Fellowship Senior Living, Inc.

Financial Statements

December 31, 2016 and 2015

BAKER TILLY

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Independent Auditors' Report

Board of Directors
Fellowship Senior Living, Inc.

We have audited the accompanying financial statements of Fellowship Senior Living, Inc. ("FSL"), which comprise the balance sheet as of December 31, 2016 and 2015, and the related 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 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Fellowship Senior Living, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
April 14, 2017

Fellowship Senior Living, Inc.

Balance Sheet
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 3,051,577	$ 3,123,185
Investments	38,884,286	39,823,912
Assets whose use is limited, current portion	7,434,023	10,051,923
Accounts receivable, net of allowance for doubtful accounts of $125,773 in 2016 and $83,966 in 2015	2,896,208	2,160,798
Supplies and other current assets	980,713	901,782
Total current assets	53,246,807	56,061,600
Noncurrent Assets Whose Use is Limited	6,002,741	1,808,674
Property and Equipment, Net	63,990,629	64,352,167
Long-Term Deposits	111,166	130,963
Total assets	$ 123,351,343	$ 122,353,404
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,746,137	$ 2,821,063
Accrued interest payable	372,487	536,875
Current portion of long-term debt	3,703,904	3,922,114
Total current liabilities	6,822,528	7,280,052
Refundable waiting list deposits	263,480	277,105
Refundable advance fees	16,696,454	19,248,160
Deferred revenue from advance fees	19,775,212	19,007,435
Deferred revenue from forward delivery agreements	1,003,264	1,128,672
Deferred revenue from renovations	216,666	283,333
Long-term debt, net	43,147,510	42,785,265
Derivative instrument	5,135,496	5,435,220
Total liabilities	93,060,610	95,445,242
Net Assets		
Unrestricted	28,653,233	25,604,929
Temporarily restricted net assets	1,637,500	1,303,233
Total net assets	30,290,733	26,908,162
Total liabilities and net assets	$ 123,351,343	$ 122,353,404

See notes to financial statements

Fellowship Senior Living, Inc.

Statement of Operations and Changes in Net Assets
Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Revenue:		
Resident services, including amortization of advance fees of $7,597,313 in 2016 and $8,423,682 in 2015	$ 26,568,004	$ 27,179,742
Patient revenue from nonresidents	5,392,849	4,895,529
Home community based services, including amortization of advance fees of $186,856 in 2016 and $266,246 in 2015	5,277,512	4,698,719
Investment income and other revenue	5,085,643	4,748,986
Total revenue	42,324,008	41,522,976
Expenses:		
Salaries and benefits	18,559,984	17,542,120
Contracted services	4,850,948	4,240,093
Supplies and other	7,335,390	7,204,407
Interest and amortization, net	1,247,192	1,545,238
Depreciation	4,560,219	4,533,621
Provision for bad debt	97,632	100,232
Total expenses	36,651,365	35,165,711
Income from operations	5,672,643	6,357,265
Early extinguishment of debt	(4,209,221)	-
Loss on disposal of property and equipment	(379,039)	(119,595)
Net change in unrealized gain (loss) on investments	1,664,197	(3,499,578)
Other non operating gains	-	51,383
Net change in fair value of derivative instrument	299,724	(622,048)
Excess of revenue over expenses	3,048,304	2,167,427
Contributions of capital assets	-	32,500
Increase in unrestricted net assets	3,048,304	2,199,927
Temporarily restricted net assets:		
Gross contributions	305,775	272,896
Released to unrestricted net assets	(127,598)	(102,795)
Interest income	45,646	45,843
Net change in unrealized gain (loss) on investments	110,444	(104,343)
Increase in temporarily restricted net assets	334,267	111,601
Increase in net assets	3,382,571	2,311,528
Net Assets, Beginning of Year	26,908,162	24,596,634
Net Assets, End of Year	$ 30,290,733	$ 26,908,162

See notes to financial statements

Fellowship Senior Living, Inc.

Statement of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Increase in net assets	$ 3,382,571	$ 2,311,528
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cash received from advance fees and waiting list deposits, net	5,986,615	8,714,598
Amortization of advance fees	(7,784,169)	(8,689,928)
Amortization of deferred revenue from renovations	(66,667)	(66,667)
Amortization of SWAP termination	(76,459)	-
Amortization of deferred financing costs	94,992	135,360
Loss on disposal of property and equipment	379,039	119,595
Contributions of capital assets	-	(32,500)
Contributions restricted for capital projects	(159,974)	(165,366)
Amortization of forward delivery agreements	(125,408)	(125,407)
Depreciation	4,560,219	4,533,621
Net change in unrealized (gain) loss on investments	(1,774,641)	3,603,921
Net change in fair value of derivative instrument	(299,724)	622,048
Changes in operating assets and liabilities:		
Accounts receivable	(735,410)	(123,220)
Supplies and other current assets	(78,931)	60,132
Other long-term assets	19,797	(50,034)
Accounts payable and accrued expenses	(74,926)	564,937
Accrued interest payable	(164,388)	79,286
Other long-term liabilities	-	(48,039)
Net cash provided by operating activities	3,082,536	11,443,865
Cash Flows from Investing Activities		
Net sales (purchases) of investments and assets whose use is limited	1,138,100	(2,133,705)
Acquisition of property and equipment	(4,577,720)	(5,756,989)
Net cash used in investing activities	(3,439,620)	(7,890,694)
Cash Flows from Financing Activities		
Payment of bonds financing costs	(211,605)	(5,109)
Proceeds from issuance of long-term debt	50,000	-
Contributions restricted for capital projects	159,974	165,366
Principal payments of long-term debt	(3,922,114)	(3,791,032)
Loss on early extinguishment of debt	4,209,221	-
Net cash used in financing activities	285,476	(3,630,775)
Net decrease in cash and cash equivalents	(71,608)	(77,604)
Cash and Cash Equivalents, Beginning	3,123,185	3,200,789
Cash and Cash Equivalents, Ending	$ 3,051,577	$ 3,123,185
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 2,089,063	$ 1,895,729
Supplemental Disclosure of Noncash Investing and Financing Activities		
Contributions of capital assets	$ -	$ 32,500

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Fellowship Senior Living, Inc. (“FSL”) is a tax-exempt, not-for-profit organization, which operates a continuing care retirement community in Liberty Corner, New Jersey, consisting of 257 residential homes, a community building, and a health center consisting of 54 long-term care beds, 67 assisted living beds, 14 memory care beds, rehabilitation and wellness center, and a medical center. FSL commenced operations on May 1, 1996.

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 as of 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.

Cash Equivalents

FSL considers all highly liquid investments with a maturity of three month or less when purchased, other than those held in the investment portfolio and assets whose use is limited, to be cash equivalents. The carrying amount of cash and cash equivalents reported in the balance sheets approximates fair value.

Accounts Receivable

Accounts receivable include receivables for residential and health care services. The amount of the allowance for doubtful accounts is based on historical and expected collections, business economic conditions, trends in health care coverage and other collection indicators. Net accounts receivable represents the balance of future collections.

Investments and Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under bond indenture agreements; waiting list and entrance fee deposits held in escrow and assets temporarily restricted by donors.

Marketable securities included within investments and assets whose use is limited are recorded at fair value. The fair value of these investments is determined by reference to quoted market prices.

Alternative investments consist of investments in marketable hedging instruments and limited partnership interests. The marketable hedging instruments are recorded at fair value. The fair value of these investments is determined by reference to quoted market prices. The limited partnership interest investments are reported in the accompanying balance sheets based upon net asset values derived from the application of the equity method of accounting. Generally, net asset value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. Individual investment holdings of the limited partnerships may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals or other estimates that require varying degrees of judgment. The investments may indirectly expose FSL to securities lending, short sales of securities, and trading in futures and forward contracts, options and other derivative products. FSL's risk is limited to its carrying value of the limited partnerships. Such investments are subject to notification periods to divest ranging from 1 to 30 days. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with FSL's annual financial statement reporting. At December 31, 2016, FSL does not have future commitments to invest in alternative investments.

Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income is restricted by donor or law.

Supplies

Supplies are carried at the lower of cost or market determined on the first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets (ranging from 3 to 39.5 years), or the term of the related lease

Deferred Costs

Deferred financing costs are costs incurred to obtain financing. Deferred financing costs are amortized using the effective interest method over the terms of the indebtedness.

Refundable Advance Fees

Refundable advance fees consist of deposits received from prospective residents who have entered into a Residency and Care Agreement. Advance fees received prior to occupancy (generally 10% of the total advance fee) are accounted for as partially refundable deposits in accordance with the terms of the Residency and Care Agreement. These deposit amounts are held in escrow and interest earned is deducted from the remaining advance fee payment (generally 90% of the total advance fee) which is payable upon occupancy.

The advance fee deposits are refundable to the residents upon termination of the residence agreement and prior to establishing residency. After residency is established and after a 90 day probationary period, the fees are refundable to the residents on a declining balance basis according to the terms of the specific contract.

Deferred Revenue from Advance Fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion that is refundable to the resident, are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Obligation to Provide Future Services

FSL calculates bi-annually the present value (using a discount rate of 5.0%) of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. At December 31, 2016 and 2015 deferred revenue from advance fees exceeded the present value of the net cost of future services as determined. Therefore, an additional liability for an obligation to provide future services and use of facilities was not required.

Deferred Revenue from Renovations

Deferred revenue from renovations relates to $650,000 received to renovate FSL's dining facilities (see Note 5). The deferred revenue is amortized into revenue over a ten-year period ending March 2020 using the straight-line method.

Derivative Instrument

FSL entered into interest-rate swap agreements, which are considered a derivative financial instrument to manage its interest rate risk on its long-term debt. The objective of the swap agreements was to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are a contract to exchange variable rate for fixed rate payments over the term of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements are used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote and that the swaps are continuing to function as intended.

Four (4) new derivative instruments were established on December 16, 2016, replacing the terminated derivative instruments: Two (2) for Series 2013A represented refinancing of new proceeds to be used for construction and two (2) for Series 2013B represented the refinancing of existing debt.

The net cash paid or received under the swap agreements is recognized as an adjustment to unrestricted net assets. FSL does not utilize the interest rate swap agreement or other financial instruments for trading or other speculative purposes.

Amount	Fixed Rate	Variable Rate	Period
As of December 31, 2015:			
Series 2013 Bonds			
$51,500,000	3.377%	LIBOR x 65% plus 120 basis points	December 2013 to October 2016

This derivative instrument was terminated in December 2016, retroactively to October 3, 2016 and replaced with four (4) new derivative instruments.

Amount	Fixed Rate	Variable Rate	Period
As of December 31, 2016:			
Series 2013A Bonds			
$45,000,000	3.99% and 3.945%	LIBOR x 65% plus 120 basis points	October 2017 to December 2026
Series 2013B Bonds			
$51,500,000	3.385% and 3.393%	LIBOR x 65% plus 120 basis points	October 2016 to December 2026

FSL recognizes the derivative instrument as either an asset or liability at fair value within the accompanying balance sheets. FSL has not designated the interest rate swap agreement as a hedging instrument and, accordingly, has recorded the net change in the fair value of the derivative instrument within the excess of revenue over expenses in the accompanying statements of operations and changes in net assets. The fair value of the agreements was a liability of $5,135,496 and $5,435,220 at December 31, 2016 and December 31 2015, respectively.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently 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 statement of operations and changes in net assets as net assets released from restrictions.

Temporarily Restricted Net Assets

FSL separately accounts for and reports donor restricted and unrestricted net assets. Temporarily restricted net assets are those whose use is limited by the donor for a specific purpose or time period. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted.

Revenue

Resident services revenue is derived from residential and health care services provided to residents under Residency and Care Agreements. Patient revenue from nonresidents is derived from health care services provided to patients who have not entered into Residency and Care Agreements. In relation to revenue for certain health care services FSL has agreements with third-party payors that provide for payments at amounts different from their established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments.

Residential and health care services revenue is reported at the estimated net realizable amounts from residents, patients, third-party payors, and others for services rendered and includes, when applicable, estimated retroactive adjustments due to future and ongoing audits, reviews, and investigations. Residential and health care services revenue is accounted for on the accrual basis of accounting in the period in which the service is provided. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Home community based services revenue is comprised of two types of community based services: Fellowship Senior Living at Home and Fellowship Helping Hands. Fellowship Senior Living at Home program is offered to seniors living in their own home in counties of Somerset, Hunterdon, and Middlesex in New Jersey and all areas of New Jersey north of said counties. Fellowship Helping Hands is a fee-for-service program for the Fellowship Village community and the outside broader community.

Performance Indicator

The statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses include contributions received for capital purposes.

Transactions deemed by management to be ongoing, major or central to the provision of residential and health care services are reported within income from operations.

Advertising

Advertising costs are expensed when incurred except for direct response advertising. Direct response advertising is capitalized as a component of costs of acquiring initial continuing care contracts. FSL incurred and expensed approximately $401,057 and $343,838 of advertising costs for the twelve months ended December 31, 2016 and 2015, respectively.

Malpractice

FSL maintains occurrence-based professional liability coverage through a commercial insurance carrier.

Income Taxes

FSL is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code. FSL is also exempt from state and local income taxes under similar statutes.

FSL accounts for uncertainty in income taxes using 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 is met. Management determined there were no tax uncertainties that met the recognition threshold as of December 31, 2016 and December 31, 2015.

New Accounting Pronouncements

Fair Value Measurement

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07"). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under Accounting Standards Codification 820. ASU 2015-07 is effective for years beginning after December 15, 2016 with early adoption permitted. FSL has not yet determined the impact of adoption of ASU No. 2015-07 on its financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FSL will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018; early application is not permitted. FSL has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Lease Accounting

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the entity's leasing activities. FSL will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. FSL has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

Deferred Financing Costs

During April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs.* This ASU was issued as a result of feedback received relating to the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for FSL’s fiscal years beginning after December 15, 2015; early adoption was permitted for financial statements that have not been previously issued. FSL elected to adopt the guidance for the fiscal year beginning January 1, 2016. The guidance is retrospective and the adoption of ASU 2015-03 did not have a significant impact on FSL’s financial statements. The adoption of ASU 2015-03 caused the deferred financing costs previously reported in the December 31, 2015 balance sheet to decrease by $1,351,068 and long-term debt to decrease by $1,351,068.

Presentation of Financial Statements

In August 2016, the FASB issued ASU 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. FSL is assessing the impact this standard will have on its financial statements.

Subsequent Events

FSL evaluated subsequent events for recognition or disclosure through April 14, 2017, the date the financial statements were issued.

2. Medicare Reimbursement System

FSL provides care to patients under Medicare. Revenue from the Medicare program accounted for approximately 9% of the revenue for twelve months ended December 31, 2016 and 2015. Future changes in the Medicare program and any reduction of funding could have an adverse impact on Fellowship Senior Living. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare program. Fellowship Senior Living believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare program.

3. Investments and Assets Whose Use is Limited

Investments consist of the following at December 31:

	2016	2015
Cash and money market funds	$ 1,114,295	$ 1,200,987
Equities	23,614,709	23,228,067
Fixed income	10,331,539	11,374,770
Alternative investments	3,526,678	3,914,751
Other	214,599	16,656
Accrued interest	82,466	88,681
Total	$ 38,884,286	$ 39,823,912

Above investments, at cost, are $39,368,542 and $42,994,343 at December 31, 2016 and December 31, 2015 respectively.

Assets whose use is limited consist of the following:

	2016	2015
Bond indenture agreements - held by trustees:*		
Cash and cash equivalents	$ 11,364,322	$ 8,447,157
U.S. Government obligations	-	974,000
Corporate bonds and notes	-	801,678
Total	11,364,322	10,222,835
Waiting list and entrance fee deposits:		
Cash and cash equivalents	162,055	109,613
Equities	174,832	95,376
Fixed income	77,702	127,556
Other	19,243	-
Accrued interest	1,110	1,984
Total	434,942	334,529
Temporarily restricted by donor:		
Cash and cash equivalents	40,925	95,341
Equities	796,939	500,865
Fixed income	615,508	588,600
Other	176,377	111,996
Accrued interest	7,751	6,431
Total	1,637,500	1,303,233
Total assets whose use is limited	13,436,764	11,860,597
Less assets whose use is limited, current portion	7,434,023	10,051,923
Noncurrent assets whose use is limited	$ 6,002,741	$ 1,808,674

* Bond indenture agreement - Held by trustees - December 31, 2016 and December 31, 2015 balance reported lower from actual balance per the trustee due to pending construction invoices to be submitted to the Construction fund for reimbursement. The remaining balances are reported within investments.

These investments, excluding temporarily restricted by donor, at cost aggregated are $11,790,554 and $10,579,111 at December 31, 2016 and December 31, 2015, respectively.

Assets held by trustees under bond indenture agreements, are maintained for the following purposes at December 31:

	2016	2015
Debt service reserve funds	$ 3,547,743	$ 3,547,743
Debt service funds for principal and interest	5,173,512	5,873,411
Debt service Construction Fund *	2,643,067	801,681
Total	$ 11,364,322	$ 10,222,835

* Bond indenture agreement - Held by trustees - December 31, 2016 and December 31, 2015 balance reported lower from actual balance per the trustee due to pending construction invoices to be submitted to the Construction fund for reimbursement. The remaining balances are reported within investments

Investment income included in investment income and other revenue consists of the following for the twelve months ending December 31:

	2016	2015
Interest and dividend income	$ 1,379,310	$ 1,433,317
Net realized gain	209,478	135,020
Total	$ 1,588,788	$ 1,568,337

During 2001, FSL entered into two Forward Delivery Agreements (the Agreements) with a bank. In accordance with the terms of the Agreements, Fellowship Senior Living received approximately $3,166,000 in exchange for the future income earnings on the Series 1998A, 1998B and 1998C debt service funds and the Series 1998A debt service reserve funds.

The funds received under the Agreements were recorded as deferred revenue and are amortized to income using the straight-line method over the term of the Agreements. The Agreements were scheduled to expire on January 1, 2025 and January 1, 2028 for the Series 1998A and 1998C funds respectively. The agreement for the Series 1998B funds expired on January 1, 2004. During 2008, in connection with the issuance of the Series 2008 Bonds, FSL amended the Agreements to apply them to the Series 2008 Bonds that were used to refund the Series 1998A and 1998C Bonds. The revised Agreement expires on January 1, 2025. The agreement was then amended again for the 2013 Bonds, which were issued to refund the 2008 bonds and acquire additional debt. For the twelve months ended December 31, 2016 and 2015, FSL has recorded $125,408 and $125,407 respectively, related to the amortization of the funds received, which is included in other revenue. At December 31, 2016 and December 31, 2015, FSL has recorded deferred revenue of approximately $1,003,000 and $1,129,000 respectively, related to the agreements.

4. Fair Value Measurements

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

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined 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 - Fair value is based on unadjusted quoted prices in active markets that are accessible to FSL for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The following tables present the financial instruments carried at fair value as of December 31, 2016 by caption on the balance sheets and within the valuation hierarchy levels defined above:

	Assets at Fair Value as of December 31, 2016				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Reported at Fair Value					
Assets:					
Investments:					
Cash and money balances	$ 1,114,295	$ 1,114,295	$ 1,114,295	$ -	$ -
Equities:					
Common stock	9,719,235	9,719,235	9,719,235	-	-
Structured products	6,633,003	6,633,003	6,633,003	-	-
Closed end funds and exchange traded products	2,670,946	2,670,946	2,670,946	-	-
Mutual funds	3,193,814	3,193,814	3,193,814	-	-
Other equity investments	289,529	289,529	289,529	-	-
Unit investment trusts	1,108,182	1,108,182	1,108,182	-	-
Total equities	23,614,709	23,614,709	23,614,709	-	-
Fixed income:					
Corporate bonds and notes	5,706,355	5,706,355	-	5,706,355	-
Certificates of deposits	148,375	148,375	148,375	-	-
Municipal securities	215,580	215,580	-	215,580	-
Closed end funds and exchange traded products	398,718	398,718	-	398,718	-
Mutual funds	3,283,570	3,283,570	-	3,283,570	-
Structured products	5,000	5,000	-	5,000	-
Preferred securities	573,941	573,941	-	573,941	-
Total accrued interest	82,466	82,466	-	82,466	-
Total fixed income	10,414,005	10,414,005	148,375	10,265,630	-
Non-traditional:					
Closed end funds and exchange traded products	1,293,111	1,293,111	-	1,293,111	-
Mutual funds	549,310	549,310	-	549,310	-
Hedge funds	755,462	755,462	-	755,462	-
Other investments	1,143,394	1,143,394	-	1,143,394	-
Total non-traditional	3,741,277	3,741,277	-	3,741,277	-
Total investments	38,884,286	38,884,286	24,877,379	14,006,907	-

	Assets at Fair Value as of December 31, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets whose use is limited:					
Cash and money balances	$ 11,567,302	$ 11,567,302	$ 11,567,302	$ -	$ -
Equities:				-	-
Common stock	315,086	315,086	315,086	-	-
Structured products	51,980	51,980	51,980	-	-
Closed end funds and exchange traded products	266,838	266,838	266,838	-	-
Mutual funds	214,564	214,564	214,564	-	-
Other equity investments	19,980	19,980	19,980	-	-
Unit investment trusts	103,323	103,323	103,323	-	-
Total equities	971,771	971,771	971,771	-	-
Fixed income:					
Corporate bonds and notes	440,237	440,237	-	440,237	-
Closed end funds and exchange traded products	33,861	33,861	-	33,861	-
Mutual funds	219,111	219,111	-	219,111	-
Total accrued interest	8,862	8,862	-	8,862	-
Total fixed income	702,071	702,071	-	702,071	-
Non-traditional					
Closed end funds and exchange traded products	195,620	195,620	-	195,620	-
Total non-traditional	195,620	195,620	-	195,620	-
Total assets whose use is limited	13,436,764	13,436,764	12,539,073	897,691	-
Total assets at fair value	$ 52,321,050	$ 52,321,050	$ 37,416,452	$ 14,904,598	$ -
Liabilities,					
Derivative instrument	$ 5,135,496	$ 5,135,496	$ -	$ 5,135,496	$ -
Disclosed at Fair Value					
Cash and cash equivalents	$ 3,051,577	$ 3,051,577	$ 3,051,577	$ -	$ -
Long-term debt	43,969,989	43,969,989	-	43,969,989	-
Note payable	216,344	216,344	-	-	216,344

	Assets at Fair Value as of December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Reported at Fair Value					
Assets:					
Investments:					
Cash and money balances	$ 1,200,987	$ 1,200,987	$ 1,200,987	$ -	$ -
Equities:					
Common stock	13,517,888	13,517,888	13,517,888	-	-
Structured products	4,040,382	4,040,382	4,040,382	-	-
Closed end funds and exchange traded products	1,735,283	1,735,283	1,735,283	-	-
Mutual funds	2,821,139	2,821,139	2,821,139	-	-
Other equity investments	215,652	215,652	215,652	-	-
Unit investment trusts	897,723	897,723	897,723	-	-
Total equities	23,228,067	23,228,067	23,228,067	-	-
Fixed income:					
Corporate bonds and notes	5,396,026	5,396,026	-	5,396,026	-
Municipal securities	1,940,360	1,940,360	-	1,940,360	-
Closed end funds and exchange traded products	56,845	56,845	-	56,845	-
Mutual funds	3,585,224	3,585,224	-	3,585,224	-
Structured products	5,000	5,000	-	5,000	-
Preferred securities	391,315	391,315	-	391,315	-
Total accrued interest	88,681	88,681	-	88,681	-
Total fixed income	11,463,451	11,463,451	-	11,463,451	-
Non-traditional:					
Closed end funds and exchange traded products	187,775	187,775	-	187,775	-
Mutual funds	2,002,849	2,002,849	-	2,002,849	-
Hedge funds	762,126	762,126	-	762,126	-
Other investments	978,657	978,657	-	978,657	-
Total non-traditional	3,931,407	3,931,407	-	3,931,407	-
Total investments	39,823,912	39,823,912	24,429,054	15,394,858	-

	Assets at Fair Value as of December 31, 2015				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets whose use is limited:					
Cash and money balances	$ 8,652,111	$ 8,652,111	$ 8,652,111	$ -	$ -
Equities:					
Common stock	185,555	185,555	185,555	-	-
Structured products	44,029	44,029	44,029	-	-
Closed end funds and exchange traded products	162,248	162,248	162,248	-	-
Mutual funds	192,167	192,167	192,167	-	-
Other equity investments	12,242	12,242	12,242	-	-
Total equities	596,241	596,241	596,241	-	-
Fixed income:					
Corporate bonds and notes	1,281,788	1,281,788	-	1,281,788	-
U.S. government obligations	974,000	974,000	-	974,000	-
Closed end funds and exchange traded products	32,883	32,883	-	32,883	-
Mutual funds	203,163	203,163	-	203,163	-
Total accrued interest	8,415	8,415	-	8,415	-
Total fixed income	2,500,249	2,500,249	-	2,500,249	-
Non-traditional					
Closed end funds and exchange traded products	111,996	111,996	-	111,996	-
Total non-traditional	111,996	111,996	-	111,996	-
Total assets whose use is limited	11,860,597	11,860,597	9,248,352	2,612,245	-
Total assets at fair value	$ 51,684,509	$ 51,684,509	$ 33,677,406	$ 18,007,103	$ -
Liabilities,					
Derivative instrument	$ 5,435,220	$ 5,435,220	$ -	$ 5,435,220	$ -
Disclosed at Fair Value					
Cash and cash equivalents	$ 3,123,185	$ 3,123,185	$ 3,123,185	$ -	$ -
Long-term debt	47,776,478	47,776,478	-	47,776,478	-
Note payable	281,969	281,969	-	-	281,969

The following is a description of the valuation methodologies used for assets measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at December 31, 2016 and December 31, 2015:

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature of those instruments.

Mutual funds and equities are valued at fair value based on quoted market prices which are considered Level 1 inputs. Debt securities are valued using quoted market prices of similar securities, which are considered Level 2 inputs.

Alternative investments (non-traditional) are valued by an independent advisor that values the underlying investments of the funds, which are substantially invested in an active market in which the individual securities are traded. The alternative investments are comprised of limited partnerships that invest primarily in securities that are traded in active markets.

The fair value of the long-term debt is based on quoted market prices for the same or similar issues.

FSL measures its derivative financial instruments at fair value based on proprietary models of the maker of the instrument based upon estimated future cash flows and forecasted interest rate yields. This value represents the estimated amount FSL would receive or pay upon termination of the agreement, taking into consideration current interest rates.

5. Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015
Land	$ 6,400,000	$ 6,400,000
Land improvements	628,070	588,077
Buildings	86,471,962	84,423,027
Furnishings and equipment	23,708,661	21,089,917
	117,208,693	112,501,021
Less accumulated depreciation and amortization	(60,366,041)	(56,584,312)
	56,842,652	55,916,709
Construction in progress	7,147,977	8,435,458
Total	$ 63,990,629	$ 64,352,167

Interest costs capitalized were $292,619 and $202,534 during 2016 and 2015, respectively.

During 2010, FSL entered into an agreement with Morrison Dining Services ("Morrison") for the renovation of the dining facilities. Under the agreement, Morrison advanced FSL $1,300,000 for the construction project. FSL is required to repay Morrison $650,000, which is included in long-term debt as a note payable. The note payable was $216,344 and $281,969 at December 31, 2016 and December 31, 2015, respectively. The portion of the advance which is not required to be repaid is recorded as deferred revenue of $216,666 and $283,333 at December 31, 2016 and December 31, 2015, respectively and is being recognized as other revenue over the term of the contract.

6. Long-Term Debt

Long-term debt consists of the following at December 31:

	2016	2015
Series 2013B Public Finance Authority (the "Authority"), Revenue and Refunding Bonds due in varying installments through 2035 plus interest at 3.389% starting in October 1, 2016 and 3.377% in 2015 and first 9 months in 2016. The Bonds are collateralized by a mortgage, the assignment of leases and rent, and a security agreement.	$ 43,919,989	$ 47,776,478
Series 2013A Public Finance Authority (the "Authority"), Revenue and Refunding Bonds due in varying installments through 2035 plus interest at 3.965%. The Bonds are collateralized by a mortgage, the assignment of leases and rent, and a security agreement.	50,000	-
Note payable - Morrison (interest free)	216,344	281,969
Total debt	44,186,333	48,058,447
Less: current portion	3,703,904	3,922,114
deferred financing costs	1,386,460	1,351,068
Plus: unamortized swap termination fee	4,051,541	-
Total	$ 43,147,510	$ 42,785,265

On December 30, 2013, the Authority issued on behalf of FSL, 2013A and 2013B fixed rate revenue bonds (the "Series 2013 Bonds"), which consist of $45,000,000 Series 2013A and $51,500,000 Series 2013B. Proceeds from the Series 2013B Bonds were used for the following: (a) to refund the 2008 Variable Rate Revenue Bonds; (b) pay certain costs incurred in connection with the issuance of the Series 2013 Bonds and (c) pay off the interest rate swap agreement associated with the 2008 Variable Rate Revenue Bonds. As of December 31, 2016, $50,000 was drawn down on the Series 2013 bonds. The balance of these funds are available to finance certain improvements to the property owned and operated by FSL.

On July 9, 2010, FSL entered into an interest free note payable of $650,000 with Morrison Dining Services for the renovation of FSL's dining area. The note will be repaid monthly until 2020.

In connection with FSL's issuance of the Series 2013 Bonds, FSL entered into interest rate swap agreements to convert the variable interest bond rates to fixed interest rates. These agreements were terminated under a refinancing of these bonds in December 2016 and new agreements entered into. Under the terms of the 2013A and Series 2013B Bond refinancing and new interest rate swap agreements, FSL pays fixed interest rates of 3.965% and 3.389%, respectively, and receives 65% times two months LIBOR plus 120 basis points. The notional amount of the swap agreements correspond to the outstanding principal balance of the Series B 2013 Bonds.

Approximate principal payments on long-term debt, excluding amortization of swap termination fees, for the next five years follow:

	Note Payable	2013 Bonds	Total
2017	$ 66,567	$ 3,352,323	$ 3,418,890
2018	66,567	3,467,643	3,534,210
2019	66,567	3,586,930	3,653,497
2020	16,643	3,710,321	3,726,964
2021	-	3,837,956	3,837,956
Thereafter	-	26,014,816	26,014,816
Total	$ 216,344	$ 43,969,989	$ 44,186,333

7. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2016	2015
Resident's Benevolent Fund	$ 292,138	$ 289,354
Community Renewal Fund	565,500	405,284
Legacy Endowment Fund	779,862	608,595
Total	$ 1,637,500	$ 1,303,233

8. Functional Expenses

FSL provides residential and health care services to residents and other patients within its geographic area. Expenses related to providing these services are as follows for the twelve months ending December 31:

	2016	2015
Resident services	$ 5,433,583	$ 5,295,106
Health care services	12,079,252	11,578,605
Home community based services	6,127,139	5,219,482
General and administrative (including interest and depreciation and amortization)	13,011,391	13,072,518
Total	$ 36,651,365	$ 35,165,711

9. Contingencies

FSL is regulated by the New Jersey Department of Community Affairs ("DCA") pursuant to the Continuing Care Retirement Community Regulation and Financial Disclosures Act (the "Act"). The Act requires, among other things, that Fellowship Senior Living establish an escrow account into which substantially all advance fees must be deposited until certain conditions are satisfied and, upon issuance of a certificate of authority by the DCA, FSL must establish and maintain liquid reserves which generally are equal to 15% of the projected operating expenses (excluding depreciation) related to contract residents. FSL has complied with those requirements at December 31, 2016 and at December 31, 2015.

Senior Living Services 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 has continued 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.

10. Retirement Plan

FSL sponsors a 401(k) defined contribution plan (the "Plan"). Under the Plan, FSL makes annual matching contributions to the Plan of 100% of the first 1% plus 50% of the next 5% of compensation that a participant contributes to the Plan not to exceed 3 ½% of compensation, as defined by the Plan. Employees are eligible to participate in the plan upon completion of at least 1,000 hours of service. Employees become 100% vested in employee contributions immediately upon their participation. The employer matching contributions are subject to a five-year vesting schedule. Pension expense for FSL under the Plan was approximately $280,945 and $250,284 for the twelve months ending December 31, 2016 and 2015, respectively.

11. Concentrations

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

FSL grants credit without collateral to its residents, primarily related to providing residential and healthcare related services.