# SOUTHWEST FLORIDA RETIREMENT CENTER, INC.
# DBA: VILLAGE ON THE ISLE AND SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS
## AND SUPPLEMENTARY INFORMATION

## YEARS ENDED DECEMBER 31, 2018 AND 2017

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
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**YEARS ENDED DECEMBER 31, 2018 AND 2017**

CliftonLarsonAllen LLP
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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southwest Florida Retirement Center, Inc.
dba: Village on the Isle and Subsidiary
Venice, Florida

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Southwest Florida Retirement Center, Inc. dba: Village on the Isle and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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.

Board of Trustees
Southwest Florida Retirement Center, Inc.
dba: Village on the Isle and Subsidiary

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Florida Retirement Center, Inc. dba: Village on the Isle and Subsidiary, as of December 31, 2018 and 2017, and the consolidated results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis-of-Matter Regarding a Change in Accounting Principle**

As discussed in Note 2 to the consolidated financial statements, Southwest Florida Retirement Center, Inc. dba: Village on the Isle and Subsidiary adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the consolidated financial statements. Our opinion is not modified with respect to that matter.

As discussed in Note 2 to the consolidated financial statements, Southwest Florida Retirement Center, Inc. dba: Village on the Isle and Subsidiary adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2014-09, *Revenue from Contracts with Customers*. The new accounting standard clarifies how revenue is to be recognized and requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Our opinion is not modified with respect to that matter.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 31 to 32 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Orlando, Florida
April 2, 2019

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 2,151,551 | $ 8,192,925 |
| Accounts Receivable, Net | 1,063,087 | 672,506 |
| Other Receivables | 1,771,584 | 1,342,656 |
| Current Portion of Assets Limited as to Use | 8,549,355 | 2,370,772 |
| Prepaid Expenses and Other Current Assets | 580,663 | 450,237 |
| Total Current Assets | 14,116,240 | 13,029,096 |
| **INVESTMENTS** | 14,491,612 | 17,974,283 |
| **ASSETS LIMITED AS TO USE, NET OF CURRENT PORTION** | 48,862,473 | 80,723,850 |
| **PROPERTY AND EQUIPMENT, NET** | 69,312,870 | 30,758,273 |
| **OTHER ASSETS** | 164,806 | 55,936 |
| Total Assets | $ 146,948,001 | $ 142,541,438 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts Payable | $ 4,871,616 | $ 1,502,119 |
| Accrued Expenses and Other Current Liabilities | 966,251 | 933,691 |
| Accrued Interest | 2,419,000 | 798,923 |
| Current Portion of Long-Term Debt | 1,630,000 | 1,565,000 |
| Wait List and Other Deposits | 1,595,612 | 1,433,550 |
| Total Current Liabilities | 11,482,479 | 6,233,283 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | 108,827,472 | 111,034,445 |
| **REFUNDABLE ENTRANCE FEES** | 3,913,463 | 4,160,263 |
| **DEFERRED REVENUE FROM ENTRANCE FEES** | 18,492,635 | 16,508,806 |
| Total Liabilities | 142,716,049 | 137,936,797 |
| **NET ASSETS** | | |
| Without Donor Restrictions | 3,666,727 | 4,035,517 |
| With Donor Restrictions | 565,225 | 569,124 |
| Total Net Assets | 4,231,952 | 4,604,641 |
| Total Liabilities and Net Assets | $ 146,948,001 | $ 142,541,438 |

*See accompanying Notes to Consolidated Financial Statements.*

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **REVENUES, GAINS, AND OTHER SUPPORT** | | |
| Resident Service Fees | $ 10,033,586 | $ 10,115,917 |
| Healthcare Services | 7,106,866 | 6,694,053 |
| Amortization of Earned Entrance Fees | 3,160,162 | 3,202,929 |
| Contributions | 62,166 | 105,285 |
| Investment Income and Realized Gains and Losses, Net | 1,851,677 | 1,501,494 |
| Net Assets Released from Restrictions | 78,827 | 35,200 |
| Other | 548,601 | 517,274 |
| Total Revenues, Gains, and Other Support | 22,841,885 | 22,172,152 |
| **EXPENSES** | | |
| Resident Services | 14,440,517 | 13,893,234 |
| General and Administrative | 2,561,790 | 2,384,260 |
| Insurance | 638,855 | 607,484 |
| Property Taxes | 303,972 | 363,608 |
| Interest | 958,269 | 1,436,058 |
| Depreciation and Amortization | 3,122,726 | 2,436,547 |
| Hurricane Loss | - | 107,597 |
| Total Expenses | 22,026,129 | 21,228,788 |
| **OPERATING INCOME** | 815,756 | 943,364 |
| **NONOPERATING LOSSES** | | |
| (Loss) on Disposal of Assets | - | (2,738) |
| Contributions to Others | (49,823) | (36,358) |
| Total Nonoperating Losses | (49,823) | (39,096) |
| **EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND NONOPERATING LOSSES** | 765,933 | 904,268 |
| **OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTIRCTIONS** | | |
| Change in Net Unrealized Gains (Losses) on Investments | (1,134,723) | 479,056 |
| Change in Net Assets Without Donor Restrictions | (368,790) | 1,383,324 |
| **NET ASSETS WITH DONOR RESTRICTIONS** | | |
| Contributions | 47,429 | 56,567 |
| Change in Net Unrealized Gains on Investments | 3,149 | 5,892 |
| Change in Beneficial Interest Charitable Remainder Trust | 24,350 | 989 |
| Net Assets Released from Restrictions | (78,827) | (35,200) |
| Change in Net Assets With Donor Restrictions | (3,899) | 28,248 |
| **CHANGE IN NET ASSETS** | (372,689) | 1,411,572 |
| Net Assets - Beginning of Year | 4,604,641 | 3,193,069 |
| **NET ASSETS - END OF YEAR** | $ 4,231,952 | $ 4,604,641 |

*See accompanying Notes to Consolidated Financial Statements.*

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in Net Assets | $ (372,689) | $ 1,411,572 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Change in Net Unrealized (Gains) Losses on Investments | 1,131,574 | (484,948) |
| Net Realized (Gain) on Sale of Investments | (294,636) | (1,095,373) |
| Provisions for Uncollectable Accounts | 199,656 | - |
| Loss on Disposal of Assets | - | 2,738 |
| Depreciation and Amortization | 3,122,726 | 2,436,547 |
| Amortization of Deferred Financing Costs | 127,085 | 12,941 |
| Amortization of Bond Premium | (704,058) | (85,501) |
| Earned Entrance Fees | (3,160,162) | (3,202,929) |
| Entrance Fees Received | 6,079,965 | 5,422,590 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (590,237) | (196,241) |
| Prepaid Expenses and Other Current Assets | (130,426) | (13,916) |
| Other Assets | (118,676) | 676 |
| Other Receivables | (428,928) | (1,273,489) |
| Accounts Payable | (1,095,000) | 168,302 |
| Accrued Expenses and Other Liabilities | 32,560 | 50,338 |
| Accrued Interest | 1,620,077 | 536,217 |
| Wait List and Other Deposits | (83,858) | 1,008,090 |
| Net Cash Provided by Operating Activities | 5,334,973 | 4,697,614 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of Property and Equipment, Net | (37,203,020) | (13,027,424) |
| Net Change in Investments and Assets Limited as to Use | 28,328,527 | (61,607,725) |
| Net Cash Used by Investing Activities | (8,874,493) | (74,635,149) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayments of Long-Term Debt | (1,565,000) | (255,000) |
| Entrance Fees Refunded | (936,854) | (961,235) |
| Proceeds from Bond Issuance | - | 77,084,326 |
| Deferred Financing Costs | - | (1,432,486) |
| Net Cash Provided (Used) by Financing Activities | (2,501,854) | 74,435,605 |
| | | |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (6,041,374) | 4,498,070 |
| | | |
| Cash and Cash Equivalents - Beginning of Year | 8,192,925 | 3,694,855 |
| | | |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 2,151,551 | $ 8,192,925 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Construction in Progress included in Accounts Payable | $ 4,464,497 | $ 1,135,368 |

*See accompanying Notes to Consolidated Financial Statements.*

## NOTE 1 ORGANIZATION

### Organization

Southwest Florida Retirement Center, Inc. dba: Village on the Isle (the Village) was incorporated on January 24, 1979, as a Florida nonprofit corporation. The Village's purpose is to provide housing, healthcare, and other related services to the elderly, primarily through the operation of a retirement community. For the year ending December 31, 2017, the Village's community consists of 210 independent living units, 63 assisted living units, and a 60-bed licensed skilled nursing facility, located in Venice, Florida. During the year ended December 31, 2018, the Village's available unit count changed due to the construction and renovation projects. For the year ended December 31, 2018, the Village's community consisted of 206 independent living units, 56 assisted living units, and a 60-bed licensed skilled nursing facility.

The Village on the Isle Foundation, Inc. (the Foundation) was incorporated on August 20, 2003, as a Florida nonprofit corporation. The Foundation is related to the Village by common board membership and is organized to raise funds exclusively for and to support the programs of the Village and its residents. The Village has the authority to direct the distribution of the Foundation's assets.

The Village operates "continuing care" under the provisions of State Statutes Chapter 651, in which residents enter into a Residence and Services Contract (the Contract), which requires payment of a one-time entrance fee and monthly service fees. Generally, these payments entitle residents to the use and privileges of the Village for life, including a discounted rate on Health services in the Village's Health centers. The Contract does not entitle the residents to an interest in the real estate or other property owned by the Village. Additionally, the Village has several rental agreements for terms not exceeding one year; but no longer offers new rental agreements for Independent Living.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reclassification

Certain reclassifications have been made to the 2017 consolidated financial statements presentation to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

### Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenditures during the fiscal year. Actual results could differ from those estimates.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Principles of Consolidation

These consolidated financial statements include the accounts of the Village and the Foundation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated from these consolidated financial statements.

### Cash and Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with a maturity of three months or less from date of purchase to be cash equivalents, excluding cash and cash equivalents included in assets limited as to use and investments.

### Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

### Accounts Receivable

Accounts receivable from residents, insurance companies, and governmental agencies are based on net charges. An allowance for doubtful accounts is provided based upon the review of outstanding receivables, historical collection information, and existing economic conditions. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. As of December 31, 2018 and 2017, the allowance for doubtful accounts was approximately $62,000 and $-0-, respectively.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Excess of Revenues, Gains and Other Support over Expenses and Nonoperating Losses

The consolidated statements of operations and changes in net assets include excess of revenues, gains and other support over expenses and nonoperating losses, which is analogous to income from continuing operations of a for-profit enterprise. Changes in net assets without donor restrictions that are excluded from excess of revenues, gains and other support over expenses and nonoperating losses, consistent with industry practice, include change in unrealized gains and losses on investments other than trading.

### Investments and Assets Limited as to Use

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income (including realized gains and losses on investments, interest, and dividends) is included in operating income (loss) unless restricted by donor or law. Unrealized gains and losses on investments and assets limited as to use are excluded from operating income (loss).

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is reasonably possible changes in the fair value of investments will occur in the near term and that such changes could be material.

Assets limited as to use include cash and investments held by trustees under indenture agreements, assets held in escrow, assets set aside by the board for specific purposes, and assets set aside for the minimum liquid reserve requirements of the state of Florida. Amounts required to meet current liabilities of the Village have been reclassified in the balance sheets at December 31, 2018 and 2017.

### Property and Equipment

Property and equipment are recorded at cost. Donated property is recorded at its estimated fair value on the date of receipt. Depreciation is computed on the straight-line method based on the following estimated useful lives:

| | |
|---|---|
| Land Improvements | 15 to 20 Years |
| Buildings and Improvements | 15 to 40 Years |
| Furniture and Equipment | 5 to 20 Years |
| Vehicles | 7 Years |

### Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the terms of the related financing agreement. Amortization expense was approximately $127,000 and $13,000 for the years ended December 31, 2018 and 2017, respectively. Unamortized deferred financing costs as of December 31, 2018 and 2017, was approximately $2,021,000 and $2,148,000, respectively, and are included in the noncurrent portion of long term debt in the accompanying consolidated balance sheets.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Estimated Obligation to Provide Future Services and Use of Facilities

The Village annually reviews the present value of the net cost of future services and 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 services and use of facilities exceeds the deferred revenue from entrance fees; a liability is recorded (obligation to provide future services). No additional liability has been recorded at December 31, 2018 and 2017, because the present value of the net cost of future services and use of facilities is less than deferred revenue from entrance fees.

### Charity Care

The Village has estimated its direct and indirect costs of providing charity care under its financial assistance policy. In order to estimate the cost or providing such care, management calculated a cost-to-charge ratio by comparing the average cost of services provided in 2018 to the Village's gross bill rate. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care. Using this methodology, the Village has estimated the costs of services and supplies furnished under their financial assistance policy aggregated approximately $380,000 and $350,000 for the years ended December 31, 2018 and 2017, respectively.

### Income Taxes

The Village and Foundation are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

The Village and Foundation's income tax returns are subject to review and examination by federal, state, and local authorities. Management is not aware of any activities that would jeopardize its tax-exempt status.

### Fair Value Measurements

Fair value measurements apply to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair Value Measurements (continued)

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on the Organization's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

### New Accounting Pronouncements – ASU 2016-14

During the year ended December 31, 2018, the Organization adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions). The adoption of this accounting standard changes the presentation of various classifications and disclosures with the consolidated financial statements and did not have an impact on the Organization's financial position or changes in its net assets.

### New Accounting Pronouncements – ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New Accounting Pronouncements – ASU 2014-09 (continued)**

ASU 2014-09 requires organizations to exercise more judgment and recognize revenue using a five-step process. The Organization adopted ASU 2014-09 using the modified retrospective method for all contracts effective January 1, 2018, and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collections trends. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the consolidated financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of net assets at the date of initial application. Prior periods have not been adjusted. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue. In addition, retrospective application of ASU 2014-09 would not have resulted in a change in revenue as previously presented.

The adoption of ASU 2014-09 has no impact on the Organization's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments, and the Organization has eliminated the presentation of allowance for doubtful accounts on the consolidated balance sheets. The adoption of ASU 2014-09 did not have a significant impact on the Organization's consolidated statements of operations and changes in net assets for the years ended December 31, 2018 and 2017, respectively.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 2, 2019, the date the consolidated financial statements were available to be issued.

## NOTE 3 REVENUE RECOGNITION

Resident service fees and healthcare services revenue is reported at the amount that reflects the consideration to which the Organization 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 includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the residents and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facility receiving skilled nursing services or independent living and assistant living residents receiving services in the facility.

## NOTE 3 REVENUE RECOGNITION (CONTINUED)

The Organization considers daily services provided to residents of the skilled nursing facility, and monthly service fees for independent and assisted living services as a separate performance obligation and measures this on a monthly basis, or upon move-out within the month, whichever is shorter. Nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees is recognized ratably in future periods covering a resident's life expectancy using a time-based measurement similar to the output method.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization 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 Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy and/or implicit price concessions provided to residents. The Organization determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience.

### Resident Service Fees

Resident service fees paid by residents for independent and assisted living occupancy rights, maintenance, meals, nursing supplies, security, transportation, and other services are assessed monthly and are recognized as revenue in the period services are rendered.

### Entrance Fees

The Village offers two types of entrance fee contracts, all of which may be canceled by residents at any time for any reason. All contracts allow the Village to retain a 4% administrative fee, plus 2% of the entrance fee per month for each month of residency. The standard and enhanced contract refunds a portion of the entrance fee if terminated within 48 months of initial occupancy. The amount refunded equals the entrance fee, less a pro rata charge for the period of residency. The other outstanding 50% refundable contract refunds one-half of the entrance fee to the resident upon death or termination of the contract and a portion of the remaining entrance fee is refunded if the contract is terminated within 23 months of occupancy. The 50% refundable amount of the entrance fee is recorded as a liability, "refundable entrance fees," and is not amortized to income.

## NOTE 3 REVENUE RECOGNITION (CONTINUED)

### Entrance Fees (continued)

Entrance fees from the standard and enhanced contracts and amounts in excess of the refundable portion of the 50% refundable contracts are recorded as “deferred revenue from entrance fees” and are amortized to income over future periods based on the estimated life expectancy of the resident. The period of amortization is adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual, or joint and last survivor life expectancy of each pair of residents occupying the same unit. In the event of a resident or surviving resident’s death, or the termination of the Contract, the obligations of the Village are considered fulfilled and the unamortized portion of the entrance fee is recognized as revenue.

Total contractual refund obligations, assuming all contracts were terminated at December 31, 2018 and 2017, were $13,948,096 and $10,492,784, respectively.

Entrance fee deposits represent amounts paid by prospective residents who have signed a reservation agreement to reserve a specific living unit or have paid a deposit to be placed on a waiting list. Generally, a refundable deposit of $1,000 is collected when the future residency agreement is signed. Further, when the Reservation Agreement is signed, a down payment of 10% is collected.

The balance of the fee is payable at the time of occupancy. Prospective residents may cancel their agreements at any time prior to occupancy and generally receive a refund of the entrance fee, less a 4% administrative fee. As of December 31, 2018 and 2017, the Village had approximately $80,000 and $43,000 in wait-list deposits and approximately $1,161,000 and $1,234,000 in entrance fee deposits, respectively, and is included in Wait List and Other Deposits in the accompanying consolidated balance sheets.

### Health Care Services

Healthcare revenue is reported at the estimated net realizable amounts receivable from residents, third-party payors, and others at the time services are rendered. Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Revenue for services rendered to Medicare program beneficiaries are based on prospectively determined case-mix rates. The rates vary according to a classification system based on clinical, diagnostic, and other factors, subject to certain limitations and adjustments. Services rendered to Medicaid program beneficiaries are reimbursed using predetermined daily rates based, in part, on reasonable costs, as defined and limited by the Medicaid program. Payment agreements with certain commercial insurance carries, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

## NOTE 3 REVENUE RECOGNITION (CONTINUED)

**Health Care Services (continued)**

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlement are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a chance in an implicit price concession impacting transaction price, were not significant in 2018 or 2017.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent charges to the estimate of the transaction price are generally recorded as adjustments to resident services revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2018 and 2017. Subsequent changes that are determined to be the result of an adverse change in the Resident's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service line, method of reimbursement, and timing of when revenue is recognized. All resident services revenue for the Organization is provided at the single campus located in Venice, Florida. The method of reimbursement is prospective payments and the timing of revenue recognition is health care services transferred over time.

The composition of resident services fees and healthcare services revenue by primary payor for the years ended December 31, 2018 and 2017, is as follows:

| | 2018 | 2017 |
|---|---|---|
| Private Pay | 76 % | 79 % |
| Medicare | 14 | 10 |
| Medicaid | 9 | 9 |
| Other Insurance | 1 | 2 |
| Total | 100 % | 100 % |

Revenue from resident's deductibles and coinsurance are included in the categories presented above based on the primary payor.

## NOTE 3 REVENUE RECOGNITION (CONTINUED)

The composition of resident service fees and healthcare service revenue based on the Organization's lines of business for the years ended December 31, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Skilled Nursing Facility | $ 7,106,866 | $ 6,694,053 |
| Assisted Living | 2,567,891 | 3,000,394 |
| Independent Living | 7,465,695 | 7,115,523 |
| Total | $ 17,140,452 | $ 16,809,970 |

**Financing Component**

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a resident and the time that the Resident or a third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

**Contract Costs**

The Organization has elected to apply the practical expedient provided by FASB ASC 340-40-25-4, and expense as incurred the incremental customer contract acquisition costs for contracts in which the amortization period of the asset that the Organization otherwise would have recognized is one year or less. However, incremental costs incurred to obtain customer contracts for which the amortization period of the asset that the Organization otherwise would have recognized is longer than one year are capitalized and amortized over the life of the contract based on the pattern of revenue recognition from these contracts. The Organization regularly considers whether the unamortized contract acquisition costs are impaired if they are not recoverable under the contract. During the years ended December 31, 2018 and 2017, the Organization recognized amortization expense of $9,806 and $-0-, respectively. At December 31, 2018 and 2017, the unamortized customer contract acquisition costs are $85,107 and $-0-, respectively, and are presented in other assets on the accompanying consolidated balance sheets.

## NOTE 4 LIQUIDITY AND AVAILABILITY

As of December 31, 2018, the Organization has a working capital of $2,633,761 and averages days cash on hand of 389.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of December 31, 2018:

| | 2018 |
|---|---|
| Cash and Cash Equivalents | $ 2,151,551 |
| Accounts Receivables, Net | 1,063,087 |
| Other Receivables | 1,771,584 |
| Investments | 14,491,612 |
| Current Portion of Assets Limited as to Use | 8,549,355 |
| Assets Limited as to Use, Board Designated | 1,307,790 |
| Total | $ 29,334,979 |

The Organization has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The Organization has other assets limited to use for donor-restricted purposes, assets held by trustees under indenture agreements, assets held in escrow, assets set aside by the board for specific purposes and assets set aside for the minimum liquid reserve requirements of the state of Florida. These assets limited to use, which are more fully described in Note 5 are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Organization's liquidity management plan, cash in excess of daily requirements are invested in in short-term investments and money market funds.

## NOTE 5 INVESTMENTS AND ASSETS LIMITED AS TO USE

An analysis of the composition and market values of investments and assets limited as to use as of December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Cash and Cash Equivalents | $ 9,270,913 | $ 17,763,362 |
| Accrued Interest | 403,007 | 298,213 |
| Mutual Funds | 4,168,510 | 4,576,441 |
| Equities | 9,499,751 | 6,857,645 |
| U.S. Government and Agency Obligations | 12,596,816 | 45,239,746 |
| Corporate Bonds | 35,964,443 | 26,333,498 |
| Total | $ 71,903,440 | $ 101,068,905 |

## NOTE 5 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Assets limited as to use by limitation as of December 31 are as follows:

| Fund | Purpose | 2018 | 2017 |
|---|---|---|---|
| **Assets Limited by Provisions of The Master Trust Indenture:** | | | |
| Bond Fund | Pays bond principal, interest and COI | $ 2,433,482 | $ 2,392,229 |
| Reserve Fund "Debt Service Reserve" | Reserved for the payment of the principal and interest on the bonds | 6,622,361 | 6,533,739 |
| Project Fund | Pays costs of construction projects | 37,475,570 | 63,254,110 |
| Capitalized Interest Fund | Pays costs of interest | 4,929,585 | 5,225,147 |
| Total | | $ 51,460,998 | $ 77,405,225 |
| **Other Assets Limited as to Use:** | | | |
| Resident Assistance Fund, Scholarship Fund, and Staff Development Fund | Donor restricted | $ 496,375 | $ 533,494 |
| Minimum Liquid Reserve | Statutorily restricted | 4,146,665 | 3,807,939 |
| Foundation | Board Designated for operational programs | 1,307,790 | 1,347,964 |
| Subtotal | | 57,411,828 | 83,094,622 |
| Less: Current Portion | | (8,549,355) | (2,370,772) |
| Total | | $ 48,862,473 | $ 80,723,850 |

## NOTE 5 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

The components of investment income and change in unrealized gains and losses on investments for the years ended December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Included in Changes in Net Assets Without Donor Restrictions: | | |
| Interest, Dividends and Realized Gains, net | $ 1,851,677 | $ 1,501,494 |
| Change in Net Unrealized Gains (Losses) on Investments | (1,134,723) | 479,056 |
| Total | 716,954 | 1,980,550 |
| Included in Changes in Net Assets With Donor Restrictions: | | |
| Change in Net Unrealized Gains on Investments | 3,149 | 5,892 |
| Change in Beneficial Interest Charitable Remainder Trust | 24,350 | 989 |
| Total | 27,499 | 6,881 |
| Total Investment Income | $ 744,453 | $ 1,987,431 |

## NOTE 6 FAIR VALUE MEASUREMENT

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 2 – Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of financial assets of the Organization measured at fair value on a recurring basis as of December 31, 2018 and 2017, (except for cash and cash equivalents and accrued interest which are presented at cost):

| | Fair Value Measurements As of December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and Cash Equivalents | $ 9,270,913 | $ - | $ - | $ 9,270,913 |
| Accrued Interest | 403,007 | - | - | 403,007 |
| Mutual Funds | 4,168,510 | - | - | 4,168,510 |
| Equities | 9,499,751 | - | - | 9,499,751 |
| U.S. Government and Agency Obligations | - | 12,596,816 | - | 12,596,816 |
| Corporate Bonds | - | 35,964,443 | - | 35,964,443 |
| Total | $ 23,342,181 | $ 48,561,259 | $ - | $ 71,903,440 |

## NOTE 6 FAIR VALUE MEASUREMENT (CONTINUED)

| | Fair Value Measurements As of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and Cash Equivalents | $ 17,763,362 | $ - | $ - | $ 17,763,362 |
| Accrued Interest | 298,213 | - | - | 298,213 |
| Mutual Funds | 4,576,441 | - | - | 4,576,441 |
| Equities | 6,857,645 | - | - | 6,857,645 |
| U.S. Government and Agency Obligations | - | 45,239,746 | - | 45,239,746 |
| Corporate Bonds | - | 26,333,498 | - | 26,333,498 |
| Total | $ 29,495,661 | $ 71,573,244 | $ - | $ 101,068,905 |

### Valuation Techniques

Securities included in Level 1 were valued using readily available market quotations in active markets. Securities in Level 2 were valued using independent pricing providers who employ matrix pricing models utilizing market prices, broker quotes and prices of securities with comparable maturities and qualities. The fair values of money market funds were determined through the use of quoted market prices, or $1, which is generally the net asset value of these funds. The Village does not have any securities that are valued using Level 3 inputs.

### Other Financial Instruments

The fair value of certain of the Village's financial instruments that are not measured at fair value, including cash, patient accounts receivable, and accounts payable approximated the carrying amount because of the short-term nature of these instruments. The fair value of the Village's debt is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The approximate fair market value for the Village's debt, which is more fully described in Note 8, is approximately $106,895,000 and $112,528,000 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | 2018 | 2017 |
|---|---|---|
| Land and Improvements | $ 3,550,235 | $ 3,490,762 |
| Buildings and Improvements | 37,063,217 | 30,444,637 |
| Furniture and Equipment | 13,573,478 | 9,982,471 |
| Vehicles | 615,652 | 608,217 |
| Subtotal | 54,802,582 | 44,526,087 |
| Less: Accumulated Depreciation | (28,741,047) | (25,628,127) |
| Subtotal | 26,061,535 | 18,897,960 |
| Construction in Progress | 43,251,335 | 11,860,313 |
| Property and Equipment, Net | $ 69,312,870 | $ 30,758,273 |

Construction in progress consists primarily of costs associated with the Assisted Living Facility remodel, unit renovations, campus Master Plan design costs, and other improvements. The estimated total remodel and renovations costs to complete these projects is $32,110,000. Capitalized interest related to these projects approximated $1,743,000 and $0 for the years ended December 31, 2018 and 2017, respectively. Depreciation expense for the years ended December 31, 2018 and 2017, approximated $3,113,000 and $2,437,000, respectively.

## NOTE 8 LONG-TERM DEBT

In November 2016, the Village issued $33,190,000 in Sarasota County Health Facilities Authority Refunding Revenue Bonds (the Series 2016 Bonds) at par value. Proceeds from the sale of the Series 2016 Bonds were used to advance refund the Series 2007 Bonds as well as fund additional proceeds for the increase in the debt service reserve, fund the cost of issuance of the Series 2016 Bonds and fund approximately $10,000,000 in project funds for campus renovations. As part of the refunding transaction, a loss on the extinguishment of debt (Series 2007 Bonds) of $2,037,093 was recorded as a noncash expense. The Village holds approximately $2,000,000 in the advanced refunded bonds in their investments which will redeem on January 1, 2018.

In December 2017, the Village issued $58,385,00 in Sarasota County Health Facilities Authority Retirement Facility Revenue Improvement Bonds (the Series 2017A Bonds) at par value and $13,250,00 in Sarasota County Health Facilities Authority Retirement Facility Revenue Improvement Bonds (the Series 2017B Bonds) at par value. Proceeds from the sale of the Series 2017A and 2017B Bonds were used to fund additional proceeds for the increase in the debt service reserve, fund the cost of issuance on the Series 2017A Bonds, and fund approximately $67,000,000 in project funds for the construction and equipping of expansion and improvements to the Village’s independent living units, assisted living units, healthcare facility and other common facility spaces. The Series 2017B Bonds were issued as temporary debt which is subject to payoff with the initial proceeds of the new independent living buildings entrance fees.

## NOTE 8 LONG-TERM DEBT (CONTINUED)

A summary of the Village's long-term debt at December 31 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Series 2017A Bonds, interest due semi-annually on January 1 and July 1, with fixed rates ranging from 3.75% to 5.%, principal due in varying installments through 2052. | $ 58,385,000 | $ 58,385,000 |
| Series 2017B Bonds, interest due semi-annually on January 1 and July 1, with fixed rates ranging from 2.7% to 3.3%, principal due in varying installments through 2023. | 13,250,000 | 13,250,000 |
| Plus: Premium on Series 2017 Bonds | 5,265,305 | 5,449,325 |
| Series 2016 Bonds, interest due semi-annually on January 1 and July 1, with fixed rates ranging from 2.0% to 5.%, principal due in varying installments through 2032. | 31,370,000 | 32,935,000 |
| Plus: Premium on Series 2016 Bonds | 4,208,229 | 4,728,267 |
| Total Debt Outstanding | 112,478,534 | 114,747,592 |
| Less: Current Portion | (1,630,000) | (1,565,000) |
| Less: Unamortized Bond Issuance Costs | (2,021,062) | (715,661) |
| Total Long-Term Debt | $ 108,827,472 | $ 112,466,931 |

Scheduled maturities for the Series 2016, Series 2017A&B Bonds are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2019 | $ 1,630,000 |
| 2020 | 1,695,000 |
| 2021 | 1,760,000 |
| 2022 | 9,350,000 |
| 2023 | 7,695,000 |
| Thereafter | 80,875,000 |
| Total | $ 103,005,000 |

The Series 2016, Series 2017A&B Bonds were issued pursuant to a Master Indenture which provides, among other things, that the Village maintain certain minimum financial ratios. The Village is not aware of any violations of the covenants at December 31, 2018.

Cash paid for interest approximated $3,309,668 and $951,782 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 9 OPERATING LEASE COMMITMENTS

The Village leases copiers and related equipment under operating lease agreements. The minimum monthly payments range from $35 to $2,235 and expire through 2020. Future minimum annual lease payments for the next two years are as follows:

| Year Ending December 31, | Ricoh Lease Equipment |
|---|---|
| 2019 | $ 27,244 |
| 2020 | 22,564 |
| Total | $ 49,808 |

## NOTE 10 EMPLOYEE BENEFIT PLANS

The Village established a 403(b) Tax Sheltered Annuity Plan (the Plan) for the benefit of its employees in June 2004. All full-time employees are eligible to participate in the Plan. The Village matches 33% of employees' contributions up to $990 for each participating employee with two years of employment. The Village contributed approximately $35,000 to the Plan for the years ended December 31, 2018 and 2017.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

**Professional Liability Insurance**

The Village is covered by a claims-made policy with a commercial insurance company for professional liability up to $1,000,000.

**Litigation**

The Village is subject to asserted and unasserted claims encountered in the normal course of business. The Village's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Village or unasserted claims that may result in such proceedings, the Village's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Village's financial condition or results of operations.

## NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Health Care

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient care, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

### Minimum Liquid Reserve

The Village is required by Florida Statute (the Statute) to maintain an amount equal to one year's debt service, property taxes, and insurance in an escrow account. In addition, an operating reserve is required in an amount equal to 15% of the average annual operating expenses, as defined by the Statute, for the preceding three years. The Village is also required to maintain in escrow a renewal and replacement reserve equal to 15% of total accumulated depreciation, but not to exceed 15% of the three-year average annual total operating expenses, as defined by the Statute.

Reserve funds set aside to meet the state of Florida minimum liquid reserve requirements and reserve requirements at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Reserve Fund to Meet the State of Florida Minimum Liquid Reserve Requirement | $ 10,769,026 | $ 10,341,678 |

Reserve funds set aside exceed the Florida Department of Insurance calculation of the reserve requirements of $7,585,001 and $5,407,539 at December 31, 2018 and 2017, respectively.

### Renovation and Expansion Plan

The Village's expansion plans commenced in 2017 and will result in the addition of 46 independent living apartment residences in two buildings, known as the Emerald Terraces, and the construction of a new replacement Health Center that will add four additional licensed community beds for a total of 64-units of skilled nursing beds. The anticipated completion date for Emerald Terraces is June 2019 and the new replacement Health Center is October 2019.

The Village's renovation plans commenced in 2016 which included the Assisted Living Facility remodel and other campus improvements. The anticipated completion date for the renovation plans is May 2019.

## NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Renovation and Expansion Plan (continued)**

Village entered into various contracts for construction for the new independent living buildings, the replacement Health Center and other facility improvements. Outstanding commitments for construction contracts amounted to approximately $4,464,000 and $1,135,000 at December 31, 2018 and 2017, respectively, and are included in accounts payable in the accompanying balance sheets. The estimated total remodel and renovations costs to complete these projects is $32,110,000. The projects are financed with the proceeds from Series 2016 and Series 2017A&B Bonds.

## NOTE 12 NET ASSETS

**Net Assets Without Donor Restrictions**

Net assets without donor restrictions of the Organization have been designated for the following purposes as of December 31:

| | 2018 | 2017 |
|---|---|---|
| Designated by the Board for Residence Assistance | $ - | $ 28,406 |
| Designated by the Board for Memory Care Program | 3,982 | 15,200 |
| Designated by the Board for Operational Programs | 1,307,790 | 1,347,964 |
| Undesignated | 2,354,955 | 2,643,947 |
| Total | $ 3,666,727 | $ 4,035,517 |

Assets in these designated funds are invested within investments of the Village, as described in Note 5.

## NOTE 12 NET ASSETS (CONTINUED)

### Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

| | 2018 | 2017 |
|---|---|---|
| Subject to Expenditure for Specified Purpose: | | |
| Resident Scholarship | $ 16,836 | $ 18,957 |
| Resident Assistance | 356,800 | 382,928 |
| Total | 373,636 | 401,885 |
| Subject to the Passage of Time: | | |
| Beneficial Interests in Charitable Trusts Held by Others | 68,208 | 43,858 |
| Subject to the Village's Endowment Spending Policy and Appropriation: | | |
| Staff Development | 73,187 | 73,187 |
| Scholarships | 50,194 | 50,194 |
| Total Endowments | 123,381 | 123,381 |
| Total Net Assets With Donor Restrictions | $ 565,225 | $ 569,124 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

| | 2018 | 2017 |
|---|---|---|
| Satisfaction of Purpose Restrictions: | | |
| Resident Scholarship | $ 38,162 | $ 35,200 |
| Resident Assistance | 40,665 | - |
| Total Net Assets Released from Donor Restrictions | $ 78,827 | $ 35,200 |

### Endowments

The Village’s endowments consist of numerous funds established by donors for a variety of purposes. As required by U.S. Generally Accepted Accounting Principles (GAAP), net assets of an endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. Endowments are restricted to investment in perpetuity, the income from which is expendable to support.

## NOTE 12 NET ASSETS (CONTINUED)

**Interpretation of Relevant Law**

The board of trustees of the Village has interpreted the State of Florida Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund. As a result of this interpretation, the Village retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is classified as net assets without donor restrictions or net assets with donor restrictions depending on the existence or absence of donor imposed restrictions.

In accordance with the Act, the Village considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization 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 the organization;
- The investment policies of the Village.

## NOTE 12 NET ASSETS (CONTINUED)

Endowment net asset composition by type of fund as of December 31 are as follows:

| December 31, 2018 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-Restricted Endowment Funds: | | | |
| Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor | $ - | $ 123,381 | $ 123,381 |
| **December 31, 2017** | | | |
| Donor-Restricted Endowment Funds: | | | |
| Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor | $ - | $ 123,381 | $ 123,381 |
| Accumulated Investment Gains (Losses) | (2,125) | - | (2,125) |
| Total | $ (2,125) | $ 123,381 | $ 121,256 |

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

| December 31, 2018 | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment Net Assets - Beginning of Year | $ (2,125) | $ 123,381 | $ 121,256 |
| Investment Return, Net | | 1,483 | 1,483 |
| Appropriation of Endowment Assets | 2,125 | (1,483) | $ 642 |
| Endowment Net Assets - End of Year | $ - | $ 123,381 | $ 123,381 |
| **December 31, 2017** | | | |
| Endowment Net Assets - Beginning of Year | $ - | $ 126,486 | $ 126,486 |
| Investment Return, Net | | (5,230) | (5,230) |
| Appropriation of Endowment Assets | (2,125) | 2,125 | $ - |
| Endowment Net Assets - End of Year | $ (2,125) | $ 123,381 | $ 121,256 |

## NOTE 12 NET ASSETS (CONTINUED)

**Return Objectives and Risk Parameters**

The Village has adopted an investment policy for their investment funds; including the permanent endowments that attempts to provide a balance of long-term capital appreciation, preservation of capital, and income production to support additional resources for the continuation and expansion of the charitable mission of the Village. Endowment assets include those assets of donor-restricted funds that the Village must hold in perpetuity. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to provide income and preserve capital.

**Spending Policy and How Investment Objectives Relate to Spending Policy**

Endowments funds were established to provide income for specific donor established programs at the Village. As a result, the Village's policy is to transfer all net investment earnings to those programs which are funded through net assets with donor restrictions. To meet the objectives of the endowment funds the Village invests in high quality fixed income securities.

## NOTE 13 CREDIT RISK

The Organization maintains its cash and cash equivalents, investments, and assets limited as to use, in bank deposit accounts that may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

The Village grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors was as follows at December 31:

| | 2018 | 2017 |
|---|---|---|
| Medicare | 23 % | 38 % |
| Medicaid | 12 | 15 |
| Residents and Other Third-Party Payors | 65 | 47 |
| Total | 100 % | 100 % |

## NOTE 14 FUNCTIONAL EXPENSES

The table below presents consolidated expenses by both their nature and function for the year ended December 31, 2018.

| | Program Services | Supporting Services | |
|---|---|---|---|
| | Senior Living Services | Management and General | Total |
| Salaries | $ 8,126,281 | $ 1,414,335 | $ 9,540,616 |
| Payroll Taxes and Fringe Benefits | 1,734,946 | 230,244 | 1,965,190 |
| Contract Services & Labor | 957,224 | 202,441 | 1,159,665 |
| Professional Fees | 8,414 | 130,685 | 139,099 |
| Dues, Publications, and Subscriptions | 36,901 | 6,202 | 43,103 |
| Travel | 35,908 | 32,131 | 68,039 |
| Medical/Dental Supplies | 381,793 | - | 381,793 |
| Office Supplies | 19,600 | 11,937 | 31,537 |
| Printing | 4,225 | 226,692 | 230,917 |
| Equipment Lease and Maintenance | 467,339 | - | 467,339 |
| Postage | 442 | 6,878 | 7,320 |
| Telephone | 51,627 | 627 | 52,254 |
| Insurance | 536,550 | 102,305 | 638,855 |
| Interest and Banking Fees | 958,280 | 20,680 | 978,960 |
| Property Taxes | 300,324 | 3,648 | 303,972 |
| Depreciation and Amortization | 3,085,253 | 37,473 | 3,122,726 |
| Miscellaneous | 2,554,450 | 340,294 | 2,894,744 |
| Total Expenses | $ 19,259,557 | $ 2,766,572 | $ 22,026,129 |

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include telephone, property taxes, depreciation, and amortization, which are allocated on a square footage basis, as well as certain insurances which are allocated on the basis full time equivalents. Fundraising expenses were not significant for the year ended December 31, 2018; therefore, any such expenses are included in Management and Administrative in the above table.

## SUPPLEMENTARY INFORMATION

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
**CONSOLIDATING BALANCE SHEETS**
**DECEMBER 31, 2018**
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | Village on the Isle | Village on the Isle Foundation | Eliminations | Consolidated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and Cash Equivalents | $ 2,151,551 | $ - | $ - | $ 2,151,551 |
| Accounts Receivable, Net | 1,063,087 | - | - | 1,063,087 |
| Other Receivables | 1,771,584 | - | - | 1,771,584 |
| Current Portion of Assets Limited as to Use | 8,549,355 | - | - | 8,549,355 |
| Prepaid Expenses and Other Current Assets | 577,927 | 2,736 | - | 580,663 |
| Total Current Assets | 14,113,504 | 2,736 | - | 14,116,240 |
| **INVESTMENTS** | 14,491,612 | - | - | 14,491,612 |
| **ASSETS LIMITED AS TO USE, NET OF CURRENT PORTION** | 47,554,683 | 1,307,790 | - | 48,862,473 |
| **PROPERTY AND EQUIPMENT, NET** | 69,312,870 | - | - | 69,312,870 |
| **OTHER ASSETS** | 164,806 | - | - | 164,806 |
| Total Assets | $ 145,637,475 | $ 1,310,526 | $ - | $ 146,948,001 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts Payable | $ 4,871,616 | $ - | $ - | $ 4,871,616 |
| Accrued Expenses and Other Current Liabilities | 966,251 | - | - | 966,251 |
| Accrued Interest | 2,419,000 | - | - | 2,419,000 |
| Current Portion of Long-Term Debt | 1,630,000 | - | - | 1,630,000 |
| Wait List and Other Deposits | 1,595,612 | - | - | 1,595,612 |
| Total Current Liabilities | 11,482,479 | - | - | 11,482,479 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | 108,827,472 | - | - | 108,827,472 |
| **REFUNDABLE ENTRANCE FEES** | 3,913,463 | - | - | 3,913,463 |
| **DEFERRED REVENUE FROM ENTRANCE FEES** | 18,492,635 | - | - | 18,492,635 |
| Total Liabilities | 142,716,049 | - | - | 142,716,049 |
| **NET ASSETS** | | | | |
| Without Donor Restrictions | 2,356,201 | 1,310,526 | - | 3,666,727 |
| With Donor Restrictions | 565,225 | - | - | 565,225 |
| Total Net Assets | 2,921,426 | 1,310,526 | - | 4,231,952 |
| Total Liabilities and Net Assets | $ 145,637,475 | $ 1,310,526 | $ - | $ 146,948,001 |

**SOUTHWEST FLORIDA RETIREMENT CENTER, INC.**
**DBA: VILLAGE ON THE ISLE AND SUBSIDIARY**
**CONSOLIDATING STATEMENTS OF OPERATIONS**
**YEAR ENDED DECEMBER 31, 2018**
**(SEE INDEPENDENT AUDITORS' REPORT)**

| | Village on the Isle | Village on the Isle Foundation | Eliminations | Consolidated |
|---|---|---|---|---|
| **REVENUES, GAINS, AND OTHER SUPPORT** | | | | |
| Resident Service Fees | $ 10,033,586 | $ - | $ - | $ 10,033,586 |
| Healthcare Services | 7,106,866 | - | - | 7,106,866 |
| Amortization of Earned Entrance Fees | 3,160,162 | - | - | 3,160,162 |
| Contributions | 51,094 | 11,072 | - | 62,166 |
| Investment Income and Realized Gains, Net | 1,799,831 | 51,846 | - | 1,851,677 |
| Net Assets Released from Restrictions | 78,827 | - | - | 78,827 |
| Other | 548,601 | - | - | 548,601 |
| Total Revenues, Gains, and Other Support | 22,778,967 | 62,918 | - | 22,841,885 |
| **EXPENSES** | | | | |
| Resident Services | 14,440,517 | - | - | 14,440,517 |
| General and Administrative | 2,551,468 | 10,322 | - | 2,561,790 |
| Insurance | 638,855 | - | - | 638,855 |
| Property Taxes | 303,972 | - | - | 303,972 |
| Interest | 958,269 | - | - | 958,269 |
| Depreciation | 3,122,726 | - | - | 3,122,726 |
| Total Expenses | 22,015,807 | 10,322 | - | 22,026,129 |
| **OPERATING INCOME** | 763,160 | 52,596 | - | 815,756 |
| **NONOPERATING LOSSES** | | | | |
| Contributions to Others | (49,823) | - | - | (49,823) |
| Total Nonoperating Losses | (49,823) | - | - | (49,823) |
| **EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES AND NONOPERATING LOSSES** | 713,337 | 52,596 | - | 765,933 |
| **OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | | | | |
| Change in Net Unrealized (Losses) on Investments | (1,044,689) | (90,034) | - | (1,134,723) |
| Change in Net Assets Without Donor Restrictions | (331,352) | (37,438) | - | (368,790) |
| **NET ASSETS WITH DONOR RESTRICTIONS** | | | | |
| Contributions | 47,429 | - | - | 47,429 |
| Change in Net Unrealized Gains on Investments | 3,149 | - | - | 3,149 |
| Change in Beneficial Interest Charitable Remainder Trust | 24,350 | - | - | 24,350 |
| Net Assets Released from Restrictions | (78,827) | - | - | (78,827) |
| Change in Net Assets With Donor Restrictions | (3,899) | - | - | (3,899) |
| **CHANGE IN NET ASSETS** | (335,251) | (37,438) | - | (372,689) |
| Net Assets - Beginning of Year | 3,256,677 | 1,347,964 | - | 4,604,641 |
| **NET ASSETS - END OF YEAR** | $ 2,921,426 | $ 1,310,526 | $ - | $ 4,231,952 |