

Via: Email

May 10, 2022

Lucy Clarke
Analyst | Determination of Need Program
Massachusetts Department of Public Health
250 Washington Street, 4th floor
Boston, MA 02108

Re: Submission of CPA certification – Long Term Centers of Wrentham, Inc (Serenity Hill)

Dear Lucy,

On behalf of SCS client Serenity Hill, I am submitting to your office the required CPA certification of project feasibility prepared by John Sannella, CPA.

You will note that the documentation confirms that the proposed project, which includes targeted facility additions and renovations related to 2 bed rule compliance, meets appropriate financial feasibility standards. The plan to update the SNF via new construction and renovation is feasible.

As you know the DON submission is predicated on meeting the new DPH licensure requirements.

Separately, Serenity Hill has submitted to DPH the required waiver and good faith attestation materials that reference the DON submission.

Based on recent communication, it is SCS' understanding that the submission of this CPA certification now provides DON with a complete filing. Please advise as to whether anything else is required.

Thank you,

Karen Koprowski

Karen Koprowski
Regulatory Advisor

ATTACHMENTS - CPA Certification communications

CC: John Sannella, CPA
Matthew Sweeney, Long Term Centers Group
Stephen Davis, DPH
Stephanie Carlson, DPH

JOHN P. SANNELLA, CPA

ACCOUNTING AND CONSULTING

INDEPENDENT ACCOUNTANT'S REPORT ON THE FINANCIAL SUITABILITY OF THE PROPOSED PROJECT BY LONG TERM CENTERS OF WRENTHAM, INC. DBA SERENITY HILL NURSING AND REHABILITATION CENTER

Members

Long Term Centers of Wrentham, Inc.
DBA Serenity Hill Nursing and Rehabilitation Center
Wrentham, Massachusetts

I have performed an analysis of the financial projections for Long Term Centers of Wrentham, Inc. DBA Serenity Hill Nursing and Rehabilitation 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 Long Term Centers of Wrentham, Inc. DBA Serenity Hill Nursing and Rehabilitation Center ("Management") 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 Serenity Hill Nursing and Rehabilitation 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 9, 2022

**LONG TERM CENTERS of WRENTHAM, INC. DBA
SERENITY HILL NURSING AND REHABILITATION
CENTER**

Projected Financial Statements and
Independent Accountant's Compilation Report

Years Ended December 31, 2022 and 2026

**LONG TERM CENTERS OF WRENTHAM, INC. DBA
SERENITY HILL NURSING AND REHABILITATION CENTER**

PROJECTED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2026

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JOHN P. SANNELLA, CPA
ACCOUNTING AND CONSULTING

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

Members

Long Term Centers of Wrentham, Inc.
DBA Serenity Hill Nursing and Rehabilitation Center
Wrentham, Massachusetts

Management is responsible for the accompanying projected financial statements of Long Term Centers of Wrentham, Inc. DBA Serenity Hill Nursing and Rehabilitation Center, which comprise the projected balance sheets as of December 31, 2022, 2023, 2024, 2025, and 2026, and the related projected statements of operations, changes in equity, 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 Long Term Centers of Wrentham, 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 Long Term Centers of Wrentham, Inc.

The accompanying Projection, and this report, are intended solely for the information and use of management, and members of Long Term Centers of Wrentham, 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 9, 2022

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
PROJECTED BALANCE SHEETS
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	\$ 118,553	\$ 673,406	\$ 1,264,989	\$ 2,184,519	\$ 3,001,426
Patient accounts receivable, net	426,246	495,981	745,315	764,046	783,031
Prepaid and other current assets	94,500	96,863	98,800	100,776	102,792
Total current assets	<u>639,299</u>	<u>1,266,250</u>	<u>2,109,104</u>	<u>3,049,340</u>	<u>3,887,249</u>
Non-Current Assets:					
Related party receivable / (payable)	1,110,375	1,110,375	1,110,375	1,110,375	1,110,375
Property and equipnet, net	353,124	298,024	7,110,092	6,878,911	6,647,730
Intangible assets, net	6,600	6,092	5,584	5,076	4,568
Total non-current assets	<u>1,470,098</u>	<u>1,414,490</u>	<u>8,226,051</u>	<u>7,994,362</u>	<u>7,762,673</u>
Total Assets	<u>\$ 2,109,397</u>	<u>\$ 2,680,741</u>	<u>\$ 10,335,155</u>	<u>\$ 11,043,702</u>	<u>\$ 11,649,921</u>
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of long term debt	\$ 79,512	\$ 83,788	\$ 167,785	\$ 177,917	\$ 188,667
Accounts payable and accrued expenses	529,553	509,298	548,816	551,229	555,252
User fee payable	60,417	58,702	73,796	73,796	73,796
Accrued compensation and benefits	39,287	42,054	62,337	63,583	64,855
Line of credit	250,000	250,000	250,000	250,000	250,000
Total current liabilities	<u>958,769</u>	<u>943,843</u>	<u>1,102,733</u>	<u>1,116,525</u>	<u>1,132,570</u>
Long term liabilities:					
Debt Secured by Mortgage Long Term	518,413	355,112	7,068,065	6,885,642	6,512,254
Total long term liabilities	<u>518,413</u>	<u>355,112</u>	<u>7,068,065</u>	<u>6,885,642</u>	<u>6,512,254</u>
Total liabilities	<u>1,477,182</u>	<u>1,298,956</u>	<u>8,170,798</u>	<u>8,002,167</u>	<u>7,644,825</u>
Total equity	<u>632,215</u>	<u>1,381,785</u>	<u>2,164,357</u>	<u>3,041,535</u>	<u>4,005,097</u>
Total Liabilities and Equity	<u>\$ 2,109,397</u>	<u>2,680,741</u>	<u>\$ 10,335,155</u>	<u>\$ 11,043,702</u>	<u>\$ 11,649,921</u>

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
PROJECTED STATEMENTS OF OPERATIONS AND CHANGES IN EQUITY
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2022 THROUGH 2026

	2022	2023	2024	2025	2026
Revenue:					
Private revenue	\$ 434,350	\$ 630,720	\$ 1,032,525	\$ 1,089,888	\$ 1,147,250
Medicare A revenue	781,771	1,018,141	1,743,684	1,778,557	1,814,128
Medicaid revenue	2,439,125	2,329,508	3,135,740	3,198,455	3,262,424
Managed care revenue	287,602	621,220	1,021,353	1,041,780	1,062,616
Total room and board revenue	3,942,847	4,599,589	6,933,302	7,108,680	7,286,418
Medicare B ancillary revenue	149,113	161,831	221,724	226,158	230,681
Total revenue	4,091,960	4,761,420	7,155,026	7,334,838	7,517,100
Operating Expenses:					
Administrative & general	737,851	774,949	983,164	1,002,828	1,022,884
Nursing expense	1,586,176	1,711,590	2,723,650	2,768,756	2,824,131
Social services	51,083	55,440	75,958	77,477	79,026
Dietary expense	404,030	438,492	600,774	612,789	625,045
Laundry & housekeeping	133,108	136,759	141,527	144,357	147,245
Activities expenses	46,839	50,834	69,648	71,041	72,461
Plant operations	118,652	121,618	124,051	126,532	129,062
Other expense	378,798	378,998	465,123	468,522	471,989
Interest expense	51,554	47,496	627,957	618,178	607,804
Depreciation and amortization	55,608	55,608	231,689	231,689	231,689
Ancillaries	221,200	240,067	328,913	335,491	342,201
Total operating expenses	3,784,898	4,011,850	6,372,453	6,457,660	6,553,538
Net Income	307,062	749,570	782,572	877,178	963,561
Equity - Beginning of Year	325,154	632,215	1,381,785	2,164,357	3,041,535
Equity - End of Year	<u>\$ 632,215</u>	<u>\$ 1,381,785</u>	<u>\$ 2,164,357</u>	<u>\$ 3,041,535</u>	<u>\$ 4,005,097</u>

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION 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
Cash Flows from Operating Activities:					
Net income	\$ 307,062	\$ 749,570	\$ 782,572	\$ 877,178	\$ 963,561
Adjustments to reconcile net income to net cash from operating activities:					
Depreciation and amortization	55,608	55,608	231,689	231,689	231,689
(Increase) decrease					
Patient accounts receivable	(89,523)	(69,735)	(249,334)	(18,730)	(18,986)
Other receivables	18,850	-	-	-	-
Prepaid and other current assets	(2,752)	(2,363)	(1,937)	(1,976)	(2,016)
Increase (decrease)					
Accounts payable and accrued expenses	(56,178)	(20,255)	39,517	2,413	4,023
User fee payable	10,417	(1,714)	15,094	-	-
Accrued compensation and benefits	2,601	2,767	20,282	1,247	1,272
Due to Medicaid advance	(50,000)	-	-	-	-
Net cash provided by operating activities	<u>196,085</u>	<u>713,878</u>	<u>837,884</u>	<u>1,091,821</u>	<u>1,179,544</u>
Cash Flows from Investing Activities:					
Purchase of property and equipment	-	-	(7,043,250)	-	-
Net cash used by investing activities	<u>-</u>	<u>-</u>	<u>(7,043,250)</u>	<u>-</u>	<u>-</u>
Cash Flows from Financing Activities:					
Proceeds from debt	-	-	7,043,250	-	-
Payment on line of credit	(4,895)	-	-	-	-
Repayment of debt	(75,455)	(159,024)	(246,301)	(172,291)	(362,637)
Net cash used by financing activities	<u>(80,350)</u>	<u>(159,024)</u>	<u>6,796,949</u>	<u>(172,291)</u>	<u>(362,637)</u>
Net Increase (Decrease) in Cash	115,735	554,853	591,583	919,530	816,907
Cash and restricted cash - beginning of year	2,818	118,553	673,406	1,264,989	2,184,519
Cash and Restricted Cash - End of Year	<u>\$ 118,553</u>	<u>\$ 673,406</u>	<u>\$ 1,264,989</u>	<u>\$ 2,184,519</u>	<u>\$ 3,001,426</u>
Supplemental Disclosure of Cash Flow Information					
Cash paid during the year:					
Interest	<u>\$ 51,554</u>	<u>\$ 47,496</u>	<u>\$ 627,957</u>	<u>\$ 618,178</u>	<u>\$ 607,804</u>

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION 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 Long Term Centers of Wrentham, Inc. DBA Serenity Hill Nursing and Rehabilitation Center (the “Applicant”, “Nursing Home”), 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 is able to develop, market, construct, and complete the proposed conservation renovation project (the “Project”, as defined more fully hereinafter).
- The Applicant is able to obtain all regulatory approvals for construction of its Project including obtaining 12 additional beds.
- The Nursing Home is able to obtain debt financing (the “Financing”) via a mortgage loan for approximately \$7,043,250 (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 \$7,043,250, plus associated filing fees of \$14,087.
- 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 9, 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.

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

2. ORGANIZATION AND PROJECT DESCRIPTION

Organization

Long Term Centers of Wrentham, Inc. (LTCW) is an S-corporation which operates Serenity Hill Nursing and Rehabilitation Center. LTCW has been delivering high quality health care to seniors and disabled persons in the Commonwealth of Massachusetts for over 30 years. The organization operates three skilled nursing and rehabilitation facilities in Massachusetts, Serenity Hill Nursing & Rehabilitation Center in Wrentham, Pine Knoll Nursing Center in Lexington, and Greenwood Nursing and Rehabilitation Center in Wakefield. It also operates the Mill Pond Rest Home in Ashland. All its skilled nursing and rehabilitation Centers are dually certified by Medicaid and Medicare.

Serenity Hill Nursing & Rehabilitation Center (Serenity Hill) is a 40-bed skilled nursing facility and rehabilitation center located in Wrentham, Massachusetts. The facility offers a continuum of care for individuals who need short or long-term care services. It provides long-term skilled nursing care, short-term rehabilitative care, hospice, and respite care to residents who need such services.

Project Description

Serenity Hill is a 17,991 square foot, two-story facility that was constructed in 1961 with no additions added since opening. It was purchased by Long Term Centers Group in 1998 and has been family owned and operated since that date. The facility is located at 665 Dedham Street, Wrentham easily accessible to Route 495. Wrentham is a residential community with more than 12,000 residents. In the 2020 census, 14% of the town's residents were age 65 and over and 6% were under 65 with a disability.

The facility is comprised of one 40 bed nursing unit on the first floor, and all beds are dually-certified by Medicaid and Medicare. The nursing unit has 1 private room; 2 semi-private rooms; 5 three-bed rooms, and 5 four-bed rooms. The second floor of the facility houses administrative functions including office space for the administrator, director of nursing, activities director and social worker. The facility also has a full basement which includes the kitchen and laundry.

The scope of work outlined in this application is aimed at improving the quality of patient care and quality of life for all existing and future residents, regardless of their resources, payor source or length of stay.

The facility proposes to construct a 15,210 square foot addition to the existing structure to house 34 beds and the required support areas. This will allow Serenity Hill to comply with the state's Dedensification requirements, which will prohibit skilled nursing facilities from housing residents in three or four bedded rooms effective April 30, 2022. Serenity Hill currently has five three-bed rooms and five four-bed rooms. Without this proposed addition, Serenity Hill would lose 15 of its 40 beds and no longer be able to function as a high quality, efficient and effective facility. With this addition, all of Serenity Hill's patient rooms would be semi-private or private, complying with the state's new Dedensification regulation. The addition would also include twelve (12) additional beds under the facility's one-time regulatory allowance.

The overall maximum capital expenditure (MCE) sought in this application is \$7,043,250 (March 2022 dollars). The majority of this capital expenditure would be for the new addition, but some limited funds would cover minimal work at the existing facility such as renovating corridors at the connection points only and reconfiguring beds for all semi-private and private rooms.

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

2. ORGANIZATION AND PROJECT DESCRIPTION...continued

Of the facility's current 33 residents, 17 (51.5%) are male and 16 (48.5%) are female. 3 residents (9.1%) are age 55-65, 12 residents (36.4%) are age 66-75, 12 residents (36.4%) are age 76-85, and 6 residents (18.1%) are age 86 and over. While Serenity Hill does not discriminate against any religion and welcomes all to its facility, most residents who responded listed their faith as Catholic or Protestant. 99% of the current are white.

The average length of stay (ALOS) for all residents discharged in 2021 was approximately one and one-half years. Patient panel diagnoses for Serenity Hill long-term patients are primarily general medical and dementia, in addition to requiring assistance or supervision with activities of daily living such as bathing, dressing, toileting, eating and ambulating. Other admission diagnoses include cardiac, pulmonary, infectious disease, post-surgical and other medical conditions.

The payer mix for 2021 shows that the vast majority (85%) of Serenity Hill residents have 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. Approximately 9% of the residents were private pay and the remaining 6% were covered by Medicare. Serenity Hill Medicaid patients' case-mix (MMQ categories) were 30% lighter care (categories J/K), 40% were moderate care (categories L/M/N/P), and 30% were heavy care (categories R/S). The average case-mix adjusted MMQ rate is \$254.

Serenity Hill operates in a highly competitive environment. There are 11 cities and towns within a 10-mile radius of Wrentham, 9 in Massachusetts and 2 over the border in Rhode Island. There are a total of 13 skilled nursing facilities with 1,355 total beds within that 10-mile radius. Despite that competition, Serenity Hill has historically maintained occupancy in the low 90s. However, like most facilities across the state, occupancy has dropped over the past two years due to admission limitations caused by Covid-19. Occupancy in 2019 was 91.2%. It dropped to 79.7% in 2020 and 74.0% in 2021.

Serenity Hill Nursing and Rehabilitation Center has successfully competed with other health care providers in various Norfolk County communities. Since its purchase by Long Term Centers of Wrentham, Inc., it has undergone both exterior and interior renovations to ensure the comfort and safety of its residents, staff, and family members.

If approved and implemented, this Determination of Need (DON) project will allow ownership to address the state's De-Densification requirements. The facility proposes to relocate the 15 beds lost in the three and four-bedded rooms by constructing a 34 bed, 15,210 square foot addition connected to the existing structure. The Applicant would also use its one-time regulatory allowance of an additional twelve (12) beds. The DON would also include funds to tie the addition into the existing structure as well as renovations/upgrades to the existing structure to address life safety issues and reconfigure beds. Taken together, these changes will add greatly to the quality of life for existing and future residents as well as helping the facility better address the discharge needs of area hospitals and communities in Norfolk County.

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

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

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 \$7,043,250. The interest rate assumed in the Projection for the Construction Loan is 6.5% with a 30 year amortization period.

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 \$44,500 maturing on December 1, 2053. Any material changes in the terms of the actual loan would impact the results of the Projection.

Existing Long Term Liabilities

In January 2009, LTCW entered into a secured mortgage loan agreement with an interest rate of 5.25%. Payments are payable on a monthly basis in the amount of \$9,084 including principal and interest.

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	\$ 33,554
2023	29,496
2024	103,944
2025	104,710
2026	105,587

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.

LONG TERM CENTERS of WRENTHAM, INC.
DBA SERENITY HILL NURSING AND REHABILITATION CENTER
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
YEARS ENDED DECEMBER 31, 2022 THROUGH 2026

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:

	Current	
	Payer Mix	Per Diem
Private	9.2%	\$ 312
Medicare	6.2%	612
Medicaid	84.6%	254
Managed care	0.0%	450
Total	<u>100.0%</u>	

	<u>2022</u>	<u>2023</u>	<u>2024-2026</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
	Projected Payer Mix	Projected Payer Mix	Projected Payer Mix	Per Diem	Per Diem	Per Diem	Per Diem	Per Diem
Private	10.0%	12.0%	13.0%	\$ 350	\$ 400	\$ 450	\$ 475	\$ 500
Medicare	10.0%	12.0%	15.0%	630	646	659	672	685
Medicaid	75.0%	66.0%	60.0%	262	269	296	302	308
Managed care	5.0%	10.0%	12.0%	464	473	482	492	502
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>					

The following tables summarize the historical and projected occupancy:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Historical Occupancy %	91.2%	79.7%	74.0%

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Projected Occupancy %	85.0%	90.0%	93.0%	93.0%	93.0%

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 74% of licensed capacity. With the new construction and renovation occupancy is expected to grow to 85% in 2022, 90% in 2023, and reach 93% 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 9.2% currently to 10% in 2022, 12% in 2023 and 13% in 2024 through 2026. Medicare will increase from 6.2% to 10% in 2022, 12% in 2023 and 15% in 2024 and thereafter. Medicaid will decrease from 84.6% to 75% in 2022, 66% in 2023, and 60% for 2024 through 2026. Finally, Managed Care will increase from 0.0% to 5% in 2022 and 10% for 2023 and 12% in 2024 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,

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

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 brought about by Covid and also by the consequence of higher-than-normal rate of inflation. Years 2023 through 2026 are forecasted to increase 2.5% for 2023 and 2.0% for 2024 through 2026 and equal to the overall inflation rate anticipated for those years. An addition of \$22.12 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 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 19% of wages during the Projection Period. In addition, nursing staffing is predicated upon maintaining a 3-Star CMS staffing rating. The projected .74 RN hours per patient day is slightly above the range of .731-1.048 necessary for this ranking. Total nursing hours of 3.91 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 eliminated for the projection period.

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.

During the year ended December 31, 2021, the Nursing Home received forgiveness on a loan for approximately \$740,922 through the Federal Paycheck Protection Program. 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 \$7,043,250 for the Project is expected to be financed at a 6.5% interest rate with an amortization period of 30 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 Company maintains its accounting and financial records according to the accrual basis of accounting.

Basis of Presentation

The accompanying projected financial statements present the projected balance sheet, statement of operations, changes in equity, and cash flows of the Company.

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.

Cash and Cash Equivalents and Restricted Cash

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.

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

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Nursing Home 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 Nursing Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Nursing Home 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 Nursing Home 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 Nursing Home 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 Nursing Home 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 Nursing Home's policy and/or implicit price concessions provided to patients. The Nursing Home determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Nursing Home 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 Nursing Home 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 Nursing Home 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

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

can be no assurance that regulatory authorities will not challenge the Nursing Home's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Nursing Home. In addition, the contracts the Nursing Home 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 Nursing Home'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 Nursing Home 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 Nursing Home 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 Nursing Home'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 Nursing Home recognized revenue of \$4,091,960, \$4,761,420, \$7,155,026, \$7,334,838, and \$7,517,100, 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

Promotional Advertising

Promotional advertising costs are expensed as incurred.

Income Taxes

The Company, with the consent of its stockholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporate income taxes, the stockholders of an S corporation are taxed on their proportionate share of the company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the projected financial statements.

Fair Value of Financial Instruments

The Nursing Home 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 Nursing Home 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 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 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.