

Masonic Health System of Massachusetts, Inc.
Analysis of the Reasonableness of Assumptions Used For and the
Feasibility of Projected Financial Information associated with the re-design and renovation of Overlook
Masonic Health Center's post-acute care unit

For the Years Ending December 31, 2025 through December 31, 2029

Masonic Health System of Massachusetts, Inc.

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MeyersBrothersKalicka
CERTIFIED PUBLIC ACCOUNTANTS

April 3, 2024

Mr. Nicholas Pugliese
Chief Financial Officer
Overlook Masonic Health Center
88 Masonic Home Road
Charlton, MA 01507

Dear Mr. Pugliese:

We have performed an analysis of the financial projections prepared by Masonic Health System of Massachusetts, Inc. (the “Applicant”) detailing the projected operations of Overlook Masonic Health Center (“Overlook” or the “Facility”), a 167-bed nursing facility located at 88 Masonic Home Road, Charlton, MA, after the re-design and renovation of its post-acute care unit to accommodate 40 short-term rehabilitation beds in private rooms as well as improvements to the dining room, nurse stations, therapy rooms, and additional clinical and ancillary services on the unit, and deferred maintenance to the facility (the “Project”). This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of the Project as prepared by management of Overlook (“Management”). This report is to be included by the Applicant in its Determination of Need (“DON”) application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

I. Executive Summary

The scope of our analysis was limited to the five-year financial projections for the years ending December 31, 2025 through December 31, 2029 (the “Projections”) prepared by Management, and the related supporting documentation provided by Management. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the re-design and renovation of Overlook’s post-acute care unit.

The Project is projected to have positive overall cash flows. We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required to support the post-acute care unit. It is not anticipated that the Applicant will require any financing associated with this Project. It is our conclusion that the projections are financially feasible and within the financial capability of the Applicant as detailed below.

II. Relevant Background Information

Refer to Factor 1 of the DON application for a description of the scope of the Applicant, as well as the overall description and rationale of the re-design and renovation of Overlook’s post-acute care unit.

III. Scope of Report

The scope of this report is limited to an analysis of the five-year financial projections prepared by Management and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the Project. Our analysis of the projections and conclusions contained within this report are based upon our detailed review of all relevant information (see section IV of this report). We have gained an understanding through our review of the information provided by Management, as well as a review of the DON application. In addition to the 167 beds licensed by the Massachusetts Department of Public Health, this report also includes revenues and expenses for 14 fieldstone beds that are licensed under the Massachusetts Executive Office of Health and Human Services.

Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on the assumptions used, the plan is not likely to result in insufficient 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.

This report is based upon historical and prospective financial information provided to us by Management. If Meyers Brothers Kalicka, P.C. had audited the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. We 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 is dependent on the actions, plans, and assumptions of Management. We reserve the right to update our analysis if we are provided with additional information.

IV. Primary Sources of Information Utilized

In formulating our opinions and conclusions contained in this report, we obtained and reviewed various documents obtained from Management. The documents and information we reviewed and relied on are noted below and/or referenced in this report:

- Historical nursing home, sub-acute, rest home, and fieldstone patient volume at Overlook Masonic Health Center for the years ended December 31, 2020, 2021 and 2022 and annualized 2023, which was based on the nine months ended September 30, 2023.
- Historical nursing home, sub-acute, rest home, and fieldstone revenue for the years ended December 31, 2020, 2021 and 2022 and annualized 2023, which was based on the nine months ended September 30, 2023.
- Historical operating statements of Overlook Masonic Health Center for the years ended December 31, 2020, 2021 and 2022 and annualized 2023, which was based on the nine months ended September 30, 2023.
- Projected nursing home, sub-acute, rest home, and fieldstone volume at Overlook Masonic Health Center for the years ending December 31, 2025, 2026, 2027, 2028 and 2029.
- Projected revenue and expenses for the Project for the years ending December 31, 2025, 2026, 2027, 2028 and 2029.
- Projected statements of cash flows from operations for the Project for the years ending December 31, 2025, 2026, 2027, 2028 and 2029.
- Overlook Masonic Health Center's 2024 budget.
- Electricity supply agreement between Overlook Masonic Health Center and Constellation NewEnergy, Inc. beginning in June 2025.

IV. Primary Sources of Information Utilized (continued)

- Masonic Health System of Massachusetts, Inc.’s 2024 budget.
- Masonic Health System of Massachusetts, Inc.’s audited consolidated financial statements as of and for the years ended December 31, 2021 and December 31, 2022.
- Construction contactor budget for the proposal of project costs.
- DON Application Instructions dated March 2017.
- DON Narrative draft provided March 8, 2024.
- DON Application Form
- Total project costs of the Applicant are comprised of the following:

<u>Category</u>		<u>Total Cost</u>
Construction	\$	2,735,285
Architectural costs		200,000
Development costs		60,000
Total project costs	\$	<u>2,995,285</u>

V. Review of the Projections

This section of the report summarizes our review of the reasonableness of the assumptions used and feasibility of the projections. The tables that follow summarize the projected results after the re-design and renovation of Overlook’s post-acute care unit.

Revenues

We have reviewed and analyzed the net operating revenues in the historical and projected financial information. For the purposes of this pro forma, volume is broken out by service type and represents total patient days. Total patient days are calculated by taking the total number of beds occupied, multiplied by 365 operating days in the year. Based on discussions with Management and review of the historical patient days analysis, after the re-design and renovation of its post-acute care unit, the Facility will have 40 beds in its post-acute care unit (“PAU”) operating at 80% capacity for the year ending December 31, 2025 and increasing to 90% capacity for the year ending December 31, 2026. The Facility will also have 78 beds in its long-term care (“LTC”) unit operating at 95% capacity, 28 beds in its rest home (“RH”) unit operating at 100% capacity, and 14 beds in its fieldstone unit operating at 93% capacity for the years ending December 31, 2025 through December 31, 2029. Occupancy rates are consistent with historical averages.

For the year ending December 31, 2025, the average service revenue per patient day for PAU, LTC, RH, and fieldstone is projected to be \$625, \$419, \$296, and \$263, respectively. These rates are based on historical information and projected rates by service category. Service revenue per patient day will vary based on the payor mix. In addition, Management has estimated ancillary revenue ranging from approximately \$1,475,000 to \$1,660,000 for the years ending December 31, 2025 through December 31, 2029, which is based on historical information. Ancillary services revenue is projected to be approximately 5-6% of total annual revenue.

Total revenue is expected to increase approximately 3% every year through December 31, 2029.

V. Review of the Projections (continued)

The table below provides a summary of some of the key information for the projected volume and revenues by year:

Category	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029
Volume - Patient days - PAU	11,680	13,140	13,140	13,140	13,140
Volume - Patient days - LTC	27,010	27,010	27,010	27,010	27,010
Volume - Patient days - RH	10,220	10,220	10,220	10,220	10,220
Volume - Patient days - Fieldstone	4,745	4,745	4,745	4,745	4,745
Volume - Total patient days	53,655	55,115	55,115	55,115	55,115
Revenues - Service revenue, net	\$ 23,130,275	\$ 24,764,058	\$ 25,506,979	\$ 26,272,189	\$ 27,060,355
Revenues - Ancillary revenue, net	1,474,761	1,519,004	1,564,574	1,611,512	1,659,857
Total revenue, net	\$ 24,605,036	\$ 26,283,062	\$ 27,071,553	\$ 27,883,701	\$ 28,720,212
Service revenue, net per patient day	\$ 431	\$ 449	\$ 462	\$ 476	\$ 491

We analyzed projected/pro-forma revenue for the years ending December 31, 2025, 2026, 2027, 2028, and 2029 in relation to the historical results of Overlook to assess the reasonableness of the projected/pro-forma statements. The revenue projected by Management is a reasonable estimation and conservative based primarily upon historical volume of operations and other factors. Based on our analysis, pro-forma revenues are reasonable.

Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected revenue. The table below provides a summary of some of the key information for the projected expenses by year:

Expenses	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029
Salaries and wages (1)	\$ 12,393,226	\$ 12,765,023	\$ 13,147,973	\$ 13,542,413	\$ 13,948,685
Fringe benefits (2)	2,230,781	2,297,704	2,366,635	2,437,634	2,510,763
Medical supplies	458,952	472,720	486,902	501,509	516,554
Other supplies	338,088	348,230	358,677	369,438	380,521
Food	868,127	894,170	920,995	948,625	977,084
Purchased services	645,910	665,287	685,246	705,803	726,977
Management fee (3)	2,610,021	2,688,322	2,768,971	2,852,040	2,937,602
Software license fees	151,585	156,133	160,817	165,641	170,610
Utilities (4)	877,877	904,213	1,063,952	1,095,870	1,128,746
Insurance	707,507	728,733	750,595	773,112	796,306
User fee (5)	203,306	209,405	215,687	222,158	228,822
Other expenses (6)	804,393	1,017,908	1,097,828	1,180,146	1,264,933
Depreciation (7)	1,645,869	1,645,869	1,645,869	1,645,869	1,645,869
Total Expenses	\$ 23,935,642	\$ 24,793,717	\$ 25,670,147	\$ 26,440,258	\$ 27,233,472

- (1) Salaries and wages in the year ending December 31, 2025 includes 265 full-time equivalents (“FTEs”), of which 1 FTE is a director of nursing with an average salary of \$144,000, 9 FTEs are registered nurses (“RN”) with an average salary of \$91,000, 25 FTEs are licensed practical nurses (“LPN”) with an average salary of \$74,000, 71 FTEs are certified nursing assistants (“CNA”) with an average salary of \$47,000, and the remainder of the employees, whose average annual salary for the year ending December 31, 2025 is approximately \$39,300, work in other departments within the Facility.

V. Review of the Projections (continued)

Management assumed any increase in FTEs in the years ending December 31, 2026 through December 31, 2029 in relation to an increase in capacity will be outsourced through contract labor, which is included in other expenses. Management assumes a 3% cost of living adjustment every year.

- (2) Management has estimated the projected fringe benefits at approximately 18% of salaries and wages, which is consistent with historical fringe benefits.
- (3) The management fee is paid to Masonic Health System of Massachusetts, Inc. by Overlook to cover various operating expenses, which is based on the percentage of total consolidated revenue. Management has estimated Overlook will make up 47% of Masonic Health System of Massachusetts, Inc.'s total consolidated revenue in the year ending December 31, 2025. Management assumes a 3% increase every year in the management fee, which is in line with the anticipated annual increase in revenue.
- (4) Overlook has entered into a fixed rate contract for electricity beginning in June 2025, which runs through May 2027. The overall savings on electricity from this contract are anticipated to be approximately \$250,000. Management has recognized \$125,000 of these savings in the year ending December 31, 2025 and \$125,000 of these savings in the year ending December 31, 2026. For the year ending December 31, 2027, the rate is projected to be consistent with rates prior to the fixed rate contract. Management assumes a 3% increase every year for inflation.
- (5) User fees are paid to the Commonwealth of Massachusetts by Overlook and are charged on a per day basis to patients who are insured by providers other than Medicare.
- (6) Other expenses in the year ending December 31, 2025 include ancillary service expenses (40%), professional fees (16%), unemployment (9%), and other miscellaneous operating expenses (35%). Other expenses in the year ending December 31, 2026 includes approximately \$213,000 of contract labor to cover the transition related to the increase in the number of projected patient days of 1,460. Management assumes an approximate 7% increase in other expenses for the years ending December 31, 2027 through December 31, 2029.
- (7) Costs of approximately \$2,995,285 for construction, architectural, and development costs will be depreciated over 20 years, beginning in the year ending December 31, 2025. The anticipated annual depreciation for the project will be approximately \$150,000 per year. Additional depreciation expense related to existing assets in service will be approximately \$1,496,000 per year.

We analyzed the projected/pro forma expenses for the years ending December 31, 2025 through December 31, 2029 in relation to the existing operations at Overlook for the years ended December 31, 2020, 2021, 2022 and annualized 2023, based on the nine months ended September 30, 2023, in order to assess the reasonableness of the projected/pro forma statements. Based on our analysis, the pro-forma total expenses projected by Management are a reasonable estimation and conservative based primarily upon historical volume of operations and other factors.

V. Review of the Projections (continued)

Net Income

The table below provides a summary of the net income by year:

	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029
Total revenue, net	\$ 24,605,036	\$ 26,283,062	\$ 27,071,553	\$ 27,883,701	\$ 28,720,212
Total expenses	23,935,642	24,793,717	25,670,147	26,440,258	27,233,472
Net income	\$ 669,394	\$ 1,489,345	\$ 1,401,406	\$ 1,443,443	\$ 1,486,740

Cash Flows

The table below provides a summary of cash flow by year:

	Projected/ pro-forma 2025	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029
Net income	\$ 669,394	\$ 1,489,345	\$ 1,401,406	\$ 1,443,443	\$ 1,486,740
Depreciation	1,645,869	1,645,869	1,645,869	1,645,869	1,645,869
Cash, beginning of year	-	2,315,263	5,450,477	8,497,752	11,587,064
Cash, end of year	\$ 2,315,263	\$ 5,450,477	\$ 8,497,752	\$ 11,587,064	\$ 14,719,673

Based upon our discussions with Management and our review of the information provided, the capital needs and ongoing operating costs required for the re-design and renovation of Overlook's post-acute care unit are not likely to result in a scenario where there is negative cash flow.

Capital Expenditures

Based upon our discussions with Management and our review of the information provided, the projected capital expenditures are \$2,995,285. The Applicant has the resources to fund the initial capital requirements.

The Applicant is required to pay a 3% fee to the Commonwealth of Massachusetts based on the total projected capital costs of \$2,995,285, which results in a community health initiative ("CHI") payment of approximately \$90,000, which will be paid prior to the start of the Project.

VI. Feasibility

We analyzed the projected operations, including volume of patient days, revenue and expenses for Overlook. In performing our analysis, we considered multiple sources of information including historical and projected financial information. It is important to note that the projections do not account for any anticipated changes in accounting and regulatory 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.

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary to support the Project. Based upon our review of the projections and relevant supporting documentation, we determined the re-design and renovation of Overlook's post-acute care unit and the capital needs associated with the Project is financially feasible and within the financial capability of the Applicant.

Myra Beatrix Kalicka, P.C.