THE VILLAGE AT ORCHARD RIDGE, INC.

Financial Report
December 31, 2019

Arnett Carbis Toothman llp
CPAs & Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Village at Orchard Ridge, Inc.
Winchester, Virginia

We have audited the accompanying financial statements of The Village at Orchard Ridge, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in net (deficit), and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Village at Orchard Ridge, Inc. as of December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Village at Orchard Ridge, Inc. as of and for the year ended December 31, 2018, were audited by other auditors, whose report, dated April 24, 2019, expressed an unmodified opinion on those statements.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 23, 2020

THE VILLAGE AT ORCHARD RIDGE, INC.

BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	**2019**	2018
CURRENT ASSETS		
Cash and cash equivalents	**$ 26,930**	$ 172,212
Accounts receivable, net	**430,518**	275,753
Prepaid expenses and other assets	**140,356**	72,210
Current portion of pledges receivable	**33,000**	34,500
Current portion of assets whose use is limited	**3,869,695**	3,820,271
Total current assets	**4,500,499**	4,374,946
ASSETS WHOSE USE IS LIMITED, net	**3,114,375**	3,237,554
INVESTMENTS	**1,396,748**	1,099,511
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**21,453,822**	18,228,352
PROPERTY AND EQUIPMENT, net	**147,458,750**	153,744,476
PLEDGES RECEIVABLE, net	**59,751**	25,100
Total assets	**$ 177,983,945**	$ 180,709,939

See Notes to Financial Statements

LIABILITIES AND NET (DEFICIT)	2019	2018
CURRENT LIABILITIES		
Accounts payable, trade	$ 495,260	$ 343,279
Accrued interest	2,604,693	2,640,271
Accrued expenses	749,903	698,112
Current portion of long-term debt	1,265,000	1,180,000
Total current liabilities	5,114,856	4,861,662
RESIDENT DEPOSITS	373,179	298,070
DEFERRED REVENUE FROM ENTRANCE FEES	30,181,746	32,687,334
REFUNDABLE ENTRANCE FEES	48,976,643	46,205,303
LONG-TERM DEBT, net	78,826,579	79,901,312
DUE TO AFFILIATES, net	20,088,551	20,963,292
Total liabilities	183,561,554	184,916,973
NET ASSETS (DEFICIT)		
Without donor restrictions	(6,940,837)	(5,346,218)
With donor restrictions	1,363,228	1,139,184
Total net (deficit)	(5,577,609)	(4,207,034)
Total liabilities and net (deficit)	$ 177,983,945	$ 180,709,939

See Notes to Financial Statements

THE VILLAGE AT ORCHARD RIDGE, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	**$ 21,976,652**	$ 21,664,128
Net assets released from restrictions, operations	**85,889**	923,064
Total operating revenue	**22,062,541**	22,587,192
Operating expenses:		
Salaries and wages	**5,349,376**	5,396,053
Employee benefits and payroll taxes	**1,377,094**	1,311,137
Professional fees	**1,071,654**	665,931
Ancillary and medical	**1,127,844**	1,003,060
Supplies	**454,594**	514,318
Food services	**1,013,893**	1,043,609
Utilities	**1,034,362**	958,500
Depreciation	**6,846,926**	7,004,487
Interest	**5,505,290**	5,683,128
Insurance	**105,051**	103,983
Real estate taxes	**548,654**	514,805
Repairs and maintenance	**659,225**	530,636
Advertising and marketing	**125,546**	110,921
Licenses, dues, and subscriptions	**311,873**	420,800
Other operating expenses	**233,633**	201,802
Bad debt expense	**34,113**	1,064
Management fee	**1,573,271**	1,515,000
Total operating expenses	**27,372,399**	26,979,234
(Deficiency) of operating revenue over expenses	**(5,309,858)**	(4,392,042)
Nonoperating revenue (expense):		
Contributions	**8,678**	76,065
Interest and dividends	**682,843**	511,520
Realized gains	**118,638**	70,302
Unrealized gains (losses)	**2,621,936**	(1,032,065)
Other income	**65,881**	51,370
Total nonoperating revenue (expense)	**3,497,976**	(322,808)
(Deficiency) of operating and nonoperating revenue over expenses	**(1,811,882)**	(4,714,850)
Other changes:		
Unrealized gains (losses)	**217,263**	(93,111)
Change in net (deficit) without donor restrictions	**$ (1,594,619)**	$ (4,807,961)

See Notes to Financial Statements

THE VILLAGE AT ORCHARD RIDGE, INC.

STATEMENTS OF CHANGES IN NET (DEFICIT)
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (1,811,882)**	$ (4,714,850)
Unrealized gains (losses)	**217,263**	(93,111)
Change in net (deficit) without donor restrictions	**(1,594,619)**	(4,807,961)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**309,933**	218,860
Net assets released from restriction, operations	**(85,889)**	(923,064)
Change in net assets with donor restrictions	**224,044**	(704,204)
Change in net (deficit)	**(1,370,575)**	(5,512,165)
Net assets (deficit):		
Beginning	**(4,207,034)**	1,305,131
Ending	**$ (5,577,609)**	$ (4,207,034)

See Notes to Financial Statements

THE VILLAGE AT ORCHARD RIDGE, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	**$ (1,370,575)**	$ (5,512,165)
Adjustments to reconcile change in net (deficit)		
to net cash provided by (used in) operating activities:		
Depreciation	**6,846,926**	7,004,487
Provision for bad debts	**34,113**	1,064
Amortization of deferred costs	**190,267**	157,910
Amortization of entrance fees	**(4,638,585)**	(5,278,854)
Proceeds from non-refundable entrance fees	**2,425,267**	1,737,072
Realized gains	**(118,638)**	(70,302)
Unrealized (gains) losses	**(2,839,199)**	1,125,176
Changes in assets and liabilities:		
Accounts receivable	**(188,878)**	(204,011)
Prepaid expenses and other assets	**(68,146)**	119,465
Accounts payable and accrued expenses	**168,194**	127,248
Net cash provided by (used in) operating activities	**440,746**	(792,910)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments		
and assets whose use is limited	**(314,840)**	(8,043,449)
Purchases of property and equipment	**(561,200)**	(8,785,824)
Net cash (used in) investing activities	**(876,040)**	(16,829,273)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(1,180,000)**	(1,125,000)
Proceeds from refundable entrance fees, turnover units	**5,376,578**	4,320,911
Refunds of entrance fees	**(2,897,508)**	(2,259,138)
Net change in resident deposits	**75,109**	73,427
Change in pledges receivable, net	**(33,151)**	39,139
Change in due to affiliates, net	**(900,727)**	10,954,698
Net cash provided by financing activities	**440,301**	12,004,037
Net increase (decrease) in cash, cash equivalents, and restricted cash	**5,007**	(5,618,146)
Cash, cash equivalents, and restricted cash:		
Beginning	**8,369,221**	13,987,367
Ending	**$ 8,374,228**	$ 8,369,221
Cash, cash equivalents, and restricted cash includes:		
Cash and cash equivalents	**$ 26,930**	$ 172,212
Assets held under trust indenture	**6,984,070**	7,057,825
Cash, restricted by donors or grantors for specific purposes	**1,363,228**	1,139,184
	$ 8,374,228	$ 8,369,221

See Notes to Financial Statements

		2019		2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	**$**	**5,279,445**	$	5,622,451
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Beneficial interest in supporting organization	**$**	**25,986**	$	(5,502,152)

See Notes to Financial Statements

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

Nature of Organization: The Village at Orchard Ridge, Inc. (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). 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 patient and resident service revenue and to establish an appropriate estimate for price concessions. The allowance for uncollectable accounts was $65,229 and $37,665 as of December 31, 2019 and 2018, respectively.

Assets whose use is limited, investments, and beneficial interest in supporting organization: Assets held as operating reserves, resident deposits, and assets held under indenture agreements are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited, investments, and beneficial interest in supporting organization are reported on the accompanying balance sheets at fair value, based on quoted market prices as provided by a national exchange, excluding an alternative investment which is valued at net asset value (NAV) per share. A decline in market value of any investment below cost that is deemed to be other-than-temporary results in a reduction in carrying value to fair value. The impairment is charged to other-than-temporary losses and a new cost basis for the investment is established.

The Organization's investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported on the 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.

Beneficial interest in supporting organization: The Organization maintains a support agreement with NLI and National Lutheran Home for the Aged, Inc. (NLHA) relative to the Organization’s long-term debt. NLI is the parent to both the Organization and NLHA. NLHA is an affiliate of the Organization. The support agreement outlines that NLI and NLHA will provide access to capital to maintain the Organization’s long-term debt requirements. Although the support agreement is with both NLI and NLHA, NLHA holds the investments that are providing the beneficial interest to the Organization. See Note 3 for the percent allocated to the Organization.

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 uncollectable pledges is based on management's assessment of the collectability of pledges receivable and was $25,000 and $14,900 as of December 31, 2019 and 2018, respectively.

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

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

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

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 $190,267 and $157,910 for the years ended December 31, 2019 and 2018, respectively. Accumulated amortization was $939,911 and $749,644 as of December 31, 2019 and 2018, respectively.

Net assets (deficit): Net assets (deficit), 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 (deficit) 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 (deficit) 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 deficit 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 are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the balance sheets. Amortization of nonrefundable entrance fees included in net resident service revenue amounted to $4,638,585 and $5,278,854 for the years ended December 31, 2019 and 2018, respectively.

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

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

	2019				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	**$ 1,207,013**	**$ 1,778,898**	**$ 11,938,029**	**$ 337,503**	**$ 15,261,443**
Medicare	**1,838,899**	**-**	**-**	**-**	**1,838,899**
Medicaid	**111,650**	**-**	**-**	**-**	**111,650**
Commercial insurance	**126,075**	**-**	**-**	**-**	**126,075**
Amortization of nonrefundable entrance fees	**-**	**-**	**4,638,585**	**-**	**4,638,585**
Total	**$ 3,283,637**	**$ 1,778,898**	**$ 16,576,614**	**$ 337,503**	**$ 21,976,652**

	2018				
	Skilled Nursing	**Assisted Living**	**Independent Living**	**Other Resident Services**	**Total**
Self-pay	$ 1,247,585	$ 1,689,155	$ 11,513,529	$ 344,318	$ 14,794,587
Medicare	1,481,353	-	-	-	1,481,353
Commercial insurance	109,334	-	-	-	109,334
Amortization of nonrefundable entrance fees	-	-	5,278,854	-	5,278,854
Total	$ 2,838,272	$ 1,689,155	$ 16,792,383	$ 344,318	$ 21,664,128

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:

> 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.

Medical Assistance: Under the Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (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.

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.

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 are generally billed monthly in advance. Net resident service fee revenue for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenue collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenue from entrance fees on the accompanying balance sheets.

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $126,000 and $111,000 for the years ended December 31, 2019 and 2018, 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 (deficit) without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include net unrealized gains (losses) on alternative investments measured at NAV and debt securities.

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, 2019 and 2018, there are no uncertain 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, 2016, and thereafter remain subject to examination by federal and state tax authorities.

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

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

Recent Accounting Pronouncements

Financial Instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance resulted in a reclassification of unrealized gains (losses) on equity securities to be included within the performance indicator. Total unrealized gains (losses) on equity securities amounted to $2,621,936 and ($1,032,065) for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

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

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

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:

	2019	2018
Financial assets:		
Cash and cash equivalents	**$ 26,930**	$ 172,212
Accounts receivable	**430,518**	275,753
Investments	**1,396,748**	1,099,511
Beneficial interest in supporting organization	**21,453,822**	18,228,352
Total financial assets	**$ 23,308,018**	$ 19,775,828

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.

Note 3. Fair Value Measurements

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

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

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

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

The tables below present the balances of assets and liabilities measured at fair value as of December 31:

	2019			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization, and assets whose use is limited:				
Cash and cash equivalents	**$ 6,998,490**	**$ 6,998,490**	**$ 6,998,490**	**$ -**
Equity securities	**220,869**	**220,869**	**220,869**	**-**
Mutual funds	**1,071,515**	**1,071,515**	**1,071,515**	**-**
Exchange traded funds	**27,161**	**27,161**	**-**	**27,161**
Bonds	**62,783**	**62,783**	**-**	**62,783**
Benefical interest in supporting organization	**20,382,927**	**20,382,927**	**16,074,548**	**4,308,379**
Total	**28,763,745**	**$ 28,763,745**	**$ 24,365,422**	**$ 4,398,323**
Beneficial interest in supporting organization alternative investment measured at NAV	**1,070,895**			
Total assets	**$ 29,834,640**			
Disclosed at fair value:				
Cash and cash equivalents	**$ 26,930**	**$ 26,930**	**$ 26,930**	**$ -**
Pledges receivable, net	**$ 92,751**	**$ 92,751**	**$ -**	**$ 92,751**
Long-term debt	**$ 84,350,000**	**$ 85,865,230**	**$ -**	**$ 85,865,230**

	2018			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization, and assets whose use is limited:				
Cash and cash equivalents	$ 7,067,289	$ 7,067,289	$ 7,067,289	$ -
Equity securities	171,116	171,116	171,116	-
Mutual funds	836,743	836,743	836,743	-
Exchange traded funds	22,449	22,449	22,449	-
Bonds	59,739	59,739	-	59,739
Beneficial interest in supporting organization	17,396,739	17,396,739	13,370,382	4,026,357
Total	25,554,075	$ 25,554,075	$ 21,467,979	$ 4,086,096
Beneficial interest in supporting organization alternative investment measured at NAV	831,613			
Total assets	$ 26,385,688			
Disclosed at fair value:				
Cash and cash equivalents	$ 172,212	$ 172,212	$ 172,212	$ -
Pledges receivable, net	$ 59,600	$ 59,600	$ -	$ 59,600
Long-term debt	$ 85,530,000	$ 84,973,568	$ -	$ 84,973,568

Beneficial interest in supporting organization 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 beneficial interest in supporting organization and assets whose use is limited lines on the balance sheets.

Certain investments are combined with related organizations and are referred to as "Beneficial Interest in Supporting Organization" investments. Approximately 31.04% and 25.28% of the combined investments are attributable to the Organization as of December 31, 2019 and 2018, respectively. The percentage of combined 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 combined investments in the beneficial interest in supporting organization measured at fair value as of December 31:

	2019			
	Carrying Value	Fair Value	Level I	Level II
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 859,986	$ 859,986	$ 859,986	$ -
Equity securities:				
Consumer discretionary	3,371,309	3,371,309	3,371,309	-
Consumer staples	536,366	536,366	536,366	-
Energy	1,072,143	1,072,143	1,072,143	-
Financial	1,415,984	1,415,984	1,415,984	-
Health care	1,798,397	1,798,397	1,798,397	-
Industrials	677,283	677,283	677,283	-
Information technology	1,272,834	1,272,834	1,272,834	-
Materials	379,476	379,476	379,476	-
Real estate	1,290,721	1,290,721	1,290,721	-
Utilities	372,602	372,602	372,602	-
Other	21,876	21,876	21,876	-
Mutual funds:				
Fixed income	1,505,277	1,505,277	1,505,277	-
Equity	1,500,294	1,500,294	1,500,294	-
Fixed income securities:				
Corporate bonds	2,251,778	2,251,778	-	2,251,778
U.S. government and agency bonds	2,056,601	2,056,601	-	2,056,601
Subtotal	20,382,927	$ 20,382,927	$ 16,074,548	$ 4,308,379
Alternative investment measured at NAV	1,070,895			
Total	$ 21,453,822			

	2018			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 1,194,804	$ 1,194,804	$ 1,194,804	$ -
Equity securities:				
Consumer discretionary	2,442,652	2,442,652	2,442,652	-
Consumer staples	522,983	522,983	522,983	-
Energy	818,064	818,064	818,064	-
Financial	825,752	825,752	825,752	-
Health care	1,115,278	1,115,278	1,115,278	-
Industrials	611,906	611,906	611,906	-
Information technology	911,493	911,493	911,493	-
Materials	183,122	183,122	183,122	-
Real estate	397,567	397,567	397,567	-
Utilities	295,619	295,619	295,619	-
Other	300,824	300,824	300,824	-
Mutual funds:				
Fixed income	1,325,327	1,325,327	1,325,327	-
Equity	2,424,991	2,424,991	2,424,991	-
Fixed income securities:				
Corporate bonds	2,225,782	2,225,782	-	2,225,782
U.S. government and agency bonds	1,800,575	1,800,575	-	1,800,575
Subtotal	17,396,739	$ 17,396,739	$ 13,370,382	$ 4,026,357
Alternative investment measured at NAV	831,613			
Total	$ 18,228,352			

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

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

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

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

Equity securities 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.

Beneficial interest in supporting organization: Based on the fair values of the investments held in the fund at the Organization's percentage of holdings, which include the following:

> Investments within the beneficial interest in supporting organization 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 are based on quoted prices for the same or similar securities for fixed income securities.

Alternative investment is comprised of a hedge fund. The Organization measures the fair value of the alternative investment based on net asset value (NAV) as calculated on the reporting entity's measurement date. The Organization measures the fair value of an investment that does not have a readily determinable fair value, based on the NAV of the investment as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a value significantly different than the NAV. If the practical expedient NAV is not as of the reporting entity's measurement date, then the NAV is adjusted to reflect any significant events that would materially affect the value of the security and the NAV of the Organization as of the valuation date. In using the NAV as a practical expedient, certain attributes of the investment, that may impact the fair value of the investment, are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to, restrictions on the investor's ability to redeem its investments at the measurement date at NAV as well as any unfunded commitments. The Organization’s share of the beneficial interest in supporting organization's alternative investments as of December 31, 2019 and 2018, was $1,070,895 and $831,613, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (Fund) is capital appreciation with limited variability of returns. The Fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies. There were no unfunded commitments as of December 31, 2019 or 2018, and there is a monthly or quarterly redemption notice of 15 - 120 days.

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

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

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

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 in the beneficial interest in supporting organization. Individual securities totaling 0 and 158 had unrealized losses for the years ended December 31, 2019 and 2018, respectively. Management believes that these holding losses are not permanently impaired as they reflect general market conditions instead of a permanent decline in value.

	2018					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities	$ 1,759,985	$ (54,123)	$ 1,563,340	$ (47,309)	$ 3,323,325	$ (101,432)

Note 4. Investments, Beneficial Interest in Supporting Organization, and Assets Whose Use is Limited

The following investments are included in assets whose use is limited presented on the balance sheets as of December 31:

	2019	2018
Investments	**$ 1,396,748**	$ 1,099,511
Beneficial interest in supporting organization	**$ 21,453,822**	$ 18,228,352
Assets held under trust indenture:		
2011 Debt service reserve	**$ 1,666,369**	$ 1,677,364
2011 Interest	**1,259,285**	1,273,430
2011 Principal	**674,013**	594,667
2014 Debt service reserve	**2,022,016**	2,000,859
2014 Interest	**1,356,387**	1,505,505
2014 Other	**6,000**	6,000
	6,984,070	7,057,825
Less current portion	**(3,869,695)**	(3,820,271)
Assets whose use is limited, net	**$ 3,114,375**	$ 3,237,554

Note 5. Property and Equipment

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

	2019	2018
Land	**$ 14,870,825**	$ 14,870,825
Land improvements	**11,789,441**	11,789,441
Buildings and building improvements	**145,526,350**	145,213,431
Furniture and equipment	**10,299,517**	10,051,235
	182,486,133	181,924,932
Less accumulated depreciation	**(35,027,383)**	(28,180,456)
	$ 147,458,750	$ 153,744,476

Note 6. Long-Term Debt

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

	2019	2018
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 percent to 7.80 percent. Beginning July 2018 through maturity, interest is payable at a fixed rate of 6.50 percent	**$ 38,550,000**	$ 38,955,000
Series 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 percent to 6.83 percent	**35,865,000**	36,415,000
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 percent to 5.04 percent. Beginning in July 2024 through maturity, the interest rate will be subject to a reset rate	**9,935,000**	10,160,000
	84,350,000	85,530,000
Less current portion	**1,265,000**	1,180,000
Less deferred financing costs, net of accumulated amortization	**4,258,421**	4,448,688
Total long-term debt, net	**$ 78,826,579**	$ 79,901,312

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 and National Lutheran Home for the Aged, Inc. entered into support agreements guaranteeing the repayment of the bonds as additional security. The support agreements will terminate upon the achievement of certain financial performance targets as defined in the agreements.

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

Annual aggregate maturities of long-term debt for the next five years and thereafter are as follows as of December 31, 2019:

Years Ending December 31:	
2020	$ 1,265,000
2021	1,355,000
2022	1,450,000
2023	1,545,000
2024	1,665,000
Thereafter	77,070,000
	$ 84,350,000

Note 7. Net Assets (Deficit)

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

	2019	2018
Net assets (deficit):		
Without donor restrictions:		
Undesignated	**$ (6,940,837)**	$ (5,346,218)
With donor restrictions:		
Purpose restricted for:		
Operations	**349,801**	299,673
Capital projects	**525,254**	564,482
Restricted in perpetuity	**488,173**	275,029
	1,363,228	1,139,184
Total net (deficit)	**$ (5,577,609)**	$ (4,207,034)

During 2019 and 2018, net assets of $85,889 and $923,064, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

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

Note 8. 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 $1,573,271 and $1,515,000 for the years ended December 31, 2019 and 2018, respectively.

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

The following represents net amounts due to (from) affiliated organizations as of December 31:

	2019	2018
NLI	**$ 15,798,931**	$ 17,512,200
National Lutheran Home for the Aged, Inc.	**4,330,125**	4,249,480
The Village at Rockville, Inc.	**653,828**	(143,628)
myPotential Clinic-Rockville, LLC	**(59,031)**	(57,351)
The Legacy at North Augusta, Inc.	**(209,110)**	(159,882)
myPotential Virginia, LLC	**(426,192)**	(437,527)
	$ 20,088,551	$ 20,963,292

Note 9. 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:

	2019		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	**$ 4,621,293**	**$ 728,083**	**$ 5,349,376**
Employee benefits and payroll taxes	**1,221,321**	**155,773**	**1,377,094**
Professional fees	**988,461**	**83,193**	**1,071,654**
Ancillary and medical	**1,127,844**	**-**	**1,127,844**
Supplies	**397,701**	**56,893**	**454,594**
Food services	**988,440**	**25,453**	**1,013,893**
Utilities	**1,028,634**	**5,728**	**1,034,362**
Depreciation	**6,846,926**	**-**	**6,846,926**
Interest	**5,505,290**	**-**	**5,505,290**
Insurance	**105,051**	**-**	**105,051**
Real estate taxes	**548,654**	**-**	**548,654**
Repairs and maintenance	**630,995**	**28,230**	**659,225**
Advertising and marketing	**-**	**125,546**	**125,546**
Licenses, dues, and subscriptions	**207,915**	**103,958**	**311,873**
Other operating expenses	**183,048**	**50,585**	**233,633**
Bad debt expense	**34,113**	**-**	**34,113**
Management fee	**-**	**1,573,271**	**1,573,271**
Total	**$ 24,435,686**	**$ 2,936,713**	**$ 27,372,399**

	2018		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	$ 4,775,622	$ 620,431	$ 5,396,053
Employee benefits and payroll taxes	1,155,972	155,165	1,311,137
Professional fees	608,851	57,080	665,931
Ancillary and medical	1,003,060	-	1,003,060
Supplies	308,200	206,118	514,318
Food services	1,022,506	21,103	1,043,609
Utilities	949,601	8,899	958,500
Depreciation	7,004,487	-	7,004,487
Interest	5,683,128	-	5,683,128
Insurance	103,983	-	103,983
Real estate taxes	514,805	-	514,805
Repairs and maintenance	455,349	75,287	530,636
Advertising and marketing	51,792	59,129	110,921
Licenses, dues, and subscriptions	210,923	209,877	420,800
Other operating expenses	160,432	41,370	201,802
Bad debt expense	1,064	-	1,064
Management fee	-	1,515,000	1,515,000
Total	$ 24,009,775	$ 2,969,459	$ 26,979,234

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 square footage basis. Fundraising expenses are incurred through NLI.

Note 10. 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 $95,216 and $68,428, including approximately $54,948 and $0 related to the Medicaid program, for the years ended December 31, 2019 and 2018, respectively.

Note 11. Pension Plan

The Organization has a 403(b) defined contribution plan. The Organization contributes 2% of each eligible employee’s salary and matches 50% of each employee's contributions up to 8% after 90 days of service for a maximum contribution of 6%. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $151,938 and $156,458 for the years ended December 31, 2019 and 2018, respectively.

Note 12. Medical Malpractice and General Liability Claims Coverage

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

Note 13. 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 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 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.

Note 14. Subsequent Event

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