

# JOHN P. SANNELLA, CPA

## ACCOUNTING AND CONSULTING

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### INDEPENDENT ACCOUNTANT'S REPORT ON THE FINANCIAL SUITABILITY OF THE PROPOSED PROJECT BY FAIRVIEW EXTENDED CARE SERVICES, INC. DBA WINDSOR NURSING & RETIREMENT CENTER

Board of Directors  
South Yarmouth Management Systems, Inc.  
South Yarmouth, Massachusetts

I have performed an analysis of the financial projections for Fairview Extended Care Services, Inc. DBA Windsor Nursing & Retirement Center. This report details my analysis and findings with regard to the reasonableness of the financial feasibility of the proposed project. This report is to be used by management of South Yarmouth Management Systems, Inc. ("Management") on behalf of Fairview Extended Care Services, Inc. DBA Windsor Nursing & Retirement Center in its Determination of Need Application – Factor 4(a) and should not be used for any other purpose.

The scope of my analysis was limited to an analysis of the compiled financial projections ("Projections") for the years ending 2022, 2023, 2024, 2025 and 2026 prepared in accordance with the attestation standards established by the American Institute of Certified Public Accountants for the projected operation of the Windsor Nursing & Retirement Center. My analysis of the Projections and the related supporting documentation and conclusions contained within this report are based upon my detailed review of all relevant information, including actual operations for the years ending 2019, 2020 and 2021.

Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on Management achieving the hypothetical assumptions used, the plan is expected to result in "sufficient funds available for capital and ongoing operating costs necessary to support the Proposed Project without negative impacts or consequences to the Applicant's existing Patient Panel" (per Determination of Need, Factor 4(a)).

This report is based upon compiled prospective financial information provided to me by Management. If I had audited the underlying data, matters may have come to my attention that would have resulted in my using amounts that differ from those provided. Accordingly, I do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. I do not provide assurance on the achievability of the results forecasted by Management because events and circumstances frequently do not occur as expected, and the achievement of the forecasted results are dependent on the actions, plans, and assumptions of management. I reserve the right to update my analysis in the event that I am provided with additional information.

In preparing my analysis I considered multiple sources of information. It is important to note that the Projections do not account for any anticipated changes in accounting standards. These standards, which may have a material impact on individual future years, are not anticipated to have a material impact on the aggregate Projections.

Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the Projections operating surpluses are reasonable expectations based upon achieving the hypothetical assumptions that Management has included in the Projections. Accordingly, I determined that the Projections are financially feasible and sustainable and not likely to have a negative impact on the patient panel.

*John P. Sannella*

John P. Sannella, CPA  
North Reading, Massachusetts

May 5, 2022

**FAIRVIEW EXTENDED CARE SERVICES, INC.  
DBA WINDSOR NURSING & RETIREMENT CENTER**

Projected Financial Statements and  
Independent Accountant's Compilation Report

Years Ended December 31, 2022 and 2026

<p style="text-align: center;"><b>FAIRVIEW EXTENDED CARE SERVICES, INC.</b> <b>DBA WINDSOR NURSING &amp; RETIREMENT CENTER</b></p>
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PROJECTED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2026

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**JOHN P. SANNELLA, CPA**  
ACCOUNTING AND CONSULTING

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Board of Directors  
Fairview Extended Care Services, Inc.  
DBA Windsor Nursing & Retirement Center  
South Yarmouth, Massachusetts

Management is responsible for the accompanying projected financial statements of Fairview Extended Care Services, Inc., which comprise the projected statements of financial position as of December 31, 2022, 2023, 2024, 2025, and 2026, and the related projected statements of operations, changes in net assets, and cash flows for the projected years ending December 31, 2022, 2023, 2024, 2025, and 2026, and the related summary of significant assumptions and accounting policies in accordance with the guidelines for presentation of a financial projection established by the American Institute of Certified Public Accountants (AICPA) (the "Projection"). I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not examine or review the projected financial statements, nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these projected financial statements or the assumptions.

Furthermore, even if Fairview Extended Care Services, Inc. can complete the construction of the Project (as defined in the summary of significant assumptions and accounting policies) at the costs and timeline presented hereafter, and is able to achieve the operating assumptions, collectively, the "Hypothetical Assumptions", there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. I have no responsibility to update this report for events and circumstances occurring after the date of this report.

The financial information in the accompanying projection is presented in accordance with the requirements of the Massachusetts Department of Public Health Determination of Need Program, and is not intended to be a complete representation of the projected assets, liabilities, net assets, and operations of Fairview Extended Care Services, Inc.

The accompanying Projection, and this report, are intended solely for the information and use of management, officers, and board of directors of Fairview Extended Care Services, Inc., Berkshire Healthcare Systems, Inc., and the Massachusetts Department of Public Health Determination of Need Program (DPH-DoN) in its review of the Determination of Need application under regulation 105 CMR 100.210 (4) (a) and is not intended to be, and should not be, used by anyone other than these specified parties.

*John P. Sannella*

John P. Sannella, CPA  
North Reading, Massachusetts

May 5, 2022

**FAIRVIEW EXTENDED CARE SERVICES, INC.**  
**DBA WINDSOR NURSING & RETIREMENT CENTER**  
**PROJECTED STATEMENTS OF FINANCIAL POSITION**  
**UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1**  
**DECEMBER 31, 2022 THROUGH 2026**

ASSETS					
	2022	2023	2024	2025	2026
Current Assets:					
Cash and cash equivalents	\$ 529,132	\$ 489,378	\$ 856,473	\$ 942,671	1,556,409
Patient accounts receivable, net	1,225,719	1,464,169	1,582,267	1,614,416	1,647,124
Other receivables	59,390	59,390	59,390	59,390	59,390
Supplies	77,409	79,344	81,328	83,361	85,445
Due from 3rd parties	300,000	205,092			
Prepaid and other current assets	52,273	53,579	54,651	55,744	56,859
Total current assets	<u>2,243,922</u>	<u>2,350,953</u>	<u>2,634,109</u>	<u>2,755,583</u>	<u>3,405,227</u>
Property, Plant and Equipment					
Land					
Building					
Improvements					
Equipment and furniture					
Motor vehicle	3,279,710	5,210,579	4,835,564	4,453,048	4,062,882
Total property, plant and equipment	3,279,710	5,210,579	4,835,564	4,453,048	4,062,882
Less: accumulated depreciation					
Property, plant and equipment, net	<u>3,279,710</u>	<u>5,210,579</u>	<u>4,835,564</u>	<u>4,453,048</u>	<u>4,062,882</u>
Total Assets	<u>\$ 5,523,632</u>	<u>\$ 7,561,532</u>	<u>\$ 7,469,672</u>	<u>\$ 7,208,630</u>	<u>\$ 7,468,109</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of LTD	\$ 169,662	\$ 174,691	\$ 343,020	\$ 352,644	\$ 362,386
Accounts payable and accrued expenses	1,242,844	1,306,744	1,278,176	810,314	619,890
User fee payable	152,526	162,560	166,173	166,173	166,173
Accrued compensation and benefits	471,153	595,603	636,822	654,924	653,620
Due to Berkshire Health Systems, Inc.	49,322	49,322	49,322	49,322	49,322
Due to Affiliated Entities	14,295,534	16,426,201	12,164,867	12,164,867	12,164,867
Total current liabilities	<u>16,381,041</u>	<u>18,715,122</u>	<u>14,638,380</u>	<u>14,198,243</u>	<u>14,016,258</u>
Long term liabilities:					
Debt Secured by Mortgage Long Term	-	-	3,933,440	3,765,112	3,592,286
Other Long Term Liabilities	4,077,721	3,903,030	3,723,958	3,539,642	3,350,083
Total long term liabilities	<u>4,077,721</u>	<u>3,903,030</u>	<u>7,657,398</u>	<u>7,304,754</u>	<u>6,942,369</u>
Total liabilities	<u>20,458,762</u>	<u>22,618,152</u>	<u>22,295,778</u>	<u>21,502,997</u>	<u>20,958,627</u>
Net Assets					
Without donor restrictions.	(14,935,130)	(15,056,620)	(14,826,105)	(14,294,367)	(13,490,518)
With donor restrictions	-	-	-	-	-
Total net assets	<u>(14,935,130)</u>	<u>(15,056,620)</u>	<u>(14,826,105)</u>	<u>(14,294,367)</u>	<u>(13,490,518)</u>
Total liabilities and net assets	<u>\$ 5,523,632</u>	<u>\$ 7,561,532</u>	<u>\$ 7,469,672</u>	<u>\$ 7,208,630</u>	<u>\$ 7,468,109</u>

See summary of significant assumptions and accounting policies and independent accountant's compilation report.

**FAIRVIEW EXTENDED CARE SERVICES, INC.**  
**DBA WINDSOR NURSING & RETIREMENT CENTER**  
**PROJECTED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
**UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1**  
**YEARS ENDING DECEMBER 31, 2022 THROUGH 2026**

<b>Net Assets Without Donor Restrictions</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>Revenue:</b>					
Private revenue	\$ 883,008	\$ 1,356,048	\$ 1,773,024	\$ 1,813,320	\$ 1,853,616
Medicare A revenue	3,841,413	4,959,025	5,170,610	5,274,022	5,379,502
Medicaid revenue	5,291,052	5,551,069	5,980,796	6,100,412	6,222,420
Managed care revenue	973,591	1,396,495	1,456,079	1,485,200	1,514,904
Total room and board revenue	10,989,065	13,262,637	14,380,509	14,672,954	14,970,443
Medicare B ancillary revenue	777,833	793,390	809,258	825,443	841,952
Total revenue	11,766,898	14,056,027	15,189,766	15,498,397	15,812,395
<b>Operating Expenses:</b>					
Administrative & general	2,064,494	2,447,049	2,582,071	2,649,471	2,660,158
Nursing expense	4,388,808	5,512,837	5,667,860	5,498,962	5,418,833
Social services	145,688	167,997	175,164	178,668	182,241
Dietary expense	1,067,224	1,230,642	1,283,150	1,308,813	1,334,989
Laundry & housekeeping	392,484	411,788	421,960	430,399	439,007
Activities expenses	117,241	135,194	140,962	143,781	146,657
Plant operations	170,449	174,711	178,205	181,769	185,404
Other expense	1,860,605	1,974,864	2,024,549	2,051,746	2,079,487
Interest expense	121,440	116,665	222,595	212,859	203,174
Depreciation	194,925	199,798	375,015	382,516	390,166
Ancillaries	1,661,549	1,915,973	1,997,721	2,037,676	2,078,429
Total operating expenses	12,184,908	14,287,517	15,069,252	15,076,658	15,118,546
<b>Income (Loss) from Operations</b>	<b>(418,010)</b>	<b>(231,490)</b>	<b>120,514</b>	<b>421,739</b>	<b>693,849</b>
<b>Nonoperating Revenues and Expenses</b>					
Miscellaneous income	110,000	110,000	110,000	110,000	110,000
Total nonoperating revenues and expenses	110,000	110,000	110,000	110,000	110,000
<b>Excess (Deficiency) of Revenues Over Expenses -</b>					
<b>Net Assets Without Donor Restrictions</b>	<b>(308,010)</b>	<b>(121,490)</b>	<b>230,514</b>	<b>531,739</b>	<b>803,849</b>
<b>Net Assets With Donor Restrictions</b>					
Net assets released from restrictions	-	-	-	-	-
<b>Decrease in Net Assets With Donor Restrictions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(308,010)</b>	<b>(121,490)</b>	<b>230,514</b>	<b>531,739</b>	<b>803,849</b>
Net Assets - Beginning of Year	(14,627,120)	(14,935,130)	(15,056,620)	(14,826,105)	(14,294,367)
<b>Net Assets - End of Year</b>	<b>\$ (14,935,130)</b>	<b>\$ (15,056,620)</b>	<b>\$ (14,826,105)</b>	<b>\$ (14,294,367)</b>	<b>\$ (13,490,518)</b>

**FAIRVIEW EXTENDED CARE SERVICES, INC.**  
**DBA WINDSOR NURSING & RETIREMENT CENTER**  
**PROJECTED STATEMENTS OF CASH FLOWS**  
**UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1**  
**YEARS ENDING DECEMBER 31, 2022 THROUGH 2026**

	2022	2023	2024	2025	2026
<b>Cash Flows from Operating Activities:</b>					
Increase (Decrease) in Net Assets	\$ (308,010)	\$ (121,490)	\$ 230,514	\$ 531,739	\$ 803,849
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:					
Depreciation	194,925	199,798	375,015	382,516	390,166
Provision for losses on accounts receivable	149,952	172,913	182,251	185,896	189,614
(Increase) decrease					
Patient accounts receivable	531,705	(411,364)	(300,349)	(218,045)	(222,322)
Other receivables	-	-	-	-	-
Supplies	(1,888)	(1,935)	(1,984)	(2,033)	(2,084)
Due from 3rd parties	205,092	94,908	205,092	-	-
Prepaid and other current assets	(1,523)	(1,307)	(1,072)	(1,093)	(1,115)
Increase (decrease)					
Accounts payable and accrued expenses	(133,633)	63,900	(28,568)	(467,862)	(190,424)
User fee payable	7,047	10,035	3,612	-	-
Accrued compensation and benefits	78,966	124,450	41,219	18,101	(1,303)
Net cash provided by operating activities	<u>722,635</u>	<u>129,909</u>	<u>705,732</u>	<u>429,219</u>	<u>966,381</u>
<b>Cash Flows from Investing Activities:</b>					
Purchase of investments					
Proceeds from sale of investments					
Purchase of property and equipment	(2,163,447)	(2,130,667)	-	-	-
Net cash used by investing activities	<u>(2,163,447)</u>	<u>(2,130,667)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Financing Activities:</b>					
Proceeds from debt	-	-	4,261,334	-	-
Due to from affiliates	2,130,667	2,130,667	(4,261,334)	-	-
Repayment of debt	(182,048)	(169,662)	(338,637)	(343,020)	(352,643)
Net cash used by financing activities	<u>1,948,619</u>	<u>1,961,005</u>	<u>(338,637)</u>	<u>(343,020)</u>	<u>(352,643)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	507,807	(39,753)	367,094	86,199	613,738
Cash and restricted cash - beginning of year	21,324	529,131	489,378	856,472	942,671
<b>Cash and Restricted Cash - End of Year</b>	<u>\$ 529,131</u>	<u>\$ 489,378</u>	<u>\$ 856,472</u>	<u>\$ 942,671</u>	<u>\$ 1,556,409</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

**Supplemental Disclosure of Cash Flow Information**

Cash paid during the year:

Interest	<u>\$ 121,440</u>	<u>\$ 116,665</u>	<u>\$ 222,595</u>	<u>\$ 212,859</u>	<u>\$ 203,174</u>
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**FAIRVIEW EXTENDED CARE SERVICES, INC. DBA  
WINDSOR NURSING & RETIREMENT CENTER**  
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES  
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

**1. BASIS OF PRESENTATION AND NATURE AND LIMITATIONS OF PROJECTIONS**

**Basis of Presentation**

The financial projection (the “Projection”) presents, to the best of the knowledge and belief of management (“Management”) of South Yarmouth Management Systems, Inc. (the “Applicant”) on behalf of Fairview Extended Care Services, Inc. DBA Windsor Nursing & Retirement Center (the “Nursing Home”, or “the Organization”), the expected financial position as of December 31, 2022 through 2026, and the expected results of operations and cash flows for the years ending December 31, 2022 through 2026 (the “Projection Period”).

A projection although similar to a forecast, is a presentation of prospective financial information that is subject to one or more hypothetical assumptions. Management has included several assumptions that are considered to be hypothetical assumptions as defined by the American Institute of Certified Public Accountants’ *Guide for Prospective Financial Information*.

Management’s hypothetical assumptions (the “Hypothetical Assumptions”) are as follows:

- The Applicant and Nursing Home are able to develop, market, construct, and complete the proposed conservation renovation project (the “Project”, as defined more fully hereinafter).
- The Applicant and Nursing Home are able to obtain all regulatory approvals for construction of its Project.
- The Nursing Home is able to obtain debt financing (the “Financing”) via a mortgage loan for approximately \$4,261,334 (the “Mortgage Loan”) consistent with the plans presented in this Summary of Significant Projection Assumptions and Accounting Policies.
- The Nursing Home is able to complete the Project within the cost structure presented in this Summary of Significant Projection Assumptions and Accounting Policies of total Project costs of approximately \$4,261,334, plus associated filing fees of \$8,523.
- The Nursing Home is able to achieve the occupancy, payer mix, and average rates detailed in Note 4. If this is not achieved, it may significantly impact the Projection results.
- The Applicant is able to maintain its projected operating structure and limit the additional expenses associated with operating the facility under the completed Project model to the scenario as outlined in Note 4.

Accordingly, the Projection reflects Management’s judgement as of May 5, 2022 the date of the Projection, of the expected conditions and its expected course of action assuming the Hypothetical Assumptions. The assumptions disclosed herein, while not all-inclusive, are the assumptions which Management believes are significant to the Projection. The prospective results may not be achieved. Furthermore, even if the Hypothetical Assumptions were to occur, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

**FAIRVIEW EXTENDED CARE SERVICES, INC. DBA  
WINDSOR NURSING & RETIREMENT CENTER**  
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES  
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

**2. ORGANIZATION AND PROJECT DESCRIPTION**

**Organization**

Fairview Extended Care Services, Inc. (FECS) is a tax exempt 501(c)(3) organization and is DBA Windsor Nursing & Retirement Center. FECS is controlled by its sole corporate member, Berkshire Healthcare Systems, Inc.(BHCS) The parent company BHCS has been delivering high quality health care to elders and disabled person in the Commonwealth of Massachusetts since 1987. BHCS operates fourteen (14) skilled nursing and rehabilitation facilities, 2 assisted living facilities, 2 hospice companies, and housing for seniors in Massachusetts. All of its skilled nursing and rehabilitation centers are dually-certified by Medicaid and Medicare, and the Joint Commission Certified.

Windsor Nursing & Retirement Center is a one hundred twenty (120) bed skilled nursing and rehabilitation center located in South Yarmouth, Massachusetts. The facility provides short term and long term nursing care, rehabilitative care, and hospice and respite care to residents who need such services. In addition to being Joint Commission Certified, the facility has received the Bronze National Quality Award.

**Project Description**

Windsor Nursing & Retirement Center is one story is a 120 bed, 2 unit skilled nursing facility located in South Yarmouth, Massachusetts. Yarmouth, a town in Barnstable County, is an affluent, residential community with a population of over 23,000 residents with 30.3% of the population 65 years of age or older.

The 46,100 square foot facility was originally constructed, in 1975 with no additions since opening. It was purchased by Berkshire Healthcare Systems, Inc. in 1990 from Genesis Health Care.

The facility is comprised of two 60 bed units for a total of 120 licensed beds. Wing A has 12 three bedded rooms, and Wing B has 11 three bedded rooms. These beds will be located in the two new wings attached to the current facility.

The state's nursing facility De-Densification Requirements, which will prohibit residents in three and four-bedded rooms effective April 30, 2022, would reduce Windsor's one hundred twenty (120) licensed beds by twenty three (23) beds to a total of ninety seven (97) beds.

To comply with the De-Densification Requirements, the facility proposes to relocate the twenty three (23) beds in three-bedded rooms within the facility by constructing two (2) wings attached to the front of the existing facility. Each wing will have 4,986 square feet for a total of 9,972 square feet. To meet the discharge needs of area hospitals and community, the additions would be able to accommodate skilled short-term, subacute transitional care (TCU) patients, who comprise approximately 20% of the population. Windsor Nursing & Retirement Home admissions come primarily from Cape Cod Hospital (79%) and Falmouth Hospital (9%).

We have provided with this Determination of Need (DON) application a detailed copy of the scope of work and estimated cost of the proposed project. The estimated Maximum Capital Expenditure (MCE) for the project is \$4,261,344. (March 2022 dollars).

**FAIRVIEW EXTENDED CARE SERVICES, INC. DBA  
WINDSOR NURSING & RETIREMENT CENTER**  
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES  
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

**2. ORGANIZATION AND PROJECT DESCRIPTION...continued**

Of the current population, 51% are male and 49% are female. The average age of residents is 73.6 years. In the demographics of race and ethnicity, 99% of residents are Caucasian. While Windsor Nursing & Retirement Home does not discriminate against any religion and welcomes all to its facilities, all residents listing their religion were Catholic or Protestant.

The average length of stay (ALOS) in 2021 for short term residents was 32 days and long term residents was 195. The payor mix shows that the majority (76%) of Windsor facility residents had their care covered by Medicaid. This represents primarily longer stay residents who were either admitted to the facility on Medicaid or who spent down their private resources over time and then converted to Medicaid. 76% of residents had their stays paid by Medicaid, 3% were private pay residents, 15% were covered by Medicare Part A, and the remaining 6% were primarily insurance paid (Fallon, United Health Care Medicare HMO, USAA, and Medicaid HMO).

Windsor Nursing & Retirement Home operates within a highly competitive environment. There are a total of 5 skilled nursing facilities with 537 beds located within 10 miles of the facility. These facilities are located in 5 different Cape Cod towns, but the two facilities located in Harwich and Hyannis with 217 beds are the direct competition for Windsor Nursing & Retirement Home. Despite this intense competition as well as admission limitations caused by COVID-19, Windsor Nursing & Retirement Home has been able to maintain 75% occupancy in 2020, 71% occupancy in 2021, and 73% occupancy in 2022 to date. Windsor Nursing & Retirement Home is also competitive in terms of daily rates on its private and semi-private accommodations.

Windsor Nursing & Retirement Home has been a vital part of the town of South Yarmouth's health care system since its original construction in 1975. Berkshire Healthcare Systems commitment to quality long-term and post-acute services has allowed the facility to maintain high occupancy rates, no citations from DPH infection control inspections in the last 3 years, and high patient satisfaction throughout the challenging COVID-19 era. The facility is well maintained and in Life Safety compliance having made ongoing renovations/improvements to the interior and exterior of the facility to ensure the comfort and safety of its residents, staff, and family members. The scope of work proposed in this application is aimed at improving the quality of life for all residents of the facility while not altering or adding any current facility services.

If approved and implemented, this Determination of Need (DON) project will allow ownership to address the state's new De-Densification requirements. The facility proposes to relocate 23 beds lost in the three-bedded room by constructing a two wing addition.

The new addition and the scope of work proposed in this Determination of Need (DON) application will follow closely the "sustain and restore" sections (105 CMR:100.100 of the Department of Public Health DON regulations.

**3. LONG TERM LIABILITIES**

**New Long Term Liabilities**

The accompanying Projection assumes that the Project will be financed by a Loan, secured by an additional mortgage on the real property, in the amount of approximately \$4,261,334. The interest rate assumed in the Projection for the Construction Loan is 2.64% with a 25 year amortization period.

**FAIRVIEW EXTENDED CARE SERVICES, INC. DBA  
WINDSOR NURSING & RETIREMENT CENTER**  
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES  
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

**3. LONG TERM LIABILITIES...continued**

Subsequent to the Project completion, as of January 2024, it is assumed the Loan will be payable in monthly installments of principal and interest of approximately \$23,000 maturing on December 1, 2048. Any material changes in the terms of the actual Loan would impact the results of the Projection.

**Existing Long Term Liabilities**

In November 2016, FECS as part of an Obligated Group under BHCS, entered into a loan agreement with the Massachusetts Development Finance Agency and issued fixed rate revenue bonds (Fairview-Hillcrest-Pittsfield Obligated Group, Series A) with a face value of \$72,811,000. The Bonds were purchased by TD Bank, N.A., with a term loan agreement for 10 years with a 25-year loan amortization period and interest at a fixed rate of 2.74%. Payments are payable on a monthly basis starting January 2017. The FECS allocation of the monthly payment is approximately \$24,000. After 10 years, in 2026, the bonds are required to be repurchased. The bonds have a final maturity date of December 2041. The proceeds were used to pay off the Obligated Group's remaining outstanding bonds and notes. The Obligated Group bonds are secured by substantially all of the assets of the Obligated Group.

Financial covenants in the Obligated Group bonds include a liquidity ratio of at least 20% of total funded debt, a debt coverage ratio of at least 1.20 and an occupancy ratio of at least 85%. The Obligated Group expects to be in compliance with these requirements throughout the Projection Period.

The following are assumed current maturities of long-term debt for each of the next five years:

Projected Year Ending December 31	Assumed Current Maturities
2022	\$ 169,662
2023	174,691
2024	343,020
2025	352,644
2026	362,386

**4. MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES**

Projected revenue consists of revenue from operating the Nursing Home. Management's baseline projected revenue and expenses for 2022 were derived from financial data for the current period 2021, and Management's historical experience of operating the Facility. This information was utilized to project and establish a baseline for the year ending December 31, 2022. Future years were projected utilizing assumptions for rate increases and operating expenses, and any known changes for operating the renovated Facility during the Projection Period.

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**4. MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES...continued**

The following tables summarize the current and projected baseline payer mix and per diems:

	<b>Current</b>	
	<b>Payer Mix</b>	<b>Per Diem</b>
Private	4.5%	\$ 388
Medicare	15.4%	665
Medicaid	74.5%	209
Managed care	5.6%	337
Total	<u>100.0%</u>	

	<b>2022</b>	<b>2023</b>	<b>2024-2026</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>					
	<b>Payer Mix</b>	<b>Payer Mix</b>	<b>Payer Mix</b>	<b>Per Diem</b>	<b>Per Diem</b>	<b>Per Diem</b>	<b>Per Diem</b>	<b>Per Diem</b>
Private	6.0%	8.0%	10.0%	\$ 420	\$ 430	\$ 440	\$ 450	\$ 460
Medicare	16.0%	18.0%	18.0%	685	699	713	727	742
Medicaid	70.0%	64.0%	62.0%	216	220	239	244	249
Managed care	8.0%	10.0%	10.0%	347	354	361	369	376
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>					

The following tables summarize the historical and projected occupancy:

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Historical Occupancy %	78.2%	75.2%	71.0%

	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Projected Occupancy %	80.0%	90.0%	92.0%	92.0%	92.0%

Management calculated the baseline revenues for the year ending December 31, 2022, utilizing current reimbursement and economic conditions, and current nursing home regulations.

Management estimated the COVID-19 impact on revenue for 2022 based on various indicators and changes in operations primarily actual census decline. Management utilized the latest closed fiscal year census to establish the base occupancy and mix as noted above. The facility currently operates at 71% of licensed capacity. With the new construction and renovation occupancy is expected to grow to 80% in 2022, 90% in 2023, and reach 92% in year 2024, and remain at that level in all following years. Again, with the new construction and renovation Private Pay is expected to increase from 4.5% currently to 6% in 2022, 8% in 2023 and 10% in 2024 through 2026. Medicare will increase from 15.4% to 16% in 2022, 18% in 2023 and thereafter. Medicaid will decrease from 74.5% to 70% in 2022, 64% in 2023, and 62% for 2024 through 2026. Finally, Managed Care will increase from 5.6% to 8% in 2022 and 10% for 2023 through 2026.

Payor Rates were obtained initially via the facility supplied Accommodation Revenue Reconciliation. Private Rates appeared a bit low compared with other Massachusetts facilities, hence support for slightly higher increases than expected as due solely to inflation. Medicaid and Medicare rates are expected to increase by 3% in 2022 in continued support of the higher costs

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**4. MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES...continued**

brought about by Covid and also by the consequence of higher-than-normal rate of inflation. Years 2023 through 2026 are forecasted in increase 2.0% per annum and equal to the overall inflation rate anticipated for those years. An addition of \$14.96 was included in the Medicaid rate beginning in 2024 for the expected impact of the DON approval.

Other operating revenue items include Medicare Part B services. Management applied a similar increases as the payer rates above assuming an increase of 3% in 2022, 2.5% in 2023 and 2% per annum for 2024 through 2026.

**Operating Expenses**

The expense base was captured from the facility supplied information for the fiscal year ended December 31, 2021. Expenses were classified as fixed, variable, or other. All fixed and variable expenses are subject to an inflation increase of 3% for 2022, 2.5% for 2023, and 2% for years 2024 through 2026. The User Fee was calculated upon projected non/Medicare days and the per diem charge of \$22.91 was applied for all years. Variable Expenses were further increased by the year-over-year increase in patient days.

**Salaries and Related Taxes and Benefits**

Salaries were assumed to increase through the Projection Period consistent with the increases in operating expenses as noted above. Employee benefits such as federal and state payroll taxes, health insurance, workers compensation, pension costs, and other miscellaneous benefits for the entire Facility were assumed to approximate 15% of wages during the Projection Period. In addition, nursing staffing is predicated upon maintaining a 4-Star CMS staffing rating. The projected .76 RN hours per patient day is within the range of .731-1.048 necessary for this ranking. Total nursing hours of 3.81 per patient day exceeds the lower range limit of 3.580 further qualifies the facility for such. Average hourly rates of pay were determined by applying average rate by job title and adding the additional actual overtime hours and overtime pay. This pattern is expected to continue throughout the forecasted period. These amounts were obtained through use of the facility supplied payroll journals. Agency use is projected to be progressively reduced until eliminated in its entirety in 2025.

**Depreciation**

Property and equipment are projected to be depreciated over the estimated useful lives by the straight-line method.

**Nonoperating Revenues and Expenses**

Management's baseline projected nonoperating revenue and expenses for 2022 were derived from the fiscal year ending December 31, 2021, and management's historical experience of operating the Facility. In subsequent years of the Projection Period, nonoperating revenues and expenses are projected to remain consistent.

During the year ended December 31, 2021, the Nursing Home received forgiveness on a loan for approximately \$1,004,160 through the Federal Paycheck Protection Program. In addition, during 2021 the Nursing Home received various Covid Stimulus Funds totaling \$1,087,096. These amounts are not included in the Projection Period.

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**4. MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES...continued**

**Mortgage Financing**

The estimated capital expenditure of \$4,261,334 for the Project are expected to be financed at a 2.64% interest rate with an amortization period of 25 years.

**Operating Assets and Liabilities**

Patient Accounts Receivable were calculated at 125% of monthly Gross Patient Service Revenue. Accounts payable and accrued expenses are expected to remain at current supportable amounts.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Organization maintains its accounting and financial records according to the accrual basis of accounting.

**Basis of Presentation**

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Designated amounts represent those assets that the board has set aside for a particular purpose.
- With Donor Restrictions – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Also includes assets whose use by the Organization is limited by donor-imposed restrictions that require that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, other than endowment and similar funds, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of time restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets as net assets released from restrictions.

**Use of Estimates**

The preparation of projected financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the projected financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments purchased with a maturity of three months or less. All deposit and investment balances held by third parties that meet the definition of cash or cash equivalents are considered restricted cash or restricted cash equivalents for cash flow purposes. The Projection assumes there are no investment balances held by third parties which meet the definition of cash or cash equivalents.

**Liquidity**

In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to the nearness of their estimated maturity.

**Accounts Receivable**

Accounts receivable are recorded net of an allowance for uncollectible amounts. The allowance is estimated from historical performance and projections of trends. Credit is extended to customers and collateral is not required. The Organization determines delinquent accounts based on individual facts and circumstances. The Organization does not plan to charge interest on accounts that are deemed to be delinquent.

**Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost. Assets with an estimated useful life of more than one year are capitalized. Property is reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the assets carrying amount over the fair value of the asset. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Buildings	40 Years
Improvements	20 Years
Equipment and furniture	3-10 Years

**Investments and Investment Income**

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at their fair value in the statement of assets, liabilities, and net assets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law. Realized and unrealized gains and losses on investments relating to investments with donor restrictions are added to or deducted from net assets with donor restrictions.

**Income (Loss) from Operations**

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of skilled nursing care services are reported as operating income. Peripheral or incidental transactions are reported as nonoperating gains and losses.



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

**Excess (Deficiency) of Revenues Over Expenses – Net Assets Without Donor Restrictions**

The projected statement of operations and changes in net assets includes excess (deficiency) of revenues over expenses – net assets without donor restrictions. Changes in net assets without donor restrictions which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

**Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing and patient care. These amounts are due from patients, third party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

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 charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving skilled nursing. The Organization considers daily services provided to patients of the skilled nursing facility as separate performance obligations and measures these on a monthly basis, or upon move-out within the month, whichever is shorter. For nursing home patients, 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 patient, which is generally at the time of discharge.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy and/or implicit price concessions provided to patients. The Organization determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Organization determines its estimate of implicit price concessions based on the evaluation of individual patients.

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:

**Medicaid – Standard Payments to Nursing Facilities**

The Organization 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. 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.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

Medicare – Prospective Payment System

Through September 30, 2019, the Organization received reimbursement for the care of certain patients under the federally sponsored Medicare prospective payment system (PPS) through an insurance intermediary. The federal rates utilize facility case-mix resident assessment data, completed by the skilled nursing facility (SNF), to assign patients into Resource Utilization Groups (RUG). SNFs must complete the resident assessments according to a specific time schedule designed for Medicare payment. SNFs that do not comply with this requirement will be paid at a default payment (the lowest of the federal rates) for the days of a patient's care for which the SNF is not in compliance.

The PPS program mandates the implementation of fee schedules for SNF therapy services to residents not in a covered Part A stay and to nonresidents who receive outpatient rehabilitation services from the SNF. The Centers for Medicare and Medicaid Services imposed a limit for both physical therapy (including speech therapy) and occupational therapy services, except for certain medical conditions. Program is administered by the Centers for Medicare and Medicaid Services (CMS).

Effective October 1, 2019, the Medicare Reimbursement System underwent a significant change in methodology and implemented a patient driven payment model (PDPM). The PDPM payment system operates similar to PPS in that patients are assigned standard rates of payment for their specific needs. Under PDPM, therapy minutes are removed as the primary basis for payment and instead, uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay. Therapy services to residents not in a covered Part A stay remain the same.

Other

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price, were not significant during the Projection Period.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change.

Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were assumed to not be considered material for the projected years ending December 31, 2022 through 2026. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service/episode of care
- Method of reimbursement (fee for service or capitation)
- The Organization's line of business that provided the service (for example, skilled nursing, rehabilitation, etc.)

For the projected years ending December 31, 2022, 2023, 2024, 2025, and 2026, the Organization recognized revenue of \$11,766,898, \$14,056,027, \$15,189,766, \$15,498,397, and \$15,812,395, respectively, from goods and services that transfer to the customer over a period of time.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

**Restricted and Unrestricted Revenue and Support**

Contributions received are recorded as with donor restriction or without donor restriction, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as revenues of the net asset with donor restrictions class when they are received. A reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net asset without donor restrictions class.

**Management Fees**

The Nursing Home has a management contract with a related party. Management fees included in the base projection year ending December 31, 2022 amounted to approximately \$748,000. The remainder of the Projection Period assumes the management fees increase at an inflationary factor of 2.5% for 2023 and 2% for 2024-2026.

**Promotional Advertising**

Promotional advertising costs are expensed as incurred.

**Functional Expenses**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are directly allocated to program or support services whenever possible. Other shared expenses are allocated based on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and occupancy, which are allocated on a square footage basis, as well as salaries and benefits, which are allocated on a basis of estimates of time and effort.

**Income Taxes**

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code. The Organization files as a tax-exempt organization. Should that status be challenged in the future, the Organization's returns are open for examination by federal and state taxing authorities for three years after filing. The Organization follows the policy for uncertainty in income taxes to be recognized in an entity's financial statements. No uncertain income tax positions were anticipated or identified for the Projection Period.

**Fair Value of Financial Instruments**

The Organization reports required types of financial instruments in accordance with the fair value accounting standards. These standards require disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which an estimated value is practicable. The Organization follows accounting standards that define fair value, establish a framework for measuring fair value in accordance with existing accounting principles generally accepted in the United States of America, and expand disclosure about fair value measurements. The framework provides a fair value hierarchy that prioritizes inputs accounting to valuation techniques

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used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued**

inputs (Level 3). The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* - Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

*Level 2* - Observable inputs that are based on inputs not quoted in active markets but corroborated by market data.

*Level 3* - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.