THE VILLAGE AT PROVIDENCE POINT, INC.

Financial Report
December 31, 2020

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 Providence Point, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of The Village at Providence Point, Inc. (Organization), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and changes in net (deficit) 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.

Auditor's 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 Providence Point, Inc. as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 15, 2021

THE VILLAGE AT PROVIDENCE POINT, INC.

BALANCE SHEETS
December 31, 2020 and 2019

		2020		2019
ASSETS				
CURRENT ASSETS				
Prepaid expenses and other current assets	**$**	**48,321**	$	23,337
ASSETS WHOSE USE IS LIMITED		**205,678**		133,083
PROPERTY AND EQUIPMENT		**11,691,180**		17,128,075
Total assets	**$**	**11,945,179**	$	17,284,495
LIABILITIES AND NET (DEFICIT)				
CURRENT LIABILITIES				
Accrued expenses	**$**	**3,000**	$	3,002
DUE TO AFFILIATES		**21,059,129**		18,220,529
RESIDENT DEPOSITS		**211,823**		136,115
Total liabilities		**21,273,952**		18,359,646
NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		**(9,328,773)**		(1,075,151)
Total liabilities and net (deficit)	**$**	**11,945,179**	$	17,284,495

See Notes to Financial Statements

THE VILLAGE AT PROVIDENCE POINT, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET (DEFICIT)
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Operating expenses:		
Salaries and wages	**$ 242,100**	$ 203,024
Employee benefits and payroll taxes	**45,758**	29,655
Professional fees	**99,200**	47,819
Supplies	**12,464**	5,071
Food services	**242**	523
Utilities	**1,920**	680
Advertising and marketing	**578,998**	684,470
Licenses, dues, and subscriptions	**43,803**	23,369
Other operating expenses	**80,168**	80,540
Total operating expenses	**1,104,653**	1,075,151
Nonoperating expense:		
Loss on impairment	**7,148,969**	-
Change in net (deficit) without donor restrictions	**(8,253,622)**	(1,075,151)
Net (deficit) without donor restrictions:		
Beginning	**(1,075,151)**	-
Ending	**$ (9,328,773)**	$ (1,075,151)

See Notes to Financial Statements

THE VILLAGE AT PROVIDENCE POINT, INC.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	**$ (8,253,622)**	$ (1,075,151)
Adjustments to reconcile change in net (deficit) to net cash (used in) operating activities:		
Loss on impairment	**7,148,969**	-
Changes in assets and liabilities:		
Prepaid expenses and other current assets	**(24,984)**	(23,337)
Accrued expenses	**(2)**	3,002
Net cash (used in) operating activities	**(1,129,639)**	(1,095,486)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in resident deposits	**75,708**	136,115
Change in due to affiliates	**1,126,526**	1,092,454
Net cash provided by financing activities	**1,202,234**	1,228,569
Net increase in restricted cash	**72,595**	133,083
Restricted cash:		
Beginning	**133,083**	-
Ending	**$ 205,678**	$ 133,083
Restricted cash includes:		
Resident deposits	**$ 205,678**	$ 133,083
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Increase in construction in progress through increase in due to affiliates	**$ 1,712,074**	$ 1,606,892

See Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Nature of the Organization: The Village at Providence Point, Inc. (Organization), a Maryland not-for-profit corporation, was formed to acquire and develop property located in Annapolis, Maryland, as a continuing care retirement community. The Organization will offer independent living apartments, cottages, and health care suites. The Organization has entered into a land purchase option and developer agreements related to the project. The project is in its planning and development stages and the Organization began incurring costs related to this project in 2019 while in previous years costs were funded by National Lutheran, Inc. (NLI). During July 2020, the Organization received approvals from the Maryland Department of Aging and began marketing the project, and is waiting for municipal approvals to begin construction.

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 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and equipment: Property and equipment are reported at cost. Currently no depreciation has be recorded. Once the assets are placed in service, depreciation will be 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 assets or significantly increase their capacity are capitalized.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets (Note 9).

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 (deficit) 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 assets without donor restrictions.

The Organization has no net assets with donor restrictions.

Excess (deficiency) of operating revenue over expenses: The statements of operations and changes in net (deficit) would normally include the determination of excess (deficiency) of operating revenue over expenses as the performance indicator. The (deficiency) of operating revenue over expenses within the current year relates solely to the expenses for the year as there was no revenue. Therefore, only expenses are reported on the statements of operations and changes in net (deficit).

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

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2020, 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.

Advertising: The Organization follows the policy of charging advertising costs to expense as incurred. Total advertising expense amounted to $578,998 and $684,470 for the years ended December 31, 2020 and 2019, respectively.

Maryland operating reserve: In accordance with Maryland law governing continuing care retirement communities, the Organization would be required to set aside operating reserves totaling 15% of the facility's net operating expenses (as defined) for the most recent fiscal year. Due to the Organization's circumstance of being in the planning and development phase, there is no operating reserve required as of December 31, 2020 or 2019.

Subsequent events: The Organization has evaluated subsequent events for recognition and disclosure through April 15, 2021, which is the date the financial statements were issued.

Note 2. Assets Whose Use is Limited

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

	2020	2019
Escrow fund	**$ 205,678**	$ 133,083

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 table below presents the balances of assets measured at fair value as of December 31:

	2020		
	Carrying Value	**Fair Value**	**Level I**
Reported at fair value:			
Assets:			
Assets whose use is limited:			
Cash and cash equivalents	**$ 205,678**	**$ 205,678**	**$ 205,678**
Disclosed at fair value:			
Cash and cash equivalents	**$ 205,678**	**$ 205,678**	**$ 205,678**

	2019		
	Carrying Value	**Fair Value**	**Level I**
Reported at fair value:			
Assets:			
Assets whose use is limited:			
Cash and cash equivalents	$ 133,083	$ 133,083	$ 133,083
Disclosed at fair value:			
Cash and cash equivalents	$ 133,083	$ 133,083	$ 133,083

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

Note 4. Liquidity and Availability of Resources

For the years ended December 31, 2020 and 2019, there were no liquid and available resources for The Village at Providence Point, Inc. The Organization was not earning revenue and was solely funded from the parent company, NLI. When revenue is collected in the future, as part of the Organization’s liquidity management, there is a policy to structure the financial assets to be available as general expenditures, liabilities, and other obligations come due.

Note 5. Property and Equipment

A summary of property and equipment is as follows as of December 31:

	2020	2019
Construction in progress	$ 11,691,180	$ 17,128,075

Construction in progress as of December 31, 2020, consists of project development costs for a future expansion/repositioning project. The Organization has various development and purchase agreements in place subject to future project approvals. The Organization expects to receive construction approval in 2021. The Organization recognized a loss on impairment in the amount of $7,148,969 as discussed in Note 9.

Note 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.

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 affiliated organizations as of December 31:

	2020	2019
NLI	$ 20,129,235	$ 17,751,950
National Lutheran Home for the Aged	900,000	450,000
The Village at Rockville, Inc.	28,361	18,129
The Village at Augsburg	1,083	-
The Village at Orchard Ridge, Inc.	450	450
	$ 21,059,129	$ 18,220,529

Note 7. Expenses by Nature and Function

The Organization's expenses for general and administrative purposes are as follows for the year ended December 31, 2020:

	Resident Services	General and Administrative	Total
Salaries and wages	$ -	$ 242,100	$ 242,100
Employee benefits and payroll taxes	-	45,758	45,758
Professional fees	-	99,200	99,200
Supplies	-	12,464	12,464
Food services	-	242	242
Utilities	-	1,920	1,920
Advertising and marketing	-	578,998	578,998
Licenses, dues, and subscriptions	-	43,803	43,803
Other operating expenses	-	80,168	80,168
Total	$ -	$ 1,104,653	$ 1,104,653

The Organization's expenses for general and administrative purposes are as follows for the year ended December 31, 2019:

	Resident Services	General and Administrative	Total
Salaries and wages	$ -	$ 203,024	$ 203,024
Employee benefits and payroll taxes	-	29,655	29,655
Professional fees	-	47,819	47,819
Supplies	-	5,071	5,071
Food services	-	523	523
Utilities	-	680	680
Advertising and marketing	-	684,470	684,470
Licenses, dues, and subscriptions	-	23,369	23,369
Other operating expenses	-	80,540	80,540
Total	$ -	$ 1,075,151	$ 1,075,151

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.

Due to the Organization not yet being operational, in 2020 and 2019, all of the expenses are general and administrative. Fundraising expenses are incurred through NLI.

Note 8. Insurance Claims Coverage

The Organization purchased general liability coverage from a commercial insurance carrier via an insurance broker until August 3, 2020. This coverage was provided on a claims-made basis. As of December 31, 2019, and through August 3, 2020, general liability coverages were 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 through August 3, 2020, and has deemed it not necessary to record a liability based on the Organization's lack of history of claims. There were no open or closed claims as of August 3, 2020.

Beginning on August 4, 2020, the Organization joined a reciprocal risk retention group (RRRG). The coverage is provided on a claims-made basis. General liability coverages were provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. Each claim has a $50,000 self-insured retention, prior to the primary insurance coverage. The Organization also has an excess umbrella policy for general liability coverage. The excess umbrella limit is $15,000,000 in the aggregate. The Organization funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRRG. As of December 31, 2020, no such adjustments to premiums are deemed necessary.

Note 9. Loss on Impairment

During 2020, certain construction in progress costs related to the project development were deemed to be impaired and were recorded as a loss on impairment on the statement of operations and changes in net (deficit). The assets were no longer applicable to the project due to a change in the configuration of the project and additional restrictions placed on the development by the City. These changes in scope and restrictions have resulted in little or no carrying value to the Organization relating to these costs. The amount of property and equipment impaired amounted to $7,148,969 for the year ended December 31, 2020.

Note 10. Contingencies

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

Note 11. Commitments

The Organization entered into a Purchase and Sale agreement with the seller of the Land on December 27, 2016. The Purchase and Sale agreement has been amended three times since that date, for various reasons, including a reduction in the land being acquired, and adjustments to the payment terms. The Organization is making earnest payments, otherwise known as deposits to the seller of the Land that the project is planned to be located. Such payments will be applied against the final purchase price of the Land, after final municipal approvals are received and the Land transaction is closed. On June 5, 2020, the Organization executed a third amendment to the Purchase and Sale agreement, which extended the prior agreed upon closing date to no later than June 30, 2022. Management expects the project to be approved prior to such date.