Fellowship Senior Living, Inc.

Financial Statements

December 31, 2019 and 2018

Independent Auditors' Report

To the Board of Directors of
Fellowship Senior Living, Inc.

We have audited the accompanying financial statements of Fellowship Senior Living, Inc. (FSL), which comprise the balance sheets as of December 31, 2019 and 2018, 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 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 audits 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, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, FSL changed the presentation of its statements of cash flows as a result of the adoption of Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
April 29, 2020

Fellowship Senior Living, Inc.

Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 5,452,234	$ 3,157,188
Investments	41,680,143	28,569,270
Assets whose use is limited, current portion	14,362,237	11,816,535
Accounts receivable, net	4,207,920	3,462,004
Supplies and other current assets	1,258,482	1,415,784
Total current assets	66,961,016	48,420,781
Noncurrent Assets Whose Use is Limited	10,193,233	4,800,258
Property and Equipment, Net	101,130,498	87,619,715
Long-Term Deposits	80,929	88,532
Total assets	$ 178,365,676	$ 140,929,286
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,668,677	$ 3,831,090
Accrued interest payable	113,123	497,389
Current portion of long-term debt	2,014,866	3,600,245
Total current liabilities	5,796,666	7,928,724
Refundable Waiting List Deposits	309,919	275,045
Refundable Advance Fees	15,169,542	14,247,608
Deferred Revenue From Advance Fees	18,593,844	19,255,797
Deferred Revenue From Forward Delivery Agreements	-	752,448
Deferred Revenue for Renovations	972,174	1,090,013
Long-Term Debt, Net	95,125,821	53,137,444
Derivative Instrument	-	3,915,862
Total liabilities	135,967,966	100,602,941
Net Assets		
Without donor restrictions	40,810,515	38,227,970
With donor restrictions	1,587,195	2,098,375
Total net assets	42,397,710	40,326,345
Total liabilities and net assets	$ 178,365,676	$ 140,929,286

See notes to financial statements

Fellowship Senior Living, Inc.

Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Revenue:		
Resident services, including amortization of advance fees of $7,030,836 in 2019 and $7,545,952 in 2018	$ 24,977,755	$ 25,861,953
Patient revenue from nonresidents	6,717,280	6,287,921
Home community based services, including amortization of advance fees of $155,251 in 2019 and $174,997 in 2018	8,460,618	6,659,161
Investment income and other revenue, net	5,376,392	5,520,188
Total revenue	45,532,045	44,329,223
Expenses:		
Salaries and benefits	22,231,395	20,507,130
Contracted services	5,781,750	5,442,503
Supplies and other	8,052,898	7,802,134
Interest and amortization, net	1,535,186	907,521
Depreciation	4,837,101	4,187,853
Provision for bad debt	90,912	94,268
Total expenses	42,529,242	38,941,409
Income from operations before accelerated depreciation	3,002,803	5,387,814
Accelerated Depreciation	2,536,715	2,537,126
Income from operations	466,088	2,850,688
Loss on disposal of property and equipment	(13,394)	(148,313)
Net change in unrealized gain (loss) on investments	4,147,650	(4,507,089)
Net loss from refinancing	(1,039,037)	-
Non-operating gain	-	15,561
Net change in fair value of derivative instrument	(2,168,177)	1,109,137
Excess (deficiency) of revenue over expenses	1,393,130	(680,016)
Contributions for capitalized assets	1,189,415	-
Increase (decrease) in net assets without donor restrictions	2,582,545	(680,016)
Net Assets With Donor Restrictions		
Gross contributions	410,583	432,377
Net assets released from restriction	(1,284,601)	(101,211)
Interest income	102,758	59,114
Net change in unrealized gain (loss) on investments	260,080	(252,499)
(Decrease) increase in net assets with donor restrictions	(511,180)	137,781
Increase (decrease) in net assets	2,071,365	(542,235)
Net Assets, Beginning	40,326,345	40,868,580
Net Assets, Ending	$ 42,397,710	$ 40,326,345

See notes to financial statements

Fellowship Senior Living, Inc.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018 (as adjusted)
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ 2,071,365	$ (542,235)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Cash received from advance fees and waiting list deposits, net	7,480,942	4,932,842
Amortization of advance fees	(7,186,087)	(7,720,949)
Amortization of deferred revenue for renovations	(117,839)	(59,987)
Amortization of deferred financing costs	1,142,297	125,459
Loss on disposal of property and equipment	13,394	148,313
Contributions restricted for capital projects	(1,189,415)	(397,428)
Amortization of forward delivery agreements	(752,448)	(125,408)
Depreciation	7,373,816	6,724,979
Net change in unrealized (gain) loss on investments	(4,407,730)	4,759,588
Net change in fair value of derivative instrument	2,168,177	(1,109,137)
Changes in operating assets and liabilities:		
Accounts receivable	(745,916)	(799,602)
Supplies and other current assets	157,302	(216,431)
Other long-term assets	7,603	(7,603)
Accounts payable and accrued expenses	(162,413)	191,704
Accrued interest payable	(384,266)	139,627
Net cash provided by operating activities	5,468,782	6,043,732
Cash Flows From Investing Activities		
Net (purchases) sales of investments and assets whose use is limited	(7,360,379)	5,591,686
Acquisition of property and equipment	(20,897,993)	(25,857,574)
Net cash used in investing activities	(28,258,372)	(20,265,888)
Cash Flows From Financing Activities		
Deferred financing costs 2019 bonds	(1,655,578)	-
Proceeds from issuance of long-term debt	110,280,522	13,990,525
Proceeds received for renovations	609,961	1,000,000
Contributions restricted for capital projects	1,189,415	397,428
Principal payments of long-term debt	(3,731,822)	(3,494,273)
Extinguishment of long term debt	(65,540,758)	-
Construction retainage payable	(701,624)	1,939,411
Termination of derivative instrument	(6,084,039)	-
Net cash provided by financing activities	34,366,077	13,833,091
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	11,576,487	(389,065)
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	16,577,482	16,966,547
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 28,153,969	$ 16,577,482
Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents		
Cash and cash equivalents	$ 5,452,234	$ 3,157,188
Under trust indenture	22,368,607	13,119,375
Wait list and entrance fee deposits	286,883	35,217
Assets with donor restrictions	46,245	265,702
Total cash and cash equivalents and restricted cash and cash equivalents	$ 28,153,969	$ 16,577,482
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 2,085,327	$ 1,534,124

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 Basking Ridge, 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 and Cash Equivalents

For the purpose of the balance sheets and statements of cash flows, cash and cash equivalents and restricted cash and cash equivalents consist of cash balances and investments in highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts Receivable

Accounts receivable include receivables for residential and health care services. FSL assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowances are estimated by management based on general factors such as payor mix, aging of the receivables and historical collection experience. Accounts are written off through bad debt expense when FSL has exhausted all collection efforts and accounts are deemed impaired.

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 with donor restrictions.

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 nonmarketable securities are determined by the investment managers or general partner of the funds. 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.

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

Supplies

Supplies are carried at the lower of cost or net realizable value. Cost is defined by using the first-in, first-out method of accounting.

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 40 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 percent 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 percent of the total advance fee) which is payable upon occupancy.

The advance fee deposits are refundable to the residents upon termination of the residency 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 percent) 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, 2019 and 2018, 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 for Renovations

Deferred revenue for renovations relates to an initial $650,000 received to renovate FSL's dining facilities (see Note 6). FSL received an additional $1,000,000 in 2018 to create and enhance the dining areas in the households within the new Health Center addition. The unamortized balance of the initial $650,000 was restructured as of April 1, 2018 and will be recognized into revenue over a ten-year period ending March 2028 using the straight-line method. The additional $1,000,000 received will be amortized as of October 1, 2018 and recognized into revenue over a 114-month period ending March 2028 using the straight-line method.

Derivative Instrument

As part of the 2019 Series AB refinancing in December 2019, FSL terminated its interest rate swap agreements related to the 2013 Series A and B bonds. The objective of the swap agreements, established in December 2016, 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 were 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 net cash paid or received under the swap agreements was recognized as an adjustment to net assets without donor restrictions. FSL does not utilize the interest rate swap agreement or other financial instruments for trading or other speculative purposes. FSL recognized the derivative instrument as either an asset or liability at fair value within the accompanying balance sheets.

FSL did 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 (deficiency) 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 $0 and $3,915,862 at December 31, 2019 and 2018, 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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Pledges

FSL records unconditional pledges at fair value at the time the promise is received. Pledges to be received after one year are discounted using the U.S. Treasury rate for the applicable period. As of December 31, 2019 and 2018, pledges receivable of $120,063 and $159,300, respectively, are fully reserved.

Net Assets

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

Net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor 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. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Residential and Healthcare Facilities Revenues

Residential and healthcare facilities revenues are reported at the amount that reflects the consideration FSL expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Residential and healthcare facilities revenues are recognized as performance obligations are satisfied.

Payment terms and conditions for FSL's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Entrance fees collected from residents in advance are recognized as deferred revenue from advance entrance fees until the performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying balance sheets. FSL recognized amortization income of $7,030,836 and $7,545,982 in 2019 and 2018, respectively. FSL applies the practical expedient in ASC 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees in the accompanying balance sheets.

For residents with Type B contracts, revenue from entrance fees other than refundable advance fees received are recognized through amortization using the straight-line method over annually adjusted estimated life expectancies of the residents, which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. Amortization of entrance fees other than refundable advance fees is included as amortization of entrance fees in the statements of operations and changes in net assets.

Net patient and resident service revenues are primarily comprised of the following revenue streams:

Independent Living: Independent Living revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. FSL has determined that the services included in the monthly service fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

Skilled Nursing: Skilled nursing revenues are primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. FSL has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis as services are rendered.

Assisted Living: Assisted living revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. FSL has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living and personal care revenues are recognized on a month-to-month basis.

Home Community Based Services: Home community based services revenues are primarily derived from providing both on-site and at home care to patients and residents at a stated daily fee, net of any explicit and implicit price concessions. FSL has determined that Home community based services are considered one performance obligation, which is satisfied over time as services are provided. Therefore, Home community based service revenues are recognized as performance obligations are satisfied, typically on an hourly or daily basis.

FSL receives revenue for services under third-party payor programs, including Medicare, Medicaid for Hospice services and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. FSL estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

Performance Indicator

The statements of operations and changes in net assets include the excess (deficiency) of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess (deficiency) of revenue over expense, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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. FSL incurred and expensed advertising costs of approximately $465,000 and $327,000 costs for the twelve months ended December 31, 2019 and 2018, respectively.

General and Professional Liability

FSL maintains claims made based professional and general 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 (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. 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.

New Accounting Pronouncements

In 2019, FSL adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. 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. Additionally, ASU No 2014-09 requires enhanced disclosures of revenue arrangements. The adoption of ASU No. 2014-09 did not have a significant impact on FSL's financial statements.

In 2019, FSL retrospectively adopted the FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. ASU No. 2016-18 requires that the statements of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statements of cash flows.

The following line items on the statement of cash flows for the year ended December 31, 2018 were affected by this change in accounting principle:

	As Previously Reported	As Reported Under ASU No. 2016-18	Effect of Change
Net sales (purchases) of investments and assets whose use is limited	$ 4,869,432	$ 5,591,686	$ 722,254
Net cash used in investing activities	(20,988,142)	(20,265,888)	722,254
Net decrease in cash and cash equivalents	(1,111,319)	-	1,111,319
Net decrease in cash and cash equivalents and restricted cash and cash equivalents	-	(389,065)	(389,065)
Cash and cash equivalents, beginning	4,268,507	-	(4,268,507)
Cash and cash equivalents, ending	3,157,188	-	(3,157,188)
Cash and cash equivalents and restricted cash and equivalents, beginning	-	16,966,547	16,966,547
Cash and cash equivalents and restricted cash and equivalents, ending	-	16,577,482	16,577,482

In 2019, FSL adopted FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. There was no significant effect on the financial statements as a result of the adoption of this guidance.

During 2019, FSL adopted the FASB's ASU No. 2016-01*, Recognition and Measurement of Financial Assets and Financial Liabilities*. The provisions of ASU No. 2016-01: a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in revenues in excess of (less than) expenses (the performance indicator); (b) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (c) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. FSL has adjusted the presentation of these financial statements accordingly.

During August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting-Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. ASU No. 2018-13 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. FSL does not believe that the adoption of ASU No. 2018-13 will have a material effect on its results of operation, financial position and cash flows.

Reclassification

Certain 2018 amounts have been reclassed to conform to the 2019 presentation.

Subsequent Events

FSL evaluated subsequent events for recognition or disclosure through April 29, 2020, the date the financial statements were available to be issued.

2. Medicare Reimbursement System

FSL provides care to patients under Medicare. Revenue from the Medicare program accounted for approximately 9 percent of the revenue for both of the twelve months ended December 31, 2019 and 2018. Future changes in the Medicare program and any reduction of funding could have an adverse impact on FSL. 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. FSL 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:

	2019	2018
Cash and money market funds	$ 7,975,441	$ 748,607
Equities	19,364,896	17,845,936
Fixed income	10,168,884	7,457,005
Alternative investments	3,977,241	2,368,061
Other	101,050	77,950
Accrued interest	92,631	71,711
Total	$ 41,680,143	$ 28,569,270

Assets whose use is limited consist of the following:

	2019	2018
Bond indenture agreements, held by trustees:		
Cash and cash equivalents	$ 22,368,607	$ 13,119,375
Corporate bonds and notes	-	1,087,841
Total	22,368,607	14,207,216
Waiting list and entrance fee deposits:		
Cash and cash equivalents	286,883	35,217
Equities	270,011	224,989
Fixed income	42,226	50,332
Accrued interest	548	664
Total	599,668	311,202
Assets with donor restriction:		
Cash and cash equivalents	46,245	265,702
Equities	1,106,775	1,268,484
Fixed income	430,071	479,654
Other	-	77,715
Accrued interest	4,104	6,820
Total	1,587,195	2,098,375
Total assets whose use is limited	24,555,470	16,616,793
Less assets whose use is limited, current portion	14,362,237	11,816,535
Noncurrent assets whose use is limited	$ 10,193,233	$ 4,800,258

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

	2019	2018
Debt service reserve funds	$ -	$ 3,547,743
Debt service funds for principal and interest	-	4,985,767
Debt service construction fund	-	5,673,706
Project fund	21,696,296	-
Funded interest	650,700	-
Other trustee held funds	21,611	-
Total	$ 22,368,607	$ 14,207,216

Investment income, net of investment fees, included in investment income and other revenue consists of the following for the years ended December 31:

	2019	2018
Interest and dividend income	$ 1,076,857	$ 1,297,219
Investment fees	(28,957)	(36,188)
Net realized gain	166,889	301,220
Total	$ 1,214,789	$ 1,562,251

During 2001, and subsequently amended in 2008 and 2013, FSL entered into two Forward Delivery Agreements (the Agreements) with a bank. In accordance with the terms of the Agreements, FSL 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 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 was to expire 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 December 31, 2019 and 2018, FSL has recorded $114,957 and $125,408, respectively, related to the amortization of the funds received, which is included in other revenue. At December 31, 2019 and 2018, FSL has recorded deferred revenue of approximately $0 and $752,000, respectively, related to the agreements. As part of the 2019 Series AB refinancing, the Agreements were terminated in December 2019.

4. Liquidity and Availability of Resources

As of December 31, 2019 and 2018, FSL has financial assets available for general expenditure within one year of the balance sheet dates, consisting of the following:

	2019	2018
Cash and cash equivalents	$ 5,452,234	$ 3,157,188
Accounts receivable, net	4,207,920	3,462,004
Investments	41,680,143	28,569,270
Total	$ 51,340,297	$ 35,188,462

FSL has investments 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. FSL has other assets limited to use held by trustee under trust indenture. Additionally, certain other debt service funds are designated for long-term purposes. These investments, which are more fully described in Note 3, are not available for general expenditure within the next year and are not reflected in the amounts above.

FSL designated a portion of its investments "reserved" to comply with state and lender liquid reserve requirements. Although FSL does not intend to utilize the required liquid reserves for general expenditures as part of its annual budget and approval process, amounts designated for state and lender required liquid reserves could be made available as necessary.

As part of FSL's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. As of December 31, 2019, FSL has unrestricted cash and investments to cover 477 days of operating expenses. FSL's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

5. 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, 2019 and 2018 by caption on the balance sheets and within the valuation hierarchy levels defined above:

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Reported at Fair Value				
Assets without donor restrictions:				
Investments:				
Equities:				
Common stock	$ 13,294,494	$ -	$ -	$ 13,294,494
Structured products	2,642,196	-	-	2,642,196
Closed end funds and exchange traded products	2,700,761	-	-	2,700,761
Mutual funds	313,018	-	-	313,018
Other equity investments	147,199	-	-	147,199
Unit investment trusts	267,228	-	-	267,228
Total equities	19,364,896	-	-	19,364,896
Fixed income:				
Corporate bonds and notes	-	6,192,796	-	6,192,796
Preferred securities	-	170,010	-	170,010
Municipal securities	-	1,717,685	-	1,717,685
Closed end funds and exchange traded products	1,711,604	-	-	1,711,604
Mutual funds	376,789	-	-	376,789
Total accrued interest	-	92,631	-	92,631
Total fixed income	2,088,393	8,173,122	-	10,261,515
Nontraditional:				
Hedge funds	-	786,431	-	786,431
Other investments	-	2,259,173	-	2,259,173
Total nontraditional	-	3,045,604	-	3,045,604
Total assets without donor restrictions in the fair value hierarchy	$ 21,453,289	$ 11,218,726	$ -	32,672,015
Cash and cash equivalents				7,975,441
Investments measured at net asset value (a)				1,032,687
Total investments				$ 41,680,143

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value is presented to reconcile to total investments.

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets whose use is limited:				
Equities:				
Common stock	$ 910,418	$ -	$ -	$ 910,418
Structured products	95,950	-	-	95,950
Closed end funds and exchange traded products	286,094	-	-	286,094
Mutual funds	59,681	-	-	59,681
Other equity investments	24,643	-	-	24,643
Total equities	1,376,786	-	-	1,376,786
Fixed income:				
Corporate bonds and notes	-	292,464	-	292,464
Closed end funds and exchange traded products	114,987	-	-	114,987
Mutual funds	64,846	-	-	64,846
Total accrued interest	-	4,652	-	4,652
Total fixed income	179,833	297,116	-	476,949
Total assets whose use is limited	$ 1,556,619	$ 297,116	$ -	1,853,735
Cash and cash equivalents				22,701,735
Total				$ 24,555,470

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Reported at Fair Value				
Assets without donor restrictions:				
Investments:				
Equities:				
Common stock	$ 10,075,495	$ -	$ -	$ 10,075,495
Structured products	3,272,880	-	-	3,272,880
Closed end funds and exchange traded products	2,918,948	-	-	2,918,948
Mutual funds	1,141,939	-	-	1,141,939
Other equity investments	174,880	-	-	174,880
Unit investment trusts	261,794	-	-	261,794
Total equities	17,845,936	-	-	17,845,936
Fixed income:				
Corporate bonds and notes	-	4,504,554	-	4,504,554
Preferred securities	248,107	-	-	248,107
Municipal securities	-	201,886	-	201,886
Closed end funds and exchange traded products	1,879,539	-	-	1,879,539
Mutual funds	620,919		-	620,919
Structured products	-	2,000		2,000
Total accrued interest	-	71,711	-	71,711
Total fixed income	2,748,565	4,780,151	-	7,528,716
Nontraditional:				
Mutual funds	67,360	-	-	67,360
Hedge funds	-	726,385	-	726,385
Other investments	-	719,836	-	719,836
Total nontraditional	67,360	1,446,221	-	1,513,581
Total assets without donor restrictions in the fair value hierarchy	$ 20,661,861	$ 6,226,372	$ -	26,888,233
Cash and cash equivalents				748,607
Investments measured at net asset value (a)				932,430
Total investments				$ 28,569,270

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value is presented to reconcile to total investments.

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Equities:				
Common stock	$ 646,962	$ -	$ -	$ 646,962
Structured products	53,900	-	-	53,900
Closed end funds and exchange traded products	635,189	-	-	635,189
Mutual funds	149,970	-	-	149,970
Other equity investments	7,452	-	-	7,452
Total equities	1,493,473	-	-	1,493,473
Fixed income:				
Corporate bonds and notes	-	1,442,616	-	1,442,616
Closed end funds and exchange traded products	113,730	-	-	113,730
Mutual funds	61,481	-	-	61,481
Total accrued interest	-	7,484	-	7,484
Total fixed income	175,211	1,450,100	-	1,625,311
Nontraditional:				
Other investments	-	77,715	-	77,715
Total nontraditional	-	77,715	-	77,715
Total assets whose use is limited	$ 1,668,684	$ 1,527,815	$ -	3,196,499
Cash and cash equivalents				13,420,294
Total				$ 16,616,793

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, 2019 and 2018:

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.

Nontraditional 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 nontraditional investments are comprised of limited partnerships that invest primarily in securities that are traded in active markets.

Investments measured at net asset value are valued based on the current market values of the underlying assets reported by the investment advisor using audited financial statements of the funds at year end. The investments have monthly redemption notices from 3 days to one week and have no unfunded commitments.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	2019	2018
Land	$ 6,400,000	$ 6,400,000
Land improvements	673,890	633,313
Buildings	141,927,459	84,945,564
Furnishings and equipment	28,625,495	27,341,536
	177,626,844	119,320,413
Less accumulated depreciation and amortization	79,239,590	71,907,443
	98,387,254	47,412,970
Construction in progress	2,743,244	40,206,745
Total	$ 101,130,498	$ 87,619,715

Interest costs capitalized were $451,515 and $475,953 during 2019 and 2018, respectively.

During 2010, FSL entered into an agreement for the renovation of the dining facilities. Under the agreement, FSL was advanced $1,300,000 for the renovation project. FSL is required to repay $650,000, which is included in long-term debt as a note payable. Effective April 1, 2018, FSL extended the term of this agreement and expanded the contract to include management services for plant operations and maintenance, housekeeping, laundry and security services. FSL was advanced an additional $1,000,000 during 2018 for the new dining areas within the Health Center households which was recorded as deferred revenue to be amortized over the contract period. The amortization period for the balances remaining on the 2010 loan and advance was also extended for the term of the new contract. Under the terms of the agreement, during 2019, FSL received $609,961 as a loan for additional health center renovations and construction of the resident bar and lounge. The note payable (see Note 7) was $588,219 and $123,150 at December 31, 2019 and 2018, respectively. The portion of the advance which is not required to be repaid is recorded as deferred revenue of $972,174 and $1,090,013 at December 31, 2019 and 2018, respectively, and is being recognized as other revenue over the term of the contract.

During 2017, FSL commenced a new construction and renovation project. Payments to the general contractor are approved by the financial institutions managing the bond proceeds. A construction retainage of 10 percent is withheld as payment from each requisition and is payable to the general contractor upon completion of each phase of the project. This retainage is recorded as a long term liability and is also included in Construction in Progress. As of December 31, 2019 and 2018, the retainage payable is $1,896,289 and $2,597,913, respectively.

FSL has recorded accelerated depreciation on fixed assets that are being replaced and/or renovated as part of the new construction phase of the project. Assets with a remaining net book value as of April 19, 2017, the commencement of construction, are being depreciated over the expected duration of the project, 36 months. Due to project delays, the duration of the project will extend an additional 18 months and therefore remaining accelerated depreciation in subsequent periods will be adjusted to coincide with the revised schedule. For the years ended December 31, 2019 and 2018, the portion of depreciation expense that is classified as accelerated is $2,536,715 and $2,537,126, respectively.

7. Long-Term Debt

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

	2019	2018
Series 2019AB Public Finance Authority (the Authority), Revenue and Refunding Bonds due in varying installments through 2052 plus interest ranging from 4.000% - 5.000%. The Bonds are collateralized by a mortgage, the assignment of leases and rent and a security agreement	$ 88,505,000	$ -
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. The Bonds are collateralized by a mortgage, the assignment of leases and rent and a security agreement. The Bonds were retired in December 2019	-	37,100,022
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. The Bonds were retired in December 2019.	-	18,058,901
Construction retainage payable	1,896,289	2,597,913
Note payable, Morrison (interest free)	588,219	123,150
Total debt	90,989,508	57,879,986
Unamortized bond premium	7,806,757	-
Less current portion	(2,014,866)	(3,600,245)
Less deferred financing costs	(1,655,578)	(1,142,297)
Total	$ 95,125,821	$ 53,137,444

On December 19, 2019, the Public Finance Authority (the Authority) issued on behalf of FSL, $88,805,000 of public bonds, Series 2019AB (the Series 2019 Bonds). The net proceeds were used by FSL as follows: (a) advance refund of all of the outstanding Series 2013 A bonds in the amount of $32,027,666 and 2013 Series B bonds in the amount of $33,513,092; (b) financing for Phase III of the health center expansion and renovation project; (c) pay associated costs with the issuance of the Series 2019 Bonds including the termination of related rate swap agreement; and (d) recover a portion of equity contributions as specified under the 2013 Series A agreement for Phases I and II.

Prior to the Series 2019 Bonds , FSL restructured its then existing debt in December 2013, through the Authority and 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, 2018, $18,058,901 was drawn down on the Series 2013 Bonds.

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 2019.

On July 1, 2010, FSL entered into an interest free note payable of $650,000 for the renovation of FSL's dining area. In December 2019, FSL received $609,691 as a loan for health center renovations and construction of a bar and lounge. These notes will be repaid monthly until 2028. See Note 6.

Approximate principal payments on long-term debt for the next five years follow for the years ending December 31:

	Note Payable	2019 Bonds	Construction Retainage	Total
2020	$ 118,577	$ -	$ 1,896,289	$ 2,014,866
2021	118,577	1,465,000	-	1,583,577
2022	118,577	1,645,000	-	1,763,577
2023	118,577	1,710,000	-	1,828,577
2024	70,644	1,780,000	-	1,850,644
Thereafter	43,267	81,905,000	-	81,948,267
Total	$ 588,219	$ 88,505,000	$ 1,896,289	$ 90,989,508

8. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Health and Medical Fund	$ 1,656	$ 1,046,362
Fellowship Promise Fund	251,685	234,863
Community Renewal Fund	-	11,726
Team Member Fund	24,317	-
Life Enrichment Fund	1,309,537	805,424
Total	$ 1,587,195	$ 2,098,375

9. Functional Expenses

FSL provides residential and health care services to residents and other patients within its geographic location. The financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest and other costs, are allocated to general and administrative. Other costs relating to specific functions, including plant operations and maintenance, grounds and security are allocated based on statistics related to total meals served. For the years ended December 31, 2019 and 2018, expenses relating to providing these services are approximately as follows:

	2019				
	Resident Services	Health Care Services	Home Community Based Services	General and Administrative	Total
Salaries and benefits	$ 1,634,543	$ 8,068,804	$ 7,591,028	$ 4,937,020	$ 22,231,395
Contracted services	2,749,721	2,171,856	142,669	717,504	5,781,750
Supplies and other	2,398,610	2,125,490	536,238	2,992,560	8,052,898
Depreciation	-	-	-	7,373,816	7,373,816
Interest and amortization, net	-	-	-	1,535,186	1,535,186
Provision for bad debt	-	-	-	90,912	90,912
Total	$ 6,782,874	$ 12,366,150	$ 8,269,935	$ 17,646,998	$ 45,065,957

	2018				
	Resident Services	**Health Care Services**	**Home Community Based Services**	**General and Administrative**	**Total**
Salaries and benefits	$ 1,669,718	$ 7,863,456	$ 6,302,354	$ 4,671,602	$ 20,507,130
Contracted services	2,688,575	1,780,829	134,712	838,387	5,442,503
Supplies and other	2,588,836	1,922,463	486,873	2,803,962	7,802,134
Depreciation	-	-	-	6,724,979	6,724,979
Interest and amortization, net	-	-	-	907,521	907,521
Provision for bad debt	-	-	-	94,268	94,268
Total	$ 6,947,129	$ 11,566,748	$ 6,923,939	$ 16,040,719	$ 41,478,535

10. Net Resident Service Revenue

FSL disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenues consist of the following for the years ended December 31, 2019 and 2018:

	2019				
	Independent Living	**Assisted Living**	**Skilled Nursing**	**Home Community Based Services**	**Total**
Lifecare	$ 21,275,133	$ 2,640,087	$ 635,285	$ -	$ 24,550,505
Private pay	-	2,392,459	2,057,766	7,255,533	11,705,758
Medicare	-	-	2,694,305	1,205,085	3,899,390
Total	$ 21,275,133	$ 5,032,546	$ 5,387,356	$ 8,460,618	$ 40,155,653

	2018				
	Independent Living	**Assisted Living**	**Skilled Nursing**	**Home Community Based Services**	**Total**
Lifecare	$ 22,351,844	$ 2,284,492	$ 719,629	$ -	$ 25,355,965
Private pay	-	2,377,451	1,540,541	6,284,806	10,202,798
Medicare	-	-	2,875,917	374,355	3,250,272
Total	$ 22,351,844	$ 4,661,943	$ 5,136,087	$ 6,659,161	$ 38,809,035

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

Medicare: Skilled nursing and ancillary services provided by Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments. Reimbursement for therapy services is provided to Medicare Part B beneficiaries at the lesser of a published fee schedule or actual charges.

Services related to hospice beneficiaries are paid based on a published fee schedule and subject to an annual cap per patient. These rates may vary depending on the period of time a patient is receiving services as well as the level of intensity of services.

Medical Assistance: FSL also provides Hospice services for patients qualifying under the state Medical Assistance program. Reimbursement for hospice services provided to eligible beneficiaries is provided through Medicare as described above.

Other: The Corporation has also entered into payment arrangements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes predetermined contractual rates, discounts from established charges and retrospectively determined daily rates.

As described above, the Medicare Part A and Medical Assistance rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on FSL's clinical assessment of its residents. FSL is required to clinically assess its resident at predetermined intervals during the resident's stay which are subject to review and adjustment by the respective program.

FSL also entered into payment agreements with certain commercial insurance carriers and others. The basis for payment under these agreements includes prospectively determined rates per day or discounts from established charges.

11. 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 percent of the projected operating expenses (excluding depreciation) related to contract residents. FSL has complied with those requirements at December 31, 2019 and 2018.

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.

12. 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 percent of the first 1 percent plus 50 percent of the next 5 percent of compensation that a participant contributes to the Plan not to exceed 3 ½ percent 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 percent 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 $305,000 and $285,000 for the years ended December 31, 2019 and 2018, respectively.

13. 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.

14. Subsequent Events

As a result of the spread of the COVID-19 coronavirus during 2020, economic uncertainties have arisen as of the date of the financial statements. The extent of the impact of COVID-19 on FSL’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on the residents and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the FSL's financial condition or results of operations is uncertain. FSL has reviewed subsequent events through April 29, 2020, the date the financial statements were available for issuance. Other than as already disclosed, there have been no events subsequent to the balance sheet date which require disclosures or adjustments in these financial statements.