The Village at Orchard Ridge, Inc.

Financial Statements

December 31, 2023 and 2022

Independent Auditors' Report

To the Board of Trustees of
The Village at Orchard Ridge, Inc.

Opinion

We have audited the financial statements of The Village at Orchard Ridge, Inc. (TVOR), 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 TVOR 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 TVOR 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 TVOR'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 TVOR'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 TVOR'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 Village at Orchard Ridge, Inc.

Balance Sheets
December 31, 2023 and 2022

Assets	2023	2022
Current Assets		
Cash and cash equivalents	$ 120	$ 1,901
Accounts receivable, net	559,429	338,207
Prepaid expenses and other assets	82,495	80,319
Pledges receivable	16,000	225,390
Current portion of assets whose use is limited	3,786,251	3,740,084
Total current assets	4,444,295	4,385,901
Assets Whose Use is Limited, Net	3,268,795	3,301,318
Investments	2,513,773	1,973,249
Beneficial Interest in Supporting Organization	7,562,655	8,521,759
Property and Equipment, Net	125,915,702	129,610,776
Funds Held in Trust by Others	23,810	23,810
Total assets	$ 143,729,030	$ 147,816,813

Liabilities and Net Deficit	2023	2022
Current Liabilities		
Accounts payable, trade	$ 44,136	$ 22,577
Accrued interest	2,406,251	2,445,084
Accrued expenses	1,016,528	961,954
Deferred revenue	2,231,078	-
Current portion of long-term debt	1,380,000	1,295,000
Total current liabilities	7,077,993	4,724,615
Resident Deposits	244,374	136,005
Deferred Revenue From Entrance Fees	30,521,921	28,459,533
Refundable Entrance Fees	51,855,509	51,519,272
Long-Term Debt, Net	74,220,675	75,431,969
Due to Affiliates, Net	-	2,683,364
Total liabilities	163,920,472	162,954,758
Net Assets (Deficit)		
Without donor restrictions	(22,216,943)	(17,274,875)
With donor restrictions	2,025,501	2,136,930
Total net deficit	(20,191,442)	(15,137,945)
Total liabilities and net deficit	$ 143,729,030	$ 147,816,813

See notes to financial statements

The Village at Orchard Ridge, Inc.

Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Changes in Net Deficit Without Donor Restrictions		
Revenue:		
Net resident service revenue, including amortization of entrance fees 2023 $4,140,952; 2022 $5,833,413	$ 24,212,660	$ 23,742,809
Grant funding	8,996	5,670
Loss on disposal of assets	(2,390)	(508,258)
Net assets released from restrictions, operations	242,707	8,599
Total operating revenue	24,461,973	23,248,820
Operating expenses:		
Salaries and wages	6,481,440	5,200,593
Employee benefits and payroll taxes	1,265,233	1,099,364
Professional fees	2,085,858	2,128,911
Ancillary and medical	1,294,926	978,208
Supplies	614,731	561,776
Food services	958,966	939,826
Utilities	1,282,148	1,226,766
Depreciation	6,589,036	6,742,157
Interest	5,109,446	5,136,890
Insurance	214,210	179,249
Real estate taxes	558,434	563,190
Repairs and maintenance	569,064	637,727
Advertising and marketing	187,869	119,716
Licenses, dues and subscriptions	377,278	348,364
Other operating expenses	365,997	407,277
Credit loss expense	-	52,572
Management fees	1,834,500	1,716,805
Total operating expenses	29,789,136	28,039,391
Deficiency of operating revenue over expenses	(5,327,163)	(4,790,571)
Nonoperating revenue (expense):		
Contributions	869	18,217
Interest and dividends	626,271	364,225
Realized gains	110,243	617,958
Unrealized gains (losses)	554,693	(2,123,602)
Other (expense)	(1,036,652)	-
Other income	111,965	76,264
Total nonoperating revenue (expense)	367,389	(1,046,938)
Deficiency of operating and nonoperating revenue over expenses	(4,959,774)	(5,837,509)
Other changes:		
Unrealized gains	17,706	24,173
Total other changes	17,706	24,173
Change in net deficit without donor restrictions	$ (4,942,068)	$ (5,813,336)

See notes to financial statements

The Village at Orchard Ridge, Inc.

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

	2023	2022
Changes in Net Deficit Without Donor Restrictions		
Deficiency of operating and nonoperating revenue over expenses	$ (4,959,774)	$ (5,837,509)
Unrealized gains	17,706	24,173
Change in net deficit without donor restrictions	(4,942,068)	(5,813,336)
Changes in Net Assets With Donor Restrictions		
Contributions	131,278	398,544
Net assets released from restrictions	(242,707)	(8,599)
Change in net assets with donor restrictions	(111,429)	389,945
Change in net deficit	(5,053,497)	(5,423,391)
Net Deficit, Beginning	(15,137,945)	(9,714,554)
Net Deficit, Ending	$ (20,191,442)	$ (15,137,945)

See notes to financial statements

The Village at Orchard Ridge, Inc.

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net deficit	$ (5,053,497)	$ (5,423,391)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	6,589,036	6,742,157
Provision for credit losses	-	52,572
Loss on disposal of assets	2,390	508,258
Amortization of deferred financing costs	168,706	168,705
Amortization of entrance fees	(4,140,952)	(5,833,413)
Proceeds from nonrefundable entrance fees	6,297,859	6,134,214
Realized gains	(110,243)	(617,958)
Unrealized (gains) losses	(572,399)	2,099,429
Changes in assets and liabilities:		
Accounts receivable	(221,222)	(8,292)
Prepaid expenses and other assets	(2,176)	512
Accounts payable, accrued expenses, and deferred revenue	37,300	(277,998)
Net cash provided by operating activities	2,994,802	3,544,795
Cash Flows From Investing Activities		
Net purchases of investments and assets whose use is limited	(389,661)	(252,734)
Insurance proceeds	2,231,078	-
Purchases of property and equipment	(2,896,352)	(1,755,588)
Net cash used in investing activities	(1,054,935)	(2,008,322)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(1,295,000)	(1,210,000)
Proceeds from refundable entrance fees, turnover units	4,381,150	3,578,187
Refunds of entrance fees	(4,139,432)	(1,868,012)
Net change in resident deposits	108,369	(92,358)
Change in pledges receivable, net	15,129	(179,437)
Change in due to affiliates, net	(995,771)	(1,820,420)
Net cash used in financing activities	(1,925,555)	(1,592,040)
Net increase (decrease) in cash and cash equivalents and restricted cash	14,312	(55,567)
Cash and Cash Equivalents and Restricted Cash, Beginning	7,941,584	7,997,151
Cash and Cash Equivalents and Restricted Cash, Ending	$ 7,955,896	$ 7,941,584
Cash and Cash Equivalents and Restricted Cash Include		
Cash and cash equivalents	$ 120	$ 1,901
Assets held under trust indenture	7,055,046	7,041,402
Cash, restricted by donors or grantors for specific purposes	900,730	898,281
	$ 7,955,896	$ 7,941,584

See notes to financial statements

	2023	2022
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 4,979,574	$ 5,004,423
Supplemental Schedule of Noncash Investing and Financing Activities		
Beneficial interest in supporting organization	$ (1,687,593)	$ (1,305,000)
Pledges receivable investment	$ 194,261	$ -

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Village at Orchard Ridge, Inc. (TVOR) is a Virginia not-for-profit corporation, operates a continuing care retirement community in Winchester, Virginia. The community opened during February 2013 and now consists of 308 independent living units, 20 skilled nursing units, 17 assisted living units and 18 assisted living memory care units.

National Lutheran, Inc. (NLI) is a not-for-profit Maryland corporation affiliated with the Evangelical Lutheran Church in America (ELCA). The Members of NLI are the Delaware-Maryland Synod, Metropolitan Washington, DC Synod and the Virginia Synod of the ELCA.

NLI is the parent corporation and sole member of TVOR, which is a member of a system doing business as National Lutheran Communities and Services (NLCS). As a member of NLCS, TVOR shares in the control, support and services of NLCS.

Basis of Accounting

The financial statements of TVOR 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

TVOR 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.

Accounts Receivable

Accounts receivable are reported net of an allowance for credit losses, which represents TVOR'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 TVOR'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 $20,030 and $65,348 as of December 31, 2023 and 2022, respectively.

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

Assets held as operating reserves, resident deposits and assets held under indenture agreements are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited, investments and beneficial interest in supporting organization 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.

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.

TVOR'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

TVOR maintains a support agreement with NLI and National Lutheran Home for the Aged, Inc. (NLHA) relative to TVOR's long-term debt. NLI is the parent to both TVOR and NLHA. NLHA is an affiliate of TVOR. The support agreement outlines that NLI and NLHA will provide access to capital to maintain TVOR'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 TVOR. See Note 4 for the percent allocated to TVOR.

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). TVOR'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. TVOR follows the policy of capitalizing interest as a component of the cost of the asset acquired or constructed.

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.

Pledges Receivable

Pledges receivable are stated at outstanding balances and are discounted for their present value. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for uncollectable pledges is based on management's assessment of the collectability of pledges receivable and was $4,000 as of December 31, 2023 and 2022.

Entrance Fees

TVOR's policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. TVOR currently offers traditional, 50% guaranteed refund, and 90% guaranteed refund entrance fee options. Agreements feature an amortization provision whereby the nonrefundable component of the entrance fee is earned ratably over a future time period following the initial date of occupancy. After this time period has ended, no refund is due to the resident. The nonrefundable component is contractually earned by TVOR as follows:

Traditional entrance fee: After applying the 10% administrative fee, the remaining entrance fee is contractually earned by TVOR over 18 months, at which time no refund will be payable to the resident.

50% entrance fee: After applying the 10% administrative fee, the remaining entrance fee is contractually earned by TVOR over 8 months, at which time no refund will be payable to the resident.

90% entrance fee: Guarantees a refund of the entrance fee paid less a 10% administrative fee.

Contracts containing varying refund provisions no longer offered by TVOR to new residents remain in force.

The nonrefundable portion of the entrance fees are accounted for as deferred revenue from entrance fees and are amortized into earned revenue using the straight-line method over the estimated remaining life of the residents over the contractual term of the contract. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the entrance fees is not amortized into income and is reported as refundable entrance fees liability. Guaranteed contractual refund obligations amounted to $51,855,509 and $51,519,272 as of December 31, 2023 and 2022, respectively.

TVOR also has a rental agreement requiring no entrance fee on select independent living units, but a one-time community fee of $3,000 applies.

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 was approximately $168,700 for the years ended December 31, 2023 and 2022. Accumulated amortization was $1,612,239 and $1,443,533 as of December 31, 2023 and 2022, 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 assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets (deficit) without donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net deficit without donor restrictions.

Net Resident Service Revenue

Net resident service revenue is reported at the amount that reflects the consideration TVOR expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of 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:

Skilled Nursing - Skilled nursing revenue is primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. TVOR has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenue is recognized on a daily basis as services are rendered.

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

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

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees on the accompanying balance sheets.

Other Resident Services - Other resident services revenue includes services such as housekeeping, laundry, transportation, medical supplies and other revenue from residents. TVOR 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.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the balance sheets. Amortization of nonrefundable entrance fees included in net resident service revenue amounted to $4,140,952 and $5,833,413 for the years ended December 31, 2023 and 2022, respectively.

TVOR receives revenue for services under third-party payor programs, including Medicare and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services.

TVOR estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

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

	2023				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	$ 1,417,037	$ 3,413,657	$ 12,621,581	$ 146,597	$ 17,598,872
Medicare	2,038,055	-	-	-	2,038,055
Medicaid	127,088	-	-	-	127,088
Commercial insurance	307,693	-	-	-	307,693
Amortization of nonrefundable entrance fees	-	-	4,140,952	-	4,140,952
Total	$ 3,889,873	$ 3,413,657	$ 16,762,533	$ 146,597	$ 24,212,660

	2022				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	$ 1,825,059	$ 1,897,174	$ 12,378,434	$ 76,683	$ 16,177,350
Medicare	1,475,021	-	-	-	1,475,021
Medicaid	35,812	-	-	-	35,812
Commercial insurance	221,213	-	-	-	221,213
Amortization of nonrefundable entrance fees	-	-	5,833,413	-	5,833,413
Total	$ 3,557,105	$ 1,897,174	$ 18,211,847	$ 76,683	$ 23,742,809

TVOR has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Medicare Part A rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on TVOR's clinical assessment of its residents. TVOR is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medicare programs.

Medical Assistance - Under the Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (ADLs) and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.

TVOR also has entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to TVOR under these agreements includes prospectively determined rates per day or discounts from established charges.

Payment terms and conditions for TVOR's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenue for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenue for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenue collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenue from entrance fees on the accompanying balance sheets.

Advertising

TVOR expenses advertising costs as incurred. Advertising expense totaled $187,869 and $119,716 for the years ended December 31, 2023 and 2022, respectively.

Deficiency of Operating and Nonoperating Revenue Over Expenses

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

Income Tax Status

TVOR 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 TVOR and recognize a tax liability or asset if TVOR has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). TVOR has concluded that as of December 31, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Generally, tax returns for years ended December 31, 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

TVOR has evaluated subsequent events for recognition and disclosure through March 29, 2024, 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*

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, TVOR 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 have been included to meet the requirements of Topic 326. Adoption did not have a material impact on TVOR's balance sheets, results of operations or cashflows.

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:

	2023	2022
Financial assets:		
Cash and cash equivalents	$ 120	$ 1,901
Accounts receivable, net	559,429	338,207
Investments	2,513,773	1,973,249
Beneficial interest in supporting organization	7,562,655	8,521,759
Total financial assets	$ 10,635,977	$ 10,835,116

As part of TVOR'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. TVOR 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. Concentrations of Credit Risk

TVOR grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies. TVOR maintains cash, restricted cash and cash equivalents accounts, which, at times, may exceed federally insured limits. TVOR has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash, restricted cash and cash equivalents.

4. 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 financial assets measured at fair value on a recurring basis as of December 31:

	2023			
	Carrying Value	Fair Value	Level 1	Level 2
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization and assets whose use is limited:				
Cash and cash equivalents	$ 7,313,977	$ 7,313,977	$ 7,313,977	$ -
Equity securities	559,893	559,893	559,893	-
Mutual funds	820,870	820,870	820,870	-
Exchange traded funds	874,079	874,079	-	874,079
Beneficial interest in supporting organization	7,071,377	7,071,377	4,717,425	2,353,952
Total	16,640,196	16,640,196	$ 13,412,165	$ 3,228,031
Beneficial interest in supporting organization alternative investment measured at NAV	491,278	491,278		
Total assets	$ 17,131,474	$ 17,131,474		
Disclosed at fair value:				
Pledges receivable, net	$ 16,000	$ 16,000	$ -	$ 16,000

	2022			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Reported at fair value:				
Assets:				
Investments, beneficial interest in supporting organization and assets whose use is limited:				
Cash and cash equivalents	$ 7,068,677	$ 7,068,677	$ 7,068,677	$ -
Equity securities	206,080	206,080	206,080	-
Mutual funds	1,635,179	1,635,179	1,635,179	-
Exchange traded funds	38,638	38,638	-	38,638
Bonds	66,077	66,077	-	66,077
Beneficial interest in supporting organization	7,842,386	7,842,386	4,794,775	3,047,611
Total	16,857,037	16,857,037	$ 13,704,711	$ 3,152,326
Beneficial interest in supporting organization alternative investment measured at NAV	679,373	679,373		
Total assets	$ 17,536,410	$ 17,536,410		
Disclosed at fair value:				
Pledges receivable, net	$ 225,390	$ 225,390	$ -	$ 225,390

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 14.65% and 13.09% of the combined investments are attributable to TVOR as of December 31, 2023 and 2022, respectively. The percentage of combined investments is calculated based on a monthly cost basis adjusted for any deposits or withdrawals specific to TVOR. Investment income is also based on this allocation.

The following tables present TVOR'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			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 617,151	$ 617,151	$ 617,151	$ -
Equity securities:				
Consumer discretionary	554,401	554,401	554,401	-
Consumer staples	584,876	584,876	584,876	-
Energy	390,693	390,693	390,693	-
Financial	738,420	738,420	738,420	-
Health care	360,615	360,615	360,615	-
Industrials	750,532	750,532	750,532	-
Information technology	368,038	368,038	368,038	-
Real estate	184,410	184,410	184,410	-
Utilities	168,000	168,000	168,000	-
Mutual funds:				
Equity	289	289	289	-
Fixed income securities:				
Corporate bonds	1,798,178	1,798,178	-	1,798,178
U.S. government and agency bonds	555,774	555,774	-	555,774
Subtotal	7,071,377	7,071,377	$ 4,717,425	$ 2,353,952
Alternative investment measured at NAV	491,278	491,278		
Total	$ 7,562,655	$ 7,562,655		

	2022			
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**
Beneficial interest in supporting organization:				
Cash and cash equivalents	$ 620,143	$ 620,143	$ 620,143	$ -
Equity securities:				
Consumer discretionary	732,804	732,804	732,804	-
Consumer staples	532,758	532,758	532,758	-
Energy	427,216	427,216	427,216	-
Financial	654,940	654,940	654,940	-
Health care	419,524	419,524	419,524	-
Industrials	588,502	588,502	588,502	-
Information technology	426,090	426,090	426,090	-
Materials	26,682	26,682	26,682	-
Real estate	182,066	182,066	182,066	-
Utilities	158,183	158,183	158,183	-
Other	9,910	9,910	9,910	-
Mutual funds:				
Equity	15,957	15,957	15,957	-
Fixed income securities:				
Corporate bonds	1,307,460	1,307,460	-	1,307,460
U.S. government and agency bonds	1,740,151	1,740,151	-	1,740,151
Subtotal	7,842,386	7,842,386	$ 4,794,775	$ 3,047,611
Alternative investment measured at NAV	679,373	679,373		
Total	$ 8,521,759	$ 8,521,759		

TVOR 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 TVOR 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.

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 are based on quoted prices for the same or similar securities for fixed income securities.

Alternative Investment - Alternative investment is comprised of a hedge fund. TVOR measures the fair value of the alternative investment based on net asset value (NAV) as calculated on the reporting entity's measurement date. TVOR 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 TVOR 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. TVOR's share of the beneficial interest in supporting organization's alternative investments as of December 31, 2023 and 2022, was $491,278 and $679,373, 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.

Pledges Receivable - Valued based on the original pledge amounts, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectable pledges.

5. Investments, Beneficial Interest in Supporting Organization and Assets Whose Use is Limited

The investments, beneficial interest in supporting organization and assets whose use is limited are presented on the balance sheets as follows as of December 31:

	2023	2022
Investments	$ 2,513,773	$ 1,973,249
Beneficial interest in supporting organization	$ 7,562,655	$ 8,521,759
Assets held under trust indenture (2012 bonds):		
Debt service reserve	$ 1,776,547	$ 1,694,654
Interest	1,205,150	1,217,328
Principal	679,223	781,294
Assets held under trust indenture (2014 bonds):		
Debt service reserve	2,163,952	2,064,202
Interest	1,230,174	1,283,924
	7,055,046	7,041,402
Less current portion	(3,786,251)	(3,740,084)
Assets whose use is limited, net	$ 3,268,795	$ 3,301,318

6. Property and Equipment

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

	2023	2022
Land	$ 14,870,825	$ 14,870,825
Land improvements	11,892,157	11,815,830
Buildings and building improvements	149,702,952	147,540,832
Furniture and equipment	11,228,537	10,539,440
Construction in progress	45,216	78,798
	187,739,687	184,845,725
Less accumulated depreciation	(61,826,375)	(55,234,949)
	$ 125,913,312	$ 129,610,776

In December 2022, TVOR incurred water damages as a result of inclement weather. The damages resulted in a loss on disposal of assets amounting to $508,258, which is included on the statement of operations for the year ended December 31, 2022.

During the year ended December 31, 2023, TVOR incurred non-capital expenditures in connection with water and mold remediation services amounting to $1,036,652, which is presented as Other (expense) on the accompanying statement of operations. Total capitalized expenditures associated with the weather event amounted to $1,955,352. TVOR received insurance settlement advance payments totaling $2,231,078 as of December 31, 2023, which are included in deferred revenue on the accompanying balance sheet. Management expects the final insurance settlement to occur by June 30, 2024.

7. Long-Term Debt

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

	2023	2022
Series 2011A 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 6.50% through maturity.	$ 36,570,000	$ 37,125,000
Series 2014A Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2049. Interest is payable at a fixed rate of 6.00% through maturity.	33,615,000	34,150,000
Series 2014B Residential Care Facility Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through July 2049. Interest is payable at a fixed rate of 4.63% through maturity.	9,040,000	9,245,000
	79,225,000	80,520,000
Less current portion	1,380,000	1,295,000
Less deferred financing costs, net of accumulated amortization	3,624,325	3,793,031
Total long-term debt, net	$ 74,220,675	$ 75,431,969

As security for the payment of the bonds, TVOR granted a lien and security interest in the mortgaged premises and assigned all their respective pledged assets, including gross receipts, inventory, accounts receivables, contracts rights, general intangibles and other as defined in the documents. Additionally, NLI and National Lutheran Home for the Aged, Inc. 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.

TVOR 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.

Scheduled principal payments on long-term debt as of December 31, 2023, are as follows:

Years ending December 31:	
2024	$ 1,380,000
2025	1,440,000
2026	1,535,000
2027	1,645,000
2028	1,755,000
Thereafter	71,470,000
	$ 79,225,000

Interest expense in connection with long-term debt totaled $4,851,335 in 2023, and $4,926,409 in 2022.

8. 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:

	2023	2022
Net assets (deficit):		
Without donor restrictions:		
Undesignated	$ (22,216,943)	$ (17,274,875)
With donor restrictions:		
Purpose restricted for:		
Operations	385,097	602,200
Capital projects	515,633	515,743
Restricted in perpetuity	1,124,771	1,018,987
	2,025,501	2,136,930
Total net deficit	$ (20,191,442)	$ (15,137,945)

For the years ended December 31, 2023 and 2022, net assets of $242,707 and $8,599, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

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

9. Related-Party Transactions

NLI is the sole member of TVOR and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. TVOR incurred management fees to NLI totaling $1,834,500 and $1,716,805 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.

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

	2023	2022
National Lutheran, Inc. (Parent)	$ -	$ 2,583,364
National Lutheran Home for the Aged, Inc.	-	100,000
	$ -	$ 2,683,364

10. Expenses by Nature and Function

TVOR's expenses for resident services (including skilled nursing, assisted living, independent living and other resident services) and general and administrative are as follows for the years ended December 31:

	2023		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 5,899,306	$ 582,134	$ 6,481,440
Employee benefits and payroll taxes	1,159,037	106,196	1,265,233
Professional fees	1,937,907	147,951	2,085,858
Ancillary and medical	1,294,926	-	1,294,926
Supplies	575,713	39,018	614,731
Food services	947,356	11,610	958,966
Utilities	1,172,089	110,059	1,282,148
Depreciation	6,589,036	-	6,589,036
Interest	4,940,741	168,705	5,109,446
Insurance	214,210	-	214,210
Real estate taxes	558,434	-	558,434
Repairs and maintenance	528,895	40,169	569,064
Advertising and marketing	187,869	-	187,869
Licenses, dues and subscriptions	111,329	265,949	377,278
Other operating expenses	282,447	83,550	365,997
Management fees	-	1,834,500	1,834,500
Total	$ 26,399,295	$ 3,389,841	$ 29,789,136

	2022		
	Resident Services	General and Administrative	Total
Salaries and wages	$ 4,662,555	$ 538,038	$ 5,200,593
Employee benefits and payroll taxes	1,005,197	94,167	1,099,364
Professional fees	1,977,906	151,005	2,128,911
Ancillary and medical	978,208	-	978,208
Supplies	533,145	28,631	561,776
Food services	901,801	38,025	939,826
Utilities	1,121,461	105,305	1,226,766
Depreciation	6,742,157	-	6,742,157
Interest	4,968,185	168,705	5,136,890
Insurance	179,249	-	179,249
Real estate taxes	563,190	-	563,190
Repairs and maintenance	613,574	24,153	637,727
Advertising and marketing	119,716	-	119,716
Licenses, dues and subscriptions	84,560	263,804	348,364
Other operating expenses	306,888	100,389	407,277
Credit loss expense	52,572	-	52,572
Management fees	-	1,716,805	1,716,805
Total	$ 24,810,364	$ 3,229,027	$ 28,039,391

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.

11. Benevolent Care

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

TVOR 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 to assisted living residents amounted to $66,875 and $0 for the years ended December 31, 2023 and 2022, respectively. The cost of benevolent care provided to independent living residents amounted to $3,661 and $16,100 for the years ended December 31, 2023 and 2022, respectively. The amount by which costs exceeded revenues for the Medicaid program amounted to approximately $50,700 and $12,300 for the years ended December 31, 2023 and 2022, respectively. TVOR received contributions of approximately $126,000 and $137,000 for the years ended December 31, 2023 and 2022, respectively, to offset or subsidize benevolent care services provided.

12. Pension Plan

TVOR participates in a 403(b) defined contribution plan (the Plan). The Plan states TVOR 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, TVOR will contribution 50% of each employee's contribution up to the next 2% of such participant's compensation for each payroll period. All participating employees' contributions are 100% vested and employer contributions are vested at 20% per year to 100% after five years. Employer contributions totaled $63,584 and $59,095 for the years ended December 31, 2023 and 2022, respectively, and are recorded in employee benefits and payroll taxes on the statements of operations.

13. Medical Malpractice and General Liability Claims Coverage

TVOR participates in 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 TVOR 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. TVOR also has an excess umbrella policy for general liability coverage. The excess umbrella limit is $15,000,000 in the aggregate. TVOR 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.

14. Commitments and Contingencies

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and 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 repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effect of this matter on TVOR, if any, is not presently determinable.