The Legacy at North Augusta, Inc.

Financial Statements

December 31, 2018 and 2017

Independent Auditors' Report

To the Board of Trustees of
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, 2018 and 2017, and the related statements of operations, 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.

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, 2018 and 2017, and the results of its operations, changes in net deficit, 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 24, 2019

The Legacy at North Augusta, Inc.

Balance Sheets

December 31, 2018 and 2017

	2018	2017		2018	2017
Assets			**Liabilities and Net Deficit**		
Current Assets			**Current Liabilities**		
Cash and cash equivalents	$ -	$ 286,739	Accounts payable	$ 168,615	$ 34,809
Accounts receivable, net	24,906	29,378	Accrued interest	427,219	487,467
Prepaid expenses and other assets	26,779	32,699	Accrued expenses	249,238	183,244
Current portion of assets whose use is limited	702,209	747,467	Current portion of long-term debt	275,000	260,000
Total current assets	753,894	1,096,283	Total current liabilities	1,120,072	965,520
Assets Whose Use is Limited, Net	718,807	706,539	**Long-Term Debt, Net**	15,561,433	15,819,901
Investments	2,036,379	1,696,867	**Due to Affiliates**	10,470,342	9,366,114
Property and Equipment, Net	12,943,974	12,925,007	Total liabilities	27,151,847	26,151,535
			Net (Deficit) Assets		
			Without donor restrictions	(10,746,692)	(9,757,259)
			With donor restrictions	47,899	30,420
			Total net deficit	(10,698,793)	(9,726,839)
Total assets	$ 16,453,054	$ 16,424,696	Total liabilities and net deficit	$ 16,453,054	$ 16,424,696

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues Without Donor Restrictions		
Net resident service revenues	$ 5,438,288	$ 4,905,061
Contributions	2,973	2,937
Interest and dividends	69,433	59,541
Realized gains	10,221	53,669
Other income	5,298	1,387
Net assets released from restriction, operations	12,776	1,642
Total revenues without donor restrictions	5,538,989	5,024,237
Expenses		
Salaries and wages	2,446,110	2,319,431
Employee benefits and payroll taxes	711,344	674,228
Professional fees	225,700	234,022
Ancillary and medical	4,674	-
Supplies	149,943	167,004
Food services	319,250	275,406
Utilities	185,780	167,943
Depreciation	540,449	553,695
Interest	831,322	1,113,178
Insurance	13,074	14,061
Real estate taxes	76,255	75,692
Repairs and maintenance	83,586	114,919
Advertising and marketing	30,352	31,008
Licenses, dues and subscriptions	195,953	139,756
Other operating expenses	85,412	66,389
Bad debt expense	35,419	4,466
Management fee	443,000	443,345
	6,377,623	6,394,543
Operating loss	(838,634)	(1,370,306)
Unrealized (Losses) Gains	(150,799)	104,762
Change in net deficit without donor restrictions	$ (989,433)	$ (1,265,544)

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Changes in Net Deficit
Years Ended December 31, 2018 and 2017

	2018	2017
Net Deficit without Donor Restrictions		
Operating loss	$ (838,634)	$ (1,370,306)
Unrealized (losses) gains	(150,799)	104,762
Change in net deficit without donor restrictions	(989,433)	(1,265,544)
Net Assets with Donor Restrictions		
Contributions	30,255	10,542
Net assets released from restriction, operations	(12,776)	(1,642)
Change in net assets with donor restrictions	17,479	8,900
Change in net deficit	(971,954)	(1,256,644)
Net Deficit, Beginning	(9,726,839)	(8,470,195)
Net Deficit, Ending	$ (10,698,793)	$ (9,726,839)

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net deficit	$ (971,954)	$ (1,256,644)
Adjustments to reconcile change in net deficit to net cash used in operating activities:		
Depreciation	540,449	553,695
Amortization of deferred financing costs	16,532	16,532
Realized gains	(10,221)	(53,669)
Unrealized (losses) gains	150,799	(104,762)
Donor restricted contributions	(30,255)	(10,542)
Change in allowance for uncollectible accounts receivable	1,154	4,118
Changes in assets and liabilities:		
Accounts receivable	3,318	9,896
Prepaid expenses and other assets	5,920	13,924
Accounts payable and accrued expenses	139,552	176,301
Net cash used in operating activities	(154,706)	(651,151)
Cash Flows from Investing Activities		
Net purchases of investments and assets whose use is limited	(447,100)	(140,033)
Purchases of property and equipment	(559,416)	(135,048)
Net cash used in investing activities	(1,006,516)	(275,081)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(260,000)	(240,000)
Donor restricted contributions	30,255	10,542
Change in due to affiliates	1,104,228	1,442,429
Net cash provided by financing activities	874,483	1,212,971
Net change in cash and cash equivalents	(286,739)	286,739
Cash and Cash Equivalents, Beginning	286,739	-
Cash and Cash Equivalents, Ending	$ -	$ 286,739
Supplementary Cash Flows Information		
Interest paid	$ 868,068	$ 880,688

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"). 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 consist of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by the Organization by their contractually stated due date. The Organization assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Organization has exhausted all collection efforts and accounts are deemed impaired. The allowance for uncollectible accounts was $30,401 and $29,247 at December 31, 2018 and 2017, respectively.

Assets Whose Use is Limited, Investment Risk 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 fair value, based on quoted market prices as provided by a national exchange, excluding an alternative investment which is 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 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 both 2018 and 2017. Accumulated amortization was $115,432 and $98,900 at December 31, 2018 and 2017, respectively.

Net Assets (Deficit)

Net assets (deficit), revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues 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.

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

Net resident service revenues are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of the following revenue streams:

Assisted living: Assisted living revenues are 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 revenues are recognized on a month-to-month basis.

Independent living: Independent living revenues are 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.

Other resident services: Other resident services revenues include services such as housekeeping, laundry, transportation, medical supplies and other revenues from residents. The Organization has determined that other resident services revenues are considered one performance obligation which is satisfied over time as services are provided. Therefore, other resident services revenues are recognized on a daily basis as services are rendered.

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 revenues consist of the following for the years ended December 31, 2018 and 2017

	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay, 2018	$ 4,338,349	$ 1,076,170	$ 23,769	$ 5,438,288
Self-pay, 2017	$ 3,807,766	$ 1,075,779	$ 21,516	$ 4,905,061

Each resident executes a Resident's Admission and Service 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 $30,300 and $31,000 for the years ended December 31, 2018 and 2017, respectively.

Operating Loss

The statements of operations include the determination of operating loss. Changes in net deficit without donor restrictions, which are excluded from operating loss, consistent with industry practice, include net unrealized (losses) 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

In 2018, the Organization adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized 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. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

The adoption of ASU No. 2014-09 did not have a material impact on the financial statements of the Organization, but resulted in enhanced disclosures as required by ASU No. 2014-09.

Presentation of Financial Statements

In 2018, the Organization adopted the FASB's ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The financial statements include a disclosure about liquidity and availability of resources at December 31, 2018 (Note 3).
- The functional expense disclosure for 2018 includes expenses reported both by nature and function (Note 8).

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 2017 financial statements have been reclassified to conform to the 2018 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 24, 2019, which is the date the financial statements were issued.

During March 2019, the Economic Development Authority of the City of Staunton, Virginia issued, on behalf of the Organization, $9,890,000 Residential Care Facility Revenue Bonds, Series 2019 (the "Series 2019 Bonds") to finance the expansion/repositioning project as described in Note 4. The Series 2019 Bonds are payable initially with interest only at 5.25% with principal payments beginning July 2021 to July 2024.

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, 2018 and 2017.

The following tables present financial instruments measured at fair value at December 31, 2018 and 2017, by caption on the balance sheets:

	2018			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Reported at Fair Value				
Assets,				
Investments and assets whose use is limited:				
Cash and cash equivalents	$ 1,421,731	$ 1,421,731	$ 1,421,731	$ -
Mutual funds	29,953	29,953	29,953	-
Consolidated Fund	1,914,206	1,914,206	1,471,176	443,030
Subtotal	3,365,890	$ 3,365,890	$ 2,922,860	$ 443,030
Consolidated Fund alternative investment measured at NAV	91,505			
Total	$ 3,457,395			
Disclosed at Fair Value				
Cash and cash equivalents	$ -	$ -	$ -	$ -
Long-term debt	$ 16,275,000	$ 16,187,115	$ -	$ 16,187,115

	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 investment measured at NAV	67,324			
Total	$ 3,150,873			
Disclosed at Fair Value				
Cash and cash equivalents	$ 286,739	$ 286,739	$ -	$ -
Long-term debt	$ 16,535,000	$ 16,685,799	$ -	$ 16,685,799

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:

	2018	2017
Investments	$ 2,036,379	$ 1,696,867
Assets held under trust indenture:		
Debt service reserve	$ 661,440	$ 650,026
Operating reserve	147,736	150,193
Renewal and replacement	43,882	43,239
Principal	138,624	142,876
Interest	429,334	467,672
	1,421,016	1,454,006
Less: current portion	(702,209)	(747,467)
Assets whose use is limited, net	$ 718,807	$ 706,539

Certain investments are pooled with related organizations and are referred to as "Consolidated Fund" investments. Approximately 2.78 percent and 2.10 percent of the pooled investments are attributable to the Organization as of December 31, 2018 and 2017, 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, 2018 and 2017:

	2018			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Consolidated Fund:				
Cash and cash equivalents	$ 131,466	$ 131,466	$ 131,466	$ -
Equity securities:				
Consumer discretionary	268,771	268,771	268,771	-
Consumer staples	57,545	57,545	57,545	-
Energy	90,014	90,014	90,014	-
Financial	90,860	90,860	90,860	-
Health care	122,717	122,717	122,717	-
Industrials	67,330	67,330	67,330	-
Information technology	100,294	100,294	100,294	-
Materials	20,149	20,149	20,149	-
Real estate	43,745	43,745	43,745	-
Utilities	32,528	32,528	32,528	-
Other	33,100	33,100	33,100	-
Mutual funds:				
Fixed income	266,828	266,828	266,828	-
Equity	145,829	145,829	145,829	-
Fixed income securities:				
Corporate bonds	244,908	244,908	-	244,908
U.S. Government and agency bonds	198,122	198,122	-	198,122
Subtotal	1,914,206	$ 1,914,206	$ 1,471,176	$ 443,030
Alternative investment measured at NAV	91,505			
Total	$ 2,005,711			

	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	-
Real estate	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 investment measured at NAV	67,324			
Total	$ 1,675,259			

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 investment is comprised of a hedge fund. The Organization measures the fair value of the alternative investment 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 Organization’s share of the of the Consolidated Fund's alternative investments as of December 31, 2018 and 2017 was $91,505 and $67,234, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (the "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, 2018 or 2017 and there is a monthly or quarterly redemption notice of 15 – 120 days.

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

The fair value of due to affiliates 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 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. 158 and 92 individual securities had unrealized losses at December 31, 2018 and 2017, 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 – Consolidated Fund					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 339,007	$ (31,912)	$ 14,922	$ (9,497)	$ 353,929	$ (41,409)
Mutual funds	-	-	181,480	(35,471)	181,480	(35,471)
Fixed income securities	193,543	(5,952)	168,619	(5,202)	362,162	(11,154)
	$ 532,550	$ (37,864)	$ 365,021	$ (50,170)	$ 897,571	$ (88,034)
	2017 – Consolidated Fund					
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)

3. Liquidity and Availability of Resources

The following table reflects the Organization's financial assets available for general expenditure within one year at December 31, 2018. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of: assets whose use is limited, debt service reserve and donor restricted funds.

Financial assets:	
Investments	$ 2,036,379
Accounts receivable, net	24,906
Total financial assets	$ 2,061,285

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.

4. Property and Equipment

A summary of property and equipment and the related accumulated depreciation is as follows at December 31, 2018 and 2017:

	2018	2017
Land	$ 923,248	$ 923,248
Buildings and building improvements	14,555,102	14,193,053
Furniture and equipment	1,708,198	1,610,021
Construction in progress	618,629	519,439
	17,805,177	17,245,761
Less accumulated depreciation	(4,861,203)	(4,320,754)
	$ 12,943,974	$ 12,925,007

Construction in progress at December 31, 2018 consists of initial planning costs for a future expansion/repositioning project. No construction commitments exist as of December 31, 2018.

5. Long-Term Debt

Long-term debt, net consists of the following as of December 31, 2018 and 2017:

	2018	2017
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 December 31, 2019, and then 6.625% through June 2021. Beginning in July 2021, the interest rate will become a variable rate through maturity.	$ 16,275,000	$ 16,535,000
Less current portion	(275,000)	(260,000)
Long-term debt, excluding deferred financing costs	16,000,000	16,275,000
Deferred financing costs, net of accumulated amortization	(438,567)	(455,099)
Long-term debt, net	$ 15,561,433	$ 15,819,901

As security for the payment of the bonds, the Organization will grant a lien and security interest in the mortgaged premises. 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 long-term debt maturing in the next five years and thereafter is as follows:

2019	$ 275,000
2020	295,000
2021	315,000
2022	260,000
2023	280,000
Thereafter	14,850,000
Total	$ 16,275,000

6. Net (Deficit) Assets

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

	2018	2017
Net (deficit) assets:		
Without donor restrictions:		
Undesignated	$ (10,746,692)	$ (9,757,259)
With donor restrictions:		
Purpose restricted for operations	10,900	8,866
Restricted in perpetuity	36,999	21,554
	47,899	30,420
Total net deficit	$ (10,698,793)	$ (9,726,839)

During 2018 and 2017, net assets of $12,776 and $1,642, 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.

7. 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 $443,000 in 2018 and $443,345 in 2017.

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:

	2018	2017
NLI	$ 9,181,918	$ 8,445,695
The Village at Orchard Ridge, Inc.	159,882	101,046
The Village at Rockville, Inc.	290,511	156,248
myPotential Virginia, LLC	3,104	3,125
National Lutheran Home for the Aged, Inc.	834,927	660,000
	$ 10,470,342	$ 9,366,114

8. Expenses by Nature and Function

The Organization's expenses for resident services (including independent living, assisted living, and other resident services) and general and administrative are as follows for the years ending December 31, 2018:

	Resident Services	General and Administrative	Total
Salaries and wages	$ 2,120,304	$ 325,806	$ 2,446,110
Employee benefits and payroll taxes	643,520	67,824	711,344
Professional fees	182,750	42,950	225,700
Ancillary and medical	4,674	-	4,674
Supplies	122,505	27,438	149,943
Food services	316,994	2,256	319,250
Utilities	178,055	7,725	185,780
Depreciation	540,449	-	540,449
Interest	831,322	-	831,322
Insurance	13,074	-	13,074
Real estate taxes	76,255	-	76,255
Repairs and maintenance	68,695	14,891	83,586
Advertising and marketing	764	29,588	30,352
Licenses, dues and subscriptions	138,043	57,910	195,953
Other operating expenses	71,427	13,985	85,412
Bad debt expense	35,419	-	35,419
Management fee	-	443,000	443,000
Total	$ 5,344,250	$ 1,033,373	$ 6,377,623

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.

In 2017, $5,313,489 of expenses related to resident services and $1,081,054 related to general and administrative. Fundraising expenses are incurred through NLI.

9. Pension Plan

The Organization participates in a 403(b) defined contribution plan. The Organization contributes 2 percent of the eligible employees' salaries and matches 50 percent of each employee's contribution up to 8 percent after 90 days of service for a maximum contribution of 6 percent. All participating employees' contributions are 100 percent vested and employer contributions are vested at 20 percent per year to 100 percent after 5 years. Employer contributions totaled $77,725 and $66,419 for the years ended December 31, 2018 and 2017, respectively.

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 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 $325,000 in 2018 and $343,000 in 2017.

11. 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. The Organization maintains reserves for potential credit losses and such losses have historically been within management's expectations.

12. 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.

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 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.