

**Emerson Endoscopy and Digestive Health Center, LLC**

**Analysis of the Reasonableness of  
Assumptions Used For and  
Feasibility of Projected Financials of  
Emerson Endoscopy and Digestive Health Center, LLC  
For the Years Ending December 31, 2026  
Through December 31, 2030**

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April 24, 2025

Ms. Christine Schultz

Emerson Endoscopy and Digestive Health Center, LLC

310 Baker Avenue

Concord, MA 01742

**RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Addition of a Procedure Room at the Emerson Endoscopy and Digestive Health Center in Concord, MA**

Dear Ms. Schultz:

I have performed an analysis of the financial projections prepared by Emerson Endoscopy and Digestive Health Center, LLC detailing the projected operations related to the addition of a procedure room to the Emerson Endoscopy and Digestive Health Center, LLC (the “Center” or “EDHC”) in Concord, MA. This report details my analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the financial forecast prepared by the management of Emerson Endoscopy and Digestive Health Center, LLC (“Management”) for the operation of the Center. This report is to be used by Emerson Endoscopy and Digestive Health Center, LLC in its Determination of Need (“DoN”) Application – Factor 4(a) and should not be distributed for any other purpose.

**I. EXECUTIVE SUMMARY**

The scope of my analysis was limited to an analysis of the five-year financial projections (the “Projections”) prepared for Emerson Endoscopy and Digestive Health Center, LLC for the operation of the Center with an additional procedure room as well as actual operating results for the Trailing Twelve Months ended November 30, 2024, 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 increase in the number of procedure rooms at the Center.

Within the projected financial information, the Projections exhibit a net pre-tax profit margin ranging from 26.5% to 46.6% for the fiscal years ending December 31, 2026 through December 31, 2030. Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the project and continued operating surplus are reasonable expectations and are based upon feasible financial assumptions. Accordingly, I determined that the Projections are feasible and sustainable and not likely to have a negative impact on the patient panel or result in a liquidation of assets of the Center. A detailed explanation of the basis for my determination of reasonableness and feasibility is contained within this report.

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## **II. RELEVANT BACKGROUND INFORMATION**

Emerson Endoscopy and Digestive Health Center, LLC, is a joint venture between Emerson Hospital, a 179-bed acute care hospital in Concord, MA and Physicians Endoscopy, LLC and currently provides endoscopy services in two (2) procedure rooms in an outpatient setting. The project will consist of adding one (1) procedure room at Emerson Endoscopy and Digestive Health Center, LLC to bring its total to three (3) procedure rooms.

Please refer to the DoN application for a further description of the proposed project and the rationale for the expenditures.

## **III. SCOPE OF REPORT**

The scope of this report is limited to an analysis of the five-year financial projections prepared for Emerson Endoscopy and Digestive Health Center, LLC (the “Projections”) 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. 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 the Center through my review of the information provided as well as a review of other resources, such as Emerson Health’s website 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 the Applicant’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. 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 or projections presented or relied upon in this report. I 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. 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 opinions and conclusions contained in this report, I reviewed documents produced by Management as well as other relevant information that is generally available. The documents and information upon which I relied are identified below or are otherwise referenced in this report:

1. Emerson Endoscopy and Digestive Health Center, LLC’s 5-Year Projected Financial Statements, and Assumptions initially received from Management on December 12, 2024 and updated on March 28, 2025;

2. Various documentation supporting calculations included in the projected financial statements initially received from Management on December 12, 2024 and updated on March 28, 2025;
3. Emerson Endoscopy and Digestive Health Center, LLC's balance sheets and income statements as of and for the trailing twelve months through November 30, 2024, initially received from Management on December 12, 2024;
4. Construction estimate provided on December 13, 2024;
5. Emerson Endoscopy and Digestive Health Center, LLC's federal and Massachusetts partnership tax returns for the fiscal years ended December 31, 2022 and December 31, 2023 received from Management on December 12, 2024;
6. Emerson Endoscopy and Digestive Health Center, LLC DoN Appendix 2\_Narrative, draft provided March 5, 2025;
7. Emerson Endoscopy and Digestive Health Center, LLC Massachusetts Department of Public Health Determination of Need Application Form provided on March 10, 2025;
8. Determination of Need Application Instructions dated March 2017;
9. CMS.gov (Medicare) Ambulatory Surgical Center Payment System website;
10. Mass.gov Executive Office of Health and Human Services;
11. VMG Health's Intellimarker 2023 ASC Benchmarking Study, based on 2021-2022 data;
12. Emerson Endoscopy & Digestive Health Center website <https://emersondigestivecenter.com/>

## 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 following table presents the key metrics, as defined below, which compares the operating results of the Projections for the fiscal years ending December 31, 2026 through December 31, 2030 to the historical results for the trailing twelve months ended November 30, 2024.

	As Reported	Key Metrics for Projected Periods				
Key Metric	11/30/2024	2026	2027	2028	2029	2030
Current Ratio	0.9	1.0	1.2	2.0	3.8	4.2
Days in Accounts Receivables	29.24	29.69	29.69	29.69	29.69	29.69
Days Cash on Hand	38.5	52.0	54.5	68.8	88.0	102.3
EBITDA (\$)	2,143,065	2,631,974	3,452,666	4,703,678	6,030,871	7,129,226
EBITDA Margin (%)	33.6%	35.1%	37.9%	43.5%	47.8%	50.5%
Net Profit Margin (%)	24.4%	26.5%	31.0%	38.0%	43.4%	46.6%
Debt Service Coverage (ratio)	2.5	2.9	3.6	4.9	11.1	61.9
Total Assets (\$)	5,431,894	5,771,641	5,552,609	5,457,056	5,483,071	5,461,133
Debt to Capitalization (%)	88.8%	78.9%	62.9%	43.1%	29.4%	23.9%
Members' Equity (\$)	573,862	1,153,463	1,932,056	2,898,147	3,597,930	3,844,886

The Key Metrics fall into three primary categories: liquidity, operating and solvency. Liquidity metrics, such as the Current Ratio, Days in Accounts Receivable and Days Cash on Hand measure the quality and adequacy of assets to meet current obligations as they come due. Operating metrics, such as earnings

before interest, taxes, depreciation and amortization (“EBITDA”), EBITDA Margin, Net Profit Margin and Debt Service Coverage are used to assist in the evaluation of management performance in how efficiently resources are utilized. Solvency metrics, such as Total Assets, Debt to Capitalization and Members’ Equity, measure the company’s ability to service debt obligations. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics are calculated.

Key Metric	Definition
Current Ratio	Current assets divided by current liabilities
Days in Accounts Receivables	Accounts receivables divided by (net patient service revenue divided by 365 days)
Days Cash on Hand	(Cash & cash equivalents) divided by ((Total operating expenses - depreciation & amortization) divided by YTD days)
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin	EBITDA divided by net patient service revenue
Net Profit Margin	Net profit divided by net patient service revenue
Debt Service Coverage (ratio)	(Net income (loss) + depreciation expense + amortization expense + interest expense) divided by (Principal payments + interest expense)
Total Assets	Total assets of the LLC
Debt to Capitalization (%)	(Current portion of long-term obligation + long-term obligations) divided by (Current portion of long-term obligations + long-term obligations + members' equity)
Members' Equity	Net equity of the LLC

## 1. Revenues

I analyzed the revenues identified by the Center in the Projections. Based upon my communications with Management, the projected volume was based on a ramp-up schedule developed from an analysis of current cases for the Center’s current activity, the hiring of additional physicians to service the Center, and the impact of the closure of Nashoba Valley Medical Center, a neighboring facility. The ramp up schedule for years 2 through 5 (2027 to 2030) included an 18% increase from 2026 to 2027, then decreasing through year 5 (2030), which showed an 8.8% increase. The payer mix was based on the current payer mix of the Center. Reimbursement was based upon historic overall payment per case, which takes into account all payers, including Medicare, Medicaid, and commercial insurance payments. In order to determine the reasonableness of the projected revenues, I reviewed the underlying assumptions upon which Management relied.

I first reviewed the Projections to determine the reasonableness of the projected volume. The Center provided historical data of services in the current configuration. The Center then created a utilization table, using conservative estimates from the volume contributions and benchmark data for the procedure room average minutes to arrive at year 1 (2026) cases and procedures. These cases and procedures were then ramped up through year 5 (2030). I compared the Center’s benchmark data to an outside, independent survey of ambulatory surgery centers completed using 2021-2022 data (the latest study) and found that the Center’s benchmark data used was reasonable, and that the number of projected cases and

procedures per procedure room at year 5 (2030) were within the ranges of currently operating ambulatory surgery centers as determined by the independent survey.

Next, I reviewed the Projections to determine the reasonableness of the payer mix and reimbursement rates selected for the five years of operations starting in 2026. To determine the reasonableness of the payer mix in the projections, I compared them to the aforementioned independent survey's payer mix for the Northeast United States, and found them to be within the ranges published by the survey.

The Center used, as a starting point, an average patient reimbursement rate of \$864 per case and an average anesthesia reimbursement rate of \$483 per case in the projections. This was calculated by dividing the budgeted 2025 net patient service revenue by the budgeted number of cases for the same period. This rate was then inflated by 3% each year of the projections. To test the reasonableness of the starting average reimbursement rate I utilized the trailing twelve months ended November 2024 net patient service revenue and cases. I divided actual patient net revenue by actual cases and arrived at an average payment of \$843. I also divided the actual anesthesia net revenue by actual cases and arrived at an average payment of \$472. These rates compared favorably to the rates used in the projections. All the rates were increased by 3% for each of the succeeding years.

Based upon the foregoing, it is my opinion that the revenue projected by Management reflects a reasonable estimation of future revenues of the Center.

## **2. Expenses**

I analyzed the Salary and Benefits, as well as the Other Operating Expenses for reasonableness and feasibility as related to the Projection of the Center.

Salaries and Benefits were analyzed both for wage rates used and, as related to clinical care, for the amount of clinical staff hours provided. The staffing hours were compared to the previously mentioned independent survey and were found to be consistent with the survey results. The wage rates for all clinical and administrative categories were also compared to the survey and found that the wage rates were also consistent with the survey results for the Northeast United States.

Medical Surgical Supplies included in the projections were compared to the previously mentioned independent survey and found to be consistent with the ranges included in the survey. Other expenses were also compared to the survey and found to be reasonable.

Salaries and benefits are projected to increase by 4% per year. Clinical expenses are projected to increase by 2% per year. Other fixed expenses are projected to increase by 1% per year and management fees are projected to increase by 2% per year.

It is my opinion that the operating expenses projected by Management are reasonable in nature.

## **3. Lease Agreement, Capital Expenditures and Cash Flows**

I reviewed the lease terms, projected capital expenditures and future cash flows of the Center in order to determine whether sufficient funds would be available to support the lease of the Center, payment of the financed construction and equipment debt service and whether the cash flow would be able to support the continued operations.

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Based upon my review of the Projections and my communications with Management, it is my understanding that space at 310 Baker Avenue in Concord, MA is being leased by Emerson Endoscopy and Digestive Health Center, LLC at an annual amount of \$269,585. This rent amount includes CAM charges. Fixed expenses will also include insurance and property taxes which will bring the annual fixed expense to \$315,317. The lease will include a 1% increase every year. The additional treatment room will be in the original leased space.

I also compared the total occupancy costs included in the projections to the independent survey and found them to be within the range in the survey.

Accordingly, I determined that the pro-forma capital expenditures, facility lease, terms of equipment and working capital financing and the resulting impact on the cash flows of the Center are reasonable.

## **VI. FEASIBILITY**

I analyzed the Projections and Key Metrics for the Emerson Endoscopy and Digestive Health Center, LLC as well as the impact of the proposed project. In preparing my analysis I considered multiple sources of information including historical and projected financial information for the Center.

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.

Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the project and continued operating surplus are reasonable and are based upon feasible financial assumptions. Accordingly, I determined that the Projections are feasible and sustainable and not likely to have a negative impact on the patient panel or result in a liquidation of assets of Emerson Endoscopy and Digestive Health Center, LLC.

Respectively submitted,

A handwritten signature in black ink that reads "Bernard L. Donohue, III, CPA". The signature is written in a cursive style with a large, stylized 'B' and 'D'.

Bernard L. Donohue, III, CPA