Island Nursing Home, Incorporated

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2022 and 2021

With Independent Accountant's Review Report

ISLAND NURSING HOME, INCORPORATED

Table of Contents

June 30, 2022

BerryDunn

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Island Nursing Home, Incorporated

We have reviewed the accompanying financial statements of Island Nursing Home, Incorporated (the Organization), which comprise the statements of financial position as of June 30, 2022, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, 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.

Other Matters

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 15 to the financial statements, the Organization submitted a plan of closure to DHHS, which has been accepted. All residents have been discharged and limited employees remain. In addition, the Organization has received approval from CMS and

DHHS to suspend, rather than terminate, its licenses, as it plans to re-open the facility. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Report on 2021 Financial Statements

The 2021 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated December 10, 2021. We have not performed any auditing procedures since that date.

Supplementary Information

The accompanying supplementary information 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 review 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
December 21, 2022

ISLAND NURSING HOME, INCORPORATED

Statements of Financial Position

June 30, 2022 (Reviewed) and 2021 (Audited)

ASSETS

	2022	2021
Current assets		
Cash	**$ 19,131**	$ 322,236
Accounts receivable, net of allowance for doubtful accounts of $2,200 in 2022 and $126,000 in 2021	**394**	510,512
Prepaid expenses and other current assets	**24,386**	57,283
Current portion of assets whose use is limited	**5,507**	51,224
Estimated third-party payor settlements	**119,843**	116,858
Total current assets	**169,261**	1,058,113
Assets whose use is limited, net of current portion		
Resident and employee activity funds held in trust	**5,507**	51,224
Board-designated investments	**492,855**	691,570
Capital campaign	**97,752**	154,038
Other	**179,570**	436,133
Assets with perpetual donor restrictions	**1,060,416**	1,060,416
	1,836,100	2,393,381
Less current portion of assets whose use is limited	**5,507**	51,224
Assets whose use is limited, net of current portion	**1,830,593**	2,342,157
Property and equipment		
Land and improvements	**432,365**	432,365
Building and improvements	**3,759,198**	3,702,740
Furniture and equipment	**1,145,215**	1,139,827
Vehicles	**153,339**	153,339
Projects-in-process	**-**	8,857
	5,490,117	5,437,128
Less accumulated depreciation and amortization	**4,091,957**	3,875,702
Net property and equipment	**1,398,160**	1,561,426
Total assets	**$ 3,398,014**	$ 4,961,696

See Independent Accountant's Review Report. The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	2022	2021
Current liabilities		
Accounts payable	**$ 78,915**	$ 416,742
Accrued expenses and other current liabilities	**12,183**	258,184
Refundable advances	**60,742**	-
Total current liabilities	**151,840**	674,926
Total liabilities	**151,840**	674,926
Net assets		
Without donor restrictions		
Board-designated for operations	**176,185**	379,797
Board-designated for capital expenditures	**316,670**	311,773
Undesignated	**1,415,581**	1,944,613
Total net assets without donor restrictions	**1,908,436**	2,636,183
With donor restrictions	**1,337,738**	1,650,587
Total net assets	**3,246,174**	4,286,770
Total liabilities and net assets	**$ 3,398,014**	$ 4,961,696

ISLAND NURSING HOME, INCORPORATED

Statement of Operations and Changes in Net Assets

Year Ended June 30, 2022 (Reviewed)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Net resident service revenue	$ 1,727,495	$ -	$ 1,727,495
Contributions and grants	226,255	100	226,355
Other income	31,662	-	31,662
Investment income	9,311	22,257	31,568
Realized loss on investments	(7,734)	(5,317)	(13,051)
Net assets released from restrictions used for operations	93,372	(93,372)	-
Total operating revenue	2,080,361	(76,332)	2,004,029
Program expenses			
Salaries and wages	562,906	-	562,906
Benefits and taxes	272,186	-	272,186
Contracted labor	427,140	-	427,140
Supplies and other	511,381	-	511,381
Provider tax	63,692	-	63,692
Depreciation and amortization	216,255	-	216,255
Total program expenses	2,053,560	-	2,053,560
General and administrative expenses			
Administrator salaries and wages	92,985	-	92,985
Other salaries and wages	219,320	-	219,320
Benefits and taxes	196,327	-	196,327
Legal and accounting	110,427	-	110,427
Other administrative expenses	142,770	-	142,770
Total general and administrative expenses	761,829	-	761,829
Total operating expenses	2,815,389	-	2,815,389
Net operating loss and deficiency of revenue over expenses	(735,028)	(76,332)	(811,360)
Other income (loss)			
Unrealized loss on investments	(49,177)	(180,059)	(229,236)
Net assets released from restrictions used for capital acquisition	56,458	(56,458)	-
Net other income (loss)	7,281	(236,517)	(229,236)
Change in net assets	(727,747)	(312,849)	(1,040,596)
Net assets, beginning of year	2,636,183	1,650,587	4,286,770
Net assets, end of year	$ 1,908,436	$ 1,337,738	$ 3,246,174

See Independent Accountant's Review Report. The accompanying notes are an integral part of these financial statements.

ISLAND NURSING HOME, INCORPORATED

Statement of Operations and Changes in Net Assets

Year Ended June 30, 2021 (Audited)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Net resident service revenue	$ 4,903,814	$ -	$ 4,903,814
Contributions	106,478	13,787	120,265
Paycheck Protection Program loan forgiveness	581,400	-	581,400
Coronavirus relief funds	331,615	-	331,615
Investment income	13,240	21,235	34,475
Realized gain on investments	22,483	-	22,483
Net assets released from restrictions used for operations	89,667	(89,667)	-
Total operating revenue	6,048,697	(54,645)	5,994,052
Program expenses			
Salaries and wages	1,642,393	-	1,642,393
Benefits and taxes	646,949	-	646,949
Contracted labor	1,236,083	-	1,236,083
Supplies and other	1,454,609	-	1,454,609
Provider tax	288,734	-	288,734
Depreciation and amortization	239,603	-	239,603
Total program expenses	5,508,371	-	5,508,371
General and administrative expenses			
Administrator salaries and wages	203,389	-	203,389
Other salaries and wages	251,094	-	251,094
Benefits and taxes	164,959	-	164,959
Legal and accounting	67,585	-	67,585
Other administrative expenses	214,002	-	214,002
Total general and administrative expenses	901,029	-	901,029
Total operating expenses	6,409,400	-	6,409,400
Net operating loss and deficiency of revenue over expenses	(360,703)	(54,645)	(415,348)
Other income (loss)			
Unrealized gain on investments	161,450	343,909	505,359
Net assets released from restrictions used for capital acquisition	25,042	(25,042)	-
Net other income	186,492	318,867	505,359
Change in net assets	(174,211)	264,222	90,011
Net assets, beginning of year	2,810,394	1,386,365	4,196,759
Net assets, end of year	$ 2,636,183	$ 1,650,587	$ 4,286,770

See Independent Accountant's Review Report. The accompanying notes are an integral part of these financial statements.

ISLAND NURSING HOME, INCORPORATED

Statements of Cash Flows

Years Ended June 30, 2022 (Reviewed) and 2021 (Audited)

	2022	2021
Cash flows from operating activities		
Change in net assets	**$ (1,040,596)**	$ 90,011
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	**216,255**	239,603
Loss on disposal of equipment	**6,994**	262
Unrealized loss (gain) on investments	**229,236**	(505,359)
Realized loss (gain) on investments	**13,051**	(22,483)
Paycheck Protection Program loan forgiveness	**-**	(581,400)
Decrease (increase) in		
Accounts receivable	**510,118**	70,963
Prepaid expenses and other current assets	**32,897**	(477)
Estimated third-party payor settlements	**(2,985)**	(42,836)
Increase (decrease) in		
Accounts payable	**(337,827)**	221,022
Accrued expenses and other current liabilities	**(246,001)**	12,577
Refundable advances	**60,742**	(252,599)
Net cash used by operating activities	**(558,116)**	(770,716)
Cash flows from investing activities		
Purchases of investments	**(31,280)**	(34,003)
Proceeds from sale of investments	**243,272**	300,000
Additions to property and equipment	**(59,983)**	(88,010)
Proceeds from sale of equipment	**-**	2,971
Increase in assets whose use is limited	**46,716**	(24,172)
Net cash provided by investing activities	**198,725**	156,786
Cash flows from financing activities		
Proceeds from restricted contributions for long-term investment	**-**	7,000
Net cash provided by financing activities	**-**	7,000
Net decrease in cash	**(359,391)**	(606,930)
Cash and restricted cash, beginning of year	**476,274**	1,083,204
Cash and restricted cash, end of year	**$ 116,883**	$ 476,274
Composition of cash and restricted cash, end of year		
Cash	**$ 19,131**	$ 322,236
Assets whose use is limited, capital campaign funds held for capital expenditure	**97,752**	154,038
	$ 116,883	$ 476,274

See Independent Accountant's Review Report. The accompanying notes are an integral part of these financial statements.

Nature of Organization

Island Nursing Home, Incorporated (the Organization) is a not-for-profit corporation which operated a 70-bed skilled, long-term care and assisted living facility and provided nursing care and residential care services to the elderly. The Organization submitted a plan of closure in August 2021 and discharged all residents by October 22, 2021. The Maine Department of Health and Human Services (DHHS) authorized a suspension of the Organization's licenses, rather than termination, while the Board of Directors contemplates the Organization's future service model. The Organization's primary service area was the Blue Hill Peninsula of Maine.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. GAAP, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of operations and changes in net assets.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Organization grants credit without collateral to its residents, most of whom are insured through third-party payor agreements.

Property and Equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated by the straight-line method over the estimated useful lives of the respective assets. Property and equipment have been idle since October 2021. In accordance with Financial Account Standards Board (FASB) Account Standards Codification (ASC) 360-10-35-49, depreciation has continued. The Organization capitalizes expenditures for property and equipment exceeding $500 and with a useful life of over 1 year.

Income Taxes

The Organization is a nonprofit organization and has been recognized as tax-exempt pursuant to Internal Revenue Code (Code) Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Revenue Recognition

Resident service revenue is reported at the estimated net realizable amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (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 Organization bills self pay residents prior to service and third-party payors several days after services are provided. Revenue is recognized as performance obligations are satisfied. It is the Organization's expectation that the period between the time the service is provided to a resident and the time a third-party payor pays for that service will be one year or less. Self-pay residents generally pay in advance or within one month of service.

Under the Organization's skilled and long-term care and assisted living contracts, the Organization provides services to residents for a stated daily fee. The Organization recognizes revenue for skilled and long-term care, as well as assisted living services, in accordance with the provisions of FASB ASC Topic 606*, Revenue From Contracts With Customers.*

Performance obligations are determined based on the nature of the services provided by the Organization. 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 or assisted living services in the facility. The Organization 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 resident contract. As the performance obligations are met (i.e., room, board, 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, the Organization has elected to apply the optional exemption provided in FASB ASC Subtopic 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.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated based on actual or estimated usage of resources. Time records are utilized to allocate payroll costs. Other costs are allocated based on physical usage of facilities, number of residents served, specific identification, and other estimates of program requirements.

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 December 21, 2022, which was the date that the financial statements were available to be issued.

In September 2022, the Organization sold a portion of its MaineCare license rights for $700,000. The Organization retained the remaining MaineCare license rights for future use.

2. Net Resident Service Revenue

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

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

Medicare

Medicare reimburses providers of skilled nursing home care on an acuity-based nursing facility reimbursement system. Providers of services to nursing care residents eligible for Medicare benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the resident at a rate determined by federal guidelines.

MaineCare

MaineCare utilizes an acuity-based nursing facility reimbursement system. Differences between interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis. Differences between estimated and actual cost settlements are recorded as contractual adjustments in the year of final determination. Effective July 1, 2020, rates were rebased using 2019 cost information.

Commercial

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

Due to the large concentration of residents who receive benefits from the MaineCare and Medicare reimbursement programs, the Organization is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain the Organization's operations.

Laws and regulations governing the MaineCare and Medicare programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the short term. Settlements do not become final until the cost reports are audited and approved by MaineCare or the Medicare intermediary, as applicable. Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination. Such differences were not material in 2022 and 2021. Cost reports have been audited through 2019 for MaineCare and 2021 for Medicare.

In assessing collectibility, the Organization has elected the portfolio approach. This portfolio approach is being used as the Organization has similar contracts with similar classes of customers. The Organization 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 payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual resident level.

The Organization's net resident service revenue is comprised of healthcare services transferred over time. The composition of net resident service revenue based on the Organization's lines of business and method of reimbursement for the years ended June 30, 2022 and 2021 are as follows:

		2022	
	Skilled and Long-term Care	**Assisted Living**	**Total**
Payor			
Medicaid	**$ 1,028,494**	**$ 361,337**	**$ 1,389,831**
Medicare	**102,271**	**-**	**102,271**
Commercial	**17,332**	**(1,265)**	**16,067**
Self-pay	**100,991**	**118,335**	**219,326**
Net resident service revenue	**$ 1,249,088**	**$ 478,407**	**$ 1,727,495**

		2021	
	Skilled and Long-term Care	Assisted Living	Total
Payor			
Medicaid	$ 2,130,792	$ 908,890	$ 3,039,682
Medicare	779,298	-	779,298
Commercial	163,939	-	163,939
Self-pay	362,537	558,358	920,895
Net resident service revenue	$ 3,436,566	$ 1,467,248	$ 4,903,814

Revenues from residents' deductibles and coinsurance are included in the categories presented in the previous tables based on primary payors. Revenues recognized by the Organization are based on a fee for service model.

3. Accounts Receivable

A rollforward of accounts receivable, net activity for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning of year	**$ 510,512**	$ 581,475
Net charges, payments, and adjustments	**(510,118)**	(70,963)
Balance, end of year	**$ 394**	$ 510,512

4. Cash

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 risk on cash.

5. Investments

Investments are recorded at fair value and are included in assets whose use is limited in the statement of financial position. Investments consist of the following:

	2022	2021
Equity mutual funds		
Domestic stocks - large blend	**$ 1,180,673**	$ 1,567,540
Bond mutual funds		
Short-term bonds	**435,897**	481,763
Short-term bonds - Government	**107,568**	129,115
	$ 1,724,138	$ 2,178,418

Endowment

Changes in endowment funds for the years ended June 30, 2022 and 2021 are as follows:

	Subject to Specific Purpose	Perpetual Duration	Total
Endowment net assets, July 1, 2020	$ 138,853	$ 1,060,416	$ 1,199,269
Investment return			
Investment income	21,110	-	21,110
Net appreciation	343,909	-	343,909
Total investment return	365,019	-	365,019
Appropriation of endowment assets for expenditure	(74,380)	-	(74,380)
Endowment net assets, June 30, 2021	429,492	1,060,416	1,489,908
Investment return			
Investment income	**22,085**	**-**	**22,085**
Net loss on investments	**(185,376)**	**-**	**(185,376)**
Total investment return	**(163,291)**	**-**	**(163,291)**
Appropriation of endowment assets for expenditure	**(93,272)**	**-**	**(93,272)**
Endowment net assets, June 30, 2022	**$ 172,929**	**$ 1,060,416**	**$ 1,233,345**

Investment Policy

The Organization has interpreted the State of Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions an amount equal to the aggregate value in dollars of (a) each permanent donor-restricted endowment fund at the time it became an endowment fund, (b) each subsequent donation to the fund at the time the donation is made, and (c) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. Accordingly, unless explicitly stated otherwise by the donor, realized and unrealized net appreciation in investments in perpetual donor-restricted endowment funds is reported as net assets with donor restrictions until appropriated by the Board for expenditure. The Organization has interpreted UPMIFA to permit spending from funds with deficiencies in accordance with the prudent measures required by UPMIFA.

Return Objectives and Risk Parameters

The Organization's investment policy provides for the investment of endowment and other funds in a prudent manner to preserve and enhance the Organization's ability to provide future nursing and residential care services. The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs while seeking to maintain the purchasing power for 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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed or meet designated benchmarks while incurring a reasonable and prudent level of investment risk. Investments shall be diversified both by asset class and within asset classes. Specifically, equity investments shall not be more than 75%, nor less than 40%, with a target of 60%. To encourage prudent asset diversification, no single stock (or convertible), at original cost, shall exceed 10% of the fund's assets. Fixed income shall not be less than 25%, nor greater than 60%, with a target of 40%.

Spending Policy

The Organization's spending policy allows for the appropriation of up to 7% of the fair market value of each endowment fund's twelve-quarter moving average at the end of the year immediately preceding the year of appropriation to support operations. The percentage is determined annually by the Board, and was 9% in 2022 and 7% 2021. Subject to any donor restrictions and the finance committee's consideration of the factors described above, earnings from realized and unrealized gains, as well as original funding value, may be utilized when accumulated appreciation is less than the authorized spending amount.

6. Assets Whose Use is Limited

Assets whose use is limited are comprised of the following as of June 30:

	2022	2021
Cash	**$ 111,962**	$ 214,963
Investments (Note 5)	**1,724,138**	2,178,418
Total	**$ 1,836,100**	$ 2,393,381

Amounts designated by the Board for operating or capital needs of $492,855 and $691,570 at June 30, 2022 and 2021, respectively, are included in cash and investments and classified as assets limited as to use.

7. Line of Credit

The Organization had a $150,000 line of credit with Bar Harbor Bank & Trust, with interest payable monthly at prime with a floor of 4.5% (4.75% at June 30, 2022), collateralized by accounts receivable. The line of credit was subject to renewal in August 2022 and the Organization did not renew. There were no advances on the line at June 30, 2022 and 2021.

8. Commitments and Contingencies

The Organization may be involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is indeterminable, but in the opinion of management, the amount of any potential liabilities would not have a significant impact on the Organization's financial condition.

In July 2021, the Organization entered into an agreement with an information technology services company to receive maintenance services over a five year term. The payments under this commitment are due monthly, approximating $3,000 per year. In addition, at the same time the Organization entered into a copier lease with the same information technology services company. The payments under this lease are due monthly. Future minimum lease payments under this lease are:

2023	$ 5,798
2024	5,798
2025	5,798
2026	5,798
	$ 23,192

In June 2022, the Organization entered into an agreement with Sutherland Weston, for public relations services. The original agreement was for a period of 4 months, and was extended for an additional 4 months in October 2022. Monthly fees under this agreement are $2,500.

9. Net Assets With Donor Restrictions

The following is a summary of the nature of restrictions on net assets with donor restrictions subject to a specific purpose:

	2022	2021
Middleton Continuing Education Fund	**$ 20,096**	$ 31,216
Capital campaign - refurbishment	**97,752**	154,038
Nursing Department	**5,741**	5,741
Pam's Garden	**900**	900
Endowment from Annual Appeal	**1,162**	4,329
Mary Hodges Memorial Loan Fund	**4,203**	6,959
Next Generation Endowment fund	**147,468**	386,988
	$ 277,322	$ 590,171

The Next Generation Endowment Fund, Middleton Continuing Education Fund, Endowment from Annual Appeal, and Mary Hodges Memorial Loan Fund, are comprised of unappropriated appreciation on net assets of perpetual duration.

Net assets of perpetual duration are comprised of the following as of June 30, 2022 and 2021:

Mary Hodges Memorial Loan fund	$ 16,409
Middleton Continuing Education Fund	30,000
Endowment from Annual Appeal	14,007
Next Generation Endowment fund	1,000,000
	$ 1,060,416

10. Retirement Plan

The Organization offers a Tax Sheltered Annuity 403(b) plan for all employees who meet certain eligibility requirements. The plan is funded with employee deferrals only.

In addition, the Organization has a Simplified Employee Pension Individual Retirement Arrangement Plan for all employees who meet certain eligibility requirements. The Organization's contributions to the plan are discretionary. There were no contributions to the plan in 2022 and 2021.

11. Provider Tax

A 6% provider tax is assessed on revenues derived from nursing care services.

In addition, a 6% Service Provider Tax (SPT) is assessed on the "value" (i.e., sales price) of certain services provided in the State, including Private Non-Medical Institution services, which include the Organization's residential care services. Providers are taxed based on all revenue, regardless of source, received for the purpose of providing food, shelter, and treatment. MaineCare reimburses the facilities for its portion of the tax by increasing their direct care per diem rate. The portion paid on revenue generated from private pay residents is not funded by MaineCare.

Total provider tax and SPT expense for the years ended June 30, 2022 and 2021 was $63,692 and $288,734, respectively.

12. Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial assets measured at fair value on a recurring basis consisted of:

	Level 1
2022	
Investments	
Bond mutual funds	**$ 543,465**
Equity mutual funds	**1,180,673**
	$ 1,724,138
2021	
Investments	
Bond mutual funds	$ 610,878
Equity mutual funds	1,567,540
	$ 2,178,418

Fair value of the investments is measured using quoted prices in active markets.

13. Liquidity and Availability of Financial Assets

The following table reflects the Organization's financial assets, as of June 30, available to meet cash needs for general expenditures, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	2022	2021
Cash	**$ 19,131**	$ 322,236
Cash assets whose use is limited	**111,963**	214,963
Accounts receivable	**394**	510,512
Estimated third-party payor settlements	**119,843**	116,858
Investments	**1,724,138**	2,178,418
Total financial assets	**1,975,469**	3,342,987
Less amounts not available to be used within one year:		
Patient cash balances included in assets whose use is limited above	**5,507**	51,224
Net assets with donor restrictions	**1,337,738**	1,650,587
	1,343,245	1,701,811
Financial assets available to meet cash needs for general expenditures within one year	**$ 632,224**	$ 1,641,176

The Organization strives to maintain financial assets to meet 90 days of operating expenses (approximately $98,000 in 2022 and $1,600,000 in 2021), and maintain current assets, less current liabilities, at a minimum of 30 days of operating expenses. To help achieve these targets, the Organization forecasts future cash flows and monitors its liquidity monthly and its reserves annually, or more frequently if substantial changes in operations occur.

14. COVID-19 Considerations, Relief, and Uncertainty

As a response to the COVID-19 global pandemic, the U.S. government enacted relief legislation which was signed into law on March 27, 2020. The Coronavirus Aid, Relief, and Economic Security Act (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 American Rescue Plan Act (ARPA) enacted into legislation during 2021 continued many of the programs started by the CARES Act by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic.

The CARES Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The PRF is administered by the U.S. Department of Health and Human Services (HHS). The Organization received PRF in the amount of approximately $79,000 during the year ended June 30, 2021. These funds were required to be used for 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 full amount in 2021, which is included in cornavirus relief funds in the statements of operations and changes in net assets for the year ended June 30, 2021. 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.

During 2022, the State of Maine Department of Economic and Community Development used CARES Act relief funding for the Maine Health Care Financial Relief Grant Program 2.0 for hospitals and long-term care facilities. The grant program was intended to assist by providing economic support to those eligible providers suffering from business interruptions as a direct result of the COVID-19 pandemic and related public health response. The Organization received and recognized Maine Health Care Financial Relief Grant funds in the amount of $188,000 during the year ended June 30, 2022, which is included in contributions and grants in the statement of operations and changes in net assets, for the year then ended.

During 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the SBA under the CARES Act, in the amount of $581,400. The PPP provided funds to pay up to 24 weeks of payroll and other specified costs, and forgiveness of the loan was dependent upon compliance with this and other terms and conditions of the CARES Act. In November 2020, the Organization received approval for forgiveness from the SBA and has recognized the funds in the statement of operations and changes in net assets at June 30, 2021. Loan forgiveness may be subject to audit by the SBA for six years from the date of loan forgiveness.

In September 2021, MaineCare announced additional state and federal matching funds as supplemental payments related to COVID-19 to all in-state nursing facilities, residential care facilities, and adult family care homes. MaineCare made payments in two lump sum payments in September and October 2021. The use of these supplemental payments is to offset costs associated with COVID-19 during the period from July 1, 2021 throgh December 31, 2022, such as increased costs related to ensuring recruitment and retention of direct care and front line staff, screeening, housekeeping and other supplies, testing costs, and personal protective equipment. The Organization, recevied payments of approximately $705,000. Management believes the Organization met the conditions necessary to recognize the full amount during the year ended June 30, 2022, which is included in net resident service revenue on the statement of operations and changes in net assets for the year then ended.

Known MaineCare reimbursement treatments relative to Provider Relief Funds, supplemental payments, and Maine Health Care Financial Relief Grant have been applied in the cost report filing and in estimated third-party payor settlements on the balance sheet.

There is unprecedented uncertainty surrounding the duration of this pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

15. Going Concern

During the COVID-19 pandemic, the Organization had a significant outbreak at the facility, a decrease in staffing and residents, and increased concerns about the health of individuals working or residing at the nursing home, with the compromised staffing levels. The Organization's geographic location presented further issues with maintaining adequate staffing, as housing options are limited, and concerns of the pandemic remain.

Management understands maintaining appropriate staffing and occupancy levels at the facility is vital for the continuance of operations. As a result of the conditions described above, management implemented training programs, incentives, and bonuses as a means of attracting and maintaining staff, and increased their advertising of positions available to several job boards and universities. In addition during 2021, management rented housing facilities to be used for staff of the Organization.

Management does not believe these initiatives will provide the Organization with the opportunity to continue to improve upon its staffing and occupancy trends and allow the Organization to continue as a going concern. As such, in September 2021, the Organization submitted a plan of closure to DHHS, which was accepted. The Organization received approval from CMS and DHHS to temporarily suspend its licenses, it plans to re-open the facility in a limited capacity. As of October 2021, all residents were discharged and limited employees remain. As of the date of these financials, the facility has not yet reopened. Further, during 2022, the Board has increased fundraising efforts with the intent of opening as a residential care facility in 2023.

As a result of these factors, and the Organization's suspension of services in October 2021, there is substantial doubt about the Organization's ability to continue as a going concern.

SUPPLEMENTARY INFORMATION

ISLAND NURSING HOME, INCORPORATED

Schedules of Selected Program Operating Expenses

Years Ended June 30, 2022 and 2021

	2022	2021
Nursing services		
Nursing salaries and wages	**$ 407,509**	$ 1,214,634
Nursing services benefits and taxes	**199,394**	484,686
Contract nursing expenses	**427,140**	1,236,083
Medical supplies	**58,437**	273,668
Pharmacy consultant	**1,028**	4,967
Activities salaries and wages	**23,847**	55,203
Activities benefits and taxes	**16,271**	25,451
Activities supplies and expenses	**8,218**	12,649
Social services salaries and wages	**48,271**	61,427
Social services benefits and taxes	**13,802**	14,062
Social services supplies and expenses	**-**	347
Travel expense	**2,567**	423
Education	**848**	5,592
Medical director fee	**-**	12,500
Ancillary services	**64,722**	402,990
Other miscellaneous expenses	**-**	8,934
Total nursing services	**$ 1,272,054**	$ 3,813,616
Housekeeping and laundry services		
Salaries and wages	**$ 52,718**	$ 140,778
Benefits and taxes	**34,396**	57,959
Supplies and miscellaneous	**10,805**	44,058
Total housekeeping and laundry services	**$ 97,919**	$ 242,795
Dietary services		
Salaries and wages	**$ 70,788**	$ 237,830
Benefits and taxes	**27,535**	84,710
Food	**44,440**	159,945
Dietary consultant	**1,760**	5,280
Dietary supplies and miscellaneous	**14,873**	40,290
Total dietary services	**$ 159,396**	$ 528,055

ISLAND NURSING HOME, INCORPORATED

Schedules of Selected Program Operating Expenses (Concluded)

Years Ended June 30, 2022 and 2021

	2022	2021
Plant operation and maintenance		
Salaries and wages	**$ 31,891**	$ 49,151
Benefits and taxes	**10,861**	19,594
Utilities	**54,092**	84,697
Maintenance supplies	**27,948**	40,366
Snow and rubbish removal	**3,521**	8,437
Vehicle operating expenses	**2,769**	1,970
Miscellaneous	**180**	60
Total plant operation and maintenance	**$ 131,262**	$ 204,275
Other program expenses		
Advertising	**$ 6,390**	$ 30,721
Auto, travel, and meetings	**269**	64
Dues, subscriptions, and licenses	**3,832**	14,856
Insurance	**51,146**	97,764
Office supplies	**4,653**	8,443
Postage and printing	**1,573**	3,605
Rent	**28,106**	17,580
Telephone	**16,013**	17,998
Scholarships	**1,000**	-
Total other program expenses	**$ 112,982**	$ 191,031