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HUD SECTION 242 MORTGAGE INSURANCE PROGRAM GUIDELINES FOR PREPARATION OF FEASIBILITY STUDIES

Section One — Signed and Dated Opinion Letter.

Section Two — Historic and Forecasted Financial Statements and Schedule of Ratios

- Historical and Forecasted Statements of Activities and Changes in Net Assets
- Historical and Forecasted Statements of Financial Position
- Historical and Forecasted Statements of Cash Flows
- Schedule of Historic and Forecasted Ratios
 - See Table 3 (attached) for a listing of ratios to be included and how to calculate ratios.
 - Calculate each ratio for five historical years and each year of the feasibility study.
 - For each ratio, show the median value (if available) for the overall hospital performance in the State (for the most recent year available). NOTE: Hospital management should be aware that all ratios indicating sub par performance by the hospital will require a satisfactory explanation during the application review process. Therefore, hospital management should include in the application package explanations for all ratios that are significantly lower than the Statewide medians (e.g., all ratios below the quartile value for the worst 25% of hospitals in the State).

Section Three — Summary of Significant Financial Forecast Assumptions and Accounting Policies

Basis for Assumptions

- Overview of what is included in the financial forecast

General Description of the Hospital and the Surrounding Health Care Market

- Description of organization structure (e.g., non-profit / 501(c)(3) tax-exempt). Overview of the services offered in the hospital (including inpatient, outpatient and long-term care services).
- List and description of all affiliated organizations (including all subsidiaries, parent organizations / holding companies, and joint ventures) and describe basis for affiliation. Include an organization chart clearly showing the linkages with all subsidiary / parent / related organizations.
- Description of governance structure.
- Listing of key management personnel (including at a minimum: CEO, COO (if applicable), CFO, Medical Director, Nursing Director).

Project Description

- Objectives to be accomplished as a result of the project.
- Construction expenses (left side costs from HUD 92013).
- Summary of changes to structural components of service areas as a result of the project.
- Time frames for completing the project, including forecasted start and completion dates.
- Certificate of Need information, where applicable (date that CON was approved by the State, or status of CON application if approval has not yet been obtained).

Financing Plan

- Sources and Uses of Funds for the project. Sources should clearly show mortgage amount and required cash contribution. Uses should group expense consistent with HUD Form 92013.
- All project costs / financing expenses not shown on the HUD Form 92013.
- Source of cash requirement and timing for receipt of such cash.
- Purpose and amount of any required letters of credit (LOC) and collateral for LOCs.
- Date of initial closing and date that permanent financing begins to amortize.
- Time period (start and stop date) during which capitalized interest will be required.
- Interest rate for capitalized interest and interest rate on the HUD insured mortgage loan.

Summary of Significant Accounting Policies

- Explain which organization(s) financial performance and accounts are included in the financial forecast.
- List those affiliates / subsidiaries / parent / holding company / related organization(s) whose financial performance and accounts do not appear in the financial forecast.
- Summary of significant accounting policies.

Net Patient Service Revenue

- Provide overview of the various payor systems under which the hospital receives patient revenues. Address each payor system that provides more than 5% of hospital revenues.

Historical and Forecasted Payor Mix – Revenues from Inpatient Services

- Provide net revenues by payor for least five historical years and all forecasted years.
- Separately identify all payers that provided more than 5% of the hospital's inpatient revenues.
- Provide revenue by payor mix for each new or expanded service.
- Explain reasons for changes in payor mix.

Historical and Forecasted Payor Mix – Revenues from Outpatient Services

- Provide net revenues by payor for last five historical years and all forecasted years.
- Separately identify all payers that provided more than 5% of the hospital's inpatient revenues.
- Provide revenue by payor mix for each new or expanded service.
- Explain reasons for changes in payor mix.

Historical and Forecasted Reimbursement Methodologies - Inpatient Services

- Provide description for each payor that provided more than 5% of the hospital's inpatient revenues. Background and information on the history and forecast for each payor should be detailed enough to understand changes in payor revenues after accounting for any changes in utilization. Information showing case mix intensity is required for all payers using case payment methodologies. Each managed care contract

should be explained in sufficient detail to understand method by which payments are received and how revenues from each managed care contract were estimated and differences from historical contracts.

- All revenues received from special payment pools (developed pursuant to a hospital “tax” for charity care, etc; or funded via legislation through appropriations; or by any other method) must be isolated and clearly described.
- Medical education payments, by payor type, must be isolated and clearly described.

Project Initiatives

- For each revenue-generating service area that is being materially realigned, expanded or reduced, and for all new services, identify and quantify increases or decreases to revenues and expenses and provide corresponding assumptions (and basis for assumptions).
- Identify all expense-center activities (not identified above) that will be consolidated or made more efficient and quantify corresponding savings to be achieved and provide corresponding assumptions (and basis for assumptions).

Other Operating Revenue

- Each source of operating revenue should be separately identified.
- Revenues received from affiliates should be separately identified.

Non-operating Revenue

- Each source of non-operating revenue should be separately identified.

Operating Expenses

- Salaries and Wages
 - Clearly identify number of full-time equivalents for each year (excluding contracted services). Show interns and residents and salaries physicians separate from the rest of the hospital staff. If the hospital operates nursing home beds or other long-term care services, these FTEs should also be shown separate from staff for acute care services.
 - Explain all major initiatives (and the corresponding impact for each initiative) for any staffing reductions.
 - Calculate FTEs per adjusted occupied bed and compare to industry and area norms.
- Fringe Benefits
 - Explain historical performance and forecast assumptions.
- Contractor Services
 - List all services that are contracted and the annual amounts paid for each contracted service and the estimated FTEs used by the contractor in providing the services.
- Supplies and Other Expenses
 - All other expenses should be itemized.
 - Operating leases should be separately identified.
- Insurance Expense
 - Itemize all insurance expenses.
 - Assess the adequacy of the hospital’s insurance coverage (and insurance reserves).
- Interest Expense

- Segregate interest expenses on the HUD insured mortgage and other interest expenses related to leases, etc.
- Depreciation and Amortization Expense
 - Show depreciation guidelines used by the hospital.
- Provision for Doubtful Accounts / Bad Debt Expense
 - Explain historical performance and forecast assumptions.

Balance Sheet Assumptions

- Explain historical performance and forecast assumptions for each of the following:
 - Accounts Receivable
 - Other Receivables
 - Inventories
 - Prepaid Expenses
 - Other Assets (break out all assets greater than \$100,000)
 - Due from Third Party Payors (break down by payor)
 - Pension Fund
 - Malpractice Insurance Fund, if self-insured (also, assess the adequacy of the hospital's insurance reserves)
 - Assets Limited as to Use
 - Accounts Payable and Accrued Liabilities
 - Accrued Payroll and Vacation Benefits
 - Due to Third Party Payors (break down by payor)
 - Estimated Malpractice Payable, if self-insured

Capital Expenditures

- Summarize capital expenditures in recent years (break out by capital equipment, renovation, maintenance, new construction, and capital leases).
- Explain how capital expenditure projections were derived (i.e., how does the hospital develop its capital needs program). Break out by capital equipment, renovation, maintenance and new construction.

Sensitivity Analyses

- 10 percent reduction in inpatient discharges (from the forecasted volume).
- Medicare update factor reduced (by 1 percent increments) to 0 percent. A separate analysis for the entire forecast period should be shown for each 1 percent decrease.
- All proposed changes to the reimbursement system for any payor class. Any legislation that has been passed but not yet in place should be analyzed.
- Other sensitivity analysis, as required based on analysis.

Section Four – Summary of Significant Demand Forecast Assumptions

General Methodology

A brief statement describing how patient utilization was forecasted discussing factors such as historical utilization patterns, length of stay, patient origin, population trends, hospital use rates, market share, capital facilities plans for the hospital and other health care providers, and current trends and activities of health care providers and insurers which may affect the hospital.

Historic & Forecast of Inpatient and Outpatient Utilization

A general statement identifying the major factors that are affecting overall patient utilization. This statement will also include the major initiatives that the hospital is taking that will affect the assumptions for the forecast.

Inpatient Utilization

A list and discussion of the factors affecting inpatient activity including such factors as population growth, use rates, market share, and average length of stay.

Outpatient Utilization

A list and discussion of the factors affecting outpatient activity including such areas as the Emergency Room, Ambulatory Surgery, Clinic Visits, Renal Dialysis, Laboratory, Radiology, etc.

Service Area Definition and Patient Origin

A description of the primary and secondary service areas, how they are determined, their location, and identification according to zip codes and a map. Service areas should be separately identified for general acute care inpatient services and outpatient / ambulatory services. Additionally, if the hospital has any other specialty service (e.g., long-term care, rehabilitation care), then that service area should be separately identified if it is different than the service area for the overall inpatient general acute care services. This information may be obtained from the State Hospital Association.

Population of the Service Areas

This is a historical (most recent census data and current year estimate) and forecast summary of the primary and secondary service area populations by zip code. Population data should also be broken out by age group (0-17, 18-44, 45-64, 65 and over, and for females 15-44). This information can be obtained from governmental entities such as the National Planning Data Corporation.

Socioeconomic Characteristics of the Service Areas

This section will give a description of the economic health and stability of the Hospital's service area. Generally as an indication of the major service categories are listed according to employers and employees in areas such as:

- Services
- Manufacturing / Mining
- Wholesale and Retail Trade
- Government
- Transportation, Public Utilities, Finance, Insurance and Real Estate
- Construction

A profile chart of the largest 10 to 20 employers should be provided. This information may be obtained from the State or Regional Industrial Management Council.

A narrative and chart displaying the historical and current unemployment information for the County, Major Statistical Area, State, and United States. This information is usually obtained from the U.S. Bureau of Labor Statistics.

A narrative and chart displaying Median Household Income for the service areas and, for comparison, by surrounding Counties, the State, and the United States. This may be obtained from the National Planning Data Corporation.

Description of the impact of the proposed project on the local economy (i.e., permanent and construction jobs created, economic and social spinoff).

Market Assessment of Other Health Care Providers within the Service Area

List of other area hospitals, their proximity to the hospital, and their percent of market share in the hospital's service area if greater than 1 percent. This information should be broken out in the same manner as the service area section (i.e., separately identify outpatient / ambulatory and other specialty services if service area are different than general acute inpatient). Obtainable from several sources including the State Hospital Association.

A description of the services provided by each of the competitor facilities, and the nature and extent of recent initiatives and future plans for each of these competitor hospitals.

Market Share by Service

A narrative and charts showing historical trends (last 5 years) for total hospital discharges and a breakdown for all major services showing the market share of the hospital and its competitors in the primary and secondary service areas. Obtainable from several sources including the State Hospital Association.

A narrative and charts of competitive hospital utilization statistics with comparisons to the hospital in inpatient areas such as Discharges, Average Length of Stay, Percent Occupancy, Patient Days, Average Daily Census, Available Beds. Similarly, provide outpatient activity for visits and procedures in areas such as Emergency Room Visits, Ambulatory Surgery, Clinic Visits, Renal Dialysis, Laboratory Procedures, Radiology, etc. This information may be available from the Blue Cross and States Supplement to the Institutional Cost Report.

Inpatient Use Rates

Narration and charts depicting use rate for the primary and secondary service areas. Use rate measures total hospital discharges from the service area population and is expressed in discharges per 1,000 population. The historical and projected use rates should be provided for each major service (e.g., medical / surgical, obstetrics, etc.) broken down by primary and secondary service area and by fee for service patients, managed care patients and total patients. Historical (last five years) comparative use rates should be displayed through charts for the defined service area, City or County if appropriate, the State, and the United States.

Hospital's Historical Utilization

Primarily a series of charts depicting inpatient historical (last 5 years) and forecasted utilization statistics by total and major service areas as well as by outpatient visits and procedures.

Hospital's Medical Staff

Narration and charts that analyze the medical staff including their admissions patterns, age and specialty characteristics as well as support for the hospital and the project. Provide a chart of the top admitters (ranked from highest to lowest total annual admissions in the most recent fiscal year and equaling at least 60 percent of total hospital admissions) showing physician specialty, age and number of admissions. Provide narrative and a summary chart of historical recruitment and turnover of physicians.

Physician Questionnaire Results

Description of and results of a survey of physicians' attitudes and perspectives regarding the Hospital and the proposed project.

Business Organization and Corporate Relationship

Describe how the Hospital is affiliated (e.g., a subsidiary, parent, affiliate, joint venture, etc.) with any other organization, indicating name, address, type of legal relationship, and nature of affiliation. Describe the Hospital's collaboration with other entities to integrate healthcare delivery as well as its relationship with existing and developing managed care organizations in its service area.

Section Five – Other Information That Feasibility Consultant Deems Appropriate Section Six — Evaluation of Management Team (To Be Prepared by Feasibility Consultant Although Not Required to Be Included in Financial Feasibility Study)

Appendix

- Table 1 - Historical and Forecasted Inpatient Utilization
- Table 2 - Historic and Forecasted Outpatient Utilization
- Table 3 - Ratio Analysis

**For additional information regarding
The HUD Mortgage Insurance programs
please contact:**

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DISCLAIMER: This financing outline is designed to provide immediate information regarding a specific real estate capital structure on the above-

captioned transaction utilizing HUD insured financing. It is not a Commitment Letter and is subject to complete review and underwriting by HUD and Cambridge Realty Capital Ltd. of Illinois. The information contained herein is for preliminary review purposes only and is subject to errors, omissions, and changes, all without notice. N:\GoldMine\FaxRush\Outfax\execacutefeasibility.doc