Laurel Lake Retirement Community, Inc. and Subsidiary

YEARS ENDED DECEMBER 31, 2018 AND 2017

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LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

CONTENTS

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, 2018 and 2017, 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, 2018 and 2017, 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.

HW & Co.

Cleveland, Ohio
April 11, 2019

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	$ 3,841,696	$ 2,313,052
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $10,000	828,019	669,904
Other	196,326	251,775
Entrance fees receivable	459,640	612,330
Prepaid expenses and other	229,563	387,042
Total current assets	5,555,244	4,234,103
Property and equipment:		
Land and improvements	5,260,673	5,260,673
Buildings and improvements	70,607,477	65,822,611
Equipment	4,596,043	4,169,599
Furniture and fixtures	2,162,868	2,140,218
Construction-in-progress	338,010	4,219,519
	82,965,071	81,612,620
Less accumulated depreciation	16,157,839	12,645,422
	66,807,232	68,967,198
Other assets:		
Assets limited as to use		467,232
Investments:		
Available-for-sale securities	15,383,380	18,243,499
Other	94,308	94,308
Operating rights to licensed beds	1,500,000	1,500,000
	16,977,688	20,305,039
	$ 89,340,164	**$ 93,506,340**

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities:		
Accounts payable, trade	$ 909,337	$ 1,107,754
Accrued expenses:		
Salaries, wages and related liabilities	370,003	399,982
Compensated absences	250,110	265,340
Real estate taxes	1,038,063	93,144
Interest	118,553	225,302
Other	273,566	250,582
Current portion of long-term debt	1,145,833	1,182,500
Total current liabilities	4,105,465	3,524,604
Long-term liabilities:		
Security deposits	2,024,858	1,692,288
Long-term debt, net of current portion and debt issuance costs	32,689,993	38,203,930
Interest rate swaps liability	80,452	421,280
Refundable entrance fee liability	2,059,382	2,879,356
Gift annuities payable	572,036	438,974
Deferred revenue, entrance fees	29,665,661	29,567,546
Total liabilities	71,197,847	76,727,978
Net assets:		
Without donor restrictions	16,217,191	15,972,936
With donor restrictions	1,925,126	805,426
Total net assets	18,142,317	16,778,362
	$ 89,340,164	**$ 93,506,340**

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, 2018 AND 2017

	2018	2017
Changes in net assets without restrictions:		
Revenue and other support:		
Resident services:		
Service fees	$ 16,066,113	$ 15,636,668
Amortization of deferred revenue	5,316,499	5,323,120
Nursing services and other	3,721,088	3,470,736
Investment income, net	725,699	832,268
Contributions	339,519	363,795
Net assets released from restrictions for operations	171,036	83,085
Total revenue and other support	26,339,954	25,709,672
Expenses:		
Salaries and wages	7,959,418	8,063,210
Employee benefits	1,951,009	2,264,074
Total employment expenses	9,910,427	10,327,284
Purchased services	2,787,870	2,463,513
Supplies	1,899,805	1,716,910
Utilities	1,374,996	1,444,152
Rent	12,521	7,536
Insurance	326,496	274,371
Interest	1,826,314	2,015,248
Depreciation	3,512,417	3,353,472
Taxes	1,496,564	535,169
Other	350,096	290,895
Foundation	224,094	260,407
Total expenses	23,721,600	22,688,957
Excess of revenue and other support over expenses	2,618,354	3,020,715
Other changes in net assets without donor restrictions:		
Net assets released from restriction for capital expenditures		848,161
Unrealized gain (loss) on interest rate swaps	340,829	(421,280)
Unrealized gains (losses) on investments, net	(1,495,319)	992,394
Reclassification of net assets (Note 1)	(1,137,897)	(184,364)
Increase (decrease) in net assets without donor restrictions	(2,292,387)	1,234,911
Changes in net assets with donor restrictions:		
Contributions	99,690	221,816
Unrealized gains (losses) on investments, net	(33,326)	25,663
Investment income, net	4,763	10,282
Reclassification of net assets (Note 1)	1,137,897	184,364
Net assets released from restrictions for capital expenditures and operations	(171,036)	(931,246)
Increase (decrease) in net assets with donor restrictions	1,037,988	(489,121)
Increase in net assets	1,363,955	3,766,505
Net assets, beginning of year	16,778,362	13,011,857
Net assets, end of year	**$ 18,142,317**	**$ 16,778,362**

See notes to consolidated financial statements.

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 1,363,955	$ 3,766,505
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) losses on investments, net	1,528,645	(1,018,057)
Realized gains on investments, net	(730,462)	(582,035)
Depreciation	3,512,417	3,353,472
Amortization of debt issuance costs	25,094	33,496
Amortization of deferred revenue, entrance fees	(5,316,499)	(5,323,120)
Unrealized loss (gain) on interest rate swaps	(340,829)	421,280
Bad debt expense	16,386	24,201
Entrance fees received, not expected to be refunded	4,347,979	4,974,412
Write off of debt issuance costs	62,462	379,474
Contributions restricted for long-lived assets and contributions with donor restrictions	(650)	(200,803)
Changes in assets and liabilities:		
Increase in accounts receivable and other assets	(60,369)	(318,947)
Increase in accounts payable and other liabilities	1,048,895	1,091,896
Net cash provided by operating activities	5,457,024	6,601,774
Cash flows from investing activities:		
Expenditures for property and equipment	(1,352,451)	(5,514,923)
Decrease (increase) in entrance fees receivable	152,690	(547,730)
Proceeds from sale of investments	17,507,837	9,833,170
Purchase of investments	(14,978,669)	(9,221,188)
Net cash provided by (used in) investing activities	1,329,407	(5,450,671)
Cash flows from financing activities:		
Change in gift annuities payable, net	133,062	(144,369)
Contributions received restricted for long-lived assets and contributions with donor restrictions	650	200,803
Refunds of refundable fees	(819,974)	(141,583)
Entrance fees received, expected to be refunded	1,066,635	493,312
Increase in debt issuance costs		(109,500)
Payments on long-term debt	(5,638,160)	(6,216,249)
Net cash used in financing activities	(5,257,787)	(5,917,586)
Net increase (decrease) in cash and cash equivalents	1,528,644	(4,766,483)
Cash and cash equivalents, beginning of year	2,313,052	7,079,535
Cash and cash equivalents, end of year	**$ 3,841,696**	**$ 2,313,052**

See notes to consolidated financial statements.

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.

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:

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. FASB issued the ASU to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows. Laurel Lake adopted the provisions of this ASU effective for the year ended December 31, 2018. These changes have been applied on a retrospective basis except for the disclosures related to liquidity and available resources. With the provisions of the ASU being applied on a retrospective basis, net assets have been presented "with donor restrictions" and "without donor restrictions" in the consolidated statements of financial position as of December 31, 2018 and 2017, and in the consolidated statements of activities and changes in net assets for the years ended December 31, 2018 and 2017.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* including all related amendments (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance (including guidance specific to the Healthcare industry) throughout the industry topics of the FASB Accounting Standards codification (ASC). The core principal of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps, (1) identify the contract(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as the entity satisfies a performance obligation).

Because Laurel Lake has public obligor bonds (see Note 6), Laurel Lake was required to adopt ASC 606 for the year ended December 31, 2018. Laurel Lake adopted the modified retrospective transition method, therefore there was not a cumulative effect on the opening net asset balance as a result of adopting the standard as of January 1, 2018. However, there was no material change to Laurel Lake's revenue recognition in the 2018 consolidated statement of activities and changes in net assets due to Laurel Lake's adoption of ASC 606.

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

Recent accounting pronouncements:

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and 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. This ASU is effective for years beginning after December 15, 2018 for contributions received and December 15, 2019 for contributions made; therefore, the Organization will be required to adopt and implement this ASU for the year ending December 31, 2019 for contributions received and December 31, 2020 for contributions made. Management does not believe the provisions of this ASU will have a significant impact on its consolidated financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows* (Topic 230). The amendments in this ASU require that a statement of cash flows detail the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts presented on the statement of cash flows. This ASU will be effective for nonpublic companies for years beginning after December 15, 2018; therefore the Organization will be required to adopt and implement this ASU for the year ending December 31, 2019. Management does not believe the provisions of this ASU will have a significant impact on its consolidated financial statements.

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.

Cash and cash equivalents:

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

At December 31, 2018 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.

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

Assets limited as to use:

Assets limited as to use included assets held by the bond trustee under the terms of certain debt agreements (Notes 3 and 6). These debt agreements were redeemed during 2018 (Note 6).

Revenue recognition:

Resident service fees are reported at the amount that reflects the consideration to which the Community expects to be entitled in exchange for providing resident care. 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 on the month subsequent to 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 from admission to the point where the services are no longer required to be provided to that resident which is generally at the time of discharge. The Community provides other ancillary services which are not included in the bundled services, and therefore, are treated as separate performance obligations satisfied at a point in time when those services are rendered.

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.

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.

The Community recognized revenue in the consolidated statement of activities and changes in net assets and contract assets in the consolidated statement of financial position only when the services have been provided. Since the Community has performed its obligations under the contracts, it has unconditional rights to the consideration recorded as contract assets and therefore, classifies those billed contract assets as accounts receivable, trade.

The payments that the Community receives from residents in advance of providing services represent contract liabilities.

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

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, if in certain instances, if 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. 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.

Inpatient services; other third-party payors:

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

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, service lines, method of reimbursement, and timing of when revenue is recognized. The following is a summary of the composition of resident service fee revenue by primary payor for the years ended December 31, 2018 and 2017:

	2018	2017
Private	92%	92%
Medicare	8%	8%

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

CCRC entrance fee revenue:

The Community has entrance fee contracts with residents which are described in Note 1 "Entrance fee deposits and receivables" and "Deferred revenue and refundable entrance fees" below.

The Community has residency agreements which require the resident to pay an upfront entrance fee prior to moving into the Community, which is partially refundable in certain circumstances. The Community recognizes the performance obligation of these residency agreements over time as follows. The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated life of the resident based on an actuarial valuation. The refundable portion of the fee is not amortized and is included in refundable entrance fee liability (a contract liability) on the consolidated statements of financial position. The Community provides other ancillary services which are not included in the bundled services and, therefore, are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Since performance obligations under the residency agreements are longer than one year, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period are recorded as deferred revenue, a contract liability.

Monthly maintenance and service fees are charged for each level of care. The fee schedule for such fees is updated annually. The Community recognizes the performance obligation of these services over time.

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.

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, 2018 and 2017.

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. The Community includes a portion of refundable entrance fee liability as current based on historical amounts paid within twelve months of year end.

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.

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

Investments:

Investments in equity securities that have readily determinable fair values are measured at fair value.

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 13).

During 2017, Laurel Lake invested 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.

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.

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 Trustees 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.

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, 2018 and 2017, 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.

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.

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

Debt issuance costs:

Unamortized debt issuance costs are included with debt in the consolidated statements of financial position as of December 31, 2018 and 2017. 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. Write-off of debt issuance costs related to the redemption of bonds in 2018 and in 2017 is included in other expense in the consolidated statements of activities and changes in net assets. These amounts totaled $62,462 in 2018 and $379,474 in 2017.

Advertising:

The Organization expenses advertising expenditures as incurred. Advertising expense total $173,909 in 2018 and $194,380 in 2017 and is included in purchased services expenses in the consolidated statements of activities and changes in net assets.

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.

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 in 2018 and 2017 was 6%. 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.

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 in 2018 and $184,364 in 2017 previously included with net assets without donor restriction based on reviewing contribution support and agreements to net assets with donor restrictions.

Excess of revenue and other support over expenses:

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, changes in net unrealized gains or losses on investments, and changes in unrealized gains or losses on interest rate swaps.

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, 2018 and 2017, no such liability was determined to be required. The discount rate used to estimate the FSO was 4.5% in 2018 and 2017.

Reclassification:

Certain amounts included in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation.

2. Liquidity and availability:

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

Cash and cash equivalents	$ 3,814,696
Investments, net of amounts with donor restrictions	13,458,254
Accounts receivable	1,483,985
	$ 18,756,935

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, $24,066 in 2018 and $52,917 in 2017 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. Assets limited as to use:

The following is a summary of assets limited as to use at December 31, 2017:

Debt service fund	$ 1,198
Debt service reserve fund	466,034
	$ 467,232

Assets limited to use have been used to redeem certain bond obligations during 2018 (Note 6).

4. Investments:

The composition of the fair value of investments at December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Mutual funds	$ 15,383,380	$ 18,243,499

5. 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.

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, 2018 and 2017:

	2018			2017		
		Measurement			Measurement	
	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Mutual funds:						
Fixed income	$ 2,179,630	$ 2,179,630		$ 2,578,426	$ 2,578,426	
Equities	13,203,750	13,203,750		15,665,073	15,665,073	
	$ 15,383,380	$ 15,383,380		$ 18,243,499	$ 18,243,499	
Interest rate swaps liability	$ (80,452)		$ (80,452)	$ (421,280)		$ (421,280)

5. Fair value (continued):

Fair value for Level 1 of mutual funds is based on the value at the daily closing price as reported by the fund. Mutual funds held by Laurel Lake are open-ended mutual funds 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.

6. Long-term debt:

		2018	2017
Term loan payable to a bank, bore interest at LIBOR plus applicable basis points ranging from 2.2% to 2.5% through January 2017, when this loan was amended to bear interest at LIBOR plus applicable basis points ranging from 1.95% to 2.25% (4.30% at December 31, 2018 and 3.31% at December 31, 2017). The applicable basis points are determined by the computation of a certain covenant under provisions of the term loan agreement. Remaining monthly principal payments subsequent to the January 2017 amendment range from $41,250 to $58,333 through maturity in December 2026 with a balloon payment of the remaining principal and interest due in December 2026. As part of the amendment, an additional $3,500,000 principal payment was required to be made by the Community in February 2017. The note is secured by primarily all assets of Laurel Lake and subject to certain covenants and restrictions	$	14,403,333	$ 14,902,500
Term loan payable to a bank, bore interest at fixed rate of 5.168%. through January 2017, when this loan was amended to bear interest at LIBOR plus applicable basis points ranging from 1.95% to 2.25% (4.30% at December 31, 2018 and 3.31% at December 31, 2017). 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 through December 2026, 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		11,518,334	11,841,667
Bonds payable, see (A) below		8,385,000	13,200,300
		34,306,667	39,944,467
Less: Current portion		1,145,833	1,182,500
Less: Debt issuance costs		470,841	558,037
		$ 32,689,993	$ 38,203,930

6. Long-term debt (continued):

(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 ($8,385,000 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.

Future maturities of long-term debt are as follows:

Year ending December 31,	
2019	$ 1,145,833
2020	1,197,500
2021	1,252,500
2022	1,307,500
2023	1,364,167
Thereafter	28,039,167
	$ 34,306,667

Included in interest expense on the consolidated statements of activities and changes in net assets is interest of $1,801,220 in 2018 and $1,981,752 in 2017 plus amortization of the bond discounts plus amortization of debt issuance costs.

7. 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, 2018 and 2017 are as follows:

	2018 (A)	2018 (B)	2017 (A)	2017 (B)
Maturity date	December 2026	December 2026	December 2026	December 2026
Total notional amount	$ 14,403,333	$ 11,518,334	$ 14,943,750	$ 11,868,334
Fixed rates paid by borrower	2.44%	2.46%	2.44%	2.46%
Variable rates received by borrower	2.35%	2.35%	1.36%	1.36%
Total swap liability	$ 51,454	$ 28,998	$ 224,427	$ 196,853

8. 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).

The Community and Foundation are no longer subject to Federal income tax examinations by tax authorities for years before 2015.

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

8. Taxes (continued):

These amounts are expensed as incurred and totaled $421,000 in 2018 and $442,067 in 2017. 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 in 2019 but relating to 2018 have been included in accrued expenses in the consolidated statements of financial position at December 31, 2018.

9. 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:

	2018	2017
Donor-restricted endowment funds	$ 284,186	$ 312,387

Changes in endowment net assets for the years ended December 31:

	2018	2017
Endowment net assets, beginning of year	$ 312,387	$ 364,501
Investment return, net	(28,851)	35,946
Contributions	650	500
Reclassification based on donor's intent		(88,560)
Endowment net assets, end of year	$ 284,186	$ 312,387

10. Net assets with donor restrictions:

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

	2018	2017
Staff education	$ 15,045	$ 30,172
Wellness	152,755	106,668
SN care	25,698	25,698
Other programs	309,545	330,501
Life care	1,137,897	
	$ 1,640,940	$ 493,039
Accumulated investment income available for general activities upon board resolution	$ 24,066	$ 52,917

10. Net assets with donor restrictions (continued):

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

	2018	2017
Campus Endowment Fund	$ 166,886	$ 166,886
Other endowments	93,234	92,584
	$ 260,120	$ 259,470

11. 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. The Community matches 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 has elected to contribute 1% of compensation for each eligible employee. Total expense under the Plan was approximately $98,000 in 2018 and $137,200 in 2017.

12. 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 as follows:

	2018	2017
Program services:		
Residential services	$ 14,147,982	$ 13,186,159
Health care services	7,321,318	7,176,933
General and administrative and supporting services:		
General and administrative	2,068,849	2,171,037
Fundraising	183,451	154,828
	$ 23,721,600	$ 22,688,957

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.

13. 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. Based on internal and external evaluations of the merits of the individual claims, analysis of claim history and the estimated reserves assigned by the Community's third-party risk manager, management has determined an accrual is not necessary at December 31, 2018 and 2017. 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 at December 31, 2018 and 2017 is included in accrued expenses, other in the consolidated statements of financial position.

14. Consolidated statements of cash flows:

Cash paid during the year for:	2018	2017
Interest	$ 1,907,714	$ 1,993,527

15. Subsequent events:

In preparing this financial statement, Laurel Lake management has evaluated events and transactions for potential recognition or disclosure through April 11, 2019, the date Laurel Lake's financial statement were available to be issued.

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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, 2018 and 2017, and have issued our report thereon dated April 11, 2019 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 24 through 26 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 11, 2019

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 3,668,986	$ 172,710		$ 3,841,696
Accounts receivable:				
Trade, net of allowance for doubtful accounts of $10,000	828,019			828,019
Intercompany	87,868		$ (87,868)	
Other	5,636	190,690		196,326
Entrance fees receivable	459,640			459,640
Prepaid expenses and other	229,563			229,563
Total current assets	5,279,712	363,400	(87,868)	5,555,244
Property and equipment:				
Land and improvements	5,260,673			5,260,673
Buildings and improvements	70,607,477			70,607,477
Equipment	4,596,043			4,596,043
Furniture and fixtures	2,162,868			2,162,868
Construction-in-progress	338,010			338,010
	82,965,071			82,965,071
Less accumulated depreciation	16,157,839			16,157,839
	66,807,232			66,807,232
Other assets:				
Investments:				
Available-for-sale securities	11,525,926	3,857,454		15,383,380
Other	94,308			94,308
Operating rights to licensed beds	1,500,000			1,500,000
	13,120,234	3,857,454		16,977,688
	$ 85,207,178	**$ 4,220,854**	**$ (87,868)**	**$ 89,340,164**

LIABILITIES AND NET ASSSETS

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
Current liabilities:				
Accounts payable:				
Trade	$ 909,337			$ 909,337
Intercompany		$ 87,868	$ (87,868)	
Accrued expenses:				
Salaries, wages and related liabilities	370,003			370,003
Compensated absences	250,110			250,110
Real estate taxes	1,038,063			1,038,063
Interest	118,553			118,553
Other	273,566			273,566
Current portion of long-term debt	1,145,833			1,145,833
Total current liabilities	4,105,465	87,868	(87,868)	4,105,465
Long-term liabilities:				
Security deposits	2,024,858			2,024,858
Long-term debt, net of current portion and debt issuance costs	32,689,993			32,689,993
Interest rate swaps liability	80,452			80,452
Refundable entrance fee liability	2,059,382			2,059,382
Gift annuities payable		572,036		572,036
Deferred revenue, entrance fees	29,665,661			29,665,661
Total liabilities	70,625,811	659,904	(87,868)	71,197,847
Net assets:				
Without donor restrictions	14,581,367	1,635,824		16,217,191
With donor restrictions		1,925,126		1,925,126
Total net assets	14,581,367	3,560,950		18,142,317
	$ 85,207,178	**$ 4,220,854**	**$ (87,868)**	**$ 89,340,164**

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
Changes in net assets without donor restrictions:				
Revenue and other support:				
Resident services:				
Service fees	$ 16,066,113			$ 16,066,113
Amortization of deferred revenue	5,316,499			5,316,499
Nursing services and other	3,721,088			3,721,088
Investment income (loss), net	778,798	$ (53,099)		725,699
Contributions	462,648	98,367	$ (221,496)	339,519
Net assets released from restrictions for operations		171,036		171,036
Total revenue and other support	26,345,146	216,304	(221,496)	26,339,954
Expenses:				
Salaries and wages	7,959,418			7,959,418
Employee benefits	1,951,009			1,951,009
Total employment expenses	9,910,427			9,910,427
Purchased services	2,787,870			2,787,870
Supplies	1,899,805			1,899,805
Utilities	1,374,996			1,374,996
Rent	12,521			12,521
Insurance	326,496			326,496
Interest	1,826,314			1,826,314
Depreciation	3,512,417			3,512,417
Taxes	1,496,564			1,496,564
Other	350,096			350,096
Foundation expenses		445,590	(221,496)	224,094
Total expenses	23,497,506	445,590	(221,496)	23,721,600
Excess of revenue and other support over (under) expenses	2,847,640	(229,286)		2,618,354
Other changes in net assets without donor restrictions:				
Unrealized gain on interest rate swaps	340,829			340,829
Unrealized loss on investments, net	(1,192,379)	(302,940)		(1,495,319)
Reclassification of net assets		(1,137,897)		(1,137,897)
Increase (decrease) in net assets without donor restrictions	1,996,090	(1,670,123)		(2,292,387)
Changes in net assets with donor restrictions:				
Contributions		99,690		99,690
Unrealized loss on investments, net		(33,326)		(33,326)
Investment income, net		4,763		4,763
Reclassification of net assets		1,137,897		1,137,897
Net assets released from restriction for operations		(171,036)		(171,036)
Increase in net assets with donor restrictions		1,037,988		1,037,988
Increase (decrease) in net assets	1,996,090	(632,135)		1,363,955
Net assets, beginning of year	12,585,277	4,193,085		16,778,362
Net assets, end of year	$ 14,581,367	$ 3,560,950	$	$ 18,142,317

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation, Inc.	Eliminations	Consolidated
Cash flows from operating activities:				
Increase (decrease) in net assets	$ 1,996,090	$ (632,135)		$ 1,363,955
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Unrealized losses on investments, net	213,314	1,315,331		1,528,645
Realized loss (gain) on investments, net	(778,798)	48,336		(730,462)
Depreciation	3,512,417			3,512,417
Amortization of debt issuance costs	25,094			25,094
Amortization of deferred revenue, entrance fees	(5,316,499)			(5,316,499)
Unrealized gain on interest rate swaps	(340,829)			(340,829)
Bad debt expense	16,386			16,386
Entrance fees received, not expected to be refunded	4,347,979			4,347,979
Write off of debt issuance costs	62,462			62,462
Contributions with donor restrictions		(650)		(650)
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable and other assets	2,376	11,310	$ (74,055)	(60,369)
Increase in accounts payable and other current liabilities	950,099	24,741	74,055	1,048,895
Net cash provided by operating activities	4,690,091	766,933		5,457,024
Cash flows from investing activities:				
Expenditures for property and equipment	(1,352,451)			(1,352,451)
Decrease in entrance fees receivable	152,690			152,690
Proceeds from sale of investments	16,546,692	961,145		17,507,837
Purchase of investments	(13,133,126)	(1,845,543)		(14,978,669)
Net cash provided by (used in) investing activities	2,213,805	(884,398)		1,329,407
Cash flows from financing activities:				
Change in gift annuities payable, net		133,062		133,062
Contributions with donor restrictions		650		650
Refunds of refundable fees	(819,974)			(819,974)
Entrance fees received, expected to be refunded	1,066,635			1,066,635
Payments on long-term debt	(5,638,160)			(5,638,160)
Net cash provided by (used in) financing activities	(5,391,499)	133,712		(5,257,787)
Net increase in cash and cash equivalents	1,512,397	16,247		1,528,644
Cash and cash equivalents, beginning of year	2,156,589	156,463		2,313,052
Cash and cash equivalents, end of year	$ 3,668,986	$ 172,710	$	$ 3,841,696