

# DISCLOSURE STATEMENT

UNDER PENNSYLVANIA ACT 82

*October 31, 2020*



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.*

## Table of Contents

	Page
Information Summary .....	2
1. Facilities .....	2
2. Licensed Provider .....	2
3. Admissions.....	2
4. Facility Description.....	2
5. Minimum Age for Admission.....	2
6. Affiliates .....	2
7. Current Resident Population .....	3
8. Sample Fees for a One Bedroom Unit for Single or Double Occupancy .....	3
9. Loan Agreements .....	3
Responses to Section 7 of PA Act 82 .....	4
1. Address .....	4
2. Board of Directors.....	4
3. Board Member Information .....	4
4. Affiliation.....	5
5. Facility Description.....	5
6. List of Services .....	6
7. Fees .....	7
8. Reserves .....	7
9. Budgeted Income Statement vs. Actual with the Pro Forma Income Statement .....	8

Attachment I – Resident Fee Schedules

Attachment II - Audited Financial Statement

Attachment III - Resident Continuing Care Agreements with Notice of Right to Terminate the Agreement

RESIDENT DISCLOSURE STATEMENT  
(Section 151.7 of Regulations)

**1) Facilities:**

Landis Homes Retirement Community  
1001 Oregon Road,  
Lititz, PA 17543

**2) Licensed Provider:**

Landis Homes Retirement Community  
1001 Oregon Road,  
Lititz, PA 17543

**3) Admissions:**

Sarah L. Short  
Director of Residency Planning  
Landis Homes  
1001 E. Oregon Road, Lititz, PA 17543  
(717) 381-3549  
sshort@landishomes.org

**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) Affiliation with Other Organizations, Including Religious Organizations:**

Landis Homes is affiliated with Landis Communities, which is a conference related ministry with ties to 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. Neither LMC 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.

**7) Resident Population:**

As of June 30, 2020, there were 678 residents in the residential living area, 90 residents living in personal care, and 89 living in skilled nursing at Landis Homes, for a total of 857 residents.

**8) Sample Fees:**

Sample Fees for a One Bedroom Residential Living Cottage.

		<u>Single</u>	<u>Double</u>
Entrance Fee: \$103,000	Monthly fees:	\$1,073	\$1,271

**9) Loan Agreements:**

The details of Landis Homes loan agreements may be found on pages 21 through 23 of the audited financial statements, which are attached to the back of the disclosure statement.

## **Responses to Section 7 of Pennsylvania Act 82 of June 18, 1984.**

The numbers below correspond to the paragraphs of Section 7(a) which list the requirements for this disclosure statement.

### **1) The Provider:**

Landis Homes, not-for-profit Pennsylvania Corporation  
1001 E. Oregon Road  
Lititz, PA 17543

### **2) Board of Directors:**

No officer, trustee, nor any other person had any equity or beneficial interest in the provider.

Daniel Mast, 1001 E. Oregon Road, Lititz, PA 17543  
Rachel Hess, 1001 E. Oregon Road, Lititz, PA 17543  
Clair Sauder, 1001 E. Oregon Road, Lititz, PA 17543 (term ended Nov. 2020)  
Sandy Harnish, 1001 E. Oregon Road, Lititz, PA 17543 (term ended Nov. 2020)  
Pamela Breneman, 1001 E. Oregon Road, Lititz, PA 17543 (term ended Nov. 2020)  
Bill Davis, 1001 E. Oregon Road, Lititz, PA 17543  
Kenneth Moore, 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  
Sue Shirk, 1001 E. Oregon Road, Lititz, PA 17543 (term ended Nov. 2020)  
Janet Breneman, 1001 E. Oregon Road, Lititz, PA 17543 (term begins Nov. 2020)

### **3) Further Information Concerning Landis Homes as the Provider Agency and its Board of Directors.**

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 Homes:

The Board of Directors consists of individuals that possess a wide variety of experience in the business community, with some members having specific experience in the healthcare and service oriented sectors.

- (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 of the Provider with a Religious Organization**

Landis Homes is affiliated with Landis Communities, which is a conference related ministry with ties to 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. Neither LMC 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 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 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).

## 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:**

See Attachment I for a listing of entrance and monthly fees.

**Rate Changes:**

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.

**Fee Increases:**

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, 2020	\$1,200	\$46	4.0%
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%

**8) Reserves**

A reserve fund in the amount of \$4,288,982 is established as required by Pennsylvania law (Section 9 of Act 1984-82). This amount is the greater of Landis Homes annual debt payments or 10% of budget operating expenditures, with the debt payments comprising the large of the two. The calculation of this reserve is shown on page 20 of the attached consolidated financial statements.



9) **Income Statement – Budget to Actual for 2020 and Pro Forma for 2021**

<b>Landis Homes Income Statement</b>				
	<b>June 30, 2020</b>			<b>June 30, 2021</b>
	<b>Actual</b>	<b>Budgeted</b>	<b>Favorable (Unfavorable) Variance</b>	<b>Budgeted</b>
<b>Operating Revenue</b>				
Net Resident Service Revenue	40,920,875	41,449,338	(528,463)	42,808,710
Other Revenue	3,615,901	2,983,827	632,074	2,840,246
Contributions Used Primarily for Benevolent Care	759,549	800,000	(40,451)	766,499
Total Operating Revenue	45,296,325	45,233,165	63,160	46,415,455
<b>Operating Expenses</b>				
Resident Services	14,014,757	13,625,930	(388,827)	14,726,646
General and Administrative	6,802,398	6,389,409	(412,989)	6,477,668
Depreciation	6,915,920	6,844,048	(71,872)	7,060,067
Plant Operations	5,067,946	5,041,273	(26,673)	5,425,368
Dining Services	4,587,327	4,679,001	91,674	4,826,896
Housekeeping, Laundry, and Campus Services	1,923,613	1,902,559	(21,054)	1,956,898
Outcome Management	1,679,199	1,662,881	(16,318)	1,891,649
Interest	3,736,442	4,090,401	353,959	3,766,468
Total Expenses	44,727,602	44,235,502	(492,100)	46,131,660
Operating Income(Loss)	568,723	997,663	(428,940)	283,795
<b>Non-Operating Income</b>				
Interest and Dividend Income	530,995	547,032	(16,037)	745,225
Realized Gains (Losses) on Investments	483,060	738,282	(255,222)	801,362
Unrealized Gains (Losses) on Investments	648,925	-	648,925	
Unrestricted Contributions	347,085	10,000	337,085	100,000
Loss on Disposal of Property and Equipment	(39,583)		(39,583)	
Loss on Extinguishment of Debt	(107,460)		(107,460)	
Total Non-Operating Income	1,863,022	1,295,314	567,708	1,646,587
Revenue in Excess(Deficit) of Expenses	2,431,745	2,292,977	138,768	1,930,382

### **Notes to the actual to budget presentation for the 2019/2020 year and the 2020/2021 budget.**

The 19/20 financial year was positive for Landis Homes, in spite of COVID related losses. Government funding and grants offset declines in campus occupancy that occurred near the end of the fiscal year and operating revenue approximated budget.

Expenses were greater than budget by almost \$500 thousand in total. This was due in part to extra staffing and supplies because of COVID, shown in general administrative costs. Resident Services expenses were above budget because of decisions to increase staffing in our skilled nursing center. These variances were partially offset by interest expense, which was below budget due to falling interest rates.

Operating income was behind budget by almost \$400 thousand but remained positive for the year.

Non-Operating income was above budget because of strong investment gains and contributions.

In total, Landis Homes exceeded the overall budgeted Revenue in Excess of Expenses by almost \$140 thousand.

The 2020/2021 budget is similar to the previous, with the exception of unrealized gains and losses on investments. Landis does not budget for unrealized gains and losses due to the uncertainty of the investment market. Over a three to five year window, an investment return is expected.

### **Current Year Audit Presentation**

The audited financial statements are included in this disclosure statement as attachment II. Pages 29 through 34 include the balance sheet and income statement for Landis Homes, along with the affiliates.

## Attachment I

### Landis Homes Rate Schedules

## Effective July 2020

<u>Cottages</u>	<u>Range of Advance Fees</u>	<u>Range of Monthly Rates</u>	
		<u>Single</u>	<u>Double</u>
1 Bedroom	\$78,000 - \$103,000	\$974 - \$1,102	\$1,172 - \$1,300
2 Bedroom	\$111,000 - \$230,000	\$1,152 - \$1,648	\$1,350 - \$1,846
2 Bedroom with Sunroom/Family Room	\$155,000 - \$297,000	\$1,421 - \$2,094	\$1,619 - \$2,292

### Hybrid Homes

1 Bedroom	\$144,000 - \$151,000	\$1,396	\$1,594
1 Bedroom with Den	\$214,000	\$1,879	\$2,077
2 Bedroom	\$231,000	\$1,927	\$2,125
2 Bedroom with Den	\$271,000	\$2,180	\$2,378

### Apartments

Studios	\$46,000 - \$93,000	\$842 - \$1,165	\$1,363
1 Bedroom	\$76,000 - \$117,000	\$1,005 - \$1,200	\$1,203 - \$1,398
1 Bedroom with Den	\$133,000 - \$216,000	\$1,359 - \$1,783	\$1,557 - \$1,981
2 Bedroom	\$103,000 - \$255,000	\$1,119 - \$2,038	\$1,317 - \$2,236
2 Bedroom with Den	\$285,000	\$2,192	\$2,390

### Residential Suites

	<u>Daily Rates per Person</u>
Standard	\$100
Large, occupied by two persons	\$89
Large, occupied by single person	\$144
Apartment, occupied by two persons	\$100
Apartment, occupied by single person	\$162

(continued on back)

## Daily Rates per Person Effective July 2020

<u>Personal Care Suites</u>	<u>Base</u>	<u>Intermediate</u>	<u>Enhanced</u>
Standard	\$242	\$262	\$313
Large, occupied by two persons	\$234	\$254	\$305
Large, occupied by single person	\$331	\$351	\$401
Apartment, occupied by two persons	\$242	\$262	\$313
Apartment, occupied by single person	\$345	\$365	\$416

<u>Personal Care Suites, Memory Support</u>	<u>Base</u>	<u>Enhanced</u>
Standard	\$357	\$364
Respite Rates - Additional \$20		

<u>Health Care</u>	<u>Regular</u>	<u>Memory Support</u>
Private Room	\$516	\$519
Private Room with Shared Bath	\$496	\$500

## Adult Day Services

Eden West	\$75.00/Day \$56.25/Half Day
Enhanced Care	\$82.50/Day \$62.00/Half Day

*Landis Homes is not responsible for other sources which may use outdated information.  
Current rate information is available at [www.landishomes.org](http://www.landishomes.org).*

## Attachment II

### Audited Financial Statements

# **Landis Communities and Affiliates**

Consolidated Financial Statements and  
Supplementary Information

June 30, 2020 and 2019

# Landis Communities and Affiliates

---

Table of Contents  
June 30, 2020 and 2019

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
<b>Supplementary Information</b>	
Consolidating Schedule, Balance Sheet	29
Consolidating Schedule, Operations and Changes in Net Assets (Deficit)	31
Consolidating Schedule, Cash Flows	33



## **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, 2020 and 2019, 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 the Corporation as of June 30, 2020 and 2019, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, in 2020, the Corporation retrospectively adopted new accounting guidance on the presentation of amounts generally described as restricted cash and restricted cash equivalents in the consolidated statements of cash flows. Our opinion is not modified with respect to this matter.

## **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, operations and changes in net assets, and cash flows on pages 29 through 34 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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
Wilkes-Barre, Pennsylvania  
October 26, 2020

## Landis Communities and Affiliates

### Consolidated Balance Sheets

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,301,197	\$ 2,770,814
Assets whose use is limited, debt service funds	2,579,141	2,121,990
Accounts receivable:		
Residents, net	2,762,746	2,826,821
Entrance fees	324,700	1,390,800
Other	229,710	87,678
Prepaid expenses and other current assets	<u>536,346</u>	<u>504,037</u>
Total current assets	<u>9,733,840</u>	<u>9,702,140</u>
<b>Assets Whose Use is Limited</b>		
Board-designated investments	3,264,107	3,145,709
Statutory minimum liquid reserve	4,288,982	3,995,031
Donor-restricted investments	1,576,032	1,540,103
Debt service reserve fund	3,133,813	3,133,813
Resident escrow deposits	<u>-</u>	<u>8,466,287</u>
Total assets whose use is limited	12,262,934	20,280,943
<b>Investments</b>	30,387,748	25,883,840
<b>Investment in Limited Partnership</b>	629,959	629,967
<b>Property and Equipment, Net</b>	118,966,817	122,996,371
<b>Pledges Receivable, Net</b>	136,748	333,169
<b>Split-Interest Agreements</b>	320,060	367,199
<b>Other Assets</b>	<u>231,930</u>	<u>164,267</u>
Total assets	<u>\$ 172,670,036</u>	<u>\$ 180,357,896</u>

See notes to consolidated financial statements

## Landis Communities and Affiliates

### Consolidated Balance Sheets

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,691,227	\$ 2,116,620
Accounts payable:		
Trade	795,839	1,048,503
Capital related	263,401	1,394,549
Accrued expenses:		
Salaries and wages	538,203	392,733
Paid time off	878,634	784,780
Interest	1,154,624	1,100,106
Other	1,215,954	1,035,125
	<u>7,537,882</u>	<u>7,872,416</u>
Total current liabilities	7,537,882	7,872,416
<b>Long-Term Debt</b>	92,175,967	102,882,214
<b>Deposits for Capital Additions</b>	-	426,600
<b>Refundable Entrance Fees and Deposits</b>	568,675	693,227
<b>Deferred Revenues From Nonrefundable Entrance Fees</b>	<u>45,235,328</u>	<u>42,745,017</u>
Total liabilities	<u>145,517,852</u>	<u>154,619,474</u>
<b>Net Assets</b>		
Without donor restrictions	24,961,687	23,475,129
With donor restrictions	<u>2,190,497</u>	<u>2,263,293</u>
Total net assets	<u>27,152,184</u>	<u>25,738,422</u>
Total liabilities and net assets	<u>\$ 172,670,036</u>	<u>\$ 180,357,896</u>

See notes to consolidated financial statements

## Landis Communities and Affiliates

### Consolidated Statements of Operations

Years Ended June 30, 2020 and 2019

	2020	2019
<b>Revenues Without Donor Restrictions</b>		
Net resident service revenues	\$ 44,200,480	\$ 42,070,909
Other revenues	1,946,025	846,312
Donor-restricted contributions used primarily for benevolent care	958,676	830,411
Total revenues without donor restrictions	47,105,181	43,747,632
<b>Expenses</b>		
Resident services	14,393,110	14,536,015
General and administrative	8,844,586	7,706,447
Depreciation	7,119,880	6,469,382
Plant operations	5,237,789	4,770,396
Dining services	4,813,745	4,817,695
Housekeeping, laundry and campus services	1,979,962	1,932,165
Outcome management, pastoral services and life enrichment	1,679,974	1,483,713
Interest	3,736,442	3,776,257
Total expenses	47,805,488	45,492,070
Operating loss	(700,307)	(1,744,438)
<b>Other Income (Loss)</b>		
Interest and dividend income	512,749	691,094
Net realized gain on sales of investments	483,052	851,256
Change in net unrealized gains and losses on investments	657,715	(549,566)
Contributions and bequests	517,308	176,137
Loss on disposal or abandonment of property and equipment	(44,226)	(133,443)
Loss on extinguishment of debt	(107,461)	-
Total other income, net	2,019,137	1,035,478
<b>Revenues in Excess of (Less Than) Expenses</b>	1,318,830	(708,960)
<b>Donor-Restricted Contributions Used for Purchase of Property and Equipment</b>	167,728	304,221
Change in net assets without donor restrictions	\$ 1,486,558	\$ (404,739)

See notes to consolidated financial statements

## Landis Communities and Affiliates

Consolidated Statements of Changes in Net Assets  
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Net Assets Without Donor Restrictions</b>		
Change in net assets without donor restrictions	<u>\$ 1,486,558</u>	<u>\$ (404,739)</u>
<b>Net Assets With Donor Restrictions</b>		
Contributions	1,011,177	848,076
Interest and dividend income	23,042	30,433
Net realized gain on sales of investments	18,931	54,742
Change in net unrealized gains and losses on investments	15,231	(666)
Change in value, split-interest agreements	(14,773)	(13,947)
Donor-restricted contributions used for:		
Resident assistance program	(644,759)	(717,230)
Other	(313,917)	(113,181)
Purchase of property and equipment	<u>(167,728)</u>	<u>(304,221)</u>
Change in net assets with donor restrictions	<u>(72,796)</u>	<u>(215,994)</u>
Change in net assets	1,413,762	(620,733)
<b>Net Assets, Beginning</b>	<u>25,738,422</u>	<u>26,359,155</u>
<b>Net Assets, Ending</b>	<u><u>\$ 27,152,184</u></u>	<u><u>\$ 25,738,422</u></u>

See notes to consolidated financial statements

**Landis Communities and Affiliates**

## Consolidated Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,413,762	\$ (620,733)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,119,880	6,469,382
Amortization of deferred financing costs	56,230	60,820
Net realized and unrealized gain and losses on investments	(1,174,929)	(355,766)
Loss on disposal or abandonment of property and equipment	44,226	133,443
Loss on extinguishment of debt	107,461	-
Proceeds from entrance fees and deposits, existing units	5,771,800	5,284,800
Amortization of entrance fees	(6,598,871)	(5,404,286)
Contributions restricted for long-term purposes	(18,215)	(27,443)
Contributions, pledges receivable	(65)	(65)
Change in value, pledges receivable	37,599	(1,152)
Change in split-interest agreements	47,139	52,471
Change in assets and liabilities:		
Accounts receivable	(77,957)	(192,714)
Prepaid expenses and other assets	(99,972)	(190,618)
Accounts payable, trade	(252,664)	384,622
Accrued expenses and other liabilities	474,671	204,016
Net cash provided by operating activities	<u>6,850,095</u>	<u>5,796,777</u>
<b>Cash Flows From Investing Activities</b>		
Net purchases of investments and assets whose use is limited	(3,785,765)	(3,813,664)
Change in value of investment in limited partnership	8	8
Purchase of property and equipment	<u>(4,265,700)</u>	<u>(23,469,159)</u>
Net cash used in investing activities	<u>(8,051,457)</u>	<u>(27,282,815)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of long-term debt	(12,370,208)	(1,427,647)
Proceeds from long-term debt	2,074,877	20,144,921
Proceeds from entrance fees and deposits, new units	4,301,320	7,601,800
Refunds of entrance fees	(468,990)	(1,056,720)
Collections, pledges receivable	158,887	194,559
Contributions restricted for long-term purposes	<u>18,215</u>	<u>27,443</u>
Net cash (used in) provided by financing activities	<u>(6,285,899)</u>	<u>25,484,356</u>
Net change in cash and cash equivalents	(7,487,261)	3,998,318
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, Beginning</b>	<u>16,513,387</u>	<u>12,515,069</u>
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, Ending</b>	<u><u>\$ 9,026,126</u></u>	<u><u>\$ 16,513,387</u></u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid, net of amounts capitalized	<u><u>\$ 3,625,693</u></u>	<u><u>\$ 3,729,162</u></u>
<b>Noncash Investing and Financing Activities</b>		
Accounts payable, capital related	<u><u>\$ 263,401</u></u>	<u><u>\$ 1,394,549</u></u>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 3,301,197	\$ 2,770,814
Cash and cash equivalents included in assets whose use is limited and investments	<u>5,724,929</u>	<u>13,742,573</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u><u>\$ 9,026,126</u></u>	<u><u>\$ 16,513,387</u></u>

See notes to consolidated financial statements

# Landis Communities and Affiliates

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

## 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), 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 (LAH) 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. Quality Living Choices (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 and Restricted Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash, cash equivalents, and restricted cash and cash equivalents includes investments in highly liquid debt instruments purchased with an original maturity of three months or less.



## **Landis Communities and Affiliates**

---

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### **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 the allowance for doubtful collections was \$29,563 as of June 30, 2020. Management determined there was no allowance for doubtful collections necessary as of June 30, 2019 based on their review of individual accounts.

#### **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 in excess of (less than) 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, 2020 and 2019

#### 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 \$56,231 in 2020 and \$60,820 in 2019. Accumulated amortization was \$249,911 and \$200,946 at June 30, 2020 and 2019, 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 \$629,959 and \$629,967 at June 30, 2020 and 2019, respectively, including a change in value of (\$8) during the fiscal years ended June 30, 2020 and 2019.

#### 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, 2020 and 2019, the gross amount of contractual refund obligations under existing Resident Agreements approximated \$25,800,000 and \$24,013,000, 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 nonrefundable 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, 2020 and 2019

#### 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 \$6,598,871 in 2020 and \$5,404,286 in 2019.

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, 2020 and 2019

#### Other Revenues

Other revenues are primarily comprised of amounts received from federal and state funding sources related to the COVID-19 pandemic. The Corporation accounts for this funding in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and accordingly, revenues are recognized when barriers are substantially met.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund (PRF) to provide financial support for senior living and other healthcare providers. The Corporation received \$1,049,707 in 2020 related to this funding. Additionally, the Corporation received \$234,389 of CARES Act funding on July 1, 2020 that was passed through the Pennsylvania State Department of Human Services under Act 24 of 2020, which is included in accounts receivable other on the consolidated balance sheets as of June 30, 2020. The Corporation also received \$30,570 in 2020 from the Office of Aging and Department of Health and Human Services for Adult Day Services. The Corporation also received \$192,810 of additional funding from the PRF, Act 24 and other funding sources subsequent to June 30, 2020. In accordance with the original terms and conditions, the Corporation could apply the funding against lost revenues and eligible expenses. Noncompliance with the terms and conditions could result in repayment of some or all of the support. The Department of Health and Human Services (HHS) has indicated PRF payments are subject to future reporting and audit requirements, and subsequent to June 30, 2020, HHS released updated guidance on the reporting and use of the funds. The substantive changes in the updated guidance are that the Organization needs to apply the funds to eligible expenses before lost revenues, and the reporting period for determination of eligible amounts is set at a calendar year keeping the measurement period open until then. Accordingly, there is a reasonable possibility these changes could result in claw-back or reversal of amounts previously recognized. The Corporation is assessing the impact of the updated guidance on its consolidated financial statements and whether amounts recognized in 2020 could change or become repayable in subsequent periods; however, an estimate of the possible financial effect cannot be made of the date there consolidated financial statements were issued but the Corporation expects the effects to be material if the updated HHS guidance is not changed. In addition, its unknown whether there will be further developments in the regulatory guidance.

In 2020, the Corporation also received \$278,310 in donor-restricted contributions for COVID-19 relief efforts. The Corporation has incurred lost revenues and eligible expenses in accordance with the term and conditions of the PRF and donor restrictions as of June 30, 2020 of which \$963,956 was recognized and included in other revenues in the accompany consolidated statements of operations.

Accrued expenses, other in the accompanying consolidated balance sheets includes deferred income of \$368,366, which the Corporation has determined the recognition criteria has not yet been met as of year-end. The Corporation has recognized the funding received through June 30, 2020 based on lost revenues and expenses incurred in accordance with the terms and conditions of the funding.

#### 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.

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 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 consolidated financial statements since the recognition criteria under the authoritative guidance were not met. Approximately 28,800 and 35,600 hours in 2020 and 2019, 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 \$1,688,000 and \$1,462,000 in 2020 and 2019, respectively. The Corporation received contributions restricted for benevolent care of \$578,881 and \$685,586 in 2020 and 2019, 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 \$2,607,000 in 2020 and \$2,233,000 in 2019.

#### 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.

#### 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. Nonoperating 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 statements of operations includes the determination of revenues in excess of (less than) expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of (less than) 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).

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 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, Restricted Cash

In 2020, the Corporation retrospectively adopted the FASB Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of 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 shown on the statement of cash flows.

The following line items on the consolidated statement of cash flows for the year ended June 30, 2019 were affected by this change in accounting principle:

	As Previously Reported	As Reported Under ASU No. 2016-18	Effect of Change
Net sales of investments and assets whose use is limited	\$ (8,039,748)	\$ (3,813,664)	\$ 4,226,084
Cash, cash equivalents and restricted cash and cash equivalents, beginning	2,998,580	12,515,069	9,516,489

#### New Accounting Standard, Leases

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) (as amended)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to adopt the guidance in ASU No. 2016-02 for its fiscal year ending June 30, 2021. The Corporation is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

#### New Accounting Standard, Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022.

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through October 26, 2020, 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 consolidated balance sheet date June 30:

	2020	2019
Cash and cash equivalents	\$ 3,301,197	\$ 2,770,814
Accounts receivable:		
Residents, net	2,762,746	2,826,821
Entrance fees	324,700	1,390,800
Other	228,610	87,678
Resident escrow deposits, less deposits for capital additions	-	8,039,687
Investments	29,773,283	25,160,650
Total	<u>\$ 36,390,536</u>	<u>\$ 40,276,450</u>

Investments included in the table above exclude net assets with donor restrictions in excess of assets whose use is limited donor-restricted investments of \$1,576,032 and \$1,540,103 as of June 30, 2020 and 2019, respectively. The Corporation has board-designated assets whose use is limited of \$3,264,107 and \$3,145,709 at June 30, 2020 and 2019, respectively, 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 has implemented its mandatory Medical Assistance managed care program, Community HealthChoices (CHC). The primary goals of CHC are to better coordinate health care coverage and improve access to medical care. The services for which Medical Assistance program beneficiaries are eligible did not change under CHC.

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

CHC became effective for LHRC on January 1, 2020. Under CHC, each Medical Assistance program beneficiary is able to choose a managed care organization (MCO). The initial rate paid by the MCOs is subject to a "floor" equal to the average of each 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 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 Medicare program.

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:

	2020			
	Personal Care	Independent Living	Skilled Nursing	Total
Self-pay	\$ 10,037,793	\$ 9,696,092	\$ 8,511,507	\$ 28,245,392
Medicare and other	-	-	1,740,872	1,740,872
Medicaid	-	-	3,551,289	3,551,289
Amortization of nonrefundable entrance fees	-	6,598,871	-	6,598,871
Subtotal	<u>\$ 10,037,793</u>	<u>\$ 16,294,963</u>	<u>\$ 13,803,668</u>	40,136,424
Ancillary service revenues				939,129
Other resident service revenues				<u>3,124,927</u>
Net resident service revenues				<u>\$ 44,200,480</u>



## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

	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>

#### 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.

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.

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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

	2020				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Assets:					
Investments and assets whose use is limited:					
Mutual funds, equity:					
International	\$ 4,009,536	\$ 4,009,536	\$ 4,009,536	\$ -	\$ -
Large cap	10,146,286	10,146,286	10,146,286	-	-
Small cap	679,577	679,577	679,577	-	-
Tactical	663,617	663,617	663,617	-	-
Mid cap	1,366,067	1,366,067	1,366,067	-	-
Real estate	1,048,125	1,048,125	1,048,125	-	-
Mutual funds, fixed income:					
Intermediate term	3,305,939	3,305,939	3,305,939	-	-
Short-term	1,107,955	1,107,955	1,107,955	-	-
Other	146,252	146,252	146,252	-	-
Marketable equity securities:					
Financial	688,736	688,736	688,736	-	-
Healthcare	595,946	595,946	595,946	-	-
Information technology	1,686,020	1,686,020	1,686,020	-	-
Other	1,743,009	1,743,009	1,743,009	-	-
	27,187,065	<u>\$ 27,187,065</u>	<u>\$ 27,187,065</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents	<u>18,042,758</u>				
Total investments and assets whose use is limited	<u>\$ 45,229,823</u>				
Split interest agreements	<u>\$ 320,060</u>	<u>\$ 320,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,060</u>

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

	2019				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Reported at Fair Value</b>					
Assets:					
Investments and assets whose use is limited:					
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	-	-
	25,027,939	<u>\$ 25,027,939</u>	<u>\$ 25,027,939</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents	<u>23,258,834</u>				
Total investments and assets whose use is limited	<u>\$ 48,286,773</u>				
Split interest agreements	<u>\$ 367,199</u>	<u>\$ 367,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367,199</u>

Investments and assets whose use is limited are presented together in the tables above as there are various investment and cash accounts that are allocated between the investments and assets whose use is limited lines on the consolidated balance sheets.

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

	2020	2019
Investments	\$ 30,387,748	\$ 25,883,840
Assets whose use is limited:		
Board-designated investments	3,264,107	3,145,709
Statutory minimum liquid reserve	4,288,982	3,995,031
Donor-restricted investments	1,576,032	1,540,103
Debt service funds, current	2,579,141	2,121,990
Debt service reserve fund	3,133,813	3,133,813
Resident escrow deposits	-	8,466,287
Total	<u>\$ 45,229,823</u>	<u>\$ 48,286,773</u>

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 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 \$4,288,982 at June 30, 2020 and \$3,995,031 at June 30, 2019. The reserve at June 30, 2020 was calculated as follows:

Budgeted resident living operating expenses for the year ending June 30, 2021	\$ 15,514,940
Less budgeted resident living depreciation and amortization expense	<u>(5,820,403)</u>
Expenses subject to minimum liquidation reserve requirement	9,694,537
Statutory requirement	<u>10%</u>
Statutory minimum liquid reserve requirement	<u>\$ 969,454</u>
Budgeted debt service requirements for the year ending June 30, 2021	
Principal	\$ 2,691,227
Interest	<u>3,710,238</u>
Total budgeted debt service requirements	6,401,465
Percentage of units subject to entrance fee agreements	<u>67%</u>
Statutory minimum liquid reserve requirement	<u>4,288,982</u>
Greater of (a) or (b) above	<u>\$ 4,288,982</u>

#### Valuation Methodologies

Investments and assets whose use is limited are valued at fair value based on quoted market prices in active markets for mutual funds and marketable equity securities or estimated using the present value of expected future cash flows for split-interest agreements.

## Landis Communities and Affiliates

Notes to Consolidated Financial Statements  
June 30, 2020 and 2019

### 5. Property and Equipment

Property and equipment is as follows as of June 30:

	2020	2019
Land	\$ 898,538	\$ 898,538
Land improvements	10,889,917	10,759,371
Buildings and building improvements	138,927,100	138,547,346
Major-moveable equipment	33,267,222	32,685,032
Furniture and equipment	10,849,185	9,924,528
Total	194,831,962	192,814,815
Less accumulated depreciation	76,403,421	70,474,036
Total	118,428,541	122,340,779
Construction-in-progress	538,276	655,592
Property and equipment, net	\$ 118,966,817	\$ 122,996,371

Construction-in-progress at June 30, 2020 and 2019 includes expenditures related to various ongoing capital projects.

### 6. Lines of Credit

LHRC has an \$800,000 unsecured, revolving demand line of credit with a bank which expires on December 31, 2020. The line of credit bears interest at the one-month LIBOR rate plus 2.25 percent per annum (2.43 percent at June 30, 2020). There were no borrowings at June 30, 2020 or 2019.

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 (3.25 percent at June 30, 2020). There were no borrowings outstanding at June 30, 2020 or 2019.

In September 2020, LQL entered into a \$2,500,000 secured demand line of credit with a bank to support property acquisition, project development, working capital and letter of credit needs. The line of credit bears interest at the one-month LIBOR rate but in no event less than .25 percent per annum. The line of credit is secured by a lien on substantially all assets of LQL. LHRC is a guarantor of this line of credit.

### 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 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, LAH was withdrawn from the Obligated Group leaving LHRC as the sole Obligor.

## **Landis Communities and Affiliates**

---

### **Notes to Consolidated Financial Statements**

June 30, 2020 and 2019

#### **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 (1.59 percent at June 30, 2020). 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 (1.54 percent at June 30, 2020). Beginning February 2019, principal and interest are due in varying monthly installments through January 2043.

#### **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. 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 (1.84 percent at June 30, 2020), are due monthly.

#### **Interest**

Interest expense on all debt totaled \$3,736,442 and \$3,776,257 (including amortization of deferred financing costs) during 2020 and 2019, respectively, net of \$291,102 capitalized during 2019.

#### **Security and Covenants**

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

## Landis Communities and Affiliates

Notes to Consolidated Financial Statements  
June 30, 2020 and 2019

### Long-Term Debt Summary

Long-term debt is as follows as of June 30:

	2020	2019
2015A Bonds	\$ 46,135,000	\$ 47,080,000
2015B Bonds	8,054,789	8,296,697
2015C Bonds	27,225,318	28,077,604
2017B Bonds	14,753,978	13,016,758
Bonds repaid during 2020	-	9,993,358
Total	96,169,085	106,464,417
Less current maturities	2,691,227	2,116,620
Less unamortized deferred financing costs	1,301,891	1,465,583
Long-term debt	<u>\$ 92,175,967</u>	<u>\$ 102,882,214</u>

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

Years ending June 30:	
2021	\$ 2,691,227
2022	2,761,003
2023	2,832,099
2024	2,912,680
2025	2,991,965
Thereafter	81,980,111
Total	<u>\$ 96,169,085</u>

### 8. Retirement Plan

Landis Communities sponsors a defined contribution retirement plan. Contributions to the plan were \$649,638 in 2020 and \$670,047 in 2019.

## Landis Communities and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2020 and 2019

#### 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:

	2020	2019
<b>Net Assets</b>		
Without donor restrictions:		
Operating reserve	\$ 21,594,362	\$ 20,528,588
Board designated, endowment funds	3,367,325	2,946,541
Total net assets without donor restrictions	24,961,687	23,475,129
With donor restrictions:		
Purpose restricted:		
Resident assistance program	137,439	171,950
Learning/wellness center project	245,854	450,077
Endowment funds appreciation	261,399	227,237
Other	208,285	87,225
Restricted in perpetuity:		
Endowment funds	1,337,520	1,326,804
Total net assets with donor restrictions	2,190,497	2,263,293
Total net assets	\$ 27,152,184	\$ 25,738,422

#### 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, 2020 and 2019

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 \$1,598,919 and \$1,554,041 at June 30, 2020 and 2019, 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 \$3,367,325 and \$2,946,541 at June 30, 2020 and 2019, 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, 2020 and 2019 are composed of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,946,541	\$ 1,554,041	\$ 4,500,582
Investment return (including interest and dividends and realized and unrealized gains and losses)	118,381	57,179	175,560
Contributions	347,085	18,215	365,300
Change in value, split interest agreements	-	(8,643)	(8,643)
Net assets released from restrictions	-	(23,017)	(23,017)
Other	(44,682)	1,144	(43,538)
Endowment net assets, end of year	<u>\$ 3,367,325</u>	<u>\$ 1,598,919</u>	<u>\$ 4,966,244</u>
	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>

## **Landis Communities and Affiliates**

---

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

### **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 \$150,000 per eligible employee that limits the maximum liability for benefits payable under such claims. In addition to the individual deductible, there is a corporate aggregate stop-loss of \$80,000. The one-time additional deductible may be fulfilled in part by any number of employees. Self-insurance costs incurred under this program were \$3,393,374 and \$3,599,847 in 2020 and 2019, respectively. On the consolidated balance sheets, other accrued expenses includes \$340,974 and \$374,241 at June 30, 2020 and 2019, 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, 2020 and 2019

#### 13. Lease Commitments

QLC has 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 in both 2020 and 2019.

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

2021	\$	447,128
2022		455,099
2023		<u>443,477</u>
	\$	<u><u>1,345,704</u></u>

Deferred rent of \$96,084 and \$114,173, at June 30, 2020 and 2019, 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, 2020 and 2019

#### 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 2020 and 2019:

	2020			
	Resident Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 15,192,274	\$ 3,903,190	\$ 233,389	\$ 19,328,853
Employee benefits and payroll taxes	4,746,069	1,109,571	69,795	5,925,435
Professional fees and purchased services	1,599,497	1,084,386	194	2,684,077
Nursing home assessment	-	240,849	-	240,849
Depreciation	7,015,276	104,604	-	7,119,880
Interest	3,703,747	32,695	-	3,736,442
Supplies and other expenses	6,566,740	2,132,513	70,699	8,769,952
Total expenses	<u>\$ 38,823,603</u>	<u>\$ 8,607,808</u>	<u>\$ 374,077</u>	<u>\$ 47,805,488</u>
	2019			
	Resident Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 14,733,477	\$ 3,351,731	\$ 163,619	\$ 18,248,827
Employee benefits and payroll taxes	5,033,193	983,014	44,408	6,060,615
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	6,085,561	1,983,877	54,071	8,123,509
Total expenses	<u>\$ 37,651,773</u>	<u>\$ 7,578,195</u>	<u>\$ 262,102</u>	<u>\$ 45,492,070</u>

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, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 1,564,856	\$ 62,972	\$ 1,438,368	\$ 67,679	\$ 167,322	\$ -	\$ 3,301,197
Assets whose use is limited, debt service funds	2,579,141	-	-	-	-	-	2,579,141
Accounts receivable:							
Residents, net	2,649,677	106,242	2,653	1,147	3,027	-	2,762,746
Advance fees	324,700	-	-	-	-	-	324,700
Other	201,881	27,004	825	-	-	-	229,710
Due from affiliates	1,180,443	22,712	75,400	-	1,427	(1,279,982)	-
Prepaid expenses and other current assets	467,444	-	12,972	37,993	17,937	-	536,346
Total current assets	8,968,142	218,930	1,530,218	106,819	189,713	(1,279,982)	9,733,840
<b>Assets Whose Use Is Limited</b>							
Board-designated investments	3,112,006	-	-	-	152,101	-	3,264,107
Statutory minimum liquid reserve	4,288,982	-	-	-	-	-	4,288,982
Donor-restricted investments	1,576,032	-	-	-	-	-	1,576,032
Debt service reserve fund	3,133,813	-	-	-	-	-	3,133,813
Total assets whose use is limited	12,110,833	-	-	-	152,101	-	12,262,934
<b>Investments</b>	30,387,748	-	-	-	-	-	30,387,748
<b>Investment in Limited Partnership</b>	-	16,350	-	121,610	629,959	(137,960)	629,959
<b>Property and Equipment, Net</b>	116,269,944	13,124	81,401	142,930	2,459,418	-	118,966,817
<b>Pledges Receivable, Net</b>	136,748	-	-	-	-	-	136,748
<b>Split-Interest Agreements</b>	320,060	-	-	-	-	-	320,060
<b>Investment in Welsh Mountain Home</b>	-	-	2,356,751	-	-	(2,356,751)	-
<b>Other Assets</b>	164,267	-	67,663	-	-	-	231,930
Total assets	\$ 168,357,742	\$ 248,404	\$ 4,036,033	\$ 371,359	\$ 3,431,191	\$ (3,774,693)	\$ 172,670,036

**Landis Communities and Affiliates**

Consolidating Schedule, Balance Sheet  
June 30, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Liabilities and Net Assets (Deficit)</b>							
<b>Current Liabilities</b>							
Current maturities of long-term debt	\$ 2,691,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,691,227
Accounts payable:							
Trade	693,690	8,253	70,505	6,953	16,438	-	795,839
Due to affiliate	615	571,027	103,816	532,277	4,502	(1,212,237)	-
Capital related	259,026	-	504	3,706	165	-	263,401
Accrued expenses:							
Salaries and wages	427,747	26,635	87,665	-	22,792	(26,636)	538,203
Paid time off	643,668	36,295	216,961	-	18,005	(36,295)	878,634
Interest	1,154,624	-	-	-	-	-	1,154,624
Other	956,780	5,607	131,632	96,358	30,391	(4,814)	1,215,954
Total current liabilities	6,827,377	647,817	611,083	639,294	92,293	(1,279,982)	7,537,882
<b>Long-Term Debt</b>	92,175,967	-	-	-	-	-	92,175,967
<b>Refundable Entrance Fees and Deposits</b>	510,529	-	-	58,146	-	-	568,675
<b>Deferred Revenues From Nonrefundable Entrance Fees</b>	45,235,328	-	-	-	-	-	45,235,328
Total liabilities	144,749,201	647,817	611,083	697,440	92,293	(1,279,982)	145,517,852
<b>Net Assets (Deficit)</b>							
Without donor restrictions	21,600,268	(458,527)	3,285,490	(447,691)	3,338,898	(2,356,751)	24,961,687
With donor restrictions	2,008,273	59,114	139,460	121,610	-	(137,960)	2,190,497
Total net assets (deficit)	23,608,541	(399,413)	3,424,950	(326,081)	3,338,898	(2,494,711)	27,152,184
Total liabilities and net assets (deficit)	\$ 168,357,742	\$ 248,404	\$ 4,036,033	\$ 371,359	\$ 3,431,191	\$ (3,774,693)	\$ 172,670,036

## Landis Communities and Affiliates

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

Year Ended June 30, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Revenues Without Donor Restrictions</b>							
Resident service revenues:							
Nursing	\$ 13,803,668	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,803,668
Personal care	9,016,897	-	-	-	1,020,896	-	10,037,793
Residential living:							
Monthly fees	9,696,092	-	-	-	-	-	9,696,092
Amortization of entrance fees	6,598,871	-	-	-	-	-	6,598,871
Ancillary service revenues	939,129	-	-	-	-	-	939,129
Other resident service revenues	866,218	1,656,655	-	638,862	2,315	(39,123)	3,124,927
Net resident service revenues	40,920,875	1,656,655	-	638,862	1,023,211	(39,123)	44,200,480
Other revenues	3,615,901	270,356	4,616,067	2,472	93,789	(6,652,560)	1,946,025
Donor-restricted contributions used primarily for benevolent care	759,549	70,560	24,431	-	104,136	-	958,676
Total revenues without donor restrictions	45,296,325	1,997,571	4,640,498	641,334	1,221,136	(6,691,683)	47,105,181
<b>Expenses</b>							
Resident services	14,014,757	1,914,289	-	-	436,097	(1,972,033)	14,393,110
General and administrative	6,802,398	330,484	5,337,751	711,183	382,019	(4,719,249)	8,844,586
Depreciation	6,915,920	846	28,037	16,051	159,026	-	7,119,880
Plant operations	5,067,946	-	-	-	169,843	-	5,237,789
Dining services	4,587,327	-	-	-	226,639	(221)	4,813,745
Housekeeping, laundry and campus services	1,923,613	-	-	-	56,529	(180)	1,979,962
Outcome management, pastoral services and life enrichment	1,679,199	-	-	-	775	-	1,679,974
Interest	3,736,442	-	-	19,734	-	(19,734)	3,736,442
Total expenses	44,727,602	2,245,619	5,365,788	746,968	1,430,928	(6,711,417)	47,805,488
Operating (loss) income	568,723	(248,048)	(725,290)	(105,634)	(209,792)	19,734	(700,307)

**Landis Communities and Affiliates**

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

Year Ended June 30, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Other Income (Loss)</b>							
Interest and dividend income, net	\$ 530,995	\$ -	\$ -	\$ -	\$ 1,488	\$ (19,734)	\$ 512,749
Net realized gain (loss) on sales of investments	483,060	-	-	-	(8)	-	483,052
Net unrealized gain on investments	648,926	-	-	-	8,789	-	657,715
Contributions and bequests	347,085	-	25,634	100	144,489	-	517,308
Loss on disposal of property and equipment	(39,583)	-	-	(50)	(4,593)	-	(44,226)
Loss on extinguishment of debt	(107,461)	-	-	-	-	-	(107,461)
Total other income (loss), net	1,863,022	-	25,634	50	150,165	(19,734)	2,019,137
<b>Revenues in Excess of (Less Than) Expenses</b>	2,431,745	(248,048)	(699,656)	(105,584)	(59,627)	-	1,318,830
<b>Donor-Restricted Contributions Used for Purchase of Property and Equipment</b>	164,413	715	-	-	2,600	-	167,728
<b>Transfer (to) From Affiliate</b>	(997,374)	231,844	583,661	181,869	-	-	-
Change in net assets (deficit) without donor restrictions	1,598,784	(15,489)	(115,995)	76,285	(57,027)	-	1,486,558
<b>Net Assets With Donor Restrictions</b>							
Contributions	684,196	72,704	163,891	121,610	106,736	(137,960)	1,011,177
Interest and dividend income	23,042	-	-	-	-	-	23,042
Net realized gain on sales of investments	18,931	-	-	-	-	-	18,931
Change in net unrealized gains and losses on investments	15,231	-	-	-	-	-	15,231
Change in value, split-interest agreements	(14,773)	-	-	-	-	-	(14,773)
Donor-restricted contributions used for:							
Resident assistance program	(579,190)	-	-	-	(65,569)	-	(644,759)
Other	(180,359)	(70,560)	(24,431)	-	(38,567)	-	(313,917)
Purchase of property and equipment	(164,413)	(715)	-	-	(2,600)	-	(167,728)
Change in net assets with donor restrictions	(197,335)	1,429	139,460	121,610	-	(137,960)	(72,796)
Change in net assets (deficit)	1,401,449	(14,060)	23,465	197,895	(57,027)	(137,960)	1,413,762
<b>Net Assets (Deficit), Beginning</b>	22,207,092	(385,353)	3,401,485	(523,976)	3,395,925	(2,356,751)	25,738,422
<b>Net Assets (Deficit), Ending</b>	<u>\$ 23,608,541</u>	<u>\$ (399,413)</u>	<u>\$ 3,424,950</u>	<u>\$ (326,081)</u>	<u>\$ 3,338,898</u>	<u>\$ (2,494,711)</u>	<u>\$ 27,152,184</u>



**Landis Communities and Affiliates**

Consolidating Schedule, Cash Flows

Year Ended June 30, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Cash Flows From Operating Activities</b>							
Change in net assets	\$ 1,401,449	\$ (14,060)	\$ 23,465	\$ 197,895	\$ (57,027)	\$ (137,960)	\$ 1,413,762
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:							
Depreciation	6,915,920	846	28,037	16,051	159,026	-	7,119,880
Amortization of deferred financing costs	56,230	-	-	-	-	-	56,230
Net realized and unrealized gains and losses on investments	(1,166,148)	-	-	-	(8,781)	-	(1,174,929)
Loss on disposal or abandonment of property and equipment	39,583	-	-	50	4,593	-	44,226
Loss on extinguishment of debt	107,461	-	-	-	-	-	107,461
Proceeds from entrance fees and deposits, existing units	5,771,800	-	-	-	-	-	5,771,800
Amortization of entrance fees	(6,598,871)	-	-	-	-	-	(6,598,871)
Contributions restricted for long-term purposes	(18,215)	-	-	-	-	-	(18,215)
Contributions, pledges receivable	(65)	-	-	-	-	-	(65)
Change in value, pledges receivable	37,599	-	-	-	-	-	37,599
Change in split-interest agreements	47,139	-	-	-	-	-	47,139
Change in assets and liabilities:							
Accounts receivable	(99,829)	19,327	(1,273)	(1,073)	4,891	-	(77,957)
Due from/to affiliates	(333,998)	(599)	328,045	11,000	(756)	(3,692)	-
Prepaid expenses and other current assets	(39,011)	-	(52,885)	(652)	(7,424)	-	(99,972)
Accounts payable, trade	(230,118)	(1,051)	(19,265)	1,992	(4,222)	-	(252,664)
Accrued expenses and other liabilities	408,620	(3,265)	82,586	(21,067)	4,105	3,692	474,671
Net cash provided by (used in) operating activities	6,299,546	1,198	388,710	204,196	94,405	(137,960)	6,850,095
<b>Cash Flows From Investing Activities</b>							
Net purchases of investments and assets whose use is limited	(3,783,421)	-	-	-	(2,344)	-	(3,785,765)
Change in value of investment in limited partnership	-	(16,350)	-	(121,610)	8	137,960	8
Purchase of property and equipment	(4,108,433)	(7,710)	(47,635)	(81,757)	(20,165)	-	(4,265,700)
Net cash (used in) provided by investing activities	(7,891,854)	(24,060)	(47,635)	(203,367)	(22,501)	137,960	(8,051,457)
<b>Cash Flows From Financing Activities</b>							
Repayment of long-term debt	(12,370,208)	-	-	-	-	-	(12,370,208)
Proceeds from long-term debt	2,074,877	-	-	-	-	-	2,074,877
Proceeds from entrance fees and deposits, new units	4,298,800	-	-	2,520	-	-	4,301,320
Refunds of entrance fees	(468,990)	-	-	-	-	-	(468,990)
Collections, pledges receivable	158,887	-	-	-	-	-	158,887
Contributions restricted for long-term purposes	18,215	-	-	-	-	-	18,215
Net cash (used in) provided by financing activities	(6,288,419)	-	-	2,520	-	-	(6,285,899)
Net change in cash and cash equivalents	(7,880,727)	(22,862)	341,075	3,349	71,904	-	(7,487,261)
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, Beginning</b>	15,170,512	85,834	1,097,293	64,330	95,418	-	16,513,387
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 7,289,785</u>	<u>\$ 62,972</u>	<u>\$ 1,438,368</u>	<u>\$ 67,679</u>	<u>\$ 167,322</u>	<u>\$ -</u>	<u>\$ 9,026,126</u>

**Landis Communities and Affiliates**

Consolidating Schedule, Cash Flows  
Year Ended June 30, 2020

	Landis Homes Retirement Community	Landis HCBS	Landis Communities	Landis Quality Living	Welsh Mountain Home and WMH, Inc.	Eliminations	Consolidated 2020
<b>Supplemental Disclosure of Cash Flow Information</b>							
Interest paid, net of amounts capitalized	<u>\$ 3,625,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,734</u>	<u>\$ -</u>	<u>\$ (19,734)</u>	<u>\$ 3,625,693</u>
<b>Noncash Investing and Financing Activities</b>							
Accounts payable, capital related	<u>\$ 259,026</u>	<u>\$ -</u>	<u>\$ 504</u>	<u>\$ 3,706</u>	<u>\$ 165</u>	<u>\$ -</u>	<u>\$ 263,401</u>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents</b>							
Cash and cash equivalents	\$ 1,564,856	\$ 62,972	\$ 1,438,368	\$ 67,679	\$ 167,322	\$ -	\$ 3,301,197
Cash and cash equivalents included in assets whose use is limited and investments	<u>5,724,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,724,929</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 7,289,785</u>	<u>\$ 62,972</u>	<u>\$ 1,438,368</u>	<u>\$ 67,679</u>	<u>\$ 167,322</u>	<u>\$ -</u>	<u>\$ 9,026,126</u>

Attachment III

Resident Contract

(If Not Previously Provided)