

APPENDIX 12

CPA REPORT

Beth Israel Lahey Health, Inc.

**Analysis of the Reasonableness of
Assumptions Used For and
Feasibility of Projected Financials of
Beth Israel Lahey Health, Inc.
For the Years Ending September 30, 2022
Through September 30, 2026**

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May 5, 2022

Ms. Sheilah Rangaviz
Chief Financial Officer
Beth Israel Deaconess Hospital - Milton
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RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Additional CT Scanner and Improvements Project at Beth Israel Deaconess Hospital - Milton

Dear Ms. Rangaviz:

I have performed an analysis of the financial projections prepared by Beth Israel Lahey Health, Inc. ("BILH", or "the Company") detailing the projected operations of Beth Israel Lahey Health, Inc., including the projected additional 128-slice CT scanner and associated renovation at Beth Israel Deaconess Hospital - Milton ("BID - Milton"). This report details my analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of BILH as prepared by the management of BILH ("Management"). This report is to be included by BILH in its Determination of Need ("DoN") Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

I. EXECUTIVE SUMMARY

The scope of my analysis was limited to the five-year consolidated financial projections (the "Projections") prepared by BILH as well as the actual consolidated operating results for BILH for the fiscal years ended 2020 and 2021, and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections with regards to the impact of the proposed capital project involving the additional 128-slice CT scanner and associated renovation at BID - Milton.

The impact of the proposed capital project at BID - Milton, which is the subject of this DoN application, represents a relatively insignificant component of the projected consolidated operating revenues and expenses of BILH but does represent a positive contribution to operating results. As such, I determined that the Projections are not likely to result in a scenario where there are insufficient funds available for capital and ongoing operating costs necessary to support the ongoing operations of BILH. Therefore, it is my opinion that the Projections are financially feasible for BILH as detailed below.

II. RELEVANT BACKGROUND INFORMATION

In 2019, BILH was formed through the combination of Lahey Health System, CareGroup Health System, and Seacoast Health System. BILH has 13 member hospitals, including BID - Milton, as well several other health related organizations. BID - Milton is a 100-bed acute care hospital providing inpatient and outpatient health care services. BILH is the sole corporate member of BID - Milton.

Refer to Factor 1 of the application for description of proposed capital project and the rationale for the expenditures.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the Projections, prior year financials and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections with regards to the impact of the capital project involving and ancillary to BID - Milton. My analysis of the Projections and conclusions contained within this report are based upon my detailed review of all relevant information (see Section IV which references the sources of information). I have gained an understanding of BILH and BID - Milton through my review of the information provided as well as a review of the BILH and BID - Milton websites, annual reports, and 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 BILH's existing patient panel" (per Determination of Need, Factor 4(a)).

This report is based upon historical and prospective financial information provided to me by Management. I have not audited or performed any other form of attestation services on the projected financial information. If I had audited the underlying data, matters may have come to my attention that would have resulted in my using amounts that differ from those provided. Accordingly, I do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. I do not provide assurance on the achievability of the results forecasted by BILH because events and circumstances frequently do not occur as expected, and the achievement of the forecasted results are dependent on the actions, plans, and assumptions of management. I reserve the right to update my analysis in the event that I am provided with additional information.

IV. PRIMARY SOURCES OF INFORMATION UTILIZED

In formulating my conclusions contained in this report, I reviewed documents produced by Management. The documents and information upon which I relied are identified below or are otherwise referenced in this report:

1. Five-Year Financial Forecast (Projections) for BILH for the fiscal years ending 2022 through 2026, including detailed assumptions, provided March 21, 2022;
2. Projected income statements for the Project, including detailed assumptions and supporting documentation for the first five years of operations, initially provided January 4, 2022;

3. Income statements for the existing CT operations for fiscal years 2020 and 2021, provided January 26, 2022;
4. Schedule of Estimated Total Capital Expenditure provided, January 4, 2022;
5. Presentation to Leadership on proposed additional CT scanner project, provided January 4, 2022;
6. Audited Financial Statements of Beth Israel Lahey Health, Inc. and Affiliates including consolidating balance sheets and statements of operations as of and for the years ended September 30, 2021 and 2020 and as of September 30, 2020 and 2019 and for the year ended September 30, 2020 and the seven-month period from March 1, 2019 to September 30, 2019. The information for Beth Israel Deaconess Hospital - Milton is included in the consolidating financial statements for fiscal years 2021 and 2020. We were provided separate financial statements for BID - Milton for the year ended September 30, 2019. This information was provided January 25, 2022;
7. Company website – <https://www.bidmilton.org>;
8. Various news publications and other public information about the Company;
9. Determination of Need Application Instructions dated March 2017; and
10. Determination of Need Factor 1, initial draft provided January 4, 2022, final version provided May 5, 2022.

V. REVIEW OF THE PROJECTIONS

This section of my report summarizes my review of the reasonableness of the assumptions used and feasibility of the Projections. The Projections are delineated between two categories of revenue and four general categories of operating expenses of BILH as well as other nonoperating gains and losses for the Company. The following table presents the Key Metrics, as defined below, of BILH which compares the results of the Projections for the fiscal years ending 2022 through 2026 to BILH historical results for the fiscal years ended 2020 and 2021.

(\$ in millions)	BILH, as Reported		Key Metrics for Projected Periods				
	2020	2021	2022	2023	2024	2025	2026
EBIDA (\$)	335	416	415	431	447	458	469
EBIDA Margin (%)	5.3%	6.2%	6.8%	6.8%	6.8%	6.8%	6.7%
Operating Margin (%)	0.5%	1.6%	1.4%	1.5%	1.6%	1.6%	1.5%
Total Margin (%)	1.2%	5.2%	2.0%	2.1%	2.2%	2.1%	2.1%
Unrestricted Cash Days on Hand	188.6	182.4	165.6	172.7	180.2	187.5	187.3
Unrestricted Cash (\$)	3,084	3,170	2,619	2,820	3,039	3,267	3,372
Unrestricted Cash to Debt (%)	212.1%	178.1%	191.5%	216.2%	245.1%	280.6%	301.1%
Debt Service Coverage	3.8	4.8	4.0	4.2	4.6	4.8	4.9
Debt to Capitalization (%)	38.0%	37.7%	33.3%	30.2%	27.2%	24.3%	22.9%
Total Assets (\$)	7,333	8,073	6,545	6,809	7,092	7,385	7,529
Total Net Assets (\$)	3,053	3,742	3,415	3,716	4,037	4,377	4,539

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics, such as EBIDA, EBIDA Margin, Operating Margin, Total Margin, and Debt Service Coverage Ratio are used to assist in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, such as Unrestricted Cash Days on Hand and Unrestricted Cash to Debt, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics, such as Debt to Capitalization, Total Assets and Total Net Assets, measure the company's ability to service debt obligations. Additionally, certain metrics can be applicable in multiple categories.

The following table shows how each of the Key Metrics is calculated.

Key Metric	Definition
EBIDA (\$)	(Earnings before interest, depreciation and amortization expenses) - Income (loss) from operations + interest expense + depreciation expense + amortization expense
EBIDA Margin (%)	EBIDA expressed as a % of total operating revenues. $EBIDA / \text{total operating revenues}$
Operating Margin (%)	$\text{Income (loss) from operations} / \text{total operating revenues}$
Total Margin (%)	$\text{Excess (deficiency) of revenue over expenses} / \text{total operating revenues}$
Unrestricted Cash Days on Hand	$(\text{Cash and equivalents} + \text{investments} + \text{internally designated assets and investments}) / ((\text{Total operating expenses} - \text{depreciation \& amortization}) / \text{YTD days})$
Unrestricted Cash (\$)	Cash and equivalents + investments + internally designated assets and investments
Unrestricted Cash to Debt (%)	$(\text{Cash and equivalents} + \text{investments} + \text{internally designated assets and investments}) / (\text{Current portion of long-term debt and lease obligations} + \text{long-term debt and lease obligations})$
Debt Service Coverage (ratio)	$(\text{Excess (deficiency) of revenue over expenses} + \text{depreciation expense} + \text{amortization expense} + \text{interest expense}) / (\text{Principal payments} + \text{interest expense})$
Debt to Capitalization (%)	$(\text{Current portion of long-term obligations} + \text{long-term obligations}) / (\text{Current portion of long-term obligations} + \text{long-term obligations} + \text{unrestricted net assets})$
Total Assets (\$)	Total assets of the organization
Total Net Assets (\$)	Total net assets of the organization (includes net assets without donor restrictions and net assets with donor restrictions)

1. Revenues

The only revenue category on which the proposed capital project would have an impact is net patient service revenue. Therefore, I have analyzed net patient service revenue identified by BILH in both their historical and projected financial information. Based upon my analysis of the projected results from Fiscal Year 2022 through Fiscal Year 2026, the proposed capital project would represent approximately .010% (1 one-hundredths of 1%) of BILH operating revenues in FY 2023, and approximately .014% (just over 1 one-hundredths of 1%) of BILH operating revenues in FY 2026. The first year in which revenue is present for the proposed capital project is FY 2023.

It is my opinion that the revenue growth projected by Management reflects a reasonable estimation based primarily on the Company's historical operations.

2. Operating Expenses

I analyzed each of the categorized operating expenses for reasonableness and feasibility as it relates to the projected revenue items. I reviewed the actual operating results for BILH for the years ended 2020 and 2021 in order to determine the impact of the proposed capital project and in order to determine the reasonableness of the Projections for the fiscal years 2022 through 2026. Based upon my analysis of the projected results from Fiscal Year 2022 through Fiscal Year 2026, the proposed capital project would represent approximately .008% (less than 1 one-hundredths of 1%) of BILH operating expenses in FY 2023, and approximately .009% (less than 1 one-hundredths of 1%) of BILH operating expenses in FY 2026.

It is my opinion that the growth in operating expenses projected by Management reflects a reasonable estimation based primarily upon the Company's historical operations.

3. Nonoperating Gains/Expenses and Other Changes in Net Assets

The final categories of BILH Projections are various nonoperating gains/expenses. The items in these categories relate primarily to investment account activity (realized and unrealized) and other items. Because these items are unpredictable, nonrecurring, or dependent upon market fluctuations, I analyzed the nonoperating activity in aggregate and compared them to historical amounts. Based on my analysis, there were no no-operating expenses projected for the proposed capital project at BID - Milton. Accordingly, it is my opinion that the pro-forma nonoperating gains/expenses and other changes in net assets are reasonable.

4. Capital Expenditures and Cash Flows

I reviewed BILH capital expenditures and cash flows in order to determine whether BILH anticipated reinvesting sufficient funds for technological upgrades and property, plant and equipment and whether the cash flow would be able to support that reinvestment.

Based upon my discussions with Management and my review of the information provided, I considered the current and projected capital projects and loan financing obligations included within the Projections and the impact of those projected expenditures on BILH cash flow. Based upon my analysis, it is my opinion that the pro-forma capital expenditures and resulting impact on BILH cash flows are reasonable.

VI. FEASIBILITY

I analyzed the projected operations for BILH and the changes in Key Metrics prepared by Management as well as the impact of the proposed capital project at BID - Milton upon the Projections and Key Metrics. In performing my analysis, I considered multiple sources of information including historical and projected financial information for BILH. It is important to note that the Projections do not account for any anticipated changes in accounting 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.

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Beth Israel Deaconess Hospital - Milton
May 5, 2022
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Because the impact of the proposed capital project represents a relatively insignificant component of the projected operating revenues and expenses of BILH, although representing a positive contribution to operating results, I determined that the Projections are not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project. Based upon my review of the Projections and relevant supporting documentation, I determined the project and continued operating surplus are reasonable and based upon feasible financial assumptions. Therefore, the proposed capital project at BID - Milton is financially feasible and within the financial capability of BILH.

Respectively submitted,

A handwritten signature in black ink that reads "Bernard L. Donohue, III, CPA". The signature is written in a cursive, flowing style.

Bernard L. Donohue, III, CPA