The Legacy at North Augusta, Inc.

Financial Statements

December 31, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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
April 30, 2025

The Legacy at North Augusta, Inc.

Balance Sheets
December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Accounts receivable	$ 5,056	$ 37,826
Prepaid expenses and other assets	40,027	14,474
Pledges and contributions receivable	-	10,000
Current portion of assets whose use is limited	727,031	1,114,238
Total current assets	772,114	1,176,538
Assets Whose Use is Limited, Net	1,554,625	1,167,781
Investments	116,730	109,208
Beneficial Interest in Supporting Organization	5,431,730	4,879,169
Property and Equipment, Net	16,163,937	16,719,917
Total assets	$ 24,039,136	$ 24,052,613
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable, trade	$ 9,643	$ -
Accrued interest	727,031	619,238
Accrued expenses	458,465	251,469
Current portion of long-term debt	-	325,000
Total current liabilities	1,195,139	1,195,707
Resident Deposits	9,000	6,000
Long-Term Debt, Net	22,925,440	22,854,254
Due to Affiliates	4,879,169	4,879,169
Total liabilities	29,008,748	28,935,130
Net Assets (Deficit)		
Without donor restrictions	(5,206,690)	(5,109,840)
With donor restrictions	237,078	227,323
Total net deficit	(4,969,612)	(4,882,517)
Total liabilities and net deficit	$ 24,039,136	$ 24,052,613

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Operations
Years Ended December 31, 2024 and 2023

	2024	2023
Changes in Net Deficit Without Donor Restrictions		
Revenue:		
Net resident service revenue	$ 6,499,502	$ 6,331,335
Net assets released from restrictions, operations	12,770	57,222
Total operating revenue without donor restrictions	6,512,272	6,388,557
Operating expenses:		
Salaries and wages	2,686,666	2,635,547
Employee benefits and payroll taxes	560,487	512,528
Professional fees	1,903,520	1,743,721
Ancillary and medical	44,455	53,800
Supplies	139,531	107,687
Food services	375,012	375,324
Utilities	276,542	264,952
Depreciation	961,987	964,656
Interest	1,502,413	1,711,934
Insurance	50,271	32,583
Repairs and maintenance	162,495	107,699
Advertising and marketing	143,283	82,712
Licenses, dues and subscriptions	179,568	179,164
Other operating expenses	310,991	113,106
Management fees	627,084	661,896
Total operating expenses	9,924,305	9,547,309
Deficiency of operating revenue over expenses	(3,412,033)	(3,158,752)
Nonoperating revenue:		
Contributions	3,130	6,154
Interest and dividends	268,432	268,830
Realized gains	155,974	138,083
Unrealized gains	250,144	184,054
Other income	9,892	5,999
Total nonoperating revenue	687,572	603,120
Deficiency of operating and nonoperating revenue over expenses	(2,724,461)	(2,555,632)
Other changes:		
Unrealized gains	-	11,424
Gain on forgiveness of due to affiliate	2,627,611	13,495,746
Total other changes	2,627,611	13,507,170
Change in net deficit without donor restrictions	$ (96,850)	$ 10,951,538

See notes to financial statements

Statements of Changes in Net Deficit
Years Ended December 31, 2024 and 2023

	2024	2023
Changes in Net Deficit Without Donor Restrictions		
Deficiency of operating and nonoperating revenue over expenses	$ (2,724,461)	$ (2,555,632)
Unrealized gains	-	11,424
Gain on forgiveness of due to affiliate	2,627,611	13,495,746
Change in net deficit without donor restrictions	(96,850)	10,951,538
Changes in Net Assets With Donor Restrictions		
Contributions	22,525	21,229
Net assets released from restriction, operations	(12,770)	(57,222)
Change in net assets with donor restrictions	9,755	(35,993)
Change in net deficit	(87,095)	10,915,545
Net Deficit, Beginning	(4,882,517)	(15,798,062)
Net Deficit, Ending	$ (4,969,612)	$ (4,882,517)

See notes to financial statements

The Legacy at North Augusta, Inc.

Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Change in net deficit	$ (87,095)	$ 10,915,545
Adjustments to reconcile change in net deficit to net cash used in operating activities:		
Depreciation	961,987	964,656
Amortization of deferred financing costs	71,186	125,913
Realized gains	(155,974)	(138,083)
Unrealized gains	(250,144)	(195,478)
Gain on forgiveness of due to affiliate	(2,627,611)	(13,495,746)
Changes in assets and liabilities:		
Accounts receivable	32,770	(33,029)
Prepaid expenses and other assets	(25,553)	(11,709)
Accounts payable and accrued expenses	324,432	(201,364)
Net cash used in operating activities	(1,756,002)	(2,069,295)
Cash Flows From Investing Activities		
Net purchases of investments and assets whose use is limited	(178,965)	(167,099)
Purchases of property and equipment	(406,007)	(141,213)
Net cash used in investing activities	(584,972)	(308,312)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(325,000)	(455,000)
Net change in resident deposits	3,000	(1,000)
Pledges and contributions receivable	10,000	7,400
Change in due to affiliates	2,652,611	2,828,229
Net cash provided by financing activities	2,340,611	2,379,629
Net change in cash and cash equivalents and restricted cash	(363)	2,022
Cash and Cash Equivalents and Restricted Cash, Beginning	2,282,019	2,279,997
Cash and Cash Equivalents and Restricted Cash, Ending	$ 2,281,656	$ 2,282,019
Cash and Cash Equivalents and Restricted Cash Include		
Assets held under trust indenture	$ 2,281,656	$ 2,282,019

See notes to financial statements

	2024	2023
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 1,323,434	$ 1,597,964
Supplemental Schedule of Noncash Investing and Financing Activities		
Change in beneficial interest in supporting organization through due to affiliates	$ (25,000)	$ (350,000)

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 not material as of December 31, 2024 and 2023.

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 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, and beneficial interest in supporting organization is valued at net asset value (NAV) based on the Organization's percent interest.

Investment income (including realized and unrealized gains and 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. As of December 31, 2024, the investments held by NLHA are comprised of cash and cash equivalents (5%), Marketable equity securities (50%), mutual funds (15%), and fixed income securities (30%). Approximately 8.23% and 9.45% of the combined investments are attributable to TLNA as of December 31, 2024 and 2023, 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.

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 capitalize amounts in excess of $5,000. 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 $71,186 and $125,913 for the years ended December 31, 2024 and 2023, respectively. Accumulated amortization was approximately $774,786 and $703,600 as of December 31, 2024 and 2023 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 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 includes 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 $143,283 and $82,712 for the years ended December 31, 2024 and 2023, respectively.

Gain on Forgiveness of Due From Affiliates

As of December 31, 2024 and 2023, NLI management agreed to forgive $2,627,611 and $13,495,746 due to NLI, which resulted in the recognition of a gain on forgiveness of due to affiliates for the years ended December 31, 2024 and 2023.

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, primarily include gain on forgiveness of due to affiliate.

Income Tax Status

TLNA is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and has been recognized as tax exempt under Section 501(a) of the IRC. 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, 2024 and 2023, 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, 2021, and thereafter remain subject to examination by federal and state tax authorities.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the presentation used in 2024.

Subsequent Events

TLNA has evaluated subsequent events for recognition and disclosure through April 30, 2025, which is the date the financial statements were issued.

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:

	2024	2023
Financial assets:		
Accounts receivable, net	$ 5,056	$ 37,826
Investments	116,730	109,208
Beneficial interest in supporting organization	5,431,730	4,879,169
Total financial assets	$ 5,553,516	$ 5,026,203

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

	2024			
	Carrying Value	Fair Value	Level 1	Level 2
Reported at fair value:				
Assets:				
Assets whose use is limited:				
Cash equivalents	$ 2,281,656	$ 2,281,656	$ 2,281,656	$ -
Investments:				
Cash equivalents	2,131	2,131	2,131	-
Mutual funds	114,599	114,599	114,599	-
Total investments	116,730	116,730	116,730	-
Total assets	2,398,386	2,398,386	$ 2,398,386	$ -
Beneficial interest in supporting organization measured at NAV	5,431,730	5,431,730		
Total assets	$ 7,830,116	$ 7,830,116		

	2023			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Reported at fair value:				
Assets:				
Assets whose use is limited:				
Cash equivalents	$ 2,282,019	$ 2,282,019	$ 2,282,019	$ -
Investments:				
Cash equivalents	1,505	1,505	1,505	-
Mutual funds	107,703	107,703	107,703	-
Total investments	109,208	109,208	109,208	-
Total assets	2,391,227	2,391,227	$ 2,391,227	$ -
Beneficial interest in supporting organization measured at NAV	4,879,169	4,879,169		
Total assets	$ 7,270,396	$ 7,270,396		

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.

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, 2024 or 2023.

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, 2024 or 2023:

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.

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.

Beneficial Interest in Supporting Organization - Based on the fair values of the investments held in the fund at TVOR'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.

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.

4. 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:

	2024	2023
Assets held under trust indenture:		
Debt service reserve	$ 1,313,356	$ 1,250,746
Operating reserve	175,993	167,603
Renewal and replacement	50,134	47,744
Cost of issuance	-	73
Principal	7,683	186,207
Interest	734,490	629,646
	2,281,656	2,282,019
Less current portion	(727,031)	(1,114,238)
Assets whose use is limited, net	$ 1,554,625	$ 1,167,781

5. Property and Equipment

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

	2024	2023
Land	$ 923,248	$ 923,248
Buildings and building improvements	22,721,858	22,432,923
Furniture and equipment	2,663,466	2,546,394
	26,308,572	25,902,565
Less accumulated depreciation	(10,144,635)	(9,182,648)
	$ 16,163,937	$ 16,719,917

6. Long-Term Debt

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

	2024	2023
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 6.25% through June 30, 2029. The interest rate resets on July 1, 2029 at the 16-year Municipal Market Data plus 275 basis points, subject to floor of 5.95% and ceiling of 6.85%.	$ 14,650,000	$ 14,850,000
Series 2019A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2029. Interest is payable at a fixed rate of 6.25% through maturity.	8,615,000	8,740,000
	23,265,000	23,590,000
Less current portion	-	325,000
Less deferred financing costs	339,560	410,746
Total long-term debt, net	$ 22,925,440	$ 22,854,254

On August 1, 2011, the Economic Development Authority of the County of Frederick, Virginia, issued the 2011 Legacy at North Augusta 2011 Residential Care Facility Revenue Bonds for $17,000,000, whereas the proceeds were loaned to TLNA. The bonds were labeled as draw down bonds and were for the purpose of acquiring, renovating, and improving the facility.

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 were labeled as draw down bonds and were 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 granted 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 for up to $20 million. 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.

During 2024, TLNA executed a 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 the 16-year Municipal Market Data 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 adjusted for payments to begin in 2027 and conclude in 2029.

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, 2024 and 2023.

The annual aggregate maturities of long-term debt are as follows as of December 31, 2024:

Years ending December 31:	
2025	$ -
2026	-
2027	315,000
2028	335,000
2029	8,830,000
Thereafter	13,785,000
	$ 23,265,000

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:

	2024	2023
Net assets (deficit):		
Without donor restrictions:		
Undesignated	$ (5,732,194)	$ (5,109,840)
With donor restrictions:		
Purpose restricted for operations	120,583	119,553
Restricted in perpetuity	116,495	107,770
	237,078	227,323
Total net deficit	$ (5,495,116)	$ (4,882,517)

For the years ended December 31, 2024 and 2023, net assets of $12,770 and $57,222, 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 $627,084 and $661,896 for the years ended December 31, 2024 and 2023, 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:

	2024	2023
National Lutheran, Inc.	$ 4,879,169	$ 4,879,169

As outlined in Note 1, NLI agreed to forgive $2,102,107 and $13,495,746 during the years ended December 31, 2024 and 2023, respectively, which resulted in the recognition of a gain on forgiveness of debt on the statements of operations.

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:

	2024		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 2,419,293	$ 267,373	$ 2,686,666
Employee benefits and payroll taxes	513,776	46,711	560,487
Professional fees	1,845,839	57,681	1,903,520
Ancillary and medical	44,455	-	44,455
Supplies	116,175	23,356	139,531
Food services	370,773	4,239	375,012
Utilities	205,809	70,733	276,542
Depreciation	961,987	-	961,987
Interest	1,390,138	112,275	1,502,413
Insurance	50,271	-	50,271
Repairs and maintenance	135,289	27,206	162,495
Advertising and marketing	143,283	-	143,283
Licenses, dues and subscriptions	58,594	120,974	179,568
Other operating expenses	225,138	85,853	310,991
Management fees	-	627,084	627,084
Total	$ 8,480,820	$ 1,443,485	$ 9,924,305

	2023		
	Resident Services	General and Administrative	Total
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
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	74,925	38,181	113,106
Management fees	-	661,896	661,896
Total	$ 8,143,740	$ 1,403,569	$ 9,547,309

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. The Safe Harbor employer matching contribution is immediately vested. Discretionary employer contributions are vested at 20% per year to 100% after five years. All participating employees' contributions are 100% vested. Employer contributions totaled $25,009 and $23,236 for the years ended December 31, 2024 and 2023, respectively, and are included in employee benefits and payroll taxes on the statements of operations. There were no discretionary employer contributions in 2024 or 2023.

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 $251,000 and $262,000 for the years ended December 31, 2024 and 2023, respectively. TLNA received contributions of approximately $2,500 and $3,000 for the years ended December 31, 2024 and 2023, respectively, to offset or subsidize benevolent care services provided.

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, 2024, 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.