

# **Laurel Lake Retirement Community, Inc. and Subsidiary**

YEARS ENDED DECEMBER 31, 2019 AND 2018

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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Independent Auditor's Report

The Board of Directors  
Laurel Lake Retirement Community, Inc. and Subsidiary  
Hudson, Ohio

We have audited the accompanying consolidated financial statements of Laurel Lake Retirement Community, Inc. and Subsidiary which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's 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 Laurel Lake Retirement Community, Inc. and Subsidiary as of December 31, 2019 and 2018, and the consolidated changes in net assets and 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, effective January 1, 2019 Laurel Lake Retirement Community, Inc. and Subsidiary adopted Accounting Standards Codification (ASC) Topic 842, *Leases*, ASC Subtopic 825-10, *Financial Instruments* and ASC Topic 958, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

*HW & CO.*

Cleveland, Ohio  
April 16, 2020

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

### ASSETS

	2019	2018
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,988,854	\$ 3,841,696
Accounts receivable:		
Trade, net of allowance for doubtful accounts	617,050	828,019
Other	30,219	196,326
Entrance fees receivable	423,650	459,640
Prepaid expenses and other	127,853	229,563
Total current assets	4,187,626	5,555,244
 <b>Property and equipment:</b>		
Land and improvements	5,532,561	5,260,673
Buildings and improvements	71,525,940	70,607,477
Equipment	5,656,206	4,596,043
Furniture and fixtures	2,228,828	2,162,868
Construction-in-progress	348,186	338,010
	85,291,721	82,965,071
Less accumulated depreciation	19,817,465	16,157,839
	65,474,256	66,807,232
 <b>Other assets:</b>		
Investments:		
Available-for-sale securities	21,847,290	15,383,380
Other	364,808	94,308
Operating rights to licensed beds	1,500,000	1,500,000
	23,712,098	16,977,688
	<b>\$ 93,373,980</b>	<b>\$ 89,340,164</b>

## LIABILITIES AND NET ASSETS

	2019	2018
<b>Current liabilities:</b>		
Accounts payable, trade	\$ 847,726	\$ 909,337
Accrued expenses:		
Salaries, wages and related liabilities	458,115	370,003
Compensated absences	251,254	250,110
Real estate taxes	1,108,420	1,038,063
Interest	127,381	118,553
Other	294,110	273,566
Current portion of long-term debt	1,197,500	1,145,833
 Total current liabilities	 4,284,506	 4,105,465
 <b>Long-term liabilities:</b>		
Security deposits	2,193,504	2,024,858
Long-term debt, net of current portion and debt issuance costs	31,514,769	32,689,993
Interest rate swaps liability	1,174,329	80,452
Refundable entrance fee liability	1,892,710	2,059,382
Gift annuities payable	577,416	572,036
Deferred revenue, entrance fees	31,993,124	29,665,661
 Total liabilities	 73,630,358	 71,197,847
 <b>Net assets:</b>		
Without donor restrictions	18,059,319	16,181,718
With donor restrictions	1,684,303	1,960,599
 Total net assets	 19,743,622	 18,142,317
	<b>\$ 93,373,980</b>	<b>\$ 89,340,164</b>

See notes to consolidated financial statements.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2019 AND 2018

<b>Changes in net assets without donor restrictions:</b>	2019	2018
<b>Revenue and other support:</b>		
Resident services:		
Service fees	\$ 16,461,132	\$ 16,066,113
Amortization of deferred revenue	4,104,083	5,316,499
Nursing services and other	3,526,809	3,721,088
Investment income, net	369,728	323,314
Contributions	393,720	339,519
Net assets released from donor restrictions for operations	312,472	171,036
Total revenue and other support	25,167,944	25,937,569
<b>Expenses:</b>		
Salaries and wages	8,055,866	7,959,418
Employee benefits	2,123,094	1,951,009
Total employment expenses	10,178,960	9,910,427
Purchased services	3,217,328	2,787,870
Supplies	2,096,799	1,899,805
Utilities	1,327,079	1,374,996
Rent	29,587	12,521
Insurance	368,356	326,496
Interest	1,507,336	1,826,314
Depreciation	3,659,626	3,512,417
Taxes	1,110,701	1,496,564
Other	372,742	350,096
Foundation	372,221	224,094
Total expenses	24,240,735	23,721,600
<b>Operating income</b>	927,209	2,215,969
Unrealized gain (loss) on interest rate swaps	-	340,829
Unrealized gain (loss) on equity securities, net	1,609,386	(1,089,905)
<b>Excess of revenue and other support over expenses</b>	2,536,595	1,466,893
<b>Other changes in net assets without donor restrictions:</b>		
Unrealized gain (loss) on debt securities, net	434,883	(36,355)
Reclassification of net assets (Note 1)		(1,137,897)
Increase in net assets without donor restrictions	2,971,478	292,641
<b>Changes in net assets with donor restrictions:</b>		
Contributions	48,458	99,690
Investment income (loss), net	(12,282)	4,763
Reclassification of net assets (Note 1)		1,137,897
Net assets released from donor restrictions for operations	(312,472)	(171,036)
Increase (decrease) in net assets with donor restrictions	(276,296)	1,071,314
<b>Increase in net assets</b>	2,695,182	1,363,955
<b>Net assets, beginning of year</b>	18,142,317	16,778,362
<b>Net assets, end of year</b>	<b>\$ 20,837,499</b>	<b>\$ 18,142,317</b>

See notes to consolidated financial statements.

## LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 1,601,305	\$ 1,363,955
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) losses on investments, net	(2,044,269)	1,126,260
Realized gains on investments, net	(357,446)	(506,536)
Depreciation	3,659,626	3,512,417
Amortization of debt issuance costs	28,943	25,094
Amortization of deferred revenue, entrance fees	(4,104,083)	(5,316,499)
Unrealized (gain) loss on interest rate swaps	1,093,877	(340,829)
Bad debt expense	45,390	16,386
Entrance fees received, not expected to be refunded	6,275,575	4,347,979
Write off of debt issuance costs		62,462
Contributions with donor restrictions	(900)	(650)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable and other assets	523,401	(60,369)
Increase in accounts payable and other liabilities	206,015	1,048,895
	6,927,434	5,278,565
<b>Net cash provided by operating activities</b>	<b>6,927,434</b>	<b>5,278,565</b>
<b>Cash flows from investing activities:</b>		
Expenditures for property and equipment	(2,326,650)	(1,352,451)
Decrease in entrance fees receivable	35,990	152,690
Proceeds from sale of available-for-sale securities	10,846,490	17,251,808
Purchase of available-for-sale securities	(14,908,685)	(14,544,181)
Purchase of other investments	(270,500)	
	(6,623,355)	1,507,866
<b>Net cash provided by (used in) investing activities</b>	<b>(6,623,355)</b>	<b>1,507,866</b>
<b>Cash flows from financing activities:</b>		
Change in gift annuities payable, net	5,380	133,062
Contributions with donor restrictions	900	650
Refunds of refundable fees	(380,058)	(819,974)
Entrance fees received, expected to be refunded	369,357	1,066,635
Payments on long-term debt	(1,152,500)	(5,638,160)
	(1,156,921)	(5,257,787)
<b>Net cash used in financing activities</b>	<b>(1,156,921)</b>	<b>(5,257,787)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	(852,842)	1,528,644
<b>Cash and cash equivalents, beginning of year</b>	3,841,696	2,313,052
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,988,854</b>	<b>\$ 3,841,696</b>

See notes to consolidated financial statements.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies:

#### Description of organization and basis of consolidation:

The accompanying consolidated financial statements include the accounts of Laurel Lake Retirement Community, Inc. (the Community) and Laurel Lake Retirement Community Foundation, Inc. (the Foundation) (collectively, referred to as Laurel Lake). The Foundation is a not-for-profit organization established to solicit donations for the benefit of the Community. The Foundation's sole member is the Community. All significant intercompany transactions have been eliminated in consolidation.

The Ohio Department of Health (ODH) regulates many types of health care facilities through both state licensure and Federal certification rules. ODH approved the Community's licenses to continue to operate as a nursing facility and residential care facility through January 2021. The Community expects the licenses to continually be renewed by ODH in future years.

Laurel Lake, located in Hudson, Ohio, is a continuing care retirement community (CCRC) consisting of 293 residential units, 56 assisted living units and 75 licensed nursing beds. The Community operates under the "life care" concept in which residents enter into an occupancy agreement, which requires payment of a one-time entrance fee and a subsequent monthly service fee. Generally, these payments entitle residents to the use and privileges of the Community for life including certain nursing services provided in Laurel Lake's skilled nursing facility. The occupancy agreement does not entitle the residents to an interest in the real estate or other property owned by the Community.

#### Recently adopted new accounting pronouncements:

##### Leases:

In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which amends the former accounting principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. This ASU requires a lessee to recognize a right-of-use asset and a lease liability on the statement of financial position for most leases. Additionally, it made targeted changes to lessor accounting, including changes to align certain aspects with the revenue recognition model, and enhanced disclosure of lease arrangements. In July 2018, FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption, and a practical expedient allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. Because Laurel Lake has publicly traded bond obligations, Laurel Lake adopted these ASUs effective January 1, 2019 utilizing the modified retrospective method with no adjustments to comparative periods presented. The adoption of these ASUs did not have a significant impact on Laurel Lake's consolidated financial statements.



# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Recently adopted new accounting pronouncements (continued):

##### Leases (continued):

For the year ended December 31, 2018, Laurel Lake recognized revenue for residency agreements in accordance with the provisions of the former lease accounting standard, ASC Topic 840. Upon adoption of ASU 2016-02 and ASU 2018-11, Laurel Lake elected the lessor practical expedient within ASU 2018-11 and recognizes, measures, presents, and discloses the revenue from residency agreements based on the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC Topic 842 and ASC Topic 606. The nonlease components of Laurel Lake's residency agreements are the predominant component of the contract for Laurel Lake's existing agreements as of January 1, 2019.

##### Clarifying the scope and the accounting guidance for contributions received and contributions made:

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The objective of this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. Laurel Lake adopted the provisions of this ASU for contributions received utilizing a modified prospective basis as of January 1, 2019. Laurel Lake will adopt the provisions on January 1, 2020 for contributions made and does not expect a significant impact on its consolidated financial statements.

##### Financial instruments:

In January 2016, FASB issued ASU 2016-01, *Financial Instruments (Subtopic 825-10)*. This new standard requires that Laurel Lake include unrealized gains and losses resulting from changes in the fair value of investments in equity securities within the performance indicator on the consolidated statement of activities and changes in net assets. Laurel Lake adopted the provisions of this ASU effective for the year ended December 31, 2019 and applied this presentation to the 2018 consolidated statement of activities and changes in net assets. Adoption of this ASU did not have an impact on Laurel Lake's consolidated financial position or its changes in net assets.

##### Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. **Description of organization and summary of significant accounting policies (continued):**

#### **Change in accounting estimate:**

Management periodically assesses estimated useful lives of assets and deferred revenue. As a result of current year assessments in November 2019, the Organization converted to a new entrance fee amortization program provided by the Organization's actuary. The new software program provides more life expectancy tables than the previous software, and thus, amortizes deferred balances in a more conservative manner. This change does not have an effect on 2018 net assets, but is applied prospectively to future years only. As a result, revenue generated from entrance fee amortization has decreased by approximately \$1,200,000 during 2019.

#### **Cash and cash equivalents:**

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

At December 31, 2019 and throughout the year, Laurel Lake maintained balances in various accounts in excess of federally insured limits. Laurel Lake does not expect to incur any losses resulting from cash held in financial institutions.

#### **Accounts receivable:**

Accounts receivable are recorded as performance obligations are satisfied.

Potentially uncollectible resident accounts are provided for on the allowance method based on management's evaluation of outstanding accounts receivable at year end. Management periodically reviews long-term accounts receivable and assesses the likelihood of collection. If collection is remote, management will write-off the account at that time. Management recorded an estimated allowance for doubtful accounts of \$10,000 at December 31, 2019 and 2018.

#### **Property and equipment:**

Property and equipment are recorded at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation (straight-line method) is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives ranging from 5 to 40 years.

#### **Investments:**

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity securities, interest and dividends) is included in the performance indicator in the consolidated statements of activities and changes in net assets. Unrealized gains and losses on debt securities are excluded from the performance indicator.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Investments (continued):

Laurel Lake has an investment of \$94,208 in Caring Communities, a reciprocal risk retention group. The investment constitutes less than 1% of the ownership in Caring Communities. Laurel Lake accounts for this investment using the cost method of accounting (Note 12). Additionally, Laurel Lake has invested \$20,500 in a stop loss policy with Caring Communities. The investment constitutes a 4% ownership in the captive. This investment is accounted for using the cost method.

Laurel Lake has an investment in a hospice organization for \$100. This investment constitutes a 33% ownership in the hospice organization and is accounted for using the equity method of accounting.

During 2019, Laurel Lake invested in a pharmacy for \$250,000. This investment constitutes an ownership of 16.66 units in the Organization and is accounted for using the cost method of accounting. Amounts paid to the pharmacy for services provided during 2019 amounted to \$35,128.

Laurel Lake invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could have a material effect on the consolidated statements of financial position, activities and changes in net assets and cash flows.

#### Operating rights to licensed beds:

Intangible assets with indefinite useful lives are not to be amortized, but management is required to determine if the intangible asset has been impaired. Management of Laurel Lake has determined that operating rights to licensed beds are an intangible asset with an indefinite useful life. Laurel Lake has the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Laurel Lake electing to perform a qualitative assessment is not required to calculate the fair value of an indefinite-lived intangible asset (and perform the quantitative impairment test) unless Laurel Lake determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired. Management of Laurel Lake has determined that the carrying value of the operating rights to licensed beds has not been impaired.

#### Entrance fee deposits and receivables:

Entrance fee deposits represent amounts paid by prospective residents who have signed a residence agreement to reserve a specific living unit or to reserve a place on the waiting list for available units. Generally, a deposit of at least 10% of the entrance fee is collected when the residence agreement is signed. The balance of the fee is payable on or before the date the resident moves in, or otherwise establishes residency. Prospective residents may cancel their residence agreements at any time prior to occupancy and receive a full refund of the entrance fee deposit, less an application fee of \$1,000 under certain circumstances.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. **Description of organization and summary of significant accounting policies (continued):**

#### **Entrance fee deposits and receivables (continued):**

The Community enters into promissory notes recorded as entrance fee receivables on the consolidated statements of financial position, with certain new residents who sign resident contracts. Interest accrues at 4% per annum. Principal plus accrued interest is receivable by the Community in one installment when certain conditions are met or interest charges may be collected monthly. The Community believes these notes are fully collectible. Therefore, there is no allowance for uncollectible amounts at December 31, 2019 and 2018.

#### **Derivative instruments:**

The Community utilizes interest rate swap contracts (which are considered a derivative instrument) to manage its exposure to interest rate risk on its variable rate debt. U.S. GAAP requires derivatives to be recorded in the consolidated statements of financial position at fair value. Changes in the fair value of derivative instruments (not meeting hedge designation requirements) are recorded in the consolidated statements of activities and changes in net assets as an unrealized gain (loss) on interest rate swaps, which is included in the performance indicator.

#### **Gift annuities:**

The Foundation receives assets from donors under gift annuity agreements designating the Foundation as the trustee and charitable remainder beneficiary of these assets. The terms of the trust agreements require that the Foundation, as trustee, invest the assets and pay an annuity to the annuitant, the donor or a specified beneficiary over the remainder of the annuitants' or specified beneficiary's life. Upon the death of the named individual, the Foundation may use its remainder interest, as designated by the annuitant.

The Foundation has recorded the donated assets in the consolidated financial statements as investments and recorded a liability for the actuarial present value of the future annuity payments to reflect the time value of money (through discounts for interest). The discount rate used to compute the liability was 4.75% in 2019 and 6% in 2018. These rates are commensurate with the risk associated with the ultimate payment of the obligation. The Foundation records a contribution to net assets with donor restrictions for the difference between the assets received and the recorded liability for future annuity payments.

#### **Debt issuance costs:**

Unamortized debt issuance costs are included with long-term debt in the consolidated statements of financial position as of December 31, 2019 and 2018. Additionally, amortization of the debt issuance costs is included with interest expense in the statements of activities and changes in net assets. Debt issuance costs are being amortized over the term of the related debt. Amortization of such costs totaled \$28,943 in 2019 and \$25,094 in 2018. Write-off of debt issuance costs related to the redemption of bonds in 2018 is included in other expense in the consolidated statements of activities and changes in net assets. This amount totaled \$62,462 in 2018.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Deferred revenue and refundable entrance fees:

The contract between the Community and a resident stipulates that (1) a portion of the advance fee is refundable if the contract holder's unit is reoccupied by a subsequent resident, (2) the refund is limited to the proceeds of reoccupancy, and (3) the legal environment and the entity's management policy and practice supports the withholding of refunds under condition (2). Consequently, refundable advanced fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of the reoccupancy, are accounted for and reported as a liability. The Community's refundable advanced fees are refundable from reoccupancy; however they are not limited to the proceeds of the reoccupancy. Therefore, the Community records the refundable advance fees as a liability.

The Community offers three types of resident contracts (Plan A, Plan B and Plan C) with regard to the one-time entrance fee paid in addition to the monthly service fees. Under Plan A agreements, residents or their estates receive a refund equal to their entrance fee less a 10% cancellation fee and less 1.5% of their entrance fees for each month of residency if the resident leaves before five years or expires after one year of establishing residency. Plan A entrance fees are recorded as deferred revenue in the consolidated statements of financial position, which is being amortized over the estimated remaining life expectancy of each resident.

Under Plan B agreements, 94% of a resident's entrance fee is refundable upon reoccupancy of the unit (including receipt of the entrance fee from the new occupant). The refundable portion of Plan B entrance fees (94% of the fee) is not amortized. The nonrefundable portion of Plan B entrance fees (6% of the fee) is amortized over the estimated life expectancy of each resident.

Under Plan C agreements, residents or their estates receive a refund upon reoccupancy of the unit (including receipt of the entrance fee from the new occupant). The refund is equal to their entrance fee less the sum of: a) 10% of the entrance fee paid and b) 1.5% of the entrance fee paid for each month of residency up to a maximum amount of 40% of the entrance fee. The refundable portion of Plan C entrance fees (50% of the fee) is not amortized. The nonrefundable portion of Plan C entrance fees (remaining 50% of fee) is amortized over the estimated life expectancy of each resident.

Entrance fees received in advance of residency and deposits are accounted for and represent contract liabilities and are reported as either refundable entrance fee liability or deferred revenue entrance fees on the consolidated statements of financial position.

#### Obligation to provide future services and the use of facilities to current residents:

The Community annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future service obligations (FSO) and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with a corresponding charge to expense. As of December 31, 2019 and 2018, no such liability was determined to be required. The discount rate used to estimate the FSO was 4.5% in 2019 and 2018.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Net assets:

Net assets with donor restrictions are those whose use by Laurel Lake has been limited by donors to a specific time period or purpose from resources on which donors place no restriction or that arise as a result of the operations of Laurel Lake for its stated purposes. Earnings on investments of net assets with donor restrictions are recorded to net assets with donor restrictions. Restricted contributions, which are primarily related to the Foundation, are recorded to net assets with donor restrictions.

During 2018, Laurel Lake reclassified \$1,137,897 previously included with net assets without donor restriction based on reviewing contribution support and agreements to net assets with donor restrictions.

#### Endowments and board-designated net assets:

Laurel Lake's endowment consists of several individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated funds are primarily intended to support various current and future programs, however board-designated funds, including principal, are expendable for any purpose, at any time, as may be deemed appropriate and as approved by the Board of Directors, and as such, are not considered to be an endowment by management and are included with net assets without donor restrictions. Primarily all investments held in the Foundation are board-designated funds.

#### Interpretation of relevant law:

Laurel Lake is subject to the State of Ohio's Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because these net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of these net assets also are subject to purpose restrictions that must be met before reclassifying those net assets without donor restrictions. Laurel Lake's Board of Directors has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted funds, Laurel Lake considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Laurel Lake's Board of Directors has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. Additionally, in accordance with UPMIFA, Laurel Lake considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Interpretation of relevant law (continued):

- The duration and preservation of the fund
- The purpose of Laurel Lake and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Laurel Lake
- The investment policies of Laurel Lake

Laurel Lake's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Laurel Lake must hold in perpetuity. In order to satisfy its long-term rate-of-return objectives, Laurel Lake 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). Laurel Lake targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Since the donor has not restricted the use of investment income (interest and dividend, realized and unrealized gains and losses) on the donor-restricted endowment funds, Laurel Lake has the ability to utilize those earnings for its operations. At December 31, 2019 and 2018, the investment income has been reclassified as net assets with donor restriction and will be released from restriction upon the need for expenditure. In establishing this policy, Laurel Lake considered the long-term expected return on its endowment. This is consistent with Laurel Lake's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts.

#### Revenue recognition:

Resident service revenue is reported at the amount that reflects the consideration to which the Community expects to be entitled in exchange for services provided. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally the Community bills the residents and third-party payors in the month subsequent to when the services being provided. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Community. The Community's healthcare services primarily represent services that are bundled and treated as a single performance obligation satisfied over time as services are rendered. The Community measures the performance obligation on a daily basis for the nursing facility and assisted living and a monthly basis for independent living as the services are provided from the date of admission/move in until the date of discharge/move out. The Community provides other ancillary services, which are not included in the original performance obligation and, therefore, are treated as separate performance obligations satisfied at a point in time when those services are provided.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Revenue recognition (continued):

Since performance obligations relate to contracts with a duration of less than one year, the Community has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Under Laurel Lakes' independent and assisted living residency agreements, which are generally for a contractual term of one month, Laurel Lake provides services to these residents for a stated monthly fee. Laurel Lake has elected the lessor practical expedient within FASB Accounting Standards Codification (ASC) Topic 842, Leases, and recognizes, measures, presents, and discloses the revenue for services under Laurel Lake residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts. Laurel Lake has determined that the services included under the residency agreements have the same timing and pattern of transfer and are performance obligations that are satisfied over time. Laurel Lake recognizes revenue under ASC Topic 606, Revenue Recognition from Contracts with Customers, for its residency agreements for which it has estimated that the nonlease components of such residency agreements are the predominant component of the contract. As a result, Laurel Lake has continued to recognize revenue for its residency agreements over the lease term.

The Community determines the transaction price based on contractually agreed-upon amounts or rates, reduced by contractual adjustments provided to third-party payors and other adjustments for estimated of variable considerations, such as implicit price concessions. The Community utilizes the expected value method to determine the amount of variable consideration that should be included to arrive at the transaction price, using contractual agreements and historical reimbursement experience with each payor type. The Community assesses collectability on all accounts prior to providing services.

Laws and regulations governing the Medicare program are complex and subject to interpretation. Potential noncompliance with laws and regulations can be subject to future government review and interpretation as well as regulatory action.

Contract liabilities represent the payments that the Community receives from residents in advance of providing services and overpayments made by residents or third-party payors. The Community includes contract liabilities in deferred revenue and resident and third-party overpayments, respectively, on the consolidated statements of financial position.



# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Contributions:

Contributions are recorded as revenue when they are received or when the donor makes an unconditional promise to give. Contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor restrictions. Laurel Lake discloses conditional contributions, which are those with a measurable performance or other barrier and a right of return, in its consolidated financial statements. They are not recognized until the conditions on which they depend have been met. There are no conditional contributions at December 31, 2019 and 2018. Contributions that are donor restricted are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reported as net assets released from donor restrictions on the consolidated statements of activities and changes in net assets.

#### Nursing facility revenue:

##### Inpatient services; private pay payors:

The Community's private pay rates are determined, published and periodically updated by management.

Generally, residents also who are covered by third-party payors are responsible for co-insurance, deductibles, and resident liability (i.e., social security, pension, etc.) amounts which vary in amount. The Community estimates the transaction price for private pay residents and residents with co-insurance, deductibles and resident liability amounts based on historical experience and current market conditions.

The Community has elected a practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component due to its expectation that the period between the time the service is performed and the time payment is received will be one year or less. However, in certain instances, the Community enters into payment agreements with residents that allow payments in excess of one year, for those situations, the financing components is not significant to the contract.

A summary of the payment arrangement with significant third-party payors are as follows:

##### Inpatient services; Medicare:

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates under an acuity-based classification system. Rates are adjusted annually by the Centers for Medicare & Medicaid Services on October 1, in conjunction with the beginning of the Federal fiscal year. Effective October 1, 2019, the Medicare payment system transitioned from The Resource Utilization Group, Version IV (RUG-IV) to the Patient Driven Payment Model (PDPM). Federal rates are subject to a county-specific wage adjustment based on the relative hospital wage level of the geographic area of the facility compared to the national average hospital wage level.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

**1. Description of organization and summary of significant accounting policies (continued):**

**Nursing facility revenue (continued):**

**Inpatient services; Medicare (continued):**

Collection of accounts receivable in the ordinary course of business is dependent on the Medicare program's ability to make timely payments to health care providers. Amounts included in accounts receivable, net of credit balances, due from the Medicare program totaled \$118,758 at December 31, 2019 and \$162,108 at December 31, 2018.

**Inpatient services; other third-party payors:**

Payment agreements with commercial insurance carriers and managed care companies provided for payment using prospectively determined daily rates.

**Assisted living revenue:**

The Community's assisted living rates are determined, published, and periodically updated by management.

**Independent living revenue:**

The Community's independent living rates are determined, published, and periodically updated by management. The Community also has entrance fee contracts with its residents (Note 1).

**Disaggregation of revenue:**

The Community has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, services, method of reimbursement, and timing of when revenue is recognized. The following is a summary of the composition of nursing facility and retirement center revenue by primary payor for the years ended December 31, 2019 and 2018:

	2019			2018		
	Nursing	Residential	Total	Nursing	Residential	Total
Medicare	7%		7%	8%		8%
Private	<u>15</u>	<u>78%</u>	<u>93</u>	<u>14</u>	<u>78%</u>	<u>92</u>
Total	<u>22%</u>	<u>78%</u>	<u>100%</u>	<u>22%</u>	<u>78%</u>	<u>100%</u>

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 1. Description of organization and summary of significant accounting policies (continued):

#### Performance indicator:

The consolidated statements of activities and changes in net assets include a "performance indicator," excess of revenue and other support over expenses. Changes, if any, in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include contributions of long-lived assets (including contributions with donor restrictions used for the purpose of acquiring long-lived assets), support from the Foundation and unrealized gains and losses on debt security investments.

#### Classification of expenses:

Certain categories of expenses require allocation to more than one program or supporting function on a reasonable basis that is consistently applied. Expenses that are allocated include 1) salaries and wages and related payroll taxes and benefits, which are allocated based on time and effort, 2) depreciation and amortization, interest, and real estate taxes, which are allocated based on square footage, 3) dining related expenses, which are allocated based on meals served, 4) laundry and certain supplies and equipment, which are allocated based on patient days, and 5) housekeeping, certain supplies and equipment, and utilities, which are allocated based on average occupied units. The remaining expenses, which are not directly identifiable by program or support service, are allocated based on best estimates of management.

#### Advertising:

The Organization expenses advertising expenditures as incurred. Advertising expense total \$141,675 in 2019 and \$173,909 in 2018 and is included in purchased services expenses in the consolidated statements of activities and changes in net assets.

#### Reclassifications:

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

### 2. Liquidity and availability:

Laurel Lake's financial assets available within one year of the consolidated statements of financial position as of December 31, 2019 and 2018 for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,988,854	\$ 3,841,696
Investments, net of amounts with donor restrictions	20,162,987	13,458,254
Accounts and entrance fees receivable	<u>1,070,919</u>	<u>1,483,985</u>
	<u>\$ 24,222,760</u>	<u>\$ 18,783,935</u>

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 2. Liquidity and availability (continued):

As part of Laurel Lake's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Community invests cash in excess of daily requirements in short-term investments. Additionally, the Community's endowment funds consist of donor-restricted endowments, whose income is not restricted for specific purposes and, therefore is available for general expenditure. Based on the Community's investment and spending policy, \$45,107 in 2019 and \$24,066 in 2018 of accumulated earnings on endowment funds is available for use and will be released from restriction upon need for expenditure and a board resolution. Accumulated earnings on endowment funds are included in investments.

### 3. Investments:

The composition of the fair value of investments at December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Marketable securities	<u>\$ 21,847,290</u>	<u>\$ 15,383,380</u>

### 4. Fair value:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Laurel Lake has the ability to access.

Level 2 – Inputs that are derived principally from or corroborated by observable market data by correlation or other means. Inputs to the methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 4. Fair value (continued):

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Laurel Lake believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

The following fair value measurement information is presented in accordance with U.S. GAAP at December 31, 2019 and 2018:

	2019			2018		
	Measurement		Fair Value	Measurement		Fair Value
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	
Marketable securities:						
Fixed income	\$ 5,087,124	\$ 5,087,124	\$ 2,179,630	\$ 2,179,630		
Equities	<u>16,760,166</u>	<u>16,760,166</u>	<u>13,203,750</u>	<u>13,203,750</u>		
	<u>\$ 21,847,290</u>	<u>\$ 21,847,290</u>	<u>\$ 15,383,380</u>	<u>\$ 15,383,380</u>		
Interest rate swaps liability	\$ (1,174,329)	\$ (1,174,329)	\$ (80,452)	\$ (80,452)		

Fair value for Level 1 of marketable securities is based on the value at the daily closing price as reported by the fund. Marketable securities held by Laurel Lake are open-ended marketable securities that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. Fair value for Level 2 debt derivatives is based on the swap bank utilizing interest rates and yield curves in the third-party active market.

### 5. Long-term debt:

	2019	2018
Term loan payable to a bank, interest at LIBOR plus applicable basis points ranging from 1.95% to 2.25% (3.66% at December 31, 2019 and 4.30% at December 31, 2018). The applicable basis points are determined by the computation of a certain covenant under provisions of the term loan agreement. Remaining monthly principal payments range from \$41,250 to \$58,333 with a balloon payment of the remaining principal and interest due in December 2026. The note is secured by primarily all assets of Laurel Lake and subject to certain covenants and restrictions	\$ 13,876,250	\$ 14,403,333

## LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

**5. Long-term debt (continued):**

	2019	2018
Term loan payable to a bank, interest at LIBOR plus applicable basis points ranging from 1.95% to 2.25% (3.66% at December 31, 2019 and 4.30% at December 31, 2018). The applicable basis points are determined by the computation of a certain covenant under provisions of the term loan agreement. Remaining monthly principal payments range from \$26,667 to \$34,583, with a balloon payment of the remaining principal and interest due in December 2026. The note is secured by primarily all assets of Laurel Lake and subject to certain covenants and restrictions	11,172,917	11,518,334
Bonds payable, see (A) below	8,105,000	8,385,000
	33,154,167	34,306,667
Less current portion	1,197,500	1,145,833
Less debt issuance costs	441,898	470,841
	<u>\$ 31,514,769</u>	<u>\$ 32,689,993</u>

(A) Laurel Lake has an agreement with the County of Summit, Ohio for \$14,280,000 of tax-exempt Healthcare Facilities Revenue Bonds consisting of:

\$9,580,000 (\$8,105,000 outstanding at December 31, 2019 and \$8,385,000 outstanding at December 31, 2018) Tax-Exempt Health Care Facilities Revenue Bonds. Interest is at 3.721% for the initial rate period from the issue date of December 31, 2013 through July 1, 2026. The interest rate will reset under terms of the bond agreement on July 1, 2026. The bonds may not be converted before this date. Principal and Interest payments are due October 1 each year and continue until the bonds mature on October 1, 2038.

\$2,000,000 Tax-Exempt Subordinated Health Care Facilities Revenue Bonds. Interest was at a fixed rate of 8.5%. Interest only payments began April 1, 2014 and October 1, 2014 and were to continue semiannually until the bonds matured on October 1, 2038. Principal payments were due annually as of October 1, 2017. The bonds were subject to certain mandatory sinking fund redemption requirements beginning as of October 1, 2017 and optional redemption requirements beginning on October 1, 2018. During October 2018, the Community exercised its option to redeem these bonds. The bonds were paid off from the debt service fund and investment account.

\$2,700,000 Tax-Exempt Subordinated Health Care Facilities Revenue Bonds. Interest only at 7.75% was paid for the initial adjustable rate period from the issue date of December 30, 2013 through October 1, 2023. The interest rate was going to reset per the terms of the bond agreement on October 1, 2023. Interest only payments began April 1, 2014 and October 1, 2014 and were to continue semiannually until the bonds matured on October 1, 2038. Principal payments were due annually as of October 1, 2017. The bonds were subject to certain mandatory sinking fund redemption requirements as of October 1, 2017 and optional redemption requirements beginning on October 1, 2018. During October 2018, the Community exercised its option to redeem these bonds. The bonds were paid off from the debt service funds and investment account.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

**5. Long-term debt (continued):**

Future maturities of long-term debt are as follows:

<u>Year ending December 31,</u>	
2020	\$ 1,197,500
2021	1,252,500
2022	1,307,500
2023	1,364,167
2024	1,405,000
Thereafter	<u>26,627,500</u>
	<u>\$ 33,154,167</u>

Included in interest expense on the consolidated statements of activities and changes in net assets is interest of \$1,478,393 in 2019 and \$1,801,220 in 2018 plus amortization of debt issuance costs.

**6. Interest rate swaps:**

The Community has interest rate swap agreements with a bank to hedge its risk relative to the term loans. The fair value of the interest rate swap is based on calculations prepared by the bank, which provide for a reasonable approximation of fair market value. The fair market value represents amounts the counter party would pay or receive from the Community if the swap agreement was terminated at that date.

Information related to the interest rate swap agreements at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2018</u>
Maturity date	December 2026	December 2026	December 2026	December 2026
Total notional amount	\$ 13,925,000	\$ 11,205,417	\$ 14,403,333	\$ 11,518,334
Fixed rates paid by borrower	<u>2.44%</u>	<u>2.46%</u>	<u>2.44%</u>	<u>2.46%</u>
Variable rates received by borrower	<u>1.71%</u>	<u>1.71%</u>	<u>2.35%</u>	<u>2.35%</u>
Total swap liability	<u>\$ 636,216</u>	<u>\$ 538,113</u>	<u>\$ 51,454</u>	<u>\$ 28,998</u>

**7. Taxes:**

The Community and Foundation are recognized as exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as charitable organizations qualifying under Internal Revenue Code Section 501(c)(3).

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 7. Taxes (continued):

On October 18, 1993, Laurel Lake granted a third mortgage on its real property to the Village of Hudson, Ohio to secure payments in lieu of property taxes under an agreement between the Village of Hudson and the Community. Annual payments were based on specified percentages of property taxes that would otherwise be due on the real property consisting of the residential units subject to taxation. Amounts and percentages per the agreement were as follows:

Period	Amount Due
2014–2017	Annually, the greater of \$421,000 or 60% of the tax due without exemption
2018	The greater of one-twelfth of \$421,000 or 60% of the tax due without exemption plus the difference between (i) the amount paid in 2018 and (ii) the greater of \$421,000 or 60% of the tax due without exemption
After 2018	100% of the tax due without exemption

These amounts are expensed as incurred and totaled \$421,000 in 2018. This expense is included in tax expenses on the consolidated statements of activities and changes in net assets. Due to the expiration of the aforementioned agreement, 100% of the taxes payable have been included in accrued expenses in the consolidated statements of financial position at December 31, 2019 and 2018.

### 8. Endowments (with donor restrictions):

Laurel Lake’s disclosure of its endowment net asset composition by type of fund is as follows as of December 31:

	2019	2018
Donor-restricted endowment funds	\$ <u>306,127</u>	\$ <u>284,186</u>
Changes in endowment net assets for the years ended December 31:		
	2019	2018
Endowment net assets, beginning of year	\$ 284,186	\$ 312,387
Investment income (loss)	21,041	(28,851)
Contributions	<u>900</u>	<u>650</u>
Endowment net assets, end of year	\$ <u>306,127</u>	\$ <u>284,186</u>



# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

**9. Net assets with donor restrictions:**

Net assets whose restrictions expire by usage are as follows as of December 31:

	2019	2018
Staff education	\$ 12,015	\$ 15,045
Wellness	117,943	152,755
SN care	25,698	25,698
Other programs	148,623	309,545
Life care	<u>1,073,897</u>	<u>1,137,897</u>
	<u>\$ 1,378,176</u>	<u>\$ 1,640,940</u>
Accumulated investment income available for general activities upon board resolution	<u>\$ 45,107</u>	<u>\$ 24,066</u>

Net assets restricted in perpetuity consists of the following as of December 31:

	2019	2018
Campus Endowment Fund	\$ 166,886	\$ 166,886
Other endowments	<u>94,134</u>	<u>93,234</u>
	<u>\$ 261,020</u>	<u>\$ 260,120</u>

Net assets were released from donor restrictions for operations totaling \$312,472 in 2019 and \$171,036 in 2018.

**10. Retirement plan:**

The Community has a 403(b) defined contribution retirement plan (the Plan), for all eligible employees. The Plan provides for employee contributions through salary reduction. During 2019, the Community matched 100% of the employee's contribution up to 4% of eligible wages. During 2018, the Community matched either 33% or 50% of an employee's contribution up to 6% of eligible salary depending on the length of service, as defined by the Plan. In addition, the Community may elect to contribute 1% of compensation for each eligible employee. The Community did not elect to contribute 1% in 2019 and 2018. Total expense under the Plan was approximately \$85,000 in 2019 and \$98,000 in 2018.

**11. Functional expenses:**

Laurel Lake provides general health care services and resident services to residents of the community in addition to incurring general and administrative and fundraising expenses for the years ended December 31, 2019 and 2018 as follows:

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

**11. Functional expenses (continued):**

	2019			
	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,553,710	\$ 5,421,598	\$ 80,558	\$ 8,055,866
Employee benefits	673,021	1,428,842	21,231	2,123,094
Purchased services	1,019,893	2,165,262	32,173	3,217,328
Supplies	664,685	1,411,146	20,968	2,096,799
Utilities	420,684	893,124	13,271	1,327,079
Rent	9,379	19,912	296	29,587
Insurance	116,769	247,904	3,683	368,356
Interest	477,826	1,014,437	15,073	1,507,336
Depreciation	1,160,101	2,462,928	36,597	3,659,626
Taxes	352,092	747,502	11,107	1,110,701
Other	118,159	250,855	3,728	372,742
Foundation	117,994	250,505	3,722	372,221
	\$ 7,684,313	\$ 16,314,015	\$ 242,407	\$ 24,240,735
	2018			
	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,252,515	\$ 5,643,227	\$ 63,676	\$ 7,959,418
Employee benefits	552,136	1,383,265	15,608	1,951,009
Purchased services	788,967	1,976,600	22,303	2,787,870
Supplies	537,645	1,346,962	15,198	1,899,805
Utilities	389,124	974,872	11,000	1,374,996
Rent	3,543	8,878	100	12,521
Insurance	92,398	231,486	2,612	326,496
Interest	516,847	1,294,857	14,610	1,826,314
Depreciation	994,014	2,490,304	28,099	3,512,417
Taxes	423,528	1,061,064	11,972	1,496,564
Other	99,077	248,218	2,801	350,096
Foundation	63,419	158,883	1,792	224,094
	\$ 6,713,213	\$ 16,818,616	\$ 189,771	\$ 23,721,600

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, and administrative expenses. Expenses are allocated using square footage, number of units, meals served and full time employees.

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

### 12. Insurance:

#### Professional medical liability insurance

The Community has an agreement with a multi-provider risk retention group for its professional medical liability insurance which commenced January 1, 2014. The risk retention group obtained reinsurance with another insurance company. The risk retention group insurance coverage is a claims-made policy. The Community has a self-insured retention per occurrence and the policy includes a reimbursement provision of a maximum amount per claim and a maximum aggregate claim per the term of the policy. An estimate of claims incurred and reported but unpaid and estimates for incurred but unreported claims of \$91,237 and \$87,237 at December 31, 2019 and 2018 is included in accrued expenses, other in the consolidated statements of financial position.

#### Self-insured state workers' compensation

During 2019, the Community became self-insured with regard to the State of Ohio Bureau of Workers' Compensation program. The Community will reimburse for substantiated claims of insured employees up to \$350,000 per occurrence. Amounts in excess of the reimbursement maximum will be covered by an excess insurance policy up to a maximum of \$1,000,000 per occurrence. Based upon Community management's estimates, are claims incurred and reported but unpaid, estimates for incurred but unreported claims and the present value of future payments relating to permanent disability claims amounting to \$25,535 at December 31, 2019, which are included in accrued expenses, other in the consolidated statements of financial position.

### 13. Consolidated statements of cash flows:

Cash paid during the year for:	<u>2019</u>	<u>2018</u>
Interest	<u>\$ 1,469,565</u>	<u>\$ 1,907,714</u>

### 14. Subsequent events:

On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic with multiple jurisdictions in the United States declaring a state of emergency. Certain states, including Ohio, have issued "stay-at-home" orders for non-essential businesses, as defined. Laurel Lake has determined it qualifies as an essential business. Accordingly, there has been no immediate significant impact to Laurel Lake's operations to date; however Laurel Lake's financial position, changes in net assets, and cash flows could be impacted in the near future. Management has, and will continue to, monitor the situation and make changes to its operations in an attempt to minimize any future financial impact. The Community has applied for funding through the Paycheck Protection Program ("PPP") and the outcome of the application is unknown at this time.

In preparing this financial statement, Laurel Lake management has evaluated events and transactions for potential recognition or disclosure through April 16, 2020, the date Laurel Lake's consolidated financial statements were available to be issued.

Independent Auditor's Report on Accompanying Supplementary Information

The Board of Directors  
Laurel Lake Retirement Community, Inc. and Subsidiary  
Hudson, Ohio

We have audited the consolidated financial statements of Laurel Lake Retirement Community, Inc. and Subsidiary as of December 31, 2019 and 2018, and have issued our report thereon dated April 16, 2020 which contained an unmodified opinion on these financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information included in this report on pages 26 through 28 is presented for the purposes of additional analysis 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 statement. 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.

*HW & CO.*

Cleveland, Ohio  
April 16, 2020

# LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

### ASSETS

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
<b>Current assets:</b>				
Cash and cash equivalents	\$ 2,823,817	\$ 165,037		\$ 2,988,854
Accounts receivable:				
Trade, net of allowance for doubtful accounts	617,050			617,050
Intercompany	42,866		\$ (42,866)	
Other	4,219	26,000		30,219
Entrance fees receivable	423,650			423,650
Prepaid expenses and other	127,853			127,853
	<u>4,039,455</u>	<u>191,037</u>	<u>(42,866)</u>	<u>4,187,626</u>
Total current assets				
<b>Property and equipment:</b>				
Land and improvements	5,532,561			5,532,561
Buildings and improvements	71,525,940			71,525,940
Equipment	5,656,206			5,656,206
Furniture and fixtures	2,228,828			2,228,828
Construction-in-progress	348,186			348,186
	<u>85,291,721</u>			<u>85,291,721</u>
Less accumulated depreciation	19,817,465			19,817,465
	<u>65,474,256</u>			<u>65,474,256</u>
<b>Other assets:</b>				
Investments:				
Available-for-sale securities	17,789,843	4,057,447		21,847,290
Other	364,808			364,808
Operating rights to licensed beds	1,500,000			1,500,000
	<u>19,654,651</u>	<u>4,057,447</u>		<u>23,712,098</u>
	<u>\$ 89,168,362</u>	<u>\$ 4,248,484</u>	<u>\$ (42,866)</u>	<u>\$ 93,373,980</u>

**LIABILITIES AND NET ASSETS**

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
<b>Current liabilities:</b>				
Accounts payable:				
Trade	\$ 847,726			\$ 847,726
Intercompany		\$ 42,866	\$ (42,866)	
Accrued expenses:				
Salaries, wages and related liabilities	458,115			458,115
Compensated absences	251,254			251,254
Real estate taxes	1,108,420			1,108,420
Interest	127,381			127,381
Other	294,110			294,110
Current portion of long-term debt	1,197,500			1,197,500
Total current liabilities	4,284,506	42,866	(42,866)	4,284,506
<b>Long-term liabilities:</b>				
Security deposits	2,193,504			2,193,504
Long-term debt, net of current portion and debt issuance costs	31,514,769			31,514,769
Interest rate swaps liability	1,174,329			1,174,329
Refundable entrance fee liability	1,892,710			1,892,710
Gift annuities payable		577,416		577,416
Deferred revenue, entrance fees	31,993,124			31,993,124
Total liabilities	73,052,942	620,282	(42,866)	73,630,358
<b>Net assets:</b>				
Without donor restrictions	16,115,420	1,943,899		18,059,319
With donor restrictions		1,684,303		1,684,303
Total net assets	16,115,420	3,628,202		19,743,622
	<u>\$ 89,168,362</u>	<u>\$ 4,248,484</u>	<u>\$ (42,866)</u>	<u>\$ 93,373,980</u>

## LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

### CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2019

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
<b>Changes in net assets without donor restrictions:</b>				
<b>Revenue and other support:</b>				
Resident services:				
Service fees	\$ 16,461,132			\$ 16,461,132
Amortization of deferred revenue	4,104,083			4,104,083
Nursing services and other	3,526,809			3,526,809
Investment income (loss), net	438,440	\$ (68,712)		369,728
Contributions	349,654	71,182	\$ (27,116)	393,720
Net assets released from donor restrictions for operations		312,472		312,472
	<u>24,880,118</u>	<u>314,942</u>	<u>(27,116)</u>	<u>25,167,944</u>
Total revenue and other support				
<b>Expenses:</b>				
Salaries and wages	8,055,866			8,055,866
Employee benefits	2,123,094			2,123,094
	<u>10,178,960</u>			<u>10,178,960</u>
Total employment expenses				
Purchased services	3,217,328			3,217,328
Supplies	2,096,799			2,096,799
Utilities	1,327,079			1,327,079
Rent	29,587			29,587
Insurance	368,356			368,356
Interest	1,507,336			1,507,336
Depreciation	3,659,626			3,659,626
Taxes	1,110,701			1,110,701
Other	372,742			372,742
Foundation		399,337	(27,116)	372,221
	<u>23,868,514</u>	<u>399,337</u>	<u>(27,116)</u>	<u>24,240,735</u>
Total expenses				
<b>Operating income (loss)</b>	1,011,604	(84,395)		927,209
Unrealized loss on interest rate swaps	(1,093,877)			(1,093,877)
Unrealized gain on equity securities, net	1,181,667	427,719		1,609,386
	<u>1,099,394</u>	<u>343,324</u>		<u>1,442,718</u>
<b>Excess of revenue and other support over expenses</b>				
<b>Other changes in net assets without donor restrictions:</b>				
Unrealized gain on debt securities, net	434,659	224		434,883
	<u>1,534,053</u>	<u>343,548</u>		<u>1,877,601</u>
Increase in net assets without donor restrictions				
<b>Changes in net assets with donor restrictions:</b>				
Contributions		48,458		48,458
Investment loss, net		(12,282)		(12,282)
Net assets released from donor restrictions for operations		(312,472)		(312,472)
		<u>(276,296)</u>		<u>(276,296)</u>
Decrease in net assets with donor restrictions				
<b>Increase in net assets</b>	1,534,053	67,252		1,601,305
<b>Net assets, beginning of year</b>	14,581,367	3,560,950		18,142,317
<b>Net assets, end of year</b>	<u>\$ 16,115,420</u>	<u>\$ 3,628,202</u>	<u>\$</u>	<u>\$ 19,743,622</u>

## LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

### CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>				
Increase in net assets	\$ 1,534,053	\$ 67,252		\$ 1,601,305
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Unrealized gains on investments, net	(1,616,326)	(427,943)		(2,044,269)
Realized (gain) loss on investments, net	(438,440)	80,994		(357,446)
Depreciation	3,659,626			3,659,626
Amortization of debt issuance costs	28,943			28,943
Amortization of deferred revenue, entrance fees	(4,104,083)			(4,104,083)
Unrealized loss on interest rate swaps	1,093,877			1,093,877
Bad debt expense	45,390			45,390
Entrance fees received, not expected to be refunded	6,275,575			6,275,575
Contributions with donor restrictions		(900)		(900)
Changes in assets and liabilities:				
Decrease in accounts receivable and other assets	313,708	164,690	\$ 45,003	523,401
Increase (decrease) in accounts payable and other current liabilities	296,020	(45,002)	(45,003)	206,015
Net cash provided by (used in) operating activities	<u>7,088,343</u>	<u>(160,909)</u>		<u>6,927,434</u>
<b>Cash flows from investing activities:</b>				
Expenditures for property and equipment	(2,326,650)			(2,326,650)
Decrease in entrance fees receivable	35,990			35,990
Proceeds from sale of available-for-sale securities	8,091,418	2,755,072		10,846,490
Purchase of available-for-sale securities	(12,300,569)	(2,608,116)		(14,908,685)
Purchase of other investments	(270,500)			(270,500)
Net cash provided by (used in) investing activities	<u>(6,770,311)</u>	<u>146,956</u>		<u>(6,623,355)</u>
<b>Cash flows from financing activities:</b>				
Change in gift annuities payable, net		5,380		5,380
Contributions with donor restrictions		900		900
Refunds of refundable fees	(380,058)			(380,058)
Entrance fees received, expected to be refunded	369,357			369,357
Payments on long-term debt	(1,152,500)			(1,152,500)
Net cash provided by (used in) financing activities	<u>(1,163,201)</u>	<u>6,280</u>		<u>(1,156,921)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(845,169)</u>	<u>(7,673)</u>		<u>(852,842)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>3,668,986</u>	<u>172,710</u>		<u>3,841,696</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,823,817</u>	<u>\$ 165,037</u>	<u>\$</u>	<u>\$ 2,988,854</u>