

FOR INCOME TAX PURPOSES

TO: Contract Residents

FROM: Marianne Pessognelli
Chief Financial Officer

DATE: February 3, 2017

SUBJECT: 2016 Medical Expense Percentages

This letter is being provided to residents who, during the calendar year 2016, paid all or part of their entrance fee.

The Internal Revenue Service (IRS) allows residents of continuing care retirement communities, such as The Highlands at Wyomissing, to treat a portion of their Monthly Service Fees as a medical expense (subject to the 7.5% limitation found in Internal Revenue Service (IRC) Section 213). A similar allowance is extended to the Entrance Fee as a **one-time deduction in the year of payment**.

This year, Rice CPA, Independent Certified Public Accountant, reviewed The Highlands at Wyomissing's revenues, expenses, and operations to determine what portion of the Monthly Service Fees and Entrance Fee **paid in 2016** can be treated as a deductible medical expense.

The IRS's determination was affirmed in a court case listed here for your reference: Delbert L. and Margaret J. Baker v. Commissioner of Internal Revenue, 122 T.C. 143 (2004). Accordingly, Rice CPA has calculated the deductible amount applicable for each residential accommodation. Please refer to the attached schedule to assist you in your tax return preparation.

THE METHODOLOGY PRESCRIBED BY LAW TO ASCERTAIN THESE MEDICAL EXPENSE DEDUCTIONS IS NOT CLEAR OR SETTLED. THUS, THE PERCENTAGES NOTED ON THE ATTACHED PAGES ARE SUBJECT TO AUDIT, REVIEW, AND DISALLOWANCE BY THE INTERNAL REVENUE SERVICE.

The Highlands at Wyomissing
Deductible Portion of 2016 Entrance Fee
12/31/2016
Type A Resident

Type of Unit	Entrance Fee paid 1/1/16 - 6/30/16		Entrance Fee Paid 7/1/16-12/31/16	
	Entrance Fee	% Deductible	Entrance Fee	% Deductible
Studio (Single)	\$ 105,900	52.69%	\$ 105,900	52.69%
One Bedroom (Single Occupancy)	137,900	40.47%	137,900	40.47%
One Bedroom (Double Occupancy)	182,900	40.47%	182,900	40.47%
One Bedroom w/ Den (Single)	178,900	31.19%	178,900	31.19%
One Bedroom w/ Den (Double)	223,900	33.06%	223,900	33.06%
One Bedroom Grand (Single)	183,900	30.34%	183,900	30.34%
One Bedroom Grand (Double)	228,900	32.33%	228,900	32.33%
One Bedroom w/ Den Grand (Single)	190,900	29.23%	190,900	29.23%
One Bedroom w/ Den Grand (Double)	235,900	31.38%	235,900	31.38%
Two Bedroom (Single)	190,900	29.23%	190,900	29.23%
Two Bedroom (Double)	235,900	31.38%	235,900	31.38%
Two Bedroom Combination (Single)	213,900	26.09%	213,900	26.09%
Two Bedroom Combination (Double)	258,900	28.59%	258,900	28.59%
Plus (Single)	213,900	26.09%	213,900	26.09%
Plus (Double)	258,900	28.59%	258,900	28.59%
Two Bedroom Extended & Special (Single)	244,900	22.79%	244,900	22.79%
Two Bedroom Extended & Special (Double)	289,900	25.53%	289,900	25.53%
Two Bedroom w/ Den Consolidated (Single)	254,900	21.89%	254,900	21.89%
Two Bedroom w/ Den Consolidated (Double)	299,900	24.68%	299,900	24.68%
Two Bedroom w/ Den (Single)	275,900	20.23%	275,900	20.23%
Two Bedroom w/ Den (Double)	320,900	23.06%	320,900	23.06%
Two Bedroom Deluxe (Single) (Unit #102)	304,900	18.30%	304,900	18.30%
Two Bedroom Deluxe (Double) (Unit #102)	349,900	21.15%	349,900	21.15%
Two Bedroom Deluxe (Single) (Units #273, 274)	308,900	18.07%	308,900	18.07%
Two Bedroom Deluxe (Double) (Units #273, 274)	353,900	20.91%	353,900	20.91%
Cottage, Two Bedroom (Single)	301,900	18.48%	301,900	18.48%
Cottage, Two Bedroom (Double)	346,900	21.34%	346,900	21.34%
Cottage, Three Bedroom (Single)	338,900	16.47%	338,900	16.47%
Cottage, Three Bedroom (Double)	383,900	19.28%	383,900	19.28%
Cottage 29 (Farmhouse) (Single)	484,900	11.51%	484,900	11.51%
Cottage 29 (Farmhouse) (Double)	529,900	13.97%	529,900	13.97%
Gaelsong Cottage (Single)	500,900	11.14%	500,900	11.14%
Gaelsong Cottage (Double)	545,900	13.56%	545,900	13.56%

The Highlands at Wyomissing
Deductible Portion of 2016 Entrance Fee
12/31/2016
Type B Resident

Type of Unit	Entrance Fee paid 1/1/16 - 6/30/16		Entrance Fee Paid 7/1/16-12/31/16	
	Entrance Fee	% Deductible	Entrance Fee	% Deductible
Studio (Single)	\$ 79,900	1.67%	\$ 79,900	1.67%
One Bedroom (Single Occupancy)	103,900	1.29%	103,900	1.29%
One Bedroom (Double Occupancy)	136,900	1.29%	136,900	1.29%
One Bedroom w/ Den (Single)	134,900	0.99%	134,900	0.99%
One Bedroom w/ Den (Double)	167,900	1.05%	167,900	1.05%
One Bedroom Grand (Single)	137,900	0.97%	137,900	0.97%
One Bedroom Grand (Double)	170,900	1.03%	170,900	1.03%
One Bedroom w/ Den Grand (Single)	143,900	0.93%	143,900	0.93%
One Bedroom w/ Den Grand (Double)	176,900	1.00%	176,900	1.00%
Two Bedroom (Single)	143,900	0.93%	143,900	0.93%
Two Bedroom (Double)	176,900	1.00%	176,900	1.00%
Two Bedroom Combination (Single)	160,900	0.83%	160,900	0.83%
Two Bedroom Combination (Double)	193,900	0.91%	193,900	0.91%
Plus (Single)	160,900	0.83%	160,900	0.83%
Plus (Double)	193,900	0.91%	193,900	0.91%
Two Bedroom Extended & Special (Single)	183,900	0.73%	183,900	0.73%
Two Bedroom Extended & Special (Double)	216,900	0.81%	216,900	0.81%
Two Bedroom w/ Den Consolidated (Single)	191,900	0.70%	191,900	0.70%
Two Bedroom w/ Den Consolidated (Double)	224,900	0.78%	224,900	0.78%
Two Bedroom w/ Den (Single)	206,900	0.65%	206,900	0.65%
Two Bedroom w/ Den (Double)	239,900	0.74%	239,900	0.74%
Two Bedroom Deluxe (Single) (Unit #102)	229,900	0.58%	229,900	0.58%
Two Bedroom Deluxe (Double) (Unit #102)	262,900	0.67%	262,900	0.67%
Two Bedroom Deluxe (Single) (Units #273, 274)	232,900	0.57%	232,900	0.57%
Two Bedroom Deluxe (Double) (Units #273, 274)	265,900	0.66%	265,900	0.66%
Cottage, Two Bedroom (Single)	225,900	0.59%	225,900	0.59%
Cottage, Two Bedroom (Double)	258,900	0.68%	258,900	0.68%
Cottage, Three Bedroom (Single)	253,900	0.53%	253,900	0.53%
Cottage, Three Bedroom (Double)	286,900	0.61%	286,900	0.61%
Cottage 29 (Farmhouse) (Single)	363,900	0.37%	363,900	0.37%
Cottage 29 (Farmhouse) (Double)	396,900	0.44%	396,900	0.44%
Gaelsong Cottage (Single)	375,900	0.36%	375,900	0.36%
Gaelsong Cottage (Double)	408,900	0.43%	408,900	0.43%