

**ANALYSIS OF THE REASONABLENESS OF
ASSUMPTIONS USED FOR AND FEASIBILITY OF
PROJECTED FINANCIALS OF:**

ROYAL NURSING CENTER, LLC

**FOR THE YEARS ENDED
DECEMBER 31, 2023 - DECEMBER 31, 2027**

ROYAL NURSING CENTER, LLC

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May 6, 2022

James Mamary
President/CEO
Royal Nursing Center, LLC
Hanover, Massachusetts 02339

Re: Analysis of Determination Feasibility

Dear Mr. Mamary:

Based upon information provided by Management, we have performed an analysis of the proposed financial projections (the “Projections”) for Royal Nursing Center, LLC (“Center/Management”) detailing the projected operations of the Center. The intent of this report is to detail our analysis and related findings in order to determine the reasonableness and feasibility of assumptions used in the preparation the Projections outlined in the Center’s Determination of Need (“DoN”) Application and prepared by the management of Strategic Care Solutions (SCS) on behalf of Royal Nursing Center, LLC. This report is to be used by Management in order to submit their DoN Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

Executive Summary

The intent of the forthcoming information is to provide analysis of the five (5) year financial projections prepared by SCS for the DoN applicant Royal Nursing Center, LLC. These projections were prepared for the calendar years ended 2023 through 2027. We did not audit the information presented herein and therefore do not intend to represent an opinion. We will identify the reasonableness and feasibility of such information relating to the proposed project and the impact to future operations of the Center.

Additionally, this analysis is intended to comply with 105 CMR Section 100.210(4). Our analysis has determined an aggregate operating Earnings Before Interest, Taxes, Depreciation and Amortization (EBIDTA) of Royal Nursing Center, LLC and for the previously mentioned five year period. Our analysis has identified that based upon the information, support and assumptions used to prepare the five year financial projections, the operating results are reasonable. Hence, the implementation of this said project meets our expectation of feasibility and will no cause or reduce the over-all financial performance of the facility.



Historical Information

The Center was built in 1988 and licensed for 80 Level II Beds and 40 Level III licensed bed. No beds have been added since the original construction of the facility. The physical plant of the building is made up of 47,492 square feet and per the DoN application is considered Type 1 Construction. Included within the confines of the space are three distinct units each of which contains 40 beds. While the facility operates as a 120 bed skilled nursing facility 36 of the rooms are private rooms and 24 are semi-private. Hence, 12 rooms represent three-bedded rooms. The DoN application is considered a Conservation DoN, designed to renovate the facility to accommodate the bed configuration in a manner that eliminates three-bedded rooms.

The proposed project will build out the first and second floors to add 6 Semi-private rooms (3 on each floor) in order to compensate for the elimination of three-bedded rooms per the states' ne "De-Densification" regulations which are designed to eliminate all three and four-bedded rooms. Once completed the facility will operate two forty-two bedded units and one 36 bedded unit. We are to understand that the Center will exceed the 41 bed maximum per unit and intended to submit a waiver request under separate copy. The proposed maximum expenditures for the said project are not expected to exceed \$4,001,290 including approximately \$1,500,000 of specific life safety renovations.

Report Scope

This scope of the report is limited to the analysis of the five year financial projections and supporting documentation for Royal Nursing Center, LLC for the calendar years ended 2023 through 2027 (the "Projections"), prepared by SCS on behalf of Management, along with the underlying assumptions. These projections and underlying assumptions will be limited to reasonableness meaning they will be supportable and identifiable based on support. Since the specified regulations identify the feasibility of the said project, we infer this to financial practicality which will not adversely impact the overall future financial performance or erode the asset value of the Center.

It is important to note that we have not performed a valuation of the Center nor have we audited the financial information prepared by management and/or their representative. Therefore, this report does not express an opinion or provide assurance on results projected for Royal Nursing Center, LLC. Such projections were prepared based upon management's assumption and available information as of a point in time. Therefore, the timing of such assumptions and information used to prepare the projections if changed, could have a substantial impact on the results of the said projections.

Sources/Documentation Used

Our analysis is based upon information and conclusions prepared and produced by management and their representative (SCS). In order to prepare our analysis we relied on the following information:

- Financial projections for Royal Nursing Center, LLC for the periods ended December 31, 2023 through December 31, 2027 with assumptions;
- Draft Royal Nursing Center, LLC application form for DoN application prepared by SCS;
- Capital expenditures estimated and dated March 17, 2022 as provided by Cutler Associates;
- Cost estimates and square footage calculations
- Scope of work identified by Cutler Associates and Management;
- Historical and current payor mix information and financial records vs projections and assumptions;
- RMA Annual Statement Studies, published by Risk Management Associates;
- IBISWorld Industry Report, Nursing Care Facilities in the US, dated July 2021.

Verifications

The forthcoming information is intended to provide the reader with a level of reasonableness of the assumptions used and the feasibility of the said financial projections. Additionally, this analysis intends to address key elements identified by section 105 CMR 100.210 (4) specifically relating to; “past and present operations of the Center, capital budgets, balance sheet(s), projected cash flow statements, proposed levels of financing of the project inclusive of the five-year financial sustainability analysis and other relevant information”. Please consider the following key metrics as defined below, which compares operating results of the projections to market information from IBIS World Industry Report and RMA Annual Statement Studies (“RMA”) to assess the reasonability on the projections.

Key Financial Metrics	Financial Projections					RMA Annual Statement Studies	IBIS World Industry Report	
	2023	2024	2025	2026	2027			
Profitability Factors								
Operating Margin (%)		-1.7%	0.7%	3.2%	4.6%	5.1%	4.0%	N/A
EBITDA (\$)	\$	(194,677)	\$ 132,757	\$ 524,943	\$ 762,733	\$ 860,039	N/A	N/A
Liquidity								
Current Ratio (x)		1.35	1.48	2.06	3.07	4.06	1.00	1.20
Days Available Cash/Investment on Hand (#)		5.29	2.17	12.61	26.90	45.41	N/A	40.50
Operating Cash Flow Margin (%)		-1.5%	0.9%	3.4%	4.8%	5.3%	3.8%	21.3%
Solvency								
Shareholders' Equity (\$)	\$	857,744	\$ 631,991	\$ 732,973	\$ 1,225,426	\$ 1,954,937	N/A	N/A

NOTE: Due to the operations being charged rent expense, there is not debt reported on the operations of Royal Nursing Center, LLC. Therefore, debt related ratios are not calculated.

(1) Information was taken directly from RMA Annual Statement Studies, published by Risk Management Associates for 2021

(2) Information was taken directly from IBISWorld Industry Report, Nursing Care Facilities in the US, dated July 2021

Verifications (Continued)

The key financial metrics fall into three primary categories includes profitability, liquidity, and solvency. Profitability metrics are used to evaluate how efficient resources are being utilized by of management. Liquidity metrics, including ratios such as the current ratio, measure the quality and adequacy of liquid assets to meet current obligations as they come due. Solvency metrics measure the company's ability to take on and service debt obligations. However, this category only shows the shareholders' equity as the operations of Royal Nursing Center pays rent to the realty company where the debt and capitalized project is recorded. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics is calculated.

In order to draw analysis and feasibility of the above ratios, it is important to understand how they are calculated. See the below table which shows how each key financial metric is calculated.

Operating Margin	Represents the operating income / by total revenues
EBITDA	Is defined as Earnings Before Interest, Taxes, Depreciation and Amortization
Current Ratio	Current Assets /Current Liability
Days Available Cash/Investment	Unrestricted Cash/daily expenses (excluding Depreciation / Amortization)
Operating Cash Flow	EBITDA / total net revenue
Shareholders' Equity	Total Shareholders' equity

In order to identify the reasonableness of prepared financial projections we analyzed four (4) major components based on 105 CMR 100.210 which are as follows:

- 1) Revenues
- 2) Expenses
- 3) Capital Expenditures and Prosed Project Financing
- 4) Feasibility

1) Revenues

In order to determine the reasonableness of the revenue calculation it is imperative to gain an understanding of the related payor mix (class of revenue), supporting information for payment rates and the intended patient occupancy while taking into considerations the impacts of the COVID-19 pandemic.

Reimbursement Rates

Based upon our analysis we have determined that management has calculated projected revenues based on historical information, current available reimbursement rates and/or known / expected changes to commercial and governmental reimbursement rates.

1) Revenues (Continued)

Payor Mix

Our analysis determined that Management intends to attract more patients upon completion of the project having more semi-private rooms, specifically within private pay, Medicare and managed care payor sources. The increase in these payor sources produce greater reimbursement rates than that compared to the Medicaid payor rate. Management is expecting an overall increase in occupancy from 83.5% to 92% through the five year projection. There is an overall decrease in the payor mix relating to Medicaid from 63% and then sustain at 60% for the calendar years ended 2023 through 2027.

Occupancy

The impacts of the COVID-19 pandemic and the direct care staffing shortage have been two of the largest driving forces in growing and maintaining occupancy. Prior to COVID-19 the Center's overall occupancy rate with the three-bedded rooms was 86%. Upon completion of the said project, Management determined that the result of eliminating all three-bedded rooms will project the following occupancy rate and payor mix as depicted below:

	Pre-COVID-19	Post-Project	Change
Beds	120	120	--
Occupancy Rate	86%	92%	-6%

In order to determine the reasonableness of the projected revenues, we reviewed the underlying assumptions determined by management. Based upon our review, the assumptions were based off of historical data with adjustments to reimbursement rates, payor mix and occupancy percentages. Management's assumption took into consideration the shifting of the payor mix away from Medicaid and Managed Care while slightly increasing private pay and Medicare due to the three bedded room being changed to semi-private rooms. Based upon our analysis of the projected revenues, the growth, change in payor mix and occupancy increase and overall calculates a reasonable estimation of future revenues. However, we did not agree with all assumptions of the revenue calculations but did determine that the overall impact was immaterial and would have no adverse impact on the feasibility of the project.

2) Expenses

We have performed a thorough analysis of each of the components used in the categorization of expenses in the projections and for the purpose of reasonableness and feasibility. In order to determine reasonableness we reviewed the projected expenses in comparison to historical financial data provided by the Center and SCS, inflationary factors utilized and categorization of variable expenses versus fixed used to project the five-year period.

2) Expenses (Continued)

We compared the historical financial data utilized to create a base for the financial projections to that of the client's internal records to ensure the financial data used was accurate. The inflationary factors used ranges from two percent to three percent depending on the type of expense. Due to the current conditions of excess inflation and staffing shortages management expects expenses to remain increasing with the inflation factor decreasing over time. Expenses were categorized as

3) Capital Expenditures and Cash Flows

Based upon the provided capital expenditures and cash flow analysis and projections prepared by Management/SCS, we have performed a review of such items in order to determine the feasibility to support ongoing/future operations along with the increase rent expense in relation the project costs for cash flow purposes.

Based upon our discussion with management and review of the projections, we have determined that management expects to spend \$4,001,290 to remodel the existing facility for de-densification and incorporate renovations for life safety issues. Based upon the details provided by the Cutler Associates we have determined that the cost do so are reasonable.

In addition to analyzing the proposed capital expenditure and projections, we have evaluated the Center's ability to obtain necessary funding in or to complete construction. We noted that no term sheet for financing was provided in the DoN application. However, based upon the size of the proposed renovation and necessary cash flow needed to support the debt service we analyzed the assumptions within the financing of the project for reasonableness. The projected financing assumes a twenty year amortization at an interest rate of 5.5%. Based upon this review of these assumptions, the length of the loan and the interest rate appear reasonable. The additional principal and interest portion of these debt payments have been included in the increase in rent expense.

4) Feasibility

We performed a review of the financial projections and key metrics for Royal Nursing Center, LLC. Our analysis considered multiple sources of information including industry metrics and Management/SCS prepared financial projections. It is important to note that the Projections are based upon current trends that exist today and may not necessarily represent future actual or proposed reimbursement changes to the industry. These changes, may have a material impact on individual future years, however, because of the historical financial performance of the Center, we believe they will not materially impact the financial performance of Royal Nursing Center, LLC.

4) Feasibility (Continued)

Based upon the related financial information provided, the Projections illustrate a trend of continued increases in revenues and net for the five years from 2023 through 2027. Based upon our analysis of the relevant documentation provided and the projections prepared, we determined the anticipated operating margin is within reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the patient panel or result in significant liquidation of assets of the Center.

Should you have any questions concerning the above, please do not hesitate to contact me directly at 203-781-9632.

Very truly yours,

Marcum LLP

A handwritten signature in black ink that reads "Timothy Mikita". The script is cursive and fluid.

Timothy Mikita, CPA, MBA
Manager