

# **Fellowship Senior Living, Inc. and Subsidiary**

Consolidated Financial Statements  
and Supplementary Information

December 31, 2020 and 2019

# **Fellowship Senior Living, Inc. and Subsidiary**

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December 31, 2020 and 2019

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## **Independent Auditors' Report**

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Fellowship Senior Living, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fellowship Senior Living, Inc. as of December 31, 2020 and 2019, and the results of operations, changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules I through III on Pages 26 through 28 are presented for purposes of additional analysis of the consolidated financial statements, rather than to present financial position, changes in net assets and cash flows of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Baker Tilly US, LLP*

Iselin, New Jersey  
April 30, 2021

## Fellowship Senior Living, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,556,836	\$ 5,452,234
Investments	45,991,734	41,680,143
Assets whose use is limited, current portion	14,185,180	14,362,237
Accounts receivable, net	3,127,707	4,207,920
Pledges receivable, current portion	100,000	-
Supplies and other current assets	2,186,202	1,258,482
	<u>68,147,659</u>	<u>66,961,016</u>
Total current assets	68,147,659	66,961,016
<b>Pledges Receivable</b>	814,300	-
<b>Noncurrent Assets Whose Use is Limited</b>	4,169,155	10,193,233
<b>Property and Equipment, Net</b>	114,196,210	101,130,498
<b>Long-Term Deposits</b>	<u>80,929</u>	<u>80,929</u>
Total assets	<u>\$ 187,408,253</u>	<u>\$ 178,365,676</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 4,011,395	\$ 3,668,677
Accrued interest payable	1,883,526	113,123
Deferred grant revenue	4,147,700	-
Current portion of long-term debt	2,606,690	2,014,866
	<u>12,649,311</u>	<u>5,796,666</u>
Total current liabilities	12,649,311	5,796,666
<b>Refundable Waiting List Deposits</b>	293,531	309,919
<b>Refundable Advance Entrance Fees</b>	18,502,904	15,169,542
<b>Deferred Revenue From Advance Entrance Fees</b>	16,924,515	18,593,844
<b>Deferred Revenue for Renovations</b>	854,335	972,174
<b>Long-Term Debt, Net</b>	<u>93,578,892</u>	<u>95,125,821</u>
Total liabilities	<u>142,803,488</u>	<u>135,967,966</u>
<b>Net Assets</b>		
Without donor restrictions	42,129,401	40,810,515
With donor restrictions	2,475,364	1,587,195
	<u>44,604,765</u>	<u>42,397,710</u>
Total net assets	44,604,765	42,397,710
Total liabilities and net assets	<u>\$ 187,408,253</u>	<u>\$ 178,365,676</u>

See notes to consolidated financial statements

## Fellowship Senior Living, Inc. and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Net Assets Without Donor Restrictions</b>		
Revenue:		
Resident services, including amortization of advance entrance fees of \$7,560,711 in 2020 and \$7,030,836 in 2019	\$ 24,747,889	\$ 24,977,755
Patient revenue from nonresidents	6,844,301	6,717,280
Home community based services, including amortization of advance entrance fees of \$108,374 in 2020 and \$155,251 in 2019	8,470,367	8,460,618
Investment income and other revenue, net	7,421,741	5,376,392
Net assets released from restrictions	140,374	-
Total revenue	<u>47,624,672</u>	<u>45,532,045</u>
Expenses:		
Salaries and benefits	24,373,378	22,231,395
Contracted services	5,344,965	5,781,750
Supplies and other	8,684,720	8,052,898
Interest and amortization, net	2,493,880	1,535,186
Depreciation	5,315,096	4,837,101
Provision for bad debt	186,245	90,912
Total expenses	<u>46,398,284</u>	<u>42,529,242</u>
Income from operations before accelerated depreciation	1,226,388	3,002,803
<b>Accelerated Depreciation</b>	<u>1,124,243</u>	<u>2,536,715</u>
Income from operations	102,145	466,088
Loss on disposal of property and equipment	(147,133)	(13,394)
Net change in unrealized gains on investments	1,363,874	4,147,650
Net loss from refinancing	-	(1,039,037)
Net change in fair value of derivative instrument	-	(2,168,177)
Excess of revenue over expenses	1,318,886	1,393,130
<b>Contributions for Capitalized Assets</b>	<u>-</u>	<u>1,189,415</u>
Increase in net assets without donor restrictions	<u>1,318,886</u>	<u>2,582,545</u>
<b>Net Assets With Donor Restrictions</b>		
Gross contributions	1,243,497	410,583
Investment (loss) income, net	(109,677)	102,758
Net change in unrealized (losses) gains on investments	(105,277)	260,080
Net assets released from restriction	(140,374)	(1,284,601)
Increase (decrease) in net assets with donor restrictions	<u>888,169</u>	<u>(511,180)</u>
Increase in net assets	2,207,055	2,071,365
<b>Net Assets, Beginning</b>	<u>42,397,710</u>	<u>40,326,345</u>
<b>Net Assets, Ending</b>	<u>\$ 44,604,765</u>	<u>\$ 42,397,710</u>

See notes to consolidated financial statements

**Fellowship Senior Living, Inc. and Subsidiary**

 Consolidated Statements of Cash Flows  
 Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 2,207,055	\$ 2,071,365
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cash received from advance entrance fees and waiting list deposits, net	9,316,730	7,480,942
Amortization of advance entrance fees	(7,669,085)	(7,186,087)
Amortization of deferred revenue for renovations	(117,839)	(117,839)
Amortization of deferred financing costs	51,674	1,142,297
Amortization of bond premium	(412,000)	-
Loss on disposal of property and equipment	147,133	13,394
Contributions restricted for long-term purposes	(814,300)	(1,189,415)
Amortization of forward delivery agreements	-	(752,448)
Depreciation	6,439,339	7,373,816
Net change in unrealized gain on investments	(1,258,597)	(4,407,730)
Net change in fair value of derivative instrument	-	2,168,177
Changes in operating assets and liabilities:		
Accounts receivable	1,080,213	(745,916)
Pledges receivable	(100,000)	-
Supplies and other current assets	(927,720)	157,302
Other long-term assets	-	7,603
Accounts payable and accrued expenses	342,718	(162,413)
Accrued interest payable	1,770,403	(384,266)
Deferred grant revenue	4,147,700	-
Net cash provided by operating activities	<u>14,203,424</u>	<u>5,468,782</u>
<b>Cash Flows From Investing Activities</b>		
Net purchases of investments and assets whose use is limited	(3,060,772)	(7,360,379)
Acquisition of property and equipment	<u>(19,652,184)</u>	<u>(20,897,993)</u>
Net cash used in investing activities	<u>(22,712,956)</u>	<u>(28,258,372)</u>
<b>Cash Flows From Financing Activities</b>		
Deferred financing costs 2019 bonds	-	(1,655,578)
Proceeds from issuance of long-term debt	-	110,280,522
Proceeds received for renovations	393,415	609,961
Contributions restricted for capital projects	-	1,189,415
Principal payments of long-term debt	(116,778)	(3,731,822)
Extinguishment of long-term debt	-	(65,540,758)
Construction retainage payable	(873,176)	(701,624)
Termination of derivative instrument	-	(6,084,039)
Net cash (used in) provided by financing activities	<u>(596,539)</u>	<u>34,366,077</u>
Net (decrease) increase in cash and cash equivalents and restricted cash and cash equivalents	(9,106,071)	11,576,487
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>28,153,969</u>	<u>16,577,482</u>
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 19,047,898</u>	<u>\$ 28,153,969</u>
<b>Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 2,556,836	\$ 5,452,234
Under trust indenture	16,185,394	22,368,607
Wait list and entrance fee deposits	182,265	286,883
Assets with donor restrictions	<u>123,403</u>	<u>46,245</u>
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 19,047,898</u>	<u>\$ 28,153,969</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 2,009,093</u>	<u>\$ 2,085,327</u>

See notes to consolidated financial statements

# Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

## 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.

Fellowship Foundation, Inc. (the Foundation) was incorporated under the provisions of the New Jersey Nonprofit Corporation Act as a tax-exempt, not-for-profit organization. The Foundation has one member, FSL. The Foundation was formed to plan and oversee charitable fundraising development-related programs and activities for FSL. In conjunction with operations beginning in 2020, FSL contributed assets whose use is limited of \$1,496,359. In addition, FSL paid for expenses on behalf of the Foundation in the amount of \$90,215, which included salaries and benefits, contracted services and supplies and other.

### Principles of Consolidation

The accompanying consolidated financial statements for the year 2020 reflect the consolidation of the individual financial statements of FSL and the Foundation (collectively referred to as Organization). FSL has legal control over the Foundation. Inter-organization transactions and balances have been eliminated in consolidation.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

For the purpose of the consolidated balance sheets and consolidated 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 revenue for changes in resident credit worthiness. The allowances are estimated 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.



## **Fellowship Senior Living, Inc. and Subsidiary**

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 consolidated 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 the Organization's annual consolidated financial statement reporting.

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 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 are 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 in 2019. Deferred financing costs are amortized using the effective interest method over the terms of the indebtedness.

### **Refundable Advance Entrance Fees**

Refundable advance entrance fees consist of deposits received from prospective residents who have entered into a Residency and Care Agreement. Advance entrance fees received prior to occupancy (generally 10 percent of the total advance entrance fees) 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 entrance fees payment (generally 90 percent of the total advance entrance fees) which is payable upon occupancy.

The advance entrance 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 Entrance 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 from advance entrance fees and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

## Fellowship Senior Living, Inc. and Subsidiary

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 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 entrance fees. At December 31, 2020 and 2019, deferred revenue from advance entrance 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 7). 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.

### 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 consolidated statements of operations and changes in net assets as net assets released from restrictions.

### Pledges Receivable

The Organization 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. Amortization of the discount is recorded as additional contribution revenue.

### Net Assets

Net assets, revenue, 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 revenue 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.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Residential and Healthcare Facilities Revenue

Residential and healthcare facilities revenue is 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 revenue is 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 revenue for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenue 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 revenue from entrance fees in the accompanying consolidated balance sheets. FSL recognized amortization income of \$7,560,711 and \$7,030,836 in 2020 and 2019, respectively. FSL applies the practical expedient in Accounting Standards Codification (ASC) No. 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 advance entrance fees in the accompanying consolidated balance sheets.

For residents with Type B contracts, revenue from advance entrance fees other than refundable advance entrance 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 entrance fees is included as amortization of entrance fees in the consolidated statements of operations and changes in net assets.

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

**Independent Living:** Independent living revenue is 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 revenue is 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 revenue is recognized on a daily basis as services are rendered.

**Assisted Living:** Assisted living revenue is 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 revenue is recognized on a month-to-month basis.

## Fellowship Senior Living, Inc. and Subsidiary

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

**Home Community Based Services:** Home community based services revenue is 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 revenue is 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 consolidated statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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 \$495,000 and \$465,000 for the years ended December 31, 2020 and 2019, respectively.

### General and Professional Liability

The Organization 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 under 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.

The Foundation is a not-for-profit corporation as described under Section 501(c)(3) of the IRC and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. The Foundation 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.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### New Accounting Pronouncements

During August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 of Prior Year Amounts

Certain amounts from the prior year have been reclassified to conform to the current year presentation and did not affect changes in net assets or total net assets.

### Subsequent Events

The Organization evaluated subsequent events for recognition or disclosure through April 30, 2021, the date the consolidated financial statements were issued.

## 2. Medicare Reimbursement System

FSL provides care to patients under Medicare. Revenue from the Medicare program accounted for approximately 7 percent and 9 percent for the years ended December 31, 2020 and 2019, respectively. 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:

	<u>2020</u>	<u>2019</u>
Cash and money market funds	\$ 2,343,085	\$ 7,975,441
Equities	25,522,500	19,364,896
Fixed income	13,241,714	10,168,884
Alternative investments	4,771,919	4,078,291
Accrued interest and other	112,516	92,631
Total	<u>\$ 45,991,734</u>	<u>\$ 41,680,143</u>

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Assets whose use is limited consist of the following:

	<u>2020</u>	<u>2019</u>
Bond indenture agreements, held by trustees:		
Cash and cash equivalents	\$ 16,185,394	\$ 22,368,607
Total	<u>16,185,394</u>	<u>22,368,607</u>
Waiting list and entrance fee deposits:		
Cash and cash equivalents	182,265	286,883
Equities	283,620	270,011
Fixed income	22,390	42,226
Accrued interest	295	548
Total	<u>488,570</u>	<u>599,668</u>
Assets with donor restrictions:		
Cash and cash equivalents	123,303	46,245
Equities	1,101,614	1,106,775
Fixed income	451,235	430,071
Accrued interest	4,219	4,104
Total	<u>1,680,371</u>	<u>1,587,195</u>
Total assets whose use is limited	18,354,335	24,555,470
Less assets whose use is limited, current portion	<u>14,185,180</u>	<u>14,362,237</u>
Noncurrent assets whose use is limited	<u>\$ 4,169,155</u>	<u>\$ 10,193,233</u>

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

	<u>2020</u>	<u>2019</u>
Project fund	\$ 12,836,687	\$ 21,696,296
Principal fund	1,465,000	-
Interest fund	1,883,707	-
Funded interest	-	650,700
Other trustee held funds	-	21,611
Total	<u>\$ 16,185,394</u>	<u>\$ 22,368,607</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 1,471,519	\$ 1,076,857
Investment fees	(16,914)	(28,957)
Net realized gains	287,433	166,889
Total	<u>\$ 1,742,038</u>	<u>\$ 1,214,789</u>

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 4. Liquidity and Availability of Resources

As of December 31, 2020 and 2019, FSL has financial assets available for general expenditure within one year of the consolidated balance sheet dates, consisting of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,530,866	\$ 5,452,234
Accounts receivable, net	3,127,707	4,207,920
Investments	<u>45,991,734</u>	<u>41,680,143</u>
Total	<u>\$ 51,650,307</u>	<u>\$ 51,340,297</u>

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 bond indenture agreements. 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, 2020, FSL has unrestricted cash and investments to cover 438 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.

As of December 31, 2020 and 2019, the Foundation has financial assets available for general expenditure within one year of the consolidated balance sheets dates, consisting of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 25,970	\$ -
Assets whose use is limited	<u>123,403</u>	<u>-</u>
Total	<u>\$ 149,373</u>	<u>\$ -</u>

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 5. Pledges Receivable, Net

Pledges receivable include all unconditional promises to give. Pledges are recorded at the present value of their expected future cash flows, net of reserve for doubtful accounts. The discount rate was 0.9 percent.

Pledges receivable at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 100,000	\$ 120,063
Due between one and five years	400,000	-
Due in more than five years	<u>500,000</u>	<u>-</u>
Total pledges	1,000,000	120,063
Less:		
Discount to present value	(85,700)	-
Reserve for uncollectible pledges receivable	<u>-</u>	<u>(120,063)</u>
Pledges receivable, net	<u>\$ 914,300</u>	<u>\$ -</u>

### 6. Fair Value Measurements

The Organization measures its investments, assets whose use is limited and derivative financial instruments at fair value on a recurring basis in accordance with U.S. GAAP.

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.



## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

The following tables present the financial instruments carried at fair value as of December 31, 2020 and 2019 by caption on the consolidated balance sheets and within the valuation hierarchy levels defined above:

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
<b>Reported at Fair Value</b>				
Assets without donor restrictions:				
Investments:				
Equities:				
Common stock	\$ 19,072,477	\$ -	\$ -	\$ 19,072,477
Structured products	3,055,754	-	-	3,055,754
Closed end funds and exchange traded products	1,910,666	-	-	1,910,666
Mutual funds	491,963	-	-	491,963
Other equity investments	702,001	-	-	702,001
Unit investment trusts	289,639	-	-	289,639
Total equities	25,522,500	-	-	25,522,500
Fixed income:				
Corporate bonds and notes	-	8,130,407	-	8,130,407
Preferred securities	-	208,062	-	208,062
Municipal securities	-	1,272,818	-	1,272,818
Closed end funds and exchange traded products	2,148,986	-	-	2,148,986
Mutual funds	1,481,441	-	-	1,481,441
Accrued interest	-	112,516	-	112,516
Total fixed income	3,630,427	9,723,803	-	13,354,230
Nontraditional:				
Mutual funds	313,664	-	-	313,664
Hedge funds	-	869,155	-	869,155
Other investments	-	2,548,951	-	2,548,951
Total nontraditional	313,664	3,418,106	-	3,731,770
Total assets without donor restrictions in the fair value hierarchy	\$ 29,466,591	\$ 13,141,909	\$ -	42,608,500
Cash and cash equivalents				2,343,085
Investments measured at net asset value (a)				1,040,149
Total investments				\$ 45,991,734

(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.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets whose use is limited:				
Equities:				
Common stock	\$ 960,481	\$ -	\$ -	\$ 960,481
Structured products	31,250	-	-	31,250
Closed end funds and exchange traded products	327,980	-	-	327,980
Mutual funds	65,523	-	-	65,523
Total equities	1,385,234	-	-	1,385,234
Fixed income:				
Corporate bonds and notes	-	329,809	-	329,809
Closed end funds and exchange traded products	78,236	-	-	78,236
Mutual funds	65,580	-	-	65,580
Accrued interest	-	4,514	-	4,514
Total fixed income	143,816	334,323	-	478,139
Total assets whose use is limited	\$ 1,529,050	\$ 334,323	\$ -	1,863,373
Cash and cash equivalents				16,490,962
Total				\$ 18,354,335

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Reported at Fair Value</b>				
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
<b>Total equities</b>	<b>19,364,896</b>	<b>-</b>	<b>-</b>	<b>19,364,896</b>
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
Accrued interest	-	92,631	-	92,631
<b>Total fixed income</b>	<b>2,088,393</b>	<b>8,173,122</b>	<b>-</b>	<b>10,261,515</b>
Nontraditional:				
Hedge funds	-	786,431	-	786,431
Other investments	-	2,259,173	-	2,259,173
<b>Total nontraditional</b>	<b>-</b>	<b>3,045,604</b>	<b>-</b>	<b>3,045,604</b>
<b>Total assets without donor restrictions in the fair value hierarchy</b>	<b>\$ 21,453,289</b>	<b>\$ 11,218,726</b>	<b>\$ -</b>	<b>32,672,015</b>
Cash and cash equivalents				7,975,441
Investments measured at net asset value (a)				1,032,687
<b>Total investments</b>				<b>\$ 41,680,143</b>

(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.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

	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
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

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, 2020 and 2019:

Mutual funds, equities and unit investment trusts, are valued at fair value based on quoted market prices which are considered Level 1 inputs.

Debt securities, which include corporate bonds and notes; preferred securities; and municipal 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. Remaining commitments for nontraditional investments were \$1,078,884 as of December 31, 2020.

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 three days to one week and have no unfunded commitments.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 7. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 6,400,000	\$ 6,400,000
Land improvements	1,145,422	673,890
Buildings	146,325,544	141,927,459
Furnishings and equipment	<u>27,670,744</u>	<u>28,625,495</u>
	181,541,710	177,626,844
Less accumulated depreciation and amortization	<u>81,526,031</u>	<u>79,239,590</u>
	100,015,679	98,387,254
Construction in progress	<u>14,180,531</u>	<u>2,743,244</u>
Total	<u>\$ 114,196,210</u>	<u>\$ 101,130,498</u>

Interest costs capitalized were \$925,028 and \$451,515 during 2020 and 2019, 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 was \$864,856 and \$588,219 at December 31, 2020 and 2019, respectively. The portion of the advance which is not required to be repaid is recorded as deferred revenue for renovations of \$854,335 and \$972,174 at December 31, 2020 and 2019, 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, 2020 and 2019, the retainage payable is \$1,023,113 and \$1,896,289, respectively. At December 31, 2020, the cost to complete the project was approximately \$11,200,000 (exclusive of retainage payable) and will be funded by the remaining project funds including interest earned.

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, 2020 and 2019, the portion of depreciation expense that is classified as accelerated is \$1,124,243 and \$2,536,715, respectively.

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 8. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
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	\$ 88,505,000
Construction retainage payable	1,023,113	1,896,289
Note payable, Morrison (interest free)	864,856	588,219
<b>Total debt</b>	<b>90,392,969</b>	<b>90,989,508</b>
Unamortized bond premium	7,394,757	7,806,757
Less current portion	(2,606,690)	(2,014,866)
Less deferred financing costs	(1,602,144)	(1,655,578)
<b>Total</b>	<b><u>\$ 93,578,892</u></b>	<b><u>\$ 95,125,821</u></b>

On December 19, 2019, 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. Under the terms of the 2019 bonds, FSL is subject to various covenants, which include the achievement of certain pre-established financial indicators.

On July 1, 2010, FSL entered into an interest free note payable of \$650,000 for the renovation of FSL's dining area. FSL received \$393,415 and \$609,691 as a loan for health center renovations and construction of a bar and lounge during the years ended December 31, 2020 and 2019, respectively. These notes will be repaid monthly until 2028.

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

	<u>Note Payable</u>	<u>2019 Bonds</u>	<u>Construction Retainage</u>	<u>Total</u>
2021	\$ 118,577	\$ 1,465,000	\$ 1,023,113	\$ 2,606,690
2022	118,577	1,645,000	-	1,763,577
2023	118,577	1,710,000	-	1,828,577
2024	118,577	1,780,000	-	1,898,577
2025	118,577	1,850,000	-	1,968,577
Thereafter	271,971	80,055,000	-	80,326,971
<b>Total</b>	<b><u>\$ 864,856</u></b>	<b><u>\$ 88,505,000</u></b>	<b><u>\$ 1,023,113</u></b>	<b><u>\$ 90,392,969</u></b>

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 9. Net Assets With Donor Restrictions

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

	2020	2019
Health and Medical Fund	\$ 32,720	\$ 1,656
Fellowship Promise Fund	232,825	251,685
Team Member Fund	24,800	24,317
Life Enrichment Fund	1,270,719	1,309,537
Time restricted gifts	914,300	-
Total	<u>\$ 2,475,364</u>	<u>\$ 1,587,195</u>

Net assets released from restriction are included in investment income and other revenue, net and contributions for capitalized assets in the consolidated statements of operations and changes in net assets.

### 10. Functional Expenses

The Organization provides residential and health care services to residents and other patients within its geographic location. The consolidated 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, 2020 and 2019, expenses relating to providing these services are approximately as follows:

	2020				
	Resident Services	Health Care Services	Home Community Based Services	General and Administrative	Total
Salaries and benefits	\$ 1,830,800	\$ 8,759,891	\$ 7,915,184	\$ 5,867,503	\$ 24,373,378
Contracted services	2,373,975	2,141,425	129,113	700,452	5,344,965
Supplies and other	2,170,899	2,405,121	439,881	3,668,819	8,684,720
Depreciation	-	-	-	6,439,339	6,439,339
Interest and amortization, net	-	-	-	2,493,880	2,493,880
Provision for bad debt	-	-	-	186,245	186,245
Total	<u>\$ 6,375,674</u>	<u>\$ 13,306,437</u>	<u>\$ 8,484,178</u>	<u>\$ 19,356,238</u>	<u>\$ 47,522,527</u>
	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	<u>\$ 6,782,874</u>	<u>\$ 12,366,150</u>	<u>\$ 8,269,935</u>	<u>\$ 17,646,998</u>	<u>\$ 45,065,957</u>

## Fellowship Senior Living, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### 11. Net Resident Service Fees 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 fees revenue consist of the following for the years ended December 31, 2020 and 2019:

	2020				
	Independent Living	Assisted Living	Skilled Nursing	Home Community Based Services	Total
Lifecare	\$ 21,087,694	\$ 2,340,964	\$ 832,671	\$ -	\$ 24,261,329
Private pay	-	2,724,016	2,808,903	7,257,177	12,790,096
Medicare	-	-	1,797,942	1,213,190	3,011,132
Total	<u>\$ 21,087,694</u>	<u>\$ 5,064,980</u>	<u>\$ 5,439,516</u>	<u>\$ 8,470,367</u>	<u>\$ 40,062,557</u>
	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	<u>\$ 21,275,133</u>	<u>\$ 5,032,546</u>	<u>\$ 5,387,356</u>	<u>\$ 8,460,618</u>	<u>\$ 40,155,653</u>

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.



## **Fellowship Senior Living, Inc. and Subsidiary**

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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.

### **12. 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 FSL establish an escrow account into which substantially all advance entrance 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, 2020 and 2019.

#### **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.

#### **COVID-19**

As a result of the spread of the COVID-19 coronavirus during 2020, economic uncertainties have arisen as of the date of the consolidated 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.

### **13. 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 50.0 percent of the next 5.0 percent of compensation that a participant contributes to the Plan not to exceed 3.5 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 100.0 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 \$392,000 and \$305,000 for the years ended December 31, 2020 and 2019, respectively.

## **Fellowship Senior Living, Inc. and Subsidiary**

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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### **14. 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.

### **15. Government Funding and Revenue Related to COVID-19 Pandemic**

FSL has received emergency financial assistance under several federal and state government sponsored programs. Revenue from federal Provider Relief Funds include amounts received from federal funding sources related to the COVID-19 pandemic. FSL accounts for this funding in accordance with the FASB ASC No. 958-605 guidance for conditional contributions and, accordingly, revenue is measured and recognized when barriers are substantially met, which occurs when FSL complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Funds to provide financial support for certain healthcare providers. FSL received approximately \$1.12 million in 2020 related to this funding which was included in investment income and other revenue, net, in the consolidated statement of operations and changes in net assets. In accordance with the terms and conditions, FSL applied the funding against eligible expenses.

Noncompliance with the terms and conditions could result in repayment of some or all of the support, which can be subject to government review and interpretation. The Department of Health and Human Services (HHS) has indicated Provider Relief Funds payments are subject to future reporting and audit requirements. These matters could cause reversal or claw-back of amounts previously recognized; however, an estimate of the possible effects cannot be made as of the date these consolidated financial statements were issued. In addition, it is unknown whether there will be further developments in regulatory guidance.

Revenue was also recognized from state funding received from the New Jersey Department of Health of approximately \$44,000 to be applied towards employee COVID-19 testing. In accordance with the terms and conditions, FSL applied the funding against eligible expenses.

### **16. Paycheck Protection Program**

On April 20, 2020, the Organization received proceeds in the amount of \$4,147,700 under the Paycheck Protection Program (PPP) which was established as part of the CARES Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying nonprofit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period.

## Fellowship Senior Living, Inc. and Subsidiary

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

The Organization initially recorded the funds as a deferred grant and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right of return of the PPP loan, or when such conditions are explicitly waived. Any unforgiven portion is payable over two years if issued before, or five years if issued after, June 5, 2020 at an interest rate of 1 percent with payments deferred until the SBA remits the Organization's loan forgiveness amount to the lender, or, if the Organization does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

As of December 31, 2020, the Organization believes it has met all the conditions attached to the PPP funds, however, no grant revenue is recorded within its consolidated statement of operations and changes in net assets for the year ended December 31, 2020 as the forgiveness application submitted has not been approved by the SBA. The full amount of \$4,147,700 of PPP funds received are recorded as a deferred grant revenue in the Organization's December 31, 2020 consolidated balance sheet. The Organization believes it will overcome the remaining barriers and the deferred grant revenue will be reported as grant revenue within its consolidated statement of operations and changes in net assets for the year ending December 31, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan or repaid in full and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audits or reviews by the SBA would have a material impact on the consolidated financial statements.

**Fellowship Senior Living, Inc. and Subsidiary**

 Schedule I - Consolidating Balance Sheet  
 December 31, 2020

	Fellowship Senior Living	Fellowship Foundation, Inc.	Elimination	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,530,866	\$ 25,970	\$ -	\$ 2,556,836
Investments	45,991,734	-	-	45,991,734
Assets whose use is limited, current portion	14,185,180	-	-	14,185,180
Accounts receivable, net	3,127,707	-	-	3,127,707
Pledges receivable, current portion	-	100,000	-	100,000
Due from related party	8,463	-	(8,463)	-
Supplies and other current assets	2,186,202	-	-	2,186,202
Interest in net assets of Fellowship Foundation, Inc.	2,595,178	-	(2,595,178)	-
Total current assets	70,625,330	125,970	(2,603,641)	68,147,659
<b>Pledges Receivable</b>	-	814,300	-	814,300
<b>Noncurrent Assets Whose Use is Limited</b>	2,488,784	1,680,371	-	4,169,155
<b>Property and Equipment, Net</b>	114,196,210	-	-	114,196,210
<b>Long-Term Deposits</b>	80,929	-	-	80,929
Total assets	<u>\$ 187,391,253</u>	<u>\$ 2,620,641</u>	<u>\$ (2,603,641)</u>	<u>\$ 187,408,253</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 3,994,395	\$ 17,000	\$ -	\$ 4,011,395
Accrued interest payable	1,883,526	-	-	1,883,526
Due to related party	-	8,463	(8,463)	-
Deferred grant revenue	4,147,700	-	-	4,147,700
Current portion of long-term debt	2,606,690	-	-	2,606,690
Total current liabilities	12,632,311	25,463	(8,463)	12,649,311
<b>Refundable Waiting List Deposits</b>	293,531	-	-	293,531
<b>Refundable Advance Entrance Fees</b>	18,502,904	-	-	18,502,904
<b>Deferred Revenue From Advance Entrance Fees</b>	16,924,515	-	-	16,924,515
<b>Deferred Revenue for Renovations</b>	854,335	-	-	854,335
<b>Long-Term Debt, Net</b>	93,578,892	-	-	93,578,892
Total liabilities	<u>142,786,488</u>	<u>25,463</u>	<u>(8,463)</u>	<u>142,803,488</u>
<b>Net Assets</b>				
Without donor restrictions	42,009,587	119,814	-	42,129,401
With donor restrictions	2,595,178	2,475,364	(2,595,178)	2,475,364
Total net assets	<u>44,604,765</u>	<u>2,595,178</u>	<u>(2,595,178)</u>	<u>44,604,765</u>
Total liabilities and net assets	<u>\$ 187,391,253</u>	<u>\$ 2,620,641</u>	<u>\$ (2,603,641)</u>	<u>\$ 187,408,253</u>

**Fellowship Senior Living, Inc. and Subsidiary**

 Schedule II - Consolidating Statement of Operations and Changes in Net Assets  
 Year Ended December 31, 2020

	Fellowship Senior Living	Fellowship Foundation, Inc.	Eliminations	Total
<b>Net Assets Without Donor Restrictions</b>				
Revenue:				
Resident services, including amortization of advance entrance fees of \$7,560,711	\$ 24,747,889	\$ -	\$ -	\$ 24,747,889
Patient revenue from nonresidents	6,844,301	-	-	6,844,301
Home community based services, including amortization of advance entrance fees of \$108,374	8,470,367	-	-	8,470,367
Investment income (loss) and other revenue, net	7,421,945	(204)	-	7,421,741
Net assets released from restrictions	16,971	123,403	-	140,374
<b>Total revenue</b>	<b>47,501,473</b>	<b>123,199</b>	<b>-</b>	<b>47,624,672</b>
Expenses:				
Salaries and benefits	24,276,919	96,459	-	24,373,378
Contracted services	5,326,482	18,483	-	5,344,965
Supplies and other	8,543,956	140,764	-	8,684,720
Interest and amortization, net	2,493,880	-	-	2,493,880
Depreciation	5,315,096	-	-	5,315,096
Provision for bad debt	186,245	-	-	186,245
<b>Total expenses</b>	<b>46,142,578</b>	<b>255,706</b>	<b>-</b>	<b>46,398,284</b>
Income (loss) from operations before accelerated depreciation	1,358,895	(132,507)	-	1,226,388
<b>Accelerated Depreciation</b>	<b>1,124,243</b>	<b>-</b>	<b>-</b>	<b>1,124,243</b>
Income (loss) from operations	234,652	(132,507)	-	102,145
Loss on disposal of property and equipment	(147,133)	-	-	(147,133)
Net change in unrealized gains on investments	1,201,768	162,106	-	1,363,874
Excess of revenue over expenses	1,289,287	29,599	-	1,318,886
Equity transfer	(90,215)	90,215	-	-
Increase in net assets without donor restrictions	1,199,072	119,814	-	1,318,886
<b>Net Assets With Donor Restrictions</b>				
Gross contributions	141,089	1,102,408	-	1,243,497
Investment loss, net	(109,677)	-	-	(109,677)
Net change in unrealized losses on investments	(105,277)	-	-	(105,277)
Net assets released from restriction	(16,971)	(123,403)	-	(140,374)
Change in interest of net assets of Fellowship Foundation, Inc.	2,595,178	-	(2,595,178)	-
Equity transfer	(1,496,359)	1,496,359	-	-
Increase in net assets with donor restrictions	1,007,983	2,475,364	(2,595,178)	888,169
Increase in net assets	2,207,055	2,595,178	(2,595,178)	2,207,055
<b>Net Assets, Beginning</b>	<b>42,397,710</b>	<b>-</b>	<b>-</b>	<b>42,397,710</b>
<b>Net Assets, Ending</b>	<b>\$ 44,604,765</b>	<b>\$ 2,595,178</b>	<b>\$ (2,595,178)</b>	<b>\$ 44,604,765</b>

**Fellowship Senior Living, Inc. and Subsidiary**

Schedule III - Consolidating Statement of Cash Flows

Year Ended December 31, 2020

	Fellowship Senior Living	Fellowship Foundation, Inc.	Eliminations	Total
<b>Cash Flows From Operating Activities</b>				
Increase (decrease) in net assets	\$ 2,207,055	\$ 2,595,178	\$ (2,595,178)	\$ 2,207,055
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Cash received from advance entrance fees and waiting list deposits, net	9,316,730	-	-	9,316,730
Amortization of advance fees	(7,669,085)	-	-	(7,669,085)
Amortization of deferred revenue for renovations	(117,839)	-	-	(117,839)
Amortization of deferred financing costs	51,674	-	-	51,674
Amortization of bond premium	(412,000)	-	-	(412,000)
Loss on disposal of property and equipment	147,133	-	-	147,133
Contributions restricted for long-term purposes	-	(814,300)	-	(814,300)
Depreciation	6,439,339	-	-	6,439,339
Net change in unrealized gains on investments	(1,096,491)	(162,106)	-	(1,258,597)
Net change in interest in Fellowship Foundation, Inc.	(2,595,178)	-	2,595,178	-
Equity transfer	1,496,359	(1,496,359)	-	-
Changes in operating assets and liabilities:				
Accounts receivable	1,080,213	-	-	1,080,213
Pledges receivable	-	(100,000)	-	(100,000)
Due to (from) related party	(8,463)	8,463	-	-
Supplies and other current assets	(927,720)	-	-	(927,720)
Accounts payable and accrued expenses	325,718	17,000	-	342,718
Accrued interest payable	1,770,403	-	-	1,770,403
Deferred grant revenue	4,147,700	-	-	4,147,700
Net cash provided by operating activities	<u>14,155,548</u>	<u>47,876</u>	<u>-</u>	<u>14,203,424</u>
<b>Cash Flows From Investing Activities</b>				
Net (purchases) sales of investments and assets whose use is limited	(3,162,269)	101,497	-	(3,060,772)
Acquisition of property and equipment	(19,652,184)	-	-	(19,652,184)
Net cash (used in) provided by investing activities	<u>(22,814,453)</u>	<u>101,497</u>	<u>-</u>	<u>(22,712,956)</u>
<b>Cash Flows From Financing Activities</b>				
Proceeds received for renovations	393,415	-	-	393,415
Principal payments on long-term debt	(116,778)	-	-	(116,778)
Construction retainage payable	(873,176)	-	-	(873,176)
Net cash used in financing activities	<u>(596,539)</u>	<u>-</u>	<u>-</u>	<u>(596,539)</u>
Net (decrease) increase in cash and cash equivalents and restricted cash and cash equivalents	(9,255,444)	149,373	-	(9,106,071)
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>28,153,969</u>	<u>-</u>	<u>-</u>	<u>28,153,969</u>
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 18,898,525</u>	<u>\$ 149,373</u>	<u>\$ -</u>	<u>\$ 19,047,898</u>
<b>Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 2,530,866	\$ 25,970	\$ -	\$ 2,556,836
Under trust indenture	16,185,394	-	-	16,185,394
Wait list and entrance fee deposits	182,265	-	-	182,265
Assets with donor restrictions	-	123,403	-	123,403
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 18,898,525</u>	<u>\$ 149,373</u>	<u>\$ -</u>	<u>\$ 19,047,898</u>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Cash paid for interest	<u>\$ 2,009,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,009,093</u>