

## **APPENDIX 3**

### **FACTOR 4 CPA REPORT**

**Baystate Health, Inc.**

**Analysis of the Reasonableness of Assumptions Used For and  
Feasibility of Projected Financial Information associated with the acquisition of a computed tomography (“CT”)  
unit for operation by Baystate Radiology and Imaging, LLC**

**For Years Ending December 31, 2026 through December 31, 2030**

# **BAYSTATE HEALTH, INC.**

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MeyersBrothersKalicka  
CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2024

Mr. Vasilios Tourloulakis  
Baystate Radiology and Imaging, LLC  
1350 Main Street, Suite 1007  
Springfield, MA 01103

Dear Mr. Tourloulakis:

We have performed an analysis of the financial projections prepared by Baystate Health, Inc. (the “Applicant” or “Baystate”) detailing the projected operations of the acquisition of a computed tomography (“CT”) unit for operation by Baystate Radiology and Imaging, LLC (“BRI”), located at 21 Dwight Rd, Longmeadow, MA (the “Project”). This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of the Project as prepared by the management of Baystate (“Management”). This report is to be included by the Applicant in its Determination of Need (“DON”) application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

## **I. Executive Summary**

The scope of our analysis was limited to the five-year financial projections for the fiscal years ending December 31, 2026 through December 31, 2030 (the “Projections”) prepared by Management, and the related supporting documentation provided by Management. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the acquisition of a CT unit at BRI.

The acquisition of a CT unit is projected to have positive overall cash flows (see section V of this report). The impact of the proposed acquisition of a CT unit for operation by BRI, which is the subject of this DON application, represents an insignificant component of actual operating revenues (approximately 0.03%) and actual financial position (approximately 0.04%) of the Applicant’s fiscal year 2023 financial statements. We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required to support the acquisition of a CT unit. It is our conclusion that the projections are financially feasible, not likely to have a negative impact of the existing patient panel of the Applicant and is within the financial capability of the Applicant as detailed below.

## **II. Relevant Background Information**

Refer to Factor 1 of the DON application for a description of the scope of the Applicant, as well as the overall description and rationale for the acquisition of a CT unit for operation by BRI.

### **III. Scope of Report**

The scope of this report is limited to an analysis of the five-year financial projections prepared by Management and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the Project. Our analysis of the projections and conclusions contained within this report are based upon our detailed review of all relevant information (see section IV of this report). We have gained an understanding through our review of the information provided by Management, as well as a review of the DON application.

Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on the assumptions used, the plan is not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project without negative impacts or consequences to the Applicant's existing patient panel.

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

### **IV. Primary Sources of Information Utilized**

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

- Historical CT scan volume for the existing CT unit at the Northampton, MA location for the fiscal years ended December 31, 2021, 2022, 2023, and year-to-date May 31, 2024.
- Historical revenue and expenses for the existing CT unit at the Northampton, MA location for the fiscal years ended December 31, 2021, 2022, 2023, and year-to-date May 31, 2024.
- Projected CT scan volume for the fiscal years ending December 31, 2026, 2027, 2028, 2029, and 2030.
- Projected revenue and expenses for the Project for the fiscal years ending December 31, 2026, 2027, 2028, 2029, and 2030.
- Projected statements of cash flows from operations for the Project for the fiscal years ending December 31, 2026, 2027, 2028, 2029, and 2030.
- Baystate Health, Inc. and Subsidiaries audited consolidated financial statements as of and for the years ended September 30, 2022 and September 30, 2023.
- Construction contractor budget for proposed renovation of Baystate Radiology and Imaging, LLC facilities at 21 Dwight Road of approximately \$1,236,000, of which approximately \$251,000 is allocated to the CT project. In addition, approximately \$241,000 is being allocated to the CT project from the original costs of the existing building, which were factored into the original occupancy cost agreement of \$26 per square foot.
- Quote for CT unit and accessories from GE Health Care totaling \$479,464.

**IV.     Primary Sources of Information Utilized**

- Sublease agreement between Baystate Radiology and Imaging, LLC and Baystate Medical Center, Inc.
- Management Services Agreement between Baystate Radiology and Imaging, LLC and Radiology and Imaging, Inc.
- Management Fee Agreement between Baystate Radiology and Imaging, LLC and Baystate Radiology Group.
- DON Application Instructions dated July 2023.
- DON Narrative draft provided October 2, 2024.
- DON Application Form.
- Total project costs of the Applicant are made up of the following:

	Total
Building and construction costs	\$ 492,003
Fixed equipment, architectural and engineering costs	502,464
Total project costs	<u>\$ 994,467</u>

**V.     Review of the Projections**

This section of the report summarizes our review of the reasonableness of the assumptions used and feasibility of the projections. The tables that follow summarize the projected results of the installation of a CT unit at BRI.

**Revenues**

We have reviewed and analyzed the net operating revenues in the historical and projected financial information. For the purposes of this pro forma, volume is based on total CT unit procedures performed. The volume disclosed in the table below represents total CT unit procedures projected for the fiscal years ending December 31, 2026 through December 31, 2030. Historical volume of scans for existing Enfield, CT and Northampton, MA locations average a total of 12 scans per day (week day) for the year ended December 31, 2023. Management believes that based on the location of the new CT unit and its affiliation with Baystate Health, Inc. that average of 12 CT scans per day (weekdays only), totaling 3,024, and two lung cancer CT scans per week, totaling 104, is reasonable for the projection for the year ending December 31, 2026 for the new CT unit. Management assumes a 10% increase in procedures for the years ended December 31, 2027 and 2028, and a 5% increase for the years ending December 31, 2029 and 2030.

Based on discussions with management, the rates per scan are based on the average of Blue Cross Blue Shield (historically 20% of total charges), HNE (16%), Medicare (21%) and other payers (43%). Management has projected a rate of \$275 per CT scan and \$185 per low dose lung cancer screenings, which is consistent with Northampton and Enfield historical rates. Revenue per scan for the years ended December 31, 2026 through December 31, 2030 are projected to remain consistent throughout the pro-forma.

## V. Review of the Projections (continued)

The table below provides a summary of some of the key information for the projected incremental volume and revenues by year for the CT unit (fiscal year December):

Category	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029	Projected/ pro-forma 2030
<b>Volume</b>					
# of procedures – CT scans	3,024	3,326	3,659	3,842	4,034
# of procedures – Lung cancer screenings	104	114	125	131	138
Total volume	3,128	3,440	3,784	3,973	4,172
<b>Revenue</b>					
Revenue per CT scan	\$ 275	\$ 275	\$ 275	\$ 275	\$ 275
Revenue per lung cancer screening	\$ 185	\$ 185	\$ 185	\$ 185	\$ 185
Total revenue	\$ 849,998	\$ 934,988	\$ 1,028,498	\$ 1,079,923	\$ 1,133,919

We analyzed the projected/pro-forma incremental net revenue for the acquisition of a CT unit for operation by BRI for the fiscal years ending December 31, 2026 through December 31, 2030 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma net revenue projected by Management is a reasonable estimation and conservative.

## Expenses

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

Expenses	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029	Projected/ pro-forma 2030
Contract labor (1)	\$ 108,913	\$ 119,805	\$ 131,785	\$ 138,374	\$ 145,293
Physician's fee (2)	187,000	205,700	226,270	237,583	249,462
Occupancy costs (3)	53,843	53,843	53,843	53,843	53,843
Maintenance (4)	-	74,000	74,000	74,000	74,000
Depreciation (5)	95,893	95,893	95,893	95,893	95,892
Interest Expense (6)	33,114	26,571	19,625	12,250	4,420
Office expenses (7)	88,901	97,015	105,947	110,779	115,851
Management Service Agreement fees (8)	58,266	62,143	66,407	68,753	71,215
Total Expenses	\$ 625,930	\$ 734,970	\$ 773,770	\$ 791,475	\$ 809,976

- (1) Contract labor in the fiscal years ending December 31, 2026 through December 31, 2030 is for one CT technician and related fringe benefits for this contract employee. Management has estimated the annual contract labor based on historical contract labor costs for CT technicians used at Enfield, CT and Northampton, MA locations, during the years ended December 31, 2022 and 2023. Fringe benefits are approximately 25% of total contract labor. Management estimates that contract rates will increase 10% for the years ending December 31, 2027 and 2028 and 5% for the years ending December 31, 2029 and 2030.
- (2) Physician's fees paid to the Baystate Radiology Group are equal to 22% of collections and is calculated on a monthly basis, based on the Management Fee agreement with BRI and Baystate Radiology Group. Project collections include all amounts collected during the month for professional fees and other charges for services rendered to patients.

**V. Review of the Projections (continued)**

- (3) Occupancy costs include the monthly lease costs, and costs for the renovation. BRI is leasing approximately 2,900 square feet of space at the 21 Dwight Rd. location from Baystate Medical Center (“BMC”), of which 783 square feet are related to CT procedures. The lease expense is approximately \$26 per square foot per year, or approximately \$20,400. There is also approximately \$1,236,000 in renovation costs expected to be incurred by the owner of the facility, of which approximately \$251,000 is allocated to the CT project. The Project is repaying these costs, plus interest at 6%, over a 10-year period, with an annual cost of approximately \$33,500.
- (4) Management has estimated that there will be no maintenance required for the year ending December 31, 2026 after the CT unit has been installed and other renovations completed. Maintenance for the years ending December 31, 2027 through December 31, 2030 includes services from a third-party provider that includes equipment inspections, safety upgrades, parts necessary to repair the equipment, and technical support. Management estimated the maintenance fees based on historical maintenance costs for the Enfield, CT and Northampton, MA CT units.
- (5) Estimated costs of the CT unit and accessories is \$479,464, which will be depreciated on a straight-line basis over the five years, beginning in the year ending December 31, 2026.
- (6) Management has projected interest expenses related to the financing of the new CT unit costs of approximately \$479,464, the financing of the Determination of Need filing costs of approximately \$50,000, and professional fees related to the filing of approximately \$50,000. Management has anticipated that interest expense will be 6% for all amounts financed.
- (7) Office expenses include a billing fee (4.5% of annual revenue), licenses and fees, corporate allocation, medical supplies and other miscellaneous expenses. Management anticipates these expenses will increase approximately 10% for the years ending December 31, 2027 and 2028, and approximately 5% for the years ending December 31, 2029 and 2030.
- (8) Management Service Agreement fees are paid to Baystate Medical Center for services provided to BRI. The fees are calculated at three different service rates, for the call center, records management and information system and data services, totaling a rate of approximately \$12.40 per procedure, or approximately \$38,800 for the year ending December 31, 2026. Rates and fees are defined in the Master Service Agreement between BRI and Baystate Medical Center. Other fees included are related to IT, sales and business development, and operations manager, which total a flat annual rate of \$19,500. Management anticipates these fees will increase 10% for the years ending December 31, 2027 and 2028, and 5% for the years ending December 31, 2029 and 2030.

We analyzed the projected/pro-forma expenses for the fiscal years ending December 31, 2026 through December 31, 2030 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma total expenses projected by Management are a reasonable estimation and conservative.



**V. Review of the Projections (continued)**

**Net Income**

The table below provides a summary of the net income by year (fiscal year December) for the CT unit:

Category	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029	Projected/ pro-forma 2030
Total revenue, net	\$ 849,998	\$ 934,998	\$ 1,028,498	\$ 1,079,923	\$ 1,133,919
Total expenses	625,930	734,970	773,770	791,475	809,976
Net income	<u>\$ 224,068</u>	<u>\$ 200,028</u>	<u>\$ 254,728</u>	<u>\$ 288,448</u>	<u>\$ 323,943</u>

**Cash Flows**

The table below provides a summary of cash flow by year (fiscal year December) for the CT unit:

Category	Projected/ pro-forma 2026	Projected/ pro-forma 2027	Projected/ pro-forma 2028	Projected/ pro-forma 2029	Projected/ pro-forma 2030
Net income	\$ 224,068	\$ 200,028	\$ 254,728	\$ 288,448	\$ 323,943
Depreciation	95,893	95,893	95,893	95,893	95,892
Principal payments on financing	(106,082)	(112,625)	(119,571)	(126,946)	(134,776)
Cash, beginning of year	-	213,879	397,175	628,225	885,620
Cash, end of year	<u>\$ 213,879</u>	<u>\$ 397,175</u>	<u>\$ 628,225</u>	<u>\$ 885,620</u>	<u>\$ 1,170,679</u>

Based upon our discussion with Management and our review of the information provided, the capital needs and ongoing operating costs required for the acquisition a CT unit at BRI are not likely to result in a scenario where there is negative cash flow over the five year projected period. The Applicant has the resources to fund the capital needs and ongoing operating costs of the acquisition of a CT unit.

**VI. Feasibility**

We analyzed the projected operations, including volume of treatments, revenue and expenses for BRI. In performing our analysis, we considered multiple sources of information including historical and projected financial information. It is important to note that the projections do not account for any anticipated changes in accounting and regulatory standards. These standards, which may have a material impact on individual future years, are not anticipated to have a material impact on the aggregate projections.

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary for the Applicant to support the Project. Based upon our review of the projections and relevant supporting documentation, we determined the acquisition of a CT unit for operation at BRI is financially feasible, not likely to have a negative impact on the existing patient panel of the Applicant and within the financial capability of the Applicant.

*Myra Beethus Kalicka, P.C.*

Holyoke, Massachusetts  
October 24, 2024