

DISCLOSURE STATEMENT

UNDER PENNSYLVANIA ACT 82

October 31, 2019



1001 E. Oregon Rd
Lititz PA 17543-9206
(717) 569-3271

NOTE: Issuance of a Certificate of Authority by the Pennsylvania Insurance Department does not constitute approval, recommendation or endorsement of Landis Homes Retirement Community by the Department, nor is it evidence of, nor does it attest to, the accuracy or completeness of the information set out in this disclosure statement.

Dear Resident:

This Disclosure Statement is provided to you for information purposes as required by our licensure as a Continuing Care Retirement Community. You need not respond to it in any way. If you do not want this Statement, please return it to the front desk.

We welcome entertaining any questions on the Disclosure Statement in the December 11th Resident Association meeting.

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SUMMARY

1. Facilities:
Landis Homes
1001 E. Oregon Road, Lititz, PA 17543
2. Licensed Provider:
Landis Homes Retirement Community
1001 E. Oregon Road, Lititz, PA 17543
3. Admissions:
To discuss admissions, call or write: Sarah L. Short
Director of Residency Planning
Landis Homes
1001 E. Oregon Road, Lititz, PA 17543
(717) 381-3549
4. Facility Description:

Landis Homes is located on a 114-acre campus, surrounded by farmland, 8 miles north of Lancaster, Pennsylvania.

Licensed nursing care and personal care is provided in households located in one and two-story buildings. Residential living includes single-level cottage homes, apartments in one, two and three-story buildings and hybrid-style homes. Hybrid-style homes combine the features of cottage homes (multiple outside walls, garages, no corridors) with those of apartment living (indoor access to common areas, a shared community room).
5. Minimum Age for Admission:

The minimum age is 62. Exceptions may be made for those seeking admission to Heritage Memory Support and for short-term admissions to the skilled nursing area.
6. Affiliates:

Landis Homes is affiliated with Landis Communities. Landis Communities is affiliated with LMC (previously known as Lancaster Mennonite Conference) and Atlantic Coast Conference of Mennonite Church USA. Landis Communities appoints members to the Board of Directors of Landis Homes.
7. Current Resident Population (09/30/2019): 880
8. Sample Fees for a One Bedroom Residential Living Cottage for Single or Double Occupancy

			<u>Single</u>	<u>Double</u>
Entry fee	\$101,000	Monthly fee	\$1,060	\$1,250
9. The average annual cost of providing care and services during the most recent twelve-month period is \$52,314. This is based on our total operating expenses for the year ended 6/30/19 divided by the average number of residents for the same period.

RESPONSES TO SECTION 7 OF PA ACT 82

Note: Items below correspond to paragraphs of PA Act 82, Section 7, which sets the requirements for this disclosure statement.

1. Address

Landis Homes is a not-for-profit Pennsylvania Corporation. The mailing address is:
Landis Homes
1001 E. Oregon Road
Lititz, PA 17543

2. Board of Directors

The Board of Directors of Landis Homes is listed below. These are all of the people who meet the definition in Section 7(a)(2) of the Act.

Daniel Mast, 1001 E. Oregon Road, Lititz, PA 17543
Rachel Hess, 1001 E. Oregon Road, Lititz, PA 17543
Sandy Harnish, 1001 E. Oregon Road, Lititz, PA 17543
Clair Sauder, 1001 E. Oregon Road, Lititz, PA 17543
Pamela Brenneman, 1001 E. Oregon Road, Lititz, PA 17543
Sue Shirk, 1001 E. Oregon Road, Lititz, PA 17543
Bill Davis, 1001 E. Oregon Road, Lititz, PA 17543
Neil Musselman, 1001 E. Oregon Road, Lititz, PA 17543
Kristen Nebel, 1001 E. Oregon Road, Lititz, PA 17543
Jenn Orantes, 1001 E. Oregon Road, Lititz, PA 17543
Joseph Caputo, 1001 E. Oregon Road, Lititz, PA 17543 (term ended August 2019)
David Hernley, 1001 E. Oregon Road, Lititz, PA 17543 (term ended Nov 2018)

3. Board Member Information

This item requires a listing of the following information for those named in item 2:

- (A) A description of the business experience of such persons, if any, in the operation or management of facilities similar to Landis: Bill Davis – former Chief Operating Office in Healthcare Services for a Lancaster County CCRC.
- (B) The name and address of any entity in which such person has a 10% or greater interest and which it is presently intended will or may provide goods, leases, or services to the facility of a value of \$500 or more within any year: None.
- (C) Description of certain types of criminal, civil or administrative charges, convictions, injunctions, or suspensions of licenses: None.

4. Affiliation

On July 1, 2012 Landis Homes affiliated with Landis Communities. Landis Communities, the controlling parent corporation, is a not-for-profit corporation organized to operate for the support and benefit of Landis Homes and its other affiliates. Landis Communities is affiliated with Lancaster Mennonite Conference and Atlantic Coast Conference of Mennonite Church USA.

Landis Homes is governed by a Board of Directors of not less than six nor more than twelve members. Up to nine directors shall be appointed by the Landis Communities Board of Directors for terms of three years (unless a shorter term is designated by the Landis Homes Board of Directors at appointment). Nominees may be recommended by the Landis Homes Board of Directors. Up to three directors may be appointed by the Landis Communities Board of Directors for terms of one year.

Neither the Lancaster Mennonite Conference nor the Atlantic Coast Conference of Mennonite Church USA or any other group other than Landis Homes is responsible for the financial and contractual obligations of the Facility.

Landis Homes is exempt from the payment of federal income tax under Section 501(c)(3) of the Internal Revenue Code.

5. Facility Description

Landis Homes includes 336 apartments/hybrids ranging in size from efficiencies to two-bedroom units, 141 cottage units, and 37 residential care suites. The provider is licensed to operate 103 skilled nursing beds and 124 personal care beds. There is also a children's learning center.

The above includes memory support care consisting of 13 skilled beds, 16 licensed personal care beds.

The community is located at 1001 E. Oregon Road, Lititz, PA 17543.

6. List of Services

Included in the basic contract for Residential Living

- Utilities, including cable TV (telephone and internet services not included)
- Real estate taxes
- Maintenance of building and appliances
- Grounds maintenance
- Scheduled shopping trips
- Pastoral care
- Social and recreational activities
- 24-hour emergency response
- Priority access to healthcare and personal care
- Social services
- Use of all indoor and outdoor common social and recreational facilities
- Security services 24 hours a day
- Three meals per day*
- Laundry*
- Housekeeping services*
- Medical/emergency call system*

Available at extra cost for Residential Living

- Meals, guest meals, catering
- Personal laundry or dry cleaning
- Housekeeping services
- Beautician and barber services
- Repairs of personal property

Available at extra cost for all residents

- Internet service
- Telephone service
- Upgraded Cable TV service

*Included in basic contract only for residents of Residential Suites, however, residents may opt out of laundry and housekeeping services and receive a discounted rate.

7. Fees Charged to Residents are Set Forth in the Attached Exhibit 1.

Daily and monthly fees and fees for services not included in the basic agreement are reviewed and adjusted from time to time based on factors which include but are not limited to: changes in the Consumer Price Index, operating experience, governmental regulations, property taxes, maintenance of reserve funds, and to insure the financial stability of Landis Homes. Under ordinary circumstances, these adjustments are announced annually by May 1 where required by regulation, and by June 1 otherwise, and are effective for July 1. Changes in rates may also occur due to single versus double occupancy.

For a single occupant in a one-bedroom apartment at Landis Homes, the most recent monthly fees and fee increases for a sample unit are:

<u>Effective Date</u>	<u>Fee</u>	<u>Increase Amount</u>	<u>Increase Percent</u>
July 1, 2019	\$1,154	\$50	4.5%
July 1, 2018	\$1,104	\$48	4.5%
July 1, 2017	\$1,056	\$41	4.0%
July 1, 2016	\$1,015	\$34	3.5%
July 1, 2015	\$981	\$38	4.0%

8. Reserves

At June 30, 2019, Landis Homes has established reserves to pay principal and interest owed on long-term debt. During the next 12 months, the following amounts are due on long-term obligations, based on budgeted amounts:

A. Lancaster County Hospital Authority Health Center Revenue Refunding Bonds Series of 2015A	\$3,131,038
B. Lancaster County Hospital Authority Health Center Revenue Bonds Series B of 2015	\$460,428
C. Lancaster County Hospital Authority Health Center Revenue Bonds Series C of 2015	\$1,741,996
D. Lancaster County Hospital Authority Health Center Revenue Bonds Series B of 2017	<u>\$812,740</u>
	<u>\$6,146,202</u>

To pay these obligations, and in compliance with Section 9 of the Commonwealth of Pennsylvania's Continuing Care Provider Registration and Disclosure Act (Act 82), the Board of Directors has designated that a portion of the Board-designated assets be reserved to meet the requirements of Act 82. These designated funds amounted to approximately \$3,995,000 at June 30, 2019 and are based on the allowable calculation methodology using the greater of the following: estimated principal and interest due on long-term debt during the year ending June 30, 2020 (pertaining to the portion of the campus under entrance fee agreements), or 10% of the projected annual operating expenses for the residential living portion of the campus, exclusive of depreciation and amortization.

9. Financial Statements

Attached as Exhibit 2 are certified financial statements of Landis Homes, including

- (i) Balance Sheets as of the end of the two most recent fiscal years.
- (ii) Statements of Operations for the two most recent fiscal years.

10. Resident Agreement EXHIBIT 3 ATTACHED

The applicable statement(s) below should be checked:

 A Landis Homes Resident Agreement is attached.

 X No Resident Agreement is attached because:

 X This disclosure statement is being provided to a person who is already a resident of Landis Homes.

This disclosure statement is being provided to a person who has already received a copy of a previous disclosure statement with a copy of the Resident Agreement attached, and the Agreement has not been changed since.

This disclosure statement is being provided to a person who is not currently making application to Landis Homes and is not making a deposit or payment to Landis Homes with such on application.

Landis Homes Retirement Community
Statement of Operations
For the Year Ended June 30, 2020

	(in thousands)
	Pro-Forma for FYE <u>6/30/2020</u>
Unrestricted Revenues	
Net resident services revenues	\$ 41,449
Other revenues	2,984
Donor-restricted contributions used primarily for benevolent care	<u>800</u>
Total unrestricted revenues	<u>45,233</u>
Expenses	
Resident Services	13,626
Dining Services	4,679
Campus Services, Housekeeping and laundry	1,903
Social services, pastoral care and activities	1,663
Plant operations	5,041
General and administration	6,389
Depreciation	6,844
Amortization	61
Interest	<u>4,029</u>
Total Expenses	<u>44,235</u>
Operating Income (Loss)	<u>998</u>
Interest and dividend income	547
Net realized gain (loss) on sales of investments	738
Net unrealized gain (loss) on investments	-
Unrestricted contributions and bequests	10
Change in fair value of derivative financial instrument	<u>-</u>
Total other income, net	<u>1,295</u>
Revenues In Excess of Expenses	2,293
Donor-Restricted Contributions Used For Purchase of Property and Equipment	165
Transfer (To)/From Affiliate	<u>(997)</u>
Increase In Unrestricted Net Assets	<u>\$ 1,461</u>

Landis Homes Retirement Community
Statement of Operations
For the Year Ended June 30, 2019

	(in thousands)		
	Pro-Forma for FYE <u>6/30/2019</u>	Actual Results for FYE <u>6/30/2019</u>	<u>Variance</u>
Unrestricted Revenues			
Net resident services revenues	\$ 38,695	\$ 38,662	\$ (33)
Other revenues	2,724	2,690	(34)
Donor-restricted contributions used primarily for benevolent care	<u>881</u>	<u>758</u>	<u>(123)</u>
Total unrestricted revenues	<u>42,300</u>	<u>42,110</u>	<u>(190)</u>
Expenses			
Resident Services	13,542	14,198	(656)
Dining Services	4,405	4,603	(198)
Housekeeping and laundry	1,900	1,877	23
Social services, pastoral care and activities	1,530	1,482	48
Plant operations	4,820	4,610	210
General and administration	6,418	6,244	174
Depreciation	6,140	6,265	(125)
Amortization	61	61	-
Interest	<u>3,184</u>	<u>3,715</u>	<u>(531)</u>
Total Expenses	<u>42,000</u>	<u>43,055</u>	<u>(1,055)</u>
Operating Income (Loss)	<u>300</u>	<u>(945)</u>	<u>(1,245)</u>
Interest and dividend income	461	714	253
Net realized gain (loss) on sales of investments	486	851	365
Net unrealized gain (loss) on investments	-	(553)	(553)
Unrestricted contributions and bequests	40	29	(11)
Loss on refinancing	-	-	-
Loss on disposal of property and equipment	-	(88)	(88)
Change in fair value of derivative financial instrument	<u>-</u>	<u>-</u>	<u>-</u>
Total other income, net	<u>987</u>	<u>953</u>	<u>(34)</u>
Revenues In Excess of Expenses	1,287	8	(1,279)
Donor-Restricted Contributions Used For Purchase of Property and Equipment	160	302	142
Transfer (To)/From Affiliate	<u>-</u>	<u>(530)</u>	<u>(530)</u>
Increase (Decrease) In Unrestricted Net Assets	<u>\$ 1,447</u>	<u>\$ (220)</u>	<u>\$ (1,667)</u>

12. Explanation for difference between Pro-Forma Income Statement and Actual Results of Operations:

Landis Homes
Explanation for Difference Between
Pro-Forma Statement at 6-30-2019 and Actual Results of Operations

Overall, the change in unrestricted net assets was unfavorable compared to budget by \$1,667,000, primarily attributable of the following:

Within Operating Income, both total revenues and total operating expenses were unfavorable compared to budget, contributing to the overall difference in actual compared to Pro-Forma:

- Total revenues were under budget primarily due to variations in factors affecting reimbursement, such as occupancy, third-party rates, and payor mix.
- Contributions for Benevolent Care also were below budgeted levels.
- Certain operational expenses, such as salaries & wages, agency, employee medical costs, and food costs, were greater than budgeted.
- Depreciation and Interest expenses, with significant property additions, were also greater than budget.

Within Other Income, below the Operating line:

- Investment income—dividends & interest, realized gains—was significantly better than budgeted due to market performance
- The unrealized gain or (loss) on investments as of year-end was in a notable loss position for the fiscal year

LANDIS HOMES

EXHIBIT 1 - RATES



**Resident Rates
Effective July 1, 2019**

All Listed Rates Are Daily And Per Person

Residential Suites:	Rate with Advance Fee	Rate No Advance Fee	
Standard	\$ 84.00	\$ 96.00	
Large, occupied by two persons	-	86.00	
Large, occupied by single person	-	138.00	
Apartment, occupied by two persons	-	96.00	
Apartment, occupied by single person	-	156.00	

Personal Care Suites:	Base	Intermediate	Enhanced
Standard	\$ 233.00	Base + \$19 (Rate \$252)	Base + \$68 (Rate \$301)
Large, occupied by two persons	225.00	Base + \$19 (Rate \$244)	Base + \$68 (Rate \$293)
Large, occupied by single person	318.00	Base + \$19 (Rate \$337)	Base + \$68 (Rate \$386)
Apartment, occupied by two persons	233.00	Base + \$19 (Rate \$252)	Base + \$68 (Rate \$301)
Apartment, occupied by single person	332.00	Base + \$19 (Rate \$351)	Base + \$68 (Rate \$400)

Personal Care Suites, Memory Support:	Base	Enhanced
Standard	\$ 343.00	\$ 350.00
Respite Rates - Additional \$20		

Health Care:	Regular	Memory Support
Private Room	\$ 496.00	\$ 499.00
Private Room With Shared Bath	477.00	481.00



**Resident Rates
Effective July 1, 2019**

	Range of Advance Fee	Single Range of Monthly Fee	Double Range of Monthly Fee
Cottages:			
1 Bedroom	\$76,000 - 101,000	\$792 - 1,060	\$982 - 1,250
2 Bedroom	\$109,000 - 290,000	\$1,108 - 2,013	\$1,298 - 2,203
Hybrid Homes:			
1 Bedroom	\$141,000 - 148,000	\$1,342	\$1,532
1 Bedroom & Den	\$210,000	\$1,807	\$1,997
2 Bedroom	\$226,000	\$1,853	\$2,043
2 Bedroom & Den	\$266,000	\$2,096	\$2,286
Apartments:			
Studios	\$46,000 - 92,000	\$810 - 1,120	\$1,000 - 1,310
1 Bedroom	\$74,000 - 115,000	\$947 - 1,154	\$1,137 - 1,344
1 Bedroom & Den	\$131,000 - 212,000	\$1,307 - 1,714	\$1,497 - 1,904
2 Bedroom	\$101,000 - 279,000	\$1,076 - 2,108	\$1,266 - 2,298



**Cosmetology Rates
Effective July 1, 2019**

Services	HC & Personal Care	Residential Living
Perms	\$62.00	\$62.00
Shampoo only	11.00	11.00
Shampoo, Set, & Style	18.00	18.00
Shampoo & Cut	19.00	19.00
Shampoo, cut, and blow dry	24.00	24.00
Shampoo, Cut, & Style (Women)	29.00	29.00
Shampoo & Blow Dry	14.00	14.00
Up Hair-do	6.00	6.00
Set Only	11.00	11.00
Trim or Cut by Landis Home's Beautician	17.00	17.00
Hair Line Trim	8.00	8.00
Beard or Mustache Trim	6.00	6.00
Trim or Cut by Barber (Mr. Heiserman)	17.00	17.00
Re-comb - hair	10.00	10.00
Permanent Color with Shampoo & Set	47.00	47.00
Manicure with Polish	17.00	17.00
Manicure without Polish	15.00	15.00
Gel Manicure - Includes Removal	30.00	30.00
Gel Polish Removal	15.00	15.00
Pedicure	30.00	30.00
Gel Pedicure	40.00	40.00
Polish Change	7.00	7.00
Nail Trim	8.00	8.00
Hairspray (plus tax)	13.44	13.44
Color rinse application	3.00	3.00
Color Rinse Bottle	11.00	11.00
Hi-Lites or Foils with Shampoo/Set	57.00	57.00
Hi-Lites & Lowlights with Shampoo/Set	77.00	77.00
Sleep Caps (plus tax)	8.00	8.00



Menu of
**Services &
Take Home**

SHAMPOO & CONDITION

Shampoo.....11
 Shampoo & Blow-dry14
 The Body Builder.....10
 Crystal Clear15
 Relaxation Remedy20

SETS & CUTS

Set (or Blow-dry • Curling Iron) Only11
 Comb-Out • Touch-up10
 Shampoo & Set Package18
 Shampoo, Cut & Blow-dry24
 Shampoo, Cut Blow-dry & Curling Iron.....29
 Women’s Cut & Shampoo Package19
 Men’s Cut & Shampoo Package17
 Neck Trim.....8
 Double Density.....5

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Single Process Color, Cut & Set Package47
 Temporary Color Rinse3
 Individual Foils3
 High Value Shine.....20

COLORS (cont.)

Highlights - Price Level 157
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SPA TREATMENTS

Truist Moisturizing Manicure20
 Manicure17
 Pedicure30
 Pedicure with Gel Polish.....40
 Polish Change • Nail Shaping.....7
 Express Manicure15
 Nail Clipping8
 Nail Soak Off15
 Gel Nail Service.....30
 Stress Detox.....10
 Healthy Hands.....5

AESTHETICS

Facial Grooming.....6
 Hair Removal Service
 (per service for Chin or Lip)7
 Hair Removal Service (per service for Brow) ..9

TAKE HOME

PS Pro Working Hair Spray9.99 + (\$0.60 tax)
PS Pro Finishing Hair Spray9.99 + (\$0.60 tax)



**Residential Living Schedule of Fees
Effective July 1, 2019**

<u>Additional Ancillary Services & Supplies:</u>	<u>Rate:</u>
Bus trips, based on mileage, for other than scheduled trips to shopping centers	\$3.00-10.00
Carpet/Upholstery - cleaning (plus sales tax)	\$20.00 minimum or \$12 per each 15 minutes of labor
Housecleaning (plus sales tax)	Per Hour 23.55
Ironing (Residential Suites only)	Monthly 25.00
	Per 5 Pieces 10.00
Laundry	
Bedspreads/quilts/drapes/rugs/pillows	Prevailing
Personal Clothing (Small load)	10.00
Pickup/drop off (per trip, each way)	1.00
Maintenance	\$15.00 minimum or \$30 per each labor hour, plus parts
Meal Delivery	3.00
Medical supplies	Prevailing
Purified Protein Derivative (TB Skin Test)	3.00
Telephone Services by Landis Homes: Unlimited U.S. calling	
Basic services, includes Caller ID	Set-up 25.00
	Monthly 15.00
Phone rental (Rate does not include long-distance)	Daily 1.00
Voice Mail	Set-up 15.00
	Monthly 4.00
Internet Services	
Basic Services	Monthly 20.00
Installation	Set-up 25.00
Tech support - per each 30 minute increment	25.00

LANDIS HOMES

EXHIBIT 2 – FINANCIAL STATEMENTS



Landis Communities and Affiliates

Consolidated Financial Statements and
Supplementary Information

June 30, 2019 and 2018

Landis Communities and Affiliates

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June 30, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors of
Landis Communities and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Landis Communities and Affiliates (collectively, the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Landis Communities and Affiliates as of June 30, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of balance sheet and operations and changes in net assets on pages 28 through 31 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, or cash flows of the individual or combined organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Wyomissing, Pennsylvania
October 7, 2019

Landis Communities and Affiliates

Consolidated Balance Sheets

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,770,814	\$ 2,998,580
Assets whose use is limited, debt service funds	2,121,990	2,068,915
Accounts receivable:		
Residents, net	2,826,821	2,541,750
Entrance fees	1,390,800	584,765
Other	87,678	180,035
Prepaid expenses and other current assets	<u>504,037</u>	<u>313,419</u>
Total current assets	<u>9,702,140</u>	<u>8,687,464</u>
Assets Whose Use is Limited		
Board-designated investments	3,145,709	3,027,681
Statutory minimum liquid reserve	3,995,031	2,927,560
Donor-restricted investments	1,540,103	1,494,889
Debt service reserve fund	3,133,813	3,133,813
Resident escrow deposits	<u>8,466,287</u>	<u>4,261,624</u>
Total assets whose use is limited	20,280,943	14,845,567
Investments	25,883,840	22,976,777
Investment in Limited Partnership	629,967	629,975
Property and Equipment, Net	122,996,371	107,692,081
Pledges Receivable, Net	333,169	526,511
Split-Interest Agreements	367,199	419,670
Other Assets	<u>164,267</u>	<u>164,267</u>
Total assets	<u><u>\$ 180,357,896</u></u>	<u><u>\$ 155,942,312</u></u>

See notes to consolidated financial statements

Landis Communities and Affiliates

Consolidated Balance Sheets

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 2,116,620	\$ 1,463,000
Accounts payable:		
Trade	1,048,503	663,881
Capital related	1,394,549	2,956,593
Accrued expenses:		
Salaries and wages	392,733	355,029
Paid time off	784,780	787,251
Interest	1,100,106	1,113,831
Other	1,035,125	852,617
	<u>7,872,416</u>	<u>8,192,202</u>
Total current liabilities	7,872,416	8,192,202
Long-Term Debt	102,882,214	84,757,740
Deposits for Capital Additions	426,600	923,700
Refundable Entrance Fees and Deposits	693,227	694,782
Deferred Revenues from Non-Refundable Entrance Fees	<u>42,745,017</u>	<u>35,014,733</u>
Total liabilities	<u>154,619,474</u>	<u>129,583,157</u>
Net Assets		
Without donor restrictions	23,475,129	23,879,868
With donor restrictions	<u>2,263,293</u>	<u>2,479,287</u>
Total net assets	<u>25,738,422</u>	<u>26,359,155</u>
Total liabilities and net assets	<u>\$ 180,357,896</u>	<u>\$ 155,942,312</u>

See notes to consolidated financial statements

Landis Communities and Affiliates

Consolidated Statements of Operations
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues Without Donor Restrictions		
Net resident service revenues	\$ 42,070,909	\$ 38,987,768
Other revenues	846,312	787,794
Donor-restricted contributions used primarily for benevolent care	830,411	803,338
	<u>43,747,632</u>	<u>40,578,900</u>
Expenses		
Resident services	14,536,015	14,176,315
General and administrative	7,706,447	7,275,063
Depreciation	6,469,382	5,441,936
Plant operations	4,770,396	4,363,557
Dining services	4,817,695	4,824,302
Housekeeping, laundry, and campus services	1,932,165	1,849,618
Outcome management, pastoral services, and life enrichment	1,483,713	1,347,764
Interest	3,776,257	2,489,415
	<u>45,492,070</u>	<u>41,767,970</u>
Total expenses	<u>45,492,070</u>	<u>41,767,970</u>
Operating loss	<u>(1,744,438)</u>	<u>(1,189,070)</u>
Other Income (loss)		
Interest and dividend income	691,094	578,654
Net realized gain on sales of investments	851,256	551,956
Net unrealized (loss) gain on investments	(549,566)	50,766
Contributions and bequests	176,137	170,998
Loss on disposal or abandonment of property and equipment	(133,443)	(2,187)
	<u>1,035,478</u>	<u>1,350,187</u>
Total other income, net	<u>1,035,478</u>	<u>1,350,187</u>
Revenues (Less Than) in Excess of Expenses	(708,960)	161,117
Donor-Restricted Contributions Used for Purchase of Property and Equipment	<u>304,221</u>	<u>1,011,243</u>
Change in net assets without donor restrictions	<u>\$ (404,739)</u>	<u>\$ 1,172,360</u>

See notes to consolidated financial statements

Landis Communities and Affiliates

Consolidated Statements of Changes In Net Assets
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions		
Change in net assets without donor restrictions	\$ (404,739)	\$ 1,172,360
Net Assets With Donor Restrictions		
Contributions	848,076	1,180,261
Interest and dividend income	30,433	38,081
Net realized gain on sales of investments	54,742	19,597
Net unrealized (loss) gain on investments	(666)	3,721
Change in value, split-interest agreements	(13,947)	(9,787)
Donor-restricted contributions used for:		
Resident assistance program	(717,230)	(713,503)
Adult day care program	-	(58,623)
Other	(113,181)	(31,212)
Purchase of property and equipment	(304,221)	(1,011,243)
Change in net assets with donor restrictions	(215,994)	(582,708)
Change in net assets	(620,733)	589,652
Net Assets, Beginning	<u>26,359,155</u>	<u>25,769,503</u>
Net Assets, Ending	<u>\$ 25,738,422</u>	<u>\$ 26,359,155</u>

See notes to consolidated financial statements

Landis Communities and AffiliatesConsolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (620,733)	\$ 589,652
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,469,382	5,441,936
Amortization of deferred financing costs	60,820	56,021
Net realized and unrealized gain on investments	(355,766)	(626,040)
Loss on disposal or abandonment of property and equipment	133,443	2,187
Proceeds from entrance fees and deposits, existing units	5,284,800	4,063,252
Amortization of entrance fees	(5,404,286)	(4,550,020)
Contributions restricted for long-term purposes	(27,443)	(35,867)
Contributions, pledges receivable	(65)	(169,572)
Change in value, pledges receivable	(1,152)	(4,707)
Change in split-interest agreements	52,471	11,044
Change in assets and liabilities:		
Accounts receivable	(192,714)	(168,603)
Prepaid expenses and other current assets	(190,618)	(35,143)
Accounts payable, trade	384,622	142,285
Accrued expenses and other liabilities	204,016	(46,255)
Net cash provided by operating activities	<u>5,796,777</u>	<u>4,670,170</u>
Cash Flows from Investing Activities		
Net purchases of investments and assets whose use is limited	(8,039,748)	(3,946,254)
Change in value of investment in limited partnership	8	8
Purchase of property and equipment	(20,512,566)	(27,595,806)
Net cash used in investing activities	<u>(28,552,306)</u>	<u>(31,542,052)</u>
Cash Flows from Financing Activities		
Repayment of long-term debt	(1,427,647)	(1,008,051)
Proceeds from long-term debt	20,144,921	26,769,415
Repayment of line of credit	-	(25,000)
Payment of deferred financing costs	-	(287,965)
Payment of accounts payable, capital related	(2,956,593)	(2,281,127)
Proceeds from entrance fees and deposits, new units	7,601,800	3,305,100
Proceeds from refundable entrance fees and deposits, existing units	-	114,755
Refunds of entrance fees	(1,056,720)	(863,764)
Collections, pledges receivable	194,559	361,289
Contributions restricted for long-term purposes	27,443	35,867
Net cash provided by financing activities	<u>22,527,763</u>	<u>26,120,519</u>
Net decrease in cash and cash equivalents	(227,766)	(751,363)
Cash and Cash Equivalents, Beginning	<u>2,998,580</u>	<u>3,749,943</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,770,814</u>	<u>\$ 2,998,580</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	<u>\$ 3,729,162</u>	<u>\$ 2,442,344</u>
Noncash Investing and Financing Activities		
Accounts payable, capital related	<u>\$ 1,394,549</u>	<u>\$ 2,956,593</u>

See notes to consolidated financial statements

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Landis Communities is a not-for-profit corporation organized to operate exclusively for the support and benefit of Landis Homes Retirement Community ("LHRC"), Welsh Mountain Home ("WMH"), and Landis HCBS, LLC ("HCBS"); to support the mission, operations, and residents of LHRC, WMH and HCBS, serving older adults including the provision of housing, the provision of affordable housing, the promotion of community among the residents, and the provision of access to home and community based services, including, but not limited to, home care, home health, continuing care at home, adult day services, respite care, care navigation, and concierge services to not only residents but the general public, and other retirement community services as elected by the residents, and to develop, and administer an array of services consistent with Landis Communities' Mennonite/Anabaptist heritage and designed to serve the physical and spiritual needs of aging adults.

The consolidated financial statements include the accounts of Landis Communities, LHRC, HCBS, Landis Quality Living ("LQL"), Quality Living Choices ("QLC"), WMH, and WMH Inc. (collectively, the "Corporation"). All significant intercorporate transactions and balances have been eliminated. Landis Communities is the controlling entity and sole member of the following entities, unless otherwise noted below:

- LHRC is a not-for-profit corporation that operates a continuing care retirement community in Lititz, Pennsylvania providing housing, health care, and other related services to elderly residents through the operation of a nursing facility and personal care and residential living units.
- As of July 1, 2018, Landis at Home, LLC was re-organized to be HCBS. HCBS is a not-for-profit limited liability company organized to provide an array of home and community based services including home care, home health, continuing care at home, adult day services, respite care, and other programs.
- LQL is a not-for-profit corporation organized to provide affordable low-income housing, including rental units, for senior adults, in Lancaster, Pennsylvania.
- QLC is a not-for-profit corporation organized to provide housing, including rental units to senior adults, in Lancaster, Pennsylvania. As of July 1, 2019, LQL replaced LC as the sole member of QLC.
- WMH is a not-for-profit corporation that operates a personal care facility in a Christian environment in New Holland, Pennsylvania.
- WMH Inc., (whose sole member is WMH) is a not-for-profit corporation organized to act as a co-general partner in Mountain View Terrace, LP (an affordable housing apartment complex for seniors).

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Accounts Receivable

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management during periodic review of individual accounts and based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and accounts are deemed impaired. The allowance for doubtful collections is estimated based upon a periodic review of individual accounts. Management determined there was no allowance for doubtful collections necessary as of June 30, 2019 based on their review of individual accounts. The allowance for doubtful collections was 6,000 at June 30, 2018.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues (less than) in excess of expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated 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 in the consolidated balance sheets could change materially in the near term.

Assets Whose Use is Limited

Assets whose use is limited includes investments set aside by the board of directors which are available for the general use and purposes of the Corporation, assets whose use has been limited by donors to specific purposes, assets to be held in perpetuity, assets designated to meet the statutory minimum liquid reserve requirements of Section 9 of the Commonwealth of Pennsylvania's Continuing Care Provider Registration and Disclosure Act ("Act 82"), resident escrow deposits, and assets held by trustees under trust indentures. Amounts available to meet current liabilities of the Corporation have been classified as current assets in the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been capitalized and are being amortized over the terms of the related debt using the straight-line method, which approximates the effective interest method. Amortization expense, which is included as a component of interest expense, was \$60,820 in 2019 and \$56,021 in 2018. Accumulated amortization was \$200,946 and \$140,126 at June 30, 2019 and 2018, respectively.

Split-Interest Agreements

LHRC has received as contributions charitable gift annuities. These arrangements represent contracts between the Mennonite Foundation (the "Foundation") and donors. Donors transfer cash or investments to the Foundation and, in turn, receive periodic distributions from the Foundation. The contributions received by LHRC are the unconditional rights to receive the remainder interest of the gift annuities. The amount of the contribution is the difference between the asset received by the Foundation and the present value of the estimated future payments to be distributed by the Foundation to the annuitants. These contributions are recorded to net assets with donor restrictions, in accordance with donor restrictions.

Investment in Limited Partnership

WMH, Inc. is a co-general partner (.0051 percent interest) along with Housing Development Corporation MidAtlantic ("HDC") (.0049 percent interest) in Mountain View Terrace, LP (an affordable housing apartment complex for seniors). WMH, Inc. purchased land for \$1 from WMH, which was then contributed at a fair value of \$630,000 to Mountain View Terrace, LP. HDC is the managing general partner of Mountain View Terrace, LP and has provided certain guarantees. The investment is recorded using the equity method of accounting as an investment in limited partnership on the consolidated balance sheets. The investment is \$629,967 and \$629,975 at June 30, 2019 and 2018, respectively, including a change in value of (\$8) during the fiscal year ended June 30, 2019 and 2018.

Entrance Fees

Under certain entrance fee plans for residential living units, LHRC receives payments in advance. Residential living apartment and cottage residents have two entrance plan options, a "refundable" option and a "nonrefundable" option. The refundable option has a guaranteed refund component, which is 90 percent, 50 percent, or 25 percent of the entrance fee paid, with the balance generally refundable on a decreasing basis for 80 months. The nonrefundable option has no guaranteed refund component and is generally refundable on a decreasing basis for 80 months. All refunds to residents are generally paid upon termination of the Resident Agreement or transfer to another level of care. At June 30, 2019 and 2018, the gross amount of contractual refund obligations under existing Resident Agreements approximated \$24,013,000 and \$19,200,000, respectively.

The guaranteed refund component of entrance fees received is not amortized to income and is classified as refundable entrance fees and deposits in the consolidated balance sheets. The balance of entrance fees received is amortized to income using the straight-line method over the annually-adjusted estimated remaining life expectancies of the residents and is classified as deferred revenues from non-refundable entrance fees in the consolidated balance sheets.

The majority of services provided to LHRC's residential living residents are paid for on a "fee-for-service" basis and are not included under the entrance fee plans.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified as follows:

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

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration the Corporation 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 revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of skilled nursing, personal care, and independent living revenue streams, which are primarily derived from providing housing, skilled nursing, personal care, and independent living services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Corporation has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Corporation considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, personal care, and independent living revenues are recognized on a daily or month-to-month basis as services are rendered.

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

Revenue from nonrefundable entrance fees received is recognized through amortization of the nonrefundable entrance fees using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which 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 revenues from entrance fees in the consolidated balance sheets. Amortization of nonrefundable entrance fees included in independent living revenues was \$5,404,286 in 2019 and \$4,550,020 in 2018.

The Corporation receives revenue for services under third-party payor programs, including Medicare, Medicaid 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. The Corporation 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.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Donor-Restricted Gifts

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of operations as net assets released from restrictions.

Contributed Services

Contributed services are recognized as contributions in accordance with the authoritative guidance governing the accounting for contributions received if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Corporation. The contributions are required to be recorded at their fair value.

Volunteers provide various services that are not recognized as contributions in the financial statements since the recognition criteria under the authoritative guidance were not met. Approximately 35,600 and 34,500 hours in 2019 and 2018, respectively, were contributed to the Corporation for these services.

Benevolent Care

The Corporation provides services to residents who meet certain criteria at amounts less than its cost of providing care. The Corporation maintains records to identify and monitor the level of benevolent care it provides. The costs associated with the benevolent care services provided to residents include both direct costs and estimated indirect costs, as reported by management on the Corporation's internal financial statements. The level of benevolent care provided by the Corporation, which represents the difference between the estimated cost of providing care and the payments received for services rendered, was approximately \$1,462,000 and \$1,537,000 in 2019 and 2018, respectively. The Corporation received contributions restricted for benevolent care of \$685,586 and \$650,073 in 2019 and 2018, respectively. These amounts include contributions of charitable gift annuities.

Medical Assistance Reimbursement and Cost of Providing Care

LHRC provides nursing care to Medical Assistance program beneficiaries that are reimbursed at amounts less than its cost of providing care. LHRC maintains records to identify and monitor the difference between the cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered. The costs associated with the services provided to Medical Assistance program beneficiaries include both direct costs and estimated indirect costs, as reported by management on LHRC's internal financial statements. The difference between the estimated cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered was approximately \$2,233,000 in 2019 and \$2,006,000 in 2018.

Income Taxes

Landis Communities, LHRC, HCBS, LQL, WMH and WMH, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. LHRC, HCBS, LQL, WMH, and WMH, Inc. are exempt from federal income taxes on their exempt income under Section 509(a)(2) of the Internal Revenue Code and Landis Communities is exempt under Section 509(a)(3) of the Internal Revenue Code. QLC is a taxable nonprofit corporation subject to federal income taxes.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Measure of Operations

The Corporation's loss from operations includes all operating revenues and expenses that are an integral part of its program and supporting activities. Non-operating activities are limited to resources that generate return from investments and other activities considered to be more unusual and nonrecurring in nature.

Performance Indicator

The consolidated statement of operations includes the determination of revenues (less than) in excess of expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues (less than) in excess of expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standard, Revenue Recognition

In 2019, the Corporation adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing a cumulative effect of the adoption change as an adjustment to beginning net assets without donor restrictions. The adoption of ASU No. 2014-09 did not have an effect on the performance indicator or changes in net assets. The consolidated financial statements include additional disclosures as required by ASU No. 2014-09.

New Accounting Standard, Not-for-Profit Financial Statement Presentation

In 2019, the Corporation adopted FASB's ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all prior periods presented, except for the disclosures around liquidity and the availability of resources and functional expenses. These disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

- The consolidated financial statements include a disclosure about liquidity and availability of resources as of June 30, 2019 (Note 2);
- The functional expense disclosure for 2019 includes expenses reported both by nature and function (Note 16).

New Accounting Standard, Restricted Cash

During November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. ASU No. 2016-18 is effective for fiscal year June 30, 2020. The Corporation is currently assessing the effect that ASU No. 2016-18 will have on its cash flows.

New Accounting Standard, Leases

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for fiscal year June 30, 2020. The Corporation is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

Reclassifications

Certain 2018 amounts were reclassified to conform to the 2019 presentation.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through October 7, 2019, the date the consolidated financial statements were issued.

2. Liquidity and Availability of Resources

The following table reflects the Corporation's financial assets available for general expenditure within one year of the June 30, 2019 consolidated balance sheet date.

Cash and cash equivalents	\$ 2,770,814
Accounts receivable:	
Residents, net	2,826,821
Entrance fees	1,390,800
Other	87,678
Resident escrow deposits, less deposits for capital additions	8,039,687
Investments	<u>25,160,650</u>
Total	<u>\$ 40,276,450</u>

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Investments included in the table above exclude net assets with donor restrictions in excess of assets whose use is limited donor-restricted investments of \$1,540,103. The Corporation has board-designated assets whose use is limited of \$3,145,709 at June 30, 2019 which are excluded from the table above. Although the Corporation does not intend to utilize these funds for general expenditure as part of its annual budget and approval process, amounts designated could be made available as necessary.

The Corporation designated a portion of its investments "reserved" to comply with the requirements of Act 82 and thus they are not included in the schedule above. Although the Corporation does not intend to utilize the reserves for general expenditures as part of its annual budget and approval process, amounts designated as Act 82 reserves could be made available as necessary. The reserves are separately classified in the consolidated balance sheets and do not have third party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

As part of the Corporation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. These funds may be drawn upon, if necessary, to meet unexpected liquidity needs.

3. Net Resident Service Revenues

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

- **Medical Assistance:** Nursing services provided to Medical Assistance program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments.

The Department of Human Services ("DHS") in the Commonwealth of Pennsylvania is in the process of implementing its mandatory Medical Assistance managed care program, Community HealthChoices ("CHC"). As indicated above, the current Medical Assistance reimbursement system is a fee-for-service ("FFS") system. CHC eliminates the FFS payment methodology. The primary goals of CHC is better coordinated health care coverage and improved access to medical care. The services for which Medical Assistance program beneficiaries are eligible will not change under CHC.

CHC becomes effective for LHRC on January 1, 2020. Under CHC, each Medical Assistance program beneficiary will be able to choose a managed care organization ("MCO"). DHS has provided information to nursing facilities indicating the initial rate paid by the MCOs will be subject to a "floor" equal to the average of each facility's prior four quarters Medical Assistance rates. In addition, MCOs and nursing facilities may agree to higher or lower negotiated rates under an alternative payment methodology agreement. The rate "floors" are expected to be in effect for 36 months.

- **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. LHRC is reimbursed for therapy services provided to Medicare Part B beneficiaries at the lesser of a published fee schedule or actual charges. As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on LHRC's clinical assessment of its residents. LHRC 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 Medical Assistance and Medicare programs.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Corporation disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenues consist of the following for the years ended June 30:

	2019			
	Personal Care	Independent Living	Skilled Nursing	Total
Self-pay	\$ 9,391,508	\$ 8,551,552	\$ 9,699,497	\$ 27,642,557
Medicare and other	-	-	1,445,503	1,445,503
Medicaid	-	-	3,127,752	3,127,752
Amortization of nonrefundable entrance fees	-	5,404,286	-	5,404,286
Subtotal	<u>\$ 9,391,508</u>	<u>13,955,838</u>	<u>\$ 14,272,752</u>	37,620,098
Ancillary service revenues				1,029,047
Other resident service revenues				<u>3,421,764</u>
Net resident service revenues				<u>\$ 42,070,909</u>
	2018			
	Personal Care	Independent Living	Skilled Nursing	Total
Self-pay	\$ 8,553,692	\$ 7,889,283	\$ 9,584,943	\$ 26,027,918
Medicare and other	-	-	2,863,963	2,863,963
Medicaid	-	-	1,501,756	1,501,756
Amortization of nonrefundable entrance fees	-	4,550,020	-	4,550,020
Subtotal	8,553,692	12,439,303	13,950,662	34,943,657
Ancillary service revenues				1,067,107
Other resident service revenues				<u>2,977,004</u>
Net resident service revenues				<u>\$ 38,987,768</u>

4. Fair Value Measures, Investments, Assets Whose Use is Limited, and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

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The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Corporation for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present financial instruments measured at fair value by caption on the consolidated balance sheets as of June 30, 2019 and 2018:

	2019				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Assets:					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 23,258,834	\$ 23,258,834	\$ 23,258,834	\$ -	\$ -
Mutual funds, equity:					
International	4,372,926	4,372,926	4,372,926	-	-
Large cap	6,182,256	6,182,256	6,182,256	-	-
Small cap	1,244,415	1,244,415	1,244,415	-	-
Tactical	720,635	720,635	720,635	-	-
Mid cap	1,233,334	1,233,334	1,233,334	-	-
Commodities	472,820	472,820	472,820	-	-
Real estate	936,160	936,160	936,160	-	-
Mutual funds, fixed income:					
Intermediate term	3,859,612	3,859,612	3,859,612	-	-
Short term	959,964	959,964	959,964	-	-
Other	135,446	135,446	135,446	-	-
Marketable equity securities:					
Financial	1,357,143	1,357,143	1,357,143	-	-
Healthcare	950,918	950,918	950,918	-	-
Information Technology	1,281,432	1,281,432	1,281,432	-	-
International	618,658	618,658	618,658	-	-
Other	702,220	702,220	702,220	-	-
Total	<u>\$ 48,286,773</u>	<u>\$ 48,286,773</u>	<u>\$ 48,286,773</u>	<u>\$ -</u>	<u>\$ -</u>
Split interest agreements	<u>\$ 367,199</u>	<u>\$ 367,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367,199</u>
Disclosed at Fair Value					
Cash and cash equivalents	<u>\$ 2,770,814</u>	<u>\$ 2,770,814</u>	<u>\$ 2,770,814</u>	<u>\$ -</u>	<u>\$ -</u>
Pledges receivable	<u>\$ 333,169</u>	<u>\$ 333,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 333,169</u>
Long-term debt	<u>\$ 104,998,834</u>	<u>\$ 109,373,328</u>	<u>\$ -</u>	<u>\$ 109,373,328</u>	<u>\$ -</u>

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Assets:					
Investments and assets whose use is limited:					
Cash and cash equivalents	\$ 16,225,535	\$ 16,225,535	\$ 16,225,535	\$ -	\$ -
Mutual funds, equity:					
International	4,596,096	4,596,096	4,596,096	-	-
Large cap	5,922,959	5,922,959	5,922,959	-	-
Small cap	961,134	961,134	961,134	-	-
Tactical	460,315	460,315	460,315	-	-
Mid cap	1,053,913	1,053,913	1,053,913	-	-
Commodities	467,799	467,799	467,799	-	-
Real estate	730,281	730,281	730,281	-	-
Mutual funds, fixed income:					
Intermediate term	5,115,131	5,115,131	5,115,131	-	-
Other	15,023	15,023	15,023	-	-
Marketable equity securities:					
Financial	1,150,077	1,150,077	1,150,077	-	-
Healthcare	972,938	972,938	972,938	-	-
Information Technology	906,638	906,638	906,638	-	-
International	694,136	694,136	694,136	-	-
Other	619,284	619,284	619,284	-	-
Total	\$ 39,891,259	\$ 39,891,259	\$ 79,782,518	\$ -	\$ -
Split interest agreements	\$ 419,670	\$ 419,670	\$ -	\$ -	\$ 419,670
Disclosed at Fair Value					
Cash and cash equivalents	\$ 2,998,580	\$ 2,998,580	\$ 2,998,580	\$ -	\$ -
Pledges receivable	\$ 526,511	\$ 526,511	\$ -	\$ -	\$ 526,511
Long-term debt	\$ 86,220,740	\$ 90,217,261	\$ -	\$ 90,217,261	\$ -

Investments and assets whose use is limited is combined on the above tables and are presented on the consolidated balance sheets as follows:

	2019	2018
Investments	\$ 25,883,840	\$ 22,976,777
Assets whose use is limited:		
Board-designated investments	3,145,709	3,027,681
Statutory minimum liquid reserve	3,995,031	2,927,560
Donor-restricted investments	1,540,103	1,494,889
Debt service funds, current	2,121,990	2,068,915
Debt service reserve fund	3,133,813	3,133,813
Resident escrow deposits	8,466,287	4,261,624
Total	\$ 48,286,773	\$ 39,891,259

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Pennsylvania Act 82 Reserve

In compliance with Act 82, the Corporation "reserved" a portion of assets whose use is limited to meet the requirements of Act 82. The "reserved" funds amounted to approximately \$3,995,031 at June 30, 2019 and \$2,927,560 at June 30, 2018. The reserve at June 30, 2019 was calculated as follows:

Budgeted resident living operating expenses for the year ending June 30, 2020	\$ 15,069,861
Less budgeted resident living depreciation and amortization expense	<u>5,812,907</u>
Expenses subject to minimum liquid reserve requirement	9,256,954
Statutory requirement	<u>10 %</u>
Statutory minimum liquid reserve requirement	<u>\$ 925,695 (a)</u>
Budgeted debt service requirements for the year ending June 30, 2020:	
Principal	\$ 2,116,620
Interest	<u>4,029,582</u>
Total budgeted debt service requirements	6,146,202
Percentage of units subject to entrance fee agreements	<u>65 %</u>
Statutory minimum liquid reserve requirement	<u>3,995,031 (b)</u>
Greater of (a) or (b) above	<u>\$ 3,995,031</u>

Valuation Methodologies

The carrying amounts of cash and cash equivalents approximate fair value at June 30, 2019 and 2018 due to the short-term nature of these instruments.

Assets whose use is limited are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, mutual funds, and marketable equity securities or estimated using quoted prices for similar securities for split-interest agreements.

The fair value of pledges receivable was determined using the original pledge amount, adjusted by a discount rate that a market participant would demand, and an evaluation for uncollectible pledges.

Long-term debt is valued based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

5. Property and Equipment

Property and equipment is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 898,538	\$ 898,538
Land improvements	10,759,371	11,018,615
Buildings and building improvements	138,547,346	116,378,173
Major-moveable equipment	32,685,032	27,700,394
Furniture and equipment	9,924,528	8,822,419
Total	192,814,815	164,818,139
Less accumulated depreciation	<u>70,474,036</u>	<u>66,569,558</u>
Total	122,340,779	98,248,581
Construction-in-progress	<u>655,592</u>	<u>9,443,500</u>
Property and equipment, net	<u>\$ 122,996,371</u>	<u>\$ 107,692,081</u>

Construction-in-progress at June 30, 2019 and 2018 includes expenditures related to various ongoing capital projects.

6. Line of Credit

LHRC has an \$800,000 unsecured, revolving demand line of credit with a bank which expires on December 31, 2019. The line of credit bears interest at the one-month LIBOR rate plus 2.25 percent per annum (4.68 percent at June 30, 2019). There were no borrowings at June 30, 2019 or 2018.

WMH has a \$25,000 unsecured, revolving demand line of credit with a bank which bears a variable interest rate based on the U.S. Prime Rate (5.50 percent at June 30, 2019). There were no borrowings outstanding at June 30, 2019 or 2018.

7. Long-Term Debt

Series 2015A Bonds

On October 1, 2015, the Corporation formed a new Obligated Group including LHRC and LAH as co-obligors and the Lancaster County Hospital Authority issued \$49,765,000 Series A of 2015 Health Center Revenue Refunding Bonds (the "2015A Bonds") on behalf of the Obligated Group. The 2015A Bonds are tax-exempt and consist of \$4,605,000 Serial Bonds maturing July 1, 2016 to July 1, 2020 at 2.00 percent to 3.00 percent, \$5,450,000 10 year term bonds maturing July 1, 2021 to July 1, 2025 at 3.80 percent, \$6,665,000 15 year term bonds maturing July 1, 2026 to July 1, 2030 at 4.25 percent, \$8,400,000 20 year term bonds maturing July 1, 2031 to 2035 at 5.00 percent, and \$24,645,000 30 year term bonds maturing July 1, 2036 to July 1, 2045 at 5.00 percent.

As of July 1, 2018, Landis at Home was withdrawn from the Obligated Group leaving LHRC as the sole Obligor.

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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Series 2015B Bonds

On November 24, 2015, the Lancaster County Hospital Authority issued, on behalf of the Obligated Group, Series B of 2015 Bonds (the "2015B Bonds") in the maximum principal amount of \$8,600,000 to fund an expansion project. The 2015B Bonds are tax-exempt bank direct placement bonds with a 25 year amortization inclusive of an initial 2 year interest only period during construction. Interest only is payable during the construction period in monthly installments at a floating tax-exempt rate of 78 percent of the 30 day LIBOR, plus 140 basis points (3.30 percent at June 30, 2019). Beginning January 2018, principal and interest are due in varying monthly installments through November 2042.

Series 2015C Bonds

On January 28, 2016, the Lancaster County Hospital Authority issued, on behalf of the Obligated Group, Series C of 2015 Bonds (the "2015C Bonds") in the maximum principal amount of \$28,400,000 to fund the wellness center project. The 2015C Bonds are tax-exempt bank direct placement bonds with a 25 year amortization inclusive of an initial 2 year interest only period during construction. Interest only is payable during the construction period in monthly installments at a floating tax-exempt rate of 78 percent of the 30 day LIBOR, plus 140 basis points (3.30 percent at June 30, 2019). Beginning February 2019, principal and interest are due in varying monthly installments through January 2043.

Series 2017A Bonds

On November 29, 2017, the Lancaster County Hospital Authority issued, on behalf of the Obligated Group, Series A of 2017 Bonds (the "2017A Bonds") in the maximum principal amount of \$10,000,000 to fund construction of the Crossing Apartments. The 2017A Bonds are tax-exempt bank direct placement bonds with interest only payable monthly through November 2020, at which point, the outstanding principal balance is due. The interest rate on the 2017A Bonds is a floating tax-exempt rate of 72 percent of the 30 day LIBOR, plus 195 basis points (3.75 percent at June 30, 2019). In July 2019, the Corporation advance refunded the 2017A Bonds with excess operating reserves.

Series 2017B Bonds

On November 29, 2017, the Lancaster County Hospital Authority issued, on behalf of the Obligated Group, Series B of 2017 Bonds (the "2017B Bonds") in the maximum principal amount of \$15,100,000 to fund construction of the Crossing Apartments. The 2017B Bonds are tax-exempt bank direct placement bonds with interest only payable monthly during the 24 month construction period. The interest rate during the construction period is a floating tax-exempt rate of 72 percent of the 30 day LIBOR, plus 245 basis points (4.25 percent at June 30, 2019). Beginning December 2019, payments of principal and interest at a floating tax-exempt rate of 72 percent of the 30 day LIBOR, plus 170 basis points, will be due monthly.

Interest

Interest expense on all debt totaled \$3,776,257 and \$2,489,415 (including amortization of deferred financing costs) during 2019 and 2018, respectively, net of \$291,102 and \$437,865 capitalized during 2019 and 2018, respectively.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Security and Covenants

The 2015A, 2015B, 2015C, 2017A and 2017B Bonds are primarily secured by a mortgage lien on, and security interest in, the Obligated Group's property and equipment and a security interest in the Obligated Group's revenues, as defined in the applicable agreements.

The 2015A, 2015B, 2015C, 2017A and 2017B Bonds also require the Obligated Group to meet certain financial ratios.

Long-Term Debt Summary

Long-term debt is as follows:

	<u>2019</u>	<u>2018</u>
2015A Bonds	\$ 47,080,000	\$ 47,995,000
2015B Bonds	8,296,697	8,486,949
2015C Bonds	28,077,604	27,223,416
2017A Bonds	9,993,358	4,041,778
2017B Bonds	13,016,758	-
Total	106,464,417	87,747,143
Less current maturities	2,116,620	1,463,000
Less unamortized deferred financing costs	1,465,583	1,526,403
Long-term debt	<u>\$ 102,882,214</u>	<u>\$ 84,757,740</u>

Scheduled principal repayments on long-term debt are as follows:

Years ending June 30:	
2020	\$ 2,116,620
2021	12,356,245
2022	2,446,798
2023	2,532,374
2024	2,627,549
Thereafter	<u>84,384,831</u>
Total	<u>\$ 106,464,417</u>

8. Retirement Plan

Landis Communities sponsors a defined contribution retirement plan. Contributions to the plan were \$670,047 in 2019 and \$694,432 in 2018.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

9. Net Assets

Net asset presentation in the accompanying consolidated balance sheets with expanded disclosure for the amount and purpose of restrictions or designations is as follows:

	<u>2019</u>	<u>2018</u>
Net Assets		
Without donor restrictions:		
Operating reserve	\$ 20,528,588	\$ 21,069,744
Board designated, endowment funds	<u>2,946,541</u>	<u>2,810,124</u>
Total net assets without donor restrictions	<u>23,475,129</u>	<u>23,879,868</u>
With donor restrictions:		
Purpose restricted		
Resident Assistance Program	171,950	159,105
Learning/Wellness Center Project	450,077	748,810
Endowment Funds Appreciation	227,237	173,162
Other	87,225	92,369
Restricted in perpetuity		
Endowment Funds	<u>1,326,804</u>	<u>1,305,841</u>
Total net assets with donor restrictions	<u>2,263,293</u>	<u>2,479,287</u>
Total net assets	<u>\$ 25,738,422</u>	<u>\$ 26,359,155</u>

10. Endowment Funds

LHRC's endowment funds consist of two funds established for a variety of purposes. The endowment includes both board-designated and donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence of or absence of donor-imposed restrictions.

LHRC interprets relevant Pennsylvania state law governing the net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result, LHRC classifies as net assets with donor restrictions (a) the original value of all gifts donated as permanent endowments; (b) the original value of subsequent gifts to the permanent endowments; and, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in net assets with donor restrictions is classified as either net assets with or without restrictions, depending upon the donor designation.

LHRC has adopted investment and spending policies for its endowment assets that attempt to preserve the capital and achieve sufficient total return to fund the annual expenditures of the endowments in accordance with donor restrictions. To achieve LHRC's overall goals, the primary objectives of the investment policy are to (a) preserve and increase the real value of LHRC's assets, (b) provide a stable source of income for LHRC's programs in accordance with LHRC's spending policy, (c) assure that LHRC's bond covenants are satisfied, and (d) invest LHRC's investment funds in a manner consistent with the values formed by LHRC's Anabaptist beliefs and heritage.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

To satisfy its long-term rate of return objectives, LHRC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). LHRC targets a diversified asset allocation in order to achieve its long-term return objectives with prudent risk constraints.

LHRC has a policy of appropriating for distribution each year such amounts as are stipulated by the donors upon establishment of the endowment funds. In accordance with the original gifts, each of the endowment funds allows LHRC to appropriate the current yield for distribution each year. LHRC excludes realized capital gains related to the endowment funds from this calculation. LHRC expects the current spending policy to allow its endowment funds to preserve the fair value of the original gifts, which is consistent with LHRC's objective to preserve the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. LHRC's spending policy does not require a minimum payout from its endowment income on an annual basis.

Donor-restricted net assets totaling \$1,326,805 and \$1,305,841 at June 30, 2019 and 2018, respectively, are classified as net assets with donor restrictions in the consolidated balance sheets. Net appreciation of donor-restricted endowment funds is classified as net assets with donor restrictions in the consolidated balance sheets until used in accordance with the donors intended purpose. Board-designated endowment funds totaling \$2,946,540 and \$2,810,124 at June 30, 2019 and 2018, respectively, are classified as net assets without donor restrictions in the consolidated balance sheets.

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are composed of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,810,124	\$ 1,479,003	\$ 4,289,127
Investment return, (including interest and dividends and realized and unrealized gains and losses)	165,569	84,412	249,981
Contributions	29,041	27,443	56,484
Change in value, split interest agreements	-	(6,708)	(6,708)
Net assets released from restrictions	-	(30,337)	(30,337)
Other	(58,193)	228	(57,965)
Endowment net assets, end of year	<u>\$ 2,946,541</u>	<u>\$ 1,554,041</u>	<u>\$ 4,500,582</u>
	2018		
Endowment net assets, beginning of year	\$ 2,641,509	\$ 1,426,840	\$ 4,068,349
Investment return, (including interest and dividends and realized and unrealized gains and losses)	202,368	60,783	263,151
Contributions	49,931	35,867	85,798
Change in value, split interest agreements	-	(7,522)	(7,522)
Net assets released from restrictions	-	(37,465)	(37,465)
Other	(83,684)	500	(83,184)
Endowment net assets, end of year	<u>\$ 2,810,124</u>	<u>\$ 1,479,003</u>	<u>\$ 4,289,127</u>

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

11. Insurance

Professional and General Liability Insurance

The Corporation maintains professional and general liability insurance coverage on a claims-made basis through Peace Church Risk Retention Group ("PCRRG"), a reciprocal insurance company. Other than for premiums paid under these policies, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed the insurance coverage of the Corporation or will have a material adverse effect on the consolidated financial statements.

Employee Health Insurance

Landis Communities self-insures certain of its health insurance benefits. Landis Communities holds a stop-loss policy of \$100,000 per eligible employee that limits the maximum liability for benefits payable under such claims. Self-insurance costs incurred under this program were \$3,599,847 and \$3,105,747 in 2019 and 2018, respectively. On the consolidated balance sheets, other accrued expenses includes \$374,241 and \$329,190 at June 30, 2019 and 2018, respectively, for reserves for anticipated health insurance costs. Management believes no instances occurred or will be asserted that will exceed the insurance coverage stated in the policies.

12. Contingencies

Real Estate Taxes

As not-for-profit Corporations in the Commonwealth of Pennsylvania, LHRC and WMH are organizations which qualify for exemption from real property taxes relating to portions of their properties. However, a number of cities, municipalities, and school districts in the Commonwealth of Pennsylvania have challenged and continue to challenge not-for-profit corporations' exemption from real estate taxes. The possible future financial effects of this matter on LHRC and WMH, if any, are not determinable.

Senior Living Services Industry

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 healthcare 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 effects of this matter on the Corporation, if any, are not determinable.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

13. Lease Commitments

In January 2012, QLC entered into an operating lease agreement for three building floors along with parking and other site improvements in Lancaster, Pennsylvania. The landlord has converted the upper three floors of the building to thirty-six residential apartments that include resident common areas and community rooms on each floor. The lease will expire ten years from the Commencement Date, as defined in the lease agreement dated June 15, 2013. Following expiration of the initial term, QLC has the option to renew the lease for two successive five-year renewal terms.

Beginning on the Commencement Date, QLC will pay the landlord base rent of \$378,500 for the first year of the lease term. The base rent will be increased on each anniversary date of the Commencement Date by 1.75 percent of the annual base rent payable immediately prior to that anniversary. LHRC has guaranteed the payment of the base rent, additional rent, and any other charges in the event that QLC cannot pay.

Additionally, effective June 15, 2013, QLC entered into a lease for office and commercial space on the first floor of the same building, by running and expiring concurrently with the initial lease term, and may be extended with the lease above. The initial annual base rent is \$16,344, and increases 2.5 percent annually. LHRC has guaranteed the payment of the base rent, additional rent, and any other charges in the event that QLC cannot pay.

Rent expense totaled approximately \$421,000 and \$420,000 in 2019 and 2018, respectively.

Future minimum lease payments under the operating leases are as follows:

2020	\$	439,299
2021		447,128
2022		455,099
2023		443,477
		<u>443,477</u>
	\$	<u>1,785,003</u>

Deferred rent of \$114,173 and \$125,032, at June 30, 2019 and 2018, respectively, is included in other accrued expenses on the consolidated balance sheets. These amounts represent the difference between the rents actually paid under the building lease and the amount recognized as expense in accordance with accounting principles generally accepted in the United States of America.

14. Concentrations of Credit Risk

The Corporation grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements primarily with Medical Assistance and Medicare.

The Corporation maintains cash accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

15. Functional Expenses

The Corporation's primary program service relates to providing housing, health care, and other related services to residents within its geographic location. Expenses by functional classification consist of the following in 2019:

	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 15,594,570	\$ 3,351,731	\$ 163,619	\$ 19,109,920
Employee benefits and payroll taxes	5,306,198	983,014	44,408	6,333,620
Professional fees and purchased services	1,687,753	871,659	4	2,559,416
Nursing home assessment	-	254,064	-	254,064
Depreciation	6,368,575	100,807	-	6,469,382
Interest	3,743,214	33,043	-	3,776,257
Supplies and other expenses	<u>4,951,463</u>	<u>1,983,877</u>	<u>54,071</u>	<u>6,989,411</u>
Total expenses	<u>\$ 37,651,773</u>	<u>\$ 7,578,195</u>	<u>\$ 262,102</u>	<u>\$ 45,492,070</u>

In 2018, the Corporation incurred approximately \$34,377,000 of expenses related to resident services, \$7,129,000 of expenses related to general and administrative, and \$262,000 related to fundraising.

Certain categories of expenses are attributable to more than one program or supporting function. Expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage, time, and effort.

Landis Communities and Affiliates

Consolidating Schedule, Balance Sheet
June 30, 2019

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Quality Living Choices	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2019
Assets							
Current Assets							
Cash and cash equivalents	\$ 1,427,939	\$ 85,834	\$ 1,097,293	\$ 64,330	\$ 95,418	\$ -	\$ 2,770,814
Assets whose use is limited, debt service funds	2,121,990	-	-	-	-	-	2,121,990
Accounts receivable:							
Residents, net	2,746,019	70,605	2,205	74	7,918	-	2,826,821
Advance fees	1,390,800	-	-	-	-	-	1,390,800
Other	5,710	81,968	-	-	-	-	87,678
Due from affiliates	1,177,808	795	331,184	-	-	(1,509,787)	-
Prepaid expenses and other current assets	428,433	-	27,750	37,341	10,513	-	504,037
Total current assets	9,298,699	239,202	1,458,432	101,745	113,849	(1,509,787)	9,702,140
Assets Whose Use Is Limited							
Board-designated investments	3,004,733	-	-	-	140,976	-	3,145,709
Statutory minimum liquid reserve	3,995,031	-	-	-	-	-	3,995,031
Donor-restricted investments	1,540,103	-	-	-	-	-	1,540,103
Debt service reserve fund	3,133,813	-	-	-	-	-	3,133,813
Resident escrow deposits	8,466,287	-	-	-	-	-	8,466,287
Total assets whose use is limited	20,139,967	-	-	-	140,976	-	20,280,943
Investments	25,883,840	-	-	-	-	-	25,883,840
Investment in Limited Partnership	-	-	-	-	629,967	-	629,967
Property and Equipment, Net	120,231,434	6,260	63,790	73,568	2,621,319	-	122,996,371
Pledges Receivable, Net	333,169	-	-	-	-	-	333,169
Split-Interest Agreements	367,199	-	-	-	-	-	367,199
Investment in Welsh Mountain Home	-	-	2,356,751	-	-	(2,356,751)	-
Other Assets	164,267	-	-	-	-	-	164,267
Total assets	\$ 176,418,575	\$ 245,462	\$ 3,878,973	\$ 175,313	\$ 3,506,111	\$ (3,866,538)	\$ 180,357,896

Landis Communities and Affiliates

Consolidating Schedule, Balance Sheet

June 30, 2019

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Quality Living Choices	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2019
Liabilities and Net Assets (Deficit)							
Current Liabilities							
Current maturities of long-term debt	\$ 2,116,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,116,620
Accounts payable:							
Trade	923,808	9,304	89,770	4,961	20,660	-	1,048,503
Due to affiliate	331,978	549,709	31,555	521,277	3,831	(1,438,350)	-
Capital related	1,373,446	-	2,491	-	18,612	-	1,394,549
Accrued expenses:							
Salaries and wages	315,158	24,181	58,414	-	19,161	(24,181)	392,733
Paid time off	591,632	42,179	176,641	-	16,507	(42,179)	784,780
Interest	1,100,106	-	-	-	-	-	1,100,106
Other	767,303	5,442	118,617	117,425	31,415	(5,077)	1,035,125
Total current liabilities	7,520,051	630,815	477,488	643,663	110,186	(1,509,787)	7,872,416
Long-Term Debt	102,882,214	-	-	-	-	-	102,882,214
Deposits for Capital Additions	426,600	-	-	-	-	-	426,600
Refundable Entrance Fees and Deposits	637,601	-	-	55,626	-	-	693,227
Deferred Revenues from Non-Refundable Entrance Fees	42,745,017	-	-	-	-	-	42,745,017
Total liabilities	154,211,483	630,815	477,488	699,289	110,186	(1,509,787)	154,619,474
Net Assets (Deficit)							
Without donor restrictions	20,001,484	(443,038)	3,401,485	(523,976)	3,395,925	(2,356,751)	23,475,129
With donor restrictions	2,205,608	57,685	-	-	-	-	2,263,293
Total net assets (deficit)	22,207,092	(385,353)	3,401,485	(523,976)	3,395,925	(2,356,751)	25,738,422
Total liabilities and net assets (deficit)	\$ 176,418,575	\$ 245,462	\$ 3,878,973	\$ 175,313	\$ 3,506,111	\$ (3,866,538)	\$ 180,357,896

Landis Communities and Affiliates

Consolidating Schedule, Operations and Changes in Net Assets (Deficit)

Year Ended June 30, 2019

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Quality Living Choices	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2019
Revenues Without Donor Restrictions							
Resident service revenues:							
Nursing	\$ 14,272,752	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,272,752
Personal care	8,322,362	-	-	-	1,069,146	-	9,391,508
Residential living:							-
Monthly fees	8,551,552	-	-	-	-	-	8,551,552
Amortization of entrance fees	5,404,286	-	-	-	-	-	5,404,286
Ancillary service revenues	1,029,047	-	-	-	-	-	1,029,047
Other resident service revenues	1,081,870	1,731,721	-	624,618	2,266	(18,711)	3,421,764
Net resident service revenues	38,661,869	1,731,721	-	624,618	1,071,412	(18,711)	42,070,909
Other revenues	2,690,088	209,382	3,715,552	2,417	48,012	(5,819,139)	846,312
Donor-restricted contributions used primarily for benevolent care	757,885	71,026	-	-	1,500	-	830,411
Total revenues without donor restrictions	42,109,842	2,012,129	3,715,552	627,035	1,120,924	(5,837,850)	43,747,632
Expenses							
Resident services	14,197,584	1,925,227	-	-	384,263	(1,971,059)	14,536,015
General and administrative	6,244,311	90,082	4,301,748	529,932	407,165	(3,866,791)	7,706,447
Depreciation	6,265,438	106	28,726	17,258	157,854	-	6,469,382
Plant operations	4,609,707	-	-	-	160,689	-	4,770,396
Dining services	4,603,003	-	-	-	214,692	-	4,817,695
Housekeeping, laundry, and campus services	1,876,717	-	-	-	55,448	-	1,932,165
Outcome management, pastoral services, and life enrichment	1,481,619	-	-	-	2,094	-	1,483,713
Interest	3,776,257	-	-	26,290	-	(26,290)	3,776,257
Total expenses	43,054,636	2,015,415	4,330,474	573,480	1,382,205	(5,864,140)	45,492,070
Operating (loss) income	(944,794)	(3,286)	(614,922)	53,555	(261,281)	26,290	(1,744,438)

Landis Communities and Affiliates

Consolidating Schedule, Operations and Changes in Net Assets (Deficit)

Year Ended June 30, 2019

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Quality Living Choices	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2019
Other Income (Loss)							
Interest and dividend income, net	\$ 714,323	\$ -	\$ -	\$ -	\$ 3,061	\$ (26,290)	\$ 691,094
Net realized gain on sales of investments	851,264	-	-	-	(8)	-	851,256
Net unrealized (loss) gain on investments	(552,879)	-	-	-	3,313	-	(549,566)
Contributions and bequests	29,041	122	16,305	-	130,669	-	176,137
Loss on disposal of property and equipment	(88,470)	-	(516)	(639)	(43,818)	-	(133,443)
Total other income (loss), net	<u>953,279</u>	<u>122</u>	<u>15,789</u>	<u>(639)</u>	<u>93,217</u>	<u>(26,290)</u>	<u>1,035,478</u>
Revenues (Less than) in Excess of Expenses	8,485	(3,164)	(599,133)	52,916	(168,064)	-	(708,960)
Donor-Restricted Contributions Used for Purchase of Property and Equipment	302,102	-	-	-	2,119	-	304,221
Transfer (To) From Affiliate	<u>(530,497)</u>	<u>-</u>	<u>530,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets (deficit) without donor restrictions	<u>(219,910)</u>	<u>(3,164)</u>	<u>(68,636)</u>	<u>52,916</u>	<u>(165,945)</u>	<u>-</u>	<u>(404,739)</u>
Net Assets With Donor Restrictions							
Contributions	715,746	128,711	-	-	3,619	-	848,076
Interest and dividend income	30,433	-	-	-	-	-	30,433
Net realized gain on sales of investments	54,742	-	-	-	-	-	54,742
Net unrealized loss on investments	(666)	-	-	-	-	-	(666)
Change in value, split-interest agreements	(13,947)	-	-	-	-	-	(13,947)
Donor-restricted contributions used for:							
Resident assistance program	(717,230)	-	-	-	-	-	(717,230)
Other	(40,655)	(71,026)	-	-	(1,500)	-	(113,181)
Purchase of property and equipment	(302,102)	-	-	-	(2,119)	-	(304,221)
Change in net assets with donor restrictions	<u>(273,679)</u>	<u>57,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(215,994)</u>
Change in net assets (deficit)	(493,589)	54,521	(68,636)	52,916	(165,945)	-	(620,733)
Net Assets (Deficit), Beginning	<u>22,700,681</u>	<u>(439,874)</u>	<u>3,470,121</u>	<u>(576,892)</u>	<u>3,561,870</u>	<u>(2,356,751)</u>	<u>26,359,155</u>
Net Assets (Deficit), Ending	<u>\$ 22,207,092</u>	<u>\$ (385,353)</u>	<u>\$ 3,401,485</u>	<u>\$ (523,976)</u>	<u>\$ 3,395,925</u>	<u>\$ (2,356,751)</u>	<u>\$ 25,738,422</u>

LANDIS HOMES

EXHIBIT 3 – RESIDENT AGREEMENT

(N/A – see page 7)