The Legacy at North Augusta, Inc.

Financial Statements

December 31, 2022 and 2021

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Legacy at North Augusta, Inc.

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of The Legacy at North Augusta, Inc. (Organization), which comprise the balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Baker Tilly US, LLP

New Castle, Pennsylvania
May 9, 2023

THE LEGACY AT NORTH AUGUSTA, INC.

BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Accounts receivable	**$ 4,797**	$ 44,844
Prepaid expenses and other assets	**2,765**	3,204
Pledges and contributions receivable	**17,400**	16,969
Current portion of assets whose use is limited	**1,086,181**	1,057,075
Total current assets	**1,111,143**	1,122,092
ASSETS WHOSE USE IS LIMITED, net	**1,193,816**	1,188,471
INVESTMENTS	**104,080**	116,149
BENEFICIAL INTEREST IN SUPPORTING ORGANIZATION	**4,733,637**	5,182,680
PROPERTY AND EQUIPMENT, net	**17,543,360**	18,458,585
Total assets	**$ 24,686,036**	$ 26,067,977
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable, trade	**$ 3,147**	$ 3,389
Accrued interest	**631,181**	642,075
Accrued expenses	**437,743**	436,346
Current portion of long-term debt	**455,000**	415,000
Total current liabilities	**1,527,071**	1,496,810
RESIDENT DEPOSITS	**7,000**	20,550
LONG-TERM DEBT, net	**23,053,341**	23,382,427
DUE TO AFFILIATES	**15,896,686**	13,523,331
Total liabilities	**40,484,098**	38,423,118
NET ASSETS (DEFICIT)		
Without donor restrictions	**(16,061,378)**	(12,601,437)
With donor restrictions	**263,316**	246,296
Total net (deficit)	**(15,798,062)**	(12,355,141)
Total liabilities and net (deficit)	**$ 24,686,036**	$ 26,067,977

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	**$ 6,654,634**	$ 6,229,366
Provider Relief Funds	**-**	1,058,423
Other grant funding	**1,400**	-
Total operating revenue without donor restrictions	**6,656,034**	7,287,789
Operating expenses:		
Salaries and wages	**2,616,165**	2,606,746
Employee benefits and payroll taxes	**610,205**	699,828
Professional fees	**2,022,652**	459,817
Ancillary and medical	**50,526**	24,093
Supplies	**103,865**	144,544
Food services	**383,057**	296,420
Utilities	**199,626**	181,227
Depreciation	**973,950**	975,123
Interest	**1,518,820**	1,499,833
Insurance	**27,574**	25,847
Real estate taxes	**123,281**	122,686
Repairs and maintenance	**102,627**	94,910
Advertising and marketing	**79,111**	63,357
Licenses, dues, and subscriptions	**173,110**	187,496
Other operating expenses	**154,764**	97,090
Management fee	**596,937**	501,750
Total operating expenses	**9,736,270**	7,980,767
(Deficiency) of operating revenue over expenses	**(3,080,236)**	(692,978)
Nonoperating revenue (expense):		
Contributions	**2,923**	6,432
Interest and dividends	**151,703**	114,034
Realized gains	**259,246**	168,307
Unrealized gains (losses)	**(810,534)**	310,665
Other income	**3,530**	3,857
Total nonoperating revenue (expense)	**(393,132)**	603,295
(Deficiency) of operating and nonoperating revenue over expenses	**(3,473,368)**	(89,683)
Other changes:		
Unrealized gains	**13,427**	28,355
Change in net (deficit) without donor restrictions	**$ (3,459,941)**	$ (61,328)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

STATEMENTS OF CHANGES IN NET (DEFICIT)
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
(Deficiency) of operating and nonoperating revenue over expenses	**$ (3,473,368)**	$ (89,683)
Unrealized gains	**13,427**	28,355
Change in net (deficit) without donor restrictions	**(3,459,941)**	(61,328)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**17,020**	97,290
Change in net (deficit)	**(3,442,921)**	35,962
Net (deficit):		
Beginning	**(12,355,141)**	(12,391,103)
Ending	**$ (15,798,062)**	$ (12,355,141)

See Notes to Financial Statements

THE LEGACY AT NORTH AUGUSTA, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

		2022		2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net (deficit)	$	(3,442,921)	$	35,962
Adjustments to reconcile change in net (deficit) to net cash provided by (used in) operating activities:				
Depreciation		973,950		975,123
Amortization of deferred financing costs		125,914		127,906
Realized (gains)		(259,246)		(168,307)
Unrealized (gains) losses		797,107		(339,020)
Changes in assets and liabilities:				
Accounts receivable		40,047		(9,292)
Prepaid expenses and other assets		439		18,348
Accounts payable and accrued expenses		(9,739)		(28,893)
Net cash provided by (used in) operating activities		(1,774,449)		611,827
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchases of investments and assets whose use is limited		(117,470)		(56,714)
Purchases of property and equipment		(58,725)		(264,488)
Net cash (used in) investing activities		(176,195)		(321,202)
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal payments on long-term debt		(415,000)		(1,135,000)
Deferred financing costs paid		-		2,599
Net change in resident deposits		(13,550)		2,250
Pledges and contributions receivable		(431)		3,758
Change in due to affiliates		2,423,355		(295,948)
Net cash provided by (used in) financing activities		1,994,374		(1,422,341)
Net change in cash and cash equivalents and restricted cash		43,730		(1,131,716)
Cash and cash equivalents and restricted cash:				
Beginning		2,370,277		3,501,993
Ending	$	2,414,007	$	2,370,277
Cash and cash equivalents and restricted cash include:				
Assets held under trust indenture	$	2,279,997	$	2,245,546
Cash, restricted by donors or grantors for specific purposes		134,010		124,731
	$	2,414,007	$	2,370,277

See Notes to Financial Statements

		2022		2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	**$**	**1,403,800**	$	1,342,133
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Beneficial interest in supporting organization	**$**	**(50,000)**	$	1,250,000

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.

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 (3 - 40 years). 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 $125,914 and $127,906 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization was $577,649 and $451,735 as of December 31, 2022 and 2021, 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.
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> 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.

Advertising: The Organization expenses advertising costs as incurred. Advertising expense totaled $79,111 and $63,357 for the years ended December 31, 2022 and 2021, 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 on alternative investments measured at NAV.

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, 2022 and 2021, 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, 2019, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications: Certain items in the 2021 financial statements have been reclassified to conform to the 2022 financial statement presentation.

Subsequent events: The Organization has evaluated subsequent events for recognition and disclosure through May 9, 2023, which is the date the financial statements were issued.

Recent Accounting Pronouncement

ASU No. 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and Other ASUs Issued Amending Topic 326

During June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Various clarifications and amendments were issued from 2018 through 2020. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its balance sheets, results of operations, and cash flows.

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:

	2022	2021
Financial assets:		
Accounts receivable, net	**$ 4,797**	$ 44,844
Investments	**104,080**	116,149
Beneficial interest in supporting organization	**4,733,637**	5,182,680
Total financial assets	**$ 4,842,514**	$ 5,343,673

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 measured at fair value on a recurring basis as of December 31:

	2022			
	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	**$ 2,281,557**	**$ 2,281,557**	**$ 2,281,557**	**$ -**
Mutual funds	**102,520**	**102,520**	**102,520**	**-**
Beneficial interest in supporting organization	**4,356,261**	**4,356,261**	**2,663,385**	**1,692,876**
Total	**6,740,338**	**6,740,338**	**$ 5,047,462**	**$ 1,692,876**
Beneficial interest in supporting organization alternative investment measured at NAV	**377,376**	**377,376**		
Total	**$ 7,117,714**	**$ 7,117,714**		

	2021			
	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	$ 2,247,106	$ 2,247,106	$ 2,247,106	$ -
Mutual funds	114,589	114,589	114,589	-
Beneficial interest in supporting organization	4,924,512	4,924,512	3,797,512	1,127,000
Total	7,286,207	7,286,207	$ 6,159,207	$ 1,127,000
Beneficial interest in supporting organization alternative investment measured at NAV	258,168	258,168		
Total	$ 7,544,375	$ 7,544,375		

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 7.27% and 6.16% of the combined investments are attributable to the Organization as of December 31, 2022 and 2021, 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:

	2022			
	Carrying Value	Fair Value	Level I	Level II
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 344,473	$ 344,473	$ 344,473	$ -
Equity securities:				
Consumer discretionary	407,055	407,055	407,055	-
Consumer staples	295,935	295,935	295,935	-
Energy	237,309	237,309	237,309	-
Financial	363,804	363,804	363,804	-
Health care	233,036	233,036	233,036	-
Industrials	326,899	326,899	326,899	-
Information technology	236,683	236,683	236,683	-
Materials	14,821	14,821	14,821	-
Real estate	101,134	101,134	101,134	-
Utilities	87,867	87,867	87,867	-
Other	5,505	5,505	5,505	-
Mutual funds:				
Equity	8,864	8,864	8,864	-
Fixed income securities:				
Corporate bonds	966,613	966,613	-	966,613
U.S. government and agency bonds	726,263	726,263	-	726,263
Total	4,356,261	4,356,261	$ 2,663,385	$ 1,692,876
Alternative investment measured at NAV	377,376	377,376		
Total	$ 4,733,637	$ 4,733,637		

	2021			
	Carrying Value	**Fair Value**	**Level I**	**Level II**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 188,314	$ 188,314	$ 188,314	$ -
Equity securities:				
Consumer discretionary	719,092	719,092	719,092	-
Consumer staples	224,117	224,117	224,117	-
Energy	216,164	216,164	216,164	-
Financial	460,000	460,000	460,000	-
Health care	335,131	335,131	335,131	-
Industrials	210,579	210,579	210,579	-
Information technology	496,826	496,826	496,826	-
Materials	106,913	106,913	106,913	-
Real estate	224,098	224,098	224,098	-
Utilities	106,327	106,327	106,327	-
Other	3,647	3,647	3,647	-
Mutual funds:				
Fixed income	269,604	269,604	269,604	-
Equity	236,700	236,700	236,700	-
Fixed income securities:				
Corporate bonds	612,875	612,875	-	612,875
U.S. government and agency bonds	514,125	514,125	-	514,125
Total	4,924,512	4,924,512	$ 3,797,512	$ 1,127,000
Alternative investment measured at NAV	258,168	258,168		
Total	$ 5,182,680	$ 5,182,680		

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, 2022 or 2021.

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, 2022 or 2021:

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: 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, 2022 and 2021, was $377,376 and $258,168, 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, 2022 or 2021, and there is a monthly or quarterly redemption notice of 15 - 120 days.

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:

	2022	2021
Investments	**$ 104,080**	$ 116,149
Beneficial interest in supporting organization	**$ 4,733,637**	$ 5,182,680
Assets held under trust indenture:		
Debt service reserve	**$ 1,193,092**	$ 1,176,618
Operating reserve	**159,877**	157,670
Renewal and replacement	**45,543**	44,914
Cost of issuance	**16,971**	16,737
Principal	**229,164**	207,513
Interest	**635,350**	642,094
	2,279,997	2,245,546
Less: current portion	**(1,086,181)**	(1,057,075)
Assets whose use is limited, net	**$ 1,193,816**	$ 1,188,471

Note 5. Property and Equipment

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

	2022	2021
Land	$ 923,248	$ 923,248
Buildings and building improvements	22,369,239	22,362,237
Furniture and equipment	2,468,865	2,401,961
Construction in progress	-	15,181
	25,761,352	25,702,627
Less accumulated depreciation	(8,217,992)	(7,244,042)
	$ 17,543,360	$ 18,458,585

Note 6. Long-Term Debt

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

	2022	2021
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.	$ 15,130,000	$ 15,390,000
Series 2019A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through June 30, 2024. Interest is payable at a fixed rate of 5.25%.	8,915,000	9,070,000
	24,045,000	24,460,000
Less current portion	455,000	415,000
Less deferred financing costs	536,659	662,573
Total long-term debt, net	$ 23,053,341	$ 23,382,427

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 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, 2022 and 2021.

The annual aggregate maturities of long-term debt are as follows as of December 31, 2022:

Years Ending December 31:	
2023	$ 455,000
2024	9,040,000
2025	320,000
2026	345,000
2027	370,000
Thereafter	13,515,000
	$ 24,045,000

For the year ended December 31, 2024, the Organization has a significant debt obligation. Management is working with the bond holder representative to extend the debt for an additional two year from June 30, 2024.

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:

	2022	2021
Net assets (deficit):		
Without donor restrictions:		
Undesignated	**$ (16,061,378)**	$ (12,601,437)
With donor restrictions:		
Purpose restricted for operations	**161,410**	151,702
Restricted in perpetuity	**101,906**	94,594
	263,316	246,296
Total net (deficit)	**$ (15,798,062)**	$ (12,355,141)

There were no releases from restriction for either year ended December 31, 2022 or 2021.

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 $596,937 and $501,750 for the years ended December 31, 2022 and 2021, 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:

	2022	2021
National Lutheran, Inc. (Parent)	**$ 15,817,558**	$ 13,523,331
Amounts due to other affiliated organizations	**79,128**	-
	$ 15,896,686	$ 13,523,331

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 ended December 31:

	2022		
	Resident Services	**General and Administrative**	**Total**
Salaries and wages	**$ 2,291,482**	**$ 324,683**	**$ 2,616,165**
Employee benefits and payroll taxes	**544,578**	**65,627**	**610,205**
Professional fees	**1,908,630**	**114,022**	**2,022,652**
Ancillary and medical	**50,526**	**-**	**50,526**
Supplies	**93,459**	**10,406**	**103,865**
Food services	**378,810**	**4,247**	**383,057**
Utilities	**196,506**	**3,120**	**199,626**
Depreciation	**973,950**	**-**	**973,950**
Interest	**1,392,908**	**125,912**	**1,518,820**
Insurance	**27,574**	**-**	**27,574**
Real estate taxes	**123,281**	**-**	**123,281**
Repairs and maintenance	**87,204**	**15,423**	**102,627**
Advertising and marketing	**79,111**	**-**	**79,111**
Licenses, dues, and subscriptions	**44,997**	**128,113**	**173,110**
Other operating expenses	**110,123**	**44,641**	**154,764**
Management fee	**-**	**596,937**	**596,937**
Total	**$ 8,303,139**	**$ 1,433,131**	**$ 9,736,270**

	2021		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 2,338,027	$ 268,719	$ 2,606,746
Employee benefits and payroll taxes	638,453	61,375	699,828
Professional fees	347,572	112,245	459,817
Ancillary and medical	24,093	-	24,093
Supplies	135,321	9,223	144,544
Food services	292,941	3,479	296,420
Utilities	178,428	2,799	181,227
Depreciation	975,123	-	975,123
Interest	1,371,927	127,906	1,499,833
Insurance	25,847	-	25,847
Real estate taxes	122,686	-	122,686
Repairs and maintenance	80,975	13,935	94,910
Advertising and marketing	-	63,357	63,357
Licenses, dues, and subscriptions	45,091	142,405	187,496
Other operating expenses	57,932	39,158	97,090
Management fee	-	501,750	501,750
Total	$ 6,634,416	$ 1,346,351	$ 7,980,767

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 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 contribute 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 $37,209 and $51,770 for the years ended December 31, 2022 and 2021, 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 $208,000 and $194,000 for the years ended December 31, 2022 and 2021, respectively. The Organization received contributions of approximately $7,000 and $22,000 for the years ended December 31, 2022 and 2021, respectively, to offset or subsidize benevolent care services provided.

Note 12. Medical Malpractice and General Liability Claims Coverage

The Organization is part of a reciprocal risk retention group (RRRG) through National Lutheran, Inc. (Parent). 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, 2022, 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 March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The response to the pandemic had severely impacted the level of economic activity around the world and has had wide ranging effects on the Organization, including lost revenue, changing workforce dynamics, decreases in patient census, increases in expenses related to supply chain and other expenses, as well as increased funding sources.

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 patients 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 Provider Relief Fund (PRF).

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

Department of Health and Human Services (HHS) Provider Relief Fund: During the year ended December 31, 2021, the Organization received funds through the HHS PRF established by the CARES Act in the amount of $1,058,423. According to guidance provided by the HHS, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by the HHS, when spending the funds. If the health care provider is unable to justify utilization of the funds through lost revenue or COVID-19 expenses, the funds must be returned to the HHS.

The Organization believes that they have satisfied the criteria as established by the HHS and as such, during the year ended December 31, 2021, recorded $1,058,423 as Provider Relief Funds on the statement of operations. No such funding was received or recognized in 2022.