ADVOCATE HEALTHCARE OF EAST BOSTON, LLC

PROJECTED FINANCIAL STATEMENTS
AND INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

INITIAL OPERATING PERIOD
NOVEMBER 1, 2019 THROUGH DECEMBER 31, 2019
YEARS ENDING
DECEMBER 31, 2020 THROUGH 2024

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CliftonLarsonAllen LLP
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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Members
Advocate Healthcare of East Boston, LLC
35 Avco Road
Haverhill, MA 01835

Management is responsible for the accompanying projected financial statements of Advocate Healthcare of East Boston, LLC (the "Company"), which comprise the projected balance sheets as of December 31, 2019, 2020, 2021, 2022, 2023 and 2024, and the related projected statements of operations and changes in members' capital, and cash flows for the projected initial operating period of November 1, 2019 through December 31, 2019 and the projected years ending December 31, 2020, 2021, 2022, 2023 and 2024, and the related summaries 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"). We 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. We did not examine or review the projected financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these projected financial statements or the assumptions.

Furthermore, even if the Company can complete the construction the Project (as defined in the summaries 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. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying Projection, and this report, are intended solely for the information and use of management, officers and members of the Company, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
December 20, 2019

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ADVOCATE HEALTHCARE OF EAST BOSTON, LLC
PROJECTED BALANCE SHEETS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
DECEMBER 31, 2019 THROUGH 2024
(000S OMITTED)

	2019	2020	2021	2022	2023	2024
ASSETS						
CURRENT ASSETS						
Cash	$ 888	$ 1,039	$ 1,228	$ 1,509	$ 1,746	$ 1,992
Accounts Receivable, Net	1,640	1,709	1,781	1,859	1,939	2,020
Total Current Assets	2,528	2,748	3,009	3,368	3,685	4,012
PROPERTY AND EQUIPMENT						
Land	300	300	300	300	300	300
Building and Improvements	3,406	3,406	12,675	12,675	12,675	12,675
Equipment & Furniture	225	325	951	1,051	1,151	1,251
	3,931	4,031	13,926	14,026	14,126	14,226
Accumulated Depreciation	(21)	(149)	(540)	(1,194)	(1,848)	(2,502)
Property and Equipment, Net	3,910	3,882	13,386	12,832	12,278	11,724
CONSTRUCTION IN PROGRESS	338	6,380	-	-	-	-
Total Assets	$ 6,776	$ 13,010	$ 16,395	$ 16,200	$ 15,963	$ 15,736
LIABILITIES AND MEMBERS' CAPITAL						
CURRENT LIABILITIES						
Current Maturities of Long-Term Debt	$ -	$ 11	$ 65	$ 69	$ 72	$ 76
Accounts Payable and Accrued Expenses	2,655	2,708	2,598	2,482	2,305	2,125
Due to Related Parties	620	620	620	620	620	620
Note Payable	3,400	3,400	3,400	3,400	3,400	3,400
Total Current Liabilities	6,675	6,739	6,683	6,571	6,397	6,221
LONG-TERM DEBT, Net	25	6,056	7,838	7,773	7,705	7,633
Total Liabilities	6,700	12,795	14,521	14,344	14,102	13,854
MEMBERS' CAPITAL	76	215	1,874	1,856	1,861	1,882
Total Liabilities and Members' Capital	$ 6,776	$ 13,010	$ 16,395	$ 16,200	$ 15,963	$ 15,736

See Summary of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report.

ADVOCATE HEALTHCARE OF EAST BOSTON, LLC
PROJECTED STATEMENTS OF OPERATIONS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
INITIAL OPERATING PERIOD NOVEMBER 1, 2019 THROUGH DECEMBER 31, 2019
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2019	2020	2021	2022	2023	2024
REVENUE						
Private	$ 96	$ 588	$ 609	$ 651	$ 664	$ 677
Medicaid	1,411	8,441	8,698	9,141	9,324	9,510
Medicare Part A	469	2,870	3,130	3,814	3,890	3,968
Commercial	122	747	774	826	843	860
Part B - Therapy	80	490	500	510	520	530
Adult Day Care	103	630	643	656	669	682
Total Patient Service Revenue	2,281	13,766	14,354	15,598	15,910	16,227
Other Income	3	18	18	18	18	18
Total Revenue	2,284	13,784	14,372	15,616	15,928	16,245
EXPENSES						
Administration	567	3,631	3,744	3,939	4,018	4,098
Plant	131	857	852	895	913	931
Dietary	145	887	909	940	959	978
Laundry & Linen	25	153	172	223	227	232
Housekeeping	54	330	330	316	322	328
Nursing	702	4,327	4,469	4,725	4,820	4,916
Nursing Support	127	860	881	911	929	948
Social Services/Admissions	54	355	363	373	380	388
Recreation Therapy	28	171	176	183	187	191
Ancillary Costs	203	1,242	1,303	1,439	1,468	1,497
Adult Day Care	79	483	493	503	513	523
Interest	21	129	303	533	530	526
Depreciation	21	128	391	654	654	654
Total Expenses	2,157	13,553	14,386	15,634	15,920	16,210
NET INCOME (LOSS)	$ 127	$ 231	$ (14)	$ (18)	$ 8	$ 35

See Summary of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report.

ADVOCATE HEALTHCARE OF EAST BOSTON, LLC
PROJECTED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
INITIAL OPERATING PERIOD NOVEMBER 1, 2019 THROUGH DECEMBER 31, 2019
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2019	2020	2021	2022	2023	2024
Beginning Balance - Members' Capital	$ -	$ 76	$ 215	$ 1,874	$ 1,856	$ 1,861
Net Income (Loss)	127	231	(14)	(18)	8	35
Distributions	(51)	(92)	-	-	(3)	(14)
Contributions	-	-	1,673	-	-	-
Ending Balance – Members' Capital	$ 76	$ 215	$ 1,874	$ 1,856	$ 1,861	$ 1,882

See Summary of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report.

ADVOCATE HEALTHCARE OF EAST BOSTON, LLC
PROJECTED STATEMENTS OF CASH FLOWS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
INITIAL OPERATING PERIOD NOVEMBER 1, 2019 THROUGH DECEMBER 31, 2019
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2019	2020	2021	2022	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Income (Loss)	$ 127	$ 231	$ (14)	$ (18)	$ 8	$ 35
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	21	128	395	658	658	658
(Increase) Decrease in Accounts Receivable	(46)	(69)	(72)	(78)	(80)	(81)
Increase (Decrease) in Accounts Payable and Accrued Expenses	8	53	(110)	(116)	(177)	(180)
Net Cash Provided by Operating Activities	110	343	199	446	409	432
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Property and Equipment	-	(100)	(3,515)	(100)	(100)	(100)
Construction in Progress	-	(6,042)	-	-	-	-
Net Cash Used by Investing Activities	-	(6,142)	(3,515)	(100)	(100)	(100)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from Contributed Capital	-	-	1,673	-	-	-
Distributions	(51)	(92)	-	-	(3)	(14)
Deferred Financing Costs	-	(158)	-	-	-	-
Proceeds from Assets Acquired	429	-	-	-	-	-
Proceeds from Note Payable	400	-	-	-	-	-
Proceeds from Long Term Debt	-	6,200	1,843	-	-	-
Repayment of Long Term Debt	-	-	(11)	(65)	(69)	(72)
Net Cash Provided (Used) by Financing Activities	778	5,950	3,505	(65)	(72)	(86)
NET INCREASE IN CASH	888	151	189	281	237	246
Cash - Beginning of Year	-	888	1,039	1,228	1,509	1,746
CASH - END OF YEAR	$ 888	$ 1,039	$ 1,228	$ 1,509	$ 1,746	$ 1,992
REQUIRED SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Interest	$ 21	$ 129	$ 299	$ 529	$ 526	$ 522
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES						
Property and Equipment Acquired	$ (3,000)	$ -	$ -	$ -	$ -	$ -
Note Payable Acquired	$ 3,000	$ -	$ -	$ -	$ -	$ -
Noncash Assets Acquired	$ (2,838)	$ -	$ -	$ -	$ -	$ -
Noncash Liabilities Assumed	$ 3,267	$ -	$ -	$ -	$ -	$ -
Construction in Progress Placed in Service	$ -	$ -	$ 6,380	$ -	$ -	$ -

See Summary of Significant Assumptions and Accounting Policies and Independent Accountants' Compilation Report.

NOTE 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 Advocate Healthcare of East Boston, LLC, (the "Applicant", or the "Company"), the expected financial position as of December 31, 2019 through 2024, and the expected results of operations and cash flows for the initial operating period November 1, 2019 through December 31, 2019 and the years ending December 31, 2020 through 2024 (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 is able to develop, market, construct, and complete the proposed substantial renovation (the "Project", as defined more fully hereinafter).
- The Applicant is able to obtain all regulatory approvals for construction of its Project.
- The Applicant is able to obtain debt financing (the "Financing") via a construction loan for approximately $8,043,000 (the "Construction Loan") consistent with the plans presented in this Summary of Significant Projection Assumptions and Accounting Policies.
- The Applicant 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.

NOTE 1 BASIS OF PRESENTATION AND NATURE AND LIMITATIONS OF PROJECTIONS (CONTINUED)

Basis of Presentation (Continued)

Accordingly, the Projection reflects Management's judgement as of December 20, 2019 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.

NOTE 2 NATURE OF THE ORGANIZATION AND PROJECT DESCRIPTION

Nature of the Organization

Advocate Healthcare of East Boston, LLC, is a limited liability company that acquired the real estate and license to operate a 190-bed skilled nursing home and adult day care program located in East Boston, Massachusetts on November 1, 2019.

Project Description

The Applicant is submitting a request for a Notice of Determination of Need ("DoN") for a substantial capital expenditure in connection with planned renovations to the property located at 111 Orient Avenue in East Boston, Massachusetts (the "Facility"). The planned construction to be undertaken by the Applicant will include replacement of critical systems and fixed equipment, and renovations addressing improved compliance with health care construction requirements for resident rooms and related service areas. As a result of the Project, the total number of beds at the Facility will change as noted in the "Resident Room Configuration" table on page 8.

Construction is expected to begin during 2020 and is anticipated to be completed by the third quarter of 2021. The Projection presentation reflects the Project assets being placed in service by October 1, 2021. Additionally, the majority of the associated debt utilized to fund the Project is assumed to be incurred in 2020. The remaining $1,843,000 of associated debt and approximately $1,673,000 of equity contributions from members are assumed to occur in 2021.

The total Project costs assumed in the Projections are approximately $10,053,000.

NOTE 2 NATURE OF THE ORGANIZATION AND PROJECT DESCRIPTION (CONTINUED)

Project Description (Continued)

The following table summarizes the configuration of rooms before renovations and after the proposed renovations of the Facility:

Resident Room Configuration

Pre-Renovation - 190 Beds				Post Renovation - 165. Beds			
Type	Bed Capacity	Inventory	Total Beds	Type	Bed Capacity	Inventory	Total Beds
Private	1	21	21	Private	1	28	28
Semi	2	18	36	Semi	2	37	74
Three-Bedded	3	15	45	Three-Bedded	3	21	63
Four-Bedded	4	22	88	Four-Bedded	4	0	0
Total Beds			190	Total Beds			165

NOTE 3 LONG TERM DEBT, FINANCING AND NOTE PAYABLE

The accompanying Projection assumes that the Project will be financed by the Construction Loan, secured by a second mortgage on the real property, in the amount of approximately $8,043,000, and contributed capital of approximately $1,673,000. Additionally, approximately $337,000 of existing pre-planning construction in progress costs were funded prior to the Projection Period. The interest rate assumed in the Projection for the Construction Loan is 5.0%. Payments on the Construction Loan are assumed to be interest only through completion of the Project. Subsequent to the Project completion, it is assumed the Construction Loan will be payable in monthly installments of principal and interest of approximately $39,000 and mature on October 1, 2061. Any material changes in the terms of the actual Construction Loan would impact the results of the Projection. The Projection assumes an existing note payable executed November 1, 2019 of approximately $3,400,000, remains payable throughout at an estimated interest rate of 2.88%, which is the current rate on the debt. Payments on the note are assumed to be interest only throughout the Projection Period. The note matures in a year, thus has been presented as current throughout the Projection Period. The note payable is secured by a first mortgage on the real estate and collateralized for the full amount by the majority member.

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
2020	$ -
2021	11,000
2022	65,000
2023	69,000
2024	72,000

NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES

Projected revenue consists of revenue from operating the Facility and the adult day care program. Prior to acquiring the facility, the ownership group managed the Facility. Thus, Management's baseline projected revenue and expenses for the initial operating period and 2020 were derived from interim financial data for the current period, and management's historical experience of operating the Facility. This information was utilized to project and establish a baseline for the initial operating period of November 1, 2019 through December 31, 2019 and year ending 2020. 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.

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

	Current Payer Mix	Per Diem
Private	4.00 %	$ 320
Medicare	10.00	625
Medicaid	81.00	232
HMO	5.00	325
Total	100.00 %	

	11/1/2019-9/30/2021 Projected Payer Mix	10/1/2021-12/31/2023 Projected Payer Mix	2019 Per Diem	2020 Per Diem	2021 Per Diem	2022 Per Diem	2023 Per Diem	2024 Per Diem
Private	4.00 %	4.00 %	$ 320	$ 327	$ 334	$ 340	$ 346	$ 353
Medicare	10.00	12.00	625	639	653	663	677	690
Medicaid	81.00	79.00	232	232	237	241	246	251
HMO	5.00	5.00	325	332	339	345	352	359
Total	100.00 %	100.00 %						

The following tables summarize the historical and projected occupancy at December 31:

	2015	2016	2017	2018
Occupancy %	76.17%	86.46%	90.73%	90.72%

Based on Active Beds

	2019	2020	2021	2022	2023	2024
Occupancy %	91.80%	91.80%	91.63%	91.16%	91.16%	91.16%
Total Days	* 7,503	44,898	45,659	47,914	47,914	47,914

* November 1, 2019 through December 31, 2019
Based on Active Beds

NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES (CONTINUED)

Management calculated the baseline revenues for the initial operating period of November 1, 2019 through December 31, 2019 utilizing current reimbursement and economic conditions, and current nursing home regulations. In the subsequent years of the Projection Period (years ending December 31, 2020-2024), Management applied a 2% rate increase per year across all payer classes, except Medicaid in 2020, for which no increase was applied. The projection assumes an average daily census of 123.01 for the initial operating period of November 1, 2019 through December 31, 2019, year ending December 31, 2020, and through September 30, 2021. Thereafter, the projected average daily census is 131.27. Additionally, the projection assumes a slight change in the case mix on October 1, 2021 upon completion of the project.

Effective October 1, 2019, the Medicare reimbursement system for skilled nursing facilities underwent a significant change in methodology. Management's projected Medicare revenue was based on the existing reimbursement methodology. The impact of the new reimbursement methodology on projected revenue can't be determined at this time.

Other Revenue Items

Other revenue items include Adult Day Care and Medicare Part B services. These are assumed to increase based on the consumption of services and for general inflation assumed to be approximately 2% annually during the Projection Period.

Operating Expenses

Operating expenses have been projected to be recognized during the month incurred. Management's baseline projected expenses for the initial operating period of November 1, 2019 through December 31, 2019 and year ending 2020 were derived from interim financial data of the facility operations (managed by ownership prior to acquisition) for the current period and Management's historical experience of operating the facility. This information was utilized to project and establish a baseline for the initial operating period November 1, through December 31, 2019 and 2020. In subsequent years, in general, operating expenses are projected to increase 2% annually for salaries and benefits and nonwage costs throughout the projection period. The specific basis for inflationary increases in major expense categories were formulated by Management and are discussed below.

Salaries and Related Taxes and Benefits

A full time equivalent employee ("FTE") is assumed to represent 2,080 hours of time paid annually. Salaries were assumed to increase 2% annually during the Projection Period. 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 13% of wages during the Projection Period. Commencing in October of 2021, and January of 2022 approximately $119,000 and $356,000, respectively, in additional salaries and related benefit costs were added to projected expenses to account for the additional resources necessary upon completion of the Project.

NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES (CONTINUED)

Administration

Management has projected nonsalary costs of general and administrative services to include property and liability insurance, management fees, accounting and legal fees, computer expenses, human resources, professional fees, telephone and internet service, marketing costs and other miscellaneous costs associated with administrative services. Generally, these costs are anticipated to increase 2% annually throughout the Projection Period for inflation. Additionally volume increases of approximately $30,000 and $88,000 in 2021 and 2022, respectively, are included in the projection.

Dietary

Nonsalary cost of dining services relate to the projected costs for providing food services to the residents, including raw food, dietary supplies and other such costs. Management assumes that these costs would vary with occupancy levels. Additionally, these costs are anticipated to increase at 2% annually throughout the Projection Period. Additionally operational decreases of approximately $2,500 and $7,500 in 2021 and 2022, respectively, are included in the projection.

Plant Operations, Housekeeping, & Laundry and Linen

Nonsalary related costs of plant, housekeeping, and laundry and linen operations are projected to include the cost of service contracts, repairs, supplies and other miscellaneous costs associated with providing these services. In addition, these costs are anticipated to increase at 2% annually throughout the Projection Period for inflation. Additionally operational decreases of approximately $28,000 and $84,000 in 2021 and 2022, respectively, are included in the projection.

Utilities and Real Estate Taxes

Utilities and real estate taxes are included under the caption Plant on the Projected Statement of Operations. Nonsalary related utility costs are projected to include the cost of gas and oil, electricity, water, and sewer services, and trash removal. In addition, these costs are anticipated to increase at 2% annually throughout the Projection Period for inflation.

Real estate taxes were estimated based on current rates and assumed to increase 2% annually throughout the Projection Period. Additionally, commencing in 2022, an estimated increase of approximately $100,000 per year was included in the projected Statement of Operations to account for the estimated increase in the assessment value of the property.

Nursing Support, Social Services, Recreation, & Ancillaries

Nonsalary related health service costs are projected based upon Management's estimate of the cost of nursing supplies, ancillary supplies, consultants, and other miscellaneous costs associated with providing health care services. Management assumes that these costs would vary with changes in occupancy levels. These costs are anticipated to increase 2% annually throughout the Projection Period. Additionally, operational increases of approximately $9,000 and $28,000 in 2021 and 2022, respectively are included in the projection.

NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES (CONTINUED)

Depreciation

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

Operating Assets and Liabilities

The accompanying Projection assume an increase of 2% of revenue to the accounts receivable balance in the initial operating period and .50% throughout the subsequent years of the Projection Period. Accounts payable is assumed to be 20% of total expenses net of depreciation, interest, real estate taxes, and income taxes (projected accounts payable) in each of the Projection years. Additionally, the accounts payable balance is projected to increase by 2% of the projected accounts payable in the initial operating period and 2020 and decrease by 4% in each of the subsequent Projection years. Excess cash flow generated is assumed to increase cash except as noted above.

All other items, if any, were assumed to be constant during the Projection Period.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. No impairment losses were recorded in the Projection.

Due to Related Parties

The Company has a related party payable of approximately $620,000 to a member with no fixed repayment terms. It is assumed the balance will remain constant throughout the projection period. Interest on the above loan was estimated at 5% throughout the projection.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to Related Parties (Continued)

Additionally, the projection includes management fee expense to a related party estimated at 4% of revenues for 2019 and 5% of revenues thereafter.

The projection includes distributions to members to cover estimated income tax liabilities derived from projected net income.

Cash and Cash Equivalents

The Company considers all short-term debt securities purchased with an original maturity of three months or less to be cash or cash equivalents.

Accounts Receivable

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

Income Taxes

The projection does not include a provision for income taxes because the Company does not incur federal or state income taxes. Instead, its earnings and losses are included in the members' personal income tax returns and are based on their personal tax strategies.

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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Promotional Advertising

Promotional advertising costs are expensed as incurred.

Deferred Financing Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method, and is reflected as a component of interest expense.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The guidance requires the Company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Projection assumes the Company adopted ASU 2014-09 during the Projection period.

ASU 2014-09 requires the Company to exercise more judgment and recognize revenue using a five-step process. The Projection assumes the Corporation adopted ASU 2014-09 using the modified retrospective method for all contracts prior to the Projection Period and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collections trends. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of equity at the date of initial application. The Projection does not reflect any cumulative-effect adjustment in members' equity as there is no prior period shown in the projection.

Patient Services Revenue

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

Medicare

Currently, the Facility participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). Through September 30, 2019, The Facility was paid under the Medicare Prospective Payment System (PPS) through an insurance intermediary for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services. The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

The federal rates utilize facility case-mix resident assessment data, completed by the Facility, to assign patients into a Resource Utilization Group (RUGs). The Facility must complete the resident assessments according to a specific time schedule designed for Medicare payment. Organizations 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 organization is not in compliance.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenue (Continued)

Medicare (Continued)

The PPS program mandates the implementation of fee schedules for Facility therapy services to residents not in a covered Part A stay and to nonresidents who receive outpatient rehabilitation services from the Facility. The Centers for Medicare and Medicaid Services imposed a limit for both physical therapy (including speech therapy) and occupational therapy services. However, an exception may be granted to the limit if the patient meets certain criteria.

Effective October 1, 2019, the Medicare reimbursement system for skilled nursing facilities underwent a significant change in methodology. Management's projected Medicare revenue was based on the existing reimbursement methodology. The impact of the new reimbursement methodology on projected revenue can't be determined at this time.

Medicaid – Standard Payments to Nursing Facilities

The Company 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 may result in a retroactive rate adjustment for the current year.

Private/HMO/Other

Payment agreements with private residents and certain commercial insurance carriers provide for payment using prospectively determined daily rates. Revenue from these payer classes are recorded at the estimated net realizable amounts.

Settlements with third-party payers 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 payer, correspondence from the payer and the Company'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.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenue (Continued)

Generally residents who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Company estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent charges to the estimate of the transaction price are generally recorded as adjustments to resident services revenue in the period of the change. 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 Company has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payers, service line, method of reimbursement, and timing of when revenue is recognized.

Revenue from resident's deductibles and coinsurance are classified based on the primary payer.

Financing Component

The Projection assumes the Company elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payers for the effects of a significant financing component due to the Company's expectation that the period between the time the service is provided to a resident and the time that the Resident or a third-party payer pays for that service will be one year or less. However, the Projection assumes the Company does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contract Costs

The projection assumes the Company has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.