

**8 COLONIAL DRIVE OPERATOR, LLC and 8 COLONIAL DRIVE WESTBOROUGH, LLC - FACTOR 4
ATTACHMENTS**

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FOR THE YEARS ENDING DECEMBER 31, 2022 THROUGH DECEMBER 31, 2026**

**8 COLONIAL DRIVE OPERATOR, LLC
AND
8 COLONIAL DRIVE WESTBOROUGH, LLC**

**COMBINED PROJECTED FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT**

YEARS ENDING DECEMBER 31, 2022 THROUGH 2026



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**8 COLONIAL DRIVE OPERATOR, LLC
AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
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PROJECTED YEARS ENDING DECEMBER 31, 2022 THROUGH 2026**

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Members

8 Colonial Drive Operator, LLC &
8 Colonial Drive Westborough, LLC
Westborough, Massachusetts

Management is responsible for the accompanying combined projected financial statements of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC and which comprise the combined projected balance sheets as of December 31, 2022, 2023, 2024, 2025, and 2026 and the related combined 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). 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 combined 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 combined projected financial statements or the assumptions.

Furthermore, even if 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC 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. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The financial information in the accompanying combined 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, equity, and operations of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC.

The accompanying combined projection, and this report, are intended solely for the information and use of management, officers and members of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC 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

March 31, 2022



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**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED BALANCE SHEETS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
DECEMBER 31, 2022 THROUGH 2026
(000S OMITTED)**

ASSETS	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
CURRENT ASSETS					
Cash	\$ 1,549	\$ 215	\$ 354	\$ 478	\$ 924
Accounts Receivable - Patients/Residents	1,072	1,132	1,197	1,263	1,332
Prepaid Expenses	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>
Total Current Assets	2,643	1,369	1,573	1,763	2,278
PROPERTY AND EQUIPMENT					
Land	982	982	982	982	982
Building Existing	2,339	2,339	2,339	2,339	2,339
Building Addition	-	-	6,428	6,428	6,428
Equipment	501	501	701	701	751
Land Improvements	172	172	172	172	172
Leasehold Improvements	<u>299</u>	<u>299</u>	<u>299</u>	<u>299</u>	<u>299</u>
Total	4,293	4,293	10,921	10,921	10,971
Less: Accumulated Depreciation	<u>736</u>	<u>900</u>	<u>1,154</u>	<u>1,498</u>	<u>1,843</u>
Property and Equipment, Net	<u>3,557</u>	<u>3,393</u>	<u>9,767</u>	<u>9,423</u>	<u>9,128</u>
OTHER ASSETS					
Escrow Deposits	416	416	416	416	416
Replacement Reserve	168	168	168	168	168
Construction in Progress	490	5,921	-	-	-
Due from Related Party	<u>4,507</u>	<u>4,507</u>	<u>4,507</u>	<u>4,507</u>	<u>4,507</u>
Total Other Assets	<u>5,581</u>	<u>11,012</u>	<u>5,091</u>	<u>5,091</u>	<u>5,091</u>
Total Assets	<u>\$ 11,781</u>	<u>\$ 15,774</u>	<u>\$ 16,431</u>	<u>\$ 16,277</u>	<u>\$ 16,497</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED BALANCE SHEETS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
DECEMBER 31, 2022 THROUGH 2026
(000S OMITTED)**

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Current Portion of Long-Term Debt	\$ 169	\$ 208	\$ 248	\$ 255	\$ 263
Accounts Payable and Accrued Expenses	3,150	3,198	3,249	3,301	3,353
Other Current Liabilities	98	98	98	98	98
Total Current Liabilities	<u>3,417</u>	<u>3,504</u>	<u>3,595</u>	<u>3,654</u>	<u>3,714</u>
OTHER LIABILITIES	172	172	172	172	172
LONG-TERM DEBT, Net	<u>8,514</u>	<u>12,219</u>	<u>12,447</u>	<u>12,209</u>	<u>11,963</u>
Total Liabilities	12,103	15,895	16,214	16,035	15,849
EQUITY	<u>(322)</u>	<u>(121)</u>	<u>217</u>	<u>242</u>	<u>648</u>
Total Liabilities and Equity	<u>\$ 11,781</u>	<u>\$ 15,774</u>	<u>\$ 16,431</u>	<u>\$ 16,277</u>	<u>\$ 16,497</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED STATEMENTS OF OPERATIONS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2022 THROUGH 2026
(000S OMITTED)**

	2022	2023	2024	2025	2026
REVENUE					
Private	\$ 406	\$ 414	\$ 439	\$ 447	\$ 456
Medicaid	6,379	6,815	7,481	7,785	7,940
Medicare Part A	2,297	3,094	3,359	3,462	3,531
Commerical	741	755	773	786	802
Part B - Therapy	852	869	887	905	923
HHS Stimulus	130	-	-	-	-
PPP Loan Forgiveness	921	-	-	-	-
Other Income	114	18	18	19	19
Total Revenues	<u>11,840</u>	<u>11,965</u>	<u>12,957</u>	<u>13,404</u>	<u>13,671</u>
EXPENSES					
Administrative and Indirect Program Expenses	3,699	3,930	3,991	4,075	4,157
Property	86	88	90	92	93
Interest	293	288	395	464	456
Depreciation	164	164	254	344	344
Plant Operations	417	425	433	442	451
Dietary	690	703	717	732	746
Laundry	138	141	144	147	150
Housekeeping	205	209	213	217	222
Nursing	3,395	3,817	3,953	4,036	4,116
Nursing Support	672	734	760	776	792
Social Services	83	84	86	88	89
Recreation	147	150	153	156	159
Ancillaries	1,264	1,381	1,430	1,460	1,490
Total Operating Expenses	<u>11,253</u>	<u>12,114</u>	<u>12,619</u>	<u>13,029</u>	<u>13,265</u>
NET INCOME (LOSS)	<u>\$ 587</u>	<u>\$ (149)</u>	<u>\$ 338</u>	<u>\$ 375</u>	<u>\$ 406</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED STATEMENTS OF CHANGES IN EQUITY
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2022 THROUGH 2026
(000S OMITTED)**

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
BEGINNING BALANCE- EQUITY	\$ (2,845)	\$ (322)	\$ (121)	\$ 217	\$ 242
Net Income (Loss)	587	(149)	338	375	406
(Distributions)/Contributed Capital	<u>1,936</u>	<u>350</u>	<u>-</u>	<u>(350)</u>	<u>-</u>
ENDING BALANCE- EQUITY	<u>\$ (322)</u>	<u>\$ (121)</u>	<u>\$ 217</u>	<u>\$ 242</u>	<u>\$ 648</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED STATEMENTS OF CASH FLOWS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2022 THROUGH 2026
(000S OMITTED)**

	2022	2023	2024	2025	2026
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income (Loss)	\$ 587	\$ (149)	\$ 338	\$ 375	\$ 406
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operations:					
Depreciation	164	164	254	344	344
Amortization of Deferred Financing Costs	12	12	17	17	17
PPP Loan Forgiveness	(921)	-	-	-	-
(Increase) Decrease in Assets:					
Accounts Receivable	(53)	(60)	(65)	(67)	(68)
Increase (Decrease) in Liabilities:					
Accounts Payable and Accrued Expenses	44	48	51	53	52
Net Cash Provided (Used) by Operating Activities	<u>(167)</u>	<u>15</u>	<u>595</u>	<u>722</u>	<u>751</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Property and Equipment	-	-	-	-	(50)
Purchases of Construction in Progress	(158)	(1,530)	(65)	-	-
Net Cash Used by Investing Activities	<u>(158)</u>	<u>(1,530)</u>	<u>(65)</u>	<u>-</u>	<u>(50)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
(Distributions)/Contributed Capital	1,936	350	-	(350)	-
Deferred Financing Costs	-	-	(183)	-	-
Payment of Long-Term Debt	(165)	(169)	(208)	(248)	(255)
Net Cash Provided (Used) by Financing Activities	<u>1,771</u>	<u>181</u>	<u>(391)</u>	<u>(598)</u>	<u>(255)</u>
NET INCREASE (DECREASE) IN CASH	1,446	(1,334)	139	124	446
Cash - Beginning of Year	<u>103</u>	<u>1,549</u>	<u>215</u>	<u>354</u>	<u>478</u>
CASH - END OF YEAR	<u>\$ 1,549</u>	<u>\$ 215</u>	<u>\$ 354</u>	<u>\$ 478</u>	<u>\$ 924</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Interest Paid	<u>\$ 222</u>	<u>\$ 217</u>	<u>\$ 320</u>	<u>\$ 389</u>	<u>\$ 381</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
COMBINED PROJECTED STATEMENTS OF CASH FLOWS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTES 1 THROUGH 5
YEARS ENDING DECEMBER 31, 2022 THROUGH 2026**

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING TRANSACTIONS					
Long Term Debt Acquired - Construction Loan	\$ 332	\$ 3,901	\$ 642	\$ -	\$ -
Construction in Progress Financed via Construction Loan	(332)	(3,901)	(642)	-	-
Proceeds from Long Term Debt Acquired	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Financing Costs	\$ -	\$ -	\$ (183)	\$ -	\$ -
Construction in Progress Placed in Service	-	-	-	-	-
Cash Paid for Deferred Financing Costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (183)</u>	<u>\$ -</u>	<u>\$ -</u>
Purchase of Property and Equipment	\$ -	\$ -	\$ (6,628)	\$ -	\$ (50)
Construction in Progress Placed in Service	-	-	6,628	-	-
Cash Paid for Property and Equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (50)</u>
Construction In Progress	\$ (490)	\$ (5,431)	\$ (707)	\$ -	\$ -
Construction in Progress Financed via Construction Loan	332	3,901	642	-	-
Cash Paid for Construction in Progress	<u>\$ (158)</u>	<u>\$ (1,530)</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ -</u>

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

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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 Next Step Healthcare, LLC (the Applicant) on behalf of 8 Colonial Drive Operator, LLC (the Nursing Home, Company, or Facility) and 8 Colonial Drive Westborough, LLC (the Landlord or the Realty), collectively (the Group), the expected combined financial position as of December 31, 2022 through 2026, and the expected combined 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*.

The Group's hypothetical assumptions (the Hypothetical Assumptions) are as follows:

The Applicant, Realty, 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 Landlord is able to obtain debt financing (the Financing) via a construction loan for approximately \$4,875,000 (the Construction Loan) consistent with the plans presented in this Summary of Significant Projection Assumptions and Accounting Policies.
- The Group 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 \$6,811,000 (including all associated filing fees).
- The Applicant and Nursing Home are able to achieve the occupancy, payer mix, average rates, and Paycheck Protection Program loan forgiveness detailed in Note 4. If these are not achieved, it may significantly impact the Projection results.
- The Applicant and Nursing Home are 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 the Group's Management's judgement as of March 31, 2022, March 31, 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.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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

Basis of Presentation (Continued)

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.

Basis of Combination

The accompanying financial statements present the combined financial position, results of operations, changes in equity and cash flows of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC, the unrelated nursing home operator and realty, respectively, for purposes of presentation of the applicant for the Determination of Need application. All material inter-company balances and transactions have been eliminated in combination with the net benefit/cost of these transactions being recognized in combined net income (loss).

NOTE 2 NATURE OF THE ORGANIZATION AND PROJECT DESCRIPTION

Nature of the Organization

Next Step Healthcare LLC., is a Massachusetts limited liability company, which manages and operates 8 Colonial Drive Operator, LLC (the Facility) a 117-bed nursing home in Westborough, Massachusetts. 8 Colonial Drive Westborough, LLC (the Realty), a limited liability company, unrelated to the Facility or Applicant, leases its land, building, and other fixed assets to the Company (Facility and Realty-collectively, the Companies).

Project Description

The Applicant is submitting a request for a Notice of Determination of Need (DoN) for an addition to the Facility located at 8 Colonial Drive in Westborough, Massachusetts, in order to de-densify beds. The existing Facility is a four-story building with 117 beds with two, three, and four bedded rooms. The Proposed Project will consist of an addition, reconfiguration of existing rooms and common areas, and upgrades to certain key mechanical components. The completed project will bring the Facility into compliance with updated regulations with 115 beds consisting of one and two bedded rooms.

The Project is expected to begin in late 2022 and is anticipated to be completed by mid-late 2024. The Projection presentation reflects the Project assets being placed in service in July 2024. Additionally, the associated debt used to fund the Project is to be drawn down on during the construction period, beginning in 2022 for approximately \$332,000, approximately \$3,901,000 in 2023, and the remaining \$642,000 of associated debt is assumed to be incurred in 2024. Finally, approximately \$1,936,000 of member contributions will be used to fund project costs as follows: \$158,000 in 2022, \$1,530,000 in 2023, and \$248,000 in 2024.

The total Project costs assumed in the Projections are approximately \$6,811,000 including filing fees of approximately \$81,000.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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

Project Description (Continued)

As noted below, the bed configuration for the facility will change as a result of the renovations.

Resident Room Configuration							
Pre-Renovation - 117 Beds				Post Renovation - 115 Beds			
Type	Bed		Total Beds	Type	Bed		Total Beds
	Capacity	Inventory			Capacity	Inventory	
Private	1	3	3	Private	1	3	3
Semi	2	15	30	Semi	2	56	112
Three-Bedded	3	12	36	Three-Bedded	3	0	0
Four-Bedded	4	12	48	Four-Bedded	4	0	0
Total Beds			117	Total Beds			115

NOTE 3 FINANCING, LONG-TERM DEBT

Construction Loan

The accompanying Projection assumes that the Project will be financed by the Construction Loan, secured by a mortgage on the real property, in the amount of approximately \$4,875,000, and contributions of approximately \$1,936,000. The interest rate assumed in the Projection for the Construction Loan is 3.75%. Obligations on the Construction Loan are assumed to be interest only through completion of the Project and assumed to be financed. Subsequent to the Project completion, it is assumed the Construction Loan will be converted to a mortgage payable in monthly installments of principal and interest of approximately \$21,000 maturing on June 1, 2059. Any material changes in the terms of the actual financing Loan would impact the results of the Projection.

Existing Long-Term Debt

In August 2020, 8 Colonial Drive Westborough, LLC entered into an agreement with Keybank National Association to issue a HUD insured mortgage in the amount of \$8,944,000. The loan bears a fixed rate of 2.55% and is due in September 2055, with fixed monthly payments of approximately \$32,000 due monthly. The Projection assumes the above remains outstanding at the existing terms throughout the Projection Period.

Projected interest charged to operations, including amortization of debt issuance costs, and mortgage insurance premium costs amounted to approximately \$293,000, \$288,000, \$395,000, \$464,000, and \$456,000 for the projected years ending December 31, 2022, 2023, 2024, 2025, and 2026, respectively. Capitalized interest amounted to approximately \$1,000 in 2022, \$68,000 in 2023 and \$73,000 in 2024.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 3 FINANCING, LONG-TERM DEBT(CONTINUED)

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

<u>Projected Year Ending December 31,</u>	<u>Assumed Current Maturities</u>
2023	\$ 169,309
2024	207,698
2025	248,140
2026	255,407
2027	262,894

NOTE 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 trended 12-month historical information, budgeted 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 year ending 2022. Future years were projected utilizing assumptions for rate increases and operating expenses, and any known changes for operating the Facility after completion of the Project during the Projection Period.

Additionally, for the year ending 2022 Management incorporated estimated temporary impacts of COVID-19. In March of 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Specific to the Company, COVID-19 has impacted various parts of its 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, additional wages, or loss of revenue due to reductions in certain revenue streams. The projection has incorporated COVID-19 revenue impact in the base period of 2022 primarily related to census and occupancy decline. Census impact is removed starting in 2022 through the end of the Projection Period to an assumed 90% occupancy by 2026. Any material changes in the terms of the length and magnitude of the COVID-19 occupancy recovery or any additional expenditures due to COVID-19 compared to the assumptions would impact the results of the Projection.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

**NOTE 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:

	<u>Current Payer Mix (Percent)</u>	<u>Per Diem</u>
Private	2.00 %	\$ 530
Medicare	11.00	667
Medicaid	84.00	218
HMO/Other	<u>3.00</u>	457
 Total	 <u>100.00 %</u>	

	<u>2022</u>	<u>2023-2026</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
	Projected Payer Mix	Projected Payer Mix	Per Diem	Per Diem	Per Diem	Per Diem	Per Diem
Private	2%	2%	\$ 556	\$ 567	\$ 600	\$ 612	\$ 625
Medicare	10%	12%	693	706	721	735	750
Medicaid	84%	82%	218	223	242	252	257
HMO	4%	4%	508	517	528	538	549
 Total	 <u>100%</u>	 <u>100%</u>					

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Historical Occupancy %	80.11%	83.19%	86.91%	80.62%	73.52%
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Projected Occupancy %	81.30%	87.00%	88.91%	90.00%	90.00%
Projected Total Days	34,713	37,171	37,745	37,779	37,779
Beds	117	117	117-115	115	115

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 and anticipated recovery. Management utilized the latest closed fiscal year census and budgeted census to establish the occupancy and mix for 2022 as noted above. The Payor mix remained consistent with an increase in Medicare and decrease in Medicaid of 2% from 2022 to 2023 and then consistent throughout the remainder of the projection. The census was assumed to increase gradually from 2022 through 2025 to reflect the assumed occupancy recovery, ultimately assumed to be 90% as reflected in the above table.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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

Management assumed rates in the base year of 2022 which reflected the most recent regulatory or contractual actual rates in effect. Additionally, management applied an approximate \$20 increase in their publicly aided rates as the current Medicaid regulations allow upon completion of the Project. Management assumed an increased Private rate of \$600 upon completion of the Project. Except as noted above, Management applied a 2% rate increase per year for the Projection Period (years ending December 31, 2022-2026). Any material changes in actual rates compared to the rates assumed would impact the results of the Projection.

Other Operating Revenue Items

Other operating revenue items include Medicare Part B services, COVID stimulus funds and Other Miscellaneous Revenue. The base year of the projection utilized trended 12-month historical information. After removing one-time COVID stimulus and nonrecurring items of approximately \$225,000 Management applied a 2% inflationary increase to the above noted base amounts per year for the Projection Period (years ending December 31, 2022-2026). Additionally, the Nursing Home received a loan for approximately \$921,000 to fund payroll, rent, utilities, and interest on existing debt through the federal Paycheck Protection Program. The loan amount may be forgiven subject to compliance and approval based on the timing and use of the funds in accordance with the program. The Projection assumes the full amount of \$921,000 is forgiven during the year ending December 31, 2022. If the loan forgiveness changes it would significantly impact the results of the Projection.

Operating Expenses

Operating expenses have been projected to be recognized during the month incurred. Management's baseline projected expenses for the year ending 2022 were derived from trended 12-month historical information, budgeted financial data of the facility operations 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 year ending December 31, 2022. In subsequent years, in general, operating expenses are projected to increase 2% annually 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. Unless noted otherwise, 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 26% of wages during the Projection Period.

Additionally, under the nursing cost center volume increases in 2022, 2023, and 2024 of approximately \$327,000, \$240,000, and \$59,000, respectively, were assumed to account for the increase in occupancy.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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

Administration

Management has projected non salary costs of general and administrative services to include 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 in 2022, 2023, and 2024 of approximately \$350,000, \$262,000, and \$61,000, respectively, were assumed to account for the increase in occupancy.

Dietary

Non salary costs 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.

Plant Operations. Housekeeping. and Laundry

Non salary 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.

Utilities and Property

Utilities are included under the caption Plant on the projected statement of operations. Non salary 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. In addition, property costs such as real estate taxes and property insurance are included under the caption Property on the statement of operations. These costs are anticipated to increase 2% annually throughout the Projection Period.

Nursing Support. Social Services. Recreation. & Ancillaries

Non salary 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, volume increases in 2022, 2023, and 2024 of approximately \$181,000, \$137,000, and \$33,000, respectively, were assumed to account for the increase in occupancy.

Depreciation

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

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

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

Operating Assets and Liabilities

The accompanying Projection assume an increase of .50% of revenue to the accounts receivable balance throughout the Projection Period. Accounts payable is assumed to be 20% of total operating expenses net of depreciation, interest, and any nonoperating expenditures (projected accounts payable) in each of the Projection years. Additionally, the accounts payable balance is projected to increase by 2% throughout the Projection Period. Excess cash flow generated is assumed to increase operating cash except as noted elsewhere. Additionally, in the projected year ending December 31, 2026, \$50,000 is assumed to be utilized for the purchase of property and equipment.

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 Companies maintain their accounting and financial records according to the accrual basis of accounting.

Basis of Combination

The accompanying financial statements present the combined financial position, results of operations, changes in equity and cash flows of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC, the unrelated nursing home operator and realty, respectively, for purposes of presentation of the applicant for the Determination of Need application. All material inter-company balances and transactions have been eliminated in combination with the net benefit/cost of these transactions being recognized in combined net income (loss). The Realty is assumed to be in a break-even position.

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 Companies review 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.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The useful lives of property and equipment for purposes of computing depreciation are:

Building (Existing and Replacement)	40 Years
Equipment	5 to 10 Years
Leasehold Improvements	20 Years

Estimates

The preparation of combined 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 combined financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Restricted Cash

The Companies consider all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The Companies also consider cash or cash equivalents that are restricted as cash and cash equivalents for cash flow purposes.

Related Party Loans Receivable and Payables

Loans receivable are recorded net of an allowance for expected loan losses (allowance). The Companies establish an allowance as an estimate of inherent risk in the Companies' loan portfolio. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. The allowance is established through a provision for loan losses that is charged to expense. Management has assumed that there is no allowance throughout the Projection Period. The Related Party Receivable is approximately \$4,507,000 and is assumed to remain constant throughout the Projection Period.

Loan losses are charged off against the allowance when the Companies determine the loan balance to be uncollectible. Proceeds received on previously charged off amounts are recorded as a recovery in the year of receipt. The Companies assumed that all related party loans receivable are fully collectible throughout the Projection Period.

The Companies review the adequacy of the allowance, including consideration of the relevant risks in the loan portfolio, current economic conditions, and other factors periodically. The Companies internally monitor related party borrowers to assess the risk of nonperformance. If the Companies determines that changes are warranted based on those reviews, the allowance is adjusted.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are recorded net of an allowance for expected implicit price concessions. 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

8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC are not taxpaying entities for purposes of federal or state income taxes. Federal and state income taxes are computed on the member's total income from all sources and accordingly, no provision for income taxes is made in these statements.

Promotional Advertising

Promotional advertising costs are expensed as incurred.

Management Fees

The Nursing Home has entered into a management contract with a related party. Management fees included in the base projection year of December 31, 2022 amounted to approximately \$570,000. The remainder of the Projection Period (December 31, 2023-2026) assumes the management fees increase at an inflationary factor of 2%.

Advanced Payments

The Nursing Home received advanced payments from Medicare and Medicaid in 2020. The amounts outstanding at the beginning of the Projection Period totaled approximately \$134,000. The Projection assumes the remaining balance is unchanged throughout the Projection Period. The amounts are included in Other Current Liabilities and Other Liabilities on the projected balance sheet as of December 31, 2022-2026.

Funded Reserves

Under the terms of the HUD Regulatory Agreement, the Realty is required to make monthly payments to an escrow account to cover FHA mortgage insurance, property insurance and real estate taxes. In addition, the Project must make monthly payments to a reserve for replacements, which may be used for capital expenditures and major repairs. Withdrawals from the reserve for replacements are subject to approval by HUD.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method, and are reflected as a component of interest expense. Amortization charged to operations for the Projection Period amounted to approximately \$12,000 and \$17,000 for the projected years ending December 31, 2022-2023 and 2024-2026, respectively.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, pertaining to recording of leases. The standard will not be effective for the Companies until the year ending December 31, 2022. Implementation of the new standard can result in changes to the reporting and disclosure of leases. Management is in the process of evaluating the impact on the Companies. The Projection does not reflect the impact of implementation of ASU 2016-02, as Management does not believe it will have a material impact on the Companies based on its current leasing arrangements. If circumstances change and the impact of the implementation of ASU 2016-02 is material, it would significantly impact the results of the Projection.

Patient Services Revenues from Third-Party Payors

Patient care service revenue is reported at the amount that reflects the consideration to which the Nursing Home expects to be entitled in exchange for providing patient care. These amounts are due from residents, 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. Generally, the Nursing Home bills the residents and third-party payors several days after the end of the month that services are performed. 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 residents in our facility receiving skilled nursing or outpatient therapy services. The Nursing Home measures the performance obligation from admission into the facility, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge or completion of the outpatient services.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third-Party Payors (Continued)

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 policy(ies), and historical experience. The Nursing Home determines its estimate of implicit price concessions based on its historical collection experience.

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

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 could result in a retroactive rate adjustment for the current year.

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).

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third-Party Payors (Continued)

Medicare – Prospective Payment System (Continued)

Effective October 1, 2019, the Medicare Reimbursement System underwent a significant change in methodology and implemented a patient driven payment model (PDPM). 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 patient's length of stay. Therapy services to patients not in a covered Part A stay remain the same.

Hospice

The Hospice receives reimbursement for the care of certain patients under the hospice program. Under the program, the patient pays a base rate according to their payor status (private or Medicaid) and the Hospice receives an additional add-on from the Medicare program to provide hospice care for residents of the Nursing Home.

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 Company'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 Company. In addition, the contracts the Company 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 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.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third-Party Payors (Continued)

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 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 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 Company 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 Company's line of business that provided the service (for example, skilled nursing, therapy care, etc.)

For the projected years ending December 31, 2022, 2023, 2024, 2025 and 2026, the Company recognized revenue of approximately \$10,675,000, \$11,947,000, \$12,939,000, \$13,385,000, and \$13,652,000, respectively, from goods and services that transfer to the customer over a period of time.

**8 COLONIAL DRIVE OPERATOR, LLC AND 8 COLONIAL DRIVE WESTBOROUGH, LLC
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2022 THROUGH 2026**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity

Equity is Comprised of the following components for the projected years ending December 31, 2022-2026.

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Members Capital Realty	\$ (2,312,450)	\$ (1,962,450)	\$ (1,962,450)	\$ (2,312,450)	\$ (2,312,450)
Members Capital Facility	1,990,713	1,841,713	2,179,713	2,554,713	2,960,713
Total Deficit	<u>\$ (321,737)</u>	<u>\$ (120,737)</u>	<u>\$ 217,263</u>	<u>\$ 242,263</u>	<u>\$ 648,263</u>



CliftonLarsonAllen LLP
CLAconnect.com

April 6, 2022

Lara Szent-Gyorgyi, Director
Determination of Need Program
Department of Public Health
250 Washington Street, 6th Floor
Boston, MA 02108

RE: Determination of Need Application – Applicant -Next Step Healthcare, LLC on behalf of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC

Dear Ms. Szent-Gyorgyi,

The accompanying report is included as relevant additional financial information to assist the department in rendering a decision regarding the proposed construction project of the Applicant Next Step Healthcare, LLC on behalf of 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC (collectively the “Group”). The report is intended solely for the information and use of management and members of the Group, and the Massachusetts Department of Public Health Determination of Need Program in its review of the Group’s Determination of Need application under regulation 100.210 (4) a. It is not intended to be and should not be used by anyone other than these specified parties.

Please contact me should you have any questions or need further information.

Sincerely,
CLA (CliftonLarsonAllen)

A handwritten signature in blue ink, appearing to read 'Mark Cummings'.

Mark Cummings, CPA

Principal

617-984-8100

mark.cummings@CLAconnect.com

8 COLONIAL DRIVE OPERATOR, LLC
AND
8 COLONIAL DRIVE WESTBOROUGH, LLC
BENCHMARKING MANAGEMENT'S
PROJECTED FINANCIAL ANALYSIS
FOR THE PROJECTED YEARS ENDING
DECEMBER 31, 2022 THROUGH DECEMBER 31, 2026

PROCESS OVERVIEW

Management's Projections

CliftonLarsonAllen LLP (CLA) was requested by the management of Next Step Healthcare LLC (the "Applicant"), 8 Colonial Drive Operator, LLC d/b/a Westborough Healthcare (the "Nursing Home" or "Westborough"), and 8 Colonial Drive Westborough, LLC (the "Landlord"), to read the financial projections prepared by 8 Colonial Drive Operator, LLC and 8 Colonial Drive Westborough, LLC ("Management") for the projected years ending December 31, 2022 through 2026 and benchmark the stabilized year of Management's projection.

We have not compiled or examined any of the financial data utilized in the benchmarking analyses and express no assurance of any kind on it. Furthermore, even if the assumptions disclosed herein were to materialize, there will be differences between projected and actual results, because events and circumstances frequently do not occur as expected and those differences may be material. These analyses are intended for the internal use of Management and the Massachusetts Department of Health Determination of Need Program (DoN) and are not intended to be and should not be used or relied on by anyone other than these specified parties.

BENCHMARK REVENUE AND COST ANALYSIS

Providers in Worcester County were used to benchmark Management's projections. The Nursing Home's 2020 Medicare and Medicaid cost report data were compared to Worcester County Medicare and Medicaid cost report data for the most recent available period of 2020. The data was then projected out to 2026 with an applied 2% revenue inflation factor and 2% expense inflation factor.

MANAGEMENT'S PROJECTIONS

Occupancy/Payer Mix/Revenue per Patient Day

Projected revenue consists of revenue from operating the Nursing Home. Management's baseline projected revenue for the first year of the projection, 2022, was derived from trended twelve-month historical information, budgeted financial data for the current period, management's historical experience of operating the Facility, and current reimbursement and nursing home regulations. This information and the estimated impact of COVID-19 on operations, was utilized to project and establish a baseline for the projection; 2022. The Projection incorporated COVID-19 revenue impact in the base period of 2022 primarily related to census decline. Census impact is removed starting in 2022 through the end of the Projection Period to an assumed 90% occupancy by 2026.

Historical Operations

Historical Average Occupancy December 31,

	2017	2018	2019	2020	2021
Occupancy %	80.11%	83.19%	86.91%	80.62%	73.52%

Based on Active Beds

Historical Average Payer Mix December 31,

	*2017	*2018	*2019	*2020	^2021
Private	11.46%	6.85%	8.25%	6.32%	2.00%
Medicare	8.14%	10.55%	10.52%	13.26%	11.00%
Medicaid	77.52%	80.53%	79.11%	77.75%	84.00%
HMO/Other	2.88%	2.07%	2.12%	2.67%	3.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

*Massachusetts' Medicaid Cost Report Data

^ Most Recent Twelve-Month Trended information December 31, 2021

Projected Operations

The following table summarizes the Nursing Home's 2021 actual data compared to 2020 Worcester County data for beds and occupancy, payer mix and revenue per patient day. The numbers are then inflated out for Worcester County to compare to the Nursing Home's projected year five which is 2026.

	2021	2020			Inflation Adjustment	2026			
	WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile		WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile
Occupancy~									
Occupancy %	73.5%	75.7%	79.7%	85.7%		90.0%	75.7%	79.7%	85.7%
Total SNF/NH Days	31,398	27,101	34,095	43,333		37,779	27,101	34,095	43,333
SNF Payer Mix (% of Days)									
Medicare FFS	11.0%	5.7%	9.1%	13.0%		12.0%	5.7%	9.1%	13.0%
Medicaid	62.0%	55.0%	64.3%	71.8%		60.0%	55.0%	64.3%	71.8%
Other (including MC Advantage)	27.0%	39.3%	26.6%	15.3%		28.0%	39.3%	26.6%	15.3%
Revenue per Patient Day									
Medicare FFS	\$667	\$599	\$630	\$658	2.0%	\$750	\$675	\$709	\$741
Other	\$239	\$268	\$291	\$313	2.0%	\$278	\$301	\$328	\$353

Note: information for County compiled from Medicare cost report data-Medicaid excludes Medicaid Managed Care and SCO-County Occupancy assumed consistent

Projected Operations (Continued)

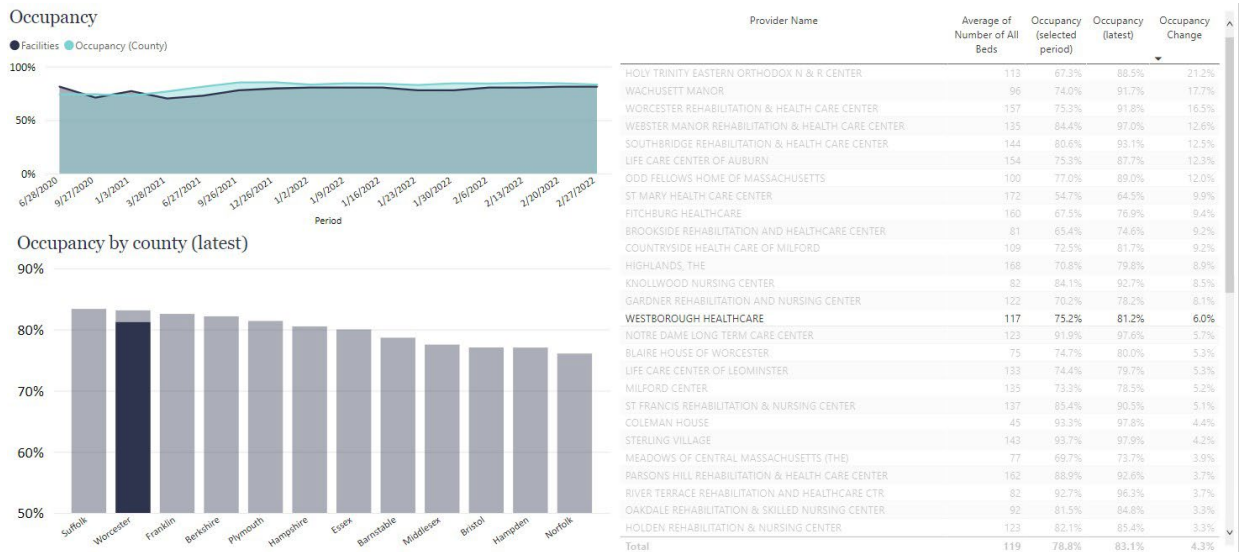
Projected Average Occupancy December 31,

	2021	2022	2023	2024	2025	2026
Occupancy %	73.52%	81.30%	87.00%	88.91%	90.00%	90.00%
Total Days	31,398	34,713	37,171	37,745	37,779	37,779

Observations:

- Westborough’s 2021 occupancy is below the 25th percentile in 2021 and above the 75th percentile for the county in the projected year of 2026. Management has projected improved census recovery to pre-COVID-19 levels which were approximately 87% plus additional recovery as a result of the Project. Note the County census is assumed to be constant above absent additional information.
- Westborough’s current operating business model will be carried out with the project of de-densification and the small reduction of beds. The Proposed Project will have capacity to serve individuals with various types of short and long-term skilled care needs.
- Westborough’s patient mix is expected to remain consistent after the completion of the renovations, continuing to provide access to all potential community members regardless of payor.
- Westborough’s Medicare rate is slightly higher than the 75th percentile before the proposed project and at the end of the projection in 2026. The primary focus of this provider is to provide nursing and rehabilitation for individuals who need short or long-term options in the face of a variety of health challenges.

Covid’s Impact on Occupancy - Update



- Like other facilities, Westborough's occupancy has been affected by COVID. However, it is above the county median based on updated information through February 2022.

EXPENSES

Operating expenses have been projected to be recognized during the month incurred. Management's baseline projected expenses for the first year of the projection (2022) were derived from trended twelve-month historical information, budgeted financial data of the facility operations for the current period, and Management's historical experience of operating the facility. This information and the estimated impact of COVID-19 on operations, was utilized to project and establish a baseline for the projection; 2022. The specific basis for inflationary increases in major expense categories were formulated by Management.

Historical Operations

The Following table summarizes the historical cost per patient day by department:

Historical Costs per Patient Day by Department*		
December 31,		
	2019	2020
Administration	\$77	\$99
Plant	10	11
Dietary	20	22
Laundry	3	4
Housekeeping	5	6
Nursing	116	139
Social Services	3	3
Other General Services	3	3
Total Costs	\$237	\$287

*Medicaid Cost Report Data, Ancillary Expenses Excluded
Benefits included in the respective cost center

Projected Operations

The following table summarizes Westborough's 2021 data compared to 2020 Worcester County data (which is the most recent available public information) expenses by department per patient day. The 2020 Worcester County numbers are then inflated 2% each year to compare to Westborough's projected year six which is 2026.

Expenses Projected Operations (Continued)

	2021	2020			Inflation Adjustment	2026			
	WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile		WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile
Costs per Patient Day*									
Administration	\$105	\$58	\$69	\$80	2.0%	\$110	\$65	\$78	\$90
Plant	\$31	\$13	\$15	\$18	2.0%	\$36	\$15	\$17	\$20
Dietary	\$22	\$21	\$24	\$27	2.0%	\$20	\$24	\$27	\$30
Laundry	\$4	\$2	\$4	\$5	2.0%	\$4	\$2	\$5	\$6
Housekeeping	\$6	\$7	\$8	\$10	2.0%	\$6	\$8	\$9	\$11
Nursing	\$118	\$112	\$127	\$149	2.0%	\$130	\$126	\$143	\$168
Social Services	\$3	\$3	\$4	\$5	2.0%	\$2	\$3	\$5	\$6
Other General Services	\$5	\$5	\$6	\$7	2.0%	\$4	\$6	\$7	\$8
Total Costs	\$294	\$221	\$257	\$301		\$312	\$249	\$291	\$339

*Westborough numbers include benefits which are included in Administration. Benchmark data excludes benefits. Additionally, Ancillary expenditures are excluded for both Westborough and the Benchmark data.

Observations:

- Westborough reports a cost structure between the median and the 75th percentile historically and projects to remain there upon completion of the project. However, as noted below in the financial ratios, Westborough remains either at or above the median in all of these categories and does not anticipate a negative impact on care as a result.
- Historically, Westborough's costs have been within a reasonable range compared to facilities in the county. Upon completion of the Project Westborough's total cost will be slightly above the Median. The Nursing costs, which are generally the largest expense are expected to increase proportionately and remain consistent slightly above the 25th percentile upon completion of the Project. As noted above Westborough will remain at or above the Median in all of the financial ratio categories analyzed, thus does not anticipate any drastic change in the operating structure for care of the patient panel.
- For purpose of this observation, it is assumed, with no other information on the future of various healthcare factors or changes, that the facilities in Worcester County will make no changes in nursing staffing patterns.

KEY FINANCIAL RATIOS

In performing this analysis both Medicare and Medicaid cost report data maintained by CMS and the Massachusetts Center for Health Information and Analysis (CHIA) was utilized, with the aid of a proprietary software application. This allowed management the ability to compare key financial ratios with those of similarly located facilities or the state. The ratios below are a common tool used by financial institutions and the health care industry to evaluate the operations of a health care entity.

Earnings before Interest, Depreciation and Amortization (EBIDA) Margin:

EBIDA is a measure of a company’s operating performance. Essentially, it’s a way to evaluate a company’s performance without having to factor in financing decisions, accounting decisions or tax environments. EBIDA Margin can be a meaningful gauge of a provider’s ability to contain costs, it offers a clearer reflection of operations by stripping out expenses that can obscure how the company is really performing. The EBIDA margin is calculated by dividing EBIDA by total revenue.

The greater a company’s EBIDA Margin, the lower the company’s operating expenses in relation to total revenue. EBIDA margin eliminates the non-operating profitability and cash flow and is important in measuring performance across a single industry with companies of different size and tax situations.

The following chart shows the provider’s projected EBIDA Margin against the Worcester County Median EBIDA Margin.

	2021	2020			2026			
	WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile	WESTBOROUGH HEALTHCARE	Worcester County, MA 25th percentile	Worcester County, MA 50th percentile	Worcester County, MA 75th percentile
EBIDA	2.4%	6.7%	10.8%	15.6%	8.8%	6.7%	10.8%	15.6%
EBIDA (Excluding PHE)	-1.5%	-0.4%	4.3%	10.3%	8.8%	-0.4%	4.3%	10.3%

*Westborough numbers include benefits which are included in Administration. Benchmark data excludes benefits. Additionally, Ancillary expenditures are excluded for both Westborough and the Benchmark data. Note PHE funding removed from Westborough in 2026.

Observations

- Westborough’s EBIDA was below the 25th percentile in the county with and without Public Health Emergency funding (PHE). Westborough projects to be approaching the 75th percentile excluding PHE upon completion of the construction project.
- Additionally, for both 2020 (not depicted above 13%) and 2026 Westborough’s EBIDA is either approaching or above the top percentile (excluding PHE) which is data that supports Management’s ability to contain and control operating costs.
- The EBIDA for Worcester County was assumed to remain at its 2020 level for purposes of this analysis. Additionally, PHE funding was assumed to be removed for Westborough in 2026.

Operating and Capital Budgets

In Benchmarking management’s projected financial analysis, we analyzed and considered Westborough’s past and present operating and capital budgets. Westborough does not maintain formal capital budgets. However, except for the first year following construction, a review of past and present capital expenditures indicates that Westborough intends to invest in the built environment of the residents at amounts consistent with the capital needs of a new property.

	2020	Planned 2025	Planned 2026
Capital Expenditures	<u>\$ 56,284</u>	<u>\$ -</u>	<u>\$ 50,000</u>

Balance Sheets

In benchmarking management’s projected financial analysis, we analyzed Westborough’s balance sheets.

Days Cash on Hand

We analyzed Westborough’s days cash on hand ratio for 2021 and the last year of the projection, 2026 in comparison with the Massachusetts average from 2016 to 2019. The days cash on hand ratio is a liquidity ratio that indicates an entity’s ability to satisfy its current operating expenses with the current cash available.

2021	Average 2016-2019		
	M assachusetts 25th P ercentile	M assachusetts 50th P ercentile	M assachusetts 75 th P ercentile
WESTBOROUGH HEALTHCARE			
	4.0	13.0	22.0

2021	Average 2016-2019		
	M assachusetts 25th P ercentile	M assachusetts 50th P ercentile	M assachusetts 75 th P ercentile
WESTBOROUGH HEALTHCARE			
	27.0	13.0	22.0

Days Cash on Hand

Absent specific operating conditions and criteria, Massachusetts days cash on hand data was assumed to remain constant. Note five year Massachusetts average was utilized as this scenario closely resembles normalized industry conditions in 2026 as the availability of Public Health Emergency funds is removed.

- Westborough’s days cash on hand ratio is below the Massachusetts 2016-2019 average median on December 31, 2021 and is projected to be above the median by 2026, the last year of the projection.

Debt Service Coverage Ratio

In Benchmarking management’s projected financial analysis, we considered the level of financing necessary to support the proposed project. In doing so, we analyzed the debt service coverage ratio of Westborough. The debt service coverage ratio measures Westborough’s ability to meet its annual debt service requirements. The debt service coverage ratio is an indicator used by lenders to determine an organization’s ability to incur additional financing and service its existing debt.

The following chart shows Westborough’s projected debt service coverage ratio compared to the Massachusetts debt service coverage ratio median for 2019:

2021	2019		
	Massachusetts 25th percentile	Massachusetts 50th percentile	Massachusetts 75th percentile
Westborough			
	0.54	0.62	1.47

2026			
Westborough	Massachusetts 25th percentile	Massachusetts 50th percentile	Massachusetts 75th percentile
	1.58	0.62	1.47

Debt Service Coverage (DSC)

- Westborough’s debt service coverage ratio is below the Massachusetts’s state median in 2019 and above the 50th percentile in the final year of the projection, 2026.
- A “good” Debt Service Coverage Ratio depends on the company’s industry, competitors and stage of growth. As a general rule, a DSCR above 1.25 is often considered strong whereas ratios below 1.00 could indicate that the company is not doing as well.

Key Financial Ratios Balance Sheets (Continued)

- As noted above, Westborough's liquidity ratios are projected to be at or above state medians upon completion of the proposed project.
- Although each situation is unique, the above liquidity ratios have historically been widely accepted in the industry as one indicator of operational performance and financial health. As indicated above, Westborough's Key Performance Indicators (KPIs) before and upon completion of the proposed project are at or above the state medians. This is also consistent with management's plans to operate the facility similarly to the past and present without any material alterations in operations or impact in care.