

**STURDY HEALTH FOUNDATION, INC.**

**Analysis of the Reasonableness of Assumptions Used For and  
Feasibility of Projected Financial Information associated with the renovation and expansion of the Emergency  
Department at Sturdy Memorial Hospital**

**For Years Ending September 30, 2028 through September 30, 2032**

# **STURDY HEALTH FOUNDATION, INC.**

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MeyersBrothersKalicka  
CERTIFIED PUBLIC ACCOUNTANTS

December 4, 2024

Ms. Amy Pfeffer  
Chief Financial Officer  
Sturdy Memorial Hospital  
211 Park Street  
PO Box 2963  
Attleboro, MA 02703

Dear Ms. Pfeffer:

We have performed an analysis of the financial projections prepared by Sturdy Health Foundation, Inc. (“Applicant”) detailing the projected operations of the renovation and expansion of the Emergency Department (“ED”) at Sturdy Memorial Hospital (the “Project”). This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of the proposed project as prepared by the management of Sturdy Memorial Hospital (“Management”). This report is to be included by the Applicant in its DON application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

**I. Executive Summary**

The scope of our analysis was limited to the five-year financial projections for the years ending September 30, 2028 through September 30, 2032 (the “Projections”) prepared by Management, and the related supporting documentation provided by Management. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the impact of expanding the emergency department.

The renovation and expansion of the ED at Sturdy Memorial Hospital is projected to have positive overall cash flows. We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required to support the emergency department. Except for the financing discussed in Section V, it is not anticipated that the Applicant will require any additional financing associated with this Project. It is our conclusion that the projections are financially feasible and within the financial capability of the Applicant as detailed below.

**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 and rationale for the renovation and expansion of the ED at Sturdy Memorial Hospital.

### **III. Scope of Report**

The scope of this report is limited to an analysis of the five-year financial projections prepared by Management and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the proposed Project. Our analysis of the projections and conclusions contained within this report are based upon our detailed review of all relevant information (see section IV of this report). We have gained an understanding through our review of the information provided by Management, 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.

This report is based upon historical and prospective financial information provided to us by Management. If Meyers Brothers Kalicka, P.C. had audited the underlying data, matters may have come to our attention that would have resulted in our 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 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. We reserve the right to update our analysis, if we are provided with additional information.

### **IV. Primary Sources of Information Utilized**

In formulating our opinions and conclusions contained in this report, we obtained and reviewed various documents obtained from Management. The documents and information we used and relied on are noted below and/or referenced in this report:

- Historical total hospital volume performed for the fiscal years ended September 30, 2021, 2022 and 2023.
- Historical revenue related to historical ED volume for the fiscal years ended September 30, 2019, 2020, 2021, 2022 and 2023, and annualized for the 9-month period ended June 30, 2024.
- Projected emergency room volume performed for the years ending September 2028 through September 30, 2032.
- Projected revenue and expenses for the Project for the years ending September 2028 through September 30, 2032.
- Historical full-time employees by job profile for the fiscal years ended September 30, 2021, 2022 and 2023.
- Projected full-time employees by job profile for the Project for the years ending September 2028 through September 30, 2032.
- Proposed contractor budget with construction contract costs of \$61,983,000, development soft costs of \$17,458,502 and costs related to financing of \$2,000,000, totaling \$81,441,502. Other project costs included on the proposed contractor budget includes \$6,118,735 of soft costs contingency and \$25,439,763 of construction costs, totaling \$31,558,498, that are excluded from the DON application.
- Determination of Need Application Instructions dated July 2023.

#### IV. Primary Sources of Information Utilized (continued)

- DON Narrative draft provided November 27, 2024.
- Sturdy Health Foundation, Inc. and Affiliates audited consolidated financial statements as of and for the years ended September 30, 2023 and 2022.
- Draft application form.
- Total project costs of the Applicant are made up of the following:

	Capital Expenditures	Other Project Costs	Total
Construction contracts	\$ 61,983,000	\$ 25,439,763	\$ 87,422,763
Fixed equipment	1,000,000	163,000	1,163,000
Architectural and engineering costs	8,370,897	247,700	8,618,597
Pre-filing planning and development costs	1,101,610	162,883	1,264,493
Post-filing planning and development costs	2,485,995	845,152	3,331,147
Interest expense during construction	4,500,000	-	4,500,000
Movable medical equipment	-	4,700,000	4,700,000
Total development soft costs	17,458,502	6,118,735	23,577,237
Financing costs	2,000,000	-	2,000,000
Total project costs	\$ 81,441,502	\$ 31,558,498	\$ 113,000,000

Based on discussions with Management and review of the information provided, other project costs of approximately \$31,600,000 are related to movable medical equipment of approximately \$4,700,000, approximately \$1,500,000 of soft costs contingency, and approximately \$25,400,000 of construction costs, that include costs for the helipad and parking lot, which are excluded from total capital expenditures of \$81,441,502 in section V of the report as they are not defined as DON-required equipment and are therefore excluded from the DON application.

Interest expense during construction will be funded by the Applicant.

#### V. Review of the Projections

This section of the report summarizes our review of the reasonableness of the assumptions used and feasibility of the projections. The tables that follow summarize the projected results of Sturdy Memorial Hospital, following the renovation and expansion of the ED by the Applicant.

##### **Revenues**

We have reviewed and analyzed the net patient revenues in the historical and projected financial information. For the purposes of this pro forma, volume is based on number of encounters, which includes all individuals that enter the ED, even if they are not seen by a physician or other medical staff. Based on discussions with Management and review of the information provided, the volume disclosed in the table below is based on historical ED volume for the years ended September 30, 2021, September 30, 2022, and September 30, 2023, and other projected factors that may contribute to a fluctuation in volume, including population growth, closing of other locations, and the volume of individuals that leave the ED before being seen by a provider.

## V. Review of the Projections (continued)

Based on discussions with Management and review of the information provided, net patient revenue of \$39,473,215 in Year One is based on the historical average of Commercial (30%), MassHealth (5%), Medicare (49%), Medicaid (13%) and other (3%) reimbursement rates for Sturdy Memorial Hospital. Historical reimbursement rates per encounter were approximately \$651 and \$673 for the years ended September 2022 and 2023, respectively. Management has projected net charges per encounter to increase approximately 2% each year through the year ending September 30, 2032.

The table below provides a summary of some of the key information for the projected volume and revenues by year (fiscal year September):

	Projected/ pro-forma with expansion of the ED 2028	Projected/ pro-forma with expansion of the ED 2029	Projected/ pro-forma with expansion of the ED 2030	Projected/ pro-forma with expansion of the ED 2031	Projected/ pro-forma with expansion of the ED 2032
Volume - # of encounters	53,160	53,410	53,660	53,910	54,160
Net patient revenue	\$ 39,473,215	\$ 40,452,026	\$ 41,454,200	\$ 42,480,281	\$ 43,530,822
Net charges per encounter	\$ 743	\$ 757	\$ 773	\$ 788	\$ 804

Historical volume was 48,877 and 51,198 for the years ended September 2022 and 2023, respectively. The significant increase in the fiscal year 2023 volume is a result of volume recovery following the COVID-19 pandemic. Management estimated volume growth to be an increase of approximately 250 encounters annually for the years ending September 30, 2028 through September 30, 2032 to be consistent with pre-pandemic conditions and volume growth.

## Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected revenue. The table below provides a summary of some of the key information for the projected expenses by year (fiscal year September):

Expenses	Projected/ pro-forma with expansion of the ED 2028	Projected/ pro-forma with expansion of the ED 2029	Projected/ pro-forma with expansion of the ED 2030	Projected/ pro-forma with expansion of the ED 2031	Projected/ pro-forma with expansion of the ED 2032
Salaries and wages (1)	\$ 11,374,171	\$ 11,772,267	\$ 12,184,296	\$ 12,610,747	\$ 13,052,123
Physicians salaries and fees (2)	6,547,906	6,777,082	7,014,280	7,259,780	7,513,872
Fringe benefits (3)	5,376,623	5,591,688	5,815,355	6,047,970	6,289,888
Medical supplies (4)	1,973,401	2,067,097	2,165,431	2,268,640	2,376,974
Other supplies and services (5)	2,468,800	2,555,579	2,645,408	2,738,394	2,834,648
Interest expense (6)	2,981,380	2,939,163	2,894,342	2,846,757	2,796,236
Depreciation (7)	3,456,786	3,456,786	3,456,786	3,456,786	3,456,786
CHI payment (8)	763,514	763,514	-	-	-
Total Expenses	\$ 34,942,581	\$ 35,923,176	\$ 36,175,898	\$ 37,229,074	\$ 38,320,527

**V. Review of the Projections (continued)**

- (1) Salaries and wages for the year ending September 30, 2028 include 96 full-time equivalents (“FTE”), excluding physicians, to operate the ED with an average salary of approximately \$110,000. Historical average salaries per FTE were approximately \$85,000 and \$89,000, with an average of 97 and 94 FTEs, for the years ended September 30, 2022 and 2023, respectively. The FTEs for the year ending September 30, 2028 includes an increase of two registered nurses in order to accommodate the volume increases. Salaries and wages also include premiums to work additional shifts, on-call payments, and premiums for overtime. Management assumes a 3.5% cost of living adjustment the years ending September 30, 2029 through September 30, 2032.
- (2) Management has estimated a 3.5% increase in physician salaries and fees for the years ending September 30, 2028 through September 30, 2032. It is anticipated that, on average, 11 physicians will be needed to operate the ED for the years ending September 30, 2028 through September 30, 2032 to accommodate the volume increase. The average salary for a physician is expected to be approximately \$540,000 for the year ending September 30, 2028. The historical average salary for a physician was approximately \$398,000 and \$422,000 for the years ended September 30, 2022 and 2023, respectively. The remaining expense for the year ending September 30, 2028 of approximately \$606,000 is related to the salary of the Chief of Emergency Medicine.
- (3) Management has estimated the projected fringe benefits to increase by 4% for the years ending September 30, 2028 through September 30, 2032, which are calculated at approximately 30% of salaries and wages, including the physician wages and fees. Historically, fringe benefits have been approximately 35% of salaries and wages, including the physician wages and fees, for the years ended September 30, 2022 and 2023.
- (4) Medical supplies, including pharmaceutical supplies, are calculated at an increase of approximately 4.8% each year for inflation for the years ending September 30, 2028 through September 30, 2032, in addition to an annual volume increase of approximately 0.5%, or 250 encounters. For the years ended September 30, 2022 and September 30, 2023 medical supplies were approximately 6% of total expenses.
- (5) Other supplies and services include contracted outside labor and MD services, purchased services, office supplies, repairs and maintenance, information technology, insurance, taxes, and other miscellaneous expenses. Management has estimated an increase in other supplies and services of 4% for the years ending September 30, 2028 through September 30, 2032.
- (6) The Applicant will finance \$50,000,000 of the total project costs of \$113,000,000 through debt, which will be paid over a period of 360 months with a fixed interest rate of 6%. Financing is expected to begin in April 2026 and will require interest only payments until October 2027, at which point principal and interest payments will commence. The remaining project costs of approximately \$63,000,000 will be funded through the equity, fundraising, and available reserves of the Applicant.
- (7) Costs of approximately \$4,700,000 for movable medical equipment and \$1,000,000 for fixed medical equipment are being depreciated over 7 years. Costs of approximately \$107,300,000 related to the building, helipad, and parking lot are being depreciated over 40 years. Management anticipates depreciation to begin during the third quarter of fiscal year 2027.

## V. Review of the Projections (continued)

- (8) The Applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of \$81,441,502, which results in a community health initiative (“CHI”) payment of approximately \$4,072,000. After the DON is approved, 25% of the CHI payment is due within 30 days. The Applicant is expecting that the first 25% of \$1,018,000 will be due during the year ending September 30, 2025, with the remaining amount of \$3,054,000 due over a four-year period, with the final two payments occurring during the years ending September 30, 2028 and 2029, which have been included in the expenses for the Project shown in the table on page 4.

We analyzed the projected/pro-forma expenses for the years ending September 30, 2028 through September 30, 2032 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma total expenses are reasonable.

### Net Income

The table below provides a summary of the net income by year (fiscal year September):

	Projected/ pro-forma with expansion of the ED 2028	Projected/ pro-forma with expansion of the ED 2029	Projected/ pro-forma with expansion of the ED 2030	Projected/ pro-forma with expansion of the ED 2031	Projected/ pro-forma with expansion of the ED 2032
Net Patient revenue	\$ 39,473,215	\$ 40,452,026	\$ 41,454,200	\$ 42,480,281	\$ 43,530,822
Total expenses	34,942,581	35,923,176	36,175,898	37,229,074	38,320,527
Net income	\$ 4,530,634	\$ 4,528,850	\$ 5,278,302	\$ 5,251,207	\$ 5,210,295

### Cash Flows

The table below provides a summary of cash flow by year (fiscal year September):

	Projected/ pro-forma with expansion of the ED 2028	Projected/ pro-forma with expansion of the ED 2029	Projected/ pro-forma with expansion of the ED 2030	Projected/ pro-forma with expansion of the ED 2031	Projected/ pro-forma with expansion of the ED 2032
Net income	\$ 4,530,634	\$ 4,528,850	\$ 5,278,302	\$ 5,251,207	\$ 5,210,295
Depreciation	3,456,786	3,456,786	3,456,786	3,456,786	3,456,786
Principal payments (1)	(684,480)	(726,697)	(771,518)	(819,103)	(869,624)
Cash, beginning of year	-	7,302,940	14,561,879	22,525,449	30,414,339
Cash, end of year	\$ 7,302,940	\$ 14,561,879	\$ 22,525,449	\$ 30,414,339	\$ 38,211,796

- (1) Of the \$113,000,000 of total project costs, \$50,000,000 will be financed through debt during the start-up period. The debt is payable in 360 monthly installments with a fixed interest rate of 6%. Interest only payments will begin in April 2026, and will continue through October 2027, at which time principal plus interest payments will begin. The remaining costs will be funded through the equity, fundraising, and available reserves of the Applicant.

Based upon our discussion with Management and our review of the information provided, the capital needs and ongoing operating costs required to renovate and expand the ED are not likely to result in a scenario where there is negative cash flow.



Ms. Amy Pfeffer  
Sturdy Memorial Hospital  
December 4, 2024

## **VI. Feasibility**

We analyzed the projected operations, including volume of encounters, revenue and expenses for Sturdy Memorial Hospital. In performing our analysis, we considered multiple sources of information including historical and projected financial information. It is important to note that the projections do not account for any anticipated changes in accounting and regulatory 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.

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary to support the expanded emergency department. Based upon our review of the projections and relevant supporting documentation, we determined the renovation and expansion of the ED at Sturdy Memorial Hospital by the Applicant is reasonable and based upon feasible financial assumptions.

*Meyers Brothers Kalicka, P.C.*

Holyoke, Massachusetts  
December 4, 2024