

STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: I-06	BOARD MEETING: October 30, 2018	PROJECT NO: 17-071	PROJECT COST:
FACILITY NAME: Dialysis Care Center Hazel Crest		CITY: Hazel Crest	Original: \$1,438,835 Modified: \$1,422,710
TYPE OF PROJECT:	Substantive		HSA: VII

PROJECT DESCRIPTION: The Applicants (Dialysis Care Center Hazel Crest, LLC and Dialysis Care Center Holdings, LLC) propose to establish a 12-station ESRD facility in 3,900 GSF of lease space at a cost of \$1,422,710. The expected completion date is February 29, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants propose to establish a 12-station ESRD facility in 3,900 GSF of lease space at a cost of \$1,422,710. The expected completion date is February 29, 2020.
- The Applicants term the proposed 12-station facility a transitional facility. The Applicants define a transitional facility as a facility that will allow hemodialysis patients to continue treatment in-center for a short period of time, giving care givers the freedom to take care of areas of their life. Respite care is for short term use but give care partners time off. [June 2018 State Board Transcripts pages 169-170]
- State Board Staff Notes: This project was deemed complete (December 20, 2017) before the effective date of the new distance requirements (77 ILAC 1100.510(d)) became effective (March 7, 2018). Therefore, this Application is being reviewed with a Geographic Service Area (GSA) of 45 minutes, adjusted based on the location of the project.
- On July 24, 2018 the Applicants received an Intent to Deny on the proposed project. On October 5, 2018 the Applicants modified the project reducing the cost by \$16,125. This is considered a Type B Modification and did not require a Notice of an Opportunity for a Public Hearing. As requested, the Applicants did provide a 2017 Financial Audit for DCC Holdings, LLC. That audit is at the conclusion of this report.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicants are proposing to establish a health care facility as defined by the Illinois Health Facilities Planning Act. (20 ILCS 3960/3)
- One of the objectives of the Health Facilities Planning Act is "to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding capacity, quality, value and equity in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process." [20 ILCS 3960/2]
- As part of the Illinois Health Care Facilities Plan Section 77 ILAC 1100.410 states that "Health care services should be appropriately located to best meet the needs of the population. Illinois residents needing services should not be forced to travel excessive distances. Where feasible, underutilized services should be consolidated to promote efficiency of operation and quality when such consolidation does not create access problems."

PUBLIC HEARING/COMMENT:

• A public hearing was offered in regard to the proposed project, but none was requested. No letters of support were received by the State Board Staff. Associates in Nephrology S.C. provided a letter of opposition expressing concern that there are 10 facilities within 30 minutes that are in ramp up and only nine of the remaining 25 facilities are at target occupancy. The letter also expressed concerns with the apparent lack of sufficient cash flow to justify the pace of expansion of DCC Holdings, Inc.

SUMMARY:

- The State Board Staff notes there <u>is an excess of 2 ESRD stations in the HSA VII ESRD Planning</u> Area, per the September 2018 ESRD Inventory Update.
- The Applicants addressed a total of twenty one (21) criteria and have failed to adequately address the following:

Criteria	Reasons for Non-Compliance
77 ILAC 1110.1430 (c) (1) (2) (3) (5) – Planning Area Need	There is a <u>calculated excess of 2 ESRD</u> stations in the HSAVII ESRD Planning Area. There are no service access issues as facilities within the 30-minute service area not at target occupancy. There are 43 facilities within the 30-minute service area. Eleven of the 43 facilities are in ramp or under construction and one facility did not provide patient information (Concerto Dialysis). Of the remaining 31 facilities, 12 (39%) are at target occupancy. Average utilization for the 31 facilities is approximately 74.5%. (See Table at the end of this report)
77 ILAC 1110.1430(c)(1) (2) and (3) - Unnecessary Duplication of Service/Mal-distribution/Impact of Project on Area Providers	Based upon the information provided in the Application for Permit it appears that there is a surplus of stations within this 30 minute service area. The population in the 30-minute service area is 938,485 residents. The number of stations in the 30-minute service area is 753. The ratio of stations to population is one (1) station per every 1, 246 residents. The number of stations in the State of Illinois is 4,850 stations (as of September, 2018). The 2015 estimated population in the State of Illinois is 12,978,800 residents (Illinois Department of Public Health Office of Health Informatics Illinois Center for Health Statistics - 2014 Edition). The ratio of stations to population in the State of Illinois is one (1) station per every 2,676 resident. To have a surplus of stations in this thirty (30) minute service area the number of stations per population would need to be one (1) station per every 1,784 resident. Based upon this methodology there is a surplus of stations in this service area as this 30-minute service area has one station per every 1,246 residents.

STATE BOARD STAFF REPORT

Project 17-071

Dialysis Care Center Hazel Crest

APPLICATION/CHR	APPLICATION/CHRONOLOGY/SUMMARY						
Applicants(s)	Dialysis Care Center Hazel Crest, LLC,						
	Dialysis Care Holdings, LLC						
Facility Name	Dialysis Care Center Hazel Crest						
Location	18325 Pulaski Avenue, Hazel Crest, Illinois						
Permit Holder	Dialysis Care Center Hazel Crest, LLC,						
	Dialysis Care Holdings, LLC						
Operating Entity	Dialysis Care Center Hazel Crest, LLC						
Owner of Site	Hazel Property Group, LLC						
Total GSF	3,900 GSF						
Application Received	December 11, 2017						
Application Deemed Complete	December 20, 2017						
Review Period Ends	April 20, 2018						
Financial Commitment Date	October 30, 2019						
Project Completion Date	February 29, 2020						
Review Period Extended by the State Board Staff?	No						
Can the applicants request a deferral?	Yes						
Expedited Review?	No						

I. Project Description

The Applicants propose to establish a 12-station ESRD facility in 3,900 GSF of lease space at a cost of \$1,438,835. The expected completion date is February 29, 2020.

II. Summary of Findings

- **A.** State Board Staff finds the proposed project does <u>not</u> appear to be in conformance with the provisions of 77 ILAC 1100 (Part 1110).
- **B.** State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

Dialysis Care Center Hazel Crest, LLC and Dialysis Care Center Holdings, LLC is 100% physician owned and operated. The two physicians below equally own the two entities.

- 1. Morufu Alausa M.D.
- 2. Sameer M. Shafi M.D.

Financial commitment will occur after permit issuance. This project is a substantive project subject to a Part 1110 and 1120 review.

Dialysis Care Center Holdings, LLC has been approved by the State Board for the following dialysis projects:

- In October of 2016, the State Board approved Permit #16-020 Dialysis Care Center Oak Lawn to establish an 11-station ESRD facility at a cost of the \$762,000. This facility is currently in ramp-up.
- In October of 2016, the State Board approved Permit #16-022 Dialysis Care Center Olympia Fields to establish an 11-station ESRD facility at a cost of \$992,000. This facility is currently in ramp-up.
- **In June of 2017**, the State Board approved Permit #16-058 Dialysis Care Center McHenry to establish a 14-station ESRD facility at a cost of \$1,215,000.
- **In February of 2018**, the State Board approved Permit #17-052 Dialysis Care Center Beverly to establish a 12-station ESRD facility at a cost of \$1,609,752.
- In April of 2018, the State Board issued an Intent-to-Deny for Permit #17-061, Dialysis Care Center-Elgin, to establish a 14-station ESRD facility in Elgin at a cost of \$1,459,570. At the June 2018 State Board Meeting, this project was approved.

IV. Health Planning Area

The proposed facility will be located in the HSA VII ESRD Planning Area. The HSA VII ESRD Planning Area includes Suburban Cook and DuPage County. As of September 2018, there is a <u>calculated excess of 2 ESRD stations in this ESRD planning area</u>. As can be seen by Table One below, the State Board is projecting an increase in the population in this ESRD Planning Area of 1.22% and an increase in the number of dialysis patients of approximately 28% for the period 2015 thru 2020.

The five-year need determination is a <u>short-term assessment</u> that applies to the planning area need requirements in the 77 Ill. Adm. Code 1110 category of service review criteria. The incenter hemodialysis or end stage renal disease (ESRD) station need is a five-year projection from the base year. The need for additional treatment stations is projected utilizing the following methodology. [77 ILAC 1100.630 - In-Center Hemodialysis Category of Service]

TABLE ONE						
Need Methodology HSA VII ESRD Plant	ning Area					
Planning Area Population – 2015	3,466,100					
In Station ESRD patients -2015	5,163					
Area Use Rate 2013 (1)	1.472					
Planning Area Population – 2020 (Est.)	3,508,600					
Projected Patients – 2020 (2)	5,163					
Adjustment	1.33x					
Patients Adjusted	6,590					
Projected Treatments – 2020 (3)	1,071,219					
Existing Stations	1,432					
Stations Needed-2018	1,430					
Number of Stations in Excess	2					

- Usage rate determined by dividing the number of in-station ESRD patients in the planning area by the 2015 – planning area population per thousand.
- 2. Projected patients calculated by taking the 2020 projected population per thousand x the area use rate. Projected patients are increased by 1.33 for the total projected patients.
- Projected treatments are the number of patients adjusted x 156 treatments per year per patient

V. Project Costs and Sources of Funds

The applicants are funding the project with cash of \$996,375 and the FMV of leased space in the amount of \$426,335. The operating deficit and start-up costs is \$724,656.

TABLE TWO
Project Uses and Sources of Funds

		Original		Modification			
	Reviewable	Total	% of Total	Reviewable	Total	% of Total	
New Construction Contracts	\$487,500	\$487,500	33.9%	\$487,500	\$487,500	34.27%	
Contingencies	\$60,000	\$60,000	4.10%	\$43,875	\$43,875	3.08%	
Architectural and Engineering Fees	\$45,000	\$45,000	3.10%	\$45,000	\$45,000	3.16%	
Movable or Other Equipment	\$420,000	\$420,000	29.30%	\$420,000	\$420,000	29.52%	
FMV of Leased Space	\$426,335	\$426,335	29.60%	\$426,335	\$426,335	29.97%	
Total	\$1,438,835	\$1,438,835	100.00%	\$1,422,710	\$1,422,710	100.00%	
Cash		\$1,012,500	70.40%	\$996,375	\$996,375	70.03%	
FMV of Leased Space		\$426,335	29.60%	\$426,335	\$426,335	29.97%	
Total		\$1,438,835	100.00%	\$1,422,710	\$1,422,710	100.00%	

State Board Staff Notes: Of the 62 facilities approved by the State Board for years 2014-2018, the average project cost was \$4.3 million. The average cost for the six facilities submitted by the Applicants (Permit #16-020, #16-022 #16-058, #17-052, #17-061, and #17-070) was \$1,232,598. On average over the past four years (2014-2018) the cost per station of the 62 ESRD facilities approved to be established was approximately \$309,000 per station. The 62 facilities do not include the Applicants' facility. For the Applicants six facilities, the average cost per station was \$41,652.

VI. Background of the Applicants

A) Criterion 1110.1430 (b) (1) (3) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. To demonstrate compliance with this criterion the applicants must provide

- A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;
- B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;
- C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
- D) An attestation that the applicants have not had *adverse action*¹ taken against any facility they own or operate or a certified listing of adverse action taken.
 - 1. The Applicants attested that there has been no adverse action taken against any of the facilities owned or operated by Dialysis Care Center Hazel Crest, LLC and Dialysis Care Center Holdings, LLC during the three (3) years prior to filing the application. [Application for Permit page 80-83]
 - 2. The applicants authorized the Illinois Health Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection with the applicants' certificate of need to establish a twelve-station ESRD facility. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit page 83]

Adverse Action" means a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations. As defined in Section 1-129 of the Nursing Home Care Act [210 ILCS 45], "Type 'A' violation" means a violation of the Nursing Home Care Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility presenting a substantial probability that risk of death or serious mental or physical harm to a resident will result therefrom or has resulted in actual physical or mental harm to a resident. As defined in Section 1-128.5 of the Nursing Home Care Act, a "Type AA violation" means a violation of the Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility that proximately caused a resident's death. [210 ILCS 45/1-129]

- 3. The site is owned by Hazel Property Group, LLC and evidence of this can be found at page 37-66 of the application for permit in the Letter of Intent to lease the property at 18325 Pulaski Avenue Unit A-B, Hazel Crest, Illinois.
- 4. The applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.
- 5. The proposed location of the ESRD facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources (20 ILCS 3420/1).

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 ILAC 1110.1430(b) (1) & (3))

VII. Purpose of the Project, Safety Net Impact, Alternatives to the Proposed Project

These three (3) criteria are for informational purposes only.

A) Criterion 1110.230 (a) – Purpose of the Project

To demonstrate compliance with this criterion the applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other area, per the applicant's definition.

"The purpose of this project is to create additional life-sustaining dialysis accessibility to the large, growing population of ESRD patients in the HSA 7 market area - specifically, Hazel Crest and Cook County residents. The project will address the current State Board determined need for additional hemodialysis stations needed in Planning area, HSA-07. The only two dialysis facilities in Hazel Crest are both currently operating at very high utilization, both above the State standard utilization rate. The addition of Dialysis Care Center Hazel Crest in this community will provide additional treatment options for patients in the specific market area, as well as for patients in Cook County overall, and other surrounding cities. The market area to be served by the Applicants is approximately within a 20-mile radius of the proposed facility location. As of 2010, the total population of Cook County was 5.195 million, while the population of the city of Hazel Crest was 14,100. Historically, these areas have seen a tremendous and concerning growth of ESRD patients, as indicated by the 70%-80% utilization of most ESRD facilities in the surrounding area. This project will aid in addressing the clear and crucial needs of this community for hemodialysis treatment options." [Application for Permit page 84]

B) Criterion 1110.230(b) - Safety Impact Statement

To demonstrate compliance with this criterion the applicants must document the safety net impact if any of the proposed project. Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation. [20 ILCS 3960/5.4]

A Safety Impact Statement was provided as required [See Application for Permit page 78-83].

C) Criterion 1110.230(c) – Alternatives to the Proposed Project

To demonstrate compliance with this criterion the applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicants considered three alternatives to the proposed project.

- 1. Project of Greater or Lesser Size/Scope/Cost
- 2. Pursuing a joint venture for the establishment of a new facility
- 3. Using existing facilities
- 1) The option of a project of lesser scope/cost was initially considered, but was later rejected because of its inability to address the over-utilization of existing facilities in the Hazel Crest area. This option would cause the existing facilities to reach and eventually exceed their operational capacities, resulting in access issues in the service area.
- 2) The applicants deemed this alternative inapplicable. The proposed facility will be 100% owned and operated by physicians practicing in the service area. This is unique in the sense that there are no facilities in the service area that are solely physician owned. The Applicants have chosen this model to allow the physicians the independence needed to make quality patient care decisions for the benefit of the patient.
- 3) The option of utilizing existing facilities was determined to be the least feasible alternative. The applicants reiterate that the physican-owned facility concept is unique to the proposed facility exclusively, which allows the physician/owners the independence to make clinical decisions that improve patient access/service, and clinical outcomes. The growing ESRD population in the Hazel Crest/suburban Cook County/HSA-07 service area requires the introduction of additional ESRD stations/facilities.

Although the applicants gave equal consideration to the alternatives mentioned above, it was determined that the establishment of an additional 12-station ESRD facility (project cost: \$1,422,710), is the most practical and economical alternative for the service area. The applicants identified no project costs with the above mentioned alternatives.

VIII. Size of the Project, Projected Utilization, and Assurances

A) Criterion 1110.234(a) –Size of the Project

To demonstrate compliance with this criterion the applicants must document that the size of the project is in conformance with State Board Standards published in Part 1110 Appendix B.

The Applicants are proposing a 12-station ESRD facility in 3,900 GSF of space or approximately 325 GSF per station. This is within the State Board Standard of 650 GSF per station or a total of 7,800 GSF.

<u>State Board Staff Notes:</u> While the Applicants are in compliance with this criterion the size of this 12-station dialysis facility is small. For a 12-station facility we would expect to see a total gross square feet of approximately 7,000 GSF for both clinical and non-clinical space.

The State Board Staff would expect to see a 12-station facility with the following:

	Total	7,000 GSF
•	Staff and Administrative Area	<u>1,440 GSF</u>
•	Support Area	2,100 GSF
•	Patient Area	2,960 GSF
•	Reception Area	500 GSF

Source: (US Department of Veterans Affairs Office of Construction & Facilities Management)

The Applicants stated the following "our dialysis facilities are "transitional" dialysis facilities, which will typically be smaller in size than traditional dialysis facilities that the board has seen in the past. We have a very reputable and well-known dialysis architect firm that designs all our dialysis facilities. As a company, we do not compromise on patient care or safety."

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 ILAC 1110.234(a))

B) Criterion 1110.234(b) – Projected Utilization

To demonstrate compliance with this criterion the applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented.

The Applicants have identified 98 Stage III and IV pre-ESRD patients with lab values indicative of active kidney failure who live in the Hazel Crest/HSA-VII service areas. The Board Staff accepted 59 physician historical referrals. If those 59-patients materialize the Applicants will be at target occupancy 2-years after project completion which is February 2022.

59 patients x 156 treatments per year = 9,204 treatments 12 stations x 936 treatments per station per year = 11, 232 treatments 9,204 treatments ÷ 11, 232 treatments = 81.94%

C) Criterion 1110.234(e) - Assurances

To demonstrate compliance with this criterion the applicants submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after the project completion, the Applicants will meet or exceed the utilization standards specified in Appendix B.

The necessary attestation is provided at page 127 of the application for permit.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.234(e))

IX. In-Center Hemodialysis Projects

A) Criterion 1110.1430(b)(1) & (3) – Background of Applicants

This criterion was addressed previously in this report.

B) Criterion 1110.1430(c)(1), (2), (3) & (5) - Planning Area Need

To demonstrate compliance with this criterion the applicants must document that the number of stations to be established or added is necessary to serve the planning area's population.

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

To demonstrate compliance with this sub-criterion the applicants must document that the number of stations to be established is in conformance with the projected station need.

The State Board is estimating an <u>excess of 2 ESRD stations by 2020 in the HSA-VII ESRD Planning Area per the September 2018 Inventory Update.</u>

2) Service to Planning Area Residents

To demonstrate compliance with this sub-criterion the applicants must document that the primary purpose is to serve the residents of the planning area.

The Applicants have stated: "the primary purpose of this project is to ensure that the ESRD patient population of the greater Hazel Crest area, market area, and planning area HSA-07 has access to life sustaining dialysis. We anticipate that well over 90% of Dialysis Care Center Hazel Crest will be residents of the planning area HSA-07."

3) Service Demand – Establishment of In-Center Hemodialysis Service

To demonstrate compliance with this sub-criterion the applicants must document that there is sufficient demand to justify the twelve stations being proposed.

The State Board requires that the projected referrals include the following information

- i) The physician's total number of patients (by facility and zip code of residence) who have received care at existing facilities located in the area, as reported to The Renal Network at the end of the year for the most recent three years and the end of the most recent quarter;
- ii) The number of new patients (by facility and zip code of residence) located in the area, as reported to The Renal Network, that the physician referred for in-center hemodialysis for the most recent year;
- An estimated number of patients (transfers from existing facilities and pre-ESRD, as well as respective zip codes of residence) that the physician will refer annually to the applicant's facility within a 24-month period after project completion, based upon the physician's practice experience. The anticipated number of referrals cannot exceed the physician's documented historical caseload:
- iv) An estimated number of existing patients who are not expected to continue requiring in-center hemodialysis services due to a change in health status (e.g., the patients received kidney transplants or expired);
- v) The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty;

- vi) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services: and
- vii) Each referral letter shall contain a statement attesting that the information submitted is true and correct, to the best of the physician's belief.

The Applicants submitted one referral letter (with the Original Application for Permit) that was signed by Dr. Tauseef Sarguroh, M.D., containing referral information for both himself and his colleagues, attesting to the provision of care to 98 Stage 3-4 pre-ESRD patients. As part of this original submittal, the Applicants estimated that 79 patients would require in-center hemodialysis services within 2-years of project completion. The applicants will continue to refer patients to other area facilities in accordance with the patient's place of residence and choice. However, the projected referrals were in excess of the historical referrals (25 historical referrals) submitted by the Applicants with the Application for Permit. See Table below.

TABLE THREE Original Patient Historical Referrals					
Facility	City	Patients			
Davita Chicago Heights	Chicago	18			
DaVita Olympia Fields	Olympia Fields	5			
DaVita Hazel Crest	Hazel Crest	1			
FMC Orland Park	Orland Park	1			
Glenshire Nursing Home	Richton Park	(7)			
Glenwood Nursing Home	Glenwood	(8)			
TOTAL		25			

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Nursing Home Dialysis Patients are not considered in the evaluation of this Application

The Applicants were informed that the 25 historical referrals did not justify the 12-station facility and on May 18, 2018 the Applicants submitted 65 historical referrals as documented below. Six of these referrals are nursing home patients and cannot be accepted because the referrals are not for an in-patient hemodialysis facility. The State Board Staff accepted 59 historical referrals.

	Revised Patient Historical Referrals	
Zip Code	Facility	Patients
60409	Davita Chicago Heights	1
60411	Davita Chicago Heights	4
60425	Davita Chicago Heights	3
60473	Davita Chicago Heights	1
60484	Davita Chicago Heights	1
60426	Davita Olympia Fields	1
60428	Davita Olympia Fields	1
60430	Davita Olympia Fields	1
60466	Davita Olympia Fields	1
47907	Glenwood Healthcare and Rehab	1

	Revised Patient Historical Referrals	
Zip Code	Facility	Patients
60409	Glenwood Healthcare and Rehab	1
60425	Glenwood Healthcare and Rehab	2
60445	Glenwood Healthcare and Rehab	1
60455	Glenwood Healthcare and Rehab	1
60411	Davita Chicago Heights	9
60425	Davita Chicago Heights	4
60473	Davita Chicago Heights	2
60475	Davita Chicago Heights	1
60484	Davita Chicago Heights	2
60477	Davita Chicago Heights	1
60430	Davita Hazel Crest	1
60461	Davita Olympia Fields	1
60466	Davita Olympia Fields	1
60478	Davita Country Club Hills	1
60406	Dialysis Care Center Olympia Fields	1
60411	Dialysis Care Center Olympia Fields	1
60617	Concerto Dialysis	2
60429	Concerto Dialysis	3
60430	Concerto Dialysis	2
60411	Concerto Dialysis	2
60411	Fresenius Kidney Care Orland Park	1
60473	Davita Chicago Heights	1
60484	Davita Chicago Heights	1
60473	Davita Harvey	1
60466	Dialysis Care Center Olympia Fields	1
60466	Dialysis Care Center Olympia Fields	1
60629	Dialysis Care Center Olympia Fields	1
60619	Concerto Dialysis	1
60429	Concerto Dialysis	3
Total		65
	Nursing Home Referrals	(6)
Total	Referrals Accepted	59

5) Service Accessibility

To demonstrated compliance with this sub-criterion the applicants must document that the number of stations being established or added for the subject category of service is necessary to improve access for planning area residents. The Applicants must document one of the following:

- i) The absence of the proposed service within the planning area;
- ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;
- iii) Restrictive admission policies of existing providers;

- iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- iv) For purposes of this subsection (c) (5) only, all services within the 30-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.
- 1. There is no absence of the proposed service within the planning area as there are 80 existing dialysis facilities in the HSA VII ESRD Planning Area.
- 2. There has been no evidence of the access limitations due to payor status of the patients.
- 3. There has been no evidence of restrictive admission policies of existing providers.
- 4. There has been no evidence that the area population and existing care system exhibits indicators of medical care problems.
- 5. There are 43 facilities within 30-minutes of the proposed facility. Eleven of the 43 facilities are in ramp up or under construction and one facility did not provide utilization information (Concerto Dialysis). Of the remaining 31 facilities, 12 (39%) are at target occupancy. Average utilization for the 31 facilities is approximately 74.5%. (See Table at the end of this report)

In summary, the State Board has estimated an <u>excess of 2 ESRD stations in the HSA VII ESRD Planning Area by 2020.</u> There is not a service access issue in the 30-minute service area as there are existing facilities not currently at target occupancy. The Applicants have not met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.1430(c) (1), (2), (3) and (5))

- C) Criterion 1110.1430(d)(1), (2) & (3) Unnecessary Duplication/Mal-distribution To demonstrate compliance with this criterion the applicants must document that the proposed project will not result in
 - 1. An unnecessary duplication of service
 - 2. A mal-distribution of service
 - 3. An impact on other area providers
 - 1. To determine if there is an unnecessary duplication of service the State Board identifies all facilities within thirty (30) minutes and determines if there is existing capacity to accommodate the demand identified in the application for permit. There are 43 facilities within 30-minutes of the proposed facility. Eleven of the 43 facilities are in ramp up or under construction and one facility did not provide utilization information (Concerto Dialysis). Of the remaining 31 facilities, 12 (39%) are at target occupancy. Average utilization for the 31 facilities is approximately 74.5%. (See Table at the end of this report)
 - 2. To determine a **mal-distribution** (i.e. surplus) of stations in the thirty (30) minute service area the State Board compares the ratio of the number of stations per population in the thirty (30) minute service area to the ratio of the number of stations in the State of Illinois to the population in the State of Illinois. To determine a surplus

of stations the number of stations per resident in the thirty minute service area must be 1.5 times the number of stations per resident in the State of Illinois.

	Population	Stations	Ratio
30 Minute Service Area	938,485	753	1 Station per every 1,246 residents
State of Illinois (2015 est.)	12,978,800	4,850	1 Station per every 2,694 residents

The population in the 30-minute service area is 938,485 residents. The number of stations in the 30-minute service area is 753. The ratio of stations to population is one (1) station per every 1, 246 residents. The number of stations in the State of Illinois is 4, 850 stations (as of September, 2018). The 2015 estimated population in the State of Illinois is 12,978,800 residents (Illinois Department of Public Health Office of Health Informatics Illinois Center for Health Statistics -2014 Edition). The ratio of stations to population in the State of Illinois is one (1) station per every 2, 676 resident. To have a surplus of stations in this thirty (30) minute service area the number of stations per population would need to be one (1) station per every 1,784 resident. Based upon this methodology there is a surplus of stations in this service area as this 30-minute service area has one station per every 1,246 residents.

3. The applicants stated the following regarding the **impact on other facilities**. "The proposed dialysis facility will not have an adverse impact on existing facilities in the proposed geographic service area. All the identified patients will be referrals from identified physicians and are on pre-ESRD list. No patients will be transferred from other existing dialysis facilities. The proposed dialysis facility will not lower utilization of other area providers that are operating below the target utilization standard." Board Staff reiterates that the facility will be in HSA-VII where there is an excess of 2 stations based on the monthly updates to the Inventory of Health Care Facilities and Services as of September, 2018.

There appears to be a surplus of ESRD stations in this 30-minute service area as the number of stations in this area are 1.5 times the ratio of stations to residents in the State of Illinois. Additionally there are existing facilities within the 30-minute service area not operating at target occupancy and the State Board has calculated an excess of two stations in this ESRD Planning Area. The Applicants have not met the requirements of this criterion,

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS <u>NOT</u> IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE, MALDISTRIBUTION OF SERVICE IMPACT ON OTHER FACILITIES (77 ILAC 1110.1430(d)(1), (2) and (3))

D) Criterion 1110.230 (f) - Staffing

To demonstrate compliance with this criterion the applicants must document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and Joint Commission staffing requirements can be met.

The proposed facility will be staffed in accordance with all State and Medicare staffing requirements. Dr. Tauseef Sarguroh M.D. will serve as the Medical Director for Dialysis Care Center Hazel Crest. A physician curriculum vitae for Dr. Sarguroh is provided as required.

The Applicants stated the following:

"Upon opening, the facility will hire a Clinic Manager who is a Registered Nurse (RN). This nurse will have at least a minimum of twelve months experience in a hemodialysis center. Additionally, we will hire one Patient Care Technician (PCT). After we have more than one patient, we will hire another RN and another PCT. All personnel will undergo an orientation process, led by the Medical Director and experienced members of the nursing staff prior to participating in any patient care activities.

Upon opening we will also employ:

Part-Time Registered Dietician

Part-Time Registered Master Level Social Worker (MSW)

Part-Time Equipment Technician

Part-Time Secretary

These positions will go full time as the clinic census increases. Additionally, the patient care staff will increase to the following:

One Clinic Manager

Four Registered Nurses

Ten Patient Care Technicians

All patient care staff and licensed/registered professionals will meet the State of Illinois requirements. Any additional staff hired must also meet these requirements along with completing an orientation training program. Annually all clinical staff must complete OSHA training, compliance training, CPR certification, skills competency, CVC competency, water quality training and pass the competency exam. Dialysis Care Center Hazel Crest will maintain at least a 4 to 1 patient-staff ratio at all times on the treatment floor. An RN will be at the facility at all times when the facility is operational."

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.1430 (f))

E) Criterion 1110.1430 (g) - Support Services

To demonstrate compliance with this criterion the applicants must submit a certification from an authorized representative that attests to each of the following:

- 1) Participation in a dialysis data system;
- 2) Availability of support services consisting of clinical laboratory service, blood bank, nutrition, rehabilitation, psychiatric and social services; and
- Provision of training for self-care dialysis, self-care instruction, home and homeassisted dialysis, and home training provided at the proposed facility, or the existence of a signed, written agreement for provision of these services with another facility.

The applicants have provided the necessary attestation as required at page 117 of the application for permit.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SUPPORT SERVICES (77 ILAC 1110.1430(g))

F) Criterion 1110.1430(h) - Minimum Number of Stations

To demonstrate compliance with this criterion the applicants must document that the minimum number of in-center hemodialysis stations for an End Stage Renal Disease (ESRD) facility is:

- 1) Four dialysis stations for facilities outside an MSA;
- 2) Eight dialysis stations for a facility within an MSA.

The proposed 12-station facility will be located in the Chicago-Naperville-Joliet metropolitan statistical area ("MSA"). The applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION MINIMUM NUMBER OF STATIONS (77 ILAC 1110.1430(h))

G) Criterion 1110.1430(i) - Continuity of Care

To demonstrate compliance with this criterion the applicants document that a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services. Documentation shall consist of copies of all such agreements.

The applicants have provided the necessary signed affiliation agreement in supplemental material submitted to the State Board.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CONTINUITY OF CARE (77 ILAC 1110.1430(i))

H) Criterion 1110.1430(j) - Assurances

To demonstrate compliance with this criterion the representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that:

- 1) By the second year of operation after the project completion, the Applicants will achieve and maintain the utilization standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal; and
- 2) An Applicants proposing to expand or relocate in-center hemodialysis stations will achieve and maintain compliance with the following adequacy of hemodialysis outcome measures for the latest 12-month period for which data are available:
 - \geq 85% of hemodialysis patient population achieves urea reduction ratio (URR) \geq 65% and \geq 85% of hemodialysis patient population achieves Kt/V Daugirdas II 1.2.

The necessary attestation has been provided at page 127 of the application for permit.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.1430(j))

X. Financial Viability

Purpose of the Act This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs.

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the applicants must document that the resources are available to fund the project.

The Applicants are funding this project with cash in the amount of \$996,375 and a lease with a FMV of \$426,335. The lease is an operating lease³ to be paid over the life of the facility. The Applicants provided an audited financial statement for DCC Holdings, LLC which shows that as of December 31, 2017 that the Applicants had over \$11 million in cash. The Applicants have sufficient resources to fund this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1120.120)

B) Criterion 1120.130 - Financial Viability

To document compliance with this criterion the applicants must document that they have a Bond Rating of "A" or better, or they meet the State Board's financial ratio standards for the past three (3) fiscal years or the project will be funded from internal resources.

The Applicants are funding this project with cash in the amount of \$996,375 and a lease with a FMV of \$426,335. The Applicants stated that approximately 64% of the revenue for this facility will come from Medicare, 3% from Medicaid and the balance from commercial insurance (33%).

The Board Staff notes that Medicare and Medicaid patients typically make up the largest percentage of patients served by a dialysis facility. CMS implemented an ESRD Prospective Payment System (PPS). Under the new ESRD PPS, Medicare pays dialysis facilities a bundled rate per treatment. The rate is not the same for each facility. Each facility, within a given geographic area, may receive the same base rate. However, there are a number of adjustments both at the facility and at patient-specific level that affects the final reimbursement rate each facility will receive. What a dialysis facility receives from its commercial payers will also vary. Even if two different dialysis providers billed the same commercial payer the same amount, the actual payment to each facility will depend on the negotiated discount rate obtained by the commercial payer from each individual provider. [Source CMS Website]

An **operating lease** is a lease whose term is short compared to the useful life of the asset or piece of equipment being leased. An **operating lease** is commonly used to acquire equipment on a relatively short-term basis.

With the submittal of the Financial Audit the Applicants have qualified for the financial waiver⁴.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

XI. Economic Feasibility

- A) Criterion 1120.140(a) Reasonableness of Financing Arrangements
- B) Criterion 1120.140(b) Terms of Debt Financing

To demonstrate compliance with these criteria the applicants must document that leasing of the space is reasonable. The State Board considers the leasing of space as debt financing.

The Applicants are funding this project with cash in the amount of \$996,375 and a lease with a FMV of \$426,335. The operating lease is considered debt financing under current State Board rule. The term of the lease is for ten years with two (2) five (5) year renewal options stated. The base rent is \$16.50 for the first year, with annual 2% increases through year ten. The lease terms appear reasonable.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 ILAC 1120.140(a) & (b))

C) Criterion 1120.140(c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the applicants must document that the project costs are reasonable by meeting the State Board Standards in Part 1120 Appendix A.

Only Clinical Costs are reviewed in this criterion.

New Construction and Contingencies Costs are \$531,375 or \$136.25 per GSF for 3,900 GSF of clinical space. This appears reasonable when compared to the State Board Standard of \$286.54 per GSF, with 2019 listed as mid-point of construction.

<u>Contingencies</u> – These costs total \$43,875 and are 9% of the new construction costs identified for this project. This in is compliance with the State Board standard of 10%.

<u>Architectural Fees</u> are \$45,000 and are 8.2% of new construction and contingencies. This appears reasonable when compared to the State Board Standard of 7.36% to 11.06%.

<u>Movable or Other Equipment</u> – These costs are \$420,000 or \$35,000 per station (12 stations). This appears reasonable when compared to the State Board Standard of \$55,293 per station.

<u>Fair Market Value of Leased Space and Equipment</u> – These costs are \$426,355. The State Board does not have a standard for these costs.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140(c))

D) Criterion 1120.140(d) – Projected Operating Costs

To demonstrate compliance with this criterion the applicants must document that the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The applicants are projecting \$243.69 operating expense per treatment.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 ILAC 1120.140(d))

E) Criterion 1120.140(e) – Total Effect of the Project on Capital Costs

To demonstrate compliance with this criterion the applicants must provide the total projected annual capital costs for the first full fiscal year at target utilization but no more than two years following project completion. Capital costs are defined as depreciation, amortization and interest expense.

The applicants are projecting capital costs of \$10.23 per treatment.

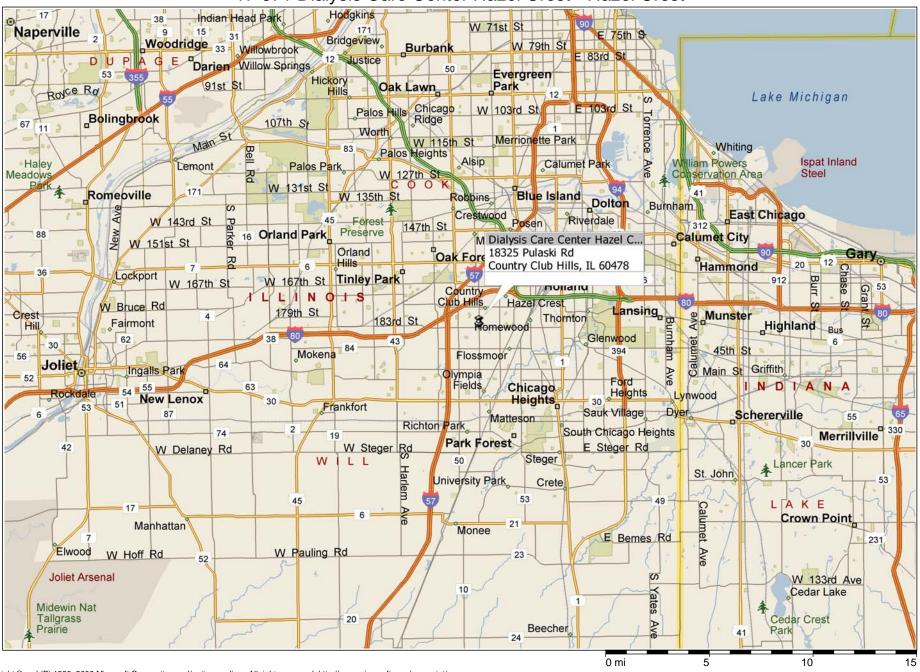
STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140(e))

	Facilities within 30 Minutes (Adjusted) of the Proposed Facility							
#	Facility	City	Stations	Adjusted Time (1)	Utilization (2)	Met Standard	Star Rating	
1	Tinley Park Dialysis	Tinley Park	12	17.25	29.17%	No	NA	
2	Fresenius Kidney Care South Deering	Chicago	20	28.75	48.33%	No	3	
3	Chicago Ridge Dialysis	Chicago Ridge	16	26.45	52.08%	No	NA	
4	Fresenius Kidney Care Orland Park	Orland Park	18	23	55.56%	No	5	
5	Fresenius Kidney Care Steger	Steger	18	25.3	58.33%	No	3	
6	Fresenius Kidney Care Alsip	Alsip	20	17.25	63.30%	No	5	
7	Fresenius Kidney Care Crestwood	Crestwood	24	18.4	64.58%	No	3	
8	DaVita Country Hills Dialysis	Country Club Hills	24	5.75	66.67%	No	3	
9	Dialysis Care Center of Oak Lawn	Oak Lawn	11	27.6	66.67%	No	NA	
10	Fresenius Kidney Care South Suburban	Olympia Fields	27	11.5	67.28%	No	3	
11	Community Dialysis of Harvey	Harvey	18	14.95	68.52%	No	3	
12	Fresenius Kidney Care Garfield	Chicago	22	28.75	68.94%	No	3	
13	Fresenius Kidney Care Blue Island	Blue Island	28	21.85	69.05%	No	3	
14	Chicago Heights Davita	Chicago Heights	16	12.65	69.79%	No	3	
15	Fresenius Kidney Care Greenwood	Chicago	28	27.6	70.24%	No	3	
16	Fresenius Kidney Care Mokena	Mokena	14	17.25	70.24%	No	4	
17	Fresenius Kidney Care Roseland	Chicago	12	25.3	75.00%	No	3	
18	DaVita Olympia Fields Dialysis Center	Matteson	24	9.2	78.33%	No	3	
19	DaVita Stony Island	Chicago	32	27.6	78.65%	No	5	
20	Fresenius Kidney Care Oak Forest	Oak Forest	12	12.65	80.56%	Yes	3	
21	Fresenius Kidney Care Hazel Crest	Hazel Crest	16	16.1	81.25%	Yes	5	
22	Davita Hazel Crest	Hazel Crest	20	2.3	83.33%	Yes	3	
23	Fresenius Kidney Care Chatham	Chicago	16	25.3	85.42%	Yes	3	
24	South Holland Renal Center	South Holland	24	20.7	85.42%	Yes	3	
25	Dialysis Care Center of Olympia Fields	Olympia Fields	11	5.75	86.36%	Yes	NA	
26	Fresenius Kidney Care	Merrionette Park	24	23	95.14%	Yes	4	
27	Davita Mt. Greenwood Dialysis	Chicago	16	26.45	95.83%	Yes	4	

#	Facility	City	Stations	Adjusted Time (1)	Utilization (2)	Met Standard	Star Rating
28	Fresenius Kidney Care South Holland	South Holland	24	26.45	97.22%	Yes	4
29	Renal Center New Lenox	New Lenox	19	26.45	98.25%	Yes	4
30	Grand Crossing Dialysis	Chicago	12	28.75	98.61%	Yes	2
31	Stony Creek Dialysis	Oak Lawn	14	25.3	100.00%	Yes	3
	Total Stations/Average Utilization		592		74.46%		
1	Concerto Dialysis, LLC	Crestwood	9	13.8	0.00%	No	1
2	Dialysis Care Center Beverly	Chicago	14	23	0.00%	No	3
3	Ford City Dialysis	Chicago	12	29.9	0.00%	No	NA
4	Fresenius Kidney Care New Lenox	New Lenox	12	29.9	0.00%	No	NA
5	DaVita Oak Meadows Dialysis	Oak Lawn	12	27.6	0.00%	No	NA
6	Fresenius Kidney Care Beverly Ridge	Chicago	16	23	11.46%	No	NA
7	Washington Heights Dialysis	Chicago	16	23	17.71%	No	NA
8	US Renal Care West Chicago	Chicago	13	23	20.51%	No	NA
9	Calumet City Dialysis	Calumet City	16	26.45	20.83%	No	NA
10	DaVita Park Manor Dialysis	Chicago	16	27.6	20.83%	Yes	NA
11	US Renal Care Hickory Hills	Hickory Hills	13	26.45	23.08%	No	NA
12	Fresenius Kidney Care Chicago Heights	Chicago Heights	12	18.4	27.78%	No	NA
	Total Stations/Average Utilization		753		56.98%		

- Stations as of September 2018
 Utilization as of June 30, 2018
 Star Rating from the https://www.medicare.gov/dialysisfacilitycompare

17-071 Dialysis Care Center Hazel Crest - Hazel Crest



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DIALYSIS CARE CENTER HOLDINGS LLC & Subsidiaries

RECEIVED

OCT 02 2018

HEALTH FACILITIES & SERVICES REVIEW BOARD

Consolidated Financial Statements
For the year ended December 31, 2017
with
Report of Independent Auditor

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Member: IL CPA Society

INDEPENDENT AUDITOR'S REPORT

The Management
Dialysis Care Center Holdings LLC. & subsidiaries
15786 S Bell Rd
Homer Glen, IL 60491

We have audited the accompanying consolidated financial statement of Dialysis Care Center Holdings and subsidiaries which comprise the consolidated balance sheets as of December 31, 2017 and the related consolidated statements of operations, change in partnership capital, and cash flow for the year ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement; whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation of and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Consolidated financial position of Dialysis Care Center Holdings LLC and subsidiaries at December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with United States generally accepted accounting principles.

Bashir Bello

Bashir Bello C.P.A. October 1, 2018

Dialysis Care Center Holdings LLC & Subsidiaries Consolidated Balance Sheets

For the Period Ended

1.0.	the remode and		
		December 31, 2017	
CURRENT ASSETS			
Cash & cash equivalent		\$ 11,053,394	
Prepaid expenses		79,033	
Account Receivable less allowar	ice for	. 5,555	
uncollectible accounts of \$535,6		4,365,160	
			\$ 15,497,587
FIXED ASSETS			
Property and equipment	Note	3,786,467	
Less: Accum Depreciation		(662,267)	
			3,124,200
OTHER ASSETS			
Deposit		43,355	
Due from related parties		4,742,411	
			4,785,766
TOTAL ASSETS			\$ 23,407,553
CURRENT LIABILITIES			
Account Payable		\$ 2,078,980	
Tax Payable		64,378	
			2,143,358
NONCURRENT LIABILITIES			
Due to third party payor		14,412,461	
Due to related parties		<u> </u>	
DADTHERS CARITAL			14,412,461
PARTNERS' CAPITAL			
Capital - Controlling Entity		(16,536,929)	
Capital - Non Controlling Entitle		(3,378,035)	
Retained Earnings	:5	23,594,345	
Net Income		3,172,353	
Net meome		3,172,333	6,851,734
			0,031,734
TOTAL LIABILITIES & PARTNERS	S' CAPITAI		\$ 23,407,553
. w read air in an ready the 1 2 to 1 1 Thilly			+ 10,101,000

Dialysis Care Center Holdings LLC & Subsidiaries Consolidated Statement of Operations

For the Period Ended

	December 31, 2017		
REVENUE			
Service revenue net of contractual allowance, discounts	\$	26,783,558	101%
Provision for uncollectible accounts		(321,403)	-1%
Total Income	\$	26,462,155	100%
EXPENSES			
Compensation, Related Taxes & Benefits		9,349,654	35%
Medical supplies & related cost		7,544,954	29%
Professional fees		229,637	1%
Rent and utilities		1,696,748	6%
Insurance		107,112	0%
Sales, general & administration		3,644,461	14%
Depreciation		226,302	1%
Total Expenses		22,798,868	86%
EARNINGS BEFORE TAXES		3,663,287.30	14%
State Corporation Tax		105,077	0%
CONSOLIDATED NET INCOME		3,558,210	13%
Non-Controlling Interest		385,857	1%
PROFIT ATTRIBUTABLE TO HOLDINGS	\$	3,172,353	12%

Home Dialysis Services Holdings LLC & Subsidiaries Consolidated Statement of Cash Flows

For the Year Ended December 31, 2017

Operating Activities:	
Net Income	\$ 3,172,353
Adjustments to reconcile changes in Net Income	
to net cash provided by operations:	
Tax payable	64,378
Depreciation	226,302
Due to/from related parties	(4,175,106)
Due to third party payor	14,414,360
Account payables	1,578,980
Accounts Receivable increase	(4,405,160)
Net cash provided by Operating Activities	10,876,107
Investing Activities:	
Purchase of property & equipment	(2,065,000)
Net cash provided (used) by Investing Activities	(2,065,000)
Financing Activities:	
Non controlling interest payment	(395,857)
Partners distribution	(2,542,165)
Net cash provided by Financing Activities	(2,938,022)
Net cash increase for the period	5,873,085
Cash at the beginning of period	5,180,309
Cash at the end of period	\$ 11,053,394

Note 1 - Nature of Business

As at December 2017 Dialysis Care Center Holdings LLC (DCC) provided medicare dialysis through 29 independent dialysis clinics/entities in 9 different states across USA (IL, IN, OH, TN, PA, MO, KS & MI).

19 of these clinics are under the Home Dialysis Services LLC (HDS) brand whilst 10 are under the newer Dialysis Care Center brand.

Additionally, Dialysis Care Center Holdings LLC (DCC) have morphed from a small dialysis provider to a rapidly growing mid-sized national dialysis company employing over 300 people.

Many diseases can lead to chronic kidney failure, particularly diabetes, chronic nephritis, and high blood pressure. There are currently two treatment options for chronic kidney failure - kidney transplant and dialysis. Dialysis Care Center Holdings LLC (DCC) is a kidney dialysis provider.

There are two types of dialysis treatments available & Dialysis Care Center Holdings LLC (DCC) handle both Hemodialysis and Peritoneal dialysis. In the case of Hemodialysis (HD), a hemodialysis machine controls the flow of blood from the patient through a special filter; the dialyzer while in the case of Peritoneal dialysis (PD), the patient's peritoneum is used as the dialyzing membrane.

Dialysis treatments are offered as Homedialysis treatments in specialized clinics for a vast majority of dialysis 88% globally. It requires the use of special products, hemodialysis machines and dialyzers (artificial kidneys) and is usually performed three times a week over a period of several hours by trained medical staff.

Today, Dialysis Care Center Holdings LLC (DCC) is the largest provider of staff assisted Home hemodialysis (HHD) in the midwestern part of the United States and the largest independent PD provider in the State of Illinois. In addition to dialysis treatments, Dialysis Care Center Holdings LLC (DCC) provide ESRD related laboratory services through a vendor - Ascend Laboratories for all their dialysis patients. Dialysis Care Center Holdings LLC (DCC) anticipate further growth in their business and plan to open and certify several new clinics before the end of 2018. Dialysis Care Center Holdings LLC (DCC) also remain on course to becoming one of the top providers of dialysis therapy in the United States by 2020.

Note 2 - Revenue Growth

Management believe that the key to continue growing revenue is to increase the number of treatments per clinic per year. Management have robustly developed their credentialing and contracting department which resulted in several in-network contracts executed by several payors.

PAYOR MIX ANALYSIS

Payor Type	% of Tmt
Medicare	59%
Commercial - (PPO, HMO, Others)	10%
Medicaid	17%
Medicare Advantage	9%
Self Pay	5%
Grand Total	100%

Note 3 - Summary of Significant Accounting Principles

The following significant accounting policies have been followed in the preparation of the financial statements.

Accounting Standards

During 2009, the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC), became effective and superceded prior existing financial accounting standards and is now the single source of authoritative US generally accepted accounting principles (GAAP). The codification does not change previous GAAP and accordingly, its adoption did not have a material impact on the Organization's consolidated financial statements.

Principles of Consolidation

The Consolidated financial statements as presented include all material intercompany accounts and transactions and this has been eliminated in consolidation as required by accounting principles generally accepted in the United States of America (GAAP). The scope of the elimination process includes both Dialysis Care Center Holdings LLC (DCC) and all subsidiaries intercompany balance while balance remaining relates to other Entities.

Variable Interest Entity

By design, the business template for Dialysis Care Center Holding LLC (DCC) expansion involves other Physicians as Joint Venture (JV) Partners. Therefore, each Partner qualify as a Variable Interest Entity (VIE) as defined by the Financial Accounting Standards Board (FASB). For 2017, the Net Profit attribtable to the VIE was \$0.386MM.

Income Taxes

The LLC is a for profit organization and recognized by the Internal Revenue Service as a Partnership Corporation. Therefore, it is not subject to Federal Income tax on entity level. However, all Net Income are deemed distributed to the Partners whether collected or not and are taxed at the Partner's level. In addition, the Holding LLC company is subject to State Corporate tax wherever the entity operates. A tax provision of \$0.105MM is estimated in 2017.

Use of Estimates

The preparation of consolidated financial statements in comformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures of assets and liabilities at the date of the consolidated financial statements and revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Account receivable reflects the Net realisable amount after all contractual adjustments. In 2017, Adjusted AR is \$4.37MM. This amount reflects the balance after contractual and allowance adjustment.

The Company bills third-party payors or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed and patients are billed for deductibles. The carrying amounts of gross receivables are reduced by allowances that reflect management's estimate of the amounts that may not be collected.

Management estimates the collectibility of patient accounts receivable based on established contractual rates and on prior experience. Payors regularly review and updates their allowable payment levels, which can results in adjustments to amounts already billed.

The allowance for uncollectible accounts covers significant portion of the self pay accounts receivables.

Provision for Bad Debt

The Company provides for uncollectible amounts especially for uninsured patients through a bad debt adjustment. Based on their experience curve, Management allocates certain % to each type of out-of-network Insurance & Self-pay. A credit is recorded to the allowance for uncollectible accounts and a debit to Provision for Bad Debt Expense. Any collection efforts that results into cash payment usually go towards reducing the AR. The Billing Team regularly undertake AR review according to Company policy.

Due to Third Party Payor

Service Revenue is recognised when fully completed and recorded as Income.

BCBS of Illinois pays its contracted providers full billed charged for their services and then requires the provider to repay the excess typically within 30 days. This scenario results in HDS typically having several \$million in BCBS overpayments on hand on a monthly basis. These monies are paid back to BCBS and the real contracted dollars kept as revenue.

Related Party Transactions

There exist intra-party and inter-party transactions amongst related entities of the Consolidated Entities. In view of the interactions between JV Entities in terms of staff, materials & cashflow, there are related inter company transactions. For example, payroll processing is centralized under DCC Management LLC and reimbursable payroll cost distributed to each entity within the Consolidated Group.

Bank Loan - Line of Credit

The Company do not have any outstanding Loan or Line of Credit in effect.

Note Payable

The Company do not have any Note Payable or collaterized Account Receivable.

Retirement Plans

The Company operates a 401K Plan being adminstered by third party. Wells Fargo is the Investing entity. Each member may opt for self investing actions on stocks to buy & sell based on experience.

Capital Stocks/Units

Partnership Units are owned by all JV Parties while Holdings holds the controlling share in the Consolidated Entities.

Medical & Ancillary Supplies

Dialysis Care Center Holdings LLC (DCC) is able to provide dialysis treatments and laboratory services by partnering and securing contractual agreements with key suppliers in the industry.

The Company suppliers include Henry Schein, Fresenius, NXStage, Baxter, Ascend Labs and Tablo.

Management continue to negotiate the best possible and most competitive terms and prices from vendors with a view to providing affordable and sustainable quality care.

Building, Property and Equipments

Fixed assets are recorded at cost. 2017 Depreciation was \$226k.

Significant cost of improvement are capitalized as Building Improvement and repair cost are expensed as incurred. The cost of assets sold, retired or abandoned and the related accumulated depreciation and amortization (if intangible) are removed from the Assets List and any resulting gain or loss included in the Net Income.

Table of Property and Equipment

	Balance			Balance
	01-Jan-17	Additions	Write-offs	31-Dec-17
Leasehold Imp.	1,100,271	1,883,588	(1,899)	2,981,960
Furniture	152,819	17,114	-	169,933
Medical Equip	59,984	47,442	-	107,426
Computers	410,292	116,856	-	527,148
Total	1,723,366	2,065,000	(1,899)	3,786,467
Less: Accumulated Depreciation	(437,864)	(226,302)	1,899	(662,267)
Net Property and Equipment	1,290,401	1,833,799	-	3,124,200

Subsequent Events

Management evaluated subsequent events up to October 01, 2018, the date the financial statement were available to be issued. Events or transactions occuring after December 2017 but prior to October 01, 2018 that provided additional evidence about conditions that existed at December 31, 2017 have been recognized in the financial statement for the year ended.

Events or transactions that provided evidence about conditions that did not exist at December 31, 2017 but arose before the financial statements was available to be issued have not been recognized in the financial statement for the year ended. December 31, 2017.