, 2020 and 2019, respectively. Accumulated amortization was $303,423 and $278,613 as of December 31, 2020 and 2019, 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 balance sheets.

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 is recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents.

The unamortized portion is classified as deferred revenue from entrance fees on the balance sheets. Amortization of nonrefundable entrance fees included in net resident service revenue was $882,895 in 2020 and $619,008 in 2019.

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

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

	2020				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	**$ 1,159,630**	**$ 2,246,151**	**$ 3,099,565**	**$ 141,429**	**$ 6,646,775**
Medicare	**2,561,068**	**-**	**-**	**-**	**2,561,068**
Medical Assistance	**6,303,744**	**-**	**-**	**-**	**6,303,744**
Commercial insurance	**663,785**	**-**	**-**	**-**	**663,785**
Amortization of nonrefundable entrance fees	**-**	**98,269**	**784,626**	**-**	**882,895**
Total	**$ 10,688,227**	**$ 2,344,420**	**$ 3,884,191**	**$ 141,429**	**$ 17,058,267**

	2019				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	$ 1,519,006	$ 2,497,399	$ 3,184,602	$ 257,503	$ 7,458,510
Medicare	2,573,012	-	-	-	2,573,012
Medical Assistance	8,407,852	-	-	-	8,407,852
Commercial insurance	580,255	-	-	-	580,255
Amortization of nonrefundable entrance fees	-	80,111	538,897	-	619,008
Total	$ 13,080,125	$ 2,577,510	$ 3,723,499	$ 257,503	$ 19,638,637

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 Maryland Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (ADLs), and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.
- Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on 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.

Payment terms and conditions for the Organization's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenue for recurring and routine monthly services is generally billed monthly in advance. Net resident service fee revenue for ancillary services is generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenue collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenue from entrance fees on the accompanying balance sheets.

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $137,000 and $229,000 for the years ended December 31, 2020 and 2019, respectively.

(Deficiency) of operating and nonoperating revenue over expenses: The 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 debt securities, net assets released from restrictions for capital purchases, and a fair value adjustment for affiliation (Note 2).

Income tax status: The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by 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, 2020 and 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Generally, tax returns for years ended December 31, 2017, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain items in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through April 15, 2021, the date the financial statements were issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

Financial Instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization's financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. Along with ASU, 2016-02, the Organization will also be required to adopt the codification improvements to Topic 842 which include ASUs 2018-10 and 2018-11. The Organization adopted this guidance during the year ended December 31, 2020. The Organization also adopted the following Practical Expedients relative to Topic 842, for the year ended December 31, 2020: Relief package allowing to not reassess whether a contract contains a lease, lease classification, and whether initial direct costs should be capitalized. The Organization elects the short-term lease exemption for leases less than 12 months. The Organization elects not to separate lease and non-lease components. Adoption of this guidance did not have a material impact on the Organization’s financial statements.

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

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization’s financial statements.

Consolidation: In October 2018, the FASB issued ASU 2018-17, *Consolidation* (Topic 810): *Targeted Improvements to Related Party Guidance for Variable Interest Entities,* in response to stakeholders’ observations that Topic 810, *Consolidation*, could be improved in the following areas: 1) applying the variable interest entity (VIE) guidance to private companies under common control, and 2) considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and services providers are variable interests. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization’s financial statements.

Note 2. Affiliation

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

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

The following table summarizes the amounts of fair value of the assets received on the affiliation date:

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

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

As a result of the affiliation, TVAA recorded a fair market value adjustment of $17,855,151 which is included in other changes on the statement of operations as of December 31, 2020. The adjustment is comprised of the $2,000,000 recognized as goodwill and a write up of fixed assets of $15,855,151 due to the valuation of real property as of the affiliation date.

Note 3. Liquidity and Availability of Resources

Financial assets are considered liquid and available when convertible into cash within a year. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheets dates, comprise the following as of December 31:

	2020	2019
Financial assets:		
Cash and cash equivalents	**$ 1,892,673**	$ 257,086
Accounts receivable, net	**1,271,575**	1,595,389
Investments	**9,042,459**	9,587,893
Total financial assets	**$ 12,206,707**	$ 11,440,368

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 7, 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.

To assist management in satisfying any unanticipated liquidity needs, the Organization has a $1,250,000 line of credit with a bank that can be drawn upon (Note 9).

Note 4. 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 gross receivables from third-party payors is as follows as of December 31:

	2020	2019
Medicaid	**49 %**	43 %
Medicare	**26**	14
Self-pay	**13**	24
Commercial	**12**	19
	100 %	100 %

Note 5. Investments and Assets Whose Use is Limited

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

	2020	2019
Investments	**$ 9,042,459**	$ 9,587,893
Assets whose use is limited:		
Operating reserve (Note 7)	**$ 2,838,834**	$ 2,866,143
Resident deposits	**117,500**	139,643
Cash, restricted by donors or grantors for specific purposes	**27,428**	87,284
Assets whose use is limited, net	**$ 2,983,762**	$ 3,093,070

Note 6. 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 tables below present the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31:

	2020				
	Carrying Value	Fair Value	Level I	Level II	Level III
Assets whose use is limited and investments:					
Cash and cash equivalents	$ 1,823,843	$ 1,823,843	$ 1,823,843	$ -	$ -
Equity securities:					
Consumer discretionary	1,346,650	1,346,650	1,346,650	-	-
Consumer staples	378,921	378,921	378,921	-	-
Energy	21,406	21,406	21,406	-	-
Financial	911,759	911,759	911,759	-	-
Health care	1,010,686	1,010,686	1,010,686	-	-
Industrials	667,898	667,898	667,898	-	-
Information technology	1,484,858	1,484,858	1,484,858	-	-
Materials	168,461	168,461	168,461	-	-
Real estate	120,975	120,975	120,975	-	-
Utilities	18,082	18,082	18,082	-	-
Mutual funds:					
Equity	470,967	470,967	470,967	-	-
Fixed income securities:					
Corporate bonds	2,925,869	2,925,869	-	2,925,869	-
U.S government and agency bonds	573,563	573,563	-	573,563	-
Other	102,283	102,283	102,283	-	-
Total	12,026,221	12,026,221	8,526,789	3,499,432	-
Funds held in trust by others	664,414	664,414	-	-	664,414
Total assets	$ 12,690,635	$ 12,690,635	$ 8,526,789	$ 3,499,432	$ 664,414
Disclosed at fair value:					
Cash and cash equivalents	$ 1,892,673	$ 1,892,673	$ 1,892,673	$ -	$ -
Long-term debt	$ 14,240,643	$ 14,913,769	$ -	$ 14,913,769	$ -

	2019				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Assets whose use is limited and investments:					
Cash and cash equivalents	$ 1,986,775	$ 1,986,775	$ 1,986,775	$ -	$ -
Equity securities:					
Consumer discretionary	1,411,566	1,411,566	1,411,566	-	-
Consumer staples	397,187	397,187	397,187	-	-
Energy	22,438	22,438	22,438	-	-
Financial	955,711	955,711	955,711	-	-
Health care	1,059,407	1,059,407	1,059,407	-	-
Industrials	700,094	700,094	700,094	-	-
Information technology	1,556,436	1,556,436	1,556,436	-	-
Materials	176,582	176,582	176,582	-	-
Real estate	126,807	126,807	126,807	-	-
Utilities	18,954	18,954	18,954	-	-
Mutual funds:					
Equity	493,670	493,670	493,670	-	-
Fixed income securities					
Corporate bonds	3,066,912	3,066,912	-	3,066,912	-
U.S government and agency bonds	601,212	601,212	-	601,212	-
Other	107,212	107,212	107,212	-	-
Total assets	$ 12,680,963	$ 12,680,963	$ 9,012,839	$ 3,668,124	$ -
Disclosed at fair value:					
Cash and cash equivalents	$ 257,086	$ 257,086	$ 257,086	$ -	$ -
Long-term debt	$ 14,994,831	$ 15,583,269	$ -	$ 15,583,269	$ -

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, 2020 or 2019.

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, 2020 or 2019:

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

Equity securities 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 balance sheets, are estimated using quoted prices for similar securities.

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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 statements changes in net assets as an increase or decrease in net assets with donor restrictions.

Note 7. Maryland Department of Aging Reserve Requirements

In accordance with Maryland law governing continuing care retirement communities, the Organization is required to set aside operating reserves totaling 15% of the facility's net operating expenses (as defined) for the most recent fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2020, is as follows:

Total operating expenses for fiscal year ended December 31, 2020	$ 22,533,515
Less:	
Depreciation	(3,113,497)
Interest	(494,456)
Adjusted operating expense	$ 18,925,562
Funding requirement (15% of operating expenses)	$ 2,838,834

The Organization has reserved this amount in assets whose use is limited to satisfy the minimum statutory operating reserve requirement. Beginning January 1, 2023, the reserve requirement will be equal to 25% of the facility's net operating expenses.

Note 8. Property and Equipment

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

	2020	2019
Land	**$ 5,000,000**	$ 22,595
Land improvements	**3,497,038**	390,632
Buildings and building improvements	**49,221,385**	42,020,065
Furniture and equipment	**14,267,671**	13,399,301
Construction in progress	**528,880**	396,589
	72,514,974	56,229,182
Less accumulated depreciation	**(41,294,490)**	(38,180,993)
	$ 31,220,484	$ 18,048,189

Construction in progress as of December 31, 2020, consists of civil engineering, survey, geotechnical, legal, planned unit development and related approvals, and certain other costs to complete an independent living renovation and overall campus repositioning project.

In fulfilling its commitment to addressing the evolving needs of the community, the Organization is engaged in a campus renovation and expansion project to renovate and/or expand independent and assisted living services, including units, common areas, and both non-dementia and memory care assisted living units (Project).

In April 2018, Project approval was obtained from Baltimore County Council for a planned unit development (PUD) to increase the number of units on the premises by 24 assisted living units and 97 independent living units. Maryland Department of Aging (MD DOA) approval was subsequently obtained for the assisted living expansion during 2019. Subsequent to MD DOA approval, updated construction pricing for the assisted living expansion was determined by management to be financially infeasible. As a result of preliminary construction pricing for the assisted living expansion and the Organization's subsequent affiliation with NLCS, management elected not to proceed with MD DOA approval for the independent living expansion or continue with assisted living construction.

Total Project expenses related to the planned assisted and independent living expansions totaled $764,642 as of December 31, 2019, and primarily consisted of design, engineering, survey, legal, financial feasibility, actuarial, and other costs. Approximately $361,303 of these expansion costs were determined by management to be impaired and non-recoverable. Such costs primarily consisted of design and financial feasibility fees. Impairment losses are reported as a component of nonoperating revenue (expenses) on the accompanying statement of operations. Remaining cost Project expenses for civil engineering, survey, geotechnical, legal, PUD and related approvals, and certain other costs are considered recoverable as management re-engages in and completes an overall campus repositioning project over the next several years.

Note 9. Long-Term Debt

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

	2020	2019
Series 2013 A and B Maryland Health and Higher Educational Facility Authority Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through December 2035. Series A interest is payable at variable rates of 1.68% and 2.98% as of December 31, 2020 and 2019, respectively. Series B interest is payable at a fixed rate of 3.95%. The bonds are secured by property and and certain other assets of the Organization.	**$ 14,217,000**	$ 14,954,500
Note payable with Truist Bank, due in monthly installments of principal and interest totalling $1,493. The note bears interest at 3% and is secured by assets of the Organization.	**23,643**	40,331
	14,240,643	14,994,831
Less current portion	**780,232**	719,000
Less deferred financing costs	**506,463**	531,273
Total long-term debt	**$ 12,953,948**	$ 13,744,558

The Organization is required to comply with certain debt covenants in connection with the aforementioned long-term debt. The Organization did not meet its covenant requirements for the year ended December 31, 2020; however a waiver was obtained from the financial institution on March 22, 2021, in relation to these requirements.

The long-term debt maturing in the next five years and thereafter is as follows as of December 31, 2020:

Years Ending December 31:	
2021	$ 780,232
2022	792,411
2023	811,000
2024	834,000
2025	860,000
Thereafter	10,163,000
	$ 14,240,643

Interest expense totaled $469,646 in 2020 and $587,255 for the years ended December 31, 2020 and 2019, respectively.

The Organization also has a $1,250,000 line of credit with Truist Bank, bearing interest at variable rates of 2.40% and 2.96% as of December 31, 2020 and 2019, respectively. The line is collateralized by all real property of the Organization. Borrowings on the line of credit amounted to $950,000 and $550,000 as of December 31, 2020 and 2019, respectively.

Note 10. Net Assets

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

	2020	2019
Net assets (deficit):		
Without donor restrictions:		
Undesignated	**$ 14,599,987**	$ (2,202,990)
Maryland Department of Aging reserve requirements	**2,838,834**	2,866,143
	17,438,821	663,153
With donor restrictions:		
Purpose restricted for:		
Operations	**27,428**	87,284
Perpetual trusts	**664,414**	-
	691,842	87,284
Total net assets	**$ 18,130,663**	$ 750,437

For the years ended December 31, 2020 and 2019, net assets of $60,596 and $0, respectively, were released from donor restrictions relating to capital projects satisfying the restricted purposes.

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

Note 11. Related Party Transactions

NLI is the sole member of the Organization and provides support in the form of management and support services in exchange for management fees. The Organization incurred management fees to NLI totaling $416,430 and $0 for the years ended December 31, 2020 and 2019, respectively.

Various entities that are part of the NLCS system make working capital advances to each other as needed. Related party transactions bear no interest and have no stated repayment terms.

The following represents the net amount due to an affiliated organization as of December 31:

	2020	2019
National Lutheran, Inc. (Parent)	**$ 881,859**	$ -

Note 12. Expenses by Nature and Function

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

	2020		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	**$ 8,853,912**	**$ 846,718**	**$ 9,700,630**
Employee benefits and payroll taxes	**2,215,622**	**68,451**	**2,284,073**
Professional fees	**653,529**	**359,057**	**1,012,586**
Ancillary and medical	**1,377,348**	**-**	**1,377,348**
Supplies	**581,468**	**86,200**	**667,668**
Food services	**738,420**	**168**	**738,588**
Utilities	**559,840**	**747**	**560,587**
Depreciation	**3,113,497**	**-**	**3,113,497**
Interest	**494,456**	**-**	**494,456**
Insurance	**476,672**	**-**	**476,672**
Real estate taxes	**238,528**	**-**	**238,528**
Repairs and maintenance	**457,360**	**29,925**	**487,285**
Advertising and marketing	**136,039**	**484**	**136,523**
Licenses, dues, and subscriptions	**54,974**	**282,058**	**337,032**
Other operating expenses	**142,229**	**41,437**	**183,666**
Bad debt expense	**307,946**	**-**	**307,946**
Management fee	**-**	**416,430**	**416,430**
Total	**$ 20,401,840**	**$ 2,131,675**	**$ 22,533,515**

	2019		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	$ 8,822,040	$ 1,467,485	$ 10,289,525
Employee benefits and payroll taxes	2,018,614	149,229	2,167,843
Professional fees	957,536	326,532	1,284,068
Ancillary and medical	1,186,036	-	1,186,036
Supplies	217,079	104,252	321,331
Food services	754,773	927	755,700
Utilities	640,026	-	640,026
Depreciation	1,926,999	-	1,926,999
Interest	621,933	-	621,933
Insurance	482,669	-	482,669
Real estate taxes	264,032	-	264,032
Repairs and maintenance	543,298	15,570	558,868
Advertising and marketing	229,096	-	229,096
Licenses, dues, and subscriptions	21,049	115,163	136,212
Other operating expenses	363,239	-	363,239
Bad debt expense	370,000	-	370,000
Total	$ 19,418,419	$ 2,179,158	$ 21,597,577

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

Note 13. 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 $215,000 and $119,100 for the years ended December 31, 2020 and 2019, respectively. Benevolent care related to the Medicaid program amounted to approximately $1,443,000 and $554,100 for the years ended December 31, 2020 and 2019, respectively.

Note 14. Pension Plan

The Organization has a 403(b) defined contribution plan (Plan). Under the terms of the Plan, employees are immediately eligible to contribute pre-tax dollars to the Plan. In addition, employees are eligible to receive matching employer contributions of up to 3.5% of base salary after one year of qualifying service, defined as 20 or more hours per week. Employer contributions totaled $148,654 and $177,677 for the years ended December 31, 2020 and 2019, respectively, and are recorded with employee benefits and payroll taxes on the statements of operations. On December 31, 2020, the participants of the Plan were notified of Plan termination effective January 1, 2021, and all Plan assets were subsequently transferred to the Parent's (NLCS) defined contribution plan, consistent with all other NLCS subsidiaries. Termination of the Plan was in accordance with the Employee Retirement Income Security Act (ERISA) standards.

Note 15. Medical Malpractice and General Liability Claims Coverage

The Organization purchases medical malpractice insurance coverages from a commercial insurance carrier via an insurance broker. These coverages are provided on a claims-made basis. As of December 31, 2020 and 2019, professional and general liability coverages are provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. The Organization has evaluated claims incurred but not reported and has deemed it not necessary to record a liability based on the Organization's history of claims.

Note 16. 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 resident services previously billed. The Organization is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

Note 17. COVID-19 Pandemic

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. The pandemic has significantly impacted both the world and U.S. economies. Since March 2020, many state and local governments, in addition to the federal government, reacted to the public health crisis, creating significant uncertainties in the U.S. economy. In response to this coronavirus outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In certain geographic regions in which the Organization operates, temporary closures of businesses have been ordered or suggested and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of travel-related businesses.

As a result of the COVID-19 pandemic, the Organization has experienced a decline in residents and revenue which has contributed to decreases in total operating revenue and increases in expenses related to supply chain and other expenditures.

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 residents 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 Paycheck Protection Program (PPP) and 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, 2020, the Organization received $1,387,811 in funding through the HHS PRF program established by the CARES Act. 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 balance sheet as of December 31, 2020. Based on the Organization's calculation of lost revenue and COVID-19 expenses, the Organization has recognized $1,118,728 as Provider Relief Funds revenue during the year ended December 31, 2020, while $269,083 remains refundable advances. Infection control payments that were received subsequent to year end are included in accounts receivable on the balance sheet and totaled $238,515 as of December 31, 2020. While the Organization has utilized all available current information in determining the proper utilization and accounting for these funds, additional guidance is expected that could have a material impact on how the Organization has recognized PRF.

Paycheck Protection Program Loan: In April 2020, the Organization obtained a loan totaling $2,277,900 under the Paycheck Protection Program pursuant to the CARES Act. The Organization initially elected to account for the PPP loans as a liability when received.

The proceeds from the loans must be spent on qualifying expenses such as covered payroll costs, mortgage interest on real or personal property, rental obligations on real or personal property, and covered utility costs allowed under the CARES Act. The Organization had selected the twenty-four week covered period as allowed under the CARES Act. The Organization used the loan proceeds in accordance with the terms of the PPP and applied for forgiveness from the financial institution once the proceeds were fully expended. The Organization applied for forgiveness on October 21, 2020. While the Organization is still pending approval from the Small Business Administration (SBA), the financial institution has recommended to the SBA that forgiveness be granted. The Organization has maintained adequate records and believes that all requirements under the PPP guidelines have been met to achieve loan forgiveness. As such, the total loan amount was recognized as revenue and included in Paycheck Protection Program contribution on the statements of operations for the year ended December 31, 2020.

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 has 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 took advantage of this program and applied and received $495,331. Due to the Recoupment and Reconciliation process of this program, the full balance is on the balance sheet as a current liability as of December 31, 2020.