

# **Messiah Lifeways and Controlled Entities**

Consolidated Financial Statements  
and Supplementary Information

June 30, 2018 and 2017



**BAKER TILLY**

Candor. Insight. Results.

# **Messiah Lifeways and Controlled Entities**

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June 30, 2018 and 2017

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## **Independent Auditors' Report**

Board of Directors  
Messiah Lifeways and Controlled Entities

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Messiah Lifeways and Controlled Entities, which comprise the consolidated balance sheet as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated 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 Messiah Lifeways and Controlled Entities as of June 30, 2018 and 2017, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 30 through 33 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual companies and is 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
September 11, 2018

## Messiah Lifeways and Controlled Entities

Consolidated Balance Sheet

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,662,841	\$ 3,641,013
Current portion of assets whose use is limited	1,856,957	1,824,554
Accounts receivable:		
Residents, net	4,065,677	3,503,412
Other	478,071	348,497
Inventories	93,579	196,961
Pledges receivable	96,007	122,258
Prepaid expenses	1,042,293	927,309
	<hr/>	<hr/>
Total current assets	15,295,425	10,564,004
<b>Assets Whose Use Is Limited, Net</b>	4,797,397	7,746,017
<b>Investments</b>	44,734,279	44,787,430
<b>Act 82 Reserve</b>	2,529,000	2,207,000
<b>Property and Equipment, Net</b>	131,962,661	122,882,110
<b>Pledges Receivable, Net</b>	29,732	139,767
<b>Derivative Financial Instruments</b>	193,063	-
<b>Deferred Marketing Costs, Net</b>	769,062	686,341
<b>Other Assets</b>	1,163,618	1,165,402
	<hr/>	<hr/>
Total assets	<u>\$ 201,474,237</u>	<u>\$ 190,178,071</u>

See notes to consolidated financial statements

## Messiah Lifeways and Controlled Entities

Consolidated Balance Sheet

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,193,098	\$ 1,163,693
Accounts payable:		
Trade	1,617,984	790,979
Construction	2,263,371	7,550,051
Entrance fees	120,152	59,157
Accrued expenses	3,191,931	3,237,494
Deferred revenue	21,289	292,831
Current portion of split-interest obligations	86,155	87,685
Resident funds	14,918	20,080
Refundable entrance fees	<u>1,036,000</u>	<u>1,127,000</u>
Total current liabilities	9,544,898	14,328,970
<b>Long-Term Debt, Net</b>	85,801,582	85,304,604
<b>Refundable Entrance Fees and Deposits</b>	22,562,378	14,787,820
<b>Deferred Revenues from Entrance Fees</b>	31,345,775	22,386,783
<b>Derivative Financial Instruments</b>	-	911,456
<b>Split-Interest Obligations, Net</b>	<u>346,790</u>	<u>376,173</u>
Total liabilities	<u>149,601,423</u>	<u>138,095,806</u>
<b>Net Assets</b>		
Unrestricted	32,750,336	32,732,878
Temporarily restricted	6,284,385	6,709,140
Permanently restricted	<u>12,838,093</u>	<u>12,640,247</u>
Total net assets	<u>51,872,814</u>	<u>52,082,265</u>
Total liabilities and net assets	<u>\$ 201,474,237</u>	<u>\$ 190,178,071</u>

See notes to consolidated financial statements

## Messiah Lifeways and Controlled Entities

Consolidated Statement of Operations and Changes in Net Assets  
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Net resident service revenues	\$ 41,376,476	\$ 37,918,726
Other revenues	2,761,525	2,326,392
Net assets released from restriction used for operations	<u>949,892</u>	<u>911,522</u>
Total revenues	<u>45,087,893</u>	<u>41,156,640</u>
<b>Expenses</b>		
Salaries, wages, and benefits	24,002,079	23,465,927
Fees, purchased services, and supplies	10,209,228	7,030,213
Depreciation and amortization	6,838,985	5,225,592
Interest	2,706,361	1,332,085
Building operations and maintenance	2,652,531	2,320,356
Administrative	1,589,592	1,057,552
Insurance and real estate taxes	<u>1,280,030</u>	<u>1,160,509</u>
Total expenses	<u>49,278,806</u>	<u>41,592,234</u>
Operating loss	(4,190,913)	(435,594)
<b>Nonoperating Gains (Losses)</b>		
Investment return	2,244,604	3,372,873
Unrestricted contributions	180,040	116,305
Change in value of split-interest obligations	(55,592)	(39,984)
Change in fair value of derivative financial instruments	1,104,519	1,600,695
Other	<u>(227,487)</u>	<u>(7,609)</u>
Revenues (less than) in excess of expenses	(944,829)	4,606,686
<b>Net Assets Released from Restriction Used for Property and Equipment</b>	<u>962,287</u>	<u>45,529</u>
Change in unrestricted net assets	<u>17,458</u>	<u>4,652,215</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	152,521	448,819
Investment return	1,350,194	2,212,706
Change in value of split-interest obligation	7,069	(10,544)
Change in cash surrender value of life insurance, net of expense	2,640	(78)
Transfers to permanently restricted net assets	(25,000)	-
Net assets released from restriction used for:		
Operations	(949,892)	(911,522)
Property and equipment	<u>(962,287)</u>	<u>(45,529)</u>
Change in temporarily restricted net assets	<u>(424,755)</u>	<u>1,693,852</u>
<b>Permanently Restricted Net Assets</b>		
Contributions	172,846	216,803
Transfers from temporarily restricted net assets	<u>25,000</u>	<u>-</u>
Change in permanently restricted net assets	197,846	216,803
Change in net assets	(209,451)	6,562,870
<b>Net Assets, Beginning</b>	<u>52,082,265</u>	<u>45,519,395</u>
<b>Net Assets, Ending</b>	<u>\$ 51,872,814</u>	<u>\$ 52,082,265</u>

See notes to consolidated financial statements

**Messiah Lifeways and Controlled Entities**Consolidated Statement of Cash Flows  
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (209,451)	\$ 6,562,870
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,838,985	5,225,592
Loss on disposal of property and equipment	227,487	7,609
Amortization of bond premium	(148,694)	(154,119)
Amortization of debt issuance costs	99,101	101,024
Bad debts	229,840	1,483
Proceeds from entrance fees and entrance fee deposits, existing units	3,746,104	2,560,050
Amortization of entrance fees	(3,644,745)	(3,194,730)
Net realized and unrealized gains on investments	(1,990,513)	(4,569,665)
Change in fair value of derivative financial instruments	(1,104,519)	(1,600,695)
Change in value of split-interest obligations	55,592	39,984
Contributions received restricted for long-term purposes	(325,367)	(665,622)
Changes in assets and liabilities:		
Accounts receivable, resident and other	(802,684)	(336,422)
Inventories	103,382	(2,385)
Pledges receivable	136,286	88,396
Prepaid expenses	(114,984)	(415,170)
Other assets	1,784	(48,972)
Accounts payable, trade	827,005	(299,491)
Accrued expenses	(45,563)	97,794
Deferred revenue, current	(271,542)	40,289
Resident funds	(5,162)	3,075
Net cash provided by operating activities	<u>3,602,342</u>	<u>3,440,895</u>
<b>Cash Flows from Investing Activities</b>		
Net sales of investments and assets whose use is limited	4,637,881	1,725,852
Purchase of property and equipment	(21,293,099)	(46,221,055)
Proceeds from disposal of property and equipment	-	13,880
Payment of deferred marketing costs	(223,325)	-
Net cash used in investing activities	<u>(16,878,543)</u>	<u>(44,481,323)</u>
<b>Cash Flows from Financing Activities</b>		
Repayment of line of credit	-	(755,228)
Proceeds from long-term debt	15,290,976	41,501,010
Repayment of long-term debt	(14,715,000)	(990,000)
Proceeds from entrance fees and deposits, new units	16,151,102	539,049
Proceeds from refundable entrance fees, existing units	1,101,208	709,726
Refunds of entrance fees	(769,119)	(1,214,784)
Net repayments on split-interest obligations	(86,505)	(88,106)
Contributions received restricted for long-term purposes	325,367	665,622
Net cash provided by financing activities	<u>17,298,029</u>	<u>40,367,289</u>
Net change in cash and cash equivalents	4,021,828	(673,139)
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,641,013</u>	<u>4,314,152</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 7,662,841</u>	<u>\$ 3,641,013</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest, net of capitalized interest	<u>\$ 1,061,191</u>	<u>\$ 1,237,990</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activity</b>		
Obligations incurred for the acquisition of property and equipment	<u>\$ 2,263,371</u>	<u>\$ 7,550,051</u>

See notes to consolidated financial statements

# **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

## **1. Nature of Operations, Principles of Consolidation, and Summary of Significant Accounting Policies**

### **Organization**

Messiah Lifeways and Controlled Entities (collectively, the "Corporation") is comprised of the following:

Messiah Lifeways ("ML") is a non-profit holding company (parent) which controls the following: Messiah Home d/b/a Messiah Lifeways at Messiah Village (the "Village"), Messiah Family Services d/b/a Messiah Lifeways at Mount Joy Country Homes ("Mount Joy"), and Messiah Lifeways Community Support Services ("MLCSS"). Messiah Lifeways is the sole member of these three entities.

The Village is a not-for-profit corporation that operates a continuing care retirement community. The Village provides housing, health care, and other related services to older adults through the operation of a 184 bed nursing facility, 183 personal care units, 152 independent living cottages, and 208 independent living apartments (as of June 30, 2018). The Village is the sole member of Capital Area Health Associates ("Capital Area").

Mount Joy is a not-for-profit corporation that provides housing to residents 55 and older through the operation of 79 independent living cottages (as of June 30, 2018) located in Mount Joy, Pennsylvania.

MLCSS is a not-for-profit corporation that provides a network of community services for older adults that includes home care, two adult day programs, and two senior centers.

Capital Area is a not-for-profit corporation that operates exclusively for the support and benefit of the Village by providing physician services to residents of the Village. Capital Area ceased operations during 2016 and was liquidated effective February 14, 2018. The remaining net deficit of Capital Area were transferred to the Village in fiscal 2018.

As a ministry of the Brethren in Christ Church, the Corporation's mission is to "responsibly enhance the lives of older adults with Christ-like love". The Corporation offers a network of opportunities for adults 55 and older in South Central, PA.

The Village and Mount Joy both received a Certificate of Authority from the Pennsylvania Insurance Department to operate a Continuing Care Retirement Community ("CCRC") under the Pennsylvania Continuing Care Provider Registration and Disclosure Act ("Act 82").

The Corporation's operations are located in Mechanicsburg and Mount Joy, Pennsylvania. Their primary market area includes the greater Harrisburg area and surrounding communities.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Messiah Lifeways, Messiah Lifeways at Messiah Village, Messiah Lifeways at Mount Joy Country Homes, and Messiah Lifeways Community Support Services after elimination of all significant intercompany balances and transactions.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### **Cash and Cash Equivalents**

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

### **Accounts Receivable, Residents**

Accounts receivable, residents are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon a periodic review of the accounts receivable aging, payor classifications, and application of historical write-off percentages.

The allowance for doubtful collections totaled \$227,000 and \$215,000 at June 30, 2018 and 2017, respectively.

### **Investments and Investment Risk**

Investments include assets set aside by the board of directors for future capital improvements and charity care, over which the board retains control and may, at its discretion, subsequently use for other purposes; assets to be held by the Corporation in perpetuity; assets whose use by the Corporation has been limited by donors to specific purposes; and assets designated as a required reserve in accordance with Act 82.

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

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

### **Assets Whose Use Is Limited**

Assets whose use is limited generally includes assets held by a bond trustee under trust indentures, escrow funds held by the Borough of Mount Joy in connection with Mount Joy's multi-year expansion plan, and entrance fee deposits for new independent living cottage units. Amounts available to meet current liabilities of the Village have been classified as current assets in the consolidated balance sheet.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### **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. Depreciation was \$6,698,381 in 2018 and \$5,121,959 in 2017.

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.

### **Pledges Receivable**

Pledges receivable represent unconditional promises to give that are expected to be collected in future years. The pledges are recorded at the present value of estimated future cash flows. Pledges receivable are stated at outstanding balances and will be discounted for their present value if material. An allowance for uncollectible pledges is based on management's assessment of the collectability of pledges receivable. Management deems all pledges receivable to be collectible at June 30, 2018.

### **Deferred Marketing Costs, Net**

Deferred marketing costs of \$1,572,767 and \$1,349,442 in 2018 and 2017, respectively, relate to the costs of acquiring initial continuing care contracts and are capitalized through the date of substantial occupancy and are being amortized on a straight-line basis over the average expected remaining lives of the residents under the contracts. Amortization expense totaled \$140,604 and \$103,633 during the years ended June 30, 2018 and 2017, respectively. Accumulated amortization was \$803,705 and \$663,101 as of June 30, 2018 and 2017, respectively.

### **Entrance Fees**

#### **The Village**

Under certain entrance fee plans for independent living units, the Village receives payments in advance, in accordance with the terms of Residency Agreements. Prior to April 2003, the only option offered was a refundable option that had a guaranteed refund component of 25% of the entrance fee paid with the balance refundable on a decreasing basis for 100 months.

Beginning in April 2003 through January 2007, there were three basic refundable options, one enhanced refundable option, and a non-refundable option. The three basic options had a guaranteed refundable component of either 25%, 90%, or 100% of the entrance fee paid with the balance, if any, refundable on a decreasing basis for 100 months. The enhanced refundable option had a guaranteed refund component of 50% of the entrance fee paid with the balance refundable on a decreasing basis for 100 months. In addition, under the enhanced refundable option, residents generally receive 50% of the difference between the entrance fee they paid and the entrance fee paid upon resale of the independent living unit. The nonrefundable option had no guaranteed refund component and is refundable on a decreasing basis for 100 months.

## **Messiah Lifeways and Controlled Entities**

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### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

In February 2007, the entrance plan options changed. There are currently two refundable options and a nonrefundable option. The two refundable options have a guaranteed refund component of either 50% or 90% of the entrance fee paid with the balance refundable on a decreasing basis for 50 months. The nonrefundable option has no guaranteed refund component and is refundable on a decreasing basis for 50 months. In 2015, the 90% refund option was changed so that the 10% remaining balance is not available for refund.

For Residency Agreements executed prior to April 2003, refunds to residents are paid at the time of resale of the independent living unit by the Village, but not later than six months after termination of the Residency Agreement. For Residency Agreements executed in April 2003 forward, refunds to residents are paid after the independent living unit has been re-occupied by another resident and the entrance fee for the re-occupied independent living unit has been paid in full. At June 30, 2018, the gross amount of contractual refund obligations under the Village's existing resident agreements approximates \$26,778,000.

At June 30, 2018 and 2017, the Village owed refunds of \$120,152 and \$-0-, respectively, to residents who executed Residency Agreements prior to April 2003. These amounts are classified as accounts payable in the consolidated balance sheet. In addition, at the end of each year, management estimates the portion of entrance fee refunds that will be paid the following year to Village residents who executed Residency Agreements. These amounts were \$658,000 and \$812,000 at June 30, 2018 and 2017, respectively, and are classified as current liabilities in the consolidated balance sheet.

### **Mount Joy**

Under entrance free plans for its independent living units, Mount Joy receives payments in advance, in accordance with the terms of Residency Agreements. Through March 2004, the entrance fee plan entitled residents to a 90% refund of the original base entrance fee, or 90% of the subsequent base entrance fee for re-occupancy of the independent living unit, whichever is lower.

Beginning in April 2004 through December 2008, the entrance fee plan available to new residents had a guaranteed refund component of 65% of the entrance fee paid with the balance refundable on a decreasing basis for 35 months.

In January 2009, the entrance plan options changed. There are currently three refundable options that have a guaranteed refund component of either 90%, 65%, or 50% of the entrance fee paid with the balance refundable on a decreasing basis for 10, 35, or 50 months. In 2016, the 90% refund option was changed so that the 10% remaining balance is not available for refund.

For Residency Agreements executed prior to January 2009, 30% of the refunds to residents are paid within 30 days after transfer of possession of the independent living unit to Mount Joy; the remaining 70% is paid within 30 days of the re-occupancy of the independent living unit. At June 30, 2018 and 2017, Mount Joy owed refunds of \$-0- and \$59,157, respectively, to residents who executed Residency Agreements prior to January 2009. These amounts are classified as accounts payable in the consolidated balance sheet. In addition, at the end of each year, management estimates the portion of entrance fee refunds that will be paid the following year to Mount Joy residents who executed Residency Agreements prior to January 2009. These amounts were \$378,000 and \$315,000 at June 30, 2018 and June 30, 2017, respectively, and are classified as current liabilities in the consolidated balance sheet.

## **Messiah Lifeways and Controlled Entities**

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### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

For Residency Agreements executed in January 2009 forward, refunds to residents are paid after the independent living unit has been re-occupied by another resident and the entrance fee for the re-occupied independent living unit has been paid in full. At June 30, 2018, the gross amount of contractual refund obligations under Mount Joy's existing resident agreements approximates \$9,210,000.

#### **General**

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

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

#### **Split-Interest Agreements**

The Village receives charitable gift annuities as contributions. Under these agreements, the Village recorded the assets at fair value and the liabilities to the donor or their beneficiaries at the present value of the estimated future payments to be distributed by the Village to such individuals. The amount of the contribution is the difference between the asset and liability and is recorded as unrestricted contributions, unless otherwise restricted by the donor.

Starting in March 2016, the Village has received as contributions, charitable gift annuities. These arrangements represent contracts between the Mennonite Foundation (the "Foundation") and the donors. Donors transfer cash or investments to the Foundation and, in turn, receive periodic distributions from the Foundation. The contributions received by the Village are the unconditional rights to receive the remainder interest in 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 as temporarily or permanently restricted contributions, in accordance with donor restrictions.

#### **Debt Issuance Costs**

Debt issuance costs incurred in connection with the issuance of long-term debt are amortized using the effective-interest method, over the period of the related debt. Amortization expense, which is included as a component of interest expense, was \$99,101 in 2018 and \$101,024 in 2017. Accumulated amortization was \$403,073 and \$303,972 at June 30, 2018 and 2017, respectively.

#### **Derivative Financial Instruments**

The Village entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate risk on its long-term debt. The interest rate swap agreements are reported at fair value in the consolidated balance sheet and related changes in fair value are reported in the consolidated statement of operations and changes in net assets as change in fair value of derivative financial instruments.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by ML, the Village, Mount Joy, and MLCSS has been limited by donors to specific purposes or time periods.

Permanently restricted net assets have been restricted by donors to be maintained by the Village in perpetuity.

### **Net Resident Service Revenues**

Net resident service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Net resident service revenues include the revenues of the Village and Mount Joy. MLCSS revenues are reported as other revenues in the consolidated statement of operations and changes in net assets.

Net resident service revenues include amortization of entrance fees of \$3,644,745 in 2018 and \$3,194,730 in 2017.

### **Benevolent Care**

The Village also provides charity care to residents who meet certain criteria without charge or at amounts less than its established rates. Because the Village does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenues. The costs associated with charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the residents receiving charity care. The Village provided charity care at a cost of approximately \$730,000 in 2018 and \$719,000 in 2017.

### **Medical Assistance Reimbursement and Cost of Providing Care**

The Village provides nursing care to Medical Assistance program beneficiaries at amounts less than its cost of providing care. The Village 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 the Corporation's internal consolidated 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 \$3,126,000 in 2018 and \$2,786,000 in 2017.

### **Donor-Restricted Gifts**

The Village 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 restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as other revenues in the consolidated financial statements.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### **Income Taxes**

ML, the Village, Capital Area, Mount Joy, and MLCSS are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code.

The Corporation accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2018 and 2017.

### **Revenues (Less Than) in Excess of Expenses**

The consolidated statement of operations and changes in net assets includes the determination of revenues (less than) in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues (less than) in excess of expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

### **Use of Estimates**

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Self-Insured Health Insurance**

ML sponsors a self-funded employee benefit plan (the "Plan") to provide healthcare benefits and services for its eligible employees and their dependents. ML contracts with an insurance company to provide certain administrative and other services in connection with the Plan. The contract also provides for a schedule of excess loss of \$60,000 per participant and approximately \$1,000,000 in the aggregate.

### **New Accounting Pronouncements**

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 in the year ending June 30, 2019. The Corporation is currently assessing the effect that ASU No. 2014-09 will have on its consolidated financial statements.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

During August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The Corporation will be required to adopt the guidance in ASU No. 2016-14 in the year ending June 30, 2019. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Corporation is currently assessing the effect that ASU No. 2016-14 will have on its consolidated financial statements.

During November 2016, the FASB issued 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 Corporation will be required to adopt the guidance in ASU No. 2016-18 in the year ending June 30, 2019. ASU No. 2016-18 is to be applied retroactively with transition provisions. The Organization is currently assessing the effect that ASU No. 2016-18 will have on its consolidated financial statements.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. The Corporation is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

### **Subsequent Events**

The Corporation evaluated subsequent events for recognition or disclosure through September 11, 2018, the date the consolidated financial statements were issued.

## **2. Net Resident Service Revenues**

The Village has agreements with third-party payors that provide for payments to the Village 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. Approximately 9% and 11% of the Village's net resident service revenues in 2018 and 2017, respectively, were derived from the Medical Assistance Program.

## **Messiah Lifeways and Controlled Entities**

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### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

- 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 7% of the Village's net resident service revenues in both 2018 and 2017 were derived from the Medicare Part A program.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Village's clinical assessment of its residents. The Village is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

### **3. Fair Value Measurements, Assets Whose Use is Limited, Investments and 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. The Corporation held no Level 3 instruments as of June 30, 2018 or 2017.

The Corporation measures its assets whose use is limited, investments, and derivative financial instruments on a recurring basis at fair value in accordance with accounting principles generally accepted in the United States of America.

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The following table presents financial instruments measured at fair value at June 30, 2018, by caption on the consolidated balance sheet:

	<b>2018</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Reported at Fair Value:</b>			
Assets:			
Assets whose use is limited,			
Cash and cash equivalents	\$ 6,654,354	\$ 6,654,354	\$ -
Investments:			
Cash and cash equivalents	\$ 761,968	\$ 761,968	\$ -
Marketable equity securities:	-	-	-
Consumer	2,203,379	2,203,379	-
Utilities	820,705	820,705	-
Financial	319,442	319,442	-
Healthcare	1,104,291	1,104,291	-
Information technology	3,953,329	3,953,329	-
Real estate	217,006	217,006	-
Exchange traded funds	4,745,029	4,745,029	-
Mutual funds:			
Large value	10,273,781	10,273,781	-
International	6,372,912	6,372,912	-
Mid-cap growth	3,155,390	3,155,390	-
Small value	1,505,186	1,505,186	-
Other	1,444	1,444	-
Fixed income mutual funds	10,259,597	10,259,597	-
Common trust fund	1,567,820	-	1,567,820
Corporate notes and bonds	2,000	-	2,000
Total investments	<u>\$ 47,263,279</u>	<u>\$ 45,693,459</u>	<u>\$ 1,569,820</u>
Derivative financial instruments	<u>\$ 193,063</u>	<u>\$ -</u>	<u>\$ 193,063</u>
<b>Disclosed at Fair Value:</b>			
Cash and cash equivalents	<u>\$ 7,662,841</u>	<u>\$ 7,662,841</u>	<u>\$ -</u>
Long-term debt (carrying value of \$88,213,762)	<u>\$ 90,003,143</u>	<u>\$ -</u>	<u>\$ 90,003,143</u>

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

The following table presents financial instruments measured at fair value at June 30, 2017, by caption on the consolidated balance sheet:

	2017		
	Total	Level 1	Level 2
<b>Reported at Fair Value:</b>			
Assets:			
Assets whose use is limited,			
Cash and cash equivalents	\$ 9,570,571	\$ 9,570,571	\$ -
Investments:			
Cash and cash equivalents	\$ 1,018,312	\$ 1,018,312	\$ -
Marketable equity securities,			
Information technology	427,252	427,252	-
Exchange traded funds	4,026,100	4,026,100	-
Mutual funds:			
Large value	21,448,099	21,448,099	-
International	2,867,003	2,867,003	-
Mid-cap growth	2,979,655	2,979,655	-
Small value	1,010,646	1,010,646	-
Other	1,444	1,444	-
Fixed income mutual funds	11,734,913	11,734,913	-
Common trust fund	1,479,006	-	1,479,006
Corporate notes and bonds	2,000	-	2,000
Total investments	<u>\$ 46,994,430</u>	<u>\$ 45,513,424</u>	<u>\$ 1,481,006</u>
Liability,			
Derivative financial instruments	<u>\$ 911,456</u>	<u>\$ -</u>	<u>\$ 911,456</u>
<b>Disclosed at Fair Value:</b>			
Cash and cash equivalents	<u>\$ 3,641,013</u>	<u>\$ 3,641,013</u>	<u>\$ -</u>
Long-term debt (carrying value of \$87,786,480)	<u>\$ 88,281,358</u>	<u>\$ -</u>	<u>\$ 88,281,358</u>

## Messiah Lifeways and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The following reconciles assets whose use is limited by caption on the consolidated balance sheet:

	<u>2018</u>	<u>2017</u>
Total	\$ 6,654,354	\$ 9,570,571
Less amounts available to meet current liabilities	<u>1,856,957</u>	<u>1,824,554</u>
Noncurrent portion of assets whose use is limited	<u>\$ 4,797,397</u>	<u>\$ 7,746,017</u>

The following reconciles investments by caption on the consolidated balance sheet:

	<u>2018</u>	<u>2017</u>
Total	\$ 47,263,279	\$ 46,994,430
Less: Act 82 reserves	<u>2,529,000</u>	<u>2,207,000</u>
Noncurrent portion of investments	<u>\$ 44,734,279</u>	<u>\$ 44,787,430</u>

### Valuation Methodologies

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Assets whose use is limited and investments are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, marketable equity securities, exchange traded funds, and mutual funds or estimated using quoted prices for corporate notes and bonds.

The Corporation invests in The Brethren in Christ Common Trust Funds whereby the common collective trusts allocates shares to participants based upon the relationship of the individual participants' investments of the total investments. The Corporation is invested in the Common Trust Funds Total Market Growth with Income Fund which is comprised of Level 1 equity securities and mutual funds. There are no restrictions on the funds and they may be withdrawn at any time.

The fair value of the long-term debt is based on quoted market prices for the same or similar issues.

The Corporation measures its derivative financial instruments (interest rate swap agreements) at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments, and considers the credit risk of the Corporation. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instruments and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Corporation would pay or receive to terminate the agreements.

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### Investment Return

Unrestricted investment return is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest, dividends and capital gain distributions, net of expenses	\$ 962,779	\$ 573,189
Net realized gain on sales of investments	3,250,549	166,547
Net unrealized (loss) gain on investments	<u>(1,968,724)</u>	<u>2,633,137</u>
Total	<u>\$ 2,244,604</u>	<u>\$ 3,372,873</u>

Temporarily restricted investment return is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest, dividends and capital gain distributions, net of expenses	\$ 641,506	\$ 442,725
Net realized gain (loss) on sales of investments	2,049,094	(13,363)
Net unrealized (loss) gain on investments	<u>(1,340,406)</u>	<u>1,783,344</u>
Total	<u>\$ 1,350,194</u>	<u>\$ 2,212,706</u>

### Statutory Reserve Disclosure

In compliance with Section 9 of the Commonwealth of Pennsylvania's Continuing Care Provider Registration and Disclosure Act ("Act 82"), the board of directors designated a portion of investments be "reserved" to meet the requirements of Act 82. The amounts designated were approximately \$2,451,000 and \$78,000 for the Village and Mount Joy, respectively, at June 30, 2018 and \$2,135,000 and \$72,000 for the Village and Mount Joy, respectively, at June 30, 2017. At June 30, 2018, the reserve was calculated as follows:

	<u>Village</u>	<u>Mount Joy</u>
Budgeted operating expenses for the year ending June 30, 2019	\$ 51,288,053	\$ 1,355,107
Less budgeted depreciation and amortization expense	<u>(7,715,920)</u>	<u>(574,852)</u>
Expenses subject to minimum liquid reserve requirement	43,572,133	780,255
Percentage of residents subject to entrance fee agreements at June 30, 2018	<u>55.28 %</u>	<u>100 %</u>
Subtotal	24,086,675	780,255
Statutory requirement	<u>10 %</u>	<u>10 %</u>
Statutory minimum liquid reserve requirement	<u>\$ 2,408,668</u>	<u>\$ 78,026 (a)</u>

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

	<u>Village</u>	<u>Mount Joy</u>
Budgeted debt service requirements for the year ended June 30, 2019:		
Bonds:		
Principal	\$ 1,050,000	\$ -
Interest	<u>3,384,561</u>	<u>-</u>
Total budgeted debt service requirements	4,434,561	-
Percentage of residents subject to entrance fee agreements at June 30, 2018	<u>55.28 %</u>	<u>- %</u>
Statutory minimum liquid reserve requirement	<u>\$ 2,451,425</u>	<u>\$ - (b)</u>
Greater of (a) or (b) above	<u>\$ 2,451,000</u>	<u>\$ 78,000</u>

### Interest Rate Swap Agreements

In August 2009, in connection with a bank qualified tax-exempt term loan, the Village entered into an interest rate swap agreement (the "2009 Swap"). According to the terms of the agreement, if 68% of the one-month LIBOR (2.09% at June 30, 2018) is less than the fixed rate of 2.985%, the Village must make a monthly payment to the counterparty. Conversely, if 68% of the one-month LIBOR is more than the fixed rate of 2.985%, the counterparty must make a monthly payment to the Village. The monthly payments are calculated by multiplying the notional amount (\$7,745,000 at June 30, 2018) by the difference between 68% of the one-month LIBOR and the fixed rate of 2.985%. The agreement is scheduled to expire in July 2027. The bank qualified tax-exempt term loan was refinanced in May 2015. The interest rate swap agreement is still in place and is being used to fix the interest rate on a portion of the 2015B Bonds (Note 5).

In October 2015, in connection with the 2015B Bonds (Note 5), the Village entered into an interest rate swap agreement (the "2015 Swap") with an effective date of September 1, 2016. According to the terms of the agreement, if 78% of the one-month LIBOR (2.09% at June 30, 2018) is less than the fixed rate of 1.806%, the Village must make a monthly payment to the counterparty. Conversely, if 78% of the one-month LIBOR is more than the fixed rate of 1.806%, the counterparty must make a monthly payment to the Village. The monthly payments are calculated by multiplying the notional amount (\$20,610,449 at June 30, 2018) by the difference between 78% of the one month LIBOR and the fixed rate of 1.806%. The agreement is scheduled to expire in November 2025.

The payments to or from the counterparty are classified as a component of interest expense in the consolidated statement of operations and changes in net assets, or capitalized to property and equipment in the consolidated balance sheet, if the funds from bond issues are used to finance construction. As a result of the swap agreements, additional interest of approximately \$296,000 was incurred of which approximately \$115,000 was capitalized during 2018.

## Messiah Lifeways and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The fair value of the agreements is estimated to be the amount the Village would pay or receive to terminate the agreements at June 30, 2018 and 2017. The Village estimates that it would have received \$193,063 on June 30, 2018 and would have paid \$911,456 on June 30, 2017 to terminate the agreements. These amounts are classified as derivative financial instruments in the consolidated balance sheet.

Changes in the fair value of the agreements are included in revenues (less than) in excess of expenses since the agreements were not designated as hedging instruments. The change in the fair value of the agreements is classified as change in fair value of derivative financial instruments in the consolidated statement of operations and changes in net assets and was \$1,104,519 in 2018 and \$1,600,695 in 2017.

#### 4. Property and Equipment

Property and equipment are as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,949,483	\$ 2,949,483
Land improvements	5,382,450	5,320,392
Buildings and fixed equipment	177,786,711	100,588,697
Furniture and moveable equipment	16,013,692	11,507,049
Vehicles	1,004,961	919,400
	<u>203,137,297</u>	<u>121,285,021</u>
Total	203,137,297	121,285,021
Less accumulated depreciation	<u>74,612,294</u>	<u>68,719,325</u>
	128,525,003	52,565,696
Total	128,525,003	52,565,696
Construction-in-progress	<u>3,437,658</u>	<u>70,316,414</u>
	<u>\$ 131,962,661</u>	<u>\$ 122,882,110</u>
Property and equipment, net	<u>\$ 131,962,661</u>	<u>\$ 122,882,110</u>

Phase I of Project Envision on the Village's campus expanded living options in all three levels of living; residential, personal care, and nursing and was substantially completed during fiscal 2018. The residential living building added 84 apartment homes, under-building parking, a wellness center, an enrichment center, and two new dining venues. The personal care building added 26 apartments and the skilled nursing building added 32 private rooms. The Village has entered into construction contracts totaling approximately \$78,243,000 of which approximately \$76,020,000 has been spent as of June 30, 2018.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### **5. Long-Term Debt**

#### **Series 2008 Bonds**

In February 2008, the Cumberland County Municipal Authority (the "Authority") issued, on behalf of the Village, \$10,000,000 of tax-exempt fixed rate revenue bonds, Series 2008A (the "2008A Bonds") and \$8,000,000 of tax-exempt variable rate revenue bonds, Series 2008B (the "2008B Bonds") (collectively, the "2008 Bonds"). The proceeds from the 2008 Bonds were used to finance the cost of the Village's Cottages on Willow Way expansion and certain renovations on the Village's Mt. Allen campus, and were used to pay the costs of issuing the 2008 Bonds.

The 2008A Bonds are comprised of \$440,000 of serial bonds due in varying annual installments through July 2018, plus interest payable semi-annually at rates ranging from 3.7% to 4.625%; \$3,095,000 of term bonds due in varying annual installments beginning July 2019 through July 2028, plus interest payable semi-annually at 5.625%; and \$5,195,000 of term bonds due in varying annual installments beginning July 2029 through July 2035, plus interest payable semi-annually at 6%.

The 2008B Bonds were refinanced with the Series A of 2015 Bonds.

The Corporation is joint and severally obligated under the terms of the 2008 bonds.

#### **Series A of 2015 Bonds**

In May 2015, the West Shore Area Authority (the "Authority") issued, on behalf of the Village, \$24,080,000, of tax-exempt fixed rate revenue bonds, Series A of 2015 (the "2015A Bonds"). The proceeds from the 2015A Bonds were used to refund the Series 2008B Bonds and the 2009 Term Loan, finance the cost of renovation of existing facilities, finance the costs of expansion, establish a debt service reserve fund, and to pay the costs of issuing the 2015 Bonds.

The 2015A Bonds are comprised of \$800,000 of serial bonds due in varying annual installments through July 2018, plus interest payable semi-annually at rates ranging from 1.0% to 3.0%; \$895,000 of serial bonds due July 2018; plus interest payable semi-annually at 5.0%; \$250,000 of serial bonds due July 2018; plus interest payable semi-annually at 4.25%; and \$20,780,000 of term bonds due in varying annual installments beginning July 2019 through July 2035, plus interest payable semi-annually at interest rates ranging from 4.0% to 5.0%.

The Corporation is joint and severally obligated under the terms of the 2015A bonds.

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### Series B and C of 2015 Bonds

In October 2015, the West Shore Area Authority (the "Authority") issued, on behalf of the Village, \$54,725,000 of tax-exempt variable rate revenue bonds, Series B (the "2015B Bonds") and \$18,250,000 of tax-exempt variable rate revenue bonds, Series C (the "2015C Bonds") (collectively, the "2015BC Bonds"). The proceeds from the 2015BC Bonds are being used to finance the construction of Project Envision (Note 4) and for payment of certain costs of issuing the 2015BC Bonds. The 2015BC Bonds were purchased directly by a bank.

The 2015B Bonds are due in varying annual installments beginning August 2019 through July 2045 plus interest payable monthly at a rate equal to (79% x 1-Month LIBOR) plus 1.59% (3.24% at June 30, 2018). At June 30, 2018, the outstanding balance of the 2015B Bonds is \$51,793,391.

The 2015C Bonds bear interest monthly at a rate of (79% x 1-month LIBOR) plus 1.30% (2.95% at June 30, 2018). The 2015C Bonds will be redeemed from the initial entrance fees on the 84 new independent living units of Project Envision (Note 4) and will mature on July 1, 2020. At June 30, 2018, the outstanding balance of the 2015C Bonds is \$4,550,000 after \$13,700,00 was redeemed in fiscal 2018.

The Corporation is joint and severally obligated under the terms of the 2015BC bonds.

### Security

The 2008A Bonds, 2015A Bonds, and 2015BC Bonds are secured on a parity basis by a first mortgage lien on and security interest in the Corporation's property and equipment, a security interest in the Corporation's revenues, as defined in the applicable agreements, and funds held by trustee under trust indentures.

### Long-Term Debt Summary

Long-term debt is as follows:

	<u>2018</u>	<u>2017</u>
2015BC Bonds	\$ 56,343,391	\$ 54,752,415
2015A Bonds	21,925,000	22,725,000
2008A Bonds	8,515,000	8,730,000
Long-term debt	86,783,391	86,207,415
Bond premium	1,430,371	1,579,065
Less current maturities	(1,193,098)	(1,163,693)
Less unamortized debt issuance costs	(1,219,082)	(1,318,183)
Long-term debt, net	<u>\$ 85,801,582</u>	<u>\$ 85,304,604</u>

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

Scheduled maturities of long-term debt and bond premium amortization are as follows:

	<u>Debt Maturities</u>	<u>Amortization of Bond Premium</u>
Years ending June 30:		
2019	\$ 1,193,098	\$ 143,098
2020	5,640,000	137,266
2021	1,567,486	131,196
2022	1,649,816	124,821
2023	1,730,058	118,107
Thereafter	<u>75,002,933</u>	<u>775,883</u>
Total	<u>\$ 86,783,391</u>	<u>\$ 1,430,371</u>

The bond premium is being amortized over the life of the 2015 Bonds using the effective interest method. Amortization totaled \$148,694 during 2018 and \$154,119 during 2017.

### 6. Accrued Expenses

Accrued expenses are as follows:

	<u>2018</u>	<u>2017</u>
Salaries and wages and related payroll taxes	\$ 775,031	\$ 879,664
Paid time off	1,107,900	1,063,719
Interest	802,481	834,435
Other	<u>506,519</u>	<u>459,676</u>
Total	<u>\$ 3,191,931</u>	<u>\$ 3,237,494</u>

### 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following:

	<u>2018</u>	<u>2017</u>
Charity care	\$ 6,041,313	\$ 5,582,772
Lifeways Connection, capital and other	<u>269,092</u>	<u>1,126,368</u>
Total	<u>\$ 6,310,405</u>	<u>\$ 6,709,140</u>

Permanently restricted net assets are restricted to investments to be held in perpetuity, the investment return from which is available for charity care.

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### **8. Donor-Restricted Endowment Fund**

The Village's endowment fund includes donor-restricted 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 or absence of donor-imposed restrictions.

The purpose of the donor-restricted endowment fund is to provide the Village's operations a perpetual source of support beyond resident fees. Specifically, it is used to mitigate the costs of delivering benevolent and subsidized care to residents of the Village.

The Village 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, the Village classifies as permanently restricted net assets (a) the original value of all gifts donated as permanently restricted gifts to the endowment fund; and (b) the present value of pledges and planned gifts that are designated as permanently restricted gifts to the endowment fund. The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets represents the return on the permanently restricted net assets and is generally classified as temporarily restricted net assets. However, from time to time, the fair value of assets associated with the Village's donor-restricted endowment fund may fall below the level required to be retained as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018 or 2017.

The Village adopted an investment policy for all investment funds including its donor-restricted endowment fund. The policy states that the donor-restricted endowment fund shall be invested under the assumption that it shall exist in perpetuity. Therefore, the investment guidelines are based upon an investment time horizon of greater than five years so that interim fluctuations shall be viewed with appropriate perspective.

A total-return objective consistent with prudent risk-limits allows the investments to satisfy long-term objectives. In a total return strategy, investment results are achieved through capital appreciation and current yield. Asset allocation guidelines ensure adequate diversification in order to reduce the volatility of investment returns. The donor-restricted endowment fund is invested so as to maintain a risk level no greater than a standard deviation of 75% of the standard deviation of the general market as measured by the S&P 500 Index when measured over a 5 and 10 (if available) year period.

The Village's investment policy, which includes the spending policy, states that the donor-restricted endowment fund shall be invested so as to generate a cash flow equal to a range of 4.0% to 7.0% of the average market value of the donor-restricted endowment fund for the past three years measured as of June 30. As part of the budget process, a specific percentage within the prescribed range is identified on an annual basis and approved by the Corporation's Board of Directors. This approved percentage of the donor-restricted endowment fund balance is generally released from temporarily restricted net assets evenly over four quarters. This policy ensures that the competing needs of current and future generations of residents are in equilibrium.

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Changes in permanently restricted and temporarily restricted endowment net assets for the year ended June 30, 2018 and 2017 are comprised of the following:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,567,054	\$ 12,640,247	\$ 18,207,301
Investment return:			
Interest, dividends, and other, net of expenses	641,506	-	641,506
Net realized gains on investments	2,049,094	-	2,049,094
Net unrealized losses on investments	(1,340,406)	-	(1,340,406)
Subtotal	6,917,248	12,640,247	19,557,495
Contributions	-	172,846	172,846
Change in cash surrender value of life insurance	2,640	-	2,640
Change in value of split-interest obligation	928	-	928
Transfers (from temporarily restricted) to permanently restricted	(25,000)	25,000	-
Net assets released from restrictions	(903,000)	-	(903,000)
Endowment net assets, end of year	<u>\$ 5,992,816</u>	<u>\$ 12,838,093</u>	<u>\$ 18,830,909</u>

## Messiah Lifeways and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,233,710	\$ 12,423,444	\$ 16,657,154
Investment return:			
Interest, dividends, and other, net of expenses	442,725	-	442,725
Net realized losses on investments	(13,363)	-	(13,363)
Net unrealized gains on investments	1,783,344	-	1,783,344
Subtotal	6,446,416	12,423,444	18,869,860
Contributions	-	216,803	216,803
Change in cash surrender value of life insurance	(78)	-	(78)
Change in value of split-interest obligation	(3,284)	-	(3,284)
Net assets released from restrictions	(876,000)	-	(876,000)
Endowment net assets, end of year	<u>\$ 5,567,054</u>	<u>\$ 12,640,247</u>	<u>\$ 18,207,301</u>

### 9. Retirement Plans

The Corporation sponsors two defined contribution retirement plans; a 401(a) plan and a 403(b) plan. Effective January 1, 2018, the Corporation's 401(a) plan merged into the 403(b) plan. The Corporation's contribution to the plans was \$443,139 for 2018 and \$303,104 for 2017.

### 10. Functional Expenses

The Corporation provides housing, health care, and other related services to residents and clients within its geographic location. Expenses related to providing these services are as follows:

	2018	2017
Resident and client services	\$ 43,618,483	\$ 36,035,143
Administrative and support	6,057,099	5,377,404
Fundraising	139,956	179,687
Total	<u>\$ 49,815,538</u>	<u>\$ 41,592,234</u>

## **Messiah Lifeways and Controlled Entities**

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Notes to Consolidated Financial Statements  
June 30, 2018 and 2017

### **11. Medical Malpractice Claims Coverage**

The Corporation maintains professional liability coverage on a claims-made basis through commercial insurance carriers. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

### **12. 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, Medicare, and various commercial insurance companies.

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.

### **13. Contingencies**

#### **Real Estate Taxes**

As a not-for-profit corporation in the Commonwealth of Pennsylvania, the Village is an organization which receives an exemption from real property taxes relating to portions of its property. However, a number of cities, municipalities, and school districts in the Commonwealth of Pennsylvania have challenged and continue to challenge the real estate tax exemption of not-for-profit corporations. The possible future financial effect of this matter on the Village, if any, is not determinable.

#### **Senior Living 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.

## Messiah Lifeways and Controlled Entities

Consolidating Schedule, Balance Sheet

June 30, 2018

	<u>Messiah Lifeways</u>	<u>Messiah Village</u>	<u>Capital Area Health Associates</u>	<u>Mount Joy Country Homes</u>	<u>Community Support Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 1,171,352	\$ 6,058,524	\$ -	\$ 332,131	\$ 100,834	\$ -	\$ 7,662,841
Current portion of assets whose use is limited	-	1,856,957	-	-	-	-	1,856,957
Accounts receivable:							
Residents, net	-	3,869,595	-	1,852	194,230	-	4,065,677
Other	29,632	433,184	-	-	15,255	-	478,071
Affiliate	547,599	3,141,967	-	-	-	(3,689,566)	-
Inventories	-	93,579	-	-	-	-	93,579
Pledges receivable	-	74,807	-	1,200	20,000	-	96,007
Prepaid expenses	265,807	741,949	-	32,030	2,507	-	1,042,293
Total current assets	2,014,390	16,270,562	-	367,213	332,826	(3,689,566)	15,295,425
<b>Assets Whose Use is Limited, Net</b>	-	4,695,341	-	102,056	-	-	4,797,397
<b>Investments</b>	-	42,763,715	-	1,970,564	-	-	44,734,279
<b>Act 82 Reserve</b>	-	2,451,000	-	78,000	-	-	2,529,000
<b>Property and Equipment, Net</b>	-	119,509,626	-	12,339,343	113,692	-	131,962,661
<b>Pledges Receivable, Net</b>	-	28,977	-	755	-	-	29,732
<b>Derivative Financial Instruments</b>	-	193,063	-	-	-	-	193,063
<b>Deferred Marketing Costs, Net</b>	-	317,436	-	451,626	-	-	769,062
<b>Other Assets</b>	-	1,163,618	-	-	-	-	1,163,618
Total assets	<u>\$ 2,014,390</u>	<u>\$ 187,393,338</u>	<u>\$ -</u>	<u>\$ 15,309,557</u>	<u>\$ 446,518</u>	<u>\$ (3,689,566)</u>	<u>\$ 201,474,237</u>

## Messiah Lifeways and Controlled Entities

Consolidating Schedule, Balance Sheet

June 30, 2018

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
<b>Liabilities and Net Assets (Deficit)</b>							
<b>Current Liabilities</b>							
Current maturities of long-term debt	\$ -	\$ 1,193,098	\$ -	\$ -	\$ -	\$ -	\$ 1,193,098
Accounts payable:							
Trade	98,559	1,490,039	-	24,741	4,645	-	1,617,984
Construction	-	2,242,847	-	20,524	-	-	2,263,371
Entrance fees	-	120,152	-	-	-	-	120,152
Affiliate	-	-	-	1,583,808	2,105,758	(3,689,566)	-
Accrued expenses	451,262	2,616,893	-	175	123,601	-	3,191,931
Deferred revenue	-	21,289	-	-	-	-	21,289
Current portion of split-interest obligations	-	86,155	-	-	-	-	86,155
Resident funds	-	14,918	-	-	-	-	14,918
Refundable entrance fees	-	658,000	-	378,000	-	-	1,036,000
Total current liabilities	549,821	8,443,391	-	2,007,248	2,234,004	(3,689,566)	9,544,898
<b>Long-Term Debt, Net</b>	-	85,801,582	-	-	-	-	85,801,582
<b>Refundable Entrance Fees and Deposits</b>	-	14,546,347	-	8,016,031	-	-	22,562,378
<b>Deferred Revenues from Entrance Fees</b>	-	27,714,329	-	3,631,446	-	-	31,345,775
<b>Split-Interest Obligations, Net</b>	-	346,790	-	-	-	-	346,790
Total liabilities	549,821	136,852,439	-	13,654,725	2,234,004	(3,689,566)	149,601,423
<b>Net Assets (Deficit)</b>							
Unrestricted	1,464,569	31,470,318	-	1,631,135	(1,815,686)	-	32,750,336
Temporarily restricted	-	6,232,488	-	23,697	28,200	-	6,284,385
Permanently restricted	-	12,838,093	-	-	-	-	12,838,093
Total net assets (deficit)	1,464,569	50,540,899	-	1,654,832	(1,787,486)	-	51,872,814
Total liabilities and net assets (deficit)	\$ 2,014,390	\$ 187,393,338	\$ -	\$ 15,309,557	\$ 446,518	\$ (3,689,566)	\$ 201,474,237

## Messiah Lifeways and Controlled Entities

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

Year Ended June 30, 2018

	<u>Messiah Lifeways</u>	<u>Messiah Village</u>	<u>Capital Area Health Associates</u>	<u>Mount Joy Country Homes</u>	<u>Community Support Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Revenues</b>							
Net resident service revenues	\$ -	\$ 40,150,214	\$ -	\$ 1,226,262	\$ -	\$ -	\$ 41,376,476
Other revenues	5,597,179	1,120,440	649	125	1,943,856	(5,900,724)	2,761,525
Net assets released from restriction used for operations	3,190	910,366	-	20	36,316	-	949,892
Total revenues	<u>5,600,369</u>	<u>42,181,020</u>	<u>649</u>	<u>1,226,407</u>	<u>1,980,172</u>	<u>(5,900,724)</u>	<u>45,087,893</u>
<b>Expenses</b>							
Salaries, wages, and benefits	3,455,001	18,859,751	472	-	1,690,486	(3,631)	24,002,079
Fees, purchased services, and supplies	626,068	14,758,442	19	184,409	354,190	(5,713,900)	10,209,228
Depreciation and amortization	-	6,228,232	-	575,604	35,149	-	6,838,985
Interest	-	2,706,361	-	-	-	-	2,706,361
Building operations and maintenance	478,786	1,999,373	-	269,673	87,519	(182,820)	2,652,531
Administrative	686,763	845,771	-	18,286	39,145	(373)	1,589,592
Insurance and real estate taxes	-	1,135,157	2,439	142,384	50	-	1,280,030
Total expenses	<u>5,246,618</u>	<u>46,533,087</u>	<u>2,930</u>	<u>1,190,356</u>	<u>2,206,539</u>	<u>(5,900,724)</u>	<u>49,278,806</u>
Operating income (loss)	353,751	(4,352,067)	(2,281)	36,051	(226,367)	-	(4,190,913)
<b>Nonoperating Gains (Losses)</b>							
Investment return	(6,803)	2,128,847	(1,496)	129,060	(5,004)	-	2,244,604
Unrestricted contributions	-	142,089	-	-	37,951	-	180,040
Change in value of split-interest obligations	-	(55,592)	-	-	-	-	(55,592)
Change in fair value of derivative financial instruments	-	1,104,519	-	-	-	-	1,104,519
Other	-	7,121	-	(4,339)	(230,269)	-	(227,487)
Revenues in excess of (less than) expenses	346,948	(1,025,083)	(3,777)	160,772	(423,689)	-	(944,829)
<b>Net Assets Released from Restriction Used for Property and Equipment</b>	-	914,483	-	-	47,804	-	962,287
<b>Net Asset Transfer between Affiliates</b>	-	(857,133)	857,133	-	-	-	-
Change in unrestricted net assets (deficit)	<u>346,948</u>	<u>(967,733)</u>	<u>853,356</u>	<u>160,772</u>	<u>(375,885)</u>	<u>-</u>	<u>17,458</u>

## Messiah Lifeways and Controlled Entities

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

Year Ended June 30, 2018

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
<b>Temporarily Restricted Net Assets</b>							
Contributions	\$ -	\$ 81,891	\$ -	\$ 7,799	\$ 62,831	\$ -	\$ 152,521
Investment return	-	1,350,194	-	-	-	-	1,350,194
Change in value of split-interest obligation	-	7,069	-	-	-	-	7,069
Change in cash surrender value of life insurance, net of expense	-	2,640	-	-	-	-	2,640
Transfers to permanently restricted net assets	-	(25,000)	-	-	-	-	(25,000)
Net assets released from restriction used for:							
Operations	(3,190)	(910,366)	-	(20)	(36,316)	-	(949,892)
Property and equipment	-	(914,483)	-	-	(47,804)	-	(962,287)
Change in temporarily restricted net assets	(3,190)	(408,055)	-	7,779	(21,289)	-	(424,755)
<b>Permanently Restricted Net Assets</b>							
Contributions	-	172,846	-	-	-	-	172,846
Transfers from temporarily restricted net assets	-	25,000	-	-	-	-	25,000
Change in permanently restricted net assets	-	197,846	-	-	-	-	197,846
Change in net assets	343,758	(1,177,942)	853,356	168,551	(397,174)	-	(209,451)
<b>Net Assets (Deficit), Beginning</b>	1,120,811	51,718,841	(853,356)	1,486,281	(1,390,312)	-	52,082,265
<b>Net Assets (Deficit), Ending</b>	<u>\$ 1,464,569</u>	<u>\$ 50,540,899</u>	<u>\$ -</u>	<u>\$ 1,654,832</u>	<u>\$ (1,787,486)</u>	<u>\$ -</u>	<u>\$ 51,872,814</u>