

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

FINANCIAL STATEMENTS
Year Ended December 31, 2022

HMM, CPAs LLP

AUDIT | TAX | CONSULTING

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members of:

Milton HC Operating, LLC, Inc. d/b/a Brush Hill Care Center

We have reviewed the accompanying combining financial statements of Milton HC Operating, LLC d/b/a Brush Hill Care Center, which comprise the balance sheet as of December 31, 2022 and the related statements of operations, changes in members' deficit, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Milton HC Operating, LLC d/b/a Brush Hill Care Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, Milton HC Operating, LLC d/b/a Brush Hill Care Center adopted Accounting Standards Codification 842 Leases. Our conclusion is not modified with respect to that matter.

HMM, CPAs LLP

Hauppauge, NY 11788
May 23, 2023

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

BALANCE SHEET
Year Ended December 31, 2022

ASSETS

	<u>2022</u>
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 724,251
Resident accounts receivable, net of allowance for doubtful accounts of \$511,739	2,673,694
Prepaid expenses	<u>45,680</u>
TOTAL CURRENT ASSETS	3,443,625
RESIDENT FUND	141,821
DUE FROM RELATED PARTIES	873,457
OPERATING LEASE RIGHT OF USE ASSET	10,928,265
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	<u>13,975</u>
TOTAL ASSETS	<u>\$ 15,401,143</u>

LIABILITIES AND MEMBERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	\$ 7,642,927
Accrued payroll expenses and taxes payable	292,511
Other accrued expenses	29,417
Payable to third party and private payors, current portion	17,589
Operating Lease Liability, Current Portion	585,396
Paycheck Protection Program Loan Payable	<u>2,801,522</u>
TOTAL CURRENT LIABILITIES	11,369,362
RESIDENT FUND	141,821
OPERATING LEASE LIABILITY, NET OF CURRENT PORTION	10,342,869
CONTINGENCIES	<u>-</u>
TOTAL LIABILITIES	21,854,052
MEMBERS' DEFICIT	<u>(6,452,909)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 15,401,143</u>

The accompanying Notes to Combining Financial Statements are an integral part of this statement.

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

STATEMENT OF OPERATIONS
Year Ended December 31, 2022

	<u>2022</u>	<u>Per Day</u>
OPERATING INCOME		
Total resident service income	\$ 13,689,045	\$ 284.32
Grant Income: Provider Relief Fund	241,475	5.02
Employee Retention Credits	-	-
Other operating income	<u>537,538</u>	<u>11.16</u>
TOTAL OPERATING INCOME	<u>14,468,058</u>	<u>300.50</u>
OPERATING EXPENSES		
Administrative services	1,337,949	27.78
Fiscal services	699,889	14.53
Plant, operations and maintenance	2,207,922	45.85
Resident food services	1,205,181	25.03
Housekeeping services	460,600	9.57
Laundry services	181,719	3.78
Nursing administration	781,233	16.22
Medical care services	107,014	2.23
Leisure time activities	151,556	3.15
Social services and admitting	200,745	4.17
Ancillary service centers	1,432,034	29.75
Program service centers	5,746,961	119.36
Medicaid Assessment	<u>951,888</u>	<u>19.77</u>
TOTAL OPERATING EXPENSES	<u>15,464,691</u>	<u>321.19</u>
NET LOSS	<u><u>\$ (996,633)</u></u>	<u><u>\$ (20.69)</u></u>

The accompanying Notes to Combining Financial Statements are an integral part of this statement.

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

STATEMENT OF CHANGES IN MEMBERS' DEFICIT
Year Ended December 31, 2022

	<u>2022</u>
Balance at December 31, 2021	\$ (5,456,276)
Net Loss	(996,633)
Balance at December 31, 2022	<u><u>\$ (6,452,909)</u></u>

The accompanying Notes to Combining Financial Statements are an integral part of this statement.

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

STATEMENT OF CASH FLOWS
Year Ended December 31, 2022

	<u>2022</u>
Cash Flows from Operating Activities	
Net Loss	\$ (996,633)
Adjustments to reconcile Net Income to Net Cash	
Depreciation and amortization	2,150
Bad debts	157,343
Cash Used by Operating Activities:	
Decrease (increase) in:	
Resident accounts receivable	(1,116,867)
Prepaid expenses	(15)
Due from related parties	(1,101)
Increase (decrease) in:	
Accounts payable	2,556,000
Accrued payroll and taxes payable	25,209
Accrued expenses	(7,783)
Due to Medicare- Advanced and Accelerated Payments	(398,093)
Payable to third party and private payors	17,589
Resident fund	(21,766)
Net Cash (Used)/Provided by Operating Activities	<u>216,033</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	216,033
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	<u>650,039</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 866,072</u>
Supplemental Cash Flow Disclosures:	
Cash payments for interest:	<u>\$ -</u>

The accompanying Notes to Combining Financial Statements are an integral part of this statement.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of Significant Accounting Policies

Description of Operations – Milton HC Operating, LLC d/b/a Brush Hill Care Center, (the Company), is licensed as a 160 bed skilled nursing facility located in Milton, Massachusetts. The Company provides the necessary medical services to its residents. The Company commenced operations as limited liability company in accordance with the Limited Liability Law of the State of Massachusetts. The Company does not have a termination date.

Basis of Accounting - The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Resident Care Service Revenue - Resident care service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

Generally, the Company bills the residents and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Company. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Company believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in our facility receiving skilled nursing services or residents receiving other services in our facility. The Company measures the performance obligation from admission into the facility, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge or completion of the outpatient services.

Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided to the residents and the Company does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Company 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 residents in accordance with the Company's policy, and implicit price concessions provided to Residents.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

The Company determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Company determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors is included in Note 3.

The Company has determined that the nature, amount, timing, and uncertainty of revenue and cash flows is primarily affected by the primary payor source. A table providing details of this factor is presented below.

	<u>2022</u>
Medicaid	\$ 6,217,093
Medicare A	3,552,418
Medicare B	891,912
Private	310,070
Hospice	93,482
Other Insurance	<u>2,624,070</u>
Total	<u>\$ 13,689,045</u>

Resident services revenue is comprised primarily of Skilled Nursing Revenue. Revenue from other services is not a significant component of resident services revenue. For the year ended December 31, 2022, the Company recognized revenue of \$13,689,045 from goods and services that transfer to the customer over time.

The Company has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Company's expectation that the period between the time the service is provided to a resident and the time that the Resident or a third-party payor pays for that service will be one year or less.

However, the Company does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Company has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

Allowance for Doubtful Accounts – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to residents who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay residents (which includes both the residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of past experience, which indicates that many residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts or recorded as bad debt expense.

The Company's allowance for doubtful accounts was \$511,739 at December 31, 2022. In addition, the Company had bad debt expense of \$7,343 for the year ended December 31, 2022. The changes are the direct result of industry trends in collections as well as the impact of the COVID-19 Pandemic.

Assessing Collectability – The Company recognizes resident service revenue associated with services provided to residents who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured residents, the Company recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated). On the basis of historical experience, a portion of the Company's uninsured residents will be unable or unwilling to pay for the services provided. Thus, the Company records a provision for bad debts related to uninsured residents in the period the services are provided.

Cash and Cash Equivalents – The Company and the Realty consider all highly liquid securities, including certificates of deposit, with maturities of three months or less, when purchased, to be cash equivalents.

Concentration of Credit Risk – Financial instruments that potentially subject the Company and the Realty to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions, which from time to time exceed the Federal depository Insurance Corporation (FDIC) Coverage limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant audit risk.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

Accounts receivable potentially exposes the Company to concentrations of credit risk, as defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) - "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk."

The Company's outstanding resident accounts receivable are generated from third-party payors and private pay sources for residents residing in the nursing facility. Third-party payors include Medicaid, Medicare and private insurance companies. Private pay sources include individual residents.

The Company provides credit in the normal course of business, without requiring collateral, to its residents, most of who are local residents and are insured under third party agreements. The Company does collect collateral security deposits if it is able to. Accounts receivable from residents and third party payors were approximately as follows as of December 31, 2022:

	<u>2022</u>
Medicaid / Hospice	53.9%
Medicare	39.6%
Self pay / HMO	6.5%
Total	<u>100.0%</u>

Property and Equipment – Property and equipment are stated at cost and are depreciated over their estimated useful lives using the straight line method. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease or the useful life of the improvement, whichever is shorter. Additions and improvements which extend the life of the assets are capitalized, and normal repairs and maintenance are charged to current operations. The costs and related accumulated depreciation of assets retired or disposed of are removed from the related accounts and the resulting gain or loss is reflected in income.

Estimated useful lives are as follows:

Major Movable Equipment	10
-------------------------	----

Long-Lived Assets – The Company assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable by comparing the expected undiscounted future cash flows of the assets within the respective carrying amounts as of the date of assessment. Should aggregate expected future cash flows be less than the carrying value, an impairment would be recognized, measured as the difference between the carrying value and the fair value of the asset. During 2022, the Company did not record any impairment charges.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

Leases- The Company determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of Right-of-Use (ROU) assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines lease classification as operating or finance at the lease commencement date. Finance leases are included in property and equipment and finance lease liability on the balance sheets. The Company allocates the consideration to the lease and non-lease components using their relative standalone values, when applicable.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Leases may include variable lease payments and renewal options. Variable lease payments, such as real estate taxes and escrows, are excluded from the amounts used to determine the right-of-use assets and liabilities and are recorded as lease expense. The Company has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that The Company is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Company has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's and the Realty's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual events and results could differ from those assumptions and estimates.

Resident Funds – Resident funds represent cash held in escrow on behalf of the residents. Such funds represent living allowances received by residents from the State of Massachusetts, as well as other resident funds deposited with the Company for safe keeping. Accordingly, the amounts are reported as assets and liabilities of the Company and are included on the balance sheet as Resident Fund asset and Resident Fund liability.

Income Taxes – The Company is a limited liability company organized under the laws of the State of Massachusetts and does not incur income taxes. Instead, its earnings are included in the members' personal income tax returns and taxed depending on their personal tax situations. The financial statements, therefore, do not include a provision for income taxes. The Company files income tax returns in the U.S. federal, and state jurisdictions.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

The Company recognizes the effects of income tax positions only if they are more likely than not of being sustained. Management has determined that the Company has no uncertain tax provisions that would require financial statement recognition.

Impact of COVID-19

Nursing Home- In March 2020, an outbreak of a new strain of coronavirus, COVID-19, emerged as a pandemic in New York State and across the United States, leading to widespread business shutdowns and significant fluctuations in the financial markets. The COVID-19 outbreak has been ongoing and as such, has disrupted supply chains and affected production and sales across a range of industries.

Long term care facilities have been impacted by the pandemic with many facilities experiencing reduced census due to COVID-19 deaths. Although not all of the reduction in census can be directly attributed to COVID-19 deaths, new admissions have slowed dramatically due to a general decline in medical care and concern among patients and family members about the coronavirus.

In response to the coronavirus outbreak, the US Government passed the Families First Coronavirus Relief Act (FFCRA) and the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). These two pieces of legislation were designed to assist individuals and businesses in dealing with the coronavirus outbreak.

The Company has received funding from the CARES Act through the Small Business Administration ("SBA") and the Department of Health & Human Services ("HHS") of approximately \$1.9 million in 2021. SBA funds do not require repayment as long as the Company meets certain expense payment and reporting requirements. HHS funds are considered grant monies and are subject to audit. Additionally, certain tax credits are potentially available to the company under the FFCRA.

Even though the Company has received assistance in response to the pandemic, the extent to which COVID-19 impacts the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of COVID-19. Therefore, the related financial impact cannot be reasonably estimated at this time.

Multiemployer Defined Benefit Plan - The multiemployer defined benefit plan that the Company contributes to on behalf of its union employees, invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Since the market has been affected by the recent coronavirus outbreak, it is at least reasonably possible that changes in the values of investment securities could materially affect the funding of the plan.

New Accounting Standards- In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(1) Summary of significant accounting policies (continued)

to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the balance sheet.

The Company adopted the leasing standards effective January 1, 2022, using the modified retrospective approach with January 1, 2022 as the initial date of application. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The accounting for finance leases remained substantially unchanged. The Company elected to use some of the available practical expedients provided in the transition guidance. These allowed the Company to not reassess the identification, classification and initial direct costs of lessor agreements. Adoption of the standard required the company to record amounts as of January 1, 2022, resulting in an increase in operating lease ROU assets of \$11,286,640 and an increase in operating lease liabilities of \$11,286,640.

Subsequent Events – The Company and the Realty have evaluated subsequent events through May 23, 2023, the date which the financial statements were available to be issued.

(2) Cash, Cash Equivalents, and Restricted Cash

For purposes of the balance sheets and the statements of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased. Restricted cash consists of those amounts held in trust on behalf of the residents of the Company. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the totals of the same such amounts presented in the statements of cash flows.

	<u>12/31/2022</u>
Cash and Cash Equivalents	\$ 724,251
Resident Funds	141,821
Total Cash, Cash Equivalents, and Restricted	
Cash as presented on the Statement of Cash Flows	<u>\$ 866,072</u>

(3) Resident Service Income from Third-Party Payors

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:

Medicare: Certain inpatient services are paid at prospectively determined rates per day based on clinical, diagnostic and other factors. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(3) Resident Service Income from Third-Party Payors (continued)

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per day.

Other: Payment agreements with certain commercial insurance carriers and health maintenance Companies provide for payment using prospectively determined rates per day.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Nursing Home believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

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 resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. 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.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Company estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to Resident service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered significant for the year ended December 31, 2022. 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.

Temporary Suspension of Medicare Sequestration

The Budget Control Act of 2011 requires a mandatory, across the board reduction in federal spending, called a sequestration. Medicare fee for service claims with dates of service or dates of discharge on or after April 3, 2013 incur a 2.0% reduction in Medicare payments. All Medicare rate payments and settlements have incurred this mandatory reduction and it will continue to remain in place through at least 2023, unless Congress takes further action. In response to COVID-19, the CARES Act temporarily suspended the automatic 2.0% reduction of Medicare claim reimbursements for the period of May 1, 2020 through December 31, 2020; this period was subsequently extended through March 31, 2022. During the

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(3) Resident Service Income from Third-Party Payors (continued)

year ended December 31, 2022, the suspension of sequestration resulted in net revenues of approximately \$22,000.

(4) Property and Equipment

Property and equipment consisted of the following:

	<u>2022</u>
Major movable equipment	\$ 35,450
Total cost	35,450
Accumulated depreciation	(21,475)
Net Property and Equipment	<u>\$ 13,975</u>

The depreciation charged to operations for the year ended December 31, 2022 was \$2,150. The depreciation policies followed by the Company are described in Note (1).

(5) Leases

The Company has an operating lease for use of building and certain equipment.

A non-arm's length lease (expiring June 2046) between Milton SPE Realty, LLC (lessor) and the Company (lessee) obligates the Company for rent. Rent charged, under this lease calls for a minimum fixed annual rent in the amount equal to the landlord's mortgage debt service. Under the lease agreement, the lessee is obligated to pay all variable expenses related to the building. The landlord and tenant share common owners.

The following summarizes the line items in the balance sheet which include amounts for operating and finance leases as of December 31:

Operating Leases	<u>2022</u>
Operating lease right of use asset	<u>\$ 10,928,265</u>
Operating lease liability, current portion	\$ 585,396
Operating lease liability, net of current portion	<u>10,342,869</u>
Total operating lease liabilities	<u>\$ 10,928,265</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2022</u>
Weighted Average Remaining Lease Term	<u>24 Years</u>
Weighted Average Discount Rate	2.05%

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(5) Leases (continued)

The maturities of lease liabilities as of December 31, 2022 were as follows:

Year Ending December 31:	<u>Operating</u>
2023	\$ 585,396
2024	585,396
2025	585,396
2026	585,396
2027	585,396
Thereafter	<u>10,829,826</u>
Total lease payments	13,756,806
Less: Present value discount	<u>(2,828,541)</u>
Present value of lease liabilities	<u><u>\$ 10,928,265</u></u>

The following summarizes the line items in the income statement which include the components of lease expense for the year ended December 31:

Operating lease costs:	<u>2022</u>
Operating leases, included in operating expenses	\$ 585,394
Short-term leases, included in operating expenses	<u>9,881</u>
Total operating lease costs	<u><u>\$ 595,275</u></u>

The following summarizes cash flow information related to leases for the year ended December 31:

Cash paid for amounts included in the measurement of lease liabilities	<u>2022</u>
Operating cash flows from operating leases	\$ 585,394
Lease assets obtained in exchange for lease obligations	
Operating leases	\$ 11,286,640

(6) Transactions with Related Parties

The Company contracts with YorkMG, a related party affiliated via common ownership, to provide Employee Leasing Services. YorkMG, a professional employer organization, handles all payroll and benefit services for leased employees. YorkMG charges the Company its costs for all payroll and benefits plus a 6% management fee.

For the year ended December 31, 2022, the Company incurred expenses to YorkMG of \$7,408,616. The company also had \$6,108,506, included in the accounts payable balance, due to YorkMG at December 31, 2022.

YorkMG maintains a 401(k) plan (the Plan) covering all of its employees who are not eligible for other pension plans under the terms of a collective bargaining agreement. Contributions to this plan are included as part of the fee paid to YorkMG.

Milton HC Operating, LLC
d/b/a
Brush Hill Care Center

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022

(7) Paycheck Protection Program Loan Payable

In April 2020, the Company received a “first draw” loan in the amount of \$1,374,917 under the Paycheck Protection Program (“PPP Loan”). In June 2021, the Company received a “second draw” loan in the amount of \$1,426,605. The PPP Loan, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The PPP Loan and accrued interest, if material, are forgivable after the covered period, up to 24-weeks, if the borrower uses the PPP Loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, covered worker protection expenditures and maintains its payroll levels. The amount of the PPP Loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period, up to 24-weeks. The unforgiven portion of the PPP Loan is payable over two years (with a possible extension to five years), at an interest rate of 1%, with a deferral of payments for the first 10 months. All the proceeds of the PPP Loan were used by the company to pay eligible payroll costs and the Company maintained its headcount and otherwise complied with the terms of the PPP Loan.

In 2021, the Company believed that it had acted in compliance with the program and would seek forgiveness of the PPP Loan, but no assurance at the time could be provided that the Company would obtain forgiveness of the PPP Loan in whole or part. The Company filed its application for forgiveness of this debt in 2021, but has not yet received final forgiveness from the SBA. The balance on this PPP Loans were \$2,801,522 as of December 31, 2022 and has been classified as current since the Company expects final resolution on its forgiveness application in the current period.

(8) Pension Plan

Multi-employer Defined Benefit Plans:

The Company, via its relationship with YorkMG, contributes to a multi-employer defined benefit pension plan under the terms of a collective bargaining agreement that covers its union-represented employees. The risks of participating in a multi-employer plans are different from single-employer plans in the following aspects:

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Company chooses to stop participating in its multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company’s participation in the plan for the year ended December 31, 2022 is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2022 is for the plan’s year-end at December 31, 2021. The zone status is based on information that the Company received from the plan and is certified by the plan’s actuary.

**Milton HC Operating, LLC
d/b/a
Brush Hill Care Center**

**NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2022**

(8) Pension Plan (continued)

Among other factors, plan in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s)(CBA) to which the plans are subject.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act		FIP/RP Status		Expiration of Collective Bargaining Agreement
		Zone Status		Pending/ Implemented	Surcharge Imposed	
		2021	2020			
1199 SEIU Health Care Employees Pension Fund	13-3604862	Green	Green	No	No	12/31/2024

(9) Contingencies

The Company is involved in various claims and legal actions in the normal course of business. Management estimates that such matters will be resolved without material adverse effect on the Company's future financial position or results from operations.

The Company files annual cost reports with WPS GHA as fiscal intermediary for the Medicare Program and Massachusetts Department of Health, for the development of Medicare and Medicaid payment rates. Revenues received under cost reimbursement agreements are subject to audit and retroactive adjustment. No provision has been made in the combined financial statements for the effect of such adjustments, if any, relating to this matter.

MILTON HC OPERATING, LLC
d/b/a
BRUSH HILL CARE CENTER

SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022

HMM, CPAs LLP

AUDIT | TAX | CONSULTING

INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON SUPPLEMENTARY INFORMATION

We have reviewed the basic financial statements of Milton HC Operating, LLC d/b/a Brush Hill Care Center for 2022. The objective of that review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. The supplementary information included is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

HMM, CPAs LLP

Hauppauge, NY 11788

May 23, 2023

ROUTINE AND ANCILLARY SERVICE INCOME

	2022	
	Amount	Per Day
ROUTINE INCOME		
Room and board income - Private	\$ 310,070	\$ 375.84
Room and board income - Medicare	3,552,418	684.21
Room and board income - Medicaid	6,217,093	182.44
Room and board income - Hospice	93,482	257.53
Room and board income - Other Insurance	2,624,070	341.28
Total Routine Income	12,797,133	265.80 *
ANCILLARY SERVICE INCOME		
Pharmacy	349	0.01
Occupational therapy	25,539	0.53
Speech therapy	6,463	0.13
Total Ancillary Service Income	32,351	0.67 *
TOTAL ROUTINE AND ANCILLARY SERVICE INCOME	\$ 12,829,484	\$ 266.47 *

CONTRACTUAL ALLOWANCES

Ancillary - Medicare Part A & B	\$ (859,561)	\$ (165.55)
TOTAL CONTRACTUAL ALLOWANCES	\$ (859,561)	\$ (17.85) *

GRANT INCOME

Grant Income- MA COVID Revenue	\$ 241,475	\$ 5.02
TOTAL GRANT INCOME	\$ 241,475	\$ 5.02

OTHER OPERATING INCOME

Miscellaneous income	\$ 535,931	\$ 11.13
Interest income	1,607	0.03
TOTAL OTHER OPERATING INCOME	\$ 537,538	\$ 11.16

ADMINISTRATIVE SERVICES

	2022	
	Amount	Per Day
Salaries		
Administrator	\$ 290,642	\$ -
Clerical/secretary	180,342	
Total Salaries	470,984	9.78
Employee Benefits	86,821	1.80
Expenses		
Legal	85,388	
Rental - movable equipment	9,881	
Insurance - non property	266,520	
Telephone	26,239	
Dues and subscriptions	15,010	
Travel, conferences and seminars	130,018	
Advertising	62,456	
Employee background checks	2,124	
Other fees	8,911	
Bad debt expense	157,343	
Other direct expenses	16,254	
Total Expenses	780,144	16.20
TOTAL ADMINISTRATIVE SERVICES	<u>\$ 1,337,949</u>	<u>\$ 27.78</u>

FISCAL SERVICES

Salaries	\$ 222,541	\$ 4.62
Employee Benefits	40,932	0.85
Expenses		
Accounting	36,508	
Other fees	303,026	
Supplies and materials	96,499	
Postage	383	
Total Expenses	436,416	9.06
TOTAL FISCAL SERVICES	<u>\$ 699,889</u>	<u>\$ 14.53</u>

PLANT, OPERATIONS AND MAINTENANCE

	2022	
	Amount	Per Day
Salaries		
Maintenance	\$ 344,471	\$ -
Total Salaries	<u>344,471</u>	<u>7.15</u>
Employee Benefits	<u>63,304</u>	<u>1.31</u>
Expenses		
Supplies and materials	132,651	
Purchased/contracted services	404,938	
Utilities	570,616	
Real estate taxes	104,398	
Rent - building	585,394	
Depreciation - major movable	2,150	
Total Expenses	<u>1,800,147</u>	<u>37.39</u>
TOTAL PLANT, OPERATIONS AND MAINTENANCE	<u><u>\$ 2,207,922</u></u>	<u><u>\$ 45.85</u></u>

RESIDENT FOOD SERVICES

Salaries		
Resident food manager	\$ 73,546	\$ -
Cooks	67,654	
Dietician	51,852	
Food service workers	304,822	
Total Salaries	<u>497,874</u>	<u>10.34</u>
Employee Benefits	<u>91,524</u>	<u>1.90</u>
Expenses		
Food costs	531,586	11.04
Kitchen supplies	76,984	
Purchased/contracted services	7,213	
Total Expenses	<u>615,783</u>	<u>12.79</u>
TOTAL RESIDENT FOOD SERVICES	<u><u>\$ 1,205,181</u></u>	<u><u>\$ 25.03</u></u>

HOUSEKEEPING SERVICES

		2022	
		Amount	Per Day
Salaries			
Housekeeping workers		\$ 331,695	\$ -
Total Salaries		331,695	6.89
Employee Benefits		61,016	1.27
Expenses			
Supplies and materials		67,889	
Total Expenses		67,889	1.41
TOTAL HOUSEKEEPING SERVICES		<u>\$ 460,600</u>	<u>\$ 9.57</u>

LAUNDRY SERVICES

Salaries		\$ 143,850	\$ 2.99
Employee Benefits		26,440	0.55
Expenses			
Supplies and materials		10,780	
Purchased/contracted services		649	
Total Expenses		11,429	0.24
TOTAL LAUNDRY SERVICES		<u>\$ 181,719</u>	<u>\$ 3.78</u>

NURSING ADMINISTRATION

Salaries			
Directress of Nursing		\$ 22,396	\$ -
MDS Coordinator		114,600	
RN Supervisors		522,841	
Total Salaries		659,837	13.70
Employee Benefits		121,396	2.52
TOTAL NURSING ADMINISTRATION		<u>\$ 781,233</u>	<u>\$ 16.22</u>

MEDICAL CARE SERVICES

		2022	
		Amount	Per Day
Salaries			
Medical records		\$ 64,525	\$ -
Total Salaries		64,525	1.34
Employee Benefits		11,822	0.25
Expenses			
Medical Director		30,667	
Total Expenses		30,667	0.64
TOTAL MEDICAL CARE SERVICES		\$ 107,014	\$ 2.23

LEISURE TIME ACTIVITIES

Salaries			
Activities supervisor		\$ 106,155	\$ -
Total Salaries		106,155	2.20
Employee Benefits		19,576	0.41
Expenses			
Supplies and materials		1,605	
Purchased/contracted services		24,220	
Total Expenses		25,825	0.54
TOTAL LEISURE TIME ACTIVITIES		\$ 151,556	\$ 3.15

SOCIAL SERVICES AND ADMITTING

Salaries		\$ 169,601	\$ 3.52
Employee Benefits		31,144	0.65
TOTAL SOCIAL SERVICES AND ADMITTING		\$ 200,745	\$ 4.17

ANCILLARY SERVICE CENTERS

		2022	
		Amount	Per Day
Salaries			
Physical therapy		\$ 646,870	\$ -
Total Salaries		646,870	13.44
Employee Benefits		118,981	2.47
Fees			
Physical therapy		12,578	
Speech therapy		890	
Total Fees		13,468	0.28
Expenses			
Prescription drugs		227,681	
Medical care supplies and materials		371,334	
Oxygen		14,598	
Lab services		638	
X-ray services		31,244	
Ambulance services		5,045	
Supplies and materials		2,175	
Total Expenses		652,715	13.56
TOTAL ANCILLARY SERVICE CENTERS		\$ 1,432,034	\$ 29.75

PROGRAM SERVICE CENTERS

Salaries			
R.N.'s		\$ 853,047	\$ -
L.P.N.'s		1,552,696	
Aides and orderlies		846,253	
Total Salaries		3,251,996	67.54
Employee Benefits		598,212	12.42
Fees			
Agency fees		1,560,762	
Total Fees		1,560,762	32.42
Expenses			
Purchased/contracted services		335,991	
Total Expenses		335,991	6.98
TOTAL PROGRAM SERVICE CENTERS		\$ 5,746,961	\$ 119.36

SUMMARY OF EXPENDITURES

Year Ended December 31, 2022

	<u>SALARIES</u>	<u>BENEFITS</u>	<u>EXPENSES</u>	<u>TOTAL</u>
NON- REVENUE SUPPORT SERVICES				
Administrative services	\$ 470,984	\$ 86,821	\$ 780,144	\$ 1,337,949
Fiscal services	222,541	40,932	436,416	699,889
Plant, operations and maintenance	344,471	63,304	1,800,147	2,207,922
Patient food services	497,874	91,524	615,783	1,205,181
Housekeeping services	331,695	61,016	67,889	460,600
Laundry services	143,850	26,440	11,429	181,719
Nursing administration	659,837	121,396	-	781,233
Medical care services	64,525	11,822	30,667	107,014
Leisure time activities	106,155	19,576	25,825	151,556
Social services and admitting	169,601	31,144	-	200,745
Ancillary service centers	646,870	118,981	666,183	1,432,034
Program service centers	3,251,996	598,212	1,896,753	5,746,961
Medicaid Assessment	-	-	951,888	951,888
TOTAL OPERATING EXPENSES	<u>\$ 6,910,399</u>	<u>\$ 1,271,168</u>	<u>\$ 7,283,124</u>	<u>\$ 15,464,691</u>
COST PER DAY	<u>\$ 143.53</u>	<u>\$ 26.40</u>	<u>\$ 151.26</u>	<u>\$ 321.19</u>
% OF TOTAL	<u>44.69%</u>	<u>8.22%</u>	<u>47.09%</u>	<u>100.00%</u>

EMPLOYEE BENEFITS

	Year Ended December 31, 2022
Payroll Taxes	\$ 720,758
Group Health Insurance	108,833
Other employee benefits	441,577
TOTAL EMPLOYEE BENEFITS	\$ 1,271,168

RESIDENT DAYS

	Year Ended December 31, 2022	
	Days	Occupancy %
Private	825	1.71%
Medicare	5,192	10.78%
Medicaid	34,077	70.79%
Hospice	363	0.75%
HMO	7,689	15.97%
TOTAL RESIDENT DAYS	48,146	100.00%
PERCENT OF OCCUPANCY	82.44%	
BED CAPACITY	160	