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

Financial Statements

December 31, 2022 and 2021

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

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

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Augsburg Lutheran Home of Maryland, Inc. d/b/a The Village at Augsburg (Organization), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

In performing an audit in accordance with GAAS, we:

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

- Identify and assess the risks of material misstatement of the 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 financial statements.

- Obtain an understanding of internal control relevant to the audits 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 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.

Baker Tilly US, LLP

New Castle, Pennsylvania
May 9, 2023

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

BALANCE SHEETS
December 31, 2022 and 2021

ASSETS	**2022**	2021
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,808,771**	$ 3,736,241
Accounts receivable, net	**1,402,889**	1,054,859
Prepaid expenses and other assets	**169,281**	198,764
Current portion of pledges receivable	**41,000**	12,396
Total current assets	**6,421,941**	5,002,260
ASSETS WHOSE USE IS LIMITED	**2,714,855**	3,012,891
INVESTMENTS	**5,209,213**	5,932,189
GOODWILL	**2,000,000**	2,000,000
PROPERTY AND EQUIPMENT, net	**27,988,975**	29,824,294
FUNDS HELD IN TRUST BY OTHERS	**535,236**	692,176
PLEDGES RECEIVBALE, net	**40,500**	-
Total assets	**$ 44,910,720**	$ 46,463,810

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	**2022**	2021
CURRENT LIABILITIES		
Accounts payable, trade	**$ 116,436**	$ 256,596
Accrued expenses	**1,279,358**	1,557,469
Accrued interest	**48,836**	31,500
Current portion of long-term debt	**811,000**	790,525
Total current liabilities	**2,255,630**	2,636,090
DEFERRED REVENUE FROM ENTRANCE FEES	**2,739,454**	2,343,155
REFUNDABLE ENTRANCE FEES	**9,922,961**	10,049,115
RESIDENT DEPOSITS	**120,434**	136,625
LONG-TERM DEBT, net	**11,429,760**	12,206,082
DUE TO AFFILIATE, net	**4,877,692**	1,521,313
Total liabilities	**31,345,931**	28,892,380
NET ASSETS		
Without donor restrictions	**12,894,584**	16,829,426
With donor restrictions	**670,205**	742,004
Total net assets	**13,564,789**	17,571,430
Total liabilities and net assets	**$ 44,910,720**	$ 46,463,810

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, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue; including amortization of entrance fees 2022 $462,758; 2021 $611,956	**$ 15,817,061**	$ 15,833,877
Provider Relief Funds	**-**	866,552
Other grant funding	**438,655**	125,475
Net assets released from restriction	**119,019**	4,000
Total operating revenue	**16,374,735**	16,829,904
Operating expenses:		
Salaries and wages	**9,082,195**	8,606,897
Employee benefits and payroll taxes	**1,790,575**	1,780,418
Professional fees	**2,339,663**	1,654,113
Ancillary and medical	**904,829**	1,238,128
Supplies	**506,520**	471,369
Food services	**797,105**	727,874
Utilities	**916,863**	743,359
Depreciation	**3,075,690**	3,040,832
Interest	**494,550**	454,539
Insurance	**392,611**	468,689
Real estate taxes	**146,157**	154,250
Repairs and maintenance	**462,699**	390,994
Advertising and marketing	**159,807**	106,014
Licenses, dues, and subscriptions	**352,131**	327,478
Other operating expenses	**225,589**	166,820
Bad debt expense	**153,335**	103,274
Total operating expenses	**21,800,319**	20,435,048
(Deficiency) of operating revenue over expenses	**(5,425,584)**	(3,605,144)
Nonoperating revenue (expense):		
Contributions	**203,444**	153,487
Interest and dividends	**69,990**	120,882
Other income	**92,313**	33,914
Realized gains	**720,536**	773,737
Unrealized gains (losses)	**(1,795,541)**	713,729
Total nonoperating revenue (expense)	**(709,258)**	1,795,749
(Deficiency) of operating and nonoperating revenue over expenses	**(6,134,842)**	(1,809,395)
Other changes:		
Equity transfer	**2,200,000**	1,200,000
Change in net assets without donor restrictions	**$ (3,934,842)**	$ (609,395)

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, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (6,134,842)**	$ (1,809,395)
Equity transfer	**2,200,000**	1,200,000
Change in net assets without donor restrictions	**(3,934,842)**	(609,395)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and other changes	**204,160**	26,400
Change in value of funds held in trust by others	**(156,940)**	27,762
Net assets released from restriction	**(119,019)**	(4,000)
Change in net assets with donor restrictions	**(71,799)**	50,162
Change in net assets	**(4,006,641)**	(559,233)
Net assets:		
Beginning	**17,571,430**	18,130,663
Ending	**$ 13,564,789**	$ 17,571,430

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (4,006,641)**	$ (559,233)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**3,075,690**	3,040,832
Provision for bad debts	**153,335**	103,274
Equity transfer	**(2,200,000)**	(1,200,000)
Amortization of deferred financing costs	**34,678**	44,545
Amortization of entrance fees	**(462,758)**	(611,956)
Proceeds from entrance fees	**995,511**	269,777
Realized (gains)	**(720,536)**	(773,737)
Unrealized (gains) losses	**1,795,541**	(713,729)
(Gain) loss on funds held in trust	**156,940**	(27,762)
Changes in assets and liabilities:		
Accounts receivable	**(501,365)**	113,442
Prepaid expenses and other assets	**29,483**	42,474
Accounts payable, trade and accrued expenses	**(400,935)**	(271,208)
Refundable advances	**-**	(269,083)
Net cash (used in) operating activities	**(2,051,057)**	(812,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of investments and assets whose use is limited	**(54,147)**	4,597,736
Purchases of property and equipment	**(1,240,371)**	(1,644,642)
Net cash provided by (used in) investing activities	**(1,294,518)**	2,953,094
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(790,525)**	(782,118)
Net (payments) on line of credit	**-**	(950,000)
Net change in resident deposits	**(16,191)**	19,125
Proceeds from refundable entrance fees, turnover units	**1,121,301**	597,028
Refunds of entrance fees	**(1,383,909)**	(1,009,694)
Change in pledges receivable	**(69,104)**	(12,396)
Equity transfer	**2,200,000**	1,200,000
Change in due to affiliate, net	**3,356,379**	639,454
Net cash provided by (used in) financing activities	**4,417,951**	(298,601)
Net change in cash and cash equivalents and restricted cash	**1,072,376**	1,842,129
Cash and cash equivalents and restricted cash:		
Beginning	**3,910,298**	2,068,169
Ending	**$ 4,982,674**	$ 3,910,298

See Notes to Financial Statements

	2022	2021
Cash and cash equivalents and restricted cash include:		
Cash and cash equivalents	**$ 4,808,771**	$ 3,736,241
Resident deposits	**120,434**	136,625
Cash, restricted by donors or grantors for specific purposes	**53,469**	37,432
	$ 4,982,674	$ 3,910,298
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**$ 442,536**	$ 407,494

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 (of which 107 were operational during 2022).

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 $161,073 and $127,296 as of December 31, 2022 and 2021, respectively, which have been recorded as reductions to resident accounts receivable.

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 $33,230 and $3,600 as of December 31, 2022 and 2022, respectively.

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. 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, 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 three 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.

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 expectancy 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 on the balance sheets. Contractual refund obligations amounted to $9,922,961 and $10,049,115 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 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 $34,678 and $44,545 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization was $382,646 and $347,968 as of 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 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 $462,758 in 2022 and $611,956 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**	**Other Resident Services**	**Total**
Self-pay	**$ 2,236,988**	**$ 1,403,566**	**$ 2,581,287**	**$ 20,346**	**$ 6,242,187**
Medicare	**1,720,208**	**-**	**-**	**-**	**1,720,208**
Medical Assistance	**6,669,700**	**-**	**-**	**-**	**6,669,700**
Commercial insurance	**722,208**	**-**	**-**	**-**	**722,208**
Amortization of nonrefundable entrance fees	**-**	**18,316**	**444,442**	**-**	**462,758**
Total	**$ 11,349,104**	**$ 1,421,882**	**$ 3,025,729**	**$ 20,346**	**$ 15,817,061**

	2021				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	$ 1,677,737	$ 1,608,023	$ 2,669,601	$ 151,343	$ 6,106,704
Medicare	2,040,500	-	-	-	2,040,500
Medical Assistance	6,190,630	-	-	-	6,190,630
Commercial insurance	884,087	-	-	-	884,087
Amortization of nonrefundable entrance fees	-	39,644	572,312	-	611,956
Total	$ 10,792,954	$ 1,647,667	$ 3,241,913	$ 151,343	$ 15,833,877

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 $159,807 and $106,014 for the years ended December 31, 2022 and 2021, 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 an equity transfer.

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, 2022 and 2021, 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, 2019, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain reclassifications have been made to the 2021 financial statements to conform to the presentation used in 2022.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through May 9, 2023, the date the financial statements were issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

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

During January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 balance sheets, results of operations, and cash flows.

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 FASB issued 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 balance sheets, results of operations, and 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 balance sheets, results of operations, and cash flows.

Note 2. 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:

	2022	2021
Financial assets:		
Cash and cash equivalents	**$ 4,808,771**	$ 3,736,241
Accounts receivable, net	**1,402,889**	1,054,859
Investments	**5,209,213**	5,932,189
Total financial assets	**$ 11,420,873**	$ 10,723,289

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 6, 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.

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	**49 %**	52 %
Self-pay	**25**	20
Commercial	**14**	12
Medicare	**12**	16
	100 %	100 %

Note 4. 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:

	2022	2021
Investments	**$ 5,209,213**	$ 5,932,189
Assets whose use is limited:		
Operating reserve (Note 6)	**$ 2,540,952**	$ 2,838,834
Resident deposits	**120,434**	136,625
Cash, restricted by donors or grantors for specific purposes	**53,469**	37,432
Assets whose use is limited, net	**$ 2,714,855**	$ 3,012,891

Note 5. 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 measured at fair value on a recurring basis as of December 31:

	2022				
	Carrying Value	Fair Value	Level I	Level II	Level III
Assets whose use is limited and investments:					
Cash and cash equivalents	$ **2,277,017**	$ **2,277,017**	$ **2,277,017**	$ **-**	$ **-**
Equity securities:					
Consumer discretionary	**568,074**	**568,074**	**568,074**	**-**	**-**
Consumer staples	**995,003**	**995,003**	**995,003**	**-**	**-**
Energy	**617,764**	**617,764**	**617,764**	**-**	**-**
Financial	**671,996**	**671,996**	**671,996**	**-**	**-**
Industrials	**573,934**	**573,934**	**573,934**	**-**	**-**
Information technology	**870,059**	**870,059**	**870,059**	**-**	**-**
Materials	**91,951**	**91,951**	**91,951**	**-**	**-**
Utilities	**31,189**	**31,189**	**31,189**	**-**	**-**
Mutual funds:					
Equity	**487,013**	**487,013**	**487,013**	**-**	**-**
Fixed income securities:					
Corporate bonds	**740,068**	**740,068**	**493,633**	**246,435**	**-**
Total	**7,924,068**	**7,924,068**	**7,677,633**	**246,435**	**-**
Funds held in trust by others	**535,236**	**535,236**	**-**	**-**	**535,236**
Total assets	$ **8,459,304**	$ **8,459,304**	$ **7,677,633**	$ **246,435**	$ **535,236**

	2021				
	Carrying Value	Fair Value	Level I	Level II	Level III
Assets whose use is limited and investments:					
Cash and cash equivalents	$ 296,270	$ 296,270	$ 296,270	$ -	$ -
Equity securities:					
Consumer discretionary	1,744,283	1,744,283	1,744,283	-	-
Consumer staples	491,672	491,672	491,672	-	-
Energy	27,167	27,167	27,167	-	-
Financial	1,175,794	1,175,794	1,175,794	-	-
Health care	1,315,462	1,315,462	1,315,462	-	-
Industrials	864,466	864,466	864,466	-	-
Information technology	1,913,930	1,913,930	1,913,930	-	-
Materials	220,102	220,102	220,102	-	-
Real estate	155,567	155,567	155,567	-	-
Utilities	23,190	23,190	23,190	-	-
Mutual funds:					
Equity	569,506	569,506	569,506	-	-
Other	147,671	147,671	147,671	-	-
Total	8,945,080	8,945,080	8,945,080	-	-
Funds held in trust by others	692,176	692,176	-	-	692,176
Total assets	$ 9,637,256	$ 9,637,256	$ 8,945,080	$ -	$ 692,176

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 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.

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 6. 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 audited fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2022, is as follows:

Total operating expenses for fiscal year ended December 31, 2021	$ 20,435,048
Less:	
Depreciation	(3,040,832)
Interest	(454,539)
Adjusted operating expense	$ 16,939,677
Funding requirement (15% of operating expenses)	$ 2,540,952

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 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 $4,235,000, an increase of over $1,700,000 from the 2022 reserve requirement. The Organization has adequate liquid funds to maintain the future reserve requirements.

Note 7. Property and Equipment

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

	2022	2021
Land	**$ 5,000,000**	$ 5,000,000
Land improvements	**3,497,038**	3,497,038
Buildings and building improvements	**51,638,223**	50,790,195
Furniture and equipment	**14,823,065**	14,412,761
Construction in progress	**432,265**	450,226
	75,390,591	74,150,220
Less accumulated depreciation	**(47,401,616)**	(44,325,926)
	$ 27,988,975	$ 29,824,294

Construction in progress 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.

Note 8. Long-Term Debt

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

	2022	2021
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 5.02% and 1.62% as of December 31, 2022 and 2021, 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.	**$ 12,668,000**	$ 13,454,000
Note payable with Truist Bank, due in monthly installments of principal and interest totalling $1,493, at 3% interest, and was secured by assets of the Organization. Paid in full in 2022.	**-**	4,525
	12,668,000	13,458,525
Less current portion	**811,000**	790,525
Less deferred financing costs	**427,240**	461,918
Total long-term debt	**$ 11,429,760**	$ 12,206,082

The Organization is required to comply with certain debt covenants in connection with the aforementioned long-term debt. Management believes they are in compliance with all covenants as of December 31, 2022.

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	$ 811,000
2024	834,000
2025	860,000
2026	884,000
2027	910,000
Thereafter	8,369,000
	$ 12,668,000

Interest expense totaled $459,872 and $409,994 for the years ended December 31, 2022 and 2021, respectively.

Note 9. 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:

	2022	2021
Net assets:		
Without donor restrictions:		
Undesignated	**$ 10,353,632**	$ 13,990,592
Maryland Department of Aging reserve requirements	**2,540,952**	2,838,834
	12,894,584	16,829,426
With donor restrictions:		
Purpose restricted for:		
Operations	**134,969**	49,828
Perpetual trusts	**535,236**	692,176
	670,205	742,004
Total net assets	**$ 13,564,789**	$ 17,571,430

For the years ended December 31, 2022 and 2021, net assets of $119,019 and $4,000, respectively, were released from donor restrictions to satisfy restricted purposes.

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

Note 10. 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 $0 for both years ended December 31, 2022 and 2021. Due to the current financial needs of the Organization, the parent, NLI, has agreed to the deferral of management fees for both years. Additionally, NLI completed an equity transfer of $2,200,000 and $1,200,000 to the Organization for the years ended December 31, 2022 and 2021, respectively, which is reported as other changes on the statements of operations.

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:

	2022	2021
National Lutheran, Inc. (Parent)	$ 4,814,099	$ 1,521,313
Net amounts due to other affiliated organizations	63,593	-
	$ 4,877,692	$ 1,521,313

Note 11. 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:

	2022		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 8,344,775	$ 737,420	$ 9,082,195
Employee benefits and payroll taxes	1,634,411	156,164	1,790,575
Professional fees	1,960,405	379,258	2,339,663
Ancillary and medical	904,829	-	904,829
Supplies	492,298	14,222	506,520
Food services	779,943	17,162	797,105
Utilities	915,062	1,801	916,863
Depreciation	3,075,690	-	3,075,690
Interest	459,872	34,678	494,550
Insurance	392,611	-	392,611
Real estate taxes	146,157	-	146,157
Repairs and maintenance	398,900	63,799	462,699
Advertising and marketing	159,591	216	159,807
Licenses, dues, and subscriptions	166,707	185,424	352,131
Other operating expenses	152,029	73,560	225,589
Bad debt expense	153,335	-	153,335
Total	$ 20,136,615	$ 1,663,704	$ 21,800,319

	2021		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 7,872,987	$ 733,910	$ 8,606,897
Employee benefits and payroll taxes	1,663,704	116,714	1,780,418
Professional fees	1,305,231	348,882	1,654,113
Ancillary and medical	1,238,128	-	1,238,128
Supplies	425,735	45,634	471,369
Food services	713,962	13,912	727,874
Utilities	741,639	1,720	743,359
Depreciation	3,040,832	-	3,040,832
Interest	409,994	44,545	454,539
Insurance	468,689	-	468,689
Real estate taxes	154,250	-	154,250
Repairs and maintenance	378,445	12,549	390,994
Advertising and marketing	106,014	-	106,014
Licenses, dues, and subscriptions	132,880	194,598	327,478
Other operating expenses	111,421	55,399	166,820
Bad debt expense	103,274	-	103,274
Total	$ 18,867,185	$ 1,567,863	$ 20,435,048

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 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 $585,000 and $309,000 for the years ended December 31, 2022 and 2021, respectively. The cost of benevolent care related to the Medicaid program amounted to approximately $760,000 and $479,000 for the years ended December 31, 2022 and 2021, respectively. The Organization received contributions of approximately $21,000 and $14,000 for the years ended December 31, 2022 and 2021, respectively, to offset or subsidize benevolent care services provided.

Note 13. 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 $129,395 and $110,866 for the years ended December 31, 2022 and 2021, 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 14. 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, 2022 and 2021, 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 15. 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 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 funds through the HHS PRF program established by the CARES Act of $823,985, of which $238,516 was receivable and recognized as of and for the year ended December 31, 2020. No such funds were received in 2022. Additionally, in 2021, the Organization received an allocation of HHS funds from the parent, NLI, in the amount of $12,000. 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.

Based on the Organization's calculation of lost revenue and COVID-19 expenses, the Organization recognized $866,552 as Provider Relief Funds revenue during the year ended December 31, 2021, which included $269,083 of advanced PRF funds included as refundable advances as of December 31, 2020. No such revenue was recognized in 2022.

Also, included on the statements of operations for the years ended December 31, 2022 and 2021, is $182,441 and $125,475, 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 balance sheets and totaled $63,052 and $91,220, 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 ARPA, the Organization was awarded and recognized funding amounting to $256,214 and $0, for the years ended December 31, 2022 and 2021, respectively, through the Maryland State and Local Fiscal Grant program, of which $102,670, is included in accounts receivable on the balance sheets as of December 31, 2022. No such receivable in 2021. The funds are to address the urgent needs of the facility for additional staffing, supplies, testing, and therapeutics.

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 in 2020. Due to the Recoupment and Reconciliation process of this program, takebacks during the year ended December 31, 2022 and 2021, amounted to $170,852 and $324,479, respectively, leaving a remaining balance of $0 as of December 31, 2022.