

Factor 4

NOTRE DAME HEALTH CARE CENTER, INC. - FACTOR 4 ATTACHMENTS

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FOR THE YEARS ENDING DECEMBER 31, 2020 THROUGH DECEMBER 31, 2024**

NOTRE DAME HEALTH CARE CENTER, INC.

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

YEARS ENDING DECEMBER 31, 2020 THROUGH 2024



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**NOTRE DAME HEALTH CARE CENTER, INC.
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YEARS ENDING DECEMBER 31, 2020 THROUGH 2024**

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Notre Dame Health Care Center, Inc.
Worcester, Massachusetts

Management is responsible for the accompanying projected financial statements of Notre Dame Health Care Center, Inc. (a nonprofit organization), which comprise the projected statements of financial position as of December 31, 2020, 2021, 2022, 2023, and 2024, and the related projected statements of operations, changes in net assets, and cash flows for the projected years ending December 31, 2020, 2021, 2022, 2023, and 2024, 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 projected financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these projected financial statements or the assumptions.

Furthermore, even if Notre Dame Health Care Center, Inc. can complete the construction of the Project (as defined in the summary of significant assumptions and accounting policies) at the costs and timeline presented hereafter, and is able to achieve the operating assumptions, collectively, the "Hypothetical Assumptions", there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. 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 projection is presented in accordance with the requirements of the Massachusetts Department of Public Health Determination of Need Program, and is not intended to be a complete representation of the projected assets, liabilities, net assets, and operations of Notre Dame Health Care Center, Inc.

The accompanying Projection, and this report, are intended solely for the information and use of management, officers and board of directors of Notre Dame Health Care Center, Inc., and the Massachusetts Department of Public Health Determination of Need Program (DPH-DoN) in its review of the Determination of Need application under regulation 105 CMR 100.210 (4) (a) and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
August 10, 2020

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF FINANCIAL POSITION
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2020	2021	2022	2023	2024
ASSETS					
CURRENT ASSETS					
Cash	\$ 3,414	\$ 3,295	\$ 3,327	\$ 4,004	\$ 4,476
Accounts Receivable - Patients/Residents	1,967	2,065	2,167	2,273	2,381
Interest Receivable	31	31	31	31	31
Prepaid Expenses	177	177	177	177	177
Total Current Assets	<u>5,589</u>	<u>5,568</u>	<u>5,702</u>	<u>6,485</u>	<u>7,065</u>
PROPERTY AND EQUIPMENT					
Land	525	525	525	525	525
Buildings	10,971	10,971	10,971	10,971	10,971
Improvements	3,342	3,342	10,929	10,929	10,929
Equipment	3,848	3,848	4,148	4,148	4,398
Motor Vehicle	110	110	110	110	110
Construction in Progress	563	7,194	-	-	-
Total	<u>19,359</u>	<u>25,990</u>	<u>26,683</u>	<u>26,683</u>	<u>26,933</u>
Less: Accumulated Depreciation	<u>12,126</u>	<u>12,748</u>	<u>13,576</u>	<u>14,622</u>	<u>15,668</u>
Property and Equipment, Net	<u>7,233</u>	<u>13,242</u>	<u>13,107</u>	<u>12,061</u>	<u>11,265</u>
OTHER ASSETS					
Investments	12,882	13,382	13,882	14,382	14,882
Software, Net	28	13	-	-	-
Due From Related Party	1,353	1,353	1,353	1,353	1,353
Total Other Assets	<u>14,263</u>	<u>14,748</u>	<u>15,235</u>	<u>15,735</u>	<u>16,235</u>
Total Assets	<u>\$ 27,085</u>	<u>\$ 33,558</u>	<u>\$ 34,044</u>	<u>\$ 34,281</u>	<u>\$ 34,565</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF FINANCIAL POSITION
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2020	2021	2022	2023	2024
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current Portion of Long-Term Debt	\$ 487	\$ 437	\$ 373	\$ 380	\$ 388
Accounts Payable and Accrued Expenses	1,601	1,678	1,759	1,843	1,926
Accrued Interest	19	19	19	19	19
Deferred Revenue	15	15	15	15	15
Total Current Liabilities	<u>2,122</u>	<u>2,149</u>	<u>2,166</u>	<u>2,257</u>	<u>2,348</u>
LONG-TERM DEBT, Net	<u>4,941</u>	<u>11,139</u>	<u>11,126</u>	<u>10,756</u>	<u>10,377</u>
NET ASSETS					
With Donor Restrictions	33	33	33	33	33
Without Donor Restrictions	<u>19,989</u>	<u>20,237</u>	<u>20,719</u>	<u>21,235</u>	<u>21,807</u>
Total Net Assets	<u>20,022</u>	<u>20,270</u>	<u>20,752</u>	<u>21,268</u>	<u>21,840</u>
Total Liabilities and Net Assets	<u>\$ 27,085</u>	<u>\$ 33,558</u>	<u>\$ 34,044</u>	<u>\$ 34,281</u>	<u>\$ 34,565</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF OPERATIONS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2020	2021	2022	2023	2024
NET ASSETS WITHOUT DONOR RESTRICTIONS					
REVENUE					
Private	\$ 6,392	\$ 6,636	\$ 6,981	\$ 7,233	\$ 7,378
Medicaid	6,273	5,970	6,290	6,516	6,647
Medicare Part A	881	1,041	1,098	1,139	1,162
Commercial	354	382	403	418	427
Part B - Therapy	293	318	325	331	338
HHS Stimulus	642	-	-	-	-
Hospice	5,187	5,291	5,397	5,505	5,615
Total Revenues	<u>20,022</u>	<u>19,638</u>	<u>20,494</u>	<u>21,142</u>	<u>21,567</u>
OPERATING EXPENSES					
Administrative and Indirect Program Expenses	4,044	4,115	4,194	4,278	4,364
Property	869	809	1,261	1,502	1,487
Plant Operations	843	860	877	894	912
Dietary	1,014	1,034	1,055	1,076	1,098
Laundry	202	206	210	214	219
Housekeeping	370	354	354	361	368
Nursing	5,443	5,055	5,009	5,109	5,211
Nursing Support	932	841	825	841	858
Social Services	514	524	535	546	557
Recreation	253	258	264	269	274
Ancillaries	691	657	656	669	682
Hospice Expenses	4,742	4,837	4,934	5,032	5,133
Total Operating Expenses	<u>19,917</u>	<u>19,550</u>	<u>20,174</u>	<u>20,791</u>	<u>21,163</u>
GAIN FROM OPERATIONS	105	88	320	351	404
NONOPERATING REVENUES (EXPENSES)					
Investment Income, Net	307	314	320	326	333
Realized Gains from Sale of Investments	269	-	-	-	-
Change in Unrealized Losses on Equity Investments	(1,714)	-	-	-	-
PPP Loan Forgiveness	1,213	-	-	-	-
Contributions - Unrestricted	42	43	44	45	45
Development, Net	(81)	(82)	(84)	(86)	(87)
Education Center, Net	(113)	(115)	(118)	(120)	(123)
Unrealized Loss on Interest Rate Swap	(53)	-	-	-	-
Loss on Refinancing	(64)	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>(194)</u>	<u>160</u>	<u>162</u>	<u>165</u>	<u>168</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(89)	248	482	516	572
Change in Net Unrealized Losses on Fixed Income Investments	(137)	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ (226)</u>	<u>\$ 248</u>	<u>\$ 482</u>	<u>\$ 516</u>	<u>\$ 572</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF CHANGES IN NET ASSETS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (89)	\$ 248	\$ 482	\$ 516	\$ 572
Change in Net Unrealized Losses on Fixed Income Investments	<u>(137)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(226)	248	482	516	572
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(226)	248	482	516	572
Net Assets - Beginning of Year	<u>20,248</u>	<u>20,022</u>	<u>20,270</u>	<u>20,752</u>	<u>21,268</u>
NET ASSETS - END OF YEAR	<u>\$ 20,022</u>	<u>\$ 20,270</u>	<u>\$ 20,752</u>	<u>\$ 21,268</u>	<u>\$ 21,840</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF CASH FLOWS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTE 1
YEARS ENDING DECEMBER 31, 2020 THROUGH 2024
(000S OMITTED)

	2020	2021	2022	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (Decrease) in Net Assets	\$ (226)	\$ 248	\$ 482	\$ 516	\$ 572
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operations:					
Depreciation and Amortization	636	636	841	1,046	1,046
Amortization of Deferred Financing Costs	18	4	10	10	10
Loss on Refinancing	64	-	-	-	-
Net Realized and Unrealized Losses on Investments	1,582	-	-	-	-
Unrealized Loss on Interest Rate Swap	53	-	-	-	-
(Increase) Decrease in Assets:					
Accounts Receivable	(343)	(98)	(102)	(106)	(108)
Interest Receivable	(4)	-	-	-	-
Prepaid Expenses	(34)	-	-	-	-
Increase (Decrease) in Liabilities:					
Accounts Payable and Accrued Expenses	82	78	81	84	82
Accrued Interest	1	-	-	-	-
Deferred Revenue	(8)	-	-	-	-
Net Cash Provided by Operating Activities	<u>1,821</u>	<u>868</u>	<u>1,312</u>	<u>1,550</u>	<u>1,602</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Property and Equipment	(18)	-	(343)	-	(250)
Purchases of Construction in Progress	(47)	-	-	-	-
Proceeds from Sales and Maturities of Investments	377	-	-	-	-
Purchases of Investments	(500)	(500)	(500)	(500)	(500)
Net Cash Used by Investing Activities	<u>(188)</u>	<u>(500)</u>	<u>(843)</u>	<u>(500)</u>	<u>(750)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Long-Term Debt	450	-	-	-	-
Payment of Deferred Financing Costs	(15)	-	-	-	-
Advances (to) from Related Parties	(463)	-	-	-	-
Payment of Long-Term Debt	(48)	(487)	(437)	(373)	(380)
Net Cash Used by Financing Activities	<u>(76)</u>	<u>(487)</u>	<u>(437)</u>	<u>(373)</u>	<u>(380)</u>
NET INCREASE (DECREASE) IN CASH	1,557	(119)	32	677	472
Cash - Beginning of Year	<u>1,857</u>	<u>3,414</u>	<u>3,295</u>	<u>3,327</u>	<u>4,004</u>
CASH - END OF YEAR	<u>\$ 3,414</u>	<u>\$ 3,295</u>	<u>\$ 3,327</u>	<u>\$ 4,004</u>	<u>\$ 4,476</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Interest Paid	<u>\$ 215</u>	<u>\$ 168</u>	<u>\$ 410</u>	<u>\$ 446</u>	<u>\$ 432</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
PROJECTED STATEMENTS OF CASH FLOWS
UNDER THE HYPOTHETICAL ASSUMPTIONS DESCRIBED IN NOTES 1 THROUGH 5
DECEMBER 31, 2020 THROUGH 2024

	2020	2021	2022	2023	2024
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING TRANSACTIONS					
Long-Term Debt Acquired - Bond Refinancing	\$ 4,645	\$ -	\$ -	\$ -	\$ -
Long-Term Debt Acquired - Construction Loan	631	6,631	350	-	-
Long-Term Debt Acquired - Paycheck Protection Program	450	-	-	-	-
Extinguishment of Existing Bonds	(3,936)	-	-	-	-
Property and Equipment Financed Via Construction Loan	-	-	(350)	-	-
Construction in Progress Financed Via Construction Loan	(486)	(6,631)	-	-	-
Interest Rate Swap Refinanced	(618)	-	-	-	-
Deferred Financing Costs Financed - Bond Refinancing	(91)	-	-	-	-
Deferred Financing Costs Financed - Construction Loan	(145)	-	-	-	-
Proceeds from Long-Term Debt Acquired	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Financing Costs	\$ (187)	\$ -	\$ -	\$ -	\$ -
Loss on Refinancing	(64)	-	-	-	-
Deferred Financing Costs Financed - Bond Refinancing	91	-	-	-	-
Deferred Financing Costs Financed - Construction Loan	145	-	-	-	-
Cash Paid for Deferred Financing Costs	<u>\$ (15)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Rate Swap	\$ (565)	\$ -	\$ -	\$ -	\$ -
Unrealized Loss on Interest Rate Swap Valuation	(53)	-	-	-	-
Interest Rate Swap Refinanced	618	-	-	-	-
Cash Received from Interest Rate Swap	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Purchase of Property and Equipment	\$ (18)	\$ -	\$ (7,887)	\$ -	\$ (250)
Property and Equipment Financed Via Construction Loan	-	-	350	-	-
Construction in Progress Placed in Service	-	-	7,194	-	-
Cash Paid for Property and Equipment	<u>\$ (18)</u>	<u>\$ -</u>	<u>\$ (343)</u>	<u>\$ -</u>	<u>\$ (250)</u>
Construction in Progress	\$ (533)	\$ (6,631)	\$ 7,194	\$ -	\$ -
Construction in Progress Financed Via Construction Loan	486	6,631	-	-	-
Construction In Progress Placed in Service	-	-	(7,194)	-	-
Cash Paid for Construction in Progress	<u>\$ (47)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

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 Notre Dame Health Care Center, Inc., (the "Applicant", or "the Organization"), the expected financial position as of December 31, 2020 through 2024, and the expected results of operations and cash flows for the years ending December 31, 2020 through 2024 (the "Projection Period").

A projection although similar to a forecast, is a presentation of prospective financial information that is subject to one or more hypothetical assumptions. Management has included several assumptions that are considered to be hypothetical assumptions as defined by the American Institute of Certified Public Accountants' *Guide for Prospective Financial Information*.

Management's hypothetical assumptions (the "Hypothetical Assumptions") are as follows:

- The Applicant is able to develop, market, construct, and complete the proposed substantial renovation (the "Project", as defined more fully hereinafter).
- The Applicant is able to obtain all regulatory approvals for construction of its Project.
- The Applicant is able to obtain debt financing (the "Financing") via a construction loan for approximately \$7,611,000 (the "Construction Loan") consistent with the plans presented in this Summary of Significant Projection Assumptions and Accounting Policies.
- The Applicant 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 \$8,031,000.
- The Applicant is able to achieve the occupancy, payer mix, and average rates detailed in Note 4. If this is not achieved it may significantly impact the Projection results.
- The Applicant is able to maintain its projected operating structure and limit the additional expenses associated with operating the facility under the completed Project model to the scenario as outlined in Note 4.

Accordingly, the Projection reflects Management's judgement as of August 10, 2020 the date of the Projection, of the expected conditions and its expected course of action assuming the Hypothetical Assumptions. The assumptions disclosed herein, while not all-inclusive, are the assumptions which Management believes are significant to the Projection. The prospective results may not be achieved. Furthermore, even if the Hypothetical Assumptions were to occur, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

NOTE 2 NATURE OF THE ORGANIZATION AND PROJECT DESCRIPTION

Nature of the Organization

Notre Dame Health Care Center, Inc. (the Organization) is a nonprofit corporation located in Worcester, Massachusetts that owns and operates: Notre Dame Long-Term Care Center (Nursing Home), a 123-bed skilled nursing home, Notre Dame Du Lac (Assisted Living), a 108-unit assisted living facility, and Notre Dame At Home (Hospice), which provides hospice care, pediatric hospice, and palliative care. The Organization also operates an education center that provides education and training to its employees as well as other outside participants (Education Center).

The Projection does not include the assets, liabilities, net assets with and without donor restrictions, results of operations, and the cash flows for the Assisted Living.

Project Description

The Applicant is submitting a request for a Notice of Determination of Need ("DoN") for a substantial capital expenditure in connection with planned renovations to the property located at 559 Plantation Street in Worcester, Massachusetts (the "Facility"). The existing Notre Dame Long-Term Care Center is a nearly 30 year-old facility originally constructed in 1993. The existing facility has three 41-bed skilled nursing units or neighborhoods, as well as amenity spaces such as several dining and activity spaces, a family room, and an interior courtyard. The Project includes a renovation of the entire building, including all resident spaces and staff and support spaces as well. The planned construction to be undertaken by the Applicant for each skilled nursing neighborhood will include finish upgrades for the entire unit. The upgrades include new flooring, finishes, and lighting for each resident room. Resident bathroom upgrades include new toilet fixtures and sinks, new flooring, lighting and accessories. The corridor upgrades include new flooring, ceilings, lighting and wall protection. Nurse's stations and other support spaces will be renovated and provided with new finishes. The intent of these renovations is to restore the facility for its designated purpose, and to its original functionality.

Construction is expected to begin in late 2020 or early 2021 and is anticipated to be completed by the end of the first quarter of 2022. The Projection presentation reflects the Project assets being placed in service by April 1, 2022. Additionally, the majority of the associated debt, approximately \$6,631,000, utilized to fund the Project is assumed to be incurred in 2021. The remaining \$980,000 of associated debt is assumed to be incurred \$631,000 in 2020 and \$349,000 in 2022. Finally, approximately \$420,000 of existing cash will be used to fund the project as follows: 2019 \$30,000, 2020 \$47,000, and 2022 \$343,000.

The total Project costs assumed in the Projections are approximately \$8,031,000.

**NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024**

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

Project Description (Continued)

As noted below, the bed configuration for the facility will not change as a result of the renovations.

Resident Room Configuration							
Type	Pre-Renovation - 123 Beds			Type	Post Renovation - 123 Beds		
	Capacity	Inventory	Total Beds		Capacity	Inventory	Total Beds
Private	1	15	15	Private	1	15	15
Semi	2	54	108	Semi	2	54	108
Three-Bedded	3	0	0	Three-Bedded	3	0	0
Four-Bedded	4	0	0	Four-Bedded	4	0	0
Total Beds			123	Total Beds			123

NOTE 3 FINANCING, LONG-TERM DEBT, AND INTEREST RATE SWAP

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 \$7,611,000, and existing cash and cash equivalents of approximately \$420,000. Approximately, \$30,000 of existing pre-planning construction in progress costs were funded prior to the Projection Period. The interest rate assumed in the Projection for the Construction Loan is 4.0%. Payments on the Construction Loan are assumed to be interest only through completion of the Project. Subsequent to the Project completion, it is assumed the Construction Loan will be payable in monthly installments of principal and interest of approximately \$40,000 maturing on February 1, 2047. Any material changes in the terms of the actual Construction Loan would impact the results of the Projection.

Existing Long-Term Debt and Interest Rate Swap

The Projection assumes the Applicant's share of existing variable rate term bonds issued by the Massachusetts Development Finance Agency (MDFA) totaling approximately \$3,936,000 outstanding as of January 1, 2020 will be refinanced in October or November of 2020. The existing bonds are secured by substantially all business assets and bear interest at LIBOR plus 2 basis points, which was 2.77% as of January 1, 2020. Additionally, the existing bonds have a mandatory tender date of July 1, 2021, principal payments are due annually on October 1.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

NOTE 3 FINANCING, LONG-TERM DEBT, AND INTEREST RATE SWAP (CONTINUED)

Existing Long-Term Debt and Interest Rate Swap (Continued)

The Applicant is obligated under an interest rate swap contract that expires October 1, 2029. The Applicant's share of the notional amount as of January 1, 2020 was approximately \$3,936,000. The fair value of the Applicant's share of the interest rate swap obligation was approximately \$565,000 as of January 1, 2020. The Projection assumes the fair value of the interest rate swap obligation is approximately \$618,000 as of the expected date of refinancing in October or November of 2020. The projected change in the fair value of the interest rate swap obligation of approximately \$53,000 is reflected under Nonoperating Revenues and Expenses under the caption Unrealized Loss on Interest Rate Swap on the Projected Statement of Operations year ending 2020.

The Projection assumes the above existing outstanding bonds, interest rate swap and associated debt issuance costs will be refinanced via the issuance of Series 2020 long term fixed rate bonds totaling approximately \$4,645,000. The bonds will be secured under a Master Trust Indenture and are assumed to bear interest at a rate of 3.5%. The bonds are assumed to have a twenty-five year amortization period, with interest payable monthly and annual principal payments due November 1. Any material changes in the terms of the actual bond refinancing or the fair value of the interest rate swap at termination would impact the results of the Projection.

The Projection assumes \$450,000 of the Paycheck Protection Program Loan was not forgiven see Note 4 Nonoperating Revenues and Expenses. The Projection assumes beginning November 2020, the Applicant will make monthly principal and interest payments on the remaining balance through maturity on April 27, 2022. Additionally, the Applicant will make a monthly interest payment equal to 1/18th of the accrued and unpaid interest from the deferral period of April through October of 2020. The unsecured loan bears interest at 1% per annum.

Projected interest charged to operations, including amortization of debt issuance costs, amounted to approximately \$233,000, \$172,000, \$420,000, \$456,000, and \$442,000 for the projected years ending December 31, 2020, 2021, 2022, 2023, and 2024, respectively.

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

<u>Projected Year Ending December 31,</u>	<u>Assumed Current Maturities</u>
2021	\$ 487,000
2022	437,000
2023	373,000
2024	380,000
2025	388,000

See Independent Accountants' Compilation Report

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
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NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES

Projected revenue consists of revenue from operating the Nursing Home and the Hospice program. Management's baseline projected revenue and expenses for 2020 were derived from interim financial data for the current period, and Management's historical experience of operating the Facility. This information was utilized to project and establish a baseline for the year ending 2020. Future years were projected utilizing assumptions for rate increases and operating expenses, and any known changes for operating the renovated Facility during the Projection Period.

Additionally, for the year ending 2020 and the first four months of 2021 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 Organization, COVID-19 is impacting various parts of its 2020 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 assumes significant COVID-19 revenue and expense impact through July of 2020. Census impact is removed in August of 2020 through the end of the projection period. A second wave of additional expenditures related to COVID-19 are included beginning in October of 2020 through April of 2021. Any material changes in the terms of the length and magnitude of the lost revenues and additional expenditures due to COVID-19 compared to the assumptions would impact the results of the Projection.

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

	Current Payer Mix	Per Diem
Private	40.00 %	\$ 430
Medicare	2.00	625
Medicaid	56.00	251
HMO	2.00	460
Total	100.00 %	

	2020 Projected Payer Mix	2021-2024 Projected Payer Mix	2020 Per Diem	2021 Per Diem	2022 Per Diem	2023 Per Diem	2024 Per Diem
Private	37.00 %	37.00 %	\$ 430	\$ 439	\$ 447	\$ 456	\$ 465
Medicare	3.00	4.00	625	637	650	663	676
Medicaid	58.00	57.00	271	256	261	267	272
HMO	2.00	2.00	460	469	478	488	498
Total	100.00 %	100.00 %					

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NOTRE DAME HEALTH CARE CENTER, INC.
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**NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES
(CONTINUED)**

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Historical Occupancy %	98.04%	96.31%	97.18%	97.10%	95.50%
Based on Active Beds					
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Projected Occupancy %	89.25%	91.00%	94.02%	95.50%	95.23%
Projected Total Days	40,179	40,856	42,209	42,872	42,872

Management calculated the baseline revenues for the year ending December 31, 2020, utilizing current reimbursement and economic conditions, and current nursing home regulations.

Management estimated the COVID-19 impact on revenue for 2020 based on various indicators and changes in operations. For the period April through July of 2020 the payor mix was adjusted to private 37%, Medicare 2%, Medicaid 59%, and Commercial 2%. Management assumed a 20%, 30%, and 25% overall reduction in census in May, June, and July of 2020, respectively. The Projection assumes the Applicant received approximately \$459,000 in supplemental Medicaid payments from April through July of 2020. Additionally, the Projection assumes the Applicant received approximately \$642,000 in operating grant stimulus payments from the federal Department of Health and Human Services (HHS). Furthermore, during the construction, Management assumed an occupancy rate of 91% for all of 2021 and January through March of 2022. In the subsequent years following the base year of the Projection Period (years ending December 31, 2021-2024), Management applied a 2% rate increase per year across all payer classes excluding the COVID-19 adjustments noted above.

The projection assumes an average daily census of 110 for the year ending December 31, 2020. Thereafter, the projected average daily census is 112 for the year ending 2021, 116 for the year ending 2022, and 117 for the years ending 2023 and 2024.

Other Operating Revenue Items

Other operating revenue items include Medicare Part B services and Hospice Patient Service Revenue. The projection assumes a reduction of 25% for Medicare Part B Revenue for the period May through July of 2020. These are assumed to increase based on the consumption of services and for general inflation assumed to be approximately 2% annually during the Projection Period, excluding the COVID-19 adjustment noted above.

NOTRE DAME HEALTH CARE CENTER, INC.
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NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES
(CONTINUED)

Operating Expenses

Operating expenses have been projected to be recognized during the month incurred. Management's baseline projected expenses for the year ending 2020 were derived from interim 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, 2020. Management adjusted the projection for additional COVID-19 expenditures for the periods April through July, and October through December of 2020 and January through April of 2021. The additional expenditures related to increased staffing and wages, personal protective equipment, testing, infection control measures and other expenses were approximately \$870,000 in 2020 and \$200,000 in 2021. In subsequent years, in general, operating expenses are projected to increase 2% annually throughout the projection period excluding any COVID-19 adjustments noted above. The specific basis for inflationary increases in major expense categories were formulated by Management and are discussed below.

Salaries and Related Taxes and Benefits

A full time equivalent employee ("FTE") is assumed to represent 2,080 hours of time paid annually. Salaries were assumed to increase 2% annually during the Projection Period excluding any COVID-19 related expenditures noted below. 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 21% of wages during the Projection Period. COVID-19 related salary expenditures totaling approximately \$628,000 and \$144,000 were included in the projection in 2020 and 2021, respectively.

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, excluding any COVID-19 increases noted below. Additionally COVID-19 increases of approximately \$12,000 and \$3,000 in 2020 and 2021, respectively, are included in the projection.

Dietary

Non salary cost of dining services relate to the projected costs for providing food services to the residents, including raw food, dietary supplies, and other such costs. Management assumes that these costs would vary with occupancy levels. Additionally, these costs are anticipated to increase at 2% annually throughout the Projection Period.

NOTRE DAME HEALTH CARE CENTER, INC.
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**NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES
(CONTINUED)**

Plant Operations, Housekeeping, and Laundry and Linen

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 for inflation, excluding any COVID-19 related increases noted below. Additionally COVID-19 increases of approximately \$30,000 and \$7,000 in 2020 and 2021, respectively, are included in the projection.

Utilities

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.

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, excluding any COVID-19 increases noted below. Additionally COVID-19 increases of approximately \$199,000 and \$46,000 in 2020 and 2021, respectively, are included in the projection.

Depreciation

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

Nonoperating Revenues and Expenses

Unless otherwise noted, Management's baseline projected nonoperating revenue and expenses for 2020 were derived from interim financial data for the current period, and management's historical experience of operating the Facility. This information was annualized to project and establish a baseline for the year ending December 31, 2020. In subsequent years of the Projection Period, nonoperating revenues and expenses are projected to increase 2% annually for inflation.

Unrealized and realized gains (losses) on investments were derived from interim financial data through March 2020. Subsequent to March 2020, and for the remainder of the Projection Period, fluctuations in the fair value of the investment portfolio are assumed to be zero and remain constant.

NOTRE DAME HEALTH CARE CENTER, INC.
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**NOTE 4 MANAGEMENT'S BASIS FOR PROJECTION OF REVENUES AND EXPENSES
(CONTINUED)**

Nonoperating Revenues and Expenses (Continued)

In April of 2020, the Applicant received a loan for which its allocable share amounted to approximately \$1,663,000 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 \$1,213,000 is forgiven during the year ending December 31, 2020. The remaining \$450,000 will be paid back over two years at an interest rate of 1% see Note 3. If the loan forgiveness changes it would significantly impact the results of the projection.

Operating Assets and Liabilities

The accompanying Projection assume an increase of 2% of revenue to the accounts receivable balance in the baseline projection year ending December 31, 2020 and .50% throughout the subsequent years of the Projection Period. Accounts payable is assumed to be 20% of total operating expenses net of depreciation, interest, and any non-operating 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. Throughout the Projection Period, \$500,000 is assumed to be applied to purchases of investments. Additionally, in the projected year ending December 31, 2024 \$250,000 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 Organization maintains its accounting and financial records according to the accrual basis of accounting.

Property and Equipment

Property and equipment are recorded at cost. Assets that cost over \$2,500 and have an estimated useful life of at least three years are capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

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

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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

Building and Improvements	5 to 40 Years
Equipment	3 to 20 Years
Motor Vehicle	4 Years

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions include assets set aside by the board of directors for future use.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as **decreases** in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, other than endowment and similar funds, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of time restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of property, plant, and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenue of the net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant, and equipment are reported as revenue of the net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

An allowance for uncollectible contributions receivable is provided based upon Management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Due from Related Parties and Related Party Transactions

The Organization has a related party receivable of approximately \$1,353,000 to the Assisted Living division with no fixed repayment terms. It is assumed the balance will remain constant throughout the projection period. As discussed in Note 1, the projection does not include the Assisted Living, if the Assisted Living were included in the presentation the balance would be eliminated.

Investment Fees

A member of the board of directors is an employee of the investment management firm used by the Organization. The Organization assumed paid fees to the investment firm in the amount of approximately \$52,000, \$53,000, \$54,000, \$55,000, and \$56,000 for the Projection Period.

Professional Services

A member of the board of directors is an employee of the construction contractor hired to complete the Project see Note 2. Approximately \$7,088,000 of the Project costs are assumed to be paid to this construction contractor.

Education Grants

The Organization assumed receipts of educational grants from affiliated organizations amounting to approximately \$40,000 per year during the Projection Period.

Cash and Cash Equivalents

The Organization considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. All deposit and investment balances held by third parties that meet the definition of cash or cash equivalents are considered restricted cash or restricted cash equivalents for cash flow purposes. The Projection assumes there are no investment balances held by third parties which meet the definition of cash or cash equivalents.

Accounts Receivable

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

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Should that status be challenged in the future, its tax years are open for examination for three years from the date filed by the federal and state taxing authorities. The Organization follows the policy for uncertainty in income taxes to be recognized in an entity's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No uncertain income tax positions were anticipated or identified for the Projection Period.

Estimates

The preparation of projected financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the projected financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Promotional Advertising

Promotional advertising costs are expensed as incurred.

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 \$18,060 in 2020, \$4,240 in 2021, and \$10,040 for each of 2022-2024.

Assets Limited as to Use

Assets limited as to use include assets set aside by donors for restricted purposes; assets set aside by the board of directors for funded depreciation and scholarships for employees, over which the board retains control; and resident trust deposits.

Software

Software is amortized over a three-year period using the straight-line method. Projected amortization of software amounted to approximately \$14,000, \$14,000, and \$13,000 for the projected years ending December 31, 2020, 2021, and 2022, respectively.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
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NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in equity securities with readily determinable fair values and investments in fixed income securities are measured at their fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest, dividends and unrealized gains and losses on equity investments) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on fixed income investments are excluded from excess of revenues over expenses.

Declines in fair market values below original cost of individual securities are evaluated to determine if the declines are other-than-temporary impairments. Changes in the economic environment, earnings performance, general market conditions, and the investor's ability to hold a security until the market recovers are indicators that are used. If the impairment is determined to be other-than-temporary, an impairment loss is recognized and the fair value of the investment becomes the new cost basis.

Measure of Operations

The Organization provides an array of health care services, including long-term care and rehabilitation, hospice care, pediatric palliative care, and care management within its geographic area. All operating expenses are considered to relate, either directly or indirectly, to providing these services. For purposes of presentation, transactions deemed by Management to be ongoing, major, or central to the provision of services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Excess (Deficiency) of Revenues Over Expenses

The projected statement of operations includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on fixed income investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets), and net assets released from restrictions for capital improvements.

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Transfers between levels are considered annually at the end of the reporting period.

NOTRE DAME HEALTH CARE CENTER, INC.
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NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The Organization's Level 2 investments consist of debt securities and are measured based on quoted market prices of similar assets. Level 3 investments consisted of an interest rate swap and was measured based on the net present value of estimated future payments. The projection assumes the interest rate swap is terminated and refinanced in October or November of 2020 see Note 3.

Functional Expenses

The financial statements contain certain categories of expenses that attributable to one or more program or supporting functions of the Organization. Expenses are directly allocated to program or support services whenever possible. Other shared expenses are allocated based on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and occupancy, which are allocated on a square footage basis, salaries and benefits, which are allocated on a basis of estimated time and effort, and information technology, which is allocated based on estimates of time and cost of the specific technology utilized.

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. While the standard will not be effective for the Organization until the year ending December 31, 2021, the standard can be adopted as early as the year ending December 31, 2016. Early adoption has not been exercised. 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 Organization. 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 Organization 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.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
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NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third Party Payors

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident and patient care. These amounts are due from residents, patients, third party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization 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 and patients receiving skilled nursing, assisted living, hospice care, pediatric hospice and palliative care services. The Organization considers daily services provided to residents of the skilled nursing facility, monthly rental for housing services, and hospice and palliative care services as separate performance obligations and measures these on a monthly basis, or upon move-out within the month, whichever is shorter. For nursing home and assisted living residents, the Organization measures the performance obligation from admission into the facility, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge. For hospice care patients, the Organization measures the performance obligation as hospice services are provided to patients in their home or to residents in the Nursing Home.

The Organization 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 Organization's policy and/or implicit price concessions provided to residents. The Organization determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Organization determines its estimate of implicit price concessions based on the evaluation of individual patients.

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

Medicaid – Standard Payments to Nursing Facilities

The Organization 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.

NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
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NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third Party Payors (Continued)

Medicare – Prospective Payment System

Through September 30, 2019, the Organization received reimbursement for the care of certain patients under the federally sponsored Medicare prospective payment system (PPS) through an insurance intermediary. The federal rates utilize facility case-mix resident assessment data, completed by the skilled nursing facility (SNF), to assign patients into Resource Utilization Groups (RUG). SNFs must complete the resident assessments according to a specific time schedule designed for Medicare payment. SNFs that do not comply with this requirement will be paid at a default payment (the lowest of the federal rates) for the days of a patient's care for which the SNF is not in compliance.

The PPS program mandates the implementation of fee schedules for SNF therapy services to residents not in a covered Part A stay and to nonresidents who receive outpatient rehabilitation services from the SNF. The Centers for Medicare and Medicaid Services imposed a limit for both physical therapy (including speech therapy) and occupational therapy services, except for certain medical conditions. Program is administered by the Centers for Medicare and Medicaid Services (CMS).

Effective October 1, 2019, the Medicare Reimbursement System underwent a significant change in methodology and implemented a patient driven payment model (PDPM). The PDPM payment system operates similar to PPS in that patients are assigned standard rates of payment for their specific needs. Under PDPM, therapy minutes are removed as the primary basis for payment and instead, uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay. Therapy services to residents not in a covered Part A stay remain the same.

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.

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NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third Party Payors (Continued)

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 Organization'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 Organization. In addition, the contracts the Organization 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 Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price, were not significant during the Projection Period.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization 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, 2020 through 2024. 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.

**NOTRE DAME HEALTH CARE CENTER, INC.
SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND ACCOUNTING POLICIES
DECEMBER 31, 2020 THROUGH 2024**

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Services Revenues from Third Party Payors (Continued)

The Organization 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 Organization's line of business that provided the service (for example, skilled nursing, hospice care, etc.)

For the projected years ending December 31, 2020, 2021, 2022, 2023, and 2024, the Organization recognized revenue of approximately \$19,380,000, \$19,638,000, \$20,494,000, \$21,142,000, and \$21,567,000, respectively, from goods and services that transfer to the customer over a period of time.

Net Assets with Donor Restrictions

The Organization has received donor-restricted contributions, which have been accounted for as net assets with donor restrictions. Net assets with donor restrictions were assumed to remain the same amount and composition as January 1, 2020 throughout the Projection Period. Net assets with donor restrictions are available for the following purposes at December 31:

	2020	2021	2022	2023	2024
Activities Fundraiser	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Education Center	28,000	28,000	28,000	28,000	28,000
CPR and AED Training Classes	2,000	2,000	2,000	2,000	2,000
Total	<u>\$ 33,000</u>	<u>\$ 33,000</u>	<u>\$ 33,000</u>	<u>\$ 33,000</u>	<u>\$ 33,000</u>

Board-Restricted Investments

The Projection assumes there are no Board Restricted Investments or Board Designated Funds where the board of directors has set aside certain investments for specific items.



CliftonLarsonAllen

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August 10, 2020

Ms. Elizabeth Kelley, Interim Director
Determination of Need Program
Department of Public Health
250 Washington Street, 6th Floor
Boston, MA 02108

RE: Determination of Need Application – Notre Dame Health Care Center, Inc.

Dear Ms. Kelley,

The accompanying report is included as relevant additional financial information to assist the department in rendering a decision regarding the proposed construction project of Notre Dame Health Care Center, Inc. (the "Company").

The report is intended solely for the information and use of management and members of the Company, and the Massachusetts Department of Public Health Determination of Need Program in its review of the Company'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)

Mark Cummings, CPA

Principal

617-984-8100

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NOTRE DAME HEALTH CARE CENTER, INC.

**BENCHMARKING MANAGEMENT'S
PROJECTED FINANCIAL ANALYSIS
FOR THE PROJECTED YEARS ENDING
DECEMBER 31, 2020 THROUGH DECEMBER 31, 2024**

PROCESS OVERVIEW

Management’s Projections

CliftonLarsonAllen LLP (CLA) was requested by the management of Notre Dame Health Care Center, Inc. to read the financial projections prepared by Notre Dame Health Care Center, Inc. (“Management” or “NDHCC”) for the projected years ending December 31, 2020 through 2024 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 STAFFING AND COST ANALYSIS

Providers in Worcester County were used to benchmark Management’s projections. NDHCC’s 2019 Medicare and Medicaid cost report data was compared to Worcester County Medicare and Medicaid cost report data for the most recent available period of 2018. The data was then projected out to 2024 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 skilled nursing facility and the hospice program. Management’s baseline projected revenue for the first year of the projection, 2020, was derived from interim 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; 2020. Future years were projected utilizing assumptions for rate increases and operating expenses, and any known changes for operating the renovated facility during the Projection Period.

Historical Operations

	Historical Average Occupancy December 31,				
	2015	2016	2017	2018	2019
Occupancy %	98.04%	96.31%	97.18%	97.10%	95.50%

Historical Operations (Continued)

**Historical Average Payer Mix*
December 31,**

	2016	2017	2018	2019
Private	38.88%	39.38%	36.46%	39.82%
Medicare	5.16%	3.90%	4.82%	3.87%
Medicaid	55.42%	55.18%	57.49%	54.91%
HMO/Other	0.54%	1.54%	1.23%	1.40%
Total	100.00%	100.00%	100.00%	100.00%

*Massachusetts' Medicaid Cost Report Data

Projected Operations

The following table summarizes NDHCC's 2019 projected data compared to 2018 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 NDHCC's projected year five which is 2024.

	2019	2018				2024			
	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile		Inflation Adjustment	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile
Occupancy™									
Occupancy %	95.5%	85.3%	91.5%	94.4%		95.2%	85.3%	91.5%	94.4%
Total SNF/NH Days	42,874	28,633	38,797	48,235		42,872	28,633	38,797	48,235
SNF Payor Mix (% of Days)									
Medicare FFS	3.9%	4.4%	6.5%	9.7%		4.0%	4.4%	6.5%	9.7%
Medicaid	54.9%	41.4%	57.5%	71.3%		57.0%	41.4%	57.5%	71.3%
Other (including MC Advantage)	41.2%	54.2%	36.0%	19.0%		39.0%	54.2%	36.0%	19.0%
Revenue per Patient Day									
Medicare FFS	\$619	\$549	\$599	\$622	2.0%	\$676	\$618	\$674	\$700
Other	\$320	\$235	\$254	\$275	2.0%	\$351	\$265	\$286	\$309

**Projected Average Occupancy
December 31,**

	2020	2021	2022	2023	2024
Occupancy %	89.25%	91.00%	94.02%	95.50%	95.23%
Total Days	40,179	40,856	42,209	42,872	42,872

Observations:

- NDHCC's projected occupancy is above the 75th percentile for the county both before and after the proposed project's completion

- NDHCC's affiliation with the Sisters of Notre Dame as a primary referral source and the nature of the payers they attract results in a lower Medicare utilization.
- NDHCC's other mix is above the median due to high private census driven by affiliation with the Sisters of Notre Dame
- NDHCC's Medicare rate is higher than the median before the proposed project and at the end of the projection in 2024
- NDHCC's other rate is higher due to high private census driven by their affiliation with the Sisters of Notre Dame

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 (2020) were derived from actual financial data of the facility 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; 2020. 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:

Notre Dame Health Care Center
Historical Costs per Patient Day by Department*
December 31,

	2017	2018
Administration	\$96	\$95
Plant	16	15
Dietary	22	22
Laundry	4	4
Housekeeping	8	7
Nursing	137	127
Social Services	8	7
Other General Services	9	9
Total Costs	\$300	\$286

*Medicare Cost Report Data

Projected Operations

The following table summarizes NDHCC's 2019 data compared to 2018 Worcester County data expenses by department per patient day. The 2018 Worcester County numbers are then inflated 2% each year to compare to NDHCC's projected year five which is 2024.

	2019	2018			Inflation Adjustment	2024			
	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile		Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile
Costs per Patient Day*									
Administration	\$98	\$51	\$57	\$63	2.0%	\$108	\$57	\$64	\$71
Plant	\$15	\$12	\$14	\$15	2.0%	\$17	\$14	\$16	\$17
Dietary	\$23	\$18	\$19	\$22	2.0%	\$25	\$20	\$22	\$25
Laundry	\$4	\$2	\$4	\$4	2.0%	\$5	\$2	\$4	\$4
Housekeeping	\$7	\$5	\$6	\$7	2.0%	\$8	\$6	\$7	\$8
Nursing	\$129	\$90	\$100	\$111	2.0%	\$142	\$101	\$112	\$125
Social Services	\$6	\$3	\$3	\$6	2.0%	\$7	\$3	\$4	\$7
Other General Services	\$10	\$4	\$5	\$6	2.0%	\$11	\$5	\$5	\$7
Total Costs	\$292	\$185	\$208	\$234		\$323	\$208	\$234	\$264

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

Observations:

- NCHCC reports a cost structure higher than the median and 75th percentile both historically (see table above) and in its projections
- Historically, NDHCC's costs per patient day are higher to accommodate the Sisters of Notre Dame, which is funded at private rates. Management projects this trend to continue with no drastic change in the operating structure for care of the patient panel
- NDHCC does not anticipate any significant change in cost structure due to the renovations, as their cost in comparison to the median remains consistent for most cost centers
- 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

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. 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.

	2019				2024			
	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile
EBIDA	10.5%	1.6%	5.7%	10.9%	8.9%	1.6%	5.7%	10.9%

Observations

- NDHCC’s EBIDA is above the Worcester County median in both 2019 and 2024
- Additionally, for both 2019 and 2024 NDHCC’s EBIDA is approaching the top quartile
- The EBIDA for Worcester County was assumed to remain at its 2018 level for purposes of this analysis

Operating and Capital Budgets

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

	2017	2018	2019	Planned 2024
Capital Expenditures	<u>\$ 406,129</u>	<u>\$ 375,295</u>	<u>\$ 284,920</u>	<u>\$ 250,000</u>

Balance Sheets

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

Days Cash on Hand

We analyzed NDHCC’s days cash on hand ratio for 2019 and the last year of the projection, 2024. 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.

2019	2018			2024			
Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile	Notre Dame Health Care Center, Inc.	Worcester, MA 25th percentile	Worcester, MA 50th percentile	Worcester, MA 75th percentile
38.0	13.8	25.1	59.0	81.0	13.8	25.1	59.0

Days Cash on Hand

Absent specific operating conditions and criteria, Worcester County days cash on hand data was assumed to remain constant

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 the applicant. The debt service coverage ratio measures an applicant’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 the applicant’s projected debt service coverage ratio compared to the Massachusetts debt service coverage ratio median:

2019	2018			2024			
Applicant	Massachusetts 25th percentile	Massachusetts 50th percentile	Massachusetts 75th percentile	Applicant	Massachusetts 25th percentile	Massachusetts 50th percentile	Massachusetts 75th percentile
2.61	0.40	1.30	4.8	1.80	0.40	1.30	4.8

Debt Service Coverage (DSC)

- NDHCC’s days cash on hand ratio starts above the median and below the top quartile at December 31, 2019 and is above the top quartile by 2024, the last year of the projection
- NDHCC’s debt service coverage ratio is significantly higher than the Massachusetts’s state median in 2019 and in the final year of the projection, 2024

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