THE LEGACY AT NORTH AUGUSTA, INC.

Financial Report
December 31, 2019

Arnett Carbis Toothman llp
CPAs & Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Legacy at North Augusta, Inc.
Staunton, Virginia

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

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

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 23, 2020

THE LEGACY AT NORTH AUGUSTA, INC.

BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Accounts receivable	$ 2,150	$ 24,906
Prepaid expenses and other assets	21,192	26,779
Current portion of assets whose use is limited	1,958,966	702,209
Total current assets	1,982,308	753,894
ASSETS WHOSE USE IS LIMITED, net	2,024,709	718,807
INVESTMENTS	61,420	30,668
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	2,086,058	2,005,711
PROPERTY AND EQUIPMENT, net	18,367,880	12,943,974
Total assets	$ 24,522,375	$ 16,453,054
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable, trade	$ 51,716	$ 168,615
Accounts payable, construction	1,047,091	-
Accrued interest	616,875	427,219
Accrued expenses	233,230	249,238
Current portion of long-term debt	295,000	275,000
Total current liabilities	2,243,912	1,120,072
LONG-TERM DEBT, net	22,325,358	15,561,433
DUE TO AFFILIATES	11,080,297	10,470,342
Total liabilities	35,649,567	27,151,847
NET ASSETS (DEFICIT)		
Without donor restrictions	(11,203,747)	(10,746,692)
With donor restrictions	76,555	47,899
Total net (deficit)	(11,127,192)	(10,698,793)
Total liabilities and net (deficit)	$ 24,522,375	$ 16,453,054

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	$ 5,446,909	$ 5,438,288
Net assets released from restrictions, operations	2,335	12,776
Total operating revenue without donor restrictions	5,449,244	5,451,064
Operating expenses:		
Salaries and wages	2,303,673	2,446,110
Employee benefits and payroll taxes	682,659	711,344
Professional fees	223,526	225,700
Ancillary and medical	13,751	4,674
Supplies	136,441	149,943
Food services	282,446	319,250
Utilities	162,499	185,780
Depreciation	579,041	540,449
Interest	918,621	831,322
Insurance	13,907	13,074
Real estate taxes	73,474	76,255
Repairs and maintenance	65,527	83,586
Advertising and marketing	40,414	30,352
Licenses, dues, and subscriptions	177,163	195,953
Other operating expenses	69,054	85,412
Bad debt expense	33,963	35,419
Management fee	475,687	443,000
Total operating expenses	6,251,846	6,377,623
(Deficiency) of operating revenue over expenses	(802,602)	(926,559)
Nonoperatng revenue (expense):		
Contributions	3,026	2,973
Interest and dividends	89,376	69,433
Realized gains	8,009	10,221
Unrealized gains (losses)	223,991	(140,561)
Other income	274	5,298
Total nonoperating revenue (expense)	324,676	(52,636)
(Deficiency) of operating and nonoperating revenue over expenses	(477,926)	(979,195)
Other changes:		
Unrealized gains (losses)	20,871	(10,238)
Change in net (deficit) without donor restrictions	$ (457,055)	$ (989,433)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

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

	2019	2018
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (477,926)**	$ (979,195)
Unrealized gains (losses)	**20,871**	(10,238)
Change in net (deficit) without donor restrictions	**(457,055)**	(989,433)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**30,991**	30,255
Net assets released from restriction, operations	**(2,335)**	(12,776)
Change in net assets with donor restrictions	**28,656**	17,479
Change in net (deficit)	**(428,399)**	(971,954)
Net deficit:		
Beginning	**(10,698,793)**	(9,726,839)
Ending	**$ (11,127,192)**	$ (10,698,793)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	**$ (428,399)**	$ (971,954)
Adjustments to reconcile change in net deficit to net cash (used in) operating activities:		
Depreciation	**579,041**	540,449
Provision for bad debts	**33,963**	35,419
Amortization of deferred financing costs	**16,490**	16,532
Realized gains	**(8,009)**	(10,221)
Unrealized (gains) losses	**(244,862)**	150,799
Changes in assets and liabilities:		
Accounts receivable	**(11,207)**	(30,947)
Prepaid expenses and other assets	**5,587**	5,920
Accounts payable and accrued expenses	**(140,126)**	139,552
Net cash (used in) operating activities	**(197,522)**	(124,451)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) of investments and assets whose use is limited	**(5,472)**	(462,611)
Purchases of property and equipment	**(4,691,478)**	(559,416)
Net cash (used in) investing activities	**(4,696,950)**	(1,022,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(275,000)**	(260,000)
Proceeds from new borrowings	**7,500,000**	-
Deferred financing costs paid	**(525,068)**	-
Change in due to affiliates	**785,855**	1,104,228
Net cash provided by financing activities	**7,485,787**	844,228
Net change in cash, cash equivalents, and restricted cash	**2,591,315**	(302,250)
Cash, cash equivalents, and restricted cash:		
Beginning	**1,468,915**	1,771,165
Ending	**$ 4,060,230**	$ 1,468,915
Cash, cash equivalents, and restricted cash includes:		
Assets held under trust indenture	**$ 3,983,675**	$ 1,421,016
Cash, restricted by donors or grantors for specific purposes	**76,555**	47,899
	$ 4,060,230	$ 1,468,915

See Notes to Financial Statements

	2019	2018
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Interest paid	**$ 1,091,787**	$ 868,068
SUPPLEMENTARY DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accounts payable, construction	**$ 1,047,091**	$ -
Accrued capitalized interest	**$ 196,875**	$ -
Beneficial interest in supporting organization	**$ (175,900)**	$ 226,160

See Notes to Financial Statements

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

Nature of Organization: The Legacy at North Augusta, Inc. (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.

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported assets, liabilities, and disclosures at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk: The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding those classified as investments and assets whose use is limited. In the normal course of business, the Organization may have deposits with a local financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable from residents are reported at estimated net realizable value taking into account estimated implicit and explicit price concessions. The estimated implicit price concessions are based upon management’s judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the estimated price concessions based upon its review of accounts receivable payor composition and aging, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to resident service revenue and to establish an appropriate estimate for price concessions. The allowance for uncollectable accounts was $39,501 and $30, 401 as of December 31, 2019 and 2018, respectively.

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

The Organization's investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported on the balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the balance sheets could change materially in the near term.

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

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

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 on the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled $16,490 and $16,532, for the years ended December 31, 2019 and 2018, respectively. Accumulated amortization was $131,922 and $115,432 as of December 31, 2019 and 2018, respectively. Approximately $67,500 and $0 of amortized deferred financing costs were capitalized as of December 31, 2019 and 2018, respectively.

Net Assets (Deficit)

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

Net assets 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 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.

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

Net resident service revenue is primarily comprised of the following revenue streams:

Assisted living: Assisted living revenue is primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenue is recognized on a month-to-month basis.

Independent living: Independent living revenue is primarily derived from providing housing and services to residents. The Organization has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

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

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

	Assisted/ Independent Living	Other Resident Services	Total
Self-pay, December 31, 2019	**$ 5,435,025**	**$ 11,884**	**$ 5,446,909**
Self-pay, December 31, 2018	$ 5,414,519	$ 23,769	$ 5,438,288

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled $40,414 and $30,352 for the years ended December 31, 2019 and 2018, respectively.

(Deficiency) of operating and nonoperating revenue over expenses: The statements of operations include the determination of (deficiency) of operating and nonoperating revenue over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice, include net unrealized gains (losses) on alternative investments measured at NAV and debt securities and net assets released from restriction for capital purchases.

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

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Generally, tax returns for years ended December 31, 2016, and thereafter remain subject to examination by federal and state tax authorities.

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

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

Recent Accounting Pronouncements

Financial Instruments: In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. The Organization adopted this guidance during the year ended December 31, 2019. Adoption of this guidance resulted in a reclassification of unrealized gains (losses) on equity securities to be included within the performance indicator. Total unrealized gains (losses) on equity securities amounted to $223,991 and $(140,561) for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

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

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

Note 2. Liquidity and Availability of Resources

Financial assets are considered liquid and available when convertible into cash within a year. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet dates, comprise the following as of December 31:

	2019	2018
Financial assets:		
Accounts receivable, net	**$ 2,150**	$ 24,906
Investments	**61,420**	30,668
Beneficial interest in supporting organization	**2,086,058**	2,005,711
Total financial assets	**$ 2,147,478**	$ 2,036,379

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of daily requirements in short-term investments. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied.

Note 3. Fair Value Measurements

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

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

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

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

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

	2019			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization, and assets whose use is limited:				
Cash and cash equivalents	**$ 3,984,012**	**$ 3,984,012**	**$ 3,984,012**	**$ -**
Mutual funds	**61,083**	**61,083**	**61,083**	**-**
Beneficial interest in supporting organization	**1,982,256**	**1,982,256**	**1,564,643**	**417,613**
Total	**6,027,351**	**$ 6,027,351**	**$ 5,609,738**	**$ 417,613**
Beneficial interest in supporting organization alternative investment measured at NAV	**103,802**			
Total	**$ 6,131,153**			
Disclosed at fair value:				
Long-term debt	**$ 23,500,000**	**$ 23,504,000**	**$ -**	**$ 23,504,000**

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

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

Certain investments are combined with related organizations and are referred to as beneficial interest in supporting organization investments. Approximately 3.01% and 2.78% of the combined investments are attributable to the Organization as of December 31, 2019 and 2018, respectively. The percentage of combined investments is calculated based on a monthly allocation, adjusted for any necessary reallocations specific to the Organization. Investment income is also based on this allocation.

The following tables present the Organization's share of the combined investments in the beneficial interest in supporting organization measured at fair value as of December 31:

	2019			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial Interest in Supporting Organization:				
Cash and cash equivalents	$ 89,892	$ 89,892	$ 89,892	$ -
Equity securities:				
Consumer discretionary	326,782	326,782	326,782	-
Consumer staples	51,990	51,990	51,990	-
Energy	103,923	103,923	103,923	-
Financial	137,252	137,252	137,252	-
Health care	174,319	174,319	174,319	-
Industrials	65,649	65,649	65,649	-
Information technology	123,376	123,376	123,376	-
Materials	36,783	36,783	36,783	-
Real estate	125,110	125,110	125,110	-
Utilities	36,116	36,116	36,116	-
Other	2,120	2,120	2,120	-
Mutual funds:				
Fixed income	145,907	145,907	145,907	-
Equity	145,424	145,424	145,424	-
Fixed income securities:				
Corporate bonds	218,266	218,266	-	218,266
U.S. government and agency bonds	199,347	199,347	-	199,347
Total	1,982,256	$ 1,982,256	$ 1,564,643	$ 417,613
Alternative investment measured at NAV	103,802			
Total	$ 2,086,058			

	2018			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial Interest in Supporting Organization:				
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
Total	1,914,206	$ 1,914,206	$ 1,471,176	$ 443,030
Alternative investment measured at NAV	91,505			
Total	$ 2,005,711			

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

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

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

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

Equity securities and mutual funds: Valued at the closing price reported in the active market on which the individual securities are traded for equity securities and fixed income mutual funds and quoted market prices in active markets.

Fixed income securities and other: Fair values of these items, which are the amounts reported on the balance sheets, are estimated using quoted prices for similar securities.

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

Investments within the beneficial interest in supporting organization are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, equity securities, mutual funds, and exchange-traded and closed-end funds, and 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 Beneficial Interest in Supporting Organization's alternative investments as of December 31, 2019 and 2018, was $103,802 and $91,505, respectively. The investment strategy for Ironwood Institutional Multi-Strategy Fund (Fund) is capital appreciation with limited variability of returns. The Fund invests exclusively in other private investment companies, which invests substantially all of its assets in hedge funds and other similar investment vehicles that are managed by a select group of portfolio managers who invest in a variety of financial markets and utilize a broad range of alternative investment strategies. There were no unfunded commitments as of December 31, 2019 or 2018, and there is a monthly or quarterly redemption notice of 15 - 120 days.

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

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

The following table summarizes the gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities in a loss position for the Organization's share in the beneficial interest in supporting organization. Individual securities totaling 0 and 158 had unrealized losses for the years ended December 31, 2019 and 2018, respectively. Management believes that these holding losses are not permanently impaired as they reflect general market conditions instead of a permanent decline in value.

	2018					
	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed income securities	$ 193,543	$ (5,952)	$ 168,619	$ (5,202)	$ 362,162	$ (11,154)

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

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

	2019	2018
Investments	**$ 61,420**	$ 30,668
Beneficial interest in supporting organization	**$ 2,086,058**	$ 2,005,711
Assets held under trust indenture:		
Debt service reserve	**$ 1,050,426**	$ 661,440
Operating reserve	**154,750**	147,736
Renewal and replacement	**44,783**	43,882
Construction Fund	**1,332,628**	-
Cost of Issuance	**13,855**	-
Working Capital	**215,541**	-
Principal	**160,740**	138,624
Interest	**1,010,952**	429,334
	3,983,675	1,421,016
Less: current portion	**(1,958,966)**	(702,209)
Assets whose use is limited, net	**$ 2,024,709**	$ 718,807

Note 5. Property and Equipment

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

	2019	2018
Land	**$ 923,248**	$ 923,248
Buildings and building improvements	**14,669,260**	14,555,102
Furniture and equipment	**1,762,374**	1,708,198
Construction in progress	**6,453,241**	618,629
	23,808,123	17,805,177
Less accumulated depreciation	**(5,440,243)**	(4,861,203)
	$ 18,367,880	$ 12,943,974

Construction in progress as of December 31, 2019, consists of initial project development and construction costs for an expansion/repositioning project. A construction contract exists in the amount of approximately $6,171,000, of which $5,032,445 was completed as of December 31, 2019.

Note 6. Long-Term Debt

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

	2019	2018
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 June 30, 2024, and then from July 1, 2024, through maturity at a rate equal to the 24 year MMD plus 275 basis points, calculated on the third business day before July 1, 2024.	**$ 16,000,000**	$ 16,275,000
Series 2019A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2024. Interest is payable at a fixed rate of 5.25%.	**7,500,000**	-
	23,500,000	16,275,000
Less current portion	**295,000**	275,000
Less deferred financing costs	**879,642**	438,567
Total long-term debt, net	**$ 22,325,358**	$ 15,561,433

On March 1, 2019 the Economic Development Authority of the City of Staunton, Virginia issued the 2019 Legacy at North Augusta 2019A Residential Care Facility Revenue Bonds for $9,890,000, whereas the proceeds were loaned to the Organization. The bonds are labeled as draw down bonds, and are for the purpose of capital improvements, along with new construction of additional housing for assisted living, and the construction of an assisted living memory care unit. As of December 31, 2019 there have been three drawn downs, March 21, July 19, and October 17, 2019. Each draw was for $2,500,000, for a total of $7,500,000. The draw down bonds have a fixed rate of 5.25%, with a maturity date of July 1, 2024. The Organization expects to draw on the remaining $2,390,000 in calendar year 2020.

As security for the payment of the bonds, the Organization will grant a lien and security interest in the mortgaged premises. Additionally, NLI and NLHA entered into support agreements guaranteeing the repayment of the bonds as additional security. The support agreements will terminate upon the achievement of certain financial performance targets as defined in the agreements.

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

The annual aggregate maturities of long-term debt are as follows as of December 31, 2019:

Years Ending December 31:	
2020	$ 295,000
2021	470,000
2022	415,000
2023	455,000
2024	7,315,000
Thereafter	14,550,000
	$ 23,500,000

Note 7. Net Assets (Deficit)

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

	2019	2018
Net assets (deficit):		
Without donor restrictions:		
Undesignated	**$ (11,203,747)**	$ (10,746,692)
With donor restrictions:		
Purpose restricted for operations	**20,465**	10,900
Restricted in perpetuity	**56,090**	36,999
	76,555	47,899
Total net deficit	**$ (11,127,192)**	$ (10,698,793)

During years ending December 31, 2019 and 2018, net assets of $2,335 and $12,776, respectively, were released from donor restricted by incurring expenses satisfying the restricted purposes.

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

Note 8. Related Party Transactions

NLI is the sole member of the Organization and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. The Organization incurred management fees to NLI totaling $475,687 and $443,000 for the years ending December 31, 2019 and 2018, respectively.

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

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

	2019	2018
NLI	**$ 9,660,794**	$ 9,181,918
National Lutheran Home for the Aged, Inc.	**692,339**	834,927
The Village at Rockville, Inc.	**514,976**	290,511
The Village at Orchard Ridge, Inc.	**209,110**	159,882
myPotential Virginia, LLC	**3,059**	3,104
myPotential Maryland, LLC	**19**	-
	$ 11,080,297	$ 10,470,342

Note 9. 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:

	2019		
	Resident Services	General and Administrative	Total
Salaries and wages	**$ 1,983,573**	**$ 320,100**	**$ 2,303,673**
Employee benefits and payroll taxes	**606,990**	**75,669**	**682,659**
Professional fees	**198,563**	**24,963**	**223,526**
Ancillary and medical	**13,751**	**-**	**13,751**
Supplies	**124,763**	**11,678**	**136,441**
Food services	**279,655**	**2,791**	**282,446**
Utilities	**158,659**	**3,840**	**162,499**
Depreciation	**579,041**	**-**	**579,041**
Interest	**918,621**	**-**	**918,621**
Insurance	**13,907**	**-**	**13,907**
Real estate taxes	**73,474**	**-**	**73,474**
Repairs and maintenance	**52,225**	**13,302**	**65,527**
Advertising and marketing	**75**	**40,339**	**40,414**
Licenses, dues, and subscriptions	**107,162**	**70,001**	**177,163**
Other operating expenses	**46,737**	**22,317**	**69,054**
Bad debt expense	**33,963**	**-**	**33,963**
Management fee	**-**	**475,687**	**475,687**
Total	**$ 5,191,159**	**$ 1,060,687**	**$ 6,251,846**

	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. Fundraising expenses are incurred through NLI.

Note 10. Pension Plan

The Organization participates in a 403(b) defined contribution plan. The Organization contributes 2% of each eligible employees' salary 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 five years. Employer contributions totaled $74,876 and $77,725 for the years ended December 31, 2019 and 2018, respectively.

Note 11. Benevolent Care

The Organization extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

The Organization maintains records to identify and monitor the level of benevolent care it provides. The estimated cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided amounted to approximately $237,000 and $325,000 for the years ended December 31, 2019 and 2018, respectively.

Note 12. Medical Malpractice and General Liability Claims Coverage

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

Note 13. Commitments and 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 14. Subsequent Event

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