THE LEGACY AT NORTH AUGUSTA, INC.

Financial Report
December 31, 2020

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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 sheets as of December 31, 2020 and 2019, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Legacy at North Augusta, Inc. as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 14 to the financial statements, The Legacy at North Augusta, Inc. received government funding through the Paycheck Protection Program consequent to the operating conditions created by the COVID-19 pandemic. Our opinion is not modified with respect to this matter.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 15, 2021

THE LEGACY AT NORTH AUGUSTA, INC.

BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Accounts receivable	**$ 25,508**	$ 2,150
Prepaid expenses and other assets	**21,552**	21,192
Pledges and contributions receivable	**20,727**	-
Current portion of assets whose use is limited	**1,141,869**	1,958,966
Total current assets	**1,209,656**	1,982,308
ASSETS WHOSE USE IS LIMITED, net	**2,304,868**	2,024,709
INVESTMENTS	**90,076**	61,420
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**3,335,281**	2,086,058
PROPERTY AND EQUIPMENT, net	**19,169,220**	18,367,880
Total assets	**$ 26,109,101**	$ 24,522,375
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable, trade	**$ 25,282**	$ 51,716
Accounts payable, construction	**-**	1,047,091
Accrued interest	**671,869**	616,875
Accrued expenses	**413,552**	213,430
Current portion of long-term debt	**470,000**	295,000
Total current liabilities	**1,580,703**	2,224,112
RESIDENT DEPOSITS	**18,300**	19,800
LONG-TERM DEBT, net	**24,331,922**	22,325,358
DUE TO AFFILIATES	**12,569,279**	11,080,297
Total liabilities	**38,500,204**	35,649,567
NET ASSETS (DEFICIT)		
Without donor restrictions	**(12,540,109)**	(11,203,747)
With donor restrictions	**149,006**	76,555
Total net (deficit)	**(12,391,103)**	(11,127,192)
Total liabilities and net (deficit)	**$ 26,109,101**	$ 24,522,375

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	**$ 5,027,964**	$ 5,446,909
Paycheck Protection Program contribution	**566,900**	-
Net assets released from restrictions, operations	**-**	2,335
Total operating revenue without donor restrictions	**5,594,864**	5,449,244
Operating expenses:		
Salaries and wages	**2,549,537**	2,303,673
Employee benefits and payroll taxes	**731,482**	682,659
Professional fees	**190,651**	223,526
Ancillary and medical	**42,108**	13,751
Supplies	**203,503**	136,441
Food services	**268,690**	282,446
Utilities	**152,331**	162,499
Depreciation	**828,676**	579,041
Interest	**1,345,447**	918,621
Insurance	**20,188**	13,907
Real estate taxes	**118,683**	73,474
Repairs and maintenance	**95,515**	65,527
Advertising and marketing	**129,885**	40,414
Licenses, dues, and subscriptions	**194,015**	177,163
Other operating expenses	**70,793**	69,054
Bad debt expense	**-**	33,963
Management fee	**513,953**	475,687
Total operating expenses	**7,455,457**	6,251,846
(Deficiency) of operating revenue over expenses	**(1,860,593)**	(802,602)
Nonoperating revenue:		
Contributions	**1,067**	3,026
Interest and dividends	**89,400**	89,376
Realized gains	**3,340**	8,009
Unrealized gains	**362,197**	223,991
Other income	**221**	274
Total nonoperating revenue	**456,225**	324,676
(Deficiency) of operating and nonoperating revenue over expenses	**(1,404,368)**	(477,926)
Other changes:		
Unrealized gains	**68,006**	20,871
Change in net (deficit) without donor restrictions	**$ (1,336,362)**	$ (457,055)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

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

	2020	2019
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (1,404,368)**	$ (477,926)
Unrealized gains	**68,006**	20,871
Change in net (deficit) without donor restrictions	**(1,336,362)**	(457,055)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**72,451**	30,991
Net assets released from restriction, operations	**-**	(2,335)
Change in net assets with donor restrictions	**72,451**	28,656
Change in net (deficit)	**(1,263,911)**	(428,399)
Net (deficit):		
Beginning	**(11,127,192)**	(10,698,793)
Ending	**$ (12,391,103)**	$ (11,127,192)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	**$ (1,263,911)**	$ (428,399)
Adjustments to reconcile change in net (deficit) to net cash (used in) operating activities:		
Depreciation	**828,676**	579,041
Provision for bad debts	**-**	33,963
Amortization of deferred financing costs	**79,715**	16,490
Realized gains	**(3,340)**	(8,009)
Unrealized (gains)	**(429,637)**	(244,862)
Changes in assets and liabilities:		
Accounts receivable	**(29,349)**	(11,207)
Prepaid expenses and other assets	**(360)**	5,587
Accounts payable and accrued expenses	**425,557**	(142,126)
Net cash (used in) operating activities	**(392,649)**	(199,522)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments and assets whose use is limited	**(27,187)**	(5,472)
Purchases of property and equipment	**(2,829,510)**	(4,691,478)
Net cash (used in) investing activities	**(2,856,697)**	(4,696,950)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(295,000)**	(275,000)
Proceeds from new borrowings	**2,390,000**	7,500,000
Deferred financing costs paid	**(37,623)**	(525,068)
Net change in resident deposits	**(1,500)**	2,000
Pledges receivable	**(20,727)**	-
Change in due to affiliates	**728,982**	785,855
Net cash provided by financing activities	**2,764,132**	7,487,787
Net change in cash, cash equivalents, and restricted cash	**(485,214)**	2,591,315
Cash, cash equivalents, and restricted cash:		
Beginning	**4,060,230**	1,468,915
Ending	**$ 3,575,016**	$ 4,060,230
Cash, cash equivalents, and restricted cash include:		
Assets held under trust indenture	**$ 3,446,737**	$ 3,983,675
Cash, restricted by donors or grantors for specific purposes	**128,279**	76,555
	$ 3,575,016	$ 4,060,230

See Notes to Financial Statements

	2020		2019
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$ **1,320,726**		$ 1,091,787
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Accounts payable, construction	$ **-**		$ 1,047,091
Accrued capitalized interest	$ **-**		$ 196,875
Beneficial interest in supporting organization	$ **760,000**		$ (175,900)

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 121 units made up of assisted living (103) and memory care (18).

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 Organization has included a reserve within the estimated implicit price concessions of $275 and $39,501 as of December 31, 2020 and 2019, respectively, which have been recorded as a reduction to resident accounts receivable.

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.

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 or, if donated, at fair value. 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 $79,715 and $16,490 for the years ended December 31, 2020 and 2019, respectively. Accumulated amortization was $323,829 and $199,642 as of December 31, 2020 and 2019, respectively. Approximately $44,500 and $67,500 of amortized deferred financing costs were capitalized as of December 31, 2020 and 2019, 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 (deficit) and changes therein are classified and reported as follows:

> Net assets (deficit) without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets (deficit) without donor restrictions.
>
> Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets (deficit) without donor restrictions.

Net resident service revenue: Net resident service revenue is reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. 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.

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.

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled $129,885 and $40,414 for the years ended December 31, 2020 and 2019, respectively.

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

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

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2020 and 2019, there are no uncertain tax 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, 2017, 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 15, 2021, which is the date the financial statements were issued.

Recent Accounting Pronouncements

Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities: In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 adopted this guidance during the year ended December 31, 2020. 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 adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization's financial statements.

Consolidation: In October 2018, the FASB issued ASU 2018-17, *Consolidation* (Topic 810): *Targeted Improvements to Related Party Guidance for Variable Interest Entities*, in response to stakeholders' observations that Topic 810, Consolidation, could be improved in the following areas: 1) applying the variable interest entity (VIE) guidance to private companies under common control, and 2) considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and services providers are variable interests. The Organization adopted this guidance during the year ended December 31, 2020. Adoption of this guidance did not have a material impact on the Organization's financial statements.

Note 2. Liquidity and Availability of Resources

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

	2020	2019
Financial assets:		
Accounts receivable, net	**$ 25,508**	$ 2,150
Investments	**90,076**	61,420
Beneficial interest in supporting organization	**3,335,281**	2,086,058
Total financial assets	**$ 3,450,865**	$ 2,149,628

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 on a recurring basis as of December 31:

	2020			
	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	$ 3,447,229	$ 3,447,229	$ 3,447,229	$ -
Mutual funds	89,584	89,584	89,584	-
Beneficial interest in supporting organization	3,161,478	3,161,478	2,379,947	781,531
Total	6,698,291	6,698,291	$ 5,916,760	$ 781,531
Beneficial interest in supporting organization alternative investment measured at NAV	173,803	173,803		
Total	$ 6,872,094	$ 6,872,094		
Disclosed at fair value:				
Long-term debt	$ 25,595,000	$ 25,605,988	$ -	$ 25,605,988

	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	103,802		
Total	$ 6,131,153	$ 6,131,153		
Disclosed at fair value:				
Long-term debt	$ 23,500,000	$ 23,504,000	$ -	$ 23,504,000

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 4.56% and 3.01% of the combined investments are attributable to the Organization as of December 31, 2020 and 2019, 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 on a recurring basis as of December 31:

	2020			
	Carrying Value	Fair Value	Level I	Level II
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 180,718	$ 180,718	$ 180,718	$ -
Equity securities:				
Consumer discretionary	463,149	463,149	463,149	-
Consumer staples	96,888	96,888	96,888	-
Energy	66,300	66,300	66,300	-
Financial	204,382	204,382	204,382	-
Health care	195,073	195,073	195,073	-
Industrials	181,916	181,916	181,916	-
Information technology	306,388	306,388	306,388	-
Materials	114,023	114,023	114,023	-
Real estate	125,116	125,116	125,116	-
Utilities	52,268	52,268	52,268	-
Other	3,680	3,680	3,680	-
Mutual funds:				
Fixed income	198,519	198,519	198,519	-
Equity	191,527	191,527	191,527	-
Fixed income securities:				
Corporate bonds	477,649	477,649	-	477,649
U.S. government and agency bonds	303,882	303,882	-	303,882
Total	3,161,478	3,161,478	$ 2,379,947	$ 781,531
Alternative investment measured at NAV	173,803	173,803		
Total	$ 3,335,281	$ 3,335,281		

	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	103,802		
Total	$ 2,086,058	$ 2,086,058		

The Organization has no financial 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, 2020 or 2019.

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, 2020 or 2019:

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

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, 2020 and 2019, was $173,803 and $103,802, 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, 2020 or 2019, 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.

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:

	2020	2019
Investments	**$ 90,076**	$ 61,420
Beneficial interest in supporting organization	**$ 3,335,281**	$ 2,086,058
Assets held under trust indenture:		
Debt service reserve	**$ 1,176,499**	$ 1,050,426
Operating reserve	**157,663**	154,750
Renewal and replacement	**44,910**	44,783
Construction fund	**955,715**	1,332,628
Cost of issuance	**16,735**	13,855
Working capital	**136,168**	215,541
Principal	**220,830**	160,740
Interest	**738,217**	1,010,952
	3,446,737	3,983,675
Less: current portion	**(1,141,869)**	(1,958,966)
Assets whose use is limited, net	**$ 2,304,868**	$ 2,024,709

Note 5. Property and Equipment

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

	2020	2019
Land	**$ 923,248**	$ 923,248
Buildings and building improvements	**22,200,032**	14,669,260
Furniture and equipment	**2,297,222**	1,762,374
Construction in progress	**17,637**	6,453,241
	25,438,139	23,808,123
Less accumulated depreciation	**(6,268,919)**	(5,440,243)
	$ 19,169,220	$ 18,367,880

Construction in progress as of December 31, 2019, consisted of initial project development and construction costs for an expansion/repositioning project. The project was completed in May 2020, and all construction in progress relative to the project was placed in service.

Note 6. Long-Term Debt

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

	2020	2019
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.	**$ 15,860,000**	$ 16,000,000
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%.	**9,735,000**	7,500,000
	25,595,000	23,500,000
Less current portion	**470,000**	295,000
Less deferred financing costs	**793,078**	879,642
Total long-term debt, net	**$ 24,331,922**	$ 22,325,358

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, 2020, there has been one draw down on January 30, 2020, for $2,390,000. The draw down bonds have a fixed rate of 5.25%, with a maturity date of July 1, 2024.

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, 2020 and 2019.

The annual aggregate maturities of long-term debt are as follows as of December 31, 2020:

Years Ending December 31:	
2021	$ 470,000
2022	415,000
2023	455,000
2024	9,705,000
2025	320,000
Thereafter	14,230,000
	$ 25,595,000

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:

	2020	2019
Net assets deficit:		
Without donor restrictions:		
Undesignated	**$ (12,540,109)**	$ (11,203,747)
With donor restrictions:		
Purpose restricted for operations	**75,984**	20,465
Restricted in perpetuity	**73,022**	56,090
	149,006	76,555
Total net (deficit)	**$ (12,391,103)**	$ (11,127,192)

During years ended December 31, 2020 and 2019, net assets of $0 and $2,335, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

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

Note 8. Related Party Transactions

NLI is the sole member of the Organization and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. The Organization incurred management fees to NLI totaling $513,953 and $475,687 for the years ended December 31, 2020 and 2019, 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:

	2020	2019
NLI	**$ 12,569,279**	$ 9,660,794
National Lutheran Home for the Aged, Inc.	**-**	692,339
The Village at Rockville, Inc.	**-**	514,976
The Village at Orchard Ridge, Inc.	**-**	209,110
myPotential Virginia, LLC	**-**	3,059
myPotential Maryland, LLC	**-**	19
	$ 12,569,279	$ 11,080,297

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:

	2020		
	Resident Services	General and Administrative	Total
Salaries and wages	**$ 2,193,390**	**$ 356,147**	**$ 2,549,537**
Employee benefits and payroll taxes	**648,210**	**83,272**	**731,482**
Professional fees	**147,583**	**43,068**	**190,651**
Ancillary and medical	**42,108**	**-**	**42,108**
Supplies	**189,038**	**14,465**	**203,503**
Food services	**263,034**	**5,656**	**268,690**
Utilities	**148,491**	**3,840**	**152,331**
Depreciation	**828,676**	**-**	**828,676**
Interest	**1,345,447**	**-**	**1,345,447**
Insurance	**20,188**	**-**	**20,188**
Real estate taxes	**118,683**	**-**	**118,683**
Repairs and maintenance	**79,533**	**15,982**	**95,515**
Advertising and marketing	**-**	**129,885**	**129,885**
Licenses, dues, and subscriptions	**123,196**	**70,819**	**194,015**
Other operating expenses	**43,038**	**27,755**	**70,793**
Management fee	**-**	**513,953**	**513,953**
Total	**$ 6,190,615**	**$ 1,264,842**	**$ 7,455,457**

	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

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 (Plan). The Plan was amended on January 1, 2020. Prior January 1, 2020, the Organization contributed 2% of each eligible employee's salary and matched 50% of each employee's contribution up to 8% after 90 days of service for a maximum contribution of 6%. On and after January 1, 2020, the amended Plan states the Organization shall make a Safe Harbor contribution in an amount equal to 100% of each employee's contribution, up to a maximum of 3% of such participant's compensation. In addition, the Organization will contribution 50% of each employee's contribution up to the next 2% of such participant's compensation for each payroll period. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $45,669 and $74,876 for the years ended December 31, 2020 and 2019, respectively, and are included in employee benefits and payroll taxes on the statements of operations.

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 for each of the years ended December 31, 2020 and 2019.

Note 12. Medical Malpractice and General Liability Claims Coverage

The Organization purchased medical malpractice and general liability coverage from a commercial insurance carrier via an insurance broker until August 3, 2020. This coverage was provided on a claims-made basis. As of December 31, 2019, and through August 3, 2020, general liability coverages were provided for the Organization in the amount of $1,000,000 per event and $3,000,000 per annual aggregate. The Organization has evaluated claims incurred but not reported through August 3, 2020, and has deemed it not necessary to record a liability based on the Organization's lack of history of claims.

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

Note 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. COVID-19 Pandemic

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 continued pandemic, including economic impacts, could continue to be volatile in 2021.

Federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other residents during the public health emergency. Sources of relief include the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, which included, among other programs, the Paycheck Protection Program (PPP) and the Provider Relief Fund (PRF).

The material government funding received by the Organization, and the corresponding accounting for the funding, is outlined below:

Paycheck Protection Program Loan: In April 2020, the Organization obtained a loan totaling $566,900 under the Paycheck Protection Program pursuant to the CARES Act. The Organization initially elected to account for the PPP loan as a liability when received.

The proceeds from the loans must be spent on qualifying expenses such as covered payroll costs, mortgage interest on real or personal property, rental obligations on real or personal property, and covered utility costs allowed under the CARES Act. The Organization had selected the twenty-four week covered period as allowed under the CARES Act. The Organization used the loan proceeds in accordance with the terms of the PPP and applied for forgiveness from the financial institution once the proceeds were fully expended. The Organization applied for forgiveness and on November 12, 2020, received approval. The total loan amount was recognized as revenue and included in Paycheck Protection Program contribution on the statement of operations for the year ended December 31, 2020.