Messiah Lifeways and Controlled Entities

Consolidated Financial Statements and Supplementary Information

June 30, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

Messiah Lifeways and Controlled Entities

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Independent Auditors' Report

Board of Directors
Messiah Lifeways and Controlled Entities

We have audited the accompanying consolidated financial statements of Messiah Lifeways and Controlled Entities (the "Corporation"), which comprise the consolidated balance sheet as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Messiah Lifeways and Controlled Entities as of June 30, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29 through 32 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and changes in net assets of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
September 12, 2017

Messiah Lifeways and Controlled Entities

Consolidated Balance Sheet
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 3,641,013	$ 4,314,152
Assets whose use is limited	1,824,554	1,808,328
Accounts receivable:		
Residents, net of estimated allowance for doubtful collections of $215,000 in 2017 and $318,000 in 2016	3,500,695	3,315,271
Other	351,214	63,199
Inventories	196,961	194,576
Pledges receivable	122,258	133,213
Prepaid expenses	927,309	512,139
Total current assets	10,564,004	10,340,878
Assets Whose Use Is Limited	7,746,017	10,248,149
Investments	44,787,430	40,026,711
Act 82 Reserve	2,207,000	1,638,000
Property and Equipment, Net	122,882,110	76,850,222
Pledges Receivable, Net	139,767	217,208
Deferred Costs, Net	686,341	789,974
Other Assets	1,165,402	1,116,430
Total assets	$ 190,178,071	$ 141,227,572

See notes to consolidated financial statements

Messiah Lifeways and Controlled Entities

Consolidated Balance Sheet
June 30, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Line of credit	$ -	$ 755,228
Current maturities of long-term debt	1,163,693	1,144,119
Accounts payable:		
Trade	790,979	1,090,470
Construction	7,550,051	2,595,770
Entrance fees	59,157	105,625
Accrued expenses	3,237,494	3,139,700
Deferred revenue	292,831	252,542
Split-interest obligations	87,685	95,542
Resident funds	20,080	17,005
Refundable entrance fees	1,127,000	970,000
Total current liabilities	14,328,970	10,166,001
Long-Term Debt	85,304,604	44,866,263
Refundable Entrance Fees and Deposits	14,787,820	14,603,841
Deferred Revenues from Entrance Fees	22,386,783	23,143,483
Derivative Financial Instruments	911,456	2,512,151
Split-Interest Obligations	376,173	416,438
Total liabilities	138,095,806	95,708,177
Net Assets		
Unrestricted	32,732,878	28,080,663
Temporarily restricted	6,709,140	5,015,288
Permanently restricted	12,640,247	12,423,444
Total net assets	52,082,265	45,519,395
Total liabilities and net assets	$ 190,178,071	$ 141,227,572

See notes to consolidated financial statements

Messiah Lifeways and Controlled Entities

Consolidated Statement of Operations and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Net resident service revenues	$ 37,868,707	$ 38,697,575
Other revenues	2,376,411	2,225,454
Net assets released from restriction used for operations	911,522	916,022
Total revenues	41,156,640	41,839,051
Expenses		
Salaries, wages, and benefits	23,465,927	23,511,909
Fees, purchased services, and supplies	6,825,779	7,020,576
Administrative	1,261,986	1,562,724
Building operations and maintenance	2,320,356	2,368,367
Insurance and real estate taxes	1,160,509	1,152,721
Interest	1,332,085	1,585,976
Depreciation and amortization	5,225,592	5,322,107
Total expenses	41,592,234	42,524,380
Operating loss	(435,594)	(685,329)
Nonoperating Gains (Losses)		
Investment return	3,372,873	(199,555)
Unrestricted contributions	116,305	240,527
Change in value of split-interest obligations	(39,984)	(67,699)
Change in fair value of derivative financial instruments	1,600,695	(1,414,918)
Other	(7,609)	(64,698)
Revenues in excess of (less than) expenses	4,606,686	(2,191,672)
Net Assets Released from Restriction Used for Property and Equipment	45,529	69,699
Transfer to Temporarily Restricted Net Assets	-	(5,000)
Change in unrestricted net assets	4,652,215	(2,126,973)
Temporarily Restricted Net Assets		
Contributions	448,819	653,862
Investment return	2,212,706	(14,370)
Change in value of split-interest obligation	(10,544)	(13,243)
Change in cash surrender value of life insurance, net of expense	(78)	(26,316)
Net assets released from restriction used for:		
Operations	(911,522)	(916,022)
Property and equipment	(45,529)	(69,699)
Transfer from unrestricted net assets	-	5,000
Change in temporarily restricted net assets	1,693,852	(380,788)
Permanently Restricted Net Assets		
Contributions	216,803	146,394
Change in net assets	6,562,870	(2,361,367)
Net Assets, Beginning	45,519,395	47,880,762
Net Assets, Ending	$ 52,082,265	$ 45,519,395

See notes to consolidated financial statements

Messiah Lifeways and Controlled Entities

Consolidated Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 6,562,870	$ (2,361,367)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,225,592	5,322,107
Loss on disposal of property and equipment	7,609	32,839
Amortization of bond premium	(154,119)	(159,443)
Amortization of debt issuance costs	101,024	88,724
Bad debts	1,483	265,739
Proceeds from entrance fees and entrance fee deposits, existing units	2,560,050	2,651,199
Amortization of entrance fees	(3,194,730)	(3,027,912)
Net realized and unrealized (gain) loss on investments	(4,569,665)	2,071,659
Change in fair value of derivative financial instruments	(1,600,695)	1,414,918
Change in value of split-interest obligations	39,984	67,699
Change in cash surrender value of life insurance	(13,374)	20,251
Contributions received restricted for long-term purposes	(538,584)	(743,675)
Change in pledges receivable	88,396	(190,926)
Changes in assets and liabilities:		
Accounts and other receivables	(336,422)	612,424
Inventories	(2,385)	(9,144)
Prepaid expenses	(415,170)	71,159
Accounts payable, trade	(299,491)	245,514
Accrued expenses	97,794	588,726
Deferred revenue	40,289	155,319
Resident funds	3,075	(8,715)
Net cash provided by operating activities	3,603,531	7,107,095
Cash Flows from Investing Activities		
Net sales (purchases) of investments and assets whose use is limited	1,725,852	(1,738,996)
Purchase of property and equipment	(51,175,336)	(20,416,240)
Proceeds from disposal of property and equipment	13,880	3,631
Payment of costs of acquiring initial continuing-care contracts	-	(41,063)
Increase in other assets	(35,598)	(2,357)
Net cash used in investing activities	(49,471,202)	(22,195,025)
Cash Flows from Financing Activities		
Repayment of line of credit	(755,228)	(1,311,548)
Proceeds from long-term debt	41,501,010	13,251,405
Repayment of long-term debt	(990,000)	(765,000)
Payment of debt issuance costs	-	(767,189)
Change in accounts payable, construction	4,954,281	1,836,153
Proceeds from entrance fees and deposits, new units	539,049	3,192,032
Proceeds from refundable entrance fees, existing units	709,726	1,273,631
Refunds of entrance fees	(1,214,784)	(1,748,334)
Net repayments on split-interest obligations	(88,106)	(96,161)
Contributions received restricted for long-term purposes	538,584	743,675
Net cash provided by financing activities	45,194,532	15,608,664
Net (decrease) increase in cash and cash equivalents	(673,139)	520,734
Cash and Cash Equivalents, Beginning	4,314,152	3,793,418
Cash and Cash Equivalents, Ending	$ 3,641,013	$ 4,314,152
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of capitalized interest	$ 1,237,990	$ 1,135,464
Supplemental Disclosure of Noncash Investing and Financing Activity		
Obligations incurred for the acquisition of property and equipment	$ 7,550,051	$ 2,595,770

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Organization

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

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

The Village is a not-for-profit corporation that operates a continuing care retirement community. The Village provides housing, health care, and other related services to older adults through the operation of a 184 bed nursing facility, 157 personal care units, 151 independent living cottages, and 124 independent living apartments (as of June 30, 2017). The Village is the sole member of Capital Area Health Associates ("Capital Area").

Mount Joy is a not-for-profit corporation that provides housing to residents 55 and older through the operation of 79 independent living cottages (as of June 30, 2017) located in Mount Joy, Pennsylvania.

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

Capital Area is a not-for-profit corporation that operates exclusively for the support and benefit of the Village by providing physician services to residents of the Village. Capital Area ceased operations during 2016.

As a ministry of the Brethren in Christ Church, the Corporation’s mission is to "responsibly enhance the lives of older adults with Christ-like love". The Corporation offers a network of opportunities for adults 55 and older in South Central, PA. All significant intercompany transactions and balances have been eliminated in consolidation.

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

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

Cash and Cash Equivalents

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

Accounts Receivable, Residents

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

Inventories

Inventories of nursing, dietary, and other supplies are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Investments and Investment Risk

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

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

The Village and Mount Joy's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated balance sheet could change materially in the near term.

Assets Whose Use Is Limited

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation was $5,121,959 in 2017 and $5,225,881 in 2016.

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

Pledges Receivable

Pledges receivable represent unconditional promises to give that are expected to be collected in future years. The pledges are recorded as either temporarily or permanently restricted contributions at the present value of estimated future cash flows. The discounts on the pledged amounts approximate current market rates at initial recognition. Amortization of the discounts is reported as contributions in the temporarily or permanently restricted net asset class.

Deferred Costs

Deferred expenses consist of the following as of June 30:

	2017	2016
Deferred marketing costs	$ 1,349,442	$ 1,349,442
Less accumulated amortization	(663,101)	(559,468)
	$ 686,341	$ 789,974

Amortization expense totaled $103,633 and $96,226 during the years ended June 30, 2017 and 2016, respectively.

Deferred marketing costs relate to the costs of acquiring initial continuing care contracts and are capitalized through the date of substantial occupancy and are being amortized on a straight-line basis over the average expected remaining lives of the residents under the contracts.

Due to the Financial Accounting Standards Board's ("FASB") issuance of Accounting Standards Update ("ASU") No. 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, the Corporation changed its method of presenting debt issuance costs. Prior to the issuance of ASU No. 2015-03, the Corporation presented debt issuance costs as a long-term asset in its consolidated balance sheet. As required by ASU No. 2015-03, the Corporation now presents debt issuance costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Corporation's debt issuance costs and long-term debt by $1,419,207 at June 30, 2016.

Debt issuance costs incurred in connection with the issuance of long-term debt are amortized using the effective-interest method, over the period of the related debt. Amortization expense, which is included as a component of interest expense, was $101,024 in 2017 and $88,724 in 2016. Accumulated amortization was $303,972 and $202,948 at June 30, 2017 and 2016, respectively.

Entrance Fees

The Village

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

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

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

For Residency Agreements executed prior to April 2003, refunds to residents are paid at the time of resale of the independent living unit by the Village, but not later than six months after termination of the Residency Agreement. For Residency Agreements executed in April 2003 forward, refunds to residents are paid after the independent living unit has been re-occupied by another resident and the entrance fee for the re-occupied independent living unit has been paid in full. At June 30, 2017, the gross amount of contractual refund obligations under the Village’s existing resident agreements approximates $11,024,000.

At June 30, 2017 and 2016, the Village owed refunds of $-0- and $86,144, respectively, to residents who executed Residency Agreements prior to April 2003. These amounts are classified as accounts payable in the consolidated balance sheet. In addition, at the end of each year, management estimates the portion of entrance fee refunds that will be paid the following year to Village residents who executed Residency Agreements. These amounts were $812,000 and $655,000 at June 30, 2017 and 2016, respectively, and are classified as current liabilities in the consolidated balance sheet.

Mount Joy

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

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

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

For Residency Agreements executed prior to January 2009, 30% of the refunds to residents are paid within 30 days after transfer of possession of the independent living unit to Mount Joy; the remaining 70% is paid within 30 days of the re-occupancy of the independent living unit. At June 30, 2017 and 2016, Mount Joy owed refunds of $59,157 and $19,481, respectively, to residents who executed Residency Agreements prior to January 2009. These amounts are classified as accounts payable in the consolidated balance sheet. In addition, at the end of each year, management estimates the portion of entrance fee refunds that will be paid the following year to Mount Joy residents who executed Residency Agreements prior to January 2009. These amounts were $315,000 at June 30, 2017 and June 30, 2016 and are classified as current liabilities in the consolidated balance sheet.

For Residency Agreements executed in January 2009 forward, refunds to residents are paid after the independent living unit has been re-occupied by another resident and the entrance fee for the re-occupied independent living unit has been paid in full. At June 30, 2017, the gross amount of contractual refund obligations under Mount Joy’s existing resident agreements approximates $9,893,000.

General

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

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

Split-Interest Agreements

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

Starting in March 2016, the Village has received as contributions, charitable gift annuities. These arrangements represent contracts between the Mennonite Foundation (the "Foundation") and the donors. Donors transfer cash or investments to the Foundation and, in turn, receive periodic distributions from the Foundation. The contributions received by the Village are the unconditional rights to receive the remainder interest in the gift annuities. The amount of the contribution is the difference between the asset received by the Foundation and the present value of the estimated future payments to be distributed by the Foundation to the annuitants. These contributions are recorded as temporarily or permanently restricted contributions, in accordance with donor restrictions.

Derivative Financial Instruments

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

Temporarily and Permanently Restricted Net Assets

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

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

Net Resident Service Revenues

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

Net resident service revenues include amortization of entrance fees of $3,194,730 in 2017 and $3,027,912 in 2016.

Benevolent Care

The Village also provides charity care to residents who meet certain criteria without charge or at amounts less than its established rates. Because the Village does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenues. The costs associated with charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the residents receiving charity care. The Village provided charity care at a cost of approximately $719,000 in 2017 and $560,000 in 2016.

Medical Assistance Reimbursement and Cost of Providing Care

The Village provides nursing care to Medical Assistance program beneficiaries at amounts less than its cost of providing care. The Village maintains records to identify and monitor the difference between the cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered. The costs associated with the services provided to Medical Assistance program beneficiaries include both direct costs and estimated indirect costs, as reported by management on the Corporation's internal consolidated financial statements. The difference between the estimated cost of providing care to Medical Assistance program beneficiaries and the payments received for services rendered was approximately $2,786,000 in 2017 and $2,268,000 in 2016.

Donor-Restricted Gifts

The Village reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as other revenues in the consolidated financial statements.

Income Taxes

The Corporation accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2017 and 2016.

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

Revenues in Excess of (Less Than) Expenses

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

Use of Estimates

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

Self-Insured Health Insurance

Beginning in 2016, the Corporation sponsors a self-funded employee benefit plan to provide healthcare benefits and services for its eligible employees and their dependents. The Corporation contracts with an insurance company to provide certain administrative and other services in connection with the Plan. The contract also provides for a schedule of excess loss of $55,000 per participant and approximately $1,000,000 in the aggregate.

New Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Corporation may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Corporation is currently assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its results of operations, financial position and cash flows.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Corporation has not yet determined the impact of this standard on its financial statements.

Due to the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest*: Simplifying the Presentation of Debt Issuance Costs, the Corporation changed its method of presenting debt issuance costs. Prior to the issuance of ASU No. 2015-03, the Corporation presented debt issuance costs as a long-term asset in its consolidated balance sheet. As required by ASU No. 2015-03, the Corporation now presents debt issuance costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Corporation’s debt issuance costs and long-term debt by $1,419,207 at June 30, 2016.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through September 12, 2017, the date the consolidated financial statements were issued.

2. Net Resident Service Revenues

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

- Medical Assistance: Nursing services provided to Medical Assistance program beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 11% and 12% of the Village's net resident service revenues in 2017 and 2016, respectively, were derived from the Medical Assistance Program.

- Medicare: Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic, and other factors and the reimbursement methodology is subject to various limitations and adjustments. Approximately 8% and 9% of the Village's net resident service revenues in 2017 and 2016, respectively, were derived from the Medicare Part A program.

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

3. Fair Value Measurements, Assets Whose Use is Limited, Investments and Financial Instruments

Fair Value Measurements

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

The levels of the fair value hierarchy are as follows:

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

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

Level 3 - Significant unobservable inputs.

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

The following tables present financial instruments measured at fair value at June 30, 2017 and 2016, by caption on the consolidated balance sheet:

	2017		
	Total	**Level 1**	**Level 2**
Reported at Fair Value:			
Assets:			
Assets whose use is limited,			
Cash and cash equivalents	$ 9,570,571	$ 9,570,571	$ -
Investments:			
Cash and cash equivalents	$ 1,018,312	$ 1,018,312	$ -
Mutual funds:			
Large growth	8,175,005	8,175,005	-
Large blend	1,876,725	1,876,725	-
Large value	11,396,369	11,396,369	-
Foreign large blend	1,633,576	1,633,576	-
Mid-cap value	2,114,987	2,114,987	-
Foreign large value	1,233,427	1,233,427	-
Small growth	1,283,665	1,283,665	-
Mid-cap growth	2,290,834	2,290,834	-
Small value	1,156,171	1,156,171	-
International equities	1,170,744	1,170,744	-
Other	1,444	1,444	-
Fixed income funds	11,734,913	11,734,913	-
Common trust fund	1,479,006	-	1,479,006
Corporate notes and bonds	2,000	-	2,000
Marketable equity securities	427,252	427,252	-
Total investments	$ 46,994,430	$ 45,513,424	$ 1,481,006
Liability,			
Derivative financial instruments	$ 911,456	$ -	$ 911,456
Disclosed at Fair Value:			
Cash and cash equivalents	$ 3,641,013	$ 3,641,013	$ -
Long-term debt (carrying value of $87,786,481)	$ 88,281,358	$ -	$ 88,281,358

	2016		
	Total	Level 1	Level 2
Reported at Fair Value:			
Assets:			
Assets whose use is limited, Cash and cash equivalents	$ 12,056,477	$ 12,056,477	$ -
Investments:			
Cash and cash equivalents	$ 2,772,460	$ 2,772,460	$ -
Mutual funds:			
Large growth	6,549,768	6,549,768	-
Large blend	1,620,021	1,620,021	-
Large value	10,154,506	10,154,506	-
Foreign large blend	1,162,139	1,162,139	-
Mid-cap value	1,879,570	1,879,570	-
Foreign large value	1,102,013	1,102,013	-
Small growth	1,043,391	1,043,391	-
Mid-cap growth	1,974,457	1,974,457	-
Small value	931,975	931,975	-
International equities	1,009,450	1,009,450	-
Other	1,444	1,444	-
Fixed income funds	9,741,332	9,741,332	-
Common trust fund	1,341,825	-	1,341,825
Corporate notes and bonds	2,000	-	2,000
Marketable equity securities	342,229	342,229	-
Other	36,131	36,131	-
Total investments	$ 41,664,711	$ 40,320,886	$ 1,343,825
Liability, Derivative financial instruments	$ -	$ -	$ 2,512,151
Disclosed at Fair Value:			
Cash and cash equivalents	$ 4,314,152	$ 4,314,152	$ -
Line of credit	$ 755,228	$ -	$ 755,228
Long-term debt (carrying value of $47,429,590)	$ 51,022,619	$ -	$ 51,022,619

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

	2017	2016
Total	$ 9,570,571	$ 12,056,477
Less amounts available to meet current liabilities	1,824,554	1,808,328
Noncurrent portion of assets whose use is limited	$ 7,746,017	$ 10,248,149

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

	2017	2016
Total	$ 46,994,430	$ 41,664,711
Less: Act 82 reserves	2,207,000	1,638,000
Noncurrent portion of investments	$ 44,787,430	$ 40,026,711

Valuation Methodologies

The carrying amounts of cash and cash equivalents, accounts and other receivables, and accounts payable approximate fair value at June 30, 2017 and 2016 due to the short-term nature of these instruments.

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

Common trust funds are valued at net asset value ("NAV") of the shares held by the Corporation at the end of the year.

The fair value of the long-term debt, excluding bond discount and premium and bond issuance costs, is based on quoted market prices for the same or similar issues.

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

Investment Return

Unrestricted investment return is comprised of the following:

	2017	2016
Interest, dividends and capital gain distributions, net of expenses	$ 573,189	$ 1,050,650
Net realized gain on sales of investments	166,547	739,125
Net unrealized gain (loss) on investments	2,633,137	(1,989,330)
Total	$ 3,372,873	$ (199,555)

Temporarily restricted investment return is comprised of the following:

	2017	2016
Interest, dividends and capital gain distributions, net of expenses	$ 442,725	$ 807,084
Net realized (loss) gain on sales of investments	(13,363)	687,318
Net unrealized gain (loss) on investments	1,783,344	(1,508,772)
Total	$ 2,212,706	$ (14,370)

Statutory Reserve Disclosure

In compliance with Act 82, the board of directors designated a portion of investments be "reserved" to meet the requirements of Act 82. The amounts designated were approximately $2,135,000 and $72,000 for the Village and Mount Joy, respectively, at June 30, 2017 and $1,566,000 and $72,000 for the Village and Mount Joy, respectively, at June 30, 2016. At June 30, 2017, the reserve was calculated as follows:

	Village	Mount Joy
Budgeted operating expenses for the year ending June 30, 2018	$ 47,700,556	$ 1,282,000
Less budgeted depreciation and amortization expense	(6,355,021)	(563,000)
Expenses subject to minimum liquid reserve requirement	41,345,535	719,000
Percentage of residents subject to entrance fee agreements at June 30, 2017	51.63 %	100 %
Subtotal	21,346,700	719,000
Statutory requirement	10 %	10 %
Statutory minimum liquid reserve requirement	$ 2,134,670	$ 71,900 (a)

	Village	Mount Joy	
Budgeted debt service requirements for the year ended June 30, 2018:			
Bonds:			
Principal	$ 1,015,000	$ -	
Interest	2,880,000	-	
Total budgeted debt service requirements	3,895,000	-	
Percentage of residents subject to entrance fee agreements at June 30, 2017	51.63 %	- %	
Statutory minimum liquid reserve requirement	$ 2,010,989	$ -	(b)
Greater of (a) or (b) above	$ 2,134,670	$ 71,900	

Interest Rate Swap Agreements

In August 2009, in connection with a bank qualified tax-exempt term loan, the Village entered into an interest rate swap agreement (the "2009 Swap"). According to the terms of the agreement, if 68% of the one-month LIBOR (1.23% at June 30, 2017) is less than the fixed rate of 2.985%, the Village must make a monthly payment to the counterparty. Conversely, if 68% of the one-month LIBOR is more than the fixed rate of 2.985%, the counterparty must make a monthly payment to the Village. The monthly payments are calculated by multiplying the notional amount ($8,360,000 at June 30, 2017) by the difference between 68% of the one-month LIBOR and the fixed rate of 2.985%. The agreement is scheduled to expire in July 2027. The bank qualified tax-exempt term loan was refinanced in May 2015. The interest rate swap agreement is still in place and is being used to fix the interest rate on a portion of the 2015B Bonds (Note 6).

In October 2015, in connection with the 2015B Bonds (Note 6), the Village entered into an interest rate swap agreement (the "2015 Swap") with an effective date of September 1, 2016. According to the terms of the agreement, if 78% of the one-month LIBOR (1.23% at June 30, 2017) is less than the fixed rate of 1.806%, the Village must make a monthly payment to the counterparty. Conversely, if 78% of the one-month LIBOR is more than the fixed rate of 1.806%, the counterparty must make a monthly payment to the Village. The monthly payments are calculated by multiplying the notional amount ($16,587,712 at June 30, 2017) by the difference between 78% of the one month LIBOR and the fixed rate of 1.806%. The agreement is scheduled to expire in November 2025.

The payments to or from the counterparty are classified as a component of interest expense in the consolidated statement of operations and changes in net assets, or capitalized to property and equipment in the consolidated balance sheet, if the funds from bond issues are used to finance construction. As a result of the swap agreements, additional interest of approximately $307,000 was incurred and capitalized in 2017 and interest expense was increased by approximately $258,000 in 2016.

The fair value of the agreements is estimated to be the amount the Village would pay or receive to terminate the agreements at June 30, 2017 and 2016. The Village estimates that it would have paid $911,456 and $2,512,151 on June 30, 2017 and 2016, respectively, to terminate the agreements. These amounts are classified as derivative financial instruments in the consolidated balance sheet.

Changes in the fair value of the agreements are included in revenues in excess of (less than) expenses since the agreements were not designated as a hedging instrument. The change in the fair value of the agreements is classified as change in fair value of derivative financial instruments in the consolidated statement of operations and changes in net assets and was $1,600,695 in 2017 and $(1,414,918) in 2016.

4. Property and Equipment

Property and equipment are as follows:

	2017	2016
Land	$ 2,949,483	$ 2,949,483
Land improvements	5,320,392	5,244,551
Buildings and fixed equipment	100,588,697	99,544,815
Furniture and moveable equipment	11,507,049	11,339,296
Vehicles	919,400	790,686
Total	121,285,021	119,868,831
Less accumulated depreciation	68,719,325	63,888,674
Total	52,565,696	55,980,157
Construction-in-progress	70,316,414	20,870,065
Property and equipment, net	$ 122,882,110	$ 76,850,222

Construction-in-progress at June 30, 2017 consists primarily of expenditures related to Phase I of Project Envision on the Village's campus. Phase I will expand living options in all three levels of living; residential, personal care, and nursing. The residential living building will include 84 apartment homes, under-building parking, a wellness center, an enrichment center, and two new dining venues. The personal care building will add 26 apartments and the skilled nursing building will consist of 32 private suites. The skilled nursing bed compliment will remain at 184 as existing semi-private accommodations will be converted to private. During 2016, the Village entered into a construction contract totaling approximately $57,059,000 of which approximately $50,457,000 has been spent as of June 30, 2017. The Village also entered into a construction contract in July 2016 totaling approximately $5,368,000 for the nursing renovation and Project Envision nursing hub project, of which approximately $2,147,000 has been spent as of June 30, 2017.

5. Property Held for Sale

At June 30, 2010, the Village owned 34.83 acres of land located in Upper Allen Township, Cumberland County, Pennsylvania near the intersection of West Lisburn Road and Grantham Road.

In 2011, the Village sold 19.83 acres of land and recorded a loss of $175,040. The cost basis of the remaining land was $376,847. During the year ended June 30, 2015, the remaining 15 acres were sold for $602,500, which resulted in a gain of $221,701.

In connection with the 2011 sale, the Village received $445,000 in notes receivable. The notes are to be paid over a twenty-year period in annual installments including interest of $34,500. The balance of the notes receivable at June 30, 2017 and 2016 were $353,197 and $370,481, respectively. The current portions of the notes are classified as other receivables and the long-term portion is classified as other assets in the consolidated balance sheet.

6. Long-Term Debt

Line of Credit

In October 2015, the Corporation obtained a $3,000,000 taxable construction line of credit, of which $755,228 was in use at June 30, 2016, to complete cottages under construction at the Mount Joy campus. The line of credit bore interest at the 1-Month LIBOR plus 1.60%. The line of credit expired in December 2016.

Series 2008 Bonds

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

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

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

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

Series A of 2015 Bonds

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

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

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

Series B and C of 2015 Bonds

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

The 2015B Bonds are due in varying annual installments beginning August 2019 through July 2045 plus interest payable monthly at a rate equal to (78% x 1-Month LIBOR) plus 1.42% (2.38% at June 30, 2017).

The 2015C Bonds bear interest monthly at a rate of (78% x 1-month LIBOR) plus 1.07% (2.03% at June 30, 2017). The 2015C Bonds will be redeemed from the initial entrance fees on the 84 new independent living units of Project Envision (Note 4) and will mature on July 1, 2020.

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

Security

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

Long-Term Debt Summary

Long-term debt is as follows:

	2017	2016
2015BC Bonds	$ 54,752,415	$ 13,251,405
2015A Bonds	22,725,000	23,510,000
2008A Bonds	8,730,000	8,935,000
Long-term debt	86,207,415	45,696,405
Bond premium	1,579,066	1,733,185
Less current maturities	(1,163,693)	(1,144,119)
Less unamortized debt issuance costs	(1,318,183)	(1,419,207)
Long-term debt, net	$ 85,304,605	$ 44,866,264

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

	Debt Maturities	Amortization of Bond Premium
Years ending June 30:		
2018	$ 1,015,000	$ 148,693
2019	14,750,000	143,098
2020	5,640,000	137,266
2021	1,567,486	131,196
2022	1,649,816	124,821
Thereafter	61,585,113	893,992
Total	$ 86,207,415	$ 1,579,066

The bond premium is being amortized over the life of the 2015 Bonds using the effective interest method. Amortization totaled $154,119 during 2017 and $159,443 during 2016.

7. Accrued Expenses

Accrued expenses are as follows:

	2017	2016
Salaries and wages and related payroll taxes	$ 879,664	$ 817,703
Paid time off	1,063,719	1,021,842
Interest	834,435	841,364
Other	459,676	458,791
Total	$ 3,237,494	$ 3,139,700

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following:

	2017	2016
Charity care	$ 5,582,772	$ 4,233,710
Lifeways Connection, capital and other	1,126,368	781,578
Total	$ 6,709,140	$ 5,015,288

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

9. Retirement Plans

The Corporation sponsors two defined contribution retirement plans. The Corporation's contribution to the plans was $303,104 for 2017 and $462,241 for 2016.

10. Medical Malpractice Claims Coverage

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

11. Contingencies

Real Estate Taxes

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

Senior Living Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of this matter on the Village, if any, are not determinable.

12. Concentrations of Credit Risk

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

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

13. Donor-Restricted Endowment Fund

The Village's endowment fund includes donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

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

The Village interprets relevant Pennsylvania state law governing the net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result, the Village classifies as permanently restricted net assets (a) the original value of all gifts donated as permanently restricted gifts to the endowment fund; and (b) the present value of pledges and planned gifts that are designated as permanently restricted gifts to the endowment fund. The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets represents the return on the permanently restricted net assets and is generally classified as temporarily restricted net assets. However, from time to time, the fair value of assets associated with the Village's donor-restricted endowment fund may fall below the level required to be retained as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 or 2016.

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

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

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

Changes in permanently restricted and temporarily restricted endowment net assets for the year ended June 30, 2017 and 2016 are comprised of the following:

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

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,164,806	$ 12,277,050	$ 17,441,856
Investment return:			
Interest, dividends, and other, net of expenses	807,084	-	807,084
Net realized gain on investments	687,318	-	687,318
Net unrealized loss on investments	(1,508,772)	-	(1,508,772)
Subtotal	5,150,436	12,277,050	17,427,486
Contributions	-	146,394	146,394
Change in cash surrender value of life insurance	(26,316)	-	(26,316)
Change in value of split-interest obligation	(3,410)	-	(3,410)
Net assets released from restrictions	(887,000)	-	(887,000)
Endowment net assets, end of year	$ 4,233,710	$ 12,423,444	$ 16,657,154

14. Functional Expenses

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

	2017	2016
Resident and client services	$ 36,035,143	$ 36,718,133
Administrative and support	5,377,404	5,606,485
Fundraising	179,687	199,762
Total	$ 41,592,234	$ 42,524,380

Messiah Lifeways and Controlled Entities

Consolidating Schedule, Balance Sheet
June 30, 2017

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 852,262	$ 2,299,016	$ 5,307	$ 405,518	$ 78,910	$ -	$ 3,641,013
Assets whose use is limited	-	1,824,554	-	-	-	-	1,824,554
Accounts receivable:							
Residents, net	-	3,339,296	-	11,561	149,838	-	3,500,695
Other	24,069	163,800	-	141,678	21,667	-	351,214
Affiliate	482,869	4,229,657	-	-	-	(4,712,526)	-
Inventories	-	196,961	-	-	-	-	196,961
Pledges receivable	-	99,413	-	2,845	20,000	-	122,258
Prepaid expenses	293,432	595,732	6,872	28,398	2,875	-	927,309
Total current assets	1,652,632	12,748,429	12,179	590,000	273,290	(4,712,526)	10,564,004
Assets Whose Use is Limited	-	7,635,586	-	110,431	-	-	7,746,017
Investments	-	42,945,793	-	1,841,637	-	-	44,787,430
Act 82 Reserve	-	2,135,000	-	72,000	-	-	2,207,000
Property and Equipment, Net	-	109,885,941	-	12,670,877	325,292	-	122,882,110
Pledges Receivable, Net	-	119,066	-	1,833	18,868	-	139,767
Deferred Costs, Net	-	187,251	-	499,090	-	-	686,341
Other Assets	-	1,165,402	-	-	-	-	1,165,402
Total assets	$ 1,652,632	$ 176,822,468	$ 12,179	$ 15,785,868	$ 617,450	$ (4,712,526)	$ 190,178,071

Messiah Lifeways and Controlled Entities

Consolidating Schedule, Balance Sheet
June 30, 2017

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
Liabilities and Net Assets (Deficit)							
Current Liabilities							
Current maturities of long-term debt	$ -	$ 1,163,693	$ -	$ -	$ -	$ -	$ 1,163,693
Accounts payable:							
Trade	69,891	685,814	-	28,945	6,329	-	790,979
Construction	-	7,528,073	-	21,978	-	-	7,550,051
Entrance fees	-	-	-	59,157	-	-	59,157
Affiliate	-	-	865,535	1,958,733	1,888,258	(4,712,526)	-
Accrued expenses	461,930	2,660,733	-	1,656	113,175	-	3,237,494
Deferred revenue	-	292,831	-	-	-	-	292,831
Split-interest obligations	-	87,685	-	-	-	-	87,685
Resident funds	-	20,080	-	-	-	-	20,080
Refundable entrance fees	-	812,000	-	315,000	-	-	1,127,000
Total current liabilities	531,821	13,250,909	865,535	2,385,469	2,007,762	(4,712,526)	14,328,970
Long-Term Debt	-	85,304,604	-	-	-	-	85,304,604
Refundable Entrance Fees and Deposits	-	6,883,418	-	7,904,402	-	-	14,787,820
Deferred Revenues from Entrance Fees	-	18,377,067	-	4,009,716	-	-	22,386,783
Derivative Financial Instruments	-	911,456	-	-	-	-	911,456
Split-Interest Obligations	-	376,173	-	-	-	-	376,173
Total liabilities	531,821	125,103,627	865,535	14,299,587	2,007,762	(4,712,526)	138,095,806
Net Assets (Deficit)							
Unrestricted	1,117,621	32,438,051	(853,356)	1,470,363	(1,439,801)	-	32,732,878
Temporarily restricted	3,190	6,640,543	-	15,918	49,489	-	6,709,140
Permanently restricted	-	12,640,247	-	-	-	-	12,640,247
Total net assets (deficit)	1,120,811	51,718,841	(853,356)	1,486,281	(1,390,312)	-	52,082,265
Total liabilities and net assets (deficit)	$ 1,652,632	$ 176,822,468	$ 12,179	$ 15,785,868	$ 617,450	$ (4,712,526)	$ 190,178,071

Messiah Lifeways and Controlled Entities

Consolidating Schedule, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended June 30, 2017

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
Revenues							
Net resident service revenues	$ -	$ 36,722,059	$ -	$ 1,146,648	$ -	$ -	$ 37,868,707
Other revenues	5,061,955	1,043,215	3,377	-	1,631,856	(5,363,992)	2,376,411
Net assets released from restriction used for operations	6,600	879,923	-	-	24,999	-	911,522
Total revenues	5,068,555	38,645,197	3,377	1,146,648	1,656,855	(5,363,992)	41,156,640
Expenses							
Salaries, wages, and benefits	3,100,805	18,871,213	2,612	-	1,498,437	(7,140)	23,465,927
Fees, purchased services, and supplies	472,524	11,059,706	5,715	144,581	324,053	(5,180,800)	6,825,779
Administrative	644,479	580,229	(1,355)	25,305	13,328	-	1,261,986
Building operations and maintenance	489,578	1,640,612	-	279,205	87,013	(176,052)	2,320,356
Insurance and real estate taxes	-	1,018,449	5,327	136,733	-	-	1,160,509
Interest	-	1,329,774	-	2,311	-	-	1,332,085
Depreciation and amortization	-	4,621,314	-	561,061	43,217	-	5,225,592
Total expenses	4,707,386	39,121,297	12,299	1,149,196	1,966,048	(5,363,992)	41,592,234
Operating income (loss)	361,169	(476,100)	(8,922)	(2,548)	(309,193)	-	(435,594)
Nonoperating Gains (Losses)							
Investment return	(7,608)	3,210,488	(6,508)	184,443	(7,942)	-	3,372,873
Unrestricted contributions	-	68,128	-	-	48,177	-	116,305
Change in value of split-interest obligations	-	(39,984)	-	-	-	-	(39,984)
Change in fair value of derivative financial instruments	-	1,600,695	-	-	-	-	1,600,695
Other	-	(3,678)	-	(3,265)	(666)		(7,609)
Revenues in excess of (less than) expenses	353,561	4,359,549	(15,430)	178,630	(269,624)	-	4,606,686
Net Assets Released from Restriction Used for Property and Equipment	-	10,200	-	700	34,629	-	45,529
Change in unrestricted net assets (deficit)	353,561	4,369,749	(15,430)	179,330	(234,995)	-	4,652,215

Messiah Lifeways and Controlled Entities

Consolidating Schedule, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended June 30, 2017

	Messiah Lifeways	Messiah Village	Capital Area Health Associates	Mount Joy Country Homes	Community Support Services	Eliminations	Consolidated
Temporarily Restricted Net Assets							
Contributions	$ 9,790	$ 384,575	$ -	$ 15,718	$ 38,736	$ -	$ 448,819
Investment return	-	2,212,706	-	-	-	-	2,212,706
Change in value of split-interest obligation	-	(10,544)	-	-	-	-	(10,544)
Change in cash surrender value of life insurance, net of expense	-	(78)	-	-	-	-	(78)
Net assets released from restriction used for:							
Operations	(6,600)	(879,923)	-	-	(24,999)	-	(911,522)
Property and equipment	-	(10,200)	-	(700)	(34,629)	-	(45,529)
Change in temporarily restricted net assets	3,190	1,696,536	-	15,018	(20,892)	-	1,693,852
Increase In Permanently Restricted Net Assets							
Contributions	-	216,803	-	-	-	-	216,803
Change in net assets	356,751	6,283,088	(15,430)	194,348	(255,887)	-	6,562,870
Net Assets (Deficit), Beginning	764,060	45,435,753	(837,926)	1,291,933	(1,134,425)	-	45,519,395
Net Assets (Deficit), Ending	$ 1,120,811	$ 51,718,841	$ (853,356)	$ 1,486,281	$ (1,390,312)	$ -	$ 52,082,265