

ATTACHMENT 4

FACTOR 4 INDEPENDENT CPA ANALYSIS

South Shore Health System, Inc.

**Analysis of the Reasonableness of
Assumptions Used For and
Feasibility of Projected Financials of
South Shore Health System, Inc.
For the Years Ending September 30, 2022
Through September 30, 2026**

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BERNARD L. DONOHUE, III, CPA

One Pleasure Island Road
Suite 2B
Wakefield, MA 01880

(781) 569-0070
Fax (781) 569-0460

April 30, 2021

Joseph R. Driscoll, Esq.
South Shore Health System, Inc.
55 Fogg Road
South Weymouth, MA 02190

**RE Analysis of the Reasonableness of Assumptions and Projections Used to
Support the Financial Feasibility and Sustainability of the Proposed MRI**

Dear Mr. Driscoll:

I have performed an analysis of the financial projections prepared by South Shore Health System, Inc. ("South Shore Health", "SSH" or "the Company") detailing the projected new 3.0T MRI unit. This report details my analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of South Shore Health as prepared by the management of South Shore Health ("Management"). This report is to be included by South Shore Health System, Inc. in its Determination of Need ("DoN") Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

I. EXECUTIVE

The scope of my analysis was limited to the five-year consolidated financial projections (the "Projections") prepared by South Shore Health as well as the actual operating results for South Shore Health for the fiscal years ended 2019 (base year) and 2020, 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 impact of the capital project involving the new 3.0T MRI unit at South Shore Health.

The impact of the proposed capital project at the Company, which is the subject of this DoN application, represents a relatively insignificant component of the projected operating revenue and expenses of South Shore Health, but does represent a positive contribution to operating results. As such, I determined that the Projections are not likely to result in a scenario where there are insufficient funds available for capital and ongoing operating costs necessary to support the ongoing operations of South Shore Health. Therefore, it is my opinion that the Projections are financially feasible for South Shore Health as detailed below.

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II. RELEVANT BACKGROUND

Refer to Factor 1 of the application for description of proposed capital projects and the rationale for the expenditures.

III SCOPE OF

The scope of this report is limited to an analysis of the Projections, prior year financials 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 impact of the capital project involving and ancillary to South Shore Health. 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 South Shore Health through my review of the information provided as well as a review of the South Shore Health website, annual reports, 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 [South Shore Health’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 presented or relied upon in this report. I do not provide assurance on the achievability of the results forecasted by South Shore Health 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

In formulating my opinions and conclusions contained in this report, I reviewed documents produced by Management. The documents and information upon which I relied are identified below or are otherwise referenced in this report:

1. Five-Year Financial Forecast (Projections), including related assumptions for South Shore Health System for the fiscal years ending 2022 through 2026, provided March 31, 2021;
2. Projected income statements for the Project, including detailed assumptions and supporting documentation for the fiscal years 2022 through 2026, provided March 31, 2021 and updated April 28, 2021;
3. Schedule of Estimated Total Capital Expenditure provided, March 3, 2021;
4. Presentations to Leadership on proposed MRI project, provided March 8, 2021;

5. Audited Financial Statements of South Shore Health System, Inc. including consolidating balance sheets and statements of operations as of and for the years ended September 30, 2020 and 2019 and as of and for the years ended September 30, 2019 and 2018, provided February 8, 2021;
6. Company website – <https://www.southshorehealth.org>;
7. Various news publications and other public information about the Company;
8. Determination of Need Application Instructions dated March 2017; and
9. Draft Determination of Need Factor 1, provided April 20, 2021.

V. **REVIEW OF THE**

This section of my report summarizes my review of the reasonableness of the assumptions used and feasibility of the Projections. The Projections are delineated between two categories of revenue and five general categories of operating expenses of South Shore Health as well as other nonoperating gains and losses for the Company. The following table presents the Key Metrics, as defined below, of South Shore Health which compares the results of the Projections for the fiscal years ending 2022 through 2026 to South Shore Health historical results for the fiscal year ended 2020.

| (\$ in thousands) | SSH, as | | Key Metrics for Projected Periods | | | |
|---------------------------------------|-----------------|---------|-----------------------------------|---------|-----------|-----------|
| | <u>Reported</u> | | | | | |
| | 2020 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Operating Margin (%) | -1.1% | 1.2% | 2.9% | 3.9% | 3.1% | 2.5% |
| Total Margin (%) | 2.7% | 3.1% | 4.4% | 5.5% | 4.8% | 4.3% |
| EBIDA (\$) | 40,531 | 56,659 | 77,238 | 90,401 | 86,799 | 83,671 |
| EBIDA (%) | 5.2% | 6.8% | 8.9% | 10.1% | 9.5% | 9.0% |
| Debt Service Coverage (ratio) | 2.92 | 3.18 | 4.02 | 4.77 | 4.70 | 5.16 |
| Unrestricted Cash Days on Hand (days) | 176.59 | 149.67 | 154.79 | 169.44 | 182.05 | 192.97 |
| Unrestricted Cash (\$) | 363,173 | 320,332 | 337,562 | 377,267 | 416,291 | 453,039 |
| Unrestricted Cash to Debt (%) | 113.1% | 110.2% | 121.6% | 142.5% | 165.6% | 189.0% |
| Debt to Capitalization (%) | 43.5% | 40.4% | 37.4% | 34.0% | 31.1% | 28.7% |
| Total Net Assets (\$) | 449,227 | 460,385 | 497,993 | 545,620 | 588,406 | 627,411 |
| Total Assets (\$) | 1,046,172 | 926,789 | 953,322 | 990,124 | 1,022,487 | 1,052,772 |

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics, such as EBIDA, EBIDA Margin, Operating Margin, Total Margin, and Debt Service Coverage Ratio are used to assist in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, such as Unrestricted Cash Days on Hand and Unrestricted Cash to Debt, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics, such as Debt to Capitalization, Total Assets and Total Net Assets, measure the company's ability to service debt obligations. Additionally, certain metrics can be applicable in multiple categories.

The following table shows how each of the Key Metrics is calculated.

| Key Metric | Definition |
|---------------------------------------|--|
| Operating Margin (%) | Income (loss) from operations / total operating revenue |
| Total Margin (%) | Excess (deficiency) of revenue over expenses / total operating revenue |
| EBIDA (\$) | (Earnings before interest, depreciation and amortization expenses) - Operating income (loss) + interest expense + depreciation expense + amortization expense |
| EBIDA Margin (%) | EBIDA expressed as a % of total operating revenue. EBIDA / total operating revenue |
| Debt Service Coverage (ratio) | (Excess (deficiency) of revenue over expenses + depreciation expense + amortization expense + interest expense) / (Principal payments + interest expense) |
| Unrestricted Cash Days on Hand (days) | (Cash and equivalents + investments + current portion investments whose use is limited + investments whose use is limited - donor-restricted investments) / ((Total operating expenses - depreciation & amortization) / YTD days) |
| Unrestricted Cash (\$) | Cash and equivalents + investments + current portion investments whose use is limited + investments whose use is limited - donor-restricted investments |
| Unrestricted Cash to Debt (%) | (Cash and equivalents + investments + current portion investments whose use is limited + investments whose use is limited - donor-restricted funds) / (Current portion of long-term debt and lease obligations + long-term debt and lease obligations) |
| Total Assets (\$) | Total assets of the organization |
| Total Net Assets (\$) | Total net assets of the organization (includes net assets without donor restrictions and net assets with donor restrictions) |

1.

The only revenue category on which the proposed capital project would have an impact is net patient service revenue. Therefore, I have analyzed net patient service revenue identified by South Shore Health in both their historical and projected financial information. Based upon my analysis of the projected results from Fiscal Year 2022 through Fiscal Year 2026, the incremental revenue from the proposed capital project represents approximately .370% (less than 4 tenths of 1%) of South Shore Health operating revenue in FY 2022, and approximately .383% (less than 4 tenths of 1%) of South Shore Health operating revenue in FY 2026. The first year in which revenue is present for the proposed capital project is FY 2022.

It is my opinion that the revenue growth projected by Management reflects a reasonable estimation based primarily on historical operations before taking into account the financial impact of the COVID-19 pandemic in Fiscal Year 2020.

Operating

I analyzed each of the categorized operating expenses for reasonableness and feasibility as it relates to the projected revenue items. I reviewed the actual operating results for South Shore Health for the years ended 2019 and 2020 in order to determine the impact of the proposed capital project on the consolidated entity and in order to determine the reasonableness of the Projections for the fiscal years 2022 through 2026.

Based upon my analysis of the projected results from Fiscal Year 2022 through Fiscal Year 2026, the proposed capital project would represent approximately .199% (less than 2 tenths of 1%) of South Shore Health operating expenses in FY 2022, and approximately .195% (less than 2 tenths of 1%) of South Shore Health operating expenses in FY 2026. The first year in which operating expenses are present for the proposed capital project is FY 2022.

It is my opinion that the growth in operating expenses projected by Management reflects a reasonable estimation based primarily upon the Company's historical operations before taking into account the financial impact of the COVID-19 pandemic in Fiscal Year 2020. Although it should be noted that ongoing COVID related costs at the Company have been budgeted in the Projections.

2. Nonoperating Gains/Expenses and Other Changes in Net

The final categories of South Shore Health Projections are various nonoperating gains/expenses. The items in these categories relate to investment account activity (realized and unrealized), unrestricted gifts and bequests, pension expense, fundraising costs and other items. Because many of these items are unpredictable, nonrecurring, or dependent upon market fluctuations, I analyzed the nonoperating activity in aggregate. Based upon my analysis, there were no nonoperating gains/expenses projected for the proposed capital project. Accordingly, it is my opinion that the pro-forma nonoperating gains/expenses and other changes in net assets are reasonable.

3. Capital Expenditures and Cash

I reviewed South Shore Health capital expenditures and cash flows in order to determine whether South Shore Health anticipated reinvesting sufficient funds for technological upgrades and property, plant and equipment and whether the cash flow would be able to support that reinvestment.

Based upon my discussions with Management and my review of the information provided, I considered the current and projected capital projects and loan financing obligations included within the Projections and the impact of those projected expenditures on South Shore Health cash flow. Based upon my analysis, it is my opinion that the pro-forma capital expenditures and resulting impact on South Shore Health cash flows are reasonable.

VI FEASIBILITY

I analyzed the projected operations for South Shore Health and the changes in Key Metrics prepared by Management as well as the impact of the proposed capital project upon the Projections and Key Metrics. In performing my analysis, I considered multiple sources of information including historical and projected financial information for South Shore Health.

Because the impact of the proposed capital project represents a relatively insignificant component of the projected operating revenue and expenses of South Shore Health, although representing a positive contribution to operating results, I determined that the Projections are not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project. Based upon my review of the Projections and relevant supporting documentation, I determined the project and continued operating surplus are reasonable and based upon feasible financial assumptions. Therefore, the proposed capital project is financially feasible and within the financial capability of South Shore Health.

Joseph R. Driscoll, Esq.
South Shore Health System, Inc.
April 30, 2021
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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 initial 'B'.

Bernard L. Donohue, III, CPA