




Sunny Acres Nursing Home, Inc. and Affiliate

CONSOLIDATED FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

December 31, 2022 and 2021
With Independent Accountant's Review Report



SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

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December 31, 2022 and 2021

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Stockholder and Trustee
Sunny Acres Nursing Home, Inc. and Affiliate

We have reviewed the accompanying consolidated financial statements of Sunny Acres Nursing Home, Inc. and Affiliate (the Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in owner's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP); 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. GAAP. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Correction of Error

As discussed in Note 2 of the consolidated financial statements, certain errors resulting in understatement of amounts previously reported for accounts payable and expenses as of and for the year ended December 31, 2021 and accounts payable as of December 31, 2020, were discovered by management of the Organization during the current year. Accordingly, amounts reported for accounts payable and expenses have been restated in the 2021 consolidated financial statements now presented, and an adjustment has been made to retained earnings as of December 31, 2020, to correct the error. Our conclusion is not modified with respect to that matter.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. GAAP.

Stockholder and Trustee
Sunny Acres Nursing Home, Inc. and Affiliate

Supplementary Information

The accompanying supplementary information included in Schedules 1 - 5 is presented for purposes of additional analysis and is not a required part of the basic 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 supplementary information has been subjected to the review procedures applied in our reviews of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
May 16, 2023

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE**Consolidated Balance Sheets****December 31, 2022 and 2021****ASSETS**

	<u>2022</u>	Restated <u>2021</u>
Current assets		
Cash, Sunny Acres Nursing Home, Inc.	\$ 445,079	\$ 1,068,064
Cash, variable interest entity	<u>1,876</u>	<u>585</u>
Total cash	446,955	1,068,649
Resident accounts receivable, net	1,199,292	1,154,886
Prepaid expenses	60,060	67,329
Resident funds	<u>32,760</u>	<u>45,332</u>
Total current assets	<u>1,739,067</u>	<u>2,336,196</u>
Property and equipment, net		
Property and equipment, net, variable interest entity	5,112,741	5,441,532
Property and equipment, net, Sunny Acres Nursing Home, Inc.	<u>500,843</u>	<u>543,045</u>
Net property and equipment	<u>5,613,584</u>	<u>5,984,577</u>
Total assets	<u>\$ 7,352,651</u>	<u>\$ 8,320,773</u>

See Independent accountant's review report. The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND OWNER'S EQUITY

	<u>2022</u>	Restated <u>2021</u>
Current liabilities		
Current portion of long-term debt, variable interest entity	\$ 268,780	\$ 256,920
Accounts payable and accrued expenses	1,497,352	1,279,906
Accrued payroll and related taxes	271,650	262,793
Security deposits	139,650	126,450
Deferred revenue	29,824	130,957
Resident funds	<u>32,760</u>	<u>45,332</u>
Total current liabilities	2,240,016	2,102,358
Long-term liabilities		
Long-term debt, net of current portion and unamortized deferred issuance costs, variable interest entity	<u>4,387,943</u>	<u>4,626,212</u>
Total liabilities	<u>6,627,959</u>	<u>6,728,570</u>
Owner's equity		
Common stock, no par value; 7,500 shares authorized, 100 shares issued and outstanding	1,000	1,000
Retained earnings	865,454	1,631,873
Noncontrolling interest in variable interest entity	<u>(141,762)</u>	<u>(40,670)</u>
Total owner's equity	<u>724,692</u>	<u>1,592,203</u>
Total liabilities and owner's equity	\$ <u>7,352,651</u>	\$ <u>8,320,773</u>

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE**Consolidated Statements of Operations****Years Ended December 31, 2022 and 2021**

	<u>2022</u>	Restated <u>2021</u>
Revenues		
Net resident service revenue	\$ 10,803,141	\$ 9,619,318
Provider relief funds	-	27,401
MassHealth stimulus revenue	346,332	321,866
Other revenue	<u>12,530</u>	<u>19,543</u>
Total revenues	<u>11,162,003</u>	<u>9,988,128</u>
Expenses		
Salaries and wages	4,836,987	4,613,862
Supplies and expenses	2,351,683	2,162,048
Fringe benefits	650,389	727,857
Medicaid user fee	503,814	460,078
Purchased services	3,022,706	1,867,344
Depreciation	402,077	403,662
Interest	<u>235,823</u>	<u>232,473</u>
Total expenses	<u>12,003,479</u>	<u>10,467,324</u>
Net loss	(841,476)	(479,196)
Net loss attributable to noncontrolling interest in variable interest entity	<u>82,405</u>	<u>74,789</u>
Net loss attributed to controlling interest	<u>\$ (759,071)</u>	<u>\$ (404,407)</u>

See Independent accountant's review report. The accompanying notes are an integral part of these consolidated financial statements.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Consolidated Statements of Changes in Owner's Equity

Years Ended December 31, 2022 and 2021

	<u>Common Stock</u>	<u>Retained Earnings</u>	Noncontrolling Interest in Variable Interest Entity	<u>Total Owner's Equity</u>
Balance, December 31, 2020, as previously stated	\$ 1,000	\$ 2,220,705	\$ 52,806	\$ 2,274,511
Restatement (Note 2)	<u>-</u>	<u>(114,335)</u>	<u>-</u>	<u>(114,335)</u>
Balance, December 31, 2020, restated	1,000	2,106,370	52,806	2,160,176
Distributions	-	(70,090)	(18,687)	(88,777)
Net loss	<u>-</u>	<u>(404,407)</u>	<u>(74,789)</u>	<u>(479,196)</u>
Balance, December 31, 2021	1,000	1,631,873	(40,670)	1,592,203
Distributions	-	(7,348)	(18,687)	(26,035)
Net loss	<u>-</u>	<u>(759,071)</u>	<u>(82,405)</u>	<u>(841,476)</u>
Balance, December 31, 2022	<u>\$ 1,000</u>	<u>\$ 865,454</u>	<u>\$ (141,762)</u>	<u>\$ 724,692</u>

See Independent accountant's review report. The accompanying notes are an integral part of these consolidated financial statements.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	Restated <u>2021</u>
Cash flows from operating activities		
Net loss	\$ (841,476)	\$ (479,196)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation	402,077	403,662
Amortization of deferred issuance costs	2,143	2,143
Decrease (increase) in operating assets		
Resident accounts receivable	(44,406)	(708,856)
Prepaid expenses	7,269	(67,329)
(Decrease) increase in operating liabilities		
Accounts payable and accrued expenses	217,446	496,081
Accrued payroll and related taxes	8,857	(65,209)
Deferred revenue	(101,133)	68,349
Security deposits	<u>13,200</u>	<u>17,750</u>
Net cash used by operating activities	<u>(336,023)</u>	<u>(332,605)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(31,084)</u>	<u>(156,446)</u>
Net cash used by investing activities	<u>(31,084)</u>	<u>(156,446)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(228,552)	(242,108)
Distributions paid to stockholder and trustee	<u>(26,035)</u>	<u>(88,777)</u>
Net cash used by financing activities	<u>(254,587)</u>	<u>(330,885)</u>
Net decrease in cash	(621,694)	(819,936)
Cash, beginning of year	<u>1,068,649</u>	<u>1,888,585</u>
Cash, end of year	\$ <u>446,955</u>	\$ <u>1,068,649</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ <u>231,417</u>	\$ <u>228,186</u>

See Independent accountant's review report. The accompanying notes are an integral part of these consolidated financial statements.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Nature of Operations

Sunny Acres Nursing Home, Inc. (the Facility) is a 105-bed facility located in Chelmsford, Massachusetts. The Facility is licensed for 93 skilled nursing beds and 12 assisted living beds. The 12 assisted living beds are known as Legacy Care and are a department of the Facility. Merle Realty Trust (the Trust and the Affiliate) owns the land and buildings on which the Facility operates and is an affiliated Massachusetts real estate company. The trustee is the stockholder of the Facility. Selected information from the Facility's and the Trust's balance sheets as of December 31, 2022 and 2021 and the results of operations for the years ended December 31, 2022 and 2021, before eliminations, follows:

	Sunny Acres Nursing Home, Inc.	Merle Realty Trust
<u>2022</u>		
Current assets	\$ 1,737,191	\$ 1,876
Property and equipment, net	500,843	5,112,741
Other assets	1,183,420	-
Current liabilities	1,971,235	268,780
Due to Facility	-	599,656
Right of use operating lease liability	583,765	-
Long-term debt, net of current portion and unamortized deferred issuance costs	-	4,387,943
Owner's equity (deficit)	<u>\$ 866,454</u>	<u>\$ (141,762)</u>
Revenue	\$ 11,160,713	\$ 669,059
Operating expenses	<u>11,919,784</u>	<u>751,464</u>
Net loss	<u>\$ (759,071)</u>	<u>\$ (82,405)</u>
	Sunny Acres Nursing Home, Inc.	Merle Realty Trust
<u>2021 (Restated)</u>		
Current assets	\$ 2,335,611	\$ 585
Property and equipment, net	543,045	5,441,532
Other assets	599,656	-
Current liabilities	1,845,439	256,919
Due to Facility	-	599,656
Long-term liabilities, net of current portion and unamortized deferred issuance costs	-	4,626,212
Owner's equity (deficit)	<u>\$ 1,632,873</u>	<u>\$ (40,670)</u>
Revenue	\$ 9,988,128	\$ 671,872
Operating expenses	<u>10,392,535</u>	<u>746,661</u>
Net loss	<u>\$ (404,407)</u>	<u>\$ (74,789)</u>

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

Principles of Consolidation

The Facility holds financial interest in the Trust owned by the Facility's stockholder. This interest consists of guarantees and leases. The Trust is considered a variable interest entity for accounting purposes. The Facility is deemed to control the Trust due to its contractual obligation to provide additional financial support to the Trust. The consolidated financial statements include the accounts of the Facility and the Trust (collectively referred to as the Organization). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Organization maintains cash in bank deposits which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk with respect to these accounts.

Property and Equipment

Property and equipment is stated at cost. Improvements and additions greater than \$1,000 are capitalized, while maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful asset life of the related assets.

Recently Adopted Accounting Principle

In 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-12, *Leases* (Topic 842), and related guidance, which supersedes accounting standards that currently exist under U.S. GAAP. The ASU increases transparency and comparability among companies by recognizing lease assets and lease liabilities in the balance sheet and disclosing key information about leasing arrangements.

Sunny Acres Nursing Home leases the facility from Merle Realty Trust under a lease with monthly rent payments equivalent to principal and interest, real estate taxes, betterments and insurance. The lease expires in October 2025. The lease is classified as an operating lease and Sunny Acres has recorded a right-of-use asset and lease obligation liability. Intercompany transactions related to the lease are eliminated upon consolidation.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Organization elected the "package of practical expedients" an option which permits it to not reassess prior conclusions about lease identification, lease classification and initial direct costs under the new standard. Results for December 31, 2022 are presented under the new standard, while financial statements for the year ended December 31, 2021 have not changed and continue to reflect the lease accounting standards in effect during that period.

Debt Issuance Costs

Debt issuance costs are bank fees and other costs incurred in obtaining financing that are amortized on a straight-line basis over the term of the related debt. Debt issuance costs are presented as a direct deduction of the carrying amount of the related debt. Amortization of deferred debt issuance costs is included in interest expense.

Income Taxes

The Facility is a Massachusetts "S" corporation. Accordingly, no provision for federal income taxes has been included, since net income or loss and related tax credits are passed through to the shareholder and reported on the individual tax return. Qualified "S" corporations with annual gross receipts of \$6,000,000 are subject to a 1.93% Massachusetts corporate level tax in addition to the inclusion of the income on the shareholder's individual tax return. If gross receipts exceed \$9,000,000, that percentage is increased to 2.90%. The Facility makes distributions to the sole stockholder to cover the federal and state income taxes, which must be paid with the stockholder's personal income tax return.

The Trust is a Massachusetts nominee realty trust. Accordingly, no provision for income taxes has been included, since net income or loss and related tax credits are passed through to the grantor and reported on the individual tax returns.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Organization has considered transactions or events occurring through May 16, 2023, which was the date that the consolidated financial statements were available to be issued.

Revenue Recognition and Accounts Receivable

Resident service revenue is reported at the estimated net realizable amount that reflects the consideration to which the Facility expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payers (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Facility bills self-pay residents prior to service and third-party payers several days after services are provided. Revenue is recognized as performance obligations are satisfied. It is the Facility's expectation that the period between the time the service is provided to a resident and the time a third-party payer pays for that service will be one year or less. Self-pay residents generally pay in advance or within one month of service.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Under the Facility's skilled and long-term care and assisted living contracts, the Facility provides services to residents for a stated daily fee. The Facility recognizes revenue for skilled and long-term care and assisted living in accordance with the provisions of FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

Performance obligations are determined based on the nature of the services provided by the Facility. Revenue for performance obligations satisfied over time is recognized based on actual services rendered. Generally, performance obligations satisfied over time relate to residents receiving skilled and long-term nursing services and assisted living services in the Facility. The Facility measures the performance obligation from admission into the Facility, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge.

Each performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e., room, board, level of care, and ancillary services), revenue is recognized based upon the transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Facility has elected to apply the optional exemption provided in FASB ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Resident accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of historical performance and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collections efforts are written off through a charge to the valuation allowance and a credit to resident accounts receivable. Credit is extended to private pay residents at regular terms without collateral. The allowance for uncollectible accounts was \$80,000 and \$40,000 at December 31, 2022 and 2021, respectively.

2. **Restatement**

The Organization's consolidated financial statements for the year ended December 31, 2021 were restated to accrue invoices in the proper period. Accordingly, the 2021 consolidated balance sheet was restated to reflect an increase in liabilities of \$283,173. The 2021 consolidated statement of operations was restated to reflect an increase in expenses of \$168,838. In addition, the consolidated statement of changes in owner's equity was restated to reflect a decrease in retained earnings of \$114,335 as of December 31, 2020.

3. **Resident Service Revenue and Accounts Receivable**

The Facility determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, and implicit price concessions provided to uninsured patients. The Facility determines its estimates of contractual adjustments based on contractual agreements and historical experience. The Facility determines its estimate of implicit price concessions based on its historical collection experience.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

Medicaid

The Facility receives reimbursement from the Commonwealth of Massachusetts under a standard rate of reimbursement payment system for the care and services rendered to publicly-aided patients, pursuant to regulations promulgated by the Center for Health Information and Analysis (CHIA). Under the regulations, current year rates are a combination of actual base year costs blended with industry standards, adjusted for inflation. The base year costs are subject to audit and could result in a retroactive rate adjustment for the current year.

Medicare

Under the Medicare Program, the Facility receives reimbursement for the care of residents eligible for "Part A" Medicare benefits under the federally sponsored Medicare prospective payment system, with no retrospective settlement. The prospective payment is based on scoring attributable to case-mix resident assessment data, completed by the Facility, to assign patients into a Patient Driven Payment Model Classification.

Commercial

Payment agreements with certain commercial insurance carriers provide for payment using prospectively determined rates.

In assessing collectability, the Facility has elected the portfolio approach. This portfolio approach is being used as the Facility has similar contracts with similar classes of customers. The Facility reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the resident level) by the particular payer or group of payers results in the recognition of the same amount of revenue as applying the analysis at the individual resident level.

The Facility's net resident service revenue is comprised of healthcare services transferred over time. The composition of net resident service revenue based on service lines and payer type for the years ended December 31, 2022 and 2021 is as follows:

<u>2022</u>	<u>Skilled and Long-Term Care</u>	<u>Assisted Living</u>	<u>Total</u>
Medicare	\$ 2,234,928	\$ -	\$ 2,234,928
Medicaid	4,228,524	-	4,228,524
Commercial	1,071,061	-	1,071,061
Self-pay	<u>1,967,078</u>	<u>1,301,550</u>	<u>3,268,628</u>
Net resident service revenue	<u>\$ 9,501,591</u>	<u>\$ 1,301,550</u>	<u>\$ 10,803,141</u>

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

<u>2021</u>	Skilled and Long-Term <u>Care</u>	Assisted <u>Living</u>	<u>Total</u>
Medicare	\$ 2,376,507	\$ -	\$ 2,376,507
Medicaid	3,323,914	-	3,323,914
Commercial	708,781	-	708,781
Self-pay	<u>2,193,836</u>	<u>1,016,280</u>	<u>3,210,116</u>
Net resident service revenue	<u>\$ 8,603,038</u>	<u>\$ 1,016,280</u>	<u>\$ 9,619,318</u>

The opening and closing balances in resident accounts receivable were as follows:

	<u>Resident Accounts Receivable</u>
January 1, 2021	\$ 446,030
December 31, 2021	1,154,886
December 31, 2022	1,199,292

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,524,228	\$ 1,524,228
Building	3,647,297	3,647,297
Building improvements	4,129,468	4,117,359
Equipment	1,636,709	1,617,734
Furniture and fixtures	591,792	591,792
Motor vehicles	<u>33,294</u>	<u>33,294</u>
	11,562,788	11,531,704
Less accumulated depreciation	<u>5,949,204</u>	<u>5,547,127</u>
	<u>\$ 5,613,584</u>	<u>\$ 5,984,577</u>

5. Line of Credit

The Organization has available a line of credit agreement in the amount of \$300,000 with LowellFive. The line has a variable interest rate based on the bank's prime rate, plus 0.5% (8% at December 31, 2022). This line is due on demand, and is subject to annual renewal which expires on July 31, 2023. The line is collateralized by real property maintained by the Facility and guaranteed by the stockholder. As of December 31, 2022 and 2021, there were no outstanding balances on the line of credit.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

6. Long-Term Debt

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

	<u>2022</u>	<u>2021</u>
Note payable in monthly installments of \$24,456, including principal and interest based on an initial variable interest rate of 4.85% through the maturity date of September 2037. In May 2022 and every five years thereafter, the rate may change to 2.5% above the Federal Home Loan Bank (FHLB) Reg Classic Advance Rate (5.61% at December 31, 2022).	\$ 2,770,194	\$ 2,899,510
Note payable, in monthly installments of \$14,913, including interest at the 5-year FHLB, plus 2.5% with a floor of 4% (4% at December 31, 2022) subject to change in January 2027 and every five years thereafter, through the maturity date of January 2037; collateralized by substantially all of the Trust's assets and guaranteed by the stockholder and the Facility.	<u>1,917,512</u>	<u>2,016,748</u>
	4,687,706	4,916,258
Less current portion	268,780	256,920
Less unamortized deferred issuance costs	<u>30,983</u>	<u>33,126</u>
Long-term debt, net of current portion and unamortized deferred issuance costs	<u>\$ 4,387,943</u>	<u>\$ 4,626,212</u>

Estimated maturities of long-term debt over the next five years and thereafter are as follows:

2023	\$ 268,780
2024	281,180
2025	294,160
2026	307,750
2027	321,970
Thereafter	3,213,866

Interest expense was \$233,560 and \$230,329 for the years ended December 31, 2022 and 2021, respectively.

7. Retirement Plan

The Facility has a 401(k) profit sharing retirement plan that covers full-time employees who have completed one year of service and have attained the age of 21 years. The Facility is required to make contributions equal to 25% of each participants contribution up to 4% of the participant's salary.

The Facility contributed \$19,183 and \$18,147 during the years ended December 31, 2022 and 2021, respectively.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

8. Nursing Facility User Fee

A quarterly user fee is assessed on non-Medicare days provided in Massachusetts based on a four class rate system. Sunny Acres is considered Class I, which subjects them to a \$22.91 per non-Medicare day user fee assessment. These assessments for the years ended December 31, 2022 and 2021 amounted to \$503,814 and \$460,078, respectively. The Facility has a liability related to the fourth quarter assessments of \$118,330 and \$126,896 for 2022 and 2021, respectively. The liability is included in accrued expenses.

9. Contingencies

The Organization also carries malpractice insurance coverage under a claims-made policy on a fixed premium basis. The Organization intends to renew coverage on a claims-made basis and anticipates such coverage will be available. The Organization is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP requires the Organization to accrue the ultimate estimated cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset.

The Organization is also involved in regulatory and legal investigations arising in the normal course of business. Management does not believe that these matters will have a material adverse effect on the Organizations' future financial position or results from operations.

10. Relief Funding

In response to the coronavirus (COVID-19) global pandemic, the U.S. government responded with relief legislation. Legislation was enacted into law on March 27, 2020, called the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a statute to address the economic impact of the COVID-19 outbreak. The CARES Act, among other things, 1) authorized emergency loans to distressed businesses by establishing, and providing funding for, forgivable bridge loans, 2) provided additional funding for grants and technical assistance, 3) delayed due dates for employer payroll taxes and estimated tax payments for organizations, and 4) revised provisions of the Internal Revenue Code, including those related to losses, charitable deductions, and business interest.

The CARES Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The Organization received PRF in the amount of approximately \$27,400 during the year ended December 31, 2021. These funds are to be used for infection control, qualifying expenses and to cover lost revenue due to COVID-19. The PRF is recognized as income when qualifying expenditures have been incurred, lost revenues have been identified, or incentive payments earned based on HHS criteria. Management believes the Organization met the conditions necessary to recognize the funds and they are included in the consolidated statements of operations. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

MassHealth provided stimulus funding to support healthcare providers for COVID-19 infection control. The Organization received stimulus funds from MassHealth in the amount of approximately \$346,300 and \$321,900 during the years ended December 31, 2022 and 2021, respectively. The stimulus funds are recognized as income when qualifying expenditures have been incurred. Management believes the Organization met the conditions necessary to recognize these amounts in full and they are included in the consolidated statements of operations.

11. Going Concern

The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplates continuation of the Organization as a going concern. The Organization had a net operating loss of \$841,476 and \$479,196 in 2022 and 2021, respectively. Current liabilities exceeded current assets by \$500,949 and days cash on hand was 14 days at December 31, 2022. These factors raise substantial doubt regarding the Organization's ability to continue as a going concern.

The following matters have occurred during 2022 or are planned by management to improve operations:

In September 2022, the owner of the Organization signed a letter of intent for a proposed sale of property and operations of the Organization. Upon execution of the letter of intent the purchaser's related entity entered into a consulting agreement to manage the facility. The management company is a current operator within the state of Massachusetts. As of REPORT DATE, the parties to the purchase and sale were completing due diligence and executing definitive agreements.

Under the management agreement, the purchaser has put initiatives in place to improve reimbursement and reduce expenditures as follows:

- Changes have been made to leadership positions including the MDS Nurse and Director of Nursing as a result the nursing facility census has improved from 80% for the year ended December 31, 2022 to 89% in March 2023. The assisted living facility has been near capacity since late in 2022.
- Reviewed reimbursement rates including an analysis of payers. Certain managed care contracts have not been profitable, management is no longer accepting new admissions from these payers. Management has also been able to increase the daily Medicaid rate by approximately \$30 per day. Medicare rates have increased in 2023 and there is an effort to increase admissions of Medicare residents.
- Management has reduced contract labor hours by approximately 50% in February 2023 which was savings of approximately \$130,000. In addition, management is right sizing staff and monitoring per diem costs in ancillary departments.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

- Residents are being pre-screened for estimated pharmacy costs and management is renegotiating pharmacy contracts.

Management believes these initiatives alleviate the substantial doubt regarding the Organization's ability to continue as a going concern through one year from the report date of **REPORT DATE** of the consolidated financial statements.

SUPPLEMENTARY INFORMATION

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Consolidated Schedules of Net Patient Service Revenue and Occupancy Analysis

Years Ended December 31, 2022 and 2021

	<u>2022</u> Sunny Acres Nursing Facility				<u>Total</u>	Legacy Care Private ALF
	<u>Private</u>	<u>Medicaid</u>	<u>Medicare</u>	<u>Other Insurance</u>		
Patient days	4,712	14,706	3,326	4,574	27,318	4,139
Percent of occupancy	17 %	54 %	12 %	17 %	100 %	100 %
Net patient service revenue	\$ 1,967,078	\$ 4,228,524	\$ 2,234,928	\$ 1,071,061	\$ 9,501,591	\$ 1,301,550
Occupancy analysis	<u>SNF Patient Days</u>		<u>ALF Patient Days</u>			
Licensed capacity	33,945	100 %	4,380	100 %		
Actual occupancy	<u>27,318</u>	<u>80 %</u>	<u>4,139</u>	<u>94 %</u>		
Vacancies	<u>6,627</u>	<u>20 %</u>	<u>241</u>	<u>6 %</u>		
	<u>2021</u> Sunny Acres Nursing Facility				<u>Total</u>	Legacy Care Private ALF
	<u>Private SNF</u>	<u>Medicaid</u>	<u>Medicare</u>	<u>Other Insurance</u>		
Patient days	5,270	13,417	3,682	2,500	24,869	3,417
Percent of occupancy	21 %	54 %	15 %	10 %	100 %	100 %
Net patient service revenue	\$ 2,193,836	\$ 3,323,914	\$ 2,376,507	\$ 708,781	\$ 8,603,038	\$ 1,016,280
Occupancy analysis	<u>SNF Patient Days</u>		<u>ALF Patient Days</u>			
Licensed capacity	33,945	100 %	4,380	100 %		
Actual occupancy	<u>24,869</u>	<u>73 %</u>	<u>3,417</u>	<u>78 %</u>		
Vacancies	<u>9,076</u>	<u>27 %</u>	<u>963</u>	<u>22 %</u>		

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Operating Revenue and Expenses

Nursing Home

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	Restated <u>2021</u>	<u>Per Diem</u>
Revenue:				
Net resident service revenue	\$ 9,501,591	\$ 347.81	\$ 8,603,038	\$ 345.93
Provider relief funds (PRF)	-	-	27,401	1.10
MassHealth stimulus revenue	346,332	12.68	321,866	12.94
Other revenue	<u>12,530</u>	<u>0.46</u>	<u>19,543</u>	<u>0.79</u>
Total revenue	<u>9,860,453</u>	<u>360.95</u>	<u>8,971,848</u>	<u>360.76</u>
Expenses:				
Administrative and general:				
Payroll, administrator	149,235	5.46	152,541	6.13
Payroll, clerical	282,387	10.34	254,272	10.22
Payroll taxes	401,019	14.68	395,858	15.92
Employee benefits	29,497	1.08	25,139	1.01
Advertising and public relations	28,242	1.03	6,793	0.27
Data processing	114,149	4.18	104,714	4.21
Communications	25,299	0.93	27,392	1.10
Education	255	0.01	868	0.03
Conventions and meetings	4,988	0.18	4,995	0.20
Insurance, liability, and workers' compensation	220,160	8.06	222,444	8.94
Insurance, group plan	162,910	5.96	250,820	10.09
Licenses, dues, and subscriptions	11,970	0.44	11,699	0.47
Professional fees	99,776	3.65	247,012	9.93
Office supplies	151,981	5.56	94,210	3.79
Travel and auto expense	(1,631)	(0.06)	2,974	0.12
Medicaid user fee	<u>503,814</u>	<u>18.44</u>	<u>460,078</u>	<u>18.50</u>
	<u>2,184,051</u>	<u>79.94</u>	<u>2,261,809</u>	<u>90.93</u>
Property and related expenses:				
Depreciation	191,072	6.99	192,654	7.75
Interest expense	<u>81,987</u>	<u>3.00</u>	<u>85,998</u>	<u>3.46</u>
	<u>273,059</u>	<u>9.99</u>	<u>278,652</u>	<u>11.21</u>
Plant operations:				
Payroll	70,532	2.58	71,410	2.87
Purchased service, maintenance	51,243	1.88	56,079	2.25
Maintenance, supplies, and expenses	16,701	0.61	11,065	0.44
Utilities	212,160	7.77	190,932	7.68
Repairs and maintenance	102,379	3.75	88,394	3.55
Real estate taxes	148,268	5.43	143,008	5.75
Insurance	<u>11,559</u>	<u>0.42</u>	<u>11,559</u>	<u>0.46</u>
	<u>612,842</u>	<u>22.44</u>	<u>572,447</u>	<u>23.00</u>
Dietary:				
Payroll	401,560	14.70	288,077	11.58
Consultant, dietitian	39,324	1.44	47,876	1.93
Raw food	258,670	9.47	161,201	6.48
Dietary supplies	<u>17,651</u>	<u>0.65</u>	<u>14,838</u>	<u>0.60</u>
	<u>\$ 717,205</u>	<u>\$ 26.26</u>	<u>\$ 511,992</u>	<u>\$ 20.59</u>

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Operating Revenue and Expenses

Nursing Home

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	Restated <u>2021</u>	<u>Per Diem</u>
Laundry and linen:				
Purchased service	\$ 142,060	\$ 5.20	\$ 119,947	\$ 4.82
Linen and bedding	3,621	0.13	2,180	0.09
Laundry supplies	<u>7,282</u>	<u>0.27</u>	<u>7,877</u>	<u>0.32</u>
	<u>152,963</u>	<u>5.60</u>	<u>130,004</u>	<u>5.23</u>
Housekeeping:				
Purchased service	189,885	6.95	190,343	7.65
Housekeeping supplies	<u>19,627</u>	<u>0.72</u>	<u>21,491</u>	<u>0.86</u>
	<u>209,512</u>	<u>7.67</u>	<u>211,834</u>	<u>8.51</u>
Nursing:				
Payroll, director of nursing	114,752	4.20	133,882	5.38
Payroll, nursing supervisors	298,568	10.93	340,688	13.70
Payroll, quality review	-	-	41,568	1.67
Payroll, registered nurses	192,304	7.04	199,450	8.02
Payroll, licensed practical nurses	770,975	28.22	704,008	28.31
Payroll, aides and orderlies	1,166,588	42.70	1,332,702	53.59
Payroll, medical records	66,462	2.43	13,004	0.52
Payroll, staff development coordinator	15,275	0.56	9,074	0.36
Payroll, MMQ nurses	139,394	5.10	128,489	5.17
Payroll, bedmakers	164,484	6.02	40,788	1.64
Consultant, advisory physician	16,500	0.60	18,000	0.72
Pharmacy consultant	10,066	0.37	8,535	0.34
Purchased services	2,460,909	90.08	1,171,074	47.09
Nursing supplies	<u>823,866</u>	<u>30.16</u>	<u>888,103</u>	<u>35.71</u>
	<u>6,240,143</u>	<u>228.41</u>	<u>5,029,365</u>	<u>202.22</u>
Social Services:				
Payroll	<u>144,562</u>	<u>5.29</u>	<u>82,857</u>	<u>3.33</u>
	<u>144,562</u>	<u>5.29</u>	<u>82,857</u>	<u>3.33</u>
Rehabilitation:				
Payroll	-	-	44,462	1.79
Consultant, speech therapy	<u>-</u>	<u>-</u>	<u>1,860</u>	<u>0.07</u>
	-	-	46,322	1.86
Activities:				
Payroll	99,271	3.63	96,924	3.90
Purchased services	2,373	0.09	617	0.02
Activity supplies	<u>10,348</u>	<u>0.38</u>	<u>13,466</u>	<u>0.54</u>
	<u>111,992</u>	<u>4.10</u>	<u>111,007</u>	<u>4.46</u>
Total expenses	<u>10,646,329</u>	<u>389.70</u>	<u>9,236,289</u>	<u>371.34</u>
Operating loss	\$ <u>(785,876)</u>	\$ <u>(28.75)</u>	\$ <u>(264,441)</u>	\$ <u>(10.58)</u>

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Payroll Expenses
Nursing Home
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	<u>2021</u>	<u>Per Diem</u>
Administrator	\$ 149,235	\$ 5.46	\$ 152,541	\$ 6.13
Clerical	282,387	10.34	254,272	10.22
Plant operations	70,532	2.58	71,410	2.87
Dietary	<u>401,560</u>	<u>14.70</u>	<u>288,077</u>	<u>11.58</u>
	<u>903,714</u>	<u>33.08</u>	<u>766,300</u>	<u>30.80</u>
Nursing:				
Director of nursing	114,752	4.20	133,882	5.38
Nursing supervisors	298,568	10.93	340,688	13.70
Quality review	-	-	41,568	1.67
Registered nurses	192,304	7.04	199,450	8.02
Licensed practical nurses	770,975	28.22	704,008	28.31
Aides and orderlies	1,166,588	42.70	1,332,702	53.59
Medical records	66,462	2.43	13,004	0.52
Staff development coordinator	15,275	0.56	9,074	0.36
MMQ nurses	139,394	5.10	128,489	5.17
Bedmakers	<u>164,484</u>	<u>6.02</u>	<u>40,788</u>	<u>1.64</u>
Total nursing	<u>2,928,802</u>	<u>107.20</u>	<u>2,943,653</u>	<u>118.36</u>
Social service	144,562	5.29	82,857	3.33
Rehabilitation	-	-	44,462	1.79
Activities	<u>99,271</u>	<u>3.63</u>	<u>96,924</u>	<u>3.90</u>
	<u>243,833</u>	<u>8.92</u>	<u>224,243</u>	<u>9.02</u>
Total salaries and wages	<u>\$ 4,076,349</u>	<u>\$ 149.20</u>	<u>\$ 3,934,196</u>	<u>\$ 158.18</u>
Percent of net resident service revenue	<u>43 %</u>		<u>46 %</u>	
Percent of total expense	<u>38 %</u>		<u>43 %</u>	

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Operating Revenue and Expenses

Assisted Living - Legacy Care

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	<u>2021</u>	<u>Per Diem</u>
Revenue:				
Net resident service revenue	\$ <u>1,301,550</u>	\$ <u>314.46</u>	\$ <u>1,016,280</u>	\$ <u>297.42</u>
Expenses:				
Administrative and general:				
Payroll, administrator	86,808	20.97	85,194	24.93
Payroll taxes	54,684	13.21	53,981	15.80
Employee benefits	2,278	0.55	2,059	0.60
Advertising and public relations	3,769	0.91	994	0.29
Data processing	7,484	1.81	6,394	1.87
Communications	10,610	2.56	5,191	1.52
Conventions and meetings	680	0.16	681	0.20
Licenses, dues, and subscriptions	2,252	0.54	3,715	1.09
Professional fees	5,479	1.32	5,094	1.49
Office supplies	<u>2,557</u>	<u>0.62</u>	<u>3,809</u>	<u>1.11</u>
	176,601	42.65	167,112	48.90
Property and related expenses:				
Depreciation	211,005	50.98	211,008	61.75
Interest expense	<u>153,836</u>	<u>37.17</u>	<u>146,475</u>	<u>42.87</u>
	364,841	88.15	357,483	104.62
Plant operations:				
Payroll	8,858	2.14	9,768	2.86
Maintenance, supplies, and expenses	5,232	1.26	2,444	0.72
Utilities	28,930	6.99	25,984	7.60
Repairs and maintenance	1,142	0.28	4,058	1.19
Real estate taxes	27,143	6.56	26,180	7.66
Insurance	<u>13,589</u>	<u>3.28</u>	<u>8,741</u>	<u>2.56</u>
	84,894	20.51	77,175	22.59
Dietary:				
Payroll	56,047	13.54	39,421	11.54
Raw food	42,684	10.31	26,329	7.71
Dietary supplies	<u>2,310</u>	<u>0.56</u>	<u>1,262</u>	<u>0.37</u>
	101,041	24.41	67,012	19.62
Laundry and linen:				
Linen and bedding	567	0.14	669	0.20
Laundry supplies	<u>1,252</u>	<u>0.30</u>	<u>1,310</u>	<u>0.38</u>
	\$ <u>1,819</u>	\$ <u>0.44</u>	\$ <u>1,979</u>	\$ <u>0.58</u>

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Operating Revenue and Expenses

Assisted Living - Legacy Care

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	<u>2021</u>	<u>Per Diem</u>
Housekeeping:				
Payroll	\$ 53,080	\$ 12.82	\$ 49,602	\$ 14.52
Housekeeping supplies	<u>9,461</u>	<u>2.29</u>	<u>7,408</u>	<u>2.17</u>
	62,541	15.11	57,010	16.69
Nursing:				
Payroll, licensed practical nurses	96,342	23.28	106,329	31.12
Payroll, aides and orderlies	378,585	91.47	333,433	97.58
Nursing supplies	<u>729</u>	<u>0.18</u>	<u>3,407</u>	<u>1.00</u>
	475,656	114.93	443,169	129.70
Activities:				
Payroll	80,918	19.55	55,919	16.36
Purchased services	5,094	1.23	908	0.27
Activity supplies	<u>3,745</u>	<u>0.90</u>	<u>3,268</u>	<u>0.96</u>
	<u>89,757</u>	<u>21.68</u>	<u>60,095</u>	<u>17.59</u>
 Total expenses	 <u>1,357,150</u>	 <u>327.88</u>	 <u>1,231,035</u>	 <u>360.29</u>
 Operating loss	 <u>\$ (55,600)</u>	 <u>\$ (13.42)</u>	 <u>\$ (214,755)</u>	 <u>\$ (62.87)</u>

See Independent accountant's review report.

SUNNY ACRES NURSING HOME, INC. AND AFFILIATE

Schedules of Payroll Expenses

Assisted Living - Legacy Care

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Per Diem</u>	<u>2021</u>	<u>Per Diem</u>
Administrator	\$ 86,808	\$ 20.97	\$ 85,194	\$ 24.93
Plant operations	8,858	2.14	9,768	2.86
Dietary	56,047	13.54	39,421	11.54
Housekeeping	<u>53,080</u>	<u>12.82</u>	<u>49,602</u>	<u>14.52</u>
	<u>204,793</u>	<u>49.47</u>	<u>183,985</u>	<u>53.85</u>
Nursing:				
Licensed practical nurses	96,342	23.28	106,329	31.12
Aides and orderlies	<u>378,585</u>	<u>91.47</u>	<u>333,433</u>	<u>97.58</u>
Total nursing	<u>474,927</u>	<u>114.75</u>	<u>439,762</u>	<u>128.70</u>
Activities	<u>80,918</u>	<u>19.55</u>	<u>55,919</u>	<u>16.36</u>
	<u>80,918</u>	<u>19.55</u>	<u>55,919</u>	<u>16.36</u>
Total salaries and wages	<u>\$ 760,638</u>	<u>\$ 183.77</u>	<u>\$ 679,666</u>	<u>\$ 198.91</u>
Percent of net resident service revenue	<u>58 %</u>		<u>67 %</u>	
Percent of total expense	<u>56 %</u>		<u>55 %</u>	

 See Independent accountant's review report.