

Partnership Information – Bailey Square Surgery Center – Webpage 1.5.4

Bailey Square Surgery Center is a Joint Partnership between the General Partner (HCA/St. David's Foundation) and its Limited Partners (The Surgeons).

GENERAL PARTNERSHIP INFORMATION (FAQs):

Who is eligible to invest in the surgery center limited partnership (LP) ?

- | | |
|----------------|---|
| -Individuals | -Physician PA or PC |
| -Family LP's | -Sole member LLC's |
| -Family Trusts | -IRA's, pension plans and other ERISA, non-taxable entities (See below) |

Basically, a physician can use an entity to invest if the members are only them and immediate family members = spouse and minor children.

Do we allow physicians to use non-taxable entities to invest ?

Entities such as IRA's or profit sharing plans may be used to invest but our advice to physicians is always that *we strongly advise against it*. Because of the issues surrounding unrelated business taxable income ("UBTI") a perceived non-taxable entity may be subject to tax due to this investment. Always tell the inquiring physician to speak with their tax advisor before making any decision regarding their possible investment through a non-taxable entity and refer to IRS Publication 598. We do not give tax advice.

What is the process for a physician to buy in to the limited partnership ?

I have a physician interested...what happens next ?

- The Administrator must key the necessary physician info. into the partnership database.
- The physician must eventually complete all forms (assignment form and suitability questionnaire (if new partner) and write a check payable to the General Partner (GP) for the appropriate amount.

What is the information required from an Administrator to get approval for a potential limited partner ?

The Administrator must provide:

- Individual buy in
 - 1) Physician Name
 - 2) Partner Name to be used
 - 3) Address (where notices/checks are to be sent)

- 4) SS#
- 5) Specialty of Physician
- 6) # of units requested

-Family LP buy in must also provide

- 4) Tax ID
- 7) Members of Family LP
- 8) Name of the General Partner and President of the GP

-Family Trust buy in must also provide

- 4) Tax ID
- 7) Members of Family Trust
- 8) Name of Trustee(s)

*For a Physician PA or PC and also a LLC the physician should be the sole member and president – need 4) Tax ID.

* For IRA's or profit sharing plans have the physician or their representative contact Lance Hickman directly if they do indeed decide to invest after speaking with their tax advisor.

How can a physician pay for their LP investment ?

- Personal check
- Cashier's check
- Wire transfer

NOTE: Checks should be written on the account of the partner...i. e. if John Smith, P.A. is the new partner then the check should come from John Smith, P.A. and not the personal account of John Smith....In some instances there may not be a checking account for the investing entity, such as John Smith Family Trust, in which case a personal check may be accepted.

When are unit prices established and how long are they valid ?

Dead/Pricing Periods are as follows:

- January 1st - January 20th
- April 1st – April 20th
- July 1st – July 20th
- October 1st – October 20th

Unit prices are established during the first 20 days of each quarter and are valid through the end of each quarter. No transactions can take place during the first 20 days of each quarter.

What are the effective dates for partnership transactions ?

Unless specifically addressed in the Partnership Agreement, the effective dates of Unit sales / purchases are as follows:

Sales / purchases made thru the 15th day of the second month of each calendar quarter will be effective the first day of that quarter.

Sales / purchases made beyond the 15th day of the second month of each calendar quarter and through the end of that quarter will be effective on the first day of the next quarter.

- The effective date of buy-ins will be based on the date a check for full payment of the unit price is delivered from the buyer to the person originating the request (usually the administrator). The effective date of buy-backs will be based on the date a signed assignment form is received from the Limited Partner.

Example: A sale made on December 28th will have an effective date of January 1st as will a sale made on February 10th but the sale made on February 10th will be at the new unit price established Jan. 1st-20th. A sale made on February 16th will be at the new unit price established Jan. 1st-20th but will have an effective date of April 1st.

When do we have the option to buy back an existing limited partner ?

- Failure to meet active staff or physician eligibility requirements (safe harbors)
- Death, dissolution, bankruptcy, mental incompetency, or legal disability.
- *Vote of approval from a Majority in Interest of the Limited Partners
- *Anniversary date clause contained in LP agreement

*See LP agreement section on “Transfer of Interests by Partners” – Usually Article XV

What are safe harbors ?

Guidelines to ensure that a physician is using the surgery center that they have invested in as an extension of their practice.

INCOME/DOLLAR TEST - 33% of a partners **total practice income** needs to come from Medicare approved outpatient procedures----regardless of where they are done = office, hospital, or a surgery center.

CASE/VOLUME TEST - 33% of these Medicare approved outpatient procedures must be performed where the partner is invested = at our surgery center.

What is an Annual Eligibility Affirmation Statement ?

For partnerships that have adopted the safe harbors, this is an annual attestation by the physician partner that they have met the safe harbors, which include deriving at least 1/3 of their medical practice income from the performance of Medicare approved outpatient surgical procedures and performing at least 1/3 of these Medicare approved outpatient surgical procedures at the surgery center where they have an investment interest. The center administrator should send these statements out at the beginning of each calendar year.

Why does the potential limited partner need to fill out a suitability questionnaire ?

Besides the basic vital statistics necessary for each physician investor, certain net worth and income tests need to be completed to categorize each investor as “accredited” or “non-accredited” for state securities law purposes.

Accredited Investors," as such term is defined in Rule 501(a) of Regulation D promulgated by the U.S. Securities and Exchange Commission:

The Subscriber is an “accredited investor” because the Subscriber is either (1) an individual with a net worth in excess of \$1,000,000, (2) an individual whose annual income (not including the income of his or her spouse) is in excess of \$200,000, or whose joint income with his or her spouse is in excess of \$300,000, in the past two years and reasonably expects to reach the same level of income during the current year, or (3) is a corporation, partnership, trust or other entity that was not formed for the specific purpose of investing in the Partnership and has total assets in excess of \$5,000,000.

What information are we allowed to provide our current partners related to our Partnership roster ?

We can furnish or make available a list of names and addresses of all partners to any current partner who requests such a list. Ownership percentages for individual partners are not to be disclosed.

When do limited partners receive their annual K-1 statements for tax purposes ?

The tax dept. normally provides K-1s to the administrators for distribution by 3/15. Per our standard LP agreements under Article X, the K-1s are not actually due to the limited partners until 90 days (March 31) after year end.

Who do I contact with further questions ?

Local

Todd Stanley – Austin 512.426.6145

National

Lance Hickman – Dallas 972.789.2847 or 888.316.6440 x2847

Susan Harrell – Nashville 615.344.1827

Tax Dept. (Nashville) - Kevin Brennan – 615.344.5390 or Kelli Nelson – 615.344.2793