



Headquarters
280 Trumbull St
24th Floor
Hartford, CT 06103
Tel: 860.522.3111
www.WAdvising.com

One Hamden Center
2319 Whitney Ave, Suite 2A
Hamden, CT 06518
Tel: 203.397.2525

14 Bobala Road #3
Holyoke, MA 01040
Tel: 413.536.3970

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

New England Baptist Surgery Center, LLC
125 Parker Hill Avenue
Boston, Massachusetts 02120

We have performed the procedures enumerated below on the Financial Projections (the "Projections") of New England Baptist Surgery Center, LLC as of February 28, 2022. New England Baptist Surgery Center, LLC's management is responsible for the Projections.

New England Baptist Surgery Center, LLC has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to analyze the reasonableness of management's assumptions and the Projections included in the Massachusetts Department of Public Health Determination of Need application. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

- 1) Analysis of five-year financial projections prepared by New England Baptist Surgery Center, LLC
- 2) Review of management's assumptions used in preparing the Projections

We were engaged by New England Baptist Surgery Center, LLC to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Projections. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of New England Baptist Surgery Center, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Our Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Ambulatory Surgery Center ("ASC") in Dedham, Massachusetts by Constitution Surgery Alliance is attached to this report.

This report is intended solely for the information and use of New England Baptist Surgery Center, LLC and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads 'Whittlesey PC'. The signature is written in a cursive, flowing style.

Holyoke, Massachusetts
May 19, 2022

May 19, 2022

New England Baptist Surgery Center, LLC
125 Parker Hill Avenue
Boston, Massachusetts 02120

RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Ambulatory Surgery Center (“ASC”) in Dedham, Massachusetts by Constitution Surgery Alliance.

We have performed an independent analysis of the financial projections prepared by Constitution Surgery Alliance (“Constitution”) detailing the projected operations of New England Baptist Hospital – Dedham ASC (“Dedham ASC”). This report details our 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 Constitution (“Management”) for the operation of the Dedham ASC. This report is to be used by New England Baptist Surgery 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 our analysis was limited to an analysis of the five-year financial projections (the “Projections”) prepared by Constitution for the operation of the Dedham ASC, and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the Projections.

The Projections exhibit a net pre-tax profit margin ranging from 22.8% to 25.4% for years 2 through 5 of the project. Based upon our review of the relevant documents and analysis of the projected financial statements, we determined the projected and continued operating surplus are reasonable and are based upon feasible financial assumptions. Accordingly, we determined that the Projections are feasible and sustainable and not likely to have a negative impact on the patient panel or result in liquidation of assets of the Dedham ASC.

II - Relevant Background Information

Refer to Factor 1 of the DoN application for a description of the scope of the Applicant, as well as the overall description of the project.

III - Scope of Report

The scope of this report is limited to an analysis of the five-year financial projections prepared by Constitution and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the Projections. Our analysis of the Projections contained within this report are based upon our detailed review of all relevant information (see Section IV which references the sources of information). We have gained an understanding of Constitution and the Dedham ASC through our review of the information provided 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 the Applicant’s existing Patient Panel” (per Determination of Need, Factor 4(a)).

This report is based upon prospective financial information provided by Management. If we had audited the underlying data, matters may have come to our attention that would have resulted in my 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 Constitution 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. We reserve the right to update our analysis in the event that we are provided with additional information.

IV - Primary Sources of Information Utilized

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

1. New England Baptist Hospital – Dedham ASC – 5-Year Projected Financial Statements and Assumptions received from Management on February 28, 2022
2. Medicare rates and base rate calculations, received from Management on February 28, 2022
3. New England Baptist Hospital – Dedham ASC draft DoN Application as of May 2022
4. Determination of Need Application Instructions dated March 2017
5. CMS.gov (Medicare) Ambulatory Surgical Center Payment System website
6. Mass.gov Executive Office of Health and Human Services
7. Constitution’s company website <https://www.csasurgery.com>
8. VMG Health Intellimarker Multi-Specialty ASC Study 2017
9. New England Baptist Hospital company website <https://www.nebh.org>

V - Review of the Projections

This section of our report summarizes our 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 first five years of operations.

New England Baptist Hospital - Dedham ASC
Summary of Ratios
Projected for Years 1 - 5

Ratio	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA (\$)	\$ 4,248,382	\$ 10,811,758	\$ 11,570,550	\$ 12,383,011	\$ 13,240,751
EBITDA Margin	14%	25%	26%	26%	27%
Lease Ratio	1.76	4.49	4.73	4.99	5.26
Net Profit Margin	10.6%	22.8%	23.7%	24.3%	25.4%
Debt Service Coverage Ratio	4.14	10.53	11.27	12.06	12.90
Operating Cash Flow	\$ (808,238)	\$ 10,636,415	\$ 11,427,689	\$ 12,273,875	\$ 13,166,632

The Key Metrics utilized include earnings before interest, taxes, depreciation and amortization (“EBITDA”), EBITDA Margin, Lease Ratio, Net Profit Margin, Debt Service Coverage and operating cash flow. These are used to assist in the evaluation of management performance in how efficiently resources are utilized as well as to measure the Company’s ability to service debt obligations.

Ratio	Calculation
EBITDA (\$)	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin	EBITDA divided by net patient service revenue
Lease Ratio	Earnings before interest, taxes, depreciation and amortization and rent divided by lease payments
Net Profit Margin	Net profit divided by net patient service revenue
Debt Service Coverage Ratio	Debt service coverage ratio = (Net Income + depreciation expense + amortization expense + interest expense) / (Principal payments + interest expense)
Operating Cash Flow	Net Income plus depreciation & amortization

A - Revenues

We analyzed the revenues identified by the Dedham ASC in the Projections. Based upon discussions with Management, the projected volume was based on historical data at the existing New England Baptist Hospital's ("NEBH") outpatient surgery center and a gradual ramp-up schedule from 60% utilization in year 1 of operations to a sustained 70% utilization level for years 4 and 5 of the Projection. The payer mix was based on the multiple disciplines of the Dedham ASC, including orthopedic, joint replacement, hand, podiatry, spine and other services. Reimbursement rates were based upon current Medicare ASC rates, Medicaid rates and expected Commercial Insurance contracted rates based on discussions with management and historical information. In order to determine the reasonableness of the projected revenues, we reviewed the underlying assumptions upon which Management relied.

We first reviewed the Projections to determine the reasonableness of the projected volume. NEBH provided historical case volume data at their current outpatient surgery center. Constitution then created utilization tables, using conservative estimates from the volume contributions and benchmark data for operating room and procedure room at year 1 cases and procedures. These cases and procedures were then ramped up until year 4, when full utilization is achieved. Full utilization is considered 70% of available time. We compared the benchmark data to an outside, independent survey of ambulatory surgery centers completed using 2017 data and found that the benchmark data used was reasonable, and that the number of projected cases and procedures per operating room at full utilization were within the ranges of currently operating ambulatory surgery centers as determined by the independent survey.

Next, we reviewed the Projections to determine the reasonableness of the payer mix and reimbursement rates selected for the first five years of operations. To determine the reasonableness of the payer mix in the projections, we 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 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. Medicare also specifies which procedures are able to be performed in an ASC. We compared the Medicare rates used for year 1 of the Projections to the Medicare rates effective January 1, 2022, as adjusted by inflation and the wage index, included in the 2022 OPPS and ASC Proposed Final Rule, published by CMS effective January 1, 2022. The Medicaid rates used in the projection are 70% of the Medicare rate. We tested this assumption by selecting the highest volume cases and procedures from Constitution's projections. We then compared the Medicare payment rate,

tested above, to the Medicaid rate for Massachusetts taken from the regulations published in 101 CMR 347.00, Freestanding Ambulatory Surgery Centers, which establishes the payment rates for cases and procedures in free standing ambulatory surgical facilities. We then calculated the percentage difference between the two rates. We found the average Medicaid rate to be approximately 76% of the applicable Medicare rate. So, the assumption of Medicaid rates being equal to 70% of the Medicare rates is reasonable and deemed conservative.

The Commercial Insurance rates were based on Management's estimate and experience with similar facilities. It is expected that these rates will be approved at a level of 180% of the Medicare rate. The private pay rates are set as 150% of the Medicare rate and appear reasonable when compared to the Commercial Insurance rates. All of the rates were increased by 2.0% for each of the succeeding years.

Based upon the foregoing, the revenue projected by Management reflects a reasonable estimation of future revenues of the Dedham ASC.

B - Expenses

We analyzed the Salary and Benefits, as well as the Other Operating Expenses for reasonableness and feasibility as related to the Projection of the Dedham ASC.

Salaries and Benefits were analyzed both for wage rates used and as related to clinical care, for the number 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, after considering inflation, the wage rates were also consistent with the survey results for the Northeast United States. Wages rates were also compared to Massachusetts median wages for 2022 and found to be consistent.

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 3% per year. Clinical expenses are projected to increase by 3% per year after achieving full utilization. Most other expenses are projected to increase by 2% to 3% per year after achieving full utilization.

The operating expenses projected by Management are reasonable in nature.

C - Lease Agreement, Capital Expenditures and Cash Flows

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

Based upon our review of the Projections and my discussions with Management, it is our understanding that up to 35,000 square feet of space will be leased to the Dedham ASC by NEBH. Rent and common area maintenance charges will be approximately \$68 per square foot. The lease will include a 1.5% increase in rent and common area maintenance charges annually.

Accordingly, we 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 Dedham ASC are reasonable.

VI - Feasibility

We analyzed the Projections and Key Metrics for the Dedham ASC. In preparing our analysis we considered multiple sources of information. 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 our review of the relevant documents and analysis of the projected financial statements, we determined the project and continued operating surplus are reasonable and are based upon feasible financial assumptions. Accordingly, we 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 Dedham ASC.