

Exhibit 7. Certification of Independent CPA

Southcoast Health System, Inc.

Analysis of the Reasonableness of
Assumptions and Prospective Financial
Schedules Used to Support the Financial
Feasibility and Sustainability of the Proposed
Transfer of Ownership of Same Day
SurgiCare of New England, Inc.

REPORT DATED APRIL 25, 2024

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April, 25 2024

Wade Broughman
Executive Vice President and Chief Financial Officer
Southcoast Health System, Inc.
101 Page Street
New Bedford, MA 02740

Dear Mr. Broughman:

Southcoast Health System Inc. (the "Applicant" or "SHS") is filing an application for a Notice of Determination of Need ("Application") for a proposed transfer of ownership of Same Day SurgiCare of New England, Inc. ("SDS" or the "ASC"). SHS is currently a 49 percent owner in the ASC. Pursuant to the proposed transaction, SHS will acquire the remaining 51 percent ownership interest in the ASC currently owned by individual physicians (the "Proposed Project"), and become the 100 percent owner of the ASC upon approval by the Massachusetts Department of Public Health. Veralon Partners Inc. ("Veralon") performed an analysis of the prospective financial schedules prepared by SHS and the ASC in connection with the Proposed Project in accordance with Massachusetts Department of Public Health Determination of Need ("MA DPH DoN") Application Instructions. At this time, SHS intends to file a Determination of Need ("DoN") application with the Commonwealth of Massachusetts seeking approval for the Proposed Project.

This application includes a section regarding Financial Feasibility as referenced in the MA DPH DoN code section 100.210 specifically paragraph (A)(4) *Determination of Need Factors*. This Financial Feasibility component of the application provides "sufficient documentation of the availability of sufficient funds for capital and ongoing operating costs necessary to support the Proposed Project without negative impacts or consequences to the Applicant's Patient Panel." This report details our findings regarding the reasonableness of the assumptions used in preparation of the prospective financial schedules, and the feasibility of the Proposed Project based on the prospective financial schedules prepared by SHS management and ASC management ("SHS Management", "ASC Management", and together "Management") for the operation of the Proposed Project.

This report is to be used by Southcoast in its DoN Application – Factor 4(a) and should not be distributed for any other purpose.

I. EXECUTIVE SUMMARY

ASC Management provided SHS Management with seven years (2024-2030, or the "Prospective Period") of prospective financial schedules (the "ASC Prospective Financial Schedules") for the ASC operation under the assumption of a 100% ownership of the ASC by SHS. SHS Management reviewed the ASC Prospective Financial Schedules and incorporated them into a set of seven-year consolidated prospective financial schedules (the "SHS Prospective Financial Schedules"). The SHS Prospective Financial Schedules

reflect prospective SHS financial performance and position assuming a 100% ownership of the ASC.

The scope of our analysis was limited to the following:

- An analysis of the SHS Prospective Financial Schedules and the underlying assumptions used in their development; and
- Select financial ratio analysis of the SHS Prospective Financial Schedules.

The SHS Prospective Financial Schedules reflect positive and growing earnings before interest, depreciation, and amortization ("EBIDA") margins throughout the Prospective Period, days cash on hand greater than 150 in all years, and a debt to capitalization ratio at 22% or below in all years. Based on our analysis of the SHS Prospective Financial Schedules, we determined that the Proposed Project is reasonable, feasible and sustainable, and not likely to have a negative impact on the patient panel or result in a liquidation of assets of the Applicant.

The COVID-19 Pandemic has disrupted the operating environment for nearly all businesses, and in particular, those operating in the healthcare industry. The below considerations, among others, have acutely impacted healthcare providers:

- A likely permanent elevation of salary and wage expense for clinical and administrative staff, compounded by labor shortages;
- The availability of staff to meet the demands of budgeted/planned patient volumes; and
- Supply chain difficulties, contributing to difficulty in obtaining certain supplies, as well as elevated supply expenditures.

SHS Management has represented that in the development of the Applicant's Prospective Financial Schedules and associated underlying assumptions, they have taken into consideration the above factors and have considered the current and likely ongoing/future impact of the COVID-19 Pandemic.

II. RELEVANT BACKGROUND INFORMATION

SHS is the parent of an integrated health delivery system serving patients throughout the South Coast communities through three hospitals, urgent care facilities, physician offices, a visiting nurse association, and accountable care organizations participating in the Medicare Shared Savings Program and MassHealth Medicaid ACO program.

The ASC is an outpatient surgery center located in Fall River, Massachusetts. SHS currently has a 49 percent ownership interest in the ASC, and intends to purchase the remaining 51 percent of the ASC from the physician owners,¹ which would make Southcoast the sole owner.

¹ The physician owners are 10-12 individual physicians who collectively own the 51% majority stake of the ASC.

III. SCOPE OF ANALYSIS

The scope of this report is limited to an analysis of the SHS Prospective Financial Schedules prepared by SHS Management and the supporting documentation to render an opinion as to the reasonableness of the assumptions used in the preparation and the feasibility of the SHS Prospective Financial Schedules. 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 that the plan is not likely to result in a liquidation of the underlying assets or the need for reorganization.

This report is based upon historical and prospective financial information provided to us by SHS and ASC Management. If we had reviewed the underlying data, matters may have come to our attention that would have resulted in the use of amounts that differ from those provided by SHS or ASC Management. 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 SHS or ASC 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 SHS and ASC Management. We reserve the right to update our analysis in the event that we are provided with additional information.

IV. SOURCES OF INFORMATION UTILIZED

In formulating our report, we reviewed the SHS Prospective Financial Schedules and discussed corresponding assumptions with Management. The documents and information upon which we relied are identified below or are otherwise referenced in this report:

- 1. SHS seven-year Prospective Financial Schedules, prepared as of April 10, 2024 and associated revenue and expenditure assumptions;
- 2. SHS historical audited financial statements;
- 3. ASC seven-year Prospective Financial Schedules, prepared as of April 10, 2024 and associated revenue and expenditure assumptions;
- 4. An overview of the Proposed Project and associated business case rationale provided by SHS Management;
- 5. CPA Report Guidelines from the Determination of Need Program, dated March 2021; and
- 6. Correspondence with SHS and ASC Management.

V. REVIEW OF THE SHS PROSPECTIVE FINANCIAL SCHEDULES

This section of our report summarizes our review of the reasonableness of the assumptions utilized in preparing the SHS Prospective Financial Schedules as well as the feasibility of the Applicant. Table 1 presents the key metrics (the “Key Metrics”) reviewed in our analysis along with definitions.

Table 1

Summary of Key Metric Calculation Definitions	
Key Metric	Calculation
Liquidity	
Current Ratio	Current Assets/Current Liabilities
Days Cash on Hand	Cash and Cash Equivalents + Unrestricted Investments / (Operating Expenses - Depreciation/365)
Operating	
EBIDA	Operating Income + Depreciation and Amortization + Interest
EBIDA Margin	(Operating Income + Depreciation and Amortization + Interest) / Operating Revenue
Leverage	
Debt to Capitalization	Total Debt/ Total Debt + Total Net Assets

The Key Metrics used in this report fall into three categories: liquidity, operating, and leverage metrics. Liquidity ratios measure the quality and adequacy of assets to meet current obligations as they come due. Operating ratios are used to assist in the evaluation of management performance. Leverage ratios are used to evaluate a company’s debt levels. Table 2 shows the results of the Key Metric calculations based on both SHS’s historical audited financial information and the Prospective Financial Schedules.

Table 2

SouthCoast Health System - Historical and Prospective Key Metrics ¹										
Key Metric	Historical			Prospective						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Liquidity										
Current Ratio	1.09	1.40	1.47	1.22	1.09	1.04	1.07	1.19	1.38	1.63
Days Cash on Hand	267	161	173	172	159	155	157	158	164	172
Operating										
EBIDA	\$ 32,907,000	\$ 16,995,000	\$ 78,895,000	\$ 36,904,212	\$ 48,442,749	\$ 65,766,483	\$ 87,443,498	\$ 103,067,697	\$ 120,635,226	\$ 140,120,000
EBIDA Margin	2.9%	1.4%	5.8%	2.7%	3.3%	4.2%	5.3%	6.0%	6.6%	7.2%
Leverage										
Debt to Capitalization	21%	24%	22%	22%	21%	20%	18%	16%	15%	13%

¹Historical years (2021-2023) reflect SHS data only, prospective years (2024-2030) reflect SHS and SDS consolidated data.

I. Revenues

To determine the reasonableness of the prospective revenues, we reviewed the underlying assumptions upon which SHS Management relied. Prospective net patient service revenues were assumed to grow approximately 5% (based on 2.5% annual growth in both patient volume and reimbursement) annually. The 2.5% growth in patient volume through the Prospective Period is reasonable, as it would return the SHS to the pre-pandemic level of approximately 37,500 discharges annually² by FY 2029. Prospective other operating revenues were assumed to grow approximately 10 percent annually. Per SHS management, this includes SHS' retail, specialty, and contracted pharmacy activity which is the primary driver of the year-over-year growth. The growth rate is attributed to SHS' continued focus on expansion of retail pharmacy operations and contracting.

The ASC's total revenue is less than 1 percent of SHS revenue for each year of the Prospective Period.

It is our opinion that the revenue growth of the Applicant, including the ASC, estimated by Management reflects a reasonable estimate of future revenues of the Applicant.

II. Expenses

We analyzed the expense categories included in the SHS Prospective Financial Schedules for reasonableness. Our approach included a historical review of the total expenses for each expense category and expense growth assumptions in the Prospective Period for the Applicant, including the ASC. Below are the expense categories provided in the SHS Prospective Financial Schedules along with relevant findings.

The operating expenses in the analysis include salaries and benefits, supplies and drugs, contract physicians, services, insurance, other expenses, depreciation and amortization, and interest expense. Salaries and benefits account for approximately 63 to 68 percent of total operating expenses while supplies and drugs account for approximately 15 to 16 percent of total operating expenses throughout the Prospective Period.

Salaries were forecasted to increase 5 to 6 percent annually throughout the Prospective Period, based on a 3% annual inflationary increase, and additional

² Prior to the COVID-19 pandemic, SHS averaged 37,500 discharges annually for five years (2015-2019).

expenses to support the forecasted increase in patient volumes mentioned above. The ASC's salary expenses is less than 1 percent of SHS' salary expense in each year of the Prospective Period.

The ASC's supply and drug expense is less than 1 percent of SHS' supply and drug expense in each year of the Prospective Period.

Other expenditures (contract physicians, services, insurance, and other expenses) were forecasted to grow at approximately 3 percent annually.

Other operating expenses represent approximately 8 percent of total operating expenses for the Applicant throughout the Prospective Period. This includes the Hospital Health Safety Net Tax Assessment, software expenses/maintenance, utilities, and right of use assets, repairs/maintenance, patient linens and various other miscellaneous items.

The ASC's total operating expenses are less than 1 percent of SHS operating expenses for each year of the Prospective Period.

Based upon the foregoing, it is our opinion that the operating expenses forecasted by SHS Management are based on reasonable assumptions and are feasible for the Applicant.

III. Capital Expenditures and Cash Flows

We reviewed the capital expenditures and future cash flows to determine whether sufficient funds would be available to sustain the operation of the Applicant. Capital expenditures for the ASC are less than 1% of SHS capital expenditures.

Accordingly, we determined that the prospective capital requirements and resulting impact on the cash flows are reasonable.

VI. FEASIBILITY

We analyzed the SHS Prospective Financial Schedules and the resulting Key Metrics and determined that the SHS Prospective Financial Schedules are based on reasonable assumptions. The SHS Prospective Financial Schedules 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 feasibility of the Proposed Project.

The Applicant exhibits cash surpluses from operations (defined as earnings before interest, depreciation, and amortization or "EBIDA") in the SHS Prospective Financial Schedules in each of the seven prospective years which range from approximately \$37 million in 2024 to approximately \$140 million in 2030.

Based upon our review of the relevant documents, we determined the SHS Prospective Financial Schedules which exhibit a cumulative EBIDA surplus of approximately 5 percent of cumulative projected operating revenue for the six years from 2024 – 2030. Based upon our review, the Prospective Financial Schedules are based upon reasonable and feasible assumptions. Accordingly, we determined that the SHS Prospective Financial Schedules are a reasonable expectation and based on feasible and sustainable financial projects which are not likely to have a negative impact on the patient panel or result in a liquidation of assets of the Applicant.

VII. ASSUMPTIONS AND LIMITING CONDITIONS

Veralon relied upon the SHS Prospective Financial Schedules provided by SHS Management as the basis for SHSs future financial performance and position shown in the report. The SHS Prospective Financial Schedules provided by SHS Management are assumed by Veralon to be SHS Management most accurate and complete forecast of SHSs future financial performance and position and Veralon assumes no responsibility and provides no assurance of the accuracy or completeness of the SHS Prospective Financial Schedules or the underlying data and assumptions used in these analyses.

Some of the associated assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the forecasted time period will vary from those described in our report, and the variations may be material.

Respectively submitted,

A handwritten signature in blue ink, reading "Daniel M. Grauman". The signature is fluid and cursive, with a large initial 'D' and a long, sweeping underline.

Daniel M. Grauman, MBA, CPA/ABV
Managing Director & CEO
Veralon Partners Inc.

Appendix: The Prospective Financial Schedules

SHS PROSPECTIVE FINANCIAL SCHEDULES ³

Schedule of Revenues and Expenses

SouthCoast Health System Prospective Schedule of Revenues and Expenses Fiscal Year Ending September 30								
	2024 YTD Through March	2024	2025	2026	2027	2028	2029	2030
<i>\$s in 000s</i>								
Operating Revenue								
Net Patient Service Revenue	\$ 622,096	\$ 1,237,720	\$ 1,300,676	\$ 1,366,850	\$ 1,436,406	\$ 1,509,521	\$ 1,586,379	\$ 1,667,172
Other Operating Revenue	127,145	152,082	167,290	184,019	202,421	222,663	244,929	269,422
Total Operating Revenue	749,241	\$ 1,389,802	\$ 1,467,965	\$ 1,550,868	\$ 1,638,826	\$ 1,732,184	\$ 1,831,308	\$ 1,936,594
Operating Expense								
Payroll	366,317	\$ 736,502	\$ 779,831	\$ 821,995	\$ 864,716	\$ 916,756	\$ 971,658	\$ 1,029,577
Benefits	77,246	162,950	173,460	183,708	193,708	205,431	217,799	230,847
Supplies	135,629	241,538	247,785	254,203	260,797	267,572	274,333	281,424
Contract Physicians	5,827	12,020	12,502	13,002	13,523	14,064	14,628	15,213
Services	39,042	65,998	67,980	70,022	72,126	74,293	76,525	78,824
Insurance	7,456	15,271	15,730	16,202	16,689	17,190	17,707	18,239
Other Expenses	56,728	118,618	122,234	125,968	129,824	133,809	138,023	142,350
Depreciation and amortization	29,436	59,107	59,122	59,140	59,163	59,183	59,205	59,233
Interest	3,650	6,913	6,910	6,907	6,904	6,901	6,900	6,900
Operating Expense	\$ 721,331	\$ 1,418,917	\$ 1,485,555	\$ 1,551,149	\$ 1,617,450	\$ 1,695,201	\$ 1,776,778	\$ 1,862,607
Operating Income/Loss	\$ 27,910	\$ (29,116)	\$ (17,589)	\$ (280)	\$ 21,376	\$ 36,983	\$ 54,530	\$ 73,987
Source: SHS management.								

³ All SHS Prospective Financial Schedules are consolidated and include the ASC.

Balance Sheet

SouthCoast Health System Prospective Balance Sheet Fiscal Year Ending September 30							
	2024	2025	2026	2027	2028	2029	2030
Assets							
Current assets							
Cash and cash equivalents	\$ 85,779	\$ 49,197	\$ 43,160	\$ 44,819	\$ 63,456	\$ 107,668	\$ 171,338
ST Investments	2,988	3,078	3,139	3,202	3,266	3,331	3,398
Patient accounts receivable	104,209	109,507	115,075	120,928	127,080	133,546	133,546
Receivables for settlements and performance contracts	19,977	19,977	19,977	19,977	19,977	19,977	19,977
Other receivables	19,333	19,333	19,333	19,333	19,333	19,333	19,333
Pledge receivables	450	400	350	300	250	200	200
Inventories	20,945	21,475	22,019	22,578	23,151	23,741	24,330
Prepaid expenses and other assets	17,737	17,914	18,094	18,276	18,458	18,644	18,830
Current portion of limited-use and restricted assets	5,749	5,749	5,749	5,672	5,659	5,645	5,630
Total current assets	277,167	246,630	246,897	255,085	280,631	332,085	396,582
Investments	553,558	570,165	587,270	622,882	641,569	660,816	673,396
Limited-use and restricted assets							
Insurance reserves	21,062	21,272	21,485	21,700	21,917	22,136	22,357
Deferred compensation	24,580	25,072	25,573	26,084	26,606	27,138	27,681
Under bond indenture agreement held by trustee, net of current portion	-	-	-	-	-	-	-
With donor restrictions	86,017	88,598	91,256	93,993	96,813	99,718	102,709
Total limited-use and restricted assets	131,659	134,942	138,314	141,778	145,336	148,992	152,747
Property, plant and equipment, net	353,409	354,445	355,470	356,482	357,484	358,473	359,475
Noncurrent pledges and third-party receivables	1,788	1,688	1,588	1,488	1,388	1,288	1,195
Right-of-use assets - operating	60,307	60,910	61,519	62,134	62,756	63,383	64,017
Right-of-use assets - financing	-	-	-	-	-	-	-
Other assets	59,495	60,666	61,860	63,078	64,321	65,588	66,880
Total noncurrent assets	1,160,216	1,182,815	1,206,021	1,247,843	1,272,854	1,298,540	1,317,710
Total assets	\$ 1,437,383	\$ 1,429,446	\$ 1,452,918	\$ 1,502,928	\$ 1,553,485	\$ 1,630,626	\$ 1,714,292
Liabilities and Net Assets							
Current liabilities							
Accounts payable	\$ 62,216	\$ 64,081	\$ 66,009	\$ 67,993	\$ 70,038	\$ 72,144	\$ 74,270
Current portion of long-term debt	11,833	7,973	14,123	12,513	5,998	6,113	6,230
Current portion of lease liability - operating	9,374	9,655	9,945	10,243	10,551	10,867	11,193
Current portion of lease liability - financing	-	-	-	-	-	-	-
Current portion of Medicare advance payments	-	-	-	-	-	-	-
Estimated third party settlements	14,460	14,894	15,341	15,801	16,275	16,763	17,266
Insurance reserves	15,395	15,395	15,395	15,395	15,395	15,395	15,395
Accrued expenses	24,609	25,104	25,609	26,124	26,651	27,187	27,729
Accrued compensation and payroll taxes	58,853	59,032	59,211	59,390	59,570	59,751	59,929
Accrued earned time and sick pay	30,057	30,357	30,661	30,968	31,277	31,590	31,905
Total current liabilities	226,797	226,491	236,294	238,427	235,755	239,811	243,917
Long-term debt	225,080	213,443	205,175	190,818	183,002	176,800	170,807
Non-current portion of lease liability - operating	53,058	54,120	55,202	56,306	57,432	58,581	59,752
Non-current portion of lease liability - financing	-	-	-	-	-	-	-
Long-term insurance reserves	40,624	41,436	42,265	43,110	43,972	44,852	45,748
Non-pension post retirement benefits	4,439	4,439	4,439	4,439	4,439	4,439	4,439
Other liabilities	31,128	31,663	32,208	32,764	33,331	33,910	34,482
Total liabilities	581,126	571,591	575,582	565,864	557,932	558,392	559,145
Net assets							
Without donor restrictions	768,694	767,711	784,533	841,524	897,194	970,971	1,050,895
With donor restrictions	87,563	90,144	92,802	95,539	98,359	101,264	104,253
Total net assets	856,257	857,855	877,335	937,063	995,553	1,072,234	1,155,148
Total liabilities and net assets	\$ 1,437,384	\$ 1,429,446	\$ 1,452,918	\$ 1,502,928	\$ 1,553,485	\$ 1,630,626	\$ 1,714,293

Source: SHS management.

Schedule of Cash Flows

SouthCoast Health Prospective Statement of Cash Flows Fiscal Year Ending September 30							
	2024	2025	2026	2027	2028	2029	2030
Operating Income/(Loss)	(29.12)	(17.59)	(0.28)	21.38	36.98	54.53	73.99
<u>Routine items:</u>							
Depreciation and amortization	59.11	59.12	59.14	59.16	59.18	59.21	59.21
Capital purchases	(60.14)	(60.16)	(60.17)	(60.18)	(60.19)	(60.20)	(60.20)
Debt payments	(11.62)	(7.97)	(14.12)	(12.51)	(6.00)	(6.11)	(6.11)
Patient accounts receivable and 3rd party settlements	(2.43)	5.25	5.52	5.80	6.09	6.40	6.40
Accrued compensation and payroll taxes	0.18	0.18	0.18	0.18	0.18	0.18	0.18
All other routine items	25.04	(15.32)	3.76	(12.11)	(17.55)	(9.73)	(9.73)
Subtotal - Routine items, net	10.13	(18.90)	(5.70)	(19.66)	(18.28)	(10.25)	(10.25)
<u>Non-routine items:</u>							
Debt proceeds, net of refinancing and capx escrow	-	-	-	-	-	-	-
Use of bond escrow for capital expenditures	-	-	-	-	-	-	-
Transfer (to) from long-term investments	-	-	-	-	-	-	-
Subtotal - Non-routine items, net	-	-	-	-	-	-	-
Net change in unrestricted cash	(18.98)	(36.49)	(5.98)	1.72	18.70	44.28	63.74
Cash and short-term investments - beginning of year	107.75	88.77	52.28	46.30	48.02	66.72	111.00
Cash and short-term investments - end of year	88.77	52.28	46.30	48.02	66.72	111.00	174.74

Source: SHS management.

SDS PROSPECTIVE FINANCIAL SCHEDULES ⁴

SDS Schedule of Revenues and Expenses

Same Day SurgiCare of New England Prospective Schedule of Revenues and Expenses Fiscal Year Ending September 30								
	2024 YTD Through March	2024	2025	2026	2027	2028	2029	2030
\$s in 000s								
Operating Revenue								
Net Patient Service Revenue	\$ 2,925	\$ 5,711	\$ 6,296	\$ 6,942	\$ 7,653	\$ 8,438	\$ 9,303	\$ 10,257
Other Operating Revenue	-	-	-	-	-	-	-	-
Total Operating Revenue	2,925	5,711	6,296	6,942	7,653	8,438	9,303	10,257
Operating Expense								
Payroll	1,150	2,300	2,392	2,488	2,587	2,691	2,798	2,910
Benefits	352	703	736	770	806	843	882	923
Supplies	866	1,732	1,985	2,257	2,553	2,872	3,015	3,323
Contract Physicians	25	50	53	55	58	61	64	67
Services	165	330	343	356	369	383	398	413
Insurance	30	60	62	65	67	70	73	76
Other Expenses	154	307	374	452	542	649	868	1,081
Depreciation and amortization	54	107	122	140	163	183	205	233
Interest	7	13	10	7	4	1	-	-
Operating Expense	2,803	5,602	6,075	6,590	7,150	7,752	8,304	9,026
Operating Income/Loss	\$ 122	\$ 109	\$ 221	\$ 352	\$ 503	\$ 686	\$ 999	\$ 1,231

Source: SHS management.

⁴ SDS Prospective Schedules of Revenues and Expenses is reflective of the ASC operation under full ownership of SHS.