

The Legacy at North Augusta, Inc.

Financial Statements

December 31, 2023 and 2022

The Legacy at North Augusta, Inc.

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of The Legacy at North Augusta, Inc. (TLNA), which comprise the balance sheets as of December 31, 2023 and 2022, 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 TLNA as of December 31, 2023 and 2022, 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 TLNA 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 TLNA'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 TLNA'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 TLNA'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
March 29, 2024

The Legacy at North Augusta, Inc.

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Accounts receivable	\$ 37,826	\$ 4,797
Prepaid expenses and other assets	14,474	2,765
Pledges and contributions receivable	10,000	17,400
Current portion of assets whose use is limited	<u>1,114,238</u>	<u>1,086,181</u>
Total current assets	1,176,538	1,111,143
Assets Whose Use is Limited, Net	1,167,781	1,193,816
Investments	109,208	104,080
Beneficial Interest in Supporting Organization	4,879,169	4,733,637
Property and Equipment, Net	<u>16,719,917</u>	<u>17,543,360</u>
Total assets	<u>\$ 24,052,613</u>	<u>\$ 24,686,036</u>
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable, trade	\$ -	\$ 3,147
Accrued interest	619,238	631,181
Accrued expenses	341,469	437,743
Current portion of long-term debt	<u>325,000</u>	<u>455,000</u>
Total current liabilities	1,285,707	1,527,071
Resident Deposits	6,000	7,000
Long-Term Debt, Net	22,764,254	23,053,341
Due to Affiliates	<u>4,879,169</u>	<u>15,896,686</u>
Total liabilities	<u>28,935,130</u>	<u>40,484,098</u>
Net Assets (Deficit)		
Without donor restrictions	(5,109,840)	(16,061,378)
With donor restrictions	<u>227,323</u>	<u>263,316</u>
Total net deficit	<u>(4,882,517)</u>	<u>(15,798,062)</u>
Total liabilities and net deficit	<u>\$ 24,052,613</u>	<u>\$ 24,686,036</u>

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Operations

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Changes in Net Deficit Without Donor Restrictions		
Revenue:		
Net resident service revenue	\$ 6,331,335	\$ 6,654,634
Grant funding	-	1,400
Net assets released from restrictions, operations	57,222	-
Change in estimated real estate tax accrual	171,000	-
	<u>6,559,557</u>	<u>6,656,034</u>
Total operating revenue without donor restrictions		
Operating expenses:		
Salaries and wages	2,635,547	2,616,165
Employee benefits and payroll taxes	512,528	610,205
Professional fees	1,743,721	1,957,334
Ancillary and medical	53,800	50,526
Supplies	107,687	103,865
Food services	375,324	383,057
Utilities	264,952	264,944
Depreciation	964,656	973,950
Interest	1,711,934	1,518,820
Insurance	32,583	27,574
Real estate taxes	105,332	123,281
Repairs and maintenance	107,699	102,627
Advertising and marketing	82,712	79,111
Licenses, dues, and subscriptions	179,164	173,110
Other operating expenses	178,774	154,764
Management fees	661,896	596,937
	<u>9,718,309</u>	<u>9,736,270</u>
Total operating expenses		
Deficiency of operating revenue over expenses		
	<u>(3,158,752)</u>	<u>(3,080,236)</u>
Nonoperating revenue (expense):		
Contributions	6,154	2,923
Interest and dividends	268,830	151,703
Realized gains	138,083	259,246
Unrealized gains (losses)	184,054	(810,534)
Other income	5,999	3,530
	<u>603,120</u>	<u>(393,132)</u>
Total nonoperating revenue (expense)		
Deficiency of operating and nonoperating revenue over expenses		
	<u>(2,555,632)</u>	<u>(3,473,368)</u>
Other changes:		
Unrealized gains	11,424	13,427
Gain on forgiveness of due to affiliate	13,495,746	-
	<u>13,507,170</u>	<u>13,427</u>
Total other changes		
Change in net deficit without donor restrictions		
	<u>\$ 10,951,538</u>	<u>\$ (3,459,941)</u>

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Changes in Net Deficit
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Changes in Net Deficit Without Donor Restrictions		
Deficiency of operating and nonoperating revenue over expenses	\$ (2,555,632)	\$ (3,473,368)
Unrealized gains	11,424	13,427
Gain on forgiveness of due to affiliate	13,495,746	-
	<u>10,951,538</u>	<u>(3,459,941)</u>
Changes in Net Assets With Donor Restrictions		
Contributions	21,229	17,020
Net assets released from restriction, operations	(57,222)	-
	<u>(35,993)</u>	<u>17,020</u>
Change in net deficit	10,915,545	(3,442,921)
Net Deficit, Beginning	<u>(15,798,062)</u>	<u>(12,355,141)</u>
Net Deficit, Ending	<u>\$ (4,882,517)</u>	<u>\$ (15,798,062)</u>

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net deficit	\$ 10,915,545	\$ (3,442,921)
Adjustments to reconcile change in net deficit to net cash used in operating activities:		
Depreciation	964,656	973,950
Amortization of deferred financing costs	125,913	125,913
Realized gains	(138,083)	(259,246)
Unrealized (gains) losses	(195,478)	797,107
Gain on forgiveness of due to affiliate	(13,495,746)	-
Changes in assets and liabilities:		
Accounts receivable	(33,029)	40,047
Prepaid expenses and other assets	(11,709)	440
Accounts payable and accrued expenses	(111,364)	(9,739)
Net cash used in operating activities	<u>(1,979,295)</u>	<u>(1,774,449)</u>
Cash Flows From Investing Activities		
Net purchases of investments and assets whose use is limited	(181,556)	(117,470)
Purchases of property and equipment	<u>(141,213)</u>	<u>(58,725)</u>
Net cash used in investing activities	<u>(322,769)</u>	<u>(176,195)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	(455,000)	(415,000)
Deferred financing costs paid	(90,000)	-
Net change in resident deposits	(1,000)	(13,550)
Pledges and contributions receivable	7,400	(431)
Change in due to affiliates	<u>2,828,229</u>	<u>2,423,355</u>
Net cash provided by financing activities	<u>2,289,629</u>	<u>1,994,374</u>
Net change in cash and cash equivalents and restricted cash	(12,435)	43,730
Cash and Cash Equivalents and Restricted Cash, Beginning	<u>2,414,007</u>	<u>2,370,277</u>
Cash and Cash Equivalents and Restricted Cash, Ending	<u>\$ 2,401,572</u>	<u>\$ 2,414,007</u>
Cash and Cash Equivalents and Restricted Cash Include		
Assets held under trust indenture	\$ 2,282,019	\$ 2,279,997
Cash, restricted by donors or grantors for specific purposes	<u>119,553</u>	<u>134,010</u>
	<u>\$ 2,401,572</u>	<u>\$ 2,414,007</u>

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 1,597,964</u>	<u>\$ 1,403,800</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Beneficial interest in supporting organization	<u>\$ (350,000)</u>	<u>\$ (50,000)</u>

See notes to financial statements

The Legacy at North Augusta, Inc.

Notes to Financial Statements
December 31, 2023 and 2022

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Legacy at North Augusta, Inc. (TLNA) is a not-for-profit corporation that was incorporated in Virginia on June 24, 2011. TLNA provides 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 TLNA, which is a member of a system doing business as National Lutheran Communities and Services (NLCS). As a member of NLCS, TLNA shares in the control, support and services of NLCS.

Basis of Accounting

The financial statements of TLNA 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

TLNA 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, TLNA may have deposits with a local financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. TLNA has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are reported net of an allowance for credit losses, which represents TLNA's estimate of expected losses at the balance sheet date. Accounts are written off when they are determined to be uncollectible. The adequacy of the TLNA's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, a review of specific accounts and expected future economic conditions and market trends. Adjustments are made to the allowance as necessary. The allowance for credit losses was \$0 as of December 31, 2023 and 2022.

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 Legacy at North Augusta, Inc.

Notes to Financial Statements

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Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating revenue (expense) unless the income or loss is restricted by donor or law or related to unrealized gains or losses on alternative investments. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

TLNA'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

TLNA maintains a support agreement with NLI and National Lutheran Home for the Aged, Inc. (NLHA) relative to TLNA's long-term debt. NLI is the parent to both TLNA and NLHA; NLHA is an affiliate of TLNA. The support agreement outlines that NLI and NLHA will provide access to capital to maintain TLNA'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 TLNA. See Note 3 for the percent allocated to TLNA.

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). TLNA'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 \$125,913 for the years ended December 31, 2023 and 2022. Accumulated amortization was approximately \$703,600 and \$577,600 as of December 31, 2023 and 2022, respectively. TLNA paid \$90,000 of financing costs during the year ended December 31, 2023 in connection with the modification of the Series 2011 Residential Care Facility Revenue Bonds and Series 2019A Residential Care Facility Revenue Bonds in March 2024 (Note 14).

The Legacy at North Augusta, Inc.

Notes to Financial Statements

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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 Deficit Without Donor Restrictions - Net deficit 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 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 deficit without donor restrictions.

Net Resident Service Revenue

Net resident service revenue is reported at the amount that reflects the consideration TLNA 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. TLNA 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 transportation, medical supplies and other revenue from residents. TLNA 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

TLNA expenses advertising costs as incurred. Advertising expense totaled \$82,712 and \$79,111 for the years ended December 31, 2023 and 2022, respectively.

Gain on Forgiveness of Due From Affiliates

As of December 31, 2023, management determined substantial doubt exists whether TLNA's financial performance is sufficient to repay amounts due to NLI in excess of the beneficial interest in investment allocation. NLI management agreed to forgive \$13,495,746 due to NLI, which resulted in the recognition of a gain on forgiveness of due from affiliates for the year ended December 31, 2023.

The Legacy at North Augusta, Inc.

Notes to Financial Statements
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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

TLNA is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the 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 TLNA and recognize a tax liability or asset if TLNA has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). TLNA has concluded that as of December 31, 2023 and 2022, 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, 2020, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the presentation used in 2023.

Subsequent Events

TLNA has evaluated subsequent events for recognition and disclosure through March 29, 2024, which is the date the financial statements were issued (Note 14).

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

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. On January 1, 2023, TLNA adopted the ASU using the modified retrospective transition approach of the period of adoption. There was no adjustment to net assets upon adoption. Disclosures have been included within the financial statements to meet the requirements of Topic 326. Adoption did not have a material impact on TLNA's balance sheets, results of operations or cashflows.

The Legacy at North Augusta, Inc.

Notes to Financial Statements

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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:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Accounts receivable, net	\$ 37,826	\$ 4,797
Investments	109,208	104,080
Beneficial interest in supporting organization	<u>4,879,169</u>	<u>4,733,637</u>
 Total financial assets	 <u>\$ 5,026,203</u>	 <u>\$ 4,842,514</u>

As part of TLNA'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. TLNA 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.

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 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 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 3 - 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 Legacy at North Augusta, Inc.

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The tables below present the balances of assets measured at fair value on a recurring basis as of December 31:

	2023			
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization and assets whose use is limited:				
Cash and cash equivalents	\$ 2,283,825	\$ 2,283,825	\$ 2,283,825	\$ -
Mutual funds	107,402	107,402	107,402	-
Beneficial interest in supporting organization	<u>4,562,213</u>	<u>4,562,213</u>	<u>3,043,523</u>	<u>1,518,690</u>
Total	6,953,440	6,953,440	<u>\$ 5,434,750</u>	<u>\$ 1,518,690</u>
Beneficial interest in supporting organization alternative investment measured at NAV	<u>316,956</u>	<u>316,956</u>		
Total assets	<u>\$ 7,270,396</u>	<u>\$ 7,270,396</u>		
	2022			
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
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	<u>4,356,261</u>	<u>4,356,261</u>	<u>2,663,385</u>	<u>1,692,876</u>
Total	6,740,338	6,740,338	<u>\$ 5,047,462</u>	<u>\$ 1,692,876</u>
Beneficial interest in supporting organization alternative investment measured at NAV	<u>377,376</u>	<u>377,376</u>		
Total assets	<u>\$ 7,117,714</u>	<u>\$ 7,117,714</u>		

The Legacy at North Augusta, Inc.

Notes to Financial Statements
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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 9.45% and 7.27% of the combined investments are attributable to TLNA as of December 31, 2023 and 2022, respectively. The percentage of combined investments is calculated based on a monthly allocation, adjusted for any necessary reallocations specific to TLNA. Investment income is also based on this allocation.

The following tables present TLNA'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:

	2023			
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Beneficial interest in supporting organization:				
Cash and cash equivalents	\$ 398,164	\$ 398,164	\$ 398,164	\$ -
Equity securities:				
Communication Services	133,091	133,091	133,091	
Consumer discretionary	224,590	224,590	224,590	-
Consumer staples	377,342	377,342	377,342	-
Energy	252,062	252,062	252,062	-
Financial	476,404	476,404	476,404	-
Health care	232,656	232,656	232,656	-
Industrials	484,218	484,218	484,218	-
Information technology	237,446	237,446	237,446	-
Real estate	118,975	118,975	118,975	-
Utilities	108,388	108,388	108,388	-
Mutual funds:				
Equity	187	187	187	-
Fixed income securities:				
Corporate bonds	1,160,124	1,160,124	-	1,160,124
U.S. government and agency bonds	358,566	358,566	-	358,566
Total	4,562,213	4,562,213	<u>\$ 3,043,523</u>	<u>\$ 1,518,690</u>
Alternative investment measured at NAV	<u>316,956</u>	<u>316,956</u>		
Total	<u>\$ 4,879,169</u>	<u>\$ 4,879,169</u>		

The Legacy at North Augusta, Inc.

Notes to Financial Statements
December 31, 2023 and 2022

	2022			
	Carrying Value	Fair Value	Level 1	Level 2
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	<u>\$ 2,663,385</u>	<u>\$ 1,692,876</u>
Alternative investment measured at NAV	<u>377,376</u>	<u>377,376</u>		
Total	<u>\$ 4,733,637</u>	<u>\$ 4,733,637</u>		

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

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2023 or 2022.

The following methods have been used by TLNA 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, 2023 or 2022:

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.

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Beneficial Interest in Supporting Organization - Based on the fair values of the investments held in the fund at TLNA'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. TLNA measures the fair value of the alternative investment based on NAV as calculated on the reporting entity's measurement date. TLNA 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 TLNA 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. TLNA's share of the beneficial interest in supporting organization's alternative investments as of December 31, 2023 and 2022, was \$316,956 and \$377,376, 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, 2023 or 2022, 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 TLNA 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.

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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:

	<u>2023</u>	<u>2022</u>
Investments	\$ 109,208	\$ 104,080
Beneficial interest in supporting organization	\$ 4,879,169	\$ 4,733,637
Assets held under trust indenture:		
Debt service reserve	\$ 1,250,746	\$ 1,193,092
Operating reserve	167,603	159,877
Renewal and replacement	47,744	45,543
Cost of issuance	73	16,971
Principal	186,207	229,164
Interest	629,646	635,350
	2,282,019	2,279,997
Less current portion	(1,114,238)	(1,086,181)
Assets whose use is limited, net	\$ 1,167,781	\$ 1,193,816

5. Property and Equipment

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

	<u>2023</u>	<u>2022</u>
Land	\$ 923,248	\$ 923,248
Buildings and building improvements	22,432,923	22,369,239
Furniture and equipment	2,546,394	2,468,865
	25,902,565	25,761,352
Less accumulated depreciation	(9,182,648)	(8,217,992)
	\$ 16,719,917	\$ 17,543,360

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6. Long-Term Debt

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

	<u>2023</u>	<u>2022</u>
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. Reissued in March 2024 (Note 14).	\$ 14,850,000	\$ 15,130,000
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%. Reissued in March 2024 with extended maturity through July 2029 (Note 14).	<u>8,740,000</u>	<u>8,915,000</u>
	23,590,000	24,045,000
Less current portion	325,000	455,000
Less deferred financing costs	<u>500,746</u>	<u>536,659</u>
Total long-term debt, net	<u>\$ 22,764,254</u>	<u>\$ 23,053,341</u>

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 TLNA. 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, TLNA 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.

In September 2023, the Bondholder Representative directed the Trustee to waive the requirement of TLNA to make monthly principal installments in connection with the Series 2019A Residential Care Facility Revenue Bonds from August 1, 2023 to December 31, 2023. In December 2023, the Bondholder Representative directed the Trustee to waive the requirement of TLNA to make monthly principal installments in connection with the Series 2019A Residential Care Facility Revenue Bonds from January 1, 2024 to March 1, 2024.

TLNA 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, 2023 and 2022.

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The annual aggregate maturities of long-term debt are as follows as of December 31, 2023:

Years ending December 31:	
2024	\$ 325,000
2025	265,000
2026	295,000
2027	315,000
2028	335,000
Thereafter	<u>22,055,000</u>
	<u>\$ 23,590,000</u>

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:

	<u>2023</u>	<u>2022</u>
Net assets (deficit):		
Without donor restrictions:		
Undesignated	<u>\$ (5,109,840)</u>	<u>\$ (16,061,378)</u>
With donor restrictions:		
Purpose restricted for operations	119,553	161,410
Restricted in perpetuity	<u>107,770</u>	<u>101,906</u>
	<u>227,323</u>	<u>263,316</u>
Total net deficit	<u>\$ (4,882,517)</u>	<u>\$ (15,798,062)</u>

For the years ended December 31, 2023 and 2022, net assets of \$57,222 and \$0, respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purpose.

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

8. Related-Party Transactions

NLI is the sole member of TLNA and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. TLNA incurred management fees to NLI totaling \$661,896 and \$596,937 for the years ended December 31, 2023 and 2022, 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.

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

	<u>2023</u>	<u>2022</u>
National Lutheran, Inc.	\$ 4,879,169	\$ 15,817,558
Amounts due to other affiliated organizations	-	79,128
	<u>\$ 4,879,169</u>	<u>\$ 15,896,686</u>

As outlined in Note 1, NLI agreed to forgive \$13,495,746, which resulted in the recognition of a gain on forgiveness of debt for the year ended December 31, 2023.

9. Expenses by Nature and Function

TLNA'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:

	<u>2023</u>		
	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 2,344,831	\$ 290,716	\$ 2,635,547
Employee benefits and payroll taxes	455,756	56,772	512,528
Professional fees	1,718,024	25,697	1,743,721
Ancillary and medical	53,800	-	53,800
Supplies	96,635	11,052	107,687
Food services	373,264	2,060	375,324
Utilities	216,402	48,550	264,952
Depreciation	964,656	-	964,656
Interest	1,586,021	125,913	1,711,934
Insurance	32,583	-	32,583
Real estate taxes	105,332	-	105,332
Repairs and maintenance	90,687	17,012	107,699
Advertising and marketing	82,712	-	82,712
Licenses, dues and subscriptions	53,444	125,720	179,164
Other operating expenses	140,593	38,181	178,774
Management fees	-	661,896	661,896
Total	<u>\$ 8,314,740</u>	<u>\$ 1,403,569</u>	<u>\$ 9,718,309</u>

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	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	1,928,489	28,845	1,957,334
Ancillary and medical	50,526	-	50,526
Supplies	93,459	10,406	103,865
Food services	378,810	4,247	383,057
Utilities	216,395	48,549	264,944
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 fees	-	596,937	596,937
Total	<u>\$ 8,342,887</u>	<u>\$ 1,393,383</u>	<u>\$ 9,736,270</u>

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.

10. Pension Plan

TLNA participates in a 403(b) defined contribution plan (Plan). The Plan states TLNA 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, TLNA 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 \$23,236 and \$37,209 for the years ended December 31, 2023 and 2022, respectively, and are included in employee benefits and payroll taxes on the statements of operations.

11. Benevolent Care

TLNA 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 TLNA does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

TLNA 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 \$262,000 and \$208,000 for the years ended December 31, 2023 and 2022, respectively. TLNA received contributions of approximately \$3,000 and \$7,000 for the years ended December 31, 2023 and 2022, respectively, to offset or subsidize benevolent care services provided.

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12. Medical Malpractice and General Liability Claims Coverage

TLNA is part of a reciprocal risk retention group (RRG) through National Lutheran, Inc. (Parent). The coverage is provided on a claims-made basis. Medical malpractice and general liability coverages were provided for TLNA in the amount of \$1,000,000 per event and \$3,000,000 per annual aggregate. Each claim has a \$75,000 self-insured retention, prior to the primary insurance coverage. TLNA also has an excess umbrella policy for general liability coverage. The excess umbrella limit is \$15,000,000 in the aggregate. TLNA funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRG. As of December 31, 2023, no such adjustments to premiums are deemed necessary.

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. TLNA is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on TLNA, if any, are not presently determinable.

14. Subsequent Event

On December 9, 2023, TLNA signed a term sheet in connection with the reissuance of the Series 2011 Residential Care Facility Revenue Bonds (2011 Bonds) and Series 2019A Residential Care Facility Revenue Bonds (2019 Bonds). The interest rate on the 2011 Bonds increased to 6.25% beginning March 1, 2024 through July 1, 2029 and then resets at 16 year MMD plus 275 basis points (floor of 5.95% and ceiling of 6.85%).

The interest rate on the 2019 Bonds increased to 6.25% beginning March 1, 2024 and maturity was extended to July 1, 2029. Due to the fact that conditions (signed term sheet) existed as of December 31, 2023 and the reissuance of the 2019 Bonds confirmed those conditions, the maturity date and repayment schedule of the reissued 2019 Bonds were utilized to determine the 2019 Bond's portion of amounts reported on the balance sheet as of December 31, 2023 (current portion of long-term debt and long-term debt, net) and the annual aggregate maturities of long-term debt at Note 7