

Mass General Brigham Ambulatory Surgery - Cambridge, LLC

**Analysis of the Reasonableness of
Assumptions Used For and
Feasibility of Projected Financials of
Mass General Brigham Ambulatory Surgery - Cambridge, LLC
For the Years Ending December 31, 2027
Through December 31, 2031**

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August 25, 2025

Ms. Claire Gibson

Manager

New England Surgery Center Holdings, LLC

c/o Regent Surgical Health, LLC

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RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Gastroenterology Center in Cambridge, Massachusetts by Mass General Brigham Ambulatory Surgery - Cambridge, LLC

Dear Ms. Gibson:

I have performed an independent analysis of the financial projections prepared by New England Surgery Center Holdings, LLC ("NESCH") which is a joint venture between Regent Surgical Health, LLC ("Regent") and Mass General Brigham, Incorporated ("MGB") detailing the projected operations of Mass General Brigham Ambulatory Surgery - Cambridge, LLC ("the Applicant"). 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 NESCH's management ("Management") for the operation of the Mass General Brigham Ambulatory Surgery - Cambridge, LLC. This report is to be used by Mass General Brigham Ambulatory Surgery - Cambridge, LLC in connection the filing of 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 by Management for the operation of Mass General Brigham Ambulatory Surgery - Cambridge, LLC, 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.

The Projections exhibit a net pre-tax profit margin ranging from 8.2% to 13.7% for the fiscal years 2028 through 2031. 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 reasonable and feasible and not likely to have a negative impact on the patient panel or result in a liquidation of assets of Mass General Brigham Ambulatory Surgery - Cambridge, LLC. 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

Regent Surgical Health, LLC (“Regent”) was founded in 2001. It currently operates or manages ambulatory surgery centers in 13 states. Mass General Brigham, Incorporated (“MGB”) is a tax-exempt, non-profit Massachusetts corporation that oversees the operation of Massachusetts General Hospital and Brigham and Women’s Hospital along with various other affiliates and associated service entities. In 2025, Regent and MGB formed a joint venture, New England Surgery Center Holdings, LLC (“NESCH”). In 2025 Mass General Brigham Ambulatory Surgery – Cambridge, LLC was formed and is owned by NESCH.

The Applicant seeks to develop, own and operate a new freestanding single-specialty ambulatory surgery center at a Cambridge, MA location (the “Proposed Project”). The new surgery center will specialize in providing gastroenterology services. 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 Projections prepared by Management 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 Applicant through my review of the information provided as well as a review of other resources, such as the Regent 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 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 related to the operations of the Applicant. 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 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 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. Mass General Brigham Ambulatory Surgery - Cambridge, LLC 5-Year Projected Financial

Statements and Assumptions, initially received from Management on June 2, 2025, updated on June 25, 2025 and July 8, 2025;

2. Various documentation supporting calculations included in the projected financial statements, initially received from Management on June 2, 2025 and updated through July 8, 2025;
3. Medicare rates and base rate calculations, received from Management on June 2, 2025;
4. Mass General Brigham Ambulatory Surgery - Cambridge, LLC Operating Agreement, received from Management on August 7, 2025;
5. New England Surgery Center Holdings, LLC Operating Agreement, received from Management on August 4, 2025;
6. Building lease term sheet received from Management on August 4, 2025.
7. Mass General Brigham Ambulatory Surgery - Cambridge, LLC draft DoN Application as of August 7, 2025, updated August 14, 2025;
8. Determination of Need Application Instructions dated March 2017;
9. CMS.gov (Medicare) OPPS Payment System website;
10. Mass.gov Executive Office of Health and Human Services;
11. Regent Surgical company website <https://regentsh.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 presents the operating results of the Projections for the fiscal years ending 2027 through 2031, the first five years of operations.

<u>Key Metric</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
Current Ratio	2.6	1.7	1.6	1.6	1.6
Days in Accounts Receivables	45.0	45.0	45.0	45.0	45.0
Days Cash on Hand	97.3	15.5	15.1	14.7	14.3
EBITDA (\$)	\$637,928	\$2,033,221	\$2,189,533	\$2,354,460	\$2,528,437
EBITDA Margin	13.5%	26.4%	27.2%	28.0%	28.7%
Net Profit Margin	-16.8%	8.2%	10.2%	12.0%	13.7%
Debt Service Coverage (ratio)	0.9	2.8	3.0	3.3	3.5
Total Assets	\$9,728,457	\$8,101,160	\$7,032,964	\$5,979,390	\$4,913,252
Debt to Capitalization (%)	37.7%	39.7%	38.3%	35.6%	30.7%
Members' Equity	\$5,919,397	\$4,688,698	\$4,133,297	\$3,629,973	\$3,154,261

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.

Ratio	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 Applicant in the Projections. Based upon my discussions with Management, the projected volume was based on historical data at Massachusetts General Hospital (MGH) and Brigham and Women’s Hospital (BWH) endoscopy units. The projections include relatively small increases in the number of cases of 1.5% starting in fiscal year 2029 through fiscal year 2031. The payer mix was also based on the historical data at MGH and BWH. Reimbursement rates were based upon current Medicare ASC rates, Medicaid rates and expected Commercial Insurance contracted rates based on discussions with Commercial Insurance providers. 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. Management created a ramp up table, using estimates from the historical data available at MGH and BWH. Starting with a partial year of the historical number of cases in fiscal year 2027, full ramp up was achieved in fiscal year 2028, with a modest annual increase in cases of 1.5% for fiscal years 2029 through 2031. I compared the projection data to other data available of gastroenterology centers and found that the projection data used was reasonable, and that the number of projected cases were within the ranges of

currently operating gastroenterology centers as determined by the survey of the other data.

Next, I reviewed the Projections to determine the reasonableness of the payer mix and reimbursement rates selected for the fiscal years 2027 through 2031. To determine the reasonableness of the payer mix in the projections, I compared them to other sources available to me and found them to be within acceptable ranges. The Medicare rates are standard rates, using the Medicare Outpatient Prospective Payment System (OPPS) rates as a guide, adjusted for inflation and by a wage index for the specific geographic location of the facility. I compared the Medicare rates used for fiscal year 2027 to the Medicare rates effective January 1, 2025 as adjusted by inflation and the wage index, included in the 2025 OPPS and ASC Final Rule, published by CMS on November 14, 2024. The current Medicare rates include a 2% reduction, or sequestration. The Medicaid rates used in the projection were defined as a percentage of the Medicare average rate. I tested this assumption by comparing the rates used for the identified CPT codes to the Medicaid rates per CPT codes for Massachusetts taken from the regulations published in 101 CMR 316.00, Rates for Surgery and Anesthesia Services, which establishes the payment rates for services in free standing ambulatory surgery centers. I then calculated the average of the Medicare and Medicaid rates and compared it to the average rates used in the projection and found them to be within acceptable ranges. I also compared the average rates to other sources available and found that they were also within acceptable ranges. The Commercial Insurance rates were also based on Management's estimate and historical payments at the aforementioned MGH and BWH endoscopy units. All of the rates were increased by 3.0% 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 Applicant.

2. Expenses

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

Salaries and Benefits were analyzed both for wage rates used and, as related to clinical care, for the number of clinical staff provided. The staffing numbers were compared to our internal survey and were found to be consistent with the survey results. The wage rates for all clinical and administrative categories were also compared to Massachusetts median wages for 2025 and found to be consistent.

Medical Surgical Supplies included in the projections were compared to our internal 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 about 2.7% per year. Clinical expenses are projected to increase by 3% per year on a per case basis. Most other expenses are also projected to increase by 3% per year on a per case basis. The only exception is the management fee which is calculated as a percent of NPSR (net patient service revenue). This percentage remains constant at 5% and is deemed reasonable.

Based upon the foregoing, 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 Applicant in order to determine whether sufficient funds would be available to support the building lease of the Applicant, construction and equipment costs, including payment of the related debt service and whether the cash flow would be able to support the continued operations.

Based upon my review of the Projections and my discussions with Management, it is my understanding that up to 6,095 square feet of space will be leased to the Applicant. Rent will be \$42.50 per square foot. The building lease is expected to include a 3% increase every year.

The Projections also include capital costs for construction (build-out) and equipment at the 799 Concord Ave, Cambridge, MA location. Leasehold improvements are being depreciated on a straight-line basis over a 10-year useful life and equipment is being depreciated on a straight-line basis over a 5-year useful life. The Applicant expects to finance \$4,000,000 of the capital costs. The loan is expected to be payable in equal monthly installments over eighty-four (84) months at an interest rate of 7% per annum. The interest rate of 7.0% is reasonable for a commercial loan for quality borrowers in the current interest rate environment. We also reviewed the loan amortization schedule for accuracy.

Accordingly, I determined that the pro-forma capital expenditures, facility lease and the resulting impact on the cash flows of the Applicant are reasonable.

VI. FEASIBILITY

I analyzed the Projections and Key Metrics for Mass General Brigham Ambulatory Surgery - Cambridge, LLC as well as the impact of the proposed project. In preparing my analysis I considered multiple sources of information including projected financial information for the Applicant.

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. However, Management has informed me that it has not capitalized lease assets and obligations related to its real estate lease as required under Accounting Standards Update (ASU) 2016-02, Leases (ASC Topic 842) and subsequent amendments (i.e., US GAAP). The Applicant has reported lease payments as expense as incurred. The effects of this departure on the Applicant's financial position, results of operations, and cash flows have not been determined.

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 Mass General Brigham Ambulatory Surgery - Cambridge, LLC.

Respectively submitted,



Bernard L. Donohue, III, CPA