

APPENDIX 4

FACTOR 4 CPA REPORT

Baystate Noble Hospital
Analysis of the Reasonableness of Assumptions Used For and the
Feasibility of Projected Financials associated with the acquisition of a second computed tomography ("CT")
scanner at Baystate Noble Hospital

For the Years Ending September 30, 2024 Through September 30, 2028

Baystate Health, Inc.

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MeyersBrothersKalicka, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS STRATEGISTS

October 25, 2022

Mr. Raymond McCarthy
SVP, Chief Financial Officer, and Treasurer
Baystate Health, Inc.
280 Chestnut Street
Springfield, MA 01104

Dear Ray:

We have performed an analysis of the financial projections prepared by Baystate Health, Inc. ("Baystate") detailing the projected operations of the addition of a second computed tomography ("CT") scanner at Baystate Noble Hospital ("BNH" or the "Hospital"), a Baystate hospital located at 115 West Silver Street in Westfield, Massachusetts, as well as capital needs associated with this service (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 Baystate in its Determination of Need ("DON") application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

I. Executive Summary

The scope of our analysis was limited to the five-year financial projections for the years ending September 30, 2024 through September 30, 2028 (the "Projections") prepared by Baystate, as well as the analysis of existing results of the current CT scanner for the fiscal years ended September 30, 2019, 2020, 2021, and for the period October 1, 2021 to May 31, 2022, the projected/pro-forma information for the fiscal year ended September 30, 2022 and for the fiscal year ending September 30, 2023, 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 related to the addition of a second CT scanner at BNH.

We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the capital needs and ongoing operating costs required to support the addition of a second CT scanner. It is not anticipated that BNH will require any additional financing associated with this project. It is our conclusion that the projections are financially feasible and within the financial capability of BNH as detailed below.

II. Relevant Background Information

Refer to Factor 1 of the DON application for a description of the scope of the applicant, BNH and the Project, as well as the overall description and rationale of the patient need and logic surrounding the addition of a second CT scanner at BNH, located on 115 West Silver Street in Westfield, MA.

III. Scope of Report

The scope of this report is limited to an analysis of the five-year financial projections prepared by Baystate 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 relevant information (see section IV of this report). We have gained an understanding of BNH through our review of the information provided by Management, including actual results of the one existing CT scanner located at BNH, 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 Baystate or BNH'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 Baystate 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 inpatient, outpatient, and emergency department volume, taken from Baystate's decision support software, which is updated by their billing system, for the one existing CT scanner presently at Baystate Noble Hospital for the fiscal years ended September 30, 2019, 2020, 2021, and for the period October 1, 2021 to May 31, 2022.
- Projected inpatient, outpatient, and emergency department volume for the Project for the year ended September 30, 2022, and the years ending September 30, 2023, 2024, 2025, 2026, 2027 and 2028.
- Historical revenue (clean outpatient scans only) and expenses, taken from Baystate's Income Performance Analysis Report for the Radiology CT Scan cost center, of the one existing CT scanner at Baystate Noble Hospital for the fiscal years ended September 30, 2019, 2020, 2021, and for the period October 1, 2021 to May 31, 2022.
- Projected revenue (clean outpatient scans only) and expenses for the Project for the year ended September 30, 2022, and the years ending September 30, 2023, 2024, 2025, 2026, 2027 and 2028.
- Projected statements of cash flows for the Project for the year ended September 30, 2022, and the years ending September 30, 2023, 2024, 2025, 2026, 2027 and 2028.
- Invoice for the new CT scanner from GE Healthcare of approximately \$804,000, and injection system from Bayer HealthCare, LLC of approximately \$49,000.
- Determination of Need Application Instructions dated March 2017.
- Management prepared draft DON provided October 14, 2022.

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 historical results and projected results of services provided through an existing CT scanner at BNH and the addition of a second CT scanner at BNH in fiscal year 2024.

Revenues

We reviewed and analyzed the net operating revenues in the historical and projected financial information. Based on discussions with Management and review of the information provided, the revenue information disclosed in the table below is based on clean outpatient scans only. “Clean” meaning no other services were performed other than a CT scan. Because inpatient, outpatient and emergency department scans are part of an ancillary service, Management is not able to break out CT scan revenue from these services in a way that is indicative of actual results. Management does not believe it is necessary to calculate historical and projected inpatient and emergency department revenue from either CT scanner as the project is financially feasible based on clean outpatient scans only. Clean outpatient scans constitute approximately 22% of the total volume.

Management projected fiscal year 2022 volume based on year-to-date, October 1, 2021 to May 2022 actual results. Refer to page 6 of the narrative for year-to-date May 2022 volume. Management projected fiscal year 2023 volume based on a 2.5% increase over the projected/pro-forma 2022 results. This increase represents the expected growth of BNH’s patient panel. The fiscal year ending September 30, 2024 and forward assumes a 5% increase which represents the expected growth of BNH’s patient panel, plus the additional volume BNH can absorb if lead time is alleviated with the addition of a second CT scanner.

The table below provides a summary of some of the key information for the historical and projected volume and revenues by year (fiscal year September):

	Actual 2021	Projected/ pro-forma 2022	Projected/ pro-forma 2023	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Volume								
# of cases – inpatient	2,352	2,517	2,580	2,709	2,844	2,987	3,136	3,293
# of cases – clean outpatient	3,358	3,428	3,514	3,689	3,874	4,068	4,271	4,484
# of cases – outpatient other	1,259	1,372	1,406	1,477	1,550	1,628	1,709	1,795
# of cases – emergency department	7,280	7,966	8,165	8,573	9,002	9,452	9,924	10,421
Total volume	<u>14,249</u>	<u>15,283</u>	<u>15,665</u>	<u>16,448</u>	<u>17,270</u>	<u>18,135</u>	<u>19,040</u>	<u>19,993</u>
Revenues								
Clean outpatient gross revenue	\$ <u>8,227,900</u>	\$ <u>8,374,986</u>	\$ <u>8,584,361</u>	\$ <u>9,013,579</u>	\$ <u>9,464,258</u>	\$ <u>9,937,470</u>	\$ <u>10,434,344</u>	\$ <u>10,956,061</u>
Gross charge per clean outpatient scan	\$ 2,450	\$ 2,443	\$ 2,443	\$ 2,443	\$ 2,443	\$ 2,443	\$ 2,443	\$ 2,443
Clean outpatient net revenue	\$ 1,312,802	\$ 1,348,739	\$ 1,382,457	\$ 1,451,580	\$ 1,524,159	\$ 1,600,469	\$ 1,680,338	\$ 1,764,404
Net charge per clean outpatient scan	\$ 391	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393

We analyzed the projected/pro-forma revenue for fiscal years 2024 through 2028 in relation to the historical results of one existing CT scanner at BNH for fiscal years 2019, 2020, 2021, and October 1, 2021 to May 31, 2022, and the projected results of the one existing CT scanner for fiscal years 2022 and 2023, in order to assess the reasonableness of the projected/pro-forma statements. The revenue projected by Management is a reasonable estimation and conservative based primarily upon historical volume of operations and other factors. Based on our analysis, the pro-forma operating revenues are reasonable.

V. Review of the Projections (continued)

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 historical and projected expenses by year:

	Actual 2021	Projected/ pro-forma 2022	Projected/ pro-forma 2023	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Expenses								
Salaries and wages (1)	\$ 527,746	\$ 543,578	\$ 559,886	\$ 657,266	\$ 676,984	\$ 697,293	\$ 718,212	\$ 739,758
Fringe benefits (2)	118,215	121,762	125,414	147,227	151,644	156,194	160,879	165,706
Patient supplies	106,650	136,011	139,411	146,382	153,701	161,396	169,451	177,928
Contrast & drugs	69,627	64,967	66,591	69,920	73,416	77,092	80,939	84,988
Depreciation CT #1 (3)	116,158	116,158	58,079	-	-	-	-	-
Depreciation CT #2 (4)	-	-	-	185,200	185,200	185,200	185,200	185,200
Purchased services	49,034	34,866	35,738	37,525	39,401	41,373	43,438	45,611
Subscription/license fees (5)	-	-	-	50,000	50,000	50,000	50,000	50,000
Interest expense (6)	8,200	8,200	4,784	-	-	-	-	-
Other expenses	5,059	2,262	2,318	2,434	2,556	2,685	2,818	2,960
Total Expenses	\$ 1,000,689	\$ 1,027,804	\$ 992,221	\$ 1,295,954	\$ 1,332,902	\$ 1,371,233	\$ 1,410,937	\$ 1,452,151

- (1) Salaries and wages in fiscal year 2024 include the addition of 2.2 full-time equivalents (“FTE”) to operate the second CT scanner at an average salary of \$36,600 per FTE, which results in approximately \$81,000 of additional salaries and wages. In addition, for fiscal years 2022 and forward, Management assumes a 3% wage increase for inflation.
- (2) The actual fringe benefits percent of total salaries and wages was 22.4% for fiscal year 2021. Management has estimated the projected fringe benefits at 22.4% of salaries and wages.
- (3) Costs of approximately \$581,000 for the existing CT scanner are depreciated over 5 years and will be fully depreciated in March of fiscal year 2023.
- (4) Costs of approximately \$804,000 for the new CT scanner and \$49,000 for the injection system will be depreciated over 5 years beginning in fiscal year 2024. The additional estimated construction and other costs of \$365,000 will be depreciated over 25 years.
- (5) Includes costs of \$50,000 per year for a CT imaging software subscription, which includes access to the latest commercially available diagnostic applications.
- (6) Relates to the current lease agreement for the existing CT scanner. Payments on the existing CT scanner end in fiscal year 2023, at which point BNH will purchase the machine for \$1.

We analyzed the projected/pro-forma expenses for fiscal year 2024 through 2028 in relation to the historical results of an existing CT scanner for fiscal years 2019, 2020, 2021, and year to date through May 31, 2022, and the projected results of the existing CT scanner for fiscal years 2022 and 2023, in order to assess the reasonableness of the pro-forma expenses. Based on our analysis, the pro-forma total expenses are reasonable.

V. Review of the Projections (continued)

Net Income

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

	Actual 2021	Projected/ pro-forma 2022	Projected/ pro-forma 2023	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Clean outpatient revenue, net	\$ 1,312,802	\$ 1,348,739	\$ 1,382,457	\$ 1,451,580	\$ 1,524,159	\$ 1,600,469	\$ 1,680,338	\$ 1,764,404
Total expenses	(1,000,689)	(1,027,804)	(992,221)	(1,295,954)	(1,332,902)	(1,371,233)	(1,410,937)	(1,452,151)
Total net income	\$ 312,113	\$ 320,935	\$ 390,236	\$ 155,626	\$ 191,257	\$ 229,236	\$ 269,401	\$ 312,253

Cash Flows and Capital Expenditures

Cash Flows

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

	Actual 2021	Projected/ pro-forma 2022	Projected/ pro-forma 2023	Projected/ pro-forma with second CT scanner 2024	Projected/ pro-forma with second CT scanner 2025	Projected/ pro-forma with second CT scanner 2026	Projected/ pro-forma with second CT scanner 2027	Projected/ pro-forma with second CT scanner 2028
Net income	\$ 312,113	\$ 320,935	\$ 390,236	\$ 155,626	\$ 191,257	\$ 229,236	\$ 269,401	\$ 312,253
Depreciation CT #1	116,158	116,158	58,079	-	-	-	-	-
Depreciation CT #2	-	-	-	185,200	185,200	185,200	185,200	185,200
Capital expenditures	-	-	(98,000)	(1,120,286)	-	-	-	-
CHI payment	-	-	-	-	(60,914)	-	-	-
Cash, beginning of year	-	428,271	865,364	1,215,679	436,219	751,762	1,166,198	1,620,799
Cash, end of year	\$ 428,271	\$ 865,364	\$ 1,215,679	\$ 436,219	\$ 751,762	\$ 1,166,198	\$ 1,620,799	\$ 2,118,252

Based upon our discussions with management and our review of the information provided, the capital needs and ongoing operating costs required to support the addition of a second CT scanner are not likely to result in a scenario where there is negative cash flow.

Capital Expenditures

Based upon our discussions with management and our review of the information provided, the projected capital costs are \$1,218,286. The projected capital costs consist of approximately \$853,000 for the CT procurement, \$218,000 for constructions costs, and \$147,000 for design fees.

- BNH is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of \$1,218,286, which results in a community health initiative ("CHI") payment of approximately \$61,000. The fee is included in the cash flow table above.

Mr. Raymond McCarthy
Baystate Health, Inc.
October 25, 2022

VI. Feasibility

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

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary to support the proposed Project. Based upon our review of the projections and relevant supporting documentation, we determined the Project and its projected operating revenue, expenses and cash flow are reasonable and based upon feasible financial assumptions. Therefore, the addition of a second CT scanner at BNH and the capital needs associated with this service is financially feasible and within the financial capability of Baystate.

Myrae Beethus Holyoke, P.C.

Holyoke, Massachusetts
October 25, 2022