The Legacy at North Augusta, Inc.

Financial Statements

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

Independent Auditors' Report

Board of Trustees
The Legacy at North Augusta, Inc.

We have audited the accompanying financial statements of The Legacy at North Augusta, 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 (liabilities), 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 Legacy at North Augusta, Inc. as of December 31, 2017 and 2016, and the results of its operations, changes in net assets (liabilities), 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 Legacy at North Augusta, Inc.

Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 286,739	$ -
Accounts receivable, net	29,378	43,392
Inventory	21,170	18,178
Prepaid expenses and other assets	11,529	28,445
Current portion of assets whose use is limited	747,467	511,509
Total current assets	1,096,283	601,524
Assets Whose Use is Limited, Net	706,539	906,189
Investments	1,696,867	1,434,711
Property and Equipment, Net	12,925,007	13,343,654
Total assets	$ 16,424,696	$ 16,286,078

	2017	2016
Liabilities and Net Assets (Liabilities)		
Current Liabilities		
Accounts payable	$ 34,809	$ 68,123
Accrued interest	487,467	271,509
Accrued expenses	183,244	189,587
Current portion of long-term debt	260,000	240,000
Total current liabilities	965,520	769,219
Long-Term Debt, Net	15,819,901	16,063,369
Due to Affiliates	9,366,114	7,923,685
Total liabilities	26,151,535	24,756,273
Net Assets (Liabilities)		
Unrestricted	(9,757,259)	(8,491,715)
Temporarily restricted	8,866	6,758
Permanently restricted	21,554	14,762
Total net assets (liabilities)	(9,726,839)	(8,470,195)
Total liabilities and net assets (liabilities)	$ 16,424,696	$ 16,286,078

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues		
Net resident service revenues	$ 4,905,061	$ 4,416,626
Contributions	2,937	5,164
Interest and dividends	58,747	33,803
Realized gains	53,669	3,531
Other income	1,387	2,648
Net assets released from restriction - operations	1,642	700
Total unrestricted revenues	5,023,443	4,462,472
Expenses		
Salaries and wages	2,319,431	2,000,247
Employee benefits and payroll taxes	674,228	613,098
Other resident costs	26,399	25,700
Professional fees	143,527	89,155
Supplies	115,389	114,724
Food services	275,298	283,415
Utilities and other occupancy	334,813	301,363
Depreciation	553,695	689,335
Interest	1,113,178	868,861
Insurance and licenses	30,920	32,747
Minor equipment	22,427	24,692
Repairs and maintenance	121,422	106,898
Advertising and recruitment	47,009	62,973
Data processing	7,571	1,599
Legal and accounting	153	1,729
Dues and subscriptions	113,192	185,910
Miscellaneous	47,286	86,003
Bad debt expense	4,466	23,497
Management fee	443,345	426,293
Total expenses	6,393,749	5,938,239
Operating loss	(1,370,306)	(1,475,767)
Unrealized Gains	104,762	46,287
Change in unrestricted net assets (liabilities)	$ (1,265,544)	$ (1,429,480)

See notes to financial statements

The Legacy at North Augusta, Inc.

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

	2017	2016
Unrestricted Net Assets (Liabilities)		
Operating loss	$ (1,370,306)	$ (1,475,767)
Unrealized gains	104,762	46,287
Change in unrestricted net assets (liabilities)	(1,265,544)	$ (1,429,480)
Temporarily Restricted Net Assets		
Contributions	3,750	-
Net assets released from restriction - operations	(1,642)	(700)
Change in temporarily restricted net assets	2,108	(700)
Permanently Restricted Net Assets		
Contributions	6,792	3,235
Change in net assets (liabilities)	(1,256,644)	(1,426,945)
Net Assets (Liabilities), Beginning	(8,470,195)	(7,043,250)
Net Assets (Liabilities), Ending	$ (9,726,839)	$ (8,470,195)

See notes to financial statements

The Legacy at North Augusta, Inc.

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

	2017	2016
Cash Flows from Operating Activities		
Change in net assets (liabilities)	$ (1,256,644)	$ (1,426,945)
Adjustments to reconcile change in net assets (liabilities) to net cash used in operating activities:		
Depreciation	553,695	689,335
Amortization of deferred financing costs	16,532	16,071
Realized gains	(53,669)	(3,531)
Unrealized gains	(104,762)	(46,287)
Contributions permanently restricted by donor	(6,792)	(3,235)
Change in allowance for uncollectible accounts receivable	4,118	23,498
Changes in assets and liabilities:		
Accounts receivable	9,896	(32,261)
Inventory, prepaid expenses and other assets	13,924	3,756
Accounts payable and accrued expenses	176,301	(152,624)
Monthly fees paid in advance	-	(53,437)
Net cash used in operating activities	(647,401)	(985,660)
Cash Flows from Investing Activities		
Net purchases of investments and assets whose use is limited	(140,033)	(331,929)
Purchases of property and equipment	(135,048)	(568,768)
Net cash used in investing activities	(275,081)	(900,697)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(240,000)	(225,000)
Contributions permanently restricted by donor	6,792	3,235
Change in due to affiliates	1,442,429	2,002,419
Net cash provided by financing activities	1,209,221	1,780,654
Net change in cash and cash equivalents	286,739	(105,703)
Cash and Cash Equivalents, Beginning	-	105,703
Cash and Cash Equivalents, Ending	$ 286,739	$ -
Supplementary Cash Flows Information		
Interest paid	$ 880,688	$ 1,009,836

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Organization

The Legacy at North Augusta, Inc. (the “Organization”) is a not-for-profit corporation that was incorporated in Virginia on June 24, 2011. The Organization operates independent and assisted living services in Staunton, Virginia and offers 104 dual-purpose assisted living and independent 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 or assets whose use is limited.

Accounts Receivable

Accounts receivable for services provided to residents consists of amounts owed directly from residents, primarily on a private pay basis. 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 $29,247 and $25,129 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.

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.

Deferred Financing Costs

Financing costs of $553,999 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 $16,532 in 2017 and $16,071 in 2016. Accumulated amortization was $98,900 and $82,368 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 (liabilities) 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 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

Each resident executes a Residency Agreement which includes a one-time fee of $1,000, payable at the time of move-in. The fee is non-refundable unless a resident gives notice of its intention to terminate the Residency Agreement within 30 days of moving into the residential unit. Monthly service fees and charges, including the room rate are payable in advance.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense totaled approximately $27,000 and $46,000 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 (liabilities), which are excluded from operating loss, consistent with industry practice, include net unrealized gains on investments, 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 tables present 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	$ 1,454,092	$ 1,454,092	$ 1,454,092	$ -
Mutual funds	21,522	21,522	21,522	-
Consolidated Fund	1,607,935	1,607,935	1,217,890	390,045
Subtotal	3,083,549	$ 3,083,549	$ 2,693,504	$ 390,045
Consolidated Fund alternative investments measured at NAV	67,324			
Total	$ 3,150,873			

	2016			
Reported at fair value:				
Assets,				
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 1,417,698	$ 1,417,698	$ 1,417,698	$ -
Consolidated Fund	1,352,997	1,352,997	1,036,057	316,940
Subtotal	2,770,695	$ 2,770,695	$ 2,453,755	$ 316,940
Consolidated Fund alternative investments measured at NAV	81,714			
Total	$ 2,852,409			

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	$ 1,696,867	$ 1,434,711
Assets held under trust indenture:		
Debt service reserve	$ 650,026	$ 669,458
Operating reserve	150,193	152,007
Renewal and replacement	43,239	39,617
Funded interest and principal	610,548	556,616
	1,454,006	1,417,698
Less: current portion	(747,467)	(511,509)
Assets whose use is limited, net	$ 706,539	$ 906,189

Certain investments are pooled with related organizations and are referred to as “Consolidated Fund” investments. Approximately 2.10% and 1.68% 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	$ 101,269	$ 101,269	$ 101,269	$ -
Equity securities:				
Consumer discretionary	109,589	109,589	109,589	-
Consumer staples	24,472	24,472	24,472	-
Energy	49,367	49,367	49,367	-
Financial	68,445	68,445	68,445	-
Health care	78,285	78,285	78,285	-
Industrials	61,145	61,145	61,145	-
Information technology	120,916	120,916	120,916	-
Materials	25,790	25,790	25,790	-
Telecommunication	68,431	68,431	68,431	-
Utilities	58,745	58,745	58,745	-
Other	74,437	74,437	74,437	-
Mutual funds:				
Fixed income	223,052	223,052	223,052	-
Equity	153,947	153,947	153,947	-
Fixed income securities:				
Corporate bonds	216,740	216,740	-	216,740
U.S. Government and agency bonds	173,305	173,305	-	173,305
Subtotal	$ 1,607,935	$ 1,607,935	$ 1,217,890	$ 390,045
Alternative investments, measured at NAV	67,324			
Total	$ 1,675,259			

	2016			
	Carrying Value	Fair Value	Level 1	Level 2
Consolidated Fund:				
Cash and cash equivalents	$ 68,094	$ 68,094	$ 68,094	$ -
Equity securities:				
Consumer discretionary	102,785	102,785	102,785	-
Consumer staples	28,678	28,678	28,678	-
Energy	63,814	63,814	63,814	-
Financial	108,261	108,261	108,261	-
Health care	85,994	85,994	85,994	-
Industrials	62,577	62,577	62,577	-
Information technology	69,888	69,888	69,888	-
Materials	26,872	26,872	26,872	-
Telecommunication	36,512	36,512	36,512	-
Utilities	20,385	20,385	20,385	-
Other	33,166	33,166	33,166	-
Mutual funds:				
Fixed income	127,251	127,251	127,251	-
Equity	46,740	46,740	46,740	-
Other	151,838	151,838	151,838	-
Exchange-traded and closed-end funds	3,202	3,202	3,202	-
Fixed income securities:				
Corporate bonds	185,844	185,844	-	185,844
U.S. Government and agency bonds	131,096	131,096	-	131,096
Subtotal	$ 1,352,997	$ 1,352,997	$ 1,036,057	$ 316,940
Alternative investments, measured at NAV	81,714			
Total	$ 1,434,711			

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.

Mutual funds are valued at closing price reported on the active market on which the individual securities are traded.

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.

The fair value of due to affiliates 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	$ 67,324	$ 49,900	(a)	N/A	Monthly/Quarterly 15-120 days
Skybridge Multi-Advisor Hedge Fund	-	31,814	(b)	N/A	Monthly/Quarterly 15-120 days
	$ 67,324	$ 81,714			

(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	$ 79,513	$ (2,346)	$ 55,686	$ (8,610)	$ 135,199	$ (10,956)
Mutual funds	5,407	(667)	157,134	(13,270)	162,541	(13,937)
Fixed income securities	93,517	(730)	76,583	(1,132)	170,100	(1,862)
	$ 178,437	$ (3,743)	$ 289,403	$ (23,012)	$ 467,840	$ (26,755)
	2016					
Equity securities	$ 80,548	$ (4,558)	$ 63,067	$ (16,052)	$ 143,615	$ (20,610)
Mutual funds	13,460	(561)	175,837	(14,919)	189,297	(15,480)
Fixed income securities	60,157	(1,080)	80,915	(1,394)	141,072	(2,474)
	$ 154,165	$ (6,199)	$ 319,819	$ (32,365)	$ 473,984	$ (38,564)

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	$ 923,248	$ 923,248
Buildings and building improvements	14,193,053	14,175,023
Furniture and equipment	1,610,021	1,522,710
Construction in progress	519,439	484,576
	17,245,761	17,105,557
Less accumulated depreciation	(4,320,754)	(3,761,903)
	$ 12,925,007	$ 13,343,654

Construction in progress at December 31, 2017 consists of initial planning costs for a future expansion/repositioning project. No construction commitments exist as of December 31, 2017.

4. Long-Term Debt

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

	2017	2016
Series 2011 Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2045. Interest is payable at a fixed rate of 5.25% through January 1, 2018, and then 6.625% through June 2021. Beginning in July 2021, the interest rate will become a variable rate through maturity.	$ 16,535,000	$ 16,775,000
Less current portion	(260,000)	(240,000)
Long-term debt, excluding deferred financing costs	16,275,000	16,535,000
Deferred financing costs, net of accumulated amortization	(455,099)	(471,631)
Long-term debt, net	$ 15,819,901	$ 16,063,369

The 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 will grant a lien and security interest in the mortgaged premises. 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 agreement.

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

2018	$ 260,000
2019	275,000
2020	295,000
2021	315,000
2022	260,000
Thereafter	15,130,000
Total	$ 16,535,000

Interest expense totaled $1,113,178 in 2017 and $868,861 in 2016, including amortization of deferred financing costs of $16,532 in 2017 and $16,071 in 2016.

5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consists of funds for use for specific purposes and amounted to $8,866 and $6,758 as of December 31, 2017 and 2016, respectively.

Permanently restricted net assets consists of a benevolent endowment of $21,554 and $14,762 at December 31, 2017 and 2016, respectively.

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 $443,345 in 2017 and $426,293 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 affiliated organizations at December 31:

	2017	2016
NLI	$ 8,445,695	$ 7,192,458
The Village at Orchard Ridge, Inc.	101,046	71,160
The Village at Rockville, Inc.	156,248	-
myPotential Virginia, LLC	3,125	67
National Lutheran Home for the Aged, Inc.	660,000	660,000
	$ 9,366,114	$ 7,923,685

7. Classification of Expenses

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

	2017	2016
Program activities	$ 5,312,695	$ 4,788,245
General and administrative	1,081,054	1,149,994
	$ 6,393,749	$ 5,938,239

Fundraising expenses are incurred through NLI.

8. Pension Plan

The Organization participates in 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 $66,419 and $61,099 for the years ended December 31, 2017 and 2016, respectively.

9. 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 revenues.

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 $343,000 in 2017 and $165,000 in 2016.

10. 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.

11. 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.

12. 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.