

# **Carleton-Willard Homes, Inc. and Affiliates**

Consolidated Financial Report  
December 31, 2022

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## **Independent Auditor's Report**

RSM US LLP

Board of Trustees  
Carleton-Willard Homes, Inc. and Affiliates

### **Opinion**

We have audited the accompanying consolidated financial statements of Carleton-Willard Homes, Inc. and Affiliates (the Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*RSM US LLP*

Boston, Massachusetts  
May 30, 2023

# Carleton-Willard Homes, Inc. and Affiliates

## Consolidated Balance Sheets December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,955,454	\$ 4,860,862
Accounts receivables, net	5,250,966	1,982,241
Other current assets	622,305	855,305
<b>Total current assets</b>	<b>9,828,725</b>	<b>7,698,408</b>
Property and equipment, net	40,135,416	41,886,208
Other assets:		
Investments	30,060,551	35,342,653
Assets limited as to use – held by trustee	75,063	70,593
Beneficial interest in perpetual trust	129,412	159,103
<b>Total other assets</b>	<b>30,265,026</b>	<b>35,572,349</b>
<b>Total assets</b>	<b>\$ 80,229,167</b>	<b>\$ 85,156,965</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 2,590,308	\$ 3,017,210
Accrued expenses	1,909,857	1,981,825
Current portion of bonds payable, net of discount and debt issuance costs plus premium	518,110	505,536
Current portion of estimated entrance fee refunds	738,000	646,000
Refundable entrance fee deposits	287,155	265,310
<b>Total current liabilities</b>	<b>6,043,430</b>	<b>6,415,881</b>
Long-term liabilities:		
Deferred membership fees	36,205	47,147
Estimated entrance fee refunds	2,325,000	1,897,000
Deferred revenue from entrance fees, net	37,144,621	34,035,235
Bonds payable, net of current portion, discount and debt issuance costs plus premium	14,111,500	14,641,198
<b>Total long-term liabilities</b>	<b>53,617,326</b>	<b>50,620,580</b>
<b>Total liabilities</b>	<b>59,660,756</b>	<b>57,036,461</b>
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions	17,501,600	24,402,840
Net assets with donor restrictions	3,066,811	3,717,664
<b>Total net assets</b>	<b>20,568,411</b>	<b>28,120,504</b>
<b>Total liabilities and net assets</b>	<b>\$ 80,229,167</b>	<b>\$ 85,156,965</b>

See notes to consolidated financial statements.

**Carleton-Willard Homes, Inc. and Affiliates**

**Consolidated Statements of Operations**  
**Years Ended December 31, 2022 and 2021**

	2022	2021
Revenues, gains and other support:		
Nursing revenue and clinical services	\$ 21,829,221	\$ 19,585,969
Monthly residential fees	10,098,106	8,854,292
Amortization of entrance fees	4,589,719	3,711,530
Other income	628,647	590,273
Government grant revenue	634,757	1,349,999
Employee appreciation fund contributions	281,843	283,266
Endowment appropriation per spending policy	1,330,916	1,276,598
Net assets released from restrictions	75,433	65,050
<b>Total revenues, gains and other support</b>	<b>39,468,642</b>	<b>35,716,977</b>
Expenses:		
Nursing and clinical services	15,537,649	15,294,813
Administration	8,028,283	6,359,798
Dining and nutrition	6,160,066	5,514,208
Depreciation and amortization	3,699,732	4,165,435
Plant operations	3,539,598	3,233,621
Utilities	1,452,354	1,331,487
Housekeeping services	1,459,944	1,300,767
Interest	538,126	526,186
<b>Total expenses</b>	<b>40,415,752</b>	<b>37,726,315</b>
<b>Operating loss</b>	<b>(947,110)</b>	<b>(2,009,338)</b>
Nonoperating gains (losses) and other support without donor restrictions:		
Gifts and bequests	40,415	4,555
Investment income, net	317,209	213,483
Loss on disposal of property and equipment	(4,853)	(26,538)
Net realized (loss) gain on investments	(570,769)	461,987
Gain on forgiveness of Payroll Protection Program loan	-	3,465,300
Endowment appropriation per spending policy	(1,244,238)	(1,191,989)
<b>Total nonoperating (losses) gains and other support without donor restrictions</b>	<b>(1,462,236)</b>	<b>2,926,798</b>
<b>(Deficiency) excess of revenues over expenses</b>	<b>(2,409,346)</b>	<b>917,460</b>
Other changes in net assets without donor restrictions:		
Net unrealized (loss) gain on investments	(4,491,894)	3,052,008
<b>Change in net assets without donor restrictions</b>	<b>\$ (6,901,240)</b>	<b>\$ 3,969,468</b>

See notes to consolidated financial statements.

**Carleton-Willard Homes, Inc. and Affiliates**

**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2022 and 2021**

	2022	2021
Net assets without donor restrictions:		
Operating loss	\$ (947,110)	\$ (2,009,338)
Nonoperating (losses) gains and other support without donor restrictions	(1,462,236)	2,926,798
Other changes in net assets without donor restrictions	(4,491,894)	3,052,008
<b>Change in net assets without donor restrictions</b>	<b>(6,901,240)</b>	<b>3,969,468</b>
Net assets with donor restrictions:		
Net realized (loss) gain on investments	(60,397)	47,415
Net unrealized (loss) gain on investments	(478,906)	314,406
Contributions, gifts and bequests	58,822	11,702
Investment income, net	21,430	19,207
Change in beneficial interest in perpetual trust	(29,691)	11,518
Endowment appropriation per spending policy	(86,678)	(84,609)
Net assets released from restrictions	(75,433)	(65,050)
<b>Change in net assets with donor restrictions</b>	<b>(650,853)</b>	<b>254,589</b>
<b>Change in net assets</b>	<b>(7,552,093)</b>	<b>4,224,057</b>
Net assets, beginning of year	<b>28,120,504</b>	<b>23,896,447</b>
Net assets, end of year	<b>\$ 20,568,411</b>	<b>\$ 28,120,504</b>

See notes to consolidated financial statements.

# **Carleton-Willard Homes, Inc. and Affiliates**

## **Consolidated Statements of Cash Flows** **Years Ended December 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities and nonoperating gains:		
Change in net assets	\$ (7,552,093)	\$ 4,224,057
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,699,732	4,165,435
Amortization of debt issuance costs	20,892	20,892
Amortization of bond premium	(128,016)	(131,150)
Gain on forgiveness of Paycheck Protection Program loan	-	(3,465,300)
Loss on disposal of property and equipment	4,853	26,538
Amortization of entrance fees	(4,589,719)	(3,711,530)
Realized loss (gain) on sale of investments	631,166	(509,402)
Unrealized loss (gain) on investments	4,970,800	(3,366,414)
Change in beneficial interest in perpetual trust	29,691	(11,518)
Donated securities	-	(4,052)
Proceeds from sales of donated securities	-	4,052
Change in accounts receivables	(3,268,725)	(556,136)
Change in other current assets	233,000	332,520
Change in accounts payable	(54,878)	(47,206)
Change in accrued expenses	(71,968)	(139,373)
Change in deferred membership fees	(10,942)	6,316
<b>Total adjustments</b>	<b>1,465,886</b>	<b>(7,386,328)</b>
<b>Net cash used in operating activities</b>	<b>(6,086,207)</b>	<b>(3,162,271)</b>
Cash flows from investing activities:		
Purchase of investments	(8,210,478)	(27,461,875)
Proceeds from sales of investments	7,890,614	26,284,565
Purchases of property and equipment	(2,325,817)	(4,785,614)
<b>Net cash used in investing activities</b>	<b>(2,645,681)</b>	<b>(5,962,924)</b>
Cash flows from financing activities:		
Repayments of bonds payable	(410,000)	(395,000)
Proceeds from entrance fees and deposits	8,477,739	11,419,796
Refunds of entrance fees and deposits	(236,789)	(585,507)
<b>Net cash provided by financing activities</b>	<b>7,830,950</b>	<b>10,439,289</b>
<b>Change in cash, cash equivalents and restricted cash</b>	<b>(900,938)</b>	<b>1,314,094</b>
Cash, cash equivalents and restricted cash:		
Beginning of year	4,931,455	3,617,361
End of year	\$ 4,030,517	\$ 4,931,455
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 645,250	\$ 661,049
Contributed investments	\$ -	\$ 4,052
Noncash operating and investing activities—property and equipment in accounts payable	\$ 125,607	\$ 497,631

See notes to consolidated financial statements.



## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Carleton-Willard Homes, Inc. (CWH or the Village) is a nonprofit organization that principally provides residential and medical service facilities for persons over the age of 65. CWH's operations consist of:

- 157 residential living apartments and cluster homes. Residents are required to make monthly payments for food, utilities, housing maintenance, certain medical costs and other services.
- The operation of a health care center, consisting of a 100-bed skilled nursing care center and 56 supportive care units.
- On-site amenities including:
  - An enclosed shopping/convenience center known as Main Street
  - An outpatient clinic
  - The Abbott, Café, Terrace, and Bistro dining areas
  - An auditorium and meeting rooms
  - A woodworking shop
  - An exercise room
  - Various recreational facilities, including a swimming pool
  - A spa
  - An artist studio

Carleton-Willard Foundation (the Foundation) is operated exclusively for charitable or educational purposes to support the activities of CWH. CWH is the sole member of the Foundation. The Foundation has a full board of trustees with the majority being the same persons who are trustees of CWH.

Carleton-Willard at Home (CWAH) is a membership-based organization that provides connections to vetted service providers at discounted rates, health and wellness opportunities, transportation, meals and social activities to the over-65 population of six local towns. CWAH is under the control of common management and members of the board of trustees at CWH.

A summary of significant accounting policies follows:

**Basis of consolidation:** The consolidated financial statements of CWH, the Foundation and CWAH have been prepared on the accrual basis. The entities are collectively referred to, as the Organization. All significant intercompany account balances and transactions have been eliminated in consolidation.

**Classification and reporting of net assets:** The Organization's financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958, Financial Statements of Not-for Profit Organizations. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of the two net asset classes follows:

- Net assets without donor restrictions represent the portion of net assets of the Organization that is neither restricted by donor-imposed stipulations or time restrictions. Net assets without donor restrictions include expendable funds available for support of the Organization, funds designated by the Board for endowment, as well as funds invested in plant, including buildings and equipment.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

- Net assets with donor restrictions represent contributions and other inflows of assets that have donor-imposed restrictions that require them to be held in perpetuity, or whose use may or will be met by actions of the Organization or the passage of time.

**Use of estimates:** The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates. Estimates significant to the consolidated financial statements include the allowance for doubtful accounts, the useful lives of property and equipment, the allocation of functional expenses, the fair value of investments, the estimated life expectancy of residents used to amortize the deferred entrance fees, and the assumptions used in the calculation of the obligation to provide future services.

**Cash and cash equivalents:** For purposes of reporting cash flows, the Organization defines cash equivalents as short-term, highly liquid investments with original maturities of three months or less. The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risks on cash and cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows as of December 31:

	2022	2021
Cash and cash equivalents	\$ 3,955,454	\$ 4,860,862
Assets limited as to use—held by trustee	75,063	70,593
	<u>\$ 4,030,517</u>	<u>\$ 4,931,455</u>

Assets limited as to use include assets held by trustees under indenture agreements.

**Accounts receivable:** When a third-party payor is responsible for paying a receivable amount, the receivable balances are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Accounts receivable due directly from the residents are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Accounts receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a recovery of bad debt expense when received.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment acquisitions are recorded at cost. Depreciation and amortization of property and equipment are provided by the straight-line method over the following estimated useful lives:

	Years
Buildings	40
Building and land improvements	10-20
Furnishings and equipment	5-10
Vehicles	4

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Expenditures for capital projects in process are capitalized at cost as incurred. Depreciation is not computed on such assets until such time as the capital project is completed and the asset is placed in service.

The Organization follows FASB ASC 410, Asset Retirement and Environmental Obligations, this standard requires a liability be recorded at fair value specific to certain legal or environmental obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of December 31, 2022 and 2021, the Organization was unaware of any such obligations. The Organization will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value.

**Assessment of long-lived assets:** The Organization follows FASB ASC 360, Property Plant and Equipment, as it relates to the accounting for impairment or disposal of long-lived assets, which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount the carrying amount of the assets exceeds the estimated fair value of the assets. There were no impairment indicators identified during the years ended December 31, 2022 and 2021.

**Beneficial interest in perpetual trust:** The Organization is the beneficiary of a perpetual trust held by a third-party trustee, which is recorded at fair value on its consolidated financial statements. Adjustments to the assets are reflected as change in beneficial interest in perpetual trust in the consolidated statements of changes in net assets.

**Investments and investment income:** Investments in equity securities and mutual funds with readily determinable fair market values and all investments in debt securities are reported at fair value. Investment income (interest and dividends) and realized gains and losses are included within excess (deficiency) of revenues over expenses, unless the income or gain (loss) is restricted by donor or by law. Investment income and gains (losses) on investments of net assets with donor restrictions are reported as increases (decreases) in net assets with donor restrictions. Unrealized gains and losses on non-trading investments are excluded from the excess (deficiency) of revenues over expenses, and reported as a change in net assets, except that declines in fair value that are determined to be other-than-temporary are reported as other-than-temporary impairment of investments.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, and statements of operations and changes in net assets.

**Other than temporary impairments:** The Organization reviews its investments to identify those that have a fair value that is below cost. The Organization makes a determination as to whether the investment should be considered other than temporarily impaired. At December 31, 2022 and 2021, no other than temporarily impaired losses have been recognized.

**Resident care revenue recognition:** *Revenue from Contracts with Customers (Topic 606)* requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The five-step model defined by ASC Topic 606 requires the Organization to: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) 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.

**Nursing revenue and clinical services:** Nursing and clinical service revenue is derived from healthcare services provided in the Organization's skilled nursing facility and licensed Level IV Supportive Care unit. Nursing and clinical service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident care. These amounts are based on daily rates and are due from residents as well as third-party payors including Medicare, Medicaid and other health insurers. These amounts include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the residents and third-party payors within 30 days after services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Healthcare services represent a bundle of services that are not capable of being distinct, accordingly, the Organization has determined that the overall provision of a day of healthcare services to a resident in its skilled nursing or supportive care unit is one performance obligation. Additionally, there may be ancillary services that are not included in the daily rates. These services are considered separate performance obligations for which revenue is recognized as the services are provided.

Agreements with third-party payors typically provide for payments at amounts that differ from established charges. A summary of payment arrangements with major third-party payors are as follows:

- **Medicare:** As of October 1, 2019, healthcare services rendered to Medicare beneficiaries in skilled nursing facilities are reimbursed based on a new case-mix classification system referred to as Patient Driven Payment Method (PDPM). PDPM relies more on clinically relevant factors rather than the volume-based therapy measures used under RUG-IV for determining Medicare reimbursement. In addition, PDPM per diem payments are adjusted during a resident's stay to reflect varying costs throughout the time the resident is in the facility.
- **Medicaid:** In the Commonwealth of Massachusetts, Medicaid reimbursement rates are determined based on resident specific levels of care, are paid prospectively, and are subject to audit.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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

Third-party payor agreements include the potential for retroactive revenue adjustments due to settlement of audits, reviews and investigations. These retroactive settlements are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. Estimated settlements, based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, are adjusted in future periods as adjustments become known. Laws and regulations concerning government programs, including Medicare and Medicaid are complex and subject to varying interpretation. Adjustments arising from a change in the transaction price for this reason were not significant in 2022 or 2021.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Organization's expectation that, in general, the period between the time service is provided to a resident and the time that the resident or a third-party pays for that service will be one year or less.

Consistent with the Organization's mission, residents who meet the Organization's criteria for subsidized care are provided services at amounts less than established rates. Such amounts determined to qualify as subsidized care are not reported as revenue.

**Entrance fees:** Entrance fees, known as Founder's fees, are paid by residents upon entering into a Residence and Care (R & C) Agreement. These amounts are considered advance payments for future services so they are recorded as deferred revenue and amortized into revenue on a straight-line basis over the estimated life expectancies of the individual residents, or the remaining refund period if the sum of the resident's life expectancy plus months of occupancy is less than 100 months, as provided by the R & C Agreement. Life expectancies are determined annually by reference to appropriate actuarial tables. During the refund period, all or a portion of the Founder's fee is refundable in the event of termination of the R & C Agreement. In the unlikely event of 100% turnover, as of December 31, 2022 and 2021, the Organization's gross refund obligation under existing contracts was approximately \$29,301,000 and \$26,321,000, respectively. These amounts are included in the respective accompanying consolidated balance sheets within the caption deferred revenue from entrance fees, net. Estimated refundable entrance fees are calculated with the assistance of an actuarial consultant and reported as current or long-term liabilities based on anticipated future payments.

Under the Organization's contracts, residents are provided living accommodations, other facilities and services and certain medical care in exchange for payment of entrance fees and monthly service charges. In general, the R & C Agreement provides up to 60 days of nursing care, with certain exclusions, annually, without incremental cost to the resident. Additional nursing care is provided at eighty percent of the current daily rate for that type of service.

**Monthly residential fees:** Revenue from monthly maintenance fees under the R&C Agreement is reported at the amount that reflects the consideration to which the Organization expects to be entitled to for services provided as specified in the agreements. These amounts are due from residents and are recognized over time as performance obligations are satisfied. The promised goods and services within the R&C Agreement represent the performance obligations of the Organization. A resident can move out with notice and discontinue paying the monthly fee at any time and, accordingly, revenue is recognized monthly as services are provided.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Other income:** Other income consists of amounts that are incidental to the operations of the Organization and include activities such as rehabilitation services provided through an outpatient Clinic, beauty parlor and spa services, guest and extra resident meals, guest house revenue, revenue of the Organization's affiliates and other miscellaneous items. These services generally have fixed prices and are considered distinct performance obligations which are satisfied as goods or services are provided.

Resident care revenue consists of nursing revenue and clinical services, monthly residential fees, amortization of entrance fees, and other income in the consolidated statements of operations. The composition of resident care revenue by payor for the years ended December 31 are as follows:

	2022	2021
Private	\$ 32,294,691	\$ 28,478,751
Medicare	1,951,059	1,706,770
Medicaid	2,831,855	2,198,036
Other	68,088	358,507
	<u>\$ 37,145,693</u>	<u>\$ 32,742,064</u>

The composition of resident care revenue based on service lines for the years ended December 31 are as follows:

	2022	2021
Skilled nursing	\$ 16,873,325	\$ 15,172,198
Supportive care	4,962,349	4,421,112
Residential living	14,687,825	12,565,822
Other	622,194	582,932
	<u>\$ 37,145,693</u>	<u>\$ 32,742,064</u>

**Obligation to provide future services:** The Organization annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents, using a discount rate of 5.0% and 5.5% as of December 31, 2022 and 2021, respectively, and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and the use of facilities exceeded the deferred revenue from advance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. However, no such obligation exists as of December 31, 2022 and 2021.

**Operating activities:** The statements of operations reflect a subtotal for operating loss including amounts appropriated from endowment. This subtotal reflects revenues that the Organization received for operating purposes. Non-operating activity reflects all other activity, including but not limited to gifts and bequests, investment income, net, loss on disposal of property and equipment, net realized gain on investments, gain on forgiveness of Paycheck Protection Program loan and endowment appropriation per spending policy.

**Excess (deficiency) of revenues over expenses:** The consolidated statements of operations includes excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include net unrealized gain (loss) on investments.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Deferred debt issuance costs:** The Organization incurred certain issuance costs related to the issuance of debt, which are presented on the consolidated balance sheets as a direct deduction from bonds payable and loans payable and are being amortized over the term of the respective bonds and loans.

**Contributions:** Contributions, including unconditional promises to give, are initially recognized at fair value as revenue in the period received. Conditional promises to give, that is those with a measurable performance or other barrier and a right of return or release, are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed restrictions are reported at fair value as revenues of the net assets with donor restrictions class when they are received. A reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions class.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported at fair value as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported at fair value as revenues of the net assets with donor restrictions class, and the restrictions are considered to be released at the time such long-lived assets are placed in service unless stipulated otherwise by the donor.

Contributions of services are reported as revenues and expenses of the net assets without donor restrictions class at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by the Organization, if they had not been provided by individuals with those skills. Contributions of goods to be used in program operations are reported as revenues and expenses of the net assets without donor restrictions class at the time the goods are received.

Employee appreciation fund contributions represent donations from residents, family members and others to the Carleton-Willard Employee Appreciation Fund. The fund provides for gifts of appreciation to the employees of the Organization.

**Government grant revenue:** Individual grant arrangements have been evaluated and determined to be nonreciprocal meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution, i.e., when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all significant conditions of the grant are met. Grants received with donor-imposed restrictions are reported at fair value as revenues of the net assets with donor restrictions class when they are received. A reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions in the year the restriction is met. Grants received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions class.

**Advertising costs:** The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2022 and 2021, totaled \$10,206 and \$13,931, respectively.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Income tax status:** CWH, the Foundation, and CWAH are qualified under Section 501(c)(3) of the Internal Revenue Code and are exempt from Federal and state income taxes.

**Uncertainty of income taxes:** The Organization follows FASB ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Organization recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had no material uncertainties in income taxes as of December 31, 2022 and 2021. The Organization will account for interest and penalties related to uncertain tax positions, if any, as part of tax expense. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for three years after the filing date.

**Recent accounting pronouncements:** In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses of newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of operations as the amounts expected to be collected change. The effective date of this standard, as amended by ASU 2019-10, is for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Organization is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

**Subsequent events:** The Organization has evaluated events and transactions for potential recognition or disclosure through May 30, 2023, the date the financial statements were issued.

#### Note 2. Liquidity

Financial assets available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capital construction costs not financed with debt, were as follows as of December 31:

	2022	2021
Cash and cash equivalents	\$ 3,800,208	\$ 4,860,862
Accounts receivable, net	5,250,966	1,982,241
Other current assets	81,362	211,443
Investments:		
Estimated endowment appropriation under spending policy	1,350,000	1,200,000
Non-endowment investments without donor restrictions	772,063	825,996
	<u>\$ 11,254,599</u>	<u>\$ 9,080,542</u>

As part of its liquidity management, the Organization evaluates on an annual basis liquidity requirements taking into consideration operating expectations, capital plans and debt service requirements. Financial assets are structured to be available as general expenditures, liabilities and other obligations become due.



## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 2. Liquidity (Continued)

In addition, the Organization has a \$1,500,000 line of credit all of which was available for use as of December 31, 2022 and 2021 (see Note 10).

#### Note 3. Accounts Receivables, Net

The Organization grants credit without collateral to its residents. The mix of receivables from residents and third-party payors as of December 31 follows:

	2022		2021	
	Amount	Percent	Amount	Percent
Private	\$ 3,293,074	46%	\$ 1,310,219	51%
Medicare	1,853,357	26%	464,139	18%
Medicaid	1,693,590	24%	409,868	16%
Other	249,743	4%	398,042	15%
	7,089,764	100%	2,582,268	100%
Less allowance for doubtful accounts	(1,838,798)		(600,027)	
Resident receivables, net	<u>\$ 5,250,966</u>		<u>\$ 1,982,241</u>	

#### Note 4. Assets Limited as To Use – Held By Trustee

Assets limited as to use, which are required under the terms of the Series 2019 trust indenture agreement, are comprised of cash equivalents.

Following is a summary of assets limited as to use at December 31:

	2022	2021
Under bond agreement—held by trustee:		
Expense fund	<u>\$ 75,063</u>	<u>\$ 70,593</u>

#### Note 5. Property and Equipment

Following is a summary of property and equipment at December 31:

	2022	2021
Buildings and improvements	\$ 90,194,209	\$ 89,183,529
Land and land improvements	7,091,840	7,027,333
Furnishings and equipment	14,671,842	14,187,446
Vehicles	710,124	616,160
Construction in progress	626,111	482,662
Total cost	113,294,126	111,497,130
Less accumulated depreciation	73,158,710	69,610,922
Property and equipment, net	<u>\$ 40,135,416</u>	<u>\$ 41,886,208</u>

Depreciation expense is \$3,699,732 and \$4,157,356 for the years ending December 31, 2022 and 2021, respectively.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 5. Property and Equipment (Continued)

Construction in progress as of December 31, 2022, is for renovations of the Organization's property. The property renovations are expected to be completed by December 2023 and cost approximately \$625,000 to complete.

Construction in progress as of December 31, 2021, was for renovations of the Organization's property. The property renovations were completed in 2022 and placed and service.

#### Note 6. Investments

Investments consisted of the following at December 31:

Non-Trading	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 476,932	\$ 476,932	\$ 938,080	\$ 938,080
Domestic equities	10,151,600	17,393,919	11,412,871	22,340,853
International equities	-	-	413,343	430,010
Corporate bonds	7,434,783	6,842,853	6,382,375	6,302,030
Domestic bond funds	59,278	191,888	569,342	1,022,393
International equity funds	1,419,584	1,922,174	1,460,500	2,275,467
Treasury bonds	3,294,184	3,232,785	2,044,351	2,033,820
	<u>\$ 22,836,361</u>	<u>\$ 30,060,551</u>	<u>\$ 23,220,862</u>	<u>\$ 35,342,653</u>

The following table shows the gross unrealized losses and fair value of the Organization's debt security investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

Description of Securities	2022					
	Less than 12 Months		More than 12 Months		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
Corporate bonds	\$ 1,475,365	\$ (9,649)	\$ 4,972,060	\$ (583,580)	\$ 6,447,425	\$ (593,229)
Treasury bonds	-	-	1,950,400	(69,758)	1,950,400	(69,758)
	<u>\$ 1,475,365</u>	<u>\$ (9,649)</u>	<u>\$ 6,922,460</u>	<u>\$ (653,338)</u>	<u>\$ 8,397,825</u>	<u>\$ (662,987)</u>

  

Description of Securities	2021					
	Less than 12 Months		More than 12 Months		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
Corporate bonds	\$ 5,482,903	\$ (92,027)	\$ -	\$ -	\$ 5,482,903	\$ (92,027)
Treasury bonds	2,033,820	(10,531)	-	-	2,033,820	(10,531)
	<u>\$ 7,516,723</u>	<u>\$ (102,558)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,516,723</u>	<u>\$ (102,558)</u>

## **Carleton-Willard Homes, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 6. Investments (Continued)**

The above noted unrealized losses deemed temporary as of December 31, 2022 and 2021, relate to investments that are part of a broadly diversified portfolio with an objective being growth of principal and income in real terms subject to providing sufficient cash flow to meet the Organization's projected annual cash requirements. This is an actively managed portfolio with a focus on total portfolio returns and includes investments expected to perform differently through varying market cycles. All investments, including those in a loss position as of December 31, 2022 and 2021, are continuously monitored for quality and appropriateness. These temporary impairments at December 31, 2022 and 2021, are considered to be due to market conditions and are not due to fundamental problems with the security and continue to be appropriate components of the Organization's investment strategy. Based on this evaluation and the Organization's ability to hold the investments for a reasonable period of time sufficient for a recovery of value, the Organization does not consider the investments summarized above to be other-than-temporarily impaired as of December 31, 2022 and 2021.

#### **Note 7. Beneficial Interest in Perpetual Trust**

The Organization has a 4% beneficial interest in a perpetual trust. Distributions are received from the trust and have no restrictions as to use. The assets of the trust are held by a third-party trustee having sole responsibility for both the administration and investment of the trust funds. The Organization has recorded on the accompanying consolidated balance sheets, its percentage interest of the estimated fair value of the assets of the perpetual trust, which totaled \$129,412 and \$159,103 at December 31, 2022 and 2021, respectively.

#### **Note 8. Fair Value Measurements**

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1:** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 8. Fair Value Measurements (Continued)**

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the inputs are based on the lowest level of input that is significant to the fair value measurement.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the report date.

During the years ended December 31, 2022 and 2021, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its consolidated balance sheets or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

#### **Domestic and international equity securities, domestic bond funds and international equity funds:**

The fair value of domestic and international equity securities, domestic bond funds and international equity funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

**Corporate bonds and treasury bonds:** The fair value of corporate bonds and treasury bonds is the market value based on quoted market prices for similar assets, when available. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

**Cash equivalents:** Cash equivalents are open ended funds that generally have subscription and redemption activity at a \$1.00 stable net asset value (NAV). On a daily basis a fund's NAV is calculated using the amortized cost of the securities held in the fund.

**Beneficial interest in trust:** The fair value of the beneficial interest in a trust represents the Organization's portion of the assets held in trust by a third-party trustee, including investments carried at the quoted prices on an active exchange. The assets held in trust are managed by an independent third-party trustee, and the Organization has no authority over investment decisions.

# Carleton-Willard Homes, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Note 8. Fair Value Measurements (Continued)

The following tables are a summary of assets and liabilities that the Organization measures at fair value on a recurring basis, by level, within the fair value hierarchy as of December 31:

2022				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ -	\$ 476,932	\$ -	\$ 476,932
Domestic equities	17,393,919	-	-	17,393,919
Corporate bonds	-	6,842,853	-	6,842,853
Domestic bond funds	191,888	-	-	191,888
International equity funds	1,922,174	-	-	1,922,174
Treasury bonds	-	3,232,785	-	3,232,785
	19,507,981	10,552,570	-	30,060,551
Assets limited as to use:				
Cash equivalents	-	75,063	-	75,063
Beneficial interest in perpetual trust				
	-	-	129,412	129,412
	<u>\$ 19,507,981</u>	<u>\$ 10,627,633</u>	<u>\$ 129,412</u>	<u>\$ 30,265,026</u>
2021				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	\$ -	\$ 938,080	\$ -	\$ 938,080
Domestic equities	22,340,853	-	-	22,340,853
International equities	430,010	-	-	430,010
Corporate bonds	-	6,302,030	-	6,302,030
Domestic bond funds	1,022,393	-	-	1,022,393
International equity funds	2,275,467	-	-	2,275,467
Treasury bonds	-	2,033,820	-	2,033,820
	26,068,723	9,273,930	-	35,342,653
Assets limited as to use:				
Cash equivalents	-	70,593	-	70,593
Beneficial interest in perpetual trust				
	-	-	159,103	159,103
	<u>\$ 26,068,723</u>	<u>\$ 9,344,523</u>	<u>\$ 159,103</u>	<u>\$ 35,572,349</u>

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 8. Fair Value Measurements (Continued)

The following table presents quantitative information about Level 3 fair value measurements as of December 31:

	2022 Fair Value	2021 Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs
Beneficial interest in perpetual trusts	\$ 129,412	\$ 159,103	Market approach based on underlying securities	None	N/A

The changes in beneficial interest in trusts measured at fair value for which the Organization has used Level 3 inputs to determine fair value are as follows at December 31:

	2022	2021
Balance, January 1	\$ 159,103	\$ 147,585
Change in value of beneficial interest in perpetual trust	(29,691)	11,518
Balance, December 31	<u>\$ 129,412</u>	<u>\$ 159,103</u>

#### Note 9. Bonds and Loan Payable

	2022	2021
Series 2019 MDFA Revenue Bonds are comprised of \$14,720,000 of bonds at fixed rates with various maturity dates through December 1, 2042. The interest rates range from 4.00% to 5.00% for each of the term and serial bonds.	\$ 13,550,000	\$ 13,960,000
Less current portion, net of current debt issuance costs, plus current premium	(518,110)	(505,536)
Less discount and debt issuance costs	(416,408)	(437,300)
Plus unamortized premium	1,496,018	1,624,034
Bonds payable, net of current portion and debt issuance costs plus premium	<u>\$ 14,111,500</u>	<u>\$ 14,641,198</u>

Effective December 12, 2019, the Organization entered into a new bond agreement for the Series 2019 Bonds. The bonds were issued with a premium of \$1,885,478 and the Organization incurred debt issuance costs of \$479,557 in acquiring the new bonds. The Series 2019 Bonds are reported at a premium totaling \$1,496,018 and \$1,624,034 as of December 31, 2022 and 2021, respectively. The premium is amortized over the life of the bonds using the effective interest method and is recorded within interest expense in the accompanying consolidated statements of operations. The bonds are collateralized by a first mortgage lien on all property and equipment and a first lien and security interest on the revenues derived from the Organization.

The Series 2019 Bonds maturing after December 1, 2025, have an optional redemption prior to maturity at the option of the Organization, as a whole or in part at any time after December 1, 2025, in the denomination of \$5,000 or any multiple thereof at specified redemption prices, plus accrued interest to the redemption date.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Bonds and Loan Payable (Continued)

In conjunction with the Organization's financing agreements the Organization must adhere to certain financial covenants, such as debt service coverage ratio, liquidity ratio, and non-financial covenants.

A schedule of future maturities of the bonds payable is as follows:

	Long-Term Debt	Issuance Costs	Premium	Net
2023	\$ 425,000	\$ (31,652)	\$ 124,762	\$ 518,110
2024	440,000	(30,959)	121,722	530,763
2025	460,000	(29,986)	117,897	547,911
2026	485,000	(28,826)	113,334	569,508
2027	505,000	(27,602)	108,523	585,921
Thereafter	11,235,000	(267,383)	909,780	11,877,397
	<u>\$ 13,550,000</u>	<u>\$ (416,408)</u>	<u>\$ 1,496,018</u>	<u>\$ 14,629,610</u>

In April 2020, the Organization was granted a loan of \$3,465,300 pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan, which was in the form of a promissory note was set to mature on April 17, 2022 and bears interest at a fixed rate of 1.0%. Under the terms of the PPP, the loan is forgivable if it is used for qualifying expenses as described in the CARES Act. On July 28, 2021, the loan was forgiven in full and the Organization recognized \$3,465,300 as a gain on forgiveness of PPP in the accompanying consolidated statement of operations for the year ended December 31, 2021. The loan remains subject to audit by the Small Business Administration of the United States for six years subsequent to the forgiveness date.

#### Note 10. Line of Credit

In October 2015, the Organization obtained a \$1,500,000 revolving line of credit with a bank that is subject to annual review on May 29th of each year. The line of credit is payable on demand and incurs interest at the greater of the bank's prime rate or 3% (7.50% and 3.25% at December 31, 2022 and 2021, respectively). The line of credit agreement is subject to certain covenants. There was no outstanding balance as of December 31, 2022 and 2021.

#### Note 11. Pension Plan

The Organization adopted a qualified defined contribution retirement plan (the Plan). The Plan covers all employees who have completed one year of service, have worked a minimum of 1,000 hours and are at least 21 years of age. Employees are allowed to make voluntary tax-deferred contributions in accordance with Section 401(k) of the Internal Revenue Code. In accordance with the Plan, a minimum 3% company contribution is made to qualified participants of the 401(k) plan. Additional matching contributions are determined by the Board of Trustees annually. Contributions made to the Plan by the Organization totaled approximately \$556,000 and \$521,000 during the years ended December 31, 2022 and 2021, respectively.

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 12. Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions as of December 31:

	2022	2021
Subject to expenditure for specific purpose:		
Benefit of residents—subsidies and palliative care	\$ 100,599	\$ 125,303
Benefit of employees—scholarships and recognition	407,321	467,189
	<u>507,920</u>	<u>592,492</u>
Subject to the Organization's spending policy and appropriation:		
General purposes:		
Corpus	899,353	899,131
Appreciation	1,509,623	2,046,435
Benefit of residents—subsidies and palliative care*	13,536	13,536
Reserve for replacements of property and equipment*	6,967	6,967
	<u>2,429,479</u>	<u>2,966,069</u>
Not subject to the Organization's spending policy or appropriation:		
Beneficial interest in perpetual trust	129,412	159,103
Total net assets with donor restrictions	<u>\$ 3,066,811</u>	<u>\$ 3,717,664</u>

\* Represents the original gift amount

The Organization follows FASB ASC 958, Financial Statements of Not-For-Profit Organizations, regarding the classification of donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit Organization that is subject to an enacted version of UPMIFA. UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation.

The Board has interpreted Massachusetts General Law as requiring realized and unrealized gains and interest and dividend income of net assets to be retained with donor restrictions that the Organization must hold in perpetuity in net assets with donor restrictions until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. In making a determination to appropriate or accumulate, the Organization shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the endowment fund; the purposes of the Organization and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Organization; and the investment policy of the Organization.

The Organization's spending policy is to appropriate on a quarterly basis up to five percent of the average fair value of the endowment funds. The percentage is approved by the Board annually. The Organization has adopted a prudent spending policy under UPMIFA guidelines, which allows them to spend income generated by underwater endowment funds. For spending purposes, the average fair value shall be established based on the fair value of the endowment funds' twenty trailing quarters. In establishing this policy, the Organization considered the long term expected return on its endowment. For the years ended December 31, 2022 and 2021, the Board approved an appropriation of five percent.



## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 12. Net Assets With Donor Restrictions (Continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to achieve a total rate of return, through a combination of income and capital appreciation, which will compare favorably with the results achieved by investment managers of investment funds with similar investment objectives, while assuming a moderate level of investment risk.

#### Note 13. Endowment Net Assets

The following is a summary of endowment net asset composition by type of fund at December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Totals
Donor restricted endowment funds	\$ -	\$ 2,429,479	\$ 2,429,479
Board designated endowment funds	26,506,338	-	26,506,338
	<u>\$ 26,506,338</u>	<u>\$ 2,429,479</u>	<u>\$ 28,935,817</u>
Net assets, beginning of year	\$ 31,116,771	\$ 2,966,069	\$ 34,082,840
Investment return			
Investment income, net	292,171	17,369	309,540
Net depreciation (realized and unrealized)	(4,947,709)	(467,281)	(5,414,990)
Total investment income	(4,655,538)	(449,912)	(5,105,450)
Appropriation of endowment assets for expenditure	(1,244,238)	(86,678)	(1,330,916)
Net transfers from non-endowment investments	1,289,343	-	1,289,343
Net assets, end of year	<u>\$ 26,506,338</u>	<u>\$ 2,429,479</u>	<u>\$ 28,935,817</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Totals
Donor restricted endowment funds	\$ -	\$ 2,966,069	\$ 2,966,069
Board designated endowment funds	31,116,771	-	31,116,771
	<u>\$ 31,116,771</u>	<u>\$ 2,966,069</u>	<u>\$ 34,082,840</u>
Net assets, beginning of year	\$ 26,435,285	\$ 2,721,175	\$ 29,156,460
Investment return			
Investment income, net	205,563	12,593	218,156
Net appreciation (realized and unrealized)	3,415,562	316,910	3,732,472
Total investment income	3,621,125	329,503	3,950,628
Appropriation of endowment assets for expenditure	(1,191,989)	(84,609)	(1,276,598)
Net transfers from non-endowment investments	2,252,350	-	2,252,350
Net assets, end of year	<u>\$ 31,116,771</u>	<u>\$ 2,966,069</u>	<u>\$ 34,082,840</u>

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 14. Net Assets Released From Restrictions

During the years ended December 31, 2022 and 2021, net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

The following is a summary of net assets released from restrictions during the years ended December 31:

	2022	2021
Benefit of residents—subsidies and palliative care	\$ 58,333	\$ 31,274
Benefit of employees—scholarships and recognition	17,100	33,776
	<u>\$ 75,433</u>	<u>\$ 65,050</u>

#### Note 15. Medical Malpractice Claims

The Organization purchases professional and general liability insurance to cover medical malpractice claims. Through December 31, 2022, the Organization was covered by a claims-made basis policy. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to residents. Based on historical evidence and review of current claims, the Organization believes that a reserve for claims from unknown incidents is not necessary, and as such, no reserve has been accrued in the consolidated financial statements as of December 31, 2022 and 2021.

#### Note 16. Commitments and Contingencies

The Organization has a landscaping agreement with a third party that was renewed in March 2019 and was set to expire in 2022. In 2022, the agreement was renewed through December 31, 2026. Total landscaping services relating to this contract during the years ended December 31, 2022 and 2021, were \$179,156 and 170,624, respectively. In May 2019, the Organization entered into a contract for IT managed services requiring fixed monthly payments, which expired in April 2022 and renews for one year terms annually. Total IT managed services related to this contract during the years ended December 31, 2022 and 2021, were \$116,588 and \$101,928, respectively. The Organization entered into an agreement in April 2020 for Human Resource tracking requiring fixed monthly payments, which expired in March 2023. Total Human Resource tracking services related to this contract during the years ended December 31, 2022 and 2021 was \$10,000. The Organization also has four other contracts for various services with various end dates through December 2025. Total services relating to these contracts during the years ended December 31, 2022 and 2021 were \$124,571 and \$4,871, respectively.

Service payment commitments are as follows for the years ending December 31:

2023	\$ 380,737
2024	367,091
2025	263,720
2026	235,840
	<u>\$ 1,247,388</u>

## Carleton-Willard Homes, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 17. Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The Organization captures direct costs when possible and uses several allocation methods including square footage, unit counts, time spent estimates, and labor percentages. The majority of salaries are direct costs with certain shared departments such as dining, and plant and operations allocated on time spent estimates. Benefits are allocated on a percentage of labor. Purchased services, supplies, and other program operations are allocated on unit counts, square footage, or time spent estimates as appropriate. Depreciation and amortization is allocated by per unit count of square footage. Interest is attributed to the programs benefitting from the debt issue or allocated by square footage. Insurance is allocated by square footage and information technology is allocated based on the number of devices used. Advertising is allocated by the number of operating units.

The functional classification of expenses for the Organization was as follows for the year ended December 31:

2022							
	Skilled Nursing and Supportive Care Program Services	Independent Living Program Services	Other Program Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 12,676,422	\$ 1,832,467	\$ 1,058,267	\$ 15,567,156	\$ 2,138,877	\$ 52,094	\$ 17,758,127
Benefits	2,605,794	395,395	210,211	3,211,400	353,022	-	3,564,422
Purchased services	3,603,218	1,022,150	118,435	4,743,803	399,344	-	5,143,147
Supplies	1,883,206	1,162,898	33,702	3,079,806	77,702	-	3,157,508
Occupancy	897,171	1,141,491	11,031	2,049,693	27,084	-	2,076,777
Other operations	498,642	491,508	18,188	1,008,338	-	-	1,008,338
Administration	2,020,854	9,163	46,249	2,076,266	596,090	-	2,672,356
Information technology	259,072	55,922	71,085	386,079	121,845	-	507,924
Depreciation and amortization	936,254	2,612,738	43,625	3,592,617	107,115	-	3,699,732
Interest	386,735	129,086	6,345	522,166	15,580	-	537,746
Insurance	62,982	164,643	2,797	230,422	19,185	-	249,607
Advertising	29,502	10,566	-	40,068	-	-	40,068
	<b>\$ 25,859,852</b>	<b>\$ 9,028,027</b>	<b>\$ 1,619,935</b>	<b>\$ 36,507,814</b>	<b>\$ 3,855,844</b>	<b>\$ 52,094</b>	<b>\$ 40,415,752</b>

  

2021							
	Skilled Nursing and Supportive Care Program Services	Independent Living Program Services	Other Program Services	Total Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 12,019,226	\$ 1,749,854	\$ 911,267	\$ 14,680,347	\$ 2,091,344	\$ 49,704	\$ 16,821,395
Benefits	2,606,311	395,602	182,057	3,183,970	493,976	-	3,677,946
Purchased services	3,500,923	813,748	95,252	4,409,923	236,125	-	4,646,048
Supplies	1,837,097	1,066,157	25,352	2,928,606	68,907	-	2,997,513
Occupancy	813,919	1,072,233	10,005	1,896,157	24,566	-	1,920,723
Other operations	412,155	450,173	18,072	880,400	-	-	880,400
Administration	889,698	21,722	47,558	958,978	536,728	-	1,495,706
Information technology	170,406	37,734	46,398	254,538	79,537	-	334,075
Depreciation and amortization	1,529,043	2,460,440	55,542	4,045,025	120,410	-	4,165,435
Interest	377,989	126,743	6,209	510,941	15,245	-	526,186
Insurance	59,784	156,286	14,131	230,201	6,520	-	236,721
Advertising	13,935	10,232	-	24,167	-	-	24,167
	<b>\$ 24,230,486</b>	<b>\$ 8,360,924</b>	<b>\$ 1,411,843</b>	<b>\$ 34,003,253</b>	<b>\$ 3,673,358</b>	<b>\$ 49,704</b>	<b>\$ 37,726,315</b>

**Note 18. Government Grant Revenue**

Due to the COVID-19 pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved by HHS and received by the Organization during the years ended December 31, 2022 and 2021 were \$0 and \$445,616, respectively, which are included in government grant revenue in the consolidated statements of operations. The PRFs are subject to certain restrictions on eligible expenses or uses, reporting requirements, and are subject to audit by the federal government. The grant funds are conditional upon the Organization spending the funds in accordance with the programs allowable cost guidelines, which consist of costs incurred to manage COVID-19 within the Organization or to support lost revenue that the Organization has incurred as a result of the pandemic. The Organization also received grant funds from other sources including a grant from the Commonwealth of Massachusetts related to the testing costs of COVID-19. Management has determined that all conditions and restrictions have been met and all grants have been recognized as revenue without donor restrictions during the years ended December 31, 2022 and 2021.