

**Analysis of the Reasonableness of Assumptions Used for the
Feasibility of Forecasted Financials of:**

BOSTON OUTPATIENT SURGICAL SUITES, LLC

Five-Year Financial Forecast

Period From January 1, 2025 to December 31, 2029

(With Independent Accountants' Report Thereon)

BOSTON OUTPATIENT SURGICAL SUITES, LLC
FIVE-YEAR FINANCIAL FORECAST
PERIOD FROM JANUARY 1, 2025 TO DECEMBER 31, 2029

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors of
Boston Outpatient Surgical Suites, LLC:

We have examined the accompanying forecast of Boston Outpatient Surgical Suites, LLC, which comprises the Schedule of Revenue and Earnings before Taxes for the period from January 1, 2025 to December 31, 2029 of operations based on the guidelines for the presentation of a forecast established by the AICPA. Boston Outpatient Surgical Suites, LLC's management is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the AICPA. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the AICPA, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, the accompanying forecast is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast.

It is our conclusion that the Proposed Project as defined in Note 1 to the Notes to the Financial Forecast is financially feasible and within the financial capability of the Applicant.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecast and this report are intended solely for the information and use of parties involved in filing or evaluating the Notice of Determination of Need Application as defined in Note 1, and are not intended to be and should not be used by anyone other than these specified parties.

April 12, 2023

BOSTON OUTPATIENT SURGICAL SUITES, LLC
SCHEDULE OF REVENUE AND EARNINGS BEFORE TAXES
Period from January 1, 2025 to December 31, 2029

		2025 - Year 1		2026 - Year 2		2027 - Year 3		2028 - Year 4		2029 - Year 5	
# of Operating Rooms		8		8		8		8		8	
# cases by Arthroplasty only surgeons		1,275		1,367		1,467		1,567		1,667	
# of all other cases		6,453		6,683		6,925		7,166		7,408	
# of Cases		7,728		8,051		8,392		8,733		9,075	
<i>% Change in Cases from Previous Period</i>				4.17%		4.24%		4.07%		3.92%	
Cases per Operating Room		966		1,006		1,049		1,092		1,134	
Total Revenue per Case		\$5,424		\$5,606		\$5,796		\$5,988		\$6,182	
<i>% Change in Revenue/Case from Previous Period</i>				3.36%		3.39%		3.31%		6.66%	
Total Revenue		\$41,921,447	100%	\$45,134,977	100%	\$48,641,517	100%	\$52,295,268	100%	\$56,103,851	100%
<i>% Change in Revenue from Previous Period</i>				7.67%		7.77%		7.51%		7.28%	
Operating Expenses											
Salaries, Wages, and Benefits		\$6,799,585	16.22%	\$7,378,634	16.35%	\$8,013,807	16.48%	\$8,694,082	16.62%	\$9,423,180	16.80%
Supplies & Drugs		\$15,257,016	36.39%	\$16,372,809	36.28%	\$17,585,676	36.15%	\$18,840,566	36.03%	\$20,140,088	35.90%
Other Variable Expenses		\$2,252,878	5.37%	\$2,425,575	5.37%	\$2,614,018	5.37%	\$2,810,372	5.37%	\$3,015,047	5.37%
Building Rent, CAM, and Utilities (Fixed Expenses)		\$3,767,513	8.99%	\$3,875,125	8.59%	\$3,985,858	8.18%	\$4,099,803	7.84%	\$4,217,053	7.52%
Additional Tenant Improvement Rent		\$2,099,772	5.01%	\$2,099,772	4.65%	\$2,099,772	4.32%	\$2,099,772	4.02%	\$2,099,772	3.74%
Operating Taxes		\$58,403	0.14%	\$60,155	0.13%	\$61,959	0.13%	\$63,818	0.12%	\$65,733	0.12%
Total Operating Expenses		\$30,235,167	72.12%	\$32,212,070	71.37%	\$34,361,091	70.64%	\$36,608,413	70.00%	\$38,960,873	69.44%
Earnings (Income) Before Taxes (EBT)		\$11,686,280	27.88%	\$12,922,907	28.63%	\$14,280,426	29.36%	\$15,686,855	30.00%	\$17,142,978	30.56%

See accompanying notes to the financial forecast.

BOSTON OUTPATIENT SURGICAL SUITES, LLC
NOTES TO THE FINANCIAL FORECAST
Period from January 1, 2025 to December 31, 2029

1.Relevant Background Information

Boston Outpatient Surgical Suites, LLC (“Applicant”) is proposing the establishment of a multispecialty ambulatory surgery center (“ASC”) to be located at 1265 Main Street, Waltham, MA 02451 (“Proposed Project” or “Proposed ASC”) offering services in Orthopedics, Pain Management and General Surgery to patients 14 years and older. Management has indicated the Proposed Project will be accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). The Proposed Project shall include a newly constructed state of the art Orthopedic Ambulatory Surgical Center.

The Applicant is filing a Notice of Determination of Need (“DoN”) with the Massachusetts Public Health Council for this purpose. This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the forecasted financial information of the Proposed Project as prepared by management of the Applicant (“Management”). This report is to be included by the Applicant in its DoN application, (sec Factor 4(a) of the DoN) and should not be distributed or relied upon for any other purpose.

The forecast presents, to the best of Management’s knowledge and belief, the expected revenue and earnings before taxes of the ASC for the forecast period. Accordingly, the forecast reflects Management’s judgment as of April 12, 2023, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that Management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Applicant is presented to assist in understanding the Applicant's financial forecast. The financial forecast and notes are representations of the Applicant’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial forecast.

Revenues

Revenue from medical services is reported at the amount that reflects the consideration to which the Applicant expects to be entitled in exchange for providing patient care. Amounts are due from patients, third-party payers and others and include variable consideration for retroactive adjustments due to settlement of audits, reviews, and investigations.

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Performance obligations for inpatient services are expected to be satisfied over one to five days. Performance obligations for outpatient services are generally expected to be satisfied in one day. Due to the short period of time over which the performance obligation is satisfied, the Applicant will recognize revenue for all medical services at a point in time on the day the service is performed.

3. Summary of Significant Assumptions

This report is based upon an analysis of historical Physician data and prospective financial information provided to us by Management.

Management engaged an independent health care consultant, Health Capital Consultants (HCC), to assist in the preparation of the Forecast and Analysis of Industry Benchmarks.

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 and operating costs to support the Proposed Project without negative impacts or consequences to the Applicant's Patient Panel (DoN Regulation 100.210(A)(4)).

Sources of Information Utilized

The following information was used and relied upon and/or referenced in this report:

- Forecasted/proforma revenue and expenses for Year 1 through Year 5 of the Proposed ASC.
- Management/HCC-prepared Proforma Case Volume for the ASC for Years 1 through 5 of the Proposed ASC.
- Historical volume of procedures performed by certain physicians for the fiscal year ended December 31, 2021, and the forecasted/proforma volume for the Proposed ASC for Year 1 through Year 5 of the Proposed ASC.
- Executed Letter of Intent for a commercial lease between 1265 Main Medical Owner, LLC and Boston Outpatient Surgical Suites, LLC.
- DoN Application Instructions dated March 2017.
- DoN Narrative draft provided by Management dated August 4, 2022.
- Management/HCC provided Proforma detail listing of FTEs for the Proposed ASC for Year 1 through Year 5.
- Estimated total capitalization costs for the Proposed Project of approximately \$29M is being provided by a related party, 1265 Main Medical Owner, LLC (Landlord), and reimbursed through Additional Tenant Improvement Rent.
- Management has represented that the required funding for the initial capitalization of the Applicant will be provided through a debt instrument with the Landlord which is supported by an executed construction loan agreement.

BOSTON OUTPATIENT SURGICAL SUITES, LLC
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Revenue

The Applicant anticipates having a total of approximately 41 member surgeons, many of whom will have an ownership stake. Moreover, it is expected that the member surgeons will perform a large proportion of their surgeries at the Proposed ASC, in part because the federal Anti-Kickback Statute requires that at least one-third of the Proposed ASC surgeon investor's procedures be performed at that ASC in order to meet the applicable regulatory "safe harbors." ("Exceptions: Ambulatory Surgery Centers" 42 C.F.R Section 1001.952(r)).

In addition to case mix, forecasted payor mix, i.e., percentage of case volume and revenue coming from higher paying private insurance companies versus government insurance programs like Medicare and Medicaid is as follows:

Exhibit 1: Payor Mix by Procedure Volume

	Commercial	Worker's Comp	Medicare	Medicaid	Self Pay	Other
Forecasted Payor Mix	62.5%	23.8%	12.3%	0.6%	0.1%	0.7%
Industry Averages	44.0%	3.0%	34.0%	7.0%	3.0%	8.0%

Exhibit 2: Payor Mix by Net Revenue

	Commercial	Worker's Comp	Medicare	Medicaid	Self Pay	Other
Forecasted Payor Mix	73.0%	17.8%	8.3%	0.3%	0.2%	0.4%
Industry Averages	58.0%	6.0%	21.0%	4.0%	3.0%	8.0%

As set forth above, it is forecasted that the Proposed ASC patients will be significantly comprised of higher-paying commercial insurance and worker's compensation beneficiaries and less Medicare and Medicaid beneficiaries than industry averages.

Forecasted case volume included the considerations of the greater healthcare industry shift to surgical care in outpatient settings. Over the past decade, procedures that had historically been performed in an inpatient setting have shifted to outpatient settings such as ASCs (which shift was accelerated by the COVID-19 pandemic), due in large part to technological advancements (particularly with minimally invasive surgical procedures).

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The Centers for Medicare & Medicaid Services (“CMS”) continues to enable this shift by covering more and more services that can be safely provided in an ASC setting. In 2022, for example, CMS removed Current Procedural Terminology (CPT) codes 22630 (Lumbar spine fusion), 23472 (Reconstruct shoulder joint), and 27702 (Reconstruct ankle joint) from the inpatient only list, (CMS Fact Sheet “CY 2022 Medicare Hospital Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System Final Rule (CMS-1753FC)” accessed at <https://www.cms.gov/newsroom/fact-sheets/cy-2022-medicare-hospital-outpatient-prospective-payment-system-and-ambulatory-surgical-center-0> on 2/9/2022), meaning that Medicare will now cover these procedures if they are performed in an ASC. It is expected that Medicare will continue to remove procedures from the inpatient only list going forward; therefore, it is reasonable to assume that the types of procedures that the member surgeons will be able to conduct at the new ASC facility will continue to grow in the future.

The overall results were analyzed in relation to the profit and loss reporting based on the reasonableness of the number of procedures contemplated in the Proposed ASC, industry data and other factors.

Salaries, Wages and Benefits Expense

Salaries, Wages and Benefits expense includes the office and administrative team as well as surgical support staff including nurses, technicians, nurse assistances and other professional staff. Management/HCC provided a detailed FTE analysis of the Proposed ASC. Forecasted staff full time equivalents (FTEs) total staff hours per case are within industry benchmark norms.

As a result of this FTE analysis, coupled with the forecasted number of surgical procedures the total payroll expense is anticipated to total approximately \$6.8M in Year 1 and \$9.4M in Year 5. The growth in payroll expenses is driven by a combination of the forecasted increased case volume and salary/wage inflation. While the estimated payroll expense represents 16.3%-16.8% of revenue is below industry averages of 21-23%, payroll expense was determined to be reasonable in consideration that staffing hours and total FTEs are within industry benchmark norms and the Proposed ASC’s higher reimbursed cases as compared to industry averages.

Supplies and Drugs Expense

Supplies and Drug expense includes the cost of materials and other consumables required for the performance of surgical procedures. The Forecast anticipates these costs per surgical case to increase by 2% per year for non-arthroplasty cases.

Based upon the anticipated increase in total number of cases and the number of Arthroplasty cases, the total cost of Supplies and Drugs is forecasted to be approximately \$15.3M in Year 1 and grow to approximately \$20M in Year 5 driven by the increase in number of cases and an estimated 2% increase in cost per case per annum. This is higher than industry averages of 26-28%, as the cases performed at the new facility require more expensive implants than the typical ASC.

Other Variable Expenses

Other Variable Expenses include the costs of overhead and administrative costs including linen services, cleaning supplies, medical waste, office supplies, office and administrative costs. These expenses are forecasted at 5.37% of revenue, which is reasonable.

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Building Rent and CAM Expenses

Building Rent and CAM expenses represent the agreed upon rent and related expenses [NNN basis] determined under the executed Letter of Intent commercial lease agreement for the Proposed Project, provided by Management. This amount is forecasted at between 7-9% of revenue, which is consistent with industry averages.

Additional Tenant Improvement Rent

Additional Tenant Improvement Rent represents the agreed upon fixed TI Rent under the proposed Medical Office Lease between the Applicant and 1265 Main Medical Owner, LLC, as Landlord.

Forecasted Net Cash Flow

The ASC is forecasted to have positive overall cash flows. We determined that the Forecast is not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required to support the ASC.

The table below proves a summary of cash flow by year:

Forecasted Period	Year 1	Year 2	Year 3	Year 4	Year 5
1. Net Revenues	\$41,921,447	\$45,134,977	\$48,641,517	\$52,295,268	\$56,103,851
2. Less: Operating Expenses	(\$30,235,167)	(\$32,212,070)	(\$34,361,091)	(\$36,608,413)	(\$38,960,873)
3. Earnings Before Taxes (EBT)	\$11,686,280	\$12,922,907	\$14,280,426	\$15,686,855	\$17,142,978
Projected Economic Net Cash Flow	\$11,686,280	\$12,922,907	\$14,280,426	\$15,686,855	\$17,142,978

Funding and Debt Guarantee

Management has represented that the required funding for the initial capitalization of the Applicant will be provided through a debt instrument with a related party which is supported by an executed bank commitment letter and appropriate capital commitments to support the Proposed Project.