LCS Essex Meadows LLC

Financial Report
December 31, 2019

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

RSM

RSM US LLP

Independent Auditor's Report

Board of Directors
LCS Essex Meadows LLC

Report on the Financial Statements

We have audited the accompanying financial statements of LCS Essex Meadows LLC, which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of operations, comprehensive income, member's equity and cash flows for the year ended December 31, 2019 and for the period from May 8, 2018 (inception) to December 31, 2018, 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCS Essex Meadows LLC as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year ended December 31, 2019 and for the period from May 8, 2018 (inception) to December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

RSM US LLP

Des Moines, Iowa
February 25, 2020

LCS Essex Meadows LLC

Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 2,087,112	$ 1,916,269
Accounts receivable, net of allowance for doubtful accounts, 2019 $21,896 and 2018 $0	814,178	532,723
Prepaid expenses and other	727,428	755,687
Assets limited as to use or restricted	298,879	242,457
Total current assets	3,927,597	3,447,136
Assets limited as to use or restricted	6,567,178	6,419,800
Operating property, net of accumulated depreciation	53,258,657	52,942,464
Intangible asset, net of accumulated amortization	1,552,869	2,064,831
Total assets	$ 65,306,301	$ 64,874,231
Liabilities and Member's Equity		
Current liabilities:		
Accounts payable, trade	$ 965,068	$ 419,868
Accounts payable, affiliates	31,348	185,649
Accrued expenses	802,060	873,758
Refundable deposits from prospective residents, escrowed	426,793	359,721
Resident contract liability, current portion	410,650	822,679
Total current liabilities	2,635,919	2,661,675
Deferred revenue	1,992,583	376,655
Term loan payable, net of unamortized financing costs	12,190,041	12,168,565
Interest rate swap agreement	548,507	257,408
Resident contract liability, less current portion	25,947,510	25,823,615
Loans from residents, less current portion	5,875,307	3,126,310
Total liabilities	49,189,867	44,414,228
Member's equity:		
Accumulated other comprehensive loss	(548,507)	(257,408)
Member's equity	16,664,941	20,717,411
Total member's equity	16,116,434	20,460,003
Total liabilities and member's equity	$ 65,306,301	$ 64,874,231

See notes to the financial statements.

LCS Essex Meadows LLC

Statements of Operations
Year Ended December 31, 2019 and Period from May 8, 2018 (inception) to December 31, 2018

	2019	2018
Revenues:		
Apartment revenues	$ 13,260,857	$ 1,506,132
Health care revenues	5,321,809	571,135
Amortization of nonrefundable entrance payments	135,592	16,022
Other revenues	100,297	3,019
Total revenues	18,818,555	2,096,308
Operating expenses:		
General and administrative	3,940,748	560,571
Plant	2,847,063	376,105
Environmental services	1,144,728	162,537
Dietary	3,573,771	469,433
Medical and resident care	5,261,319	694,762
Acquisition costs	-	599,837
Depreciation and amortization	1,942,864	218,718
Total operating expenses	18,710,493	3,081,963
Income (loss) from operations	108,062	(985,655)
Other income (expense):		
Interest expense, net, including interest accretion	(3,268,597)	(433,331)
Gain on acquisition of community	-	8,866,025
Gain on disposal of operating property	8,065	-
Total other income (expense)	(3,260,532)	8,432,694
Net income (loss)	$ (3,152,470)	$ 7,447,039

See notes to the financial statements.

LCS Essex Meadows LLC

Statements of Comprehensive Income
Year Ended December 31, 2019 and Period from May 8, 2018
(inception) to December 31, 2018

	2019	2018
Net income (loss)	**$ (3,152,470)**	$ 7,447,039
Other comprehensive loss:		
Unrealized loss on interest rate swap agreement	**(291,099)**	(257,408)
Comprehensive income (loss)	**$ (3,443,569)**	$ 7,189,631

See notes to the financial statements.

LCS Essex Meadows LLC

Statements of Member's Equity
Year Ended December 31, 2019 and Period from May 8, 2018 (inception) to December 31, 2018

	Accumulated Other Comprehensive Loss	Member's Equity	Total Member's Equity
Formation of entity at May 8, 2018	$ -	$ -	$ -
Contributions from member	-	13,270,372	13,270,372
Net income	-	7,447,039	7,447,039
Unrealized loss on interest rate swap agreement	(257,408)	-	(257,408)
Member's equity at December 31, 2018	(257,408)	20,717,411	20,460,003
Distributions to member	-	(900,000)	(900,000)
Net loss	-	(3,152,470)	(3,152,470)
Unrealized loss on interest rate swap agreement	(291,099)	-	(291,099)
Member's equity at December 31, 2019	**$ (548,507)**	**$ 16,664,941**	**$ 16,116,434**

See notes to the financial statements.

LCS Essex Meadows LLC

Statements of Cash Flows
Year Ended December 31, 2019 and Period from May 8, 2018
(inception) to December 31, 2018

	2019	2018
Cash flows from operating activities:		
Net income (loss)	**$ (3,152,470)**	$ 7,447,039
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**1,942,864**	218,718
Amortization of financing costs	**21,476**	-
Interest accretion on acquired resident contracts	**2,542,697**	370,271
Amortization of nonrefundable entrance payments	**(135,592)**	(16,022)
Gain on acquisition of community	**-**	(8,866,025)
Gain on disposal of operating property	**(8,065)**	-
Unrealized loss on investments	**-**	384
Change in operating assets and liabilities:		
Accounts receivable	**(284,784)**	(920,435)
Prepaid expenses and other	**28,259**	450,072
Accounts payable, trade	**(21,733)**	409,914
Accounts payable, affiliates	**(154,301)**	185,649
Accrued expenses	**(71,698)**	603,075
Refundable deposits from prospective residents, escrowed	**67,072**	268,481
Deferred revenue	**1,751,520**	384,846
Net cash provided by operating activities	**2,525,245**	535,967
Cash flows from investing activities:		
Acquisition of community, net of assets limited as to use or restricted	**-**	(19,605,027)
Additions to cost of acquiring contracts	**(48,099)**	-
Additions to operating property	**(1,123,998)**	(368,991)
Proceeds from sale of assets limited as to use or restricted	**2,113,280**	-
Net cash provided by (used in) investing activities	**941,183**	(19,974,018)
Cash flows from financing activities:		
Contributions from member	**-**	13,270,372
Distributions to member	**(900,000)**	-
Proceeds from term loan payable	**-**	12,265,000
Payment of financing costs	**-**	(96,435)
Proceeds from loans from residents	**3,553,678**	751,439
Repayment of resident contract liabilities	**(2,653,133)**	(287,079)
Repayment of loans from residents	**(979,050)**	-
Net cash provided by (used in) financing activities	**(978,505)**	25,903,297
Net increase in cash and cash equivalents	**2,487,923**	6,465,246
Cash and cash equivalents:		
Beginning	**6,465,246**	-
Ending	**$ 8,953,169**	$ 6,465,246

(Continued)

LCS Essex Meadows LLC

Statements of Cash Flows (Continued)
Year Ended December 31, 2019 and Period from May 8, 2018 (inception) to December 31, 2018

	2019	2018
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 2,087,112	$ 1,916,269
Assets limited as to use or restricted	6,866,057	6,662,257
Less mutual funds in assets limited as to use or restricted	-	(2,113,280)
Total cash and cash equivalents	$ 8,953,169	$ 6,465,246
Supplemental disclosures of cash flow information:		
Cash paid during year for interest	$ 581,057	$ 63,507
Supplemental disclosures of noncash operating, investing and financing activities:		
Redemption of resident contracts in satisfaction of outstanding accounts receivable	$ 3,329	$ 1,640
Purchase of operating property in accounts payable	$ 576,887	$ 9,954
Change in fair value of interest rate swap agreement	$ (291,099)	$ (257,408)

See notes to the financial statements.

Note 1. Organization and Significant Accounting Policies

Organization: LCS Essex Meadows LLC (the Company), a Delaware limited liability company, was formed on May 8, 2018, to hold title to and operate as a senior living community property located in Essex, Connecticut (the Community). The Community was purchased from an unrelated third party on November 20, 2018, and is wholly owned by LCS SHIP Venture I LLC.

Use of estimates: The preparation of the 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 at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Cash and cash equivalents: The Company considers investments with maturities of three months or less when purchased to be cash equivalents.

Concentrations of credit risk: The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes they are not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable: Accounts receivable are stated net of contractual allowances or discounts (if applicable) and net of allowance for doubtful accounts. Management determines the allowance for doubtful accounts by reviewing each account for its potential for collection. Accounts are routinely reviewed and written off when deemed uncollectible.

Assets limited as to use or restricted: Assets limited as to use or restricted include cash and cash equivalents, as well as mutual funds. All mutual funds are classified as available-for-sale and are recorded at fair value with unrealized holding gains and losses included in earnings.

Entrance Payments, prior to occupancy, are held in escrow. These funds remain the property of the prospective residents unless and until available to be released to the Company as provided for in the escrow agreement. The amount of the escrowed deposits at December 31, 2019 and 2018, was $298,879 and $242,457, respectively.

An operating reserve escrow account is required by the state of Connecticut equal to one month's cash operating costs of the community, plus one year's debt service. The amount held at December 31, 2019 and 2018, was $1,766,473 and $1,478,808, respectively.

A health center reserve was established to hold the contract liabilities of residents that have moved to the health center and have sold their independent living unit apartment. The amount held in reserve at December 31, 2019 and 2018, was $2,015,076 and $2,176,223, respectively.

The Company established a restricted deposit as required by its sewage provider. The amount held in deposit at December 31, 2019 and 2018, was $112,622 and $110,096, respectively.

A required reserve fund was established pursuant to the Loan Agreement and the Residency Agreements for capital expenditure escrows for extraordinary capital repairs to the operating property. The amount held in reserve at December 31, 2019 and 2018, was $2,673,007 and $2,654,673, respectively.

Note 1. Organization and Significant Accounting Policies (Continued)

Operating property: The operating property acquired with the purchase of the Community (the Purchase) was accounted for at fair value in accordance with accounting guidance for purchase and acquisition accounting. Operating property acquired after November 20, 2018 is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of maintenance and repairs is expensed as incurred while significant renovations are capitalized.

The Company evaluates the recoverability of the carrying value of the operating property whenever events or circumstances indicate the carrying amount may not be recoverable. If the operating property is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use of the operating property is less than the carrying amount of the operating property then the operating property is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount exceeds the fair value. No impairment was recognized during the year ended December 31, 2019 or the period ended December 31, 2018.

Intangible asset: As part of the Purchase, an intangible asset with a value of $2,173,506 related to in-place resident relationships was recorded. The balance is being amortized on a straight-line basis over approximately four years, which is the average estimated remaining life of the acquired resident contracts. Amortization expense for the resident relationships was $558,197 and $108,675 for the year ended December 31, 2019 and the period ended December 31, 2018, respectively. Future amortization expense is $592,774 for 2020 through 2021 and $321,086 in 2022.

Costs of acquiring contracts are incremental costs incurred in obtaining a Residency Agreement that would not have been incurred had the Residency Agreement not been obtained. Costs are associated with individual agreements and amortized based on the remaining life expectancy of those residents. Costs of acquiring contracts were $48,099 and $0 as of December 31, 2019 and 2018, respectively. Accumulated amortization was $1,866 and $0 as of December 31, 2019 and 2018, respectively. Amortization expense was $1,866 and $0 for the year ended December 31, 2019 and the period ended December 31, 2018, respectively.

Income taxes: The Company is a disregarded entity for income tax purposes and therefore is not subject to income taxes. The Company's member is taxed on its share of the Company's taxable income, whether or not distributed and reports on the member's tax return, its share of any net income or loss of the Company. Consequently, no provision is made in the financial statements for income taxes, or penalties and interest thereon.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) for an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated their material tax positions and determined there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Interest rate swap agreement: The Company holds an interest rate swap agreement in order to manage the interest rate risk exposure on its term loan payable (see Note 6). The derivative instrument qualifies as a cash flow hedge under the Derivatives and Hedging Topic of the *FASB Accounting Standards Codification* (ASC). The Company elected the simplified approach for private companies and accordingly, the instrument is recognized in the financial statements at fair value and changes in fair value are recognized in equity as a gain or loss to other comprehensive loss.

Note 1. Organization and Significant Accounting Policies (Continued)

The Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for undertaking various hedged transactions. The Company also formally assesses, at inception of the hedge and on an ongoing basis, whether the interest rate swap agreement is highly effective in offsetting changes in cash flows of the hedged item. If it is determined that the interest rate swap agreement is not highly effective as a hedge, hedge accounting is discontinued, and changes in fair value of the interest rate swap would be recognized through earnings.

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. See further discussion on the fair value measurement of the mutual funds and interest rate swap agreement in Note 8 of the financial statements.

Revenue recognition: Resident revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled to for providing resident services. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for the retroactive revenue adjustments due to settlement of audits, reviews and investigations. Revenue is recognized as performance obligations are satisfied and the resident receives and controls the good or service.

Residents pay a monthly fee, determined annually. The monthly fee is recognized as apartment and health care revenue and may only be used for the purposes specified in the Residency Agreements.

Apartment revenues and Entrance Payments: Resident fees for independent and assisted living level of care consist of monthly charges for basic housing and support services. Prior to admission to the Community, a resident makes an Entrance Payment consisting of a nonrefundable portion and may also include a refundable portion. The nonrefundable portion is amortized over the estimated stay of the resident and recorded as amortization of nonrefundable entrance payments on the statements of operations. In addition, residents can be directly admitted to an assisted living level of care, which requires payment of a monthly service fee. Monthly fees for residents under these agreements are recorded monthly as the services are provided in accordance with the provisions of ASC 840, Leases. There may be ancillary services provided that are not included in the monthly fees that are considered separate performance obligations for which revenue is recognized as the services are provided.

Health care revenues: The Company has agreements with third-party payors that provide for payments to the Company at amounts different from the Company's established rates. Payment arrangements include prospectively determined per diem payments. Revenue is recognized as performance obligations are satisfied. Health care revenues are reported at the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and implicit price concessions provided to residents.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur.

Note 1. Organization and Significant Accounting Policies (Continued)

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Company estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. Subsequent changes that are determined to be the result of an adverse change in the residents' ability to pay are recorded as bad debt.

See Note 7 for additional information on health care revenues.

Purchase accounting: In determining the allocation of the purchase price of the Community to net tangible and identified intangible assets acquired and liabilities assumed, the Company makes estimates of fair value using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The Company assigns the purchase price for the community to assets acquired and liabilities assumed based on their determined fair values in accordance with the provisions of ASC 805, Business Combinations (ASC 805). The determination of fair value involves the use of significant judgment and estimation.

Working capital assets acquired and working capital liabilities assumed are valued on a carryover/cost basis which approximates fair value.

Operating Property consists of land, buildings, equipment and furnishings and were valued utilizing either a discounted cash flow projection of future revenue and costs, and capitalization and discount rates, using current market conditions or a direct capitalization method. The Company allocates the fair value of the building acquired on an as-if-vacant basis. The Company determines the allocated value of furniture and equipment based upon the replacement cost. The Company determines the value of land by considering the sales prices of similar properties in recent transactions.

The fair value of acquired lease-related intangibles associated with the contracts with the Community's residents reflects the estimated value of in-place leases as represented by the cost to obtain residents and an estimated absorption period to reflect the value of the rent and recovery costs foregone during a reasonable lease-up period as if the acquired space was vacant.

Refundable entrance payments associated with resident contracts assumed at acquisition with various refundable terms are recorded at fair value at the purchase date based on the present value of cash outflows for repayment of the refundable entrance payments. The fair value of these refundable entrance payments will be accreted to face value using the effective interest method over the estimated life expectancy of the in-place residents at acquisition with a discount rate of 12.6%. As of December 31, 2019 and 2018, the unamortized discount is $8,767,748 and $11,374,743, respectively.

Reclassification: Certain items on the December 31, 2018 balance sheet and statement cash flows have been reclassified to be consistent with the presentation used in the 2019 financial statements with no impact on ending member's equity or net income.

Note 1. Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The five-step model defined by ASU 2014-09 requires the Company to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The Company adopted ASU 2014-09 under the modified retrospective approach, using the portfolio approach to group contracts with similar characteristics and analyze historical cash collection trends. The Company evaluated the nature, amount, timing and uncertainty of revenue and cash flows using the five-step process provided within ASU 2014-09 and determined adoption of ASU 2014-09 did not have a material impact on the Company's statements of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2021, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance that requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of the period balances on the statement of cash flows. ASU 2016-18 was adopted by the Company during the year ended December 31, 2019, and the change was applied retrospectively to all prior periods presented. The adoption of ASU 2016-18 resulted in an increase to cash flows from operating activities of $242,841 and an increase in cash flows from investing activities of $4,306,136 for the period ended December 31, 2018.

Note 2. Acquisition

Effective November 20, 2018, the Company acquired the Community. The purchase price was determined based on a negotiated value, which resulted in recognition of a gain on purchase included in the Company's statement of operations of $8,866,025. The gain was achieved by leveraging LCS's history of acquiring and managing life plan communities, and the Company's ability to close on the off-market acquisition timely. The operating results of the acquired business are reflected in the Company's statement of operations from the acquisition date forward.

Note 2. Acquisition (Continued)

The transaction was accounted for under the acquisition method of accounting, with the purchase price allocated based on fair value to the individual assets acquired and liabilities assumed. The fair value of intangible assets, certain operating property and resident contract liability was determined by an internal valuation process. The acquisition-date fair value of total consideration was $29,967,189 and includes a bargain purchase gain of $8,866,025 to the $22,300,000 purchase price adjusted for working capital components to $21,101,164 purchase price less certain liabilities assumed. The purchase price amounts were allocated as follows:

	2018
Operating property	$ 52,673,562
Intangible assets, in-place residents	2,173,506
Prepaid expenses and other	1,205,759
Assets limited as to use or restricted	3,609,801
Accrued expenses	(270,683)
Deferred revenue	(386,072)
Refundable deposits from prospective residents, escrowed	(182,475)
Resident contract liability	(28,856,209)
	$ 29,967,189

Note 3. Related-Party Transactions

The Company has a client services agreement with Life Care Services LLC (LCS) (affiliated through common ownership of LCS SHIP Venture I) for management of the Community. Under the terms of the agreement, LCS supervises the operations of the Community. Management fees of $990,788 and $110,619 were incurred for the year ended December 31, 2019 and period ended December 31, 2018, respectively. Additionally, LCS has funded Community costs incurred and is subsequently reimbursed by the Community. At December 31, 2019 and 2018, the Company had a payable to LCS of $25,738 and $170,442, respectively.

The Company has an agreement with LCS Community Employment LLC (LCE) (affiliated through common ownership of LCS SHIP Venture I) to provide employment services for the Community. At December 31, 2019 and 2018, the Company had a payable of $5,610 and $15,207, respectively, to LCE relating to salaries and benefits.

In conjunction with the Purchase, the Company paid an acquisition fee of $0 and $167,250 to a member of LCS SHIP Venture I LLC and is included in the statement of operations as acquisition costs for the year ended December 31, 2019 and period ended December 31, 2018, respectively.

In the normal course of operations, the Company purchases from affiliates of LCS SHIP Venture I LLC services for group purchasing, insurance, computing technology and related ancillary matter.

Note 4. Residency Agreements

As part of the purchase of the Community, the Company acquired existing Residency Agreements (Agreements). Included in the Agreements are multiple contract types with repayment of the refundable portion of the Entrance Payments based on terms in the Agreement. Resident contract liability has been recorded under the acquisition method of accounting and was recorded at fair value at the time of the purchase (see Note 2). The face value of the resident contract liability prior to the fair value adjustment is approximately $34,773,000 and $37,200,000 as of December 31, 2019 and 2018, respectively. Interest expense on acquired contracts is recorded over the expected term of the Agreement or until repaid, if sooner.

After November 20, 2018, the Company has entered into Agreements with residents and prospective residents of the Community. The Agreements provide for the lifetime use of an apartment with payment of an Entrance Payment consisting of a nonrefundable portion and a refundable portion. Prior to occupancy, Entrance Payments are refundable, subject to limitations in the Agreements. At the time of occupancy, nonrefundable payments are classified as deferred revenue. After a period of time as defined in the Agreements, the deferred revenue is amortized to revenue as described in Note 1.

Entrance Payments are deposited into an escrow and released to the Company after various contractual and regulatory requirements have been met. Prior to occupancy, Entrance Payments are refundable, subject to limitations in the Agreements. The amount of deposits that were escrowed and refundable at December 31, 2019 and 2018, was $208,000 and $186,000, respectively.

The Residency Agreement has a provision where the operating revenues are adjusted annually by a fair share adjustment, which represents the excess of current year operating revenues (expenses) and includes fair share capital expenditures. The fair share adjustment equitably apportions the cost of operating the community among its residents who have entered into a residency agreement under fair share.

Note 5. Operating Property

Operating property consists of the following at December 31, 2019 and 2018:

	Estimated Useful Lives	2019	2018
Land		$ 4,930,363	$ 4,930,363
Buildings and fixed equipment	5 - 40 years	46,869,407	46,043,141
Equipment and furnishings	3 - 10 years	2,141,439	1,724,328
		53,941,209	52,697,832
Less accumulated depreciation		(1,492,845)	(110,042)
		52,448,364	52,587,790
Remodel projects in progress		810,293	354,674
		$ 53,258,657	$ 52,942,464

Note 6. Term Loan Payable

On November 20, 2018, the Company entered into a Loan Agreement of $12,265,000 with a maturity date of November 20, 2023. The Loan Agreement requires monthly interest-only payments and has an extension provision with principal payments that would begin at the beginning of the extension period based on an amortization period of 25 years. Borrowings under the loan bear interest at a floating rate equal to the LIBOR Rate, plus 2.10%. The loan balance at December 31, 2019 and 2018, was $12,265,000. On December 3, 2018, the Company entered into an interest rate swap agreement for a notional value of $12,265,000 and fixed rate of 3.06%. The swap has a termination date of November 20, 2023, and a fair value of $(548,507) and $(257,408) at December 31, 2019 and 2018, respectively. The effective interest rate at December 31, 2019, was 5.16%. The Loan Agreement is secured by substantially all assets of the Company including Entrance Payments without limitation.

The Loan Agreement includes various restrictive covenants requiring adherence to be in compliance with the terms of the Loan Agreement.

Financing costs represent expenses incurred in obtaining long-term financing. These costs are being amortized over the term of the related loan by the straight-line method, as an approximation of the effective interest method. Financing costs of $96,435 are being amortized over the life of the loan. Accumulated amortization related to the financing costs was $21,476 and $0 as of December 31, 2019 and 2018, respectively. Interest expense related to the amortization was $21,476 and $0 for the year ended December 31, 2019 and the period ended December 31, 2018, respectively.

Note 7. Health Care Revenues

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. A summary of the payment arrangements with the major third-party payor follows:

Medicare: The Company participates in the Medicare program. This federal program is administered by the Centers of Medicare and Medicaid Services (CMS). The Company is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing services. The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Coordinator; however, they do not contain a cost settlement. CMS recently finalized the Patient Driven Payment Model (PDPM) to replace the existing Medicare reimbursement system effective October 1, 2019. Under PDPM, therapy minutes are removed as the primary basis for payment and instead PDPM uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by government agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs.

Note 7. Health Care Revenues (Continued)

Health care revenues from the Medicare program accounted for approximately 21% and 19% of total health care revenues during the year ended December 31, 2019 and period ended December 31, 2018, respectively. Revenues from the Medicare program accounted for approximately 6% of total revenues during both the year and period ended December 31, 2019 and 2018, respectively.

Note 8. Fair Value Measurements

The Company measures the fair value of financial instruments as required by the Fair Value Measurements and Disclosures Topic of the ASC, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company records its interest rate swap agreement at fair value on a recurring basis. The derivative instrument is valued using a discounted cash flow model that uses observable yield curve inputs to calculate the fair value. This method is not dependent on the input of any significant judgments or assumptions by management. The fair value of this agreement is recorded in other liabilities and changes in fair value are recognized in equity as a gain or loss to other comprehensive loss.

Included in assets limited as to use or restricted are assets held in mutual funds. The Company has analyzed the valuation techniques and related inputs, and classified its holdings in mutual funds within Level 1.

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds	$ -	$ -	$ -	$ -
Liabilities:				
Interest rate swap agreement	$ 548,507	$ -	$ 548,507	$ -

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds	$ 2,113,280	$ 2,113,280	$ -	$ -
Liabilities:				
Interest rate swap agreement	$ 257,408	$ -	$ 257,408	$ -

Note 9. Employee Benefit Retirement Plan

Available to all eligible employees of LCE is a defined contribution employee retirement benefit plan (the Plan). The Company accrued matching contributions of $204,374 and $3,283 for the year ended December 31, 2019 and period ended December 31, 2018, respectively, to be remitted to the Plan in 2020 and 2019, respectively. The Plan matches 100% of the first 3% of the participant's eligible contributions plus 50% of the next 2% of eligible contributions.

Note 10. Commitments and Contingencies

The Community in the normal course of operations is exposed to risk and involvement in legal actions and proceedings. To the extent available at costs believed reasonable by the Community, it maintains insurance coverages for various types of risk. Based on the Community's past experience, management believes that any legal actions or proceedings will not have a material effect on the financial position of the Community.

Because of the various regulations surrounding government reimbursed medical costs, there can be no assurance that the reimbursements will be equal to or exceed costs to provide such services.

Note 11. Subsequent Events

Subsequent events have been evaluated through February 25, 2020, the date financial statements were available to be issued. Through that date, there were no subsequent events requiring recognition or disclosure.

LCS Essex Meadows LLC

Fair Share Calculation
Year Ended December 31, 2019 and Period from May 8, 2018 (inception) to December 31, 2018

	2019	2018
Income (loss) from operations	$ 108,062	$ (985,655)
Adjustments:		
Less amortization of nonrefundable entrance payments	(135,592)	(16,022)
Plus acquisition costs	-	599,837
Plus depreciation and amortization	1,942,864	218,718
Adjusted income from operations	1,915,334	(183,122)
Adjustments per fair share calculation in residency agreement:		
Less capital expenditures	(1,698,996)	(368,991)
Less owner's supervision fees	-	(18,307)
Plus investment income (loss)	(1,258)	7,711
Less debt service	(581,057)	(63,507)
Contractual fair share per residency agreement	(2,281,311)	(443,094)
Excess (deficit) funds available	(365,977)	(626,216)
Percent of monthly fees subject to fair share	83.52%	85.73%
Excess (deficit) funds available for fair share	$ (305,647)	$ (536,845)
Monthly service fees paid under fair share	$ 10,682,308	$ 1,209,569
Total monthly service fees paid	12,790,823	1,410,930
Percent of monthly service fees subject to fair share	83.52%	85.73%