The Village at Orchard Ridge, Inc.

Financial Statements

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

BAKER TILLY

Independent Auditors' Report

Board of Trustees
The Village at Orchard Ridge, Inc.

We have audited the accompanying financial statements of The Village at Orchard Ridge, Inc., a non-profit organization, which comprise the balance sheets as of December 31, 2017 and 2016, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 The Village at Orchard Ridge, Inc. as of December 31, 2017 and 2016, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Wyomissing, Pennsylvania
April 19, 2018

The Village at Orchard Ridge, Inc.

Balance Sheets
December 31, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and cash equivalents	$ 1,767,728	$ 5,240,869
Accounts receivable, net	72,806	107,952
Inventory	132,949	98,445
Prepaid expenses and other assets	58,726	407,179
Current portion of pledges receivable	49,710	87,460
Current portion of assets whose use is limited	3,862,504	4,813,733
Total current assets	5,944,423	10,755,638
Assets Whose Use is Limited, Net	6,513,747	13,974,276
Investments	13,043,492	5,942,320
Property and Equipment, Net	151,963,139	157,111,497
Pledges Receivable, Net	49,029	23,663
Deferred Marketing Costs, Net	7,280,889	7,414,275
Total assets	$ 184,794,719	$ 195,221,669

Liabilities and Net Assets	2017	2016
Current Liabilities		
Accounts payable, trade	$ 325,157	$ 412,557
Accounts payable, construction	-	1,499,819
Accrued interest	2,737,504	2,973,914
Accrued expenses	491,753	394,570
Current portion of long-term debt	1,125,000	4,465,000
Total current liabilities	4,679,414	9,745,860
Resident Deposits	224,643	2,076,230
Deferred Revenue from Entrance Fees	36,689,191	26,317,244
Refundable Entrance Fees	43,683,455	33,536,332
Long-Term Debt, Net	80,923,402	98,290,450
Due to Affiliates, Net	10,008,594	9,385,274
Total liabilities	176,208,699	179,351,390
Net Assets		
Unrestricted	6,742,632	14,217,114
Temporarily restricted	1,681,203	1,568,539
Permanently restricted	162,185	84,626
Total net assets	8,586,020	15,870,279
Total liabilities and net assets	$ 184,794,719	$ 195,221,669

See notes to financial statements

The Village at Orchard Ridge, Inc.

Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues		
Net resident service revenues	$ 18,470,400	$ 13,968,961
Contributions	3,537	5,789
Interest and dividends	328,962	76,714
Realized gains	242,543	28,602
Other income	56,221	14,221
Net assets released from restriction - operations	45,062	33,430
Total unrestricted revenues	19,146,725	14,127,717
Expenses		
Salaries and wages	5,382,699	4,208,577
Employee benefits and payroll taxes	1,335,189	1,091,714
Medicare services	530,829	382,750
Other resident costs	183,876	156,262
Professional fees	189,876	215,438
Supplies	291,425	286,085
Food services	866,608	655,101
Utilities and other occupancy	1,763,142	1,608,653
Depreciation and amortization	7,923,869	5,401,253
Loss on disposal of property and equipment	100,344	-
Interest	6,085,008	2,945,934
Insurance and licenses	136,404	110,035
Minor equipment	133,886	88,674
Repairs and maintenance	667,139	437,308
Advertising and recruitment	63,168	60,385
Legal and accounting	26,804	15,090
Dues and subscriptions	250,741	407,802
Miscellaneous	144,735	114,733
Bad debt expense	12,655	61,614
Management fee	1,368,826	874,682
Total expenses	27,457,223	19,122,090
Operating loss	(8,310,498)	(4,994,373)
Net Assets Released from Restriction - Capital Purchases	-	269,135
Unrealized Gains	836,016	233,954
Change in unrestricted net assets	$ (7,474,482)	$ (4,491,284)

See notes to financial statements

The Village at Orchard Ridge, Inc.

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

	2017	2016
Unrestricted Net Assets		
Operating loss	$ (8,310,498)	$ (4,994,373)
Net assets released from restriction - capital purchases	-	269,135
Unrealized gains	836,016	233,954
Change in unrestricted net assets	(7,474,482)	(4,491,284)
Temporarily Restricted Net Assets		
Contributions	157,726	248,670
Net assets released from restriction - operations	(45,062)	(33,430)
Net assets released from restriction - capital purchases	-	(269,135)
Change in temporarily restricted net assets	112,664	(53,895)
Permanently Restricted Net Assets		
Contributions	77,559	39,721
Uncollectible benevolence pledges receivable	-	(75,010)
Change in permanently restricted net assets	77,559	(35,289)
Change in net assets	(7,284,259)	(4,580,468)
Net Assets, Beginning	15,870,279	20,450,747
Net Assets, Ending	$ 8,586,020	$ 15,870,279

See notes to financial statements

The Village at Orchard Ridge, Inc.

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

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ (7,284,259)	$ (4,580,468)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,923,869	5,401,253
Loss on disposal of property and equipment	100,344	-
Amortization of deferred financing costs	152,952	82,932
Amortization of entrance fees	(4,177,785)	(3,328,716)
Proceeds from non-refundable entrance fees, turnover units	1,140,415	2,117,406
Realized gains	(242,543)	(28,602)
Unrealized gains	(836,016)	(233,954)
Contributions permanently restricted by donor	(77,559)	(39,721)
Change in allowance for uncollectible accounts receivable	(14,209)	15,716
Changes in assets and liabilities:		
Accounts receivable	49,355	(33,146)
Inventory, prepaid expenses and other assets	313,949	(311,327)
Accounts payable and accrued expenses	(226,627)	1,051,450
Net cash (used in) provided by operating activities	(3,178,114)	112,823
Cash Flows from Investing Activities		
Net sales (purchases) of investments and assets whose use is limited	2,389,145	(3,506,286)
Purchases of property and equipment	(3,484,792)	(28,894,044)
Payments of deferred marketing costs	(757,496)	(708,301)
Net cash used in investing activities	(1,853,143)	(33,108,631)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	-	29,935,000
Principal payments on long-term debt	(20,860,000)	(480,000)
Net change in resident deposits	(1,851,587)	(182,058)
Proceeds from entrance fees, new units	24,007,203	4,852,660
Proceeds from refundable entrance fees, turnover units	3,216,995	2,428,558
Refunds of entrance fees	(3,667,758)	(1,024,038)
Contributions permanently restricted by donor	77,559	39,721
Change in pledges receivable, net	12,384	75,010
Change in due to affiliates, net	623,320	2,251,230
Cash paid for financing costs	-	(524,304)
Net cash provided by financing activities	1,558,116	37,371,779
Net change in cash and cash equivalents	(3,473,141)	4,375,971
Cash and Cash Equivalents, Beginning	5,240,869	864,898
Cash and Cash Equivalents, Ending	$ 1,767,728	$ 5,240,869
Supplementary Cash Flows Information		
Interest paid, net of interest capitalized of $2,789,364 in 2016	$ 6,168,466	$ 2,010,940

Supplementary Disclosure of Noncash Investing and Financing Activities

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

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Organization

The Village at Orchard Ridge, Inc. (the "Organization"), a Virginia not-for-profit corporation, operates a continuing care retirement community in Winchester, Virginia. The community opened during February 2013 and now consists of 324 independent living units, 20 skilled nursing units and 18 assisted living units.

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

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding those classified as investments and assets whose use is limited.

Accounts Receivable

Accounts receivable for services provided to residents consists of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by the Organization by their contractually stated due date. An allowance for uncollectible accounts receivable is based on management's assessment of the collectibility of individual receivables and the aggregate aging of all of the accounts receivable and was $51,231 and $65,440 at December 31, 2017 and 2016, respectively. Losses are charged against the allowance for uncollectible accounts receivable when management believes the uncollectibility of a receivable is confirmed.

Assets Whose Use is Limited and Investments

Assets whose use is limited represent investments held by a trustee under the terms of a bond indenture and are reported separately in the accompanying balance sheets. Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets. Investments and assets whose use is limited are reported in the accompanying balance sheets at their fair value, based on quoted market prices as provided by a national exchange, excluding alternative investments which are valued at net asset value per share ("NAV"). A decline in market value of any investment below cost that is deemed to be other-than-temporary results in a reduction in carrying value to fair value. The impairment is charged to other-than-temporary losses and a new cost basis for the investment is established.

The Organization’s investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported in the 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 in the balance sheets could change materially in the near term.

Property and Equipment

Property and equipment are reported at cost. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives. The Organization’s capitalization policy is to review invoices in excess of $5,000 to determine if they should be capitalized. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building and land improvements. Expenditures that extend the useful lives of the asset or significantly increase their capacity are capitalized. The Organization follows the policy of capitalizing interest as a component of the cost of the asset acquired or constructed.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

Pledges Receivable

Pledges receivable are stated at outstanding balances and are discounted for their present value. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for uncollectible pledges is based on management’s assessment of the collectability of pledges receivable and was $10,971 and $12,347 at December 31, 2017 and 2016, respectively.

Deferred Marketing Costs

Costs associated with marketing new independent living units until substantially occupied or one year after completion are being accumulated as costs of acquiring initial continuing care contracts. The costs for Phase I began amortizing during 2013 as the independent living units were substantially occupied and are being amortized over the weighted average life expectancy of the initial resident population. Phase II marketing costs began amortizing in 2017. Capitalized costs totaled $10,564,103 with an accumulated amortization of $3,283,214 at December 31, 2017. Capitalized costs totaled $9,806,607 with an accumulated amortization of $2,392,332 at December 31, 2016. Amortization expense totaled $890,882 in 2017 and $795,736 in 2016.

Entrance Fees

The Organization's Independent Living admissions policy requires the payment of an entrance fee for admittance. The entrance fee is a type C fee-for-service contract. The Organization has a traditional non-refundable entrance fee with a refund payable on an initial deduction of 10% of the initial fee and less a reduction of 5% per month for the first eighteen months of residency. The Organization also has 100% and 50% refundable entrance fee contracts. The non-refundable portions of the contracts are accounted for as deferred revenue from entrance fees and are amortized to earned revenue using the straight-line method over the estimated remaining life expectancy of the residents. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the contracts is not amortized into income and is reported as a refundable entrance fee liability. Contractual refund obligations approximate $52,900,000 and $38,500,000 at December 31, 2017 and 2016, respectively.

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

Deferred Financing Costs

Financing costs of $5,205,782 were incurred in connection with the issuance of long-term debt. These costs are reported in the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled $152,952 in 2017 and $82,932 in 2016. Accumulated amortization was $599,184 and $446,232 at December 31, 2017 and 2016, respectively.

Net Assets

There are three classes of net assets - permanently restricted, temporarily restricted, and unrestricted. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions:

Permanently restricted net assets, Net assets subject to donor-imposed stipulations that are required to be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets subject to donor-imposed stipulation and/or the passage of time.

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

Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

The Organization reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

A significant number of volunteers annually donate their services to the Organization. The value of these services is not reflected in the financial statements because they do not meet the criteria to recognize them as requiring specialized skills and knowledge that the Organization would have purchased.

Net Resident Service Revenue

Independent Living is a fee-for-service program that requires monthly fee payments based on established rates. These monthly fees are not attributable as prepayment for nursing care. Independent Living residents who wish to transfer to the assisted living or skilled nursing facility may apply for admission. At the date of admission to the assisted living or skilled nursing facility, if there is a remaining entrance fee balance on the resident's independent living unit, that balance is applied as a credit against the monthly fee.

Skilled nursing services revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated retroactive adjustments, if any, are reported in the year of final determination as an adjustment of skilled nursing services revenue. A summary of the principal payment arrangements with third-party payors is as follows:

- Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 3% of net resident service revenues in both 2017 and 2016, respectively were derived from the Medicare Part A program.

As described above, the 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 Medicare programs.

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

Advertising

The Organization expenses advertising costs as incurred, excluding those classified as deferred marketing costs. Advertising expense totaled approximately $8,375 and $3,090 for the years ended December 31, 2017 and 2016, respectively.

Operating Loss

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

Tax Status

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on related income pursuant to Section 509(a) of the IRC.

Recent Accounting Pronouncements

Revenue Recognition

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

Presentation of Financial Statements

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

Financial Instruments

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

Restricted Cash

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

Reclassifications

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

Subsequent Events

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

2. Fair Value Measurements, Investments and Assets Whose Use is Limited, and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Organization for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs. The Organization did not hold any Level 3 investments for the years ended December 31, 2017 and 2016.

The following table presents financial instruments measured at fair value at December 31, 2017 and 2016, by caption on the balance sheets:

	2017			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Reported at Fair Value				
Assets,				
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 10,350,808	$ 10,350,808	$ 10,350,808	$ -
Equity securities	189,576	189,576	189,576	-
Mutual funds	814,030	814,030	814,030	-
Bonds	56,731	56,731	-	56,731
Exchange traded funds	21,333	21,333	-	21,333
Consolidated Fund	11,505,533	11,505,533	8,714,579	2,790,954
Subtotal	22,938,011	$ 22,938,011	$ 20,068,993	$ 2,869,018
Consolidated Fund alternative investments measured at NAV	481,732			
Total	$ 23,419,743			
Disclosed at Fair Value				
Cash and cash equivalents	$ 1,767,728	$ 1,767,728	$ 1,767,728	$ -
Pledges receivable, net	$ 98,739	$ 98,739	$	$ 98,739
Long-term debt	$ 86,655,000	$ 88,885,705	$ -	$ 88,885,705

	2016			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Reported at Fair Value				
Assets,				
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 19,791,217	$ 19,791,217	$ 19,791,217	$ -
Consolidated Fund	4,657,805	4,657,805	3,566,713	1,091,092
Subtotal	24,449,022	$ 24,449,022	$ 23,357,930	$ 1,091,092
Consolidated Fund alternative investments measured at NAV	281,307			
Total	$ 24,730,329			
Disclosed at Fair Value				
Cash and cash equivalents	$ 5,240,869	$ 5,240,869	$ 5,240,869	$ -
Pledges receivable, net	$ 111,123	$ 111,123	$ -	$ 111,123
Long-term debt	$ 107,515,000	$ 107,766,000	$ -	$ 107,766,000

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

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

	2017	2016
Investments	$ 13,043,492	$ 5,942,320
Assets held under trust indenture:		
2011 Debt service reserve	$ 1,650,000	$ 1,716,340
2011 Interest	1,502,379	1,408,080
2011 Entrance fee	-	4,713
2011 Bond principal fund	333,656	272,519
2014 Cost of issuance	-	1,310
2014 Funded interest	-	731,959
2014 Construction	-	8,826,430
2014 Real estate	-	12
2014 Debt service reserve fund	2,006,639	2,006,716
2014 Interest	4,249,362	1,617,160
2014 Other	6,000	6,133
Refundable deposits	628,215	2,196,637
	10,376,251	18,788,009
Less: current portion	(3,862,504)	(4,813,733)
Assets whose use is limited, net	$ 6,513,747	$ 13,974,276

Certain investments are pooled with related organizations and are referred to as "Consolidated Fund" investments. Approximately 15.01% and 5.77% of the pooled investments are attributable to the Organization as of December 31, 2017 and 2016, respectively. The percentage of pooled investments is calculated based on a monthly cost basis adjusted for any deposits or withdrawals specific to the Organization. Investment income is also based on this allocation.

The following tables present the Organization's share of the pooled investments in the Consolidated Fund measured at fair value at December 31, 2017 and 2016:

	2017			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Consolidated Fund:				
Cash and cash equivalents	$ 724,643	$ 724,643	$ 724,643	$ -
Equity securities:				
Consumer discretionary	784,162	784,162	784,162	-
Consumer staples	175,111	175,111	175,111	-
Energy	353,244	353,244	353,244	-
Financial	489,753	489,753	489,753	-
Health care	560,167	560,167	560,167	-
Industrials	437,519	437,519	437,519	-
Information technology	865,207	865,207	865,207	-
Materials	184,536	184,536	184,536	-
Telecommunication	489,655	489,655	489,655	-
Utilities	420,351	420,351	420,351	-
Other	532,629	532,629	532,629	-
Mutual funds:				
Fixed income	1,101,563	1,101,563	1,101,563	-
Equity	1,596,039	1,596,039	1,596,039	-
Fixed income securities:				
Corporate bonds	1,550,877	1,550,877	-	1,550,877
U.S. Government and agency bonds	1,240,077	1,240,077	-	1,240,077
Subtotal	11,505,533	$ 11,505,533	$ 8,714,579	$ 2,790,954
Alternative investments, measured at NAV	481,732			
Total	$ 11,987,265			

	2016			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Consolidated Fund:				
Cash and cash equivalents	$ 234,412	$ 234,412	$ 234,412	$ -
Equity securities:				
Consumer discretionary	353,847	353,847	353,847	-
Consumer staples	98,725	98,725	98,725	-
Energy	219,686	219,686	219,686	-
Financial	372,696	372,696	372,696	-
Health care	296,042	296,042	296,042	-
Industrials	215,427	215,427	215,427	-
Information technology	240,596	240,596	240,596	-
Materials	92,510	92,510	92,510	-
Telecommunication	125,695	125,695	125,695	-
Utilities	70,179	70,179	70,179	-
Other	114,178	114,178	114,178	-
Mutual funds:				
Fixed income	438,072	438,072	438,072	-
Equity	160,907	160,907	160,907	-
Other	522,717	522,717	522,717	-
Exchange-traded and closed-end funds	11,024	11,024	11,024	-
Fixed income securities:				
Corporate bonds	639,782	639,782	-	639,782
U.S. Government and agency bonds	451,310	451,310	-	451,310
Subtotal	4,657,805	$ 4,657,805	$ 3,566,713	$ 1,091,092
Alternative investments, measured at NAV	281,307			
Total	$ 4,939,112			

Valuation Methodologies

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

The fair value of the Consolidated Fund was determined using the fair values of the investments held in the fund at the Organization's percentage of holdings, which include the following:

Investments within the Consolidated Fund are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, equity securities, mutual funds, and exchange-traded and closed-end funds; and based on quoted prices for the same or similar securities for fixed income securities.

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

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

The fair value of long-term debt is based on current rates offered for similar issues with similar terms and maturities, or estimated based using a discount rate a market participant would demand.

The fair value of due to affiliates, net does not appear in the preceding tables because as a practical matter fair value cannot be estimated since terms could not be duplicated in the market and related parties can revise terms, thereby making assumptions supporting fair values potentially unreliable.

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

Name of Fund	Fair Value December 31, 2017	Fair Value December 31, 2016	Investment Strategy	Unfunded Commitments	Redemption Frequency
Ironwood Institutional Multi Strategy Fund	$ 481,732	$ 171,786	(a)	N/A	Monthly/Quarterly 15-120 days
Skybridge Multi-Advisor Hedge Fund	-	109,521	(b)	N/A	Monthly/Quarterly 15-120 days
	$ 481,732	$ 281,307			

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

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

The following table summarizes the gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities in a loss position for the Organization's share of the pooled investments in the Consolidated Fund. 92 and 204 individual securities had unrealized losses at December 31, 2017 and 2016, respectively. Management believes that these holding losses are not permanently impaired as they reflect general market conditions instead of a permanent decline in value.

	2017					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 568,329	$ (16,769)	$ 398,026	$ (61,544)	$ 966,355	$ (78,313)
Mutual funds	38,644	(4,771)	1,123,131	(94,852)	1,161,775	(99,623)
Fixed income securities	668,423	(5,218)	547,386	(8,092)	1,215,809	(13,310)
	$ 1,275,396	$ (26,758)	$ 2,068,543	$ (164,488)	$ 3,343,939	$ (191,246)
	2016					
Equity securities	$ 276,646	$ (15,655)	$ 216,607	$ (55,133)	$ 493,253	$ (70,788)
Mutual funds	46,228	(1,925)	603,918	(51,239)	650,146	(53,164)
Fixed income securities	206,611	(3,711)	277,905	(4,786)	484,516	(8,497)
	$ 529,485	$ (21,291)	$ 1,098,430	$ (111,158)	$ 1,627,915	$ (132,449)

3. Property and Equipment

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

	2017	2016
Land	$ 6,513,675	$ 6,513,675
Land improvements	11,789,441	11,181,909
Buildings and building improvements	144,464,556	143,455,268
Furniture and equipment	10,371,436	9,861,692
Construction in progress	-	463,884
	173,139,108	171,476,428
Less accumulated depreciation	(21,175,969)	(14,364,931)
	$ 151,963,139	$ 157,111,497

Depreciation expense totaled $7,032,987 in 2017 and $4,605,517 in 2016.

4. Long-Term Debt

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

	2017	2016
Series 2011A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2045. Interest is payable at fixed rates ranging from 6.46% to 7.80%.	$ 39,340,000	$ 39,680,000
Series 2014A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2044. Interest is payable at fixed rates of 5.64% to 6.83%.	36,935,000	36,935,000
Series 2014B Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2024. Interest is payable at fixed rates of 4.43% to 5.04%. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate.	10,380,000	12,000,000
Series 2014C and 2014D repaid in 2017	-	18,900,000
	86,655,000	107,515,000
Less: current portion	(1,125,000)	(4,465,000)
Long-term debt, excluding deferred financing costs	85,530,000	103,050,000
Deferred financing costs, net of accumulated amortization	(4,606,598)	(4,759,550)
Long-term debt, net	$ 80,923,402	$ 98,290,450

The 2011 and 2014 bonds are limited offerings and are not listed on any stock or other securities exchange. As security for the payment of the bonds, the Organization granted a lien and security interest in the mortgaged premises and assigned all their respective pledged assets, including gross receipts, inventory, accounts receivables, contracts rights, general intangibles and other as defined in the documents. Additionally, NLI entered into a support agreement guaranteeing the repayment of the bonds as additional security. The support agreement will terminate upon the achievement of certain financial performance targets as defined in the agreements.

The long-term debt maturing in the next five years and thereafter is as follows:

2018	$ 1,125,000
2019	1,180,000
2020	1,265,000
2021	1,355,000
2022	1,450,000
Thereafter	80,280,000
	$ 86,655,000

Interest expense totaled $6,085,008 in 2017 and $2,945,934 in 2016, net of capitalized interest of $2,789,364 in 2016. Amortization of deferred financing costs included in interest expense totaled $152,952 in 2017 and $82,932 in 2016.

5. Temporarily and Permanently Restricted Net Assets

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

	2017	2016
Capital project funds	$ 544,585	$ 517,305
Operating funds	1,136,618	1,051,234
	$ 1,681,203	$ 1,568,539

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

	2017	2016
Benevolence endowment	$ 162,185	$ 84,626

6. 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 and provides additional capital support when needed. The Organization incurred management fees to NLI totaling $1,368,826 in 2017 and $874,682 in 2016.

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 net amounts due to (from) affiliated organizations at December 31:

	2017	2016
NLI	$ 12,054,326	$ 9,843,062
The Village at Rockville, Inc.	212,513	-
The Legacy at North Augusta, Inc.	(101,046)	(71,160)
myPotential Virginia, LLC	(377,396)	(359,769)
myPotential Clinic-Rockville, LLC	(29,803)	(26,859)
National Lutheran Home for the Aged, Inc.	(1,750,000)	-
	$ 10,008,594	$ 9,385,274

7. Classification of Expenses

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

	2017	2016
Program activities	$ 24,113,604	$ 16,397,478
General and administrative	3,343,619	2,724,612
	$ 27,457,223	$ 19,122,090

Fundraising expenses are incurred though NLI.

8. Pension Plan

The Organization has a 403(b) defined contribution plan. The Organization contributes 2% of the eligible employees' salaries and matches 50% of each employee's contribution up to 8% after 90 days of service for a maximum contribution of 6%. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after 5 years. Employer contributions totaled $167,355 in 2017 and $128,033 in 2016.

9. Risk

Financial instruments which subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and receivables.

The Organization typically maintains cash and cash equivalents in local banks, which at times exceed what is insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

The Organization's investments are subject to fluctuation in the fair values of those investments.

The Organization grants credit to its residents and other third-party payors, primarily Medicare and various commercial insurance companies. The Organization maintains reserves for potential credit losses and such losses have historically been within management's expectations.

10. Medical Malpractice Claims Coverage

The Organization maintains occurrence based professional liability coverage through a commercial insurance carrier. Management believes no incidents have occurred or will be asserted that will exceed the Organization's insurance coverage or will have a material adverse effect on the financial statements.

11. Contingencies

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