STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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| DOCKET NO: H-02 | BOARD MEETING: March 16, 2021 | PROJECT NO: 20-045 | PROJECT COST: |
|---|---|---|---|
| FACILITY NAME: Dialysis Care Center Vollmer | | CITY: Chicago Heights | Original: $2,456,246 |
| TYPE OF PROJECT: Substantive | | | HSA: VII |

**PROJECT DESCRIPTION:** The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC and Meridian Investment Partners, LLC) propose discontinue and to establish a 9-station ESRD facility in Chicago, Heights, Illinois. The cost of the project is $2,456,246 and the expected completion date is January 31, 2022.

# EXECUTIVE SUMMARY

## PROJECT DESCRIPTION

- The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC and Meridian Investment Partners, LLC) propose to discontinue a 9-station ESRD facility at 14255 S. Cicero Avenue, Crestwood, Illinois and to establish a 9-station ESRD facility at 222 Vollmer Road, Chicago, Heights, Illinois. The cost of the project is $2,456,246.14 and the expected completion date is January 31, 2022.
- On November 13, 2020 the Chairwoman of the State Board approved a change of ownership for the 9-station facility at 14255 S. Cicero Avenue, Crestwood, Illinois (f/k/a Concerto Dialysis) to the Applicants (#E-053-20). With that change of ownership, the 9-station facility was renamed as DCC Vollmer. The Applicants have submitted a certificate of need application (#21-002) to discontinue the Crestwood facility should this application be approved. [1]

## SUMMARY

- To relocate an existing ESRD facility within the same planning area requires the existing facility (DCC Vollmer-Crestwood) (1) to be at target occupancy for the previous 12-months prior to relocation and (2) the relocation will improve access to care for the existing patients. Historically the relocation of a facility within the same planning area the distance from the existing facility to the proposed new facility was small to accommodate the existing facility's patients. In this case the distance between the existing facility and the proposed relocated facility is approximately 11 miles.
- According to the Applicants, the purpose of this project (relocation) is to address the need for "access to care" for residents in the Chicago Heights area without adding additional ESRD stations to the HSA VII ESRD Planning Area. In addition, this 9-station facility if approved will provide dialysis services to patients who live in the Chicago Heights area and who are patients of Dr. Samson and DCC Holdings. There are thirteen facilities in the 5-mile GSA; six owned by DaVita, Inc., five owned by Fresenius Kidney Care, and two facilities (DCC Hazel Crest and DCC Olympia Fields) owned by the Applicants (DCC Holdings, Inc). The two facilities owned by the Applicants are operating at approximately 100% utilization (See Table Five of this report). The Applicants state: *"It has been the applicant's experience that patients undergoing dialysis treatment prefer to maintain the same physician throughout their treatment. Fortunately, the Medical Director of Concerto Dialysis* (Dr. Sampson) *is affiliated with DCC and maintains privileges at all DCC facilities in the GSA. This will allow DCC to offer a limited number of patients the option of receiving care at the DCC Hazel Crest facility which is only 2.6 miles away. Because Dr. Samson does not maintain privileges at other facilities in the GSA he would be unable to maintain his role in each patient's care."*
- There are thirteen facilities with 247-stations and 925 patients in the 5-mile Geographical Service Area ("GSA") operating at approximately 63% utilization as of December 31, 2020. Based upon the historical growth of 3.6% annually in the number of dialysis patients in the HAS VII ESRD Planning Area it appears that there is a sufficient number of stations

[1] The discontinuation of a health care facility requires a submittal of an application for permit (20 ILCS 3960/6).

in the 5-mile GSA to accommodate the workload (50 patients) identified by the Applicants as needing dialysis within two years after project completion (December 2024).

| Criterion | Reasons for Non-Compliance |
|---|---|
| **77 ILAC 1110.230 (c) – Unnecessary Duplication of Service** | There are thirteen facilities within the 5-mile GSA. Average utilization of these 13 facilities is approximately 63%. There is currently a surplus of stations in this 5-mile GSA. |
| **77 ILAC 1110.230 (i) – Relocation of Facility** | The existing facility (Crestwood facility) was not at the target occupancy of 80% as required for the past 12-months. The 9-station Crestwood facility averaged 37% over a 5-year period. |
| **77 ILAC 1120.120 – Availability of Funds**<br>**77 ILAC 1120.130 – Financial Viability** | The Applicants provided an Accountant's Review Report that does not meet the requirements of the State Board. State Board rules require an Independent Audit. |

## STATE BOARD STAFF REPORT
## Project #20-036
## Dialysis Care Center Vollmer

| APPLICATION/CHRONOLOGY/SUMMARY | |
|---|---|
| Applicants | Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC, and Meridian Investment Partners, LLC |
| Facility Name | Dialysis Care Center Vollmer, LLC |
| Location | 222 Vollmer Road, First Floor, Chicago Heights |
| Permit Holder | Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC, and Meridian Investment Partners, LLC |
| Operating Entity | Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC, and Meridian Investment Partners, LLC |
| Owner of Site | Meridian Investments Partners, LLC |
| Total GSF | 7,170 GSF |
| Application Received | December 20, 2020 |
| Application Deemed Complete | December 23, 2020 |
| Review Period Ends | April 22, 2021 |
| Financial Commitment Date | January 31, 2022 |
| Project Completion Date | January 31, 2022 |
| Can the Applicants request a deferral? | Yes |

## I. Project Description

The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC and Meridian Investment Partners, LLC) propose to discontinue and to establish a 9-station ESRD facility in Chicago, Heights, Illinois. The cost of the project is $2,456,246.14 and the expected completion date is January 31, 2022.

## II. Summary of Findings

**A.** State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1110 (Part 1110).

**B.** State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1120 (Part 1120).

## III. General Information

The Applicants are Dialysis Care Center Holdings, LLC, Dialysis Care Center Frankfort, LLC, and Meridian Investment Partners, LLC. Dialysis Care Center Holdings, LLC, Dialysis Care Center Frankfort, LLC, and Meridian Investment Partners, LLC are owned equally by Morufu Alausa M.D. (50%) and Sameer M. Shafi M.D (50%). Financial commitment will occur after permit approval.

## IV. Health Planning Area

The proposed facility will be in the HSA VII ESRD Planning Area. The HSA VII ESRD Planning Area includes Suburban Cook and DuPage County. There is a calculated excess of 130 ESRD stations in this planning area. Historical growth of ESRD patients in the HSA VII ESRD Planning Area has been 3.6% annually since 2008.

## V. Project Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of $1,705,360 and the Fair Market Value of a Lease of $750,886. The lease is with a related party that is a co-applicant on this Application for Permit.

| **TABLE ONE**<br>Project Uses and Sources of Funds | | | |
|---|---|---|---|
| Project Uses | Reviewable | Non-Reviewable | Total |
| New Construction Contracts | $715,260 | $376,740 | $1,092,000 |
| Contingencies | $57,220 | $30,140 | $87,360 |
| Architectural/Engineering Fees | $30,000 | $15,000 | $45,000 |
| Consulting and Other Fees | $15,000 | $15,000 | $30,000 |
| Movable or Other Equipment | $386,000 | $65,000 | $451,000 |
| Fair Market Value of Leased Space or Equipment | $491,830 | $259,056 | $750,886 |
| Total Project Uses of Funds | | | $2,456,246 |
| Sources of Funds | | | |
| Cash | | | $1,705,360 |
| FMV of Lease | | | $750,886 |
| Total Sources of Funds | | | $2,456,246 |

## V. Criterion 1110.110 (a) - Background of the Applicants

The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Vollmer, LLC and Meridian Investment Partners, LLC) have attested that there has been no adverse action[2] taken against any of the facilities owned or operated by the Applicants and have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicants' certificate of need. Certificates of Good Standing have been provided for the three Applicants as required.

Dialysis Care Center Holdings, LLC owns the following ESRD facilities in Illinois:

**TABLE TWO**

ESRD Facilities owned by the Applicants

| Facility | City |
|---|---|
| DCC Vollmer | Crestwood |
| Dialysis Care Center Rockford | Rockford |
| Dialysis Care Center Beverly | Beverly |
| Dialysis Care Center of Oak Lawn | Oak Lawn |
| Dialysis Care Center of Olympia Fields | Olympia Fields |
| Dialysis Care Center Hazel Crest | Hazel Crest |
| Dialysis Care Center Evergreen Park | Evergreen Park |
| Dialysis Care Center Elgin | Elgin |
| Dialysis Care Center McHenry | McHenry |

## VI. Purpose, Safety Net Impact Statement, Alternatives

**A) Criterion 1110.110 (b) – Purpose of the Project**
**B) Criterion 1110.110 (c) – Safety Net Impact**
**C) Criterion 1110.110 (d) – Alternatives to the Proposed Project**

A) The purpose of this project is to address the need for access to care for residents in the Chicago Heights area without adding additional ESRD stations to the HSA VII ESRD Planning Area.

According to the Applicants "*The purpose of this project is to re-locate an ESRD facility within the Health Service Area ("HSA") to better address the growing population of ESRD patients in HSA 7, and specifically in Chicago Heights and Cook County. As the Board knows, in 2019, the applicant*

[2] [2] "**Adverse action** is defined as 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." (77 IAC 1130.140)

*previously brought forth an application to establish a facility in the city of Chicago Heights, located in HSA 7. That application was considered by the Health Facilities and Services Review Board ("HFSRB") but, ultimately, was not approved by the Board. Core to the Board's decision was a question of whether it was necessary to increase the complement of ESRD stations to improve access to care. The Applicant closely listened to the feedback it received from the Board members. Armed with the new insight and guidance from the Board regarding the concerns regarding adding to the number of ESRD stations in the community, the applicant began evaluating how it could best to meet the growing needs of its patients while respecting and working within the Board' rules and the established planning process. The answer became evident upon considering the core principles of the Certificate of Need program -* ***better utilization of an existing facility without adding new stations*** (See pages 85-94 of the Application for Permit for complete discussion)

B) The Applicants stated the following*: "The establishment of Dialysis Care Center Vollmer will not have any impact on safety net services in the Chicago Heights area. Outpatient dialysis facilities services are not typically considered or viewed as safety net services. As a result, the presence of Dialysis Care Center Vollmer as a provider is not expected to alter the way any other healthcare providers function in the community. Dialysis Care Center Vollmer has no reason to believe that this project would have any adverse impact on any provider or health care system to cross-subsidize safety net services. Dialysis Care Center Vollmer will be committed to providing ESRD services to all patients with or without insurance or patients to no regards for source of payment. Dialysis Care Center Vollmer will not refuse any patients. Medicaid patients wishing to be served at Dialysis Care Center Vollmer will not be denied services. Because of the Medicare guidelines for qualification for ESRD, a few patients' with ESRD are left uninsured for their care." (See Application for Permit page 195-201)*

**TABLE THREE**
DCC Holdings LLC
Safety Net Information per PA 96-0031

| | | | |
|---|---|---|---|
| Net Patient Revenue | Not Available | $26,783,583 | $34,996,810 |
| CHARITY CARE | | | |
| Charity (# of patients) | 2016 | 2017 | 2018 |
| Outpatient | 5 | 8 | 19 |
| Charity (cost in dollars) | | | |
| Outpatient | $7,800 | $18,000 | $44,055 |
| MEDICAID | | | |
| Medicaid (# of patients) | 2016 | 2017 | 2018 |
| Outpatient | 6 | 22 | 31 |
| Medicaid (revenue) | | | |
| Outpatient | $12,360 | $51,355 | $220,715 |

**C.** The Applicants evaluated four alternatives to the proposed project. The Applicants considered the following:

1. **renovating the DCC Vollmer-Crestwood facility,**
2. **replacing the DCC Vollmer-Crestwood facility,**
3. **utilizing existing facilities in the area; and,**
4. **propose a project with 12-stations.**

These alternatives were rejected because of the increased economic costs of renovating the Crestwood facility, the need to address the patient access issues in the Chicago Heights area, and the number of excess stations in the HSA-VII Planning Area. The Applicants believe relocating the nine stations from Concerto Dialysis in Crestwood (n/k/a DCC Vollmer) to the Chicago Heights location best meets the needs of their existing patient population. [See Application for Permit page 95]

## VII. <u>Project Size, Projected Utilization, Assurances</u>

**A. Criterion 1110.120 (a) – Project Size**
**B. Criterion 1110.120 (b) – Projected Utilization**
**C. Criterion 1110.120 (e) – Assurances**

**A)** The proposed 9-station facility will be approximately 4,680 GSF of clinical space. The State Board standard is 360-520 GSF per station or 4,680 GSF of space. The Applicants have met this requirement.
**B)** The Applicants are projecting 50 patients and 7,800 treatments within 2-years after project completion. The State Board Standard is 80% or 6,740 treatments per year for a 9-station facility. The Applicants have met this requirement.
**C)** The Applicants provided assurance that the project will be at target occupancy within two years after project completion. [Application for Permit pages 96-97]

## IX. <u>In-Center Hemodialysis Projects</u>

1) Criterion 1110.230 (b) (1) - Planning Area Need
2) Criterion 1110.230 (b) (2)- Service to Planning Area Residents
3) Criterion 1110.230 (b) (3) - Service Demand – Establishment of In-Center Hemodialysis Service
5) Criterion 1110.230 (b) (5) - Service Accessibility

1. There is a **<u>calculated excess of 130 ESRD stations</u>** in the HSA VII ESRD Planning Area by 2022. Should this project be approved there will be no increase in the number of stations in the HSA VII ESRD Planning Area which includes suburban Cook and DuPage Counties.
2. Dr. Samson is estimating that 50 patients will utilize the proposed facility within two years after project completion. Over 50% of the pre-ESRD patients reside in the Chicago Heights zip code the location of the proposed facility.

| **TABLE FOUR**<br>Pre-ESRD Patients of Dr. Sampson | | | |
|---|---|---|---|
| City | Zip Code | Stage 4 | Stage 3 |
| Chicago Heights | 60411 & 60412 | 34 | 41 |
| Park Forest | 60466 | 5 | 8 |
| Steger | 60475 | 3 | 7 |
| Flossmoor | 60422 | 3 | 9 |
| Total | | 45 | 65 |

3. Dr. Samson, the referring physician, is estimating 50 patients will utilize the proposed 9-station facility within 2-years after project completion. Based upon the physician's estimation there appears to be enough patients to utilize the 9-stations at the target occupancy of 80%.
4. The State Board Staff is to evaluate applications based on the populations need for the service and determine whether other services and facilities of the type proposed are not, or will not, be sufficiently available or accessible to meet that identified need. In this application the Applicants are not requesting additional stations to be added to the HSA VII ESRD Planning Area and the need identified will be addressed with the relocation of nine stations from Crestwood to Chicago Heights.

**TABLE FIVE**
Facilities within the 5-mile GSA

| Facility | City | Ownership | Stations | Patients | Utilization | Met Standard? |
|---|---|---|---|---|---|---|
| DaVita Chicago Heights | Chicago Heights | DaVita | 16 | 43 | 44.79% | No |
| DaVita Country Hills | Country Hills | DaVita | 24 | 74 | 51.39% | No |
| DaVita Harvey Dialysis | Harvey | DaVita | 18 | 41 | 37.96% | No |
| DaVita Hazel Crest | Hazel Crest | DaVita | 20 | 74 | 61.67% | No |
| DaVita Olympia Fields | Mattson | DaVita | 24 | 74 | 51.39% | No |
| DaVita South Holland Renal Center | South Holland | DaVita | 24 | 111 | 77.08% | No |
| DCC Hazel Crest | Hazel Crest | DCC | 12 | 71 | 98.61% | Yes |
| DCC Olympia Fields | Olympia Fields | DCC | 12 | 75 | 104.17% | Yes |
| FKC Chicago Heights | Chicago Heights | FKC | 12 | 42 | 58.33% | No |
| FKC Hazel Crest | Hazel Crest | FKC | 16 | 61 | 67.71% | No |
| FKC South Holland | South Holland | FKC | 24 | 124 | 82.64% | Yes |
| FKC South Suburban | South Suburban | FKC | 27 | 91 | 56.17% | No |
| FKC Steger | Steger | FKC | 18 | 44 | 40.74% | No |
| Total Stations/Patients and Average Occupancy | | | 247 | 925 | 62.35% | |

1. FKC- Fresenius Kidney Care
2. DCC – Dialysis Care Center
3. # of Stations and Patients as of December 31, 2020
4. Facilities within 5-mile radius determined by MapQuest

## B) Unnecessary Duplication/Maldistribution

The Applicants identified 13 ESRD facilities within the 5-mile GSA with 247 stations with an average occupancy of approximately 63%. Three of the facilities within the 5-mile GSA is at the target occupancy of 80%-DCC Olympia Fields, DCC Hazel Crest, and FKC South Holland.

The population in the 5-mile GSA is 262,432 residents. The ratio of stations to population in the 5-mile GSA is one station for every 1,063 residents

(262,432 ÷ 247 = 1,063 residents per station). The population in the State of Illinois is 13,129,233 (2020 IDPH estimate). The number of stations in the State of Illinois is 4,986. The ratio of stations to population is one station for every 2,633 residents. To have a surplus of stations in this 5-mile GSA the ratio must be 1.5 times the State of Illinois ratio. To have a surplus of stations in this 5-mile GSA the number of stations per resident is one station for every 1,595 residents. There is a surplus of stations in this 5-mile GSA.

| TABLE SIX | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Number of Stations warranted based upon 3.6% growth in the number patients at 80% utilization | | | | | | | | | |
| Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | **2027** | **2028** |
| Patients | 925 | 959 | 994 | 1,030 | 1,068 | 1,107 | 1,147 | **1,189** | **1,232** |
| Stations | 193 | 200 | 208 | 215 | 223 | 231 | 239 | **248** | **257** |

### C) Criterion 1110.230 (e) - Staffing

The Applicants provided the following narrative: Dialysis Care Center Vollmer will be staffed in accordance with all state and Medicare staffing guidelines and requirements. Dr. Samson M.D. will serve as the Medical Director for Dialysis Care Center Vollmer. 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, the Applicants will hire one Patient Care Technician (PCT). After more than one patient begins dialysis, the Applicants 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 the facility will employ a:
- 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's census increases. Additionally, the patient care staff will increase to the following:

- One Clinic Manager - Registered Nurse
- Four Registered Nurses
- Ten Patient Care Technicians

The facility will be certified by Medicare. The Survey and Certification Program certifies ESRD facilities for inclusion in the Medicare Program by validating that the care and services of each facility meet specified safety and quality standards, called "Conditions for Coverage." The Survey and

Certification Program provides initial certification of each dialysis facility and ongoing monitoring to ensure that these facilities continue to meet these basic requirements *(source: medicare.gov)*. The Applicants have met the requirements of this criterion.

**D) Criterion 1110.230(f) - Support Services**

The Applicants provided a signed attestation documenting the ancillary and support services including utilizing a dialysis electronic patient data tracking system, nutritional counseling, clinical laboratory services, blood bank, rehabilitation, psychiatric services, and social services training for self-care dialysis, self-care instruction, and home hemodialysis and peritoneal dialysis.

**E) Criterion 1110.230 (g) - Minimum Number of Stations**

The Applicants are proposing 9 stations to be in Cook County. The proposed facility will be in the Metropolitan Statistical Area of Chicago-Naperville-Evanston, IL. Metropolitan Statistical Area of Chicago-Naperville-Evanston, IL is defined by the United States Census Bureau, is an area consisting of six counties (Cook, DuPage, Will, McHenry, Grundy, and Lake counties). The Applicants have successfully addressed this criterion.

F) **Criterion 1110.230 (h) - Continuity of Care**

The Applicants provided a signed affiliation agreement with Advocate South Suburban hospital as required. The Applicants have met the requirements of this criterion.

**G) Criterion 1110.230 (i) – Relocation of Facilities**

The Applicants are required to demonstrate that the existing facility has been at target utilization for the prior 12-month period and that the proposed facility will improve access to care for the existing patient population.

The existing Crestwood facility has operated at approximately 37% of the past five years and for the most recent 12-months at 36% utilization.

| Year | 2016 | 2017 | 2018 | 2019 | 2020 | Ave |
|---|---|---|---|---|---|---|
| Utilization | 40.00% | 36.00% | 41.00% | 36.00% | 36.00% | 37.0% |
| Patients | 22 | 19 | 22 | 19 | 19 | 20 |

In addressing this criterion, the Applicants stated:

*"We anticipate that many of the patients who are currently being treated at the Concerto Dialysis facility are going to migrate to the proposed relocated*

*facility. We can assure the Board that each patient will be offered the opportunity to transfer their care to the new facility if they choose and will be accommodated at the proposed relocated site.*

*It has been the applicant's experience that patients undergoing dialysis treatment prefer to maintain the same physician throughout their treatment. Fortunately, the Medical Director of Concerto Dialysis is affiliated with DCC and maintains privileges at all DCC facilities in the GSA. This will allow DCC to offer a limited number of patients the option of receiving care at the DCC Hazel Crest facility which is only 2.6 miles away. Because Dr. Samson does not maintain privileges at other facilities in the GSA he would be unable to maintain his role in each patient's care."*

**H) Criterion 1110.230 (j) – Assurances**

The Applicants have provided the necessary attestation at page 133 of the Application for Permit. The Applicants have met the requirements of this criterion.

## XI. Financial Viability

### A) Criterion 1120.120 – Availability of Funds

The Applicants are funding this project with cash in the amount of $1,705,360 and the fair market value of a lease in the amount of $750,886. The Applicants provided their 2018 Audited Financial Statements as well as their **2019 Accountant's Review Report**[3]. State Board rules require an audit and not an Accountant's Review Report. A positive recommendation could not be made.

### B) Criterion 1120.130 - Financial Viability

The Applicants are funding this project with cash in the amount of $1,705,360 and the fair market value of a lease in the amount of $750,886. Without an audit report the Board Staff was not able to make a positive recommendation on this criterion. Below is the pro-forma income statement for DCC Vollmer.

| **TABLE SEVEN**<br>Pro-Forma Income Statement<br>DCC Vollmer | | | |
|---|---|---|---|
| | | Year 1 | Year 2 |
| Patients | 5 | 40 | 50 |
| Treatment | 726 | 5,808 | 7,260 |
| Revenue | $193,552 | $1,599,145 | $2,065,005 |
| Personnel | $556,000 | $721,515 | $882,799 |
| Supplies | $47,190 | $385,825 | $483,698 |
| Facilities Ex. | $280,281 | $378,694 | $481,619 |
| Initial Fees | $5,025 | $0 | $0 |
| Depreciation | $52,057 | $52,057 | $52,057 |
| Amortization of Lease | $11,667 | $11,667 | $11,667 |

[3] There are several key differences between an audit, a review, and compilation. Essentially, a compilation requires the auditor to simply present financial statements based on the representations made by management, with no effort to verify this information. In a review engagement, the auditor conducts analytical procedures and makes inquiries to ascertain whether the information contained within the financial statements is correct. The result is a **limited level of assurance** that the financial statements being presented do not require any material modifications. In an audit engagement, the auditor must corroborate the ending balances in the client's accounts and disclosures. This calls for the examination of source documents, third party confirmations, physical inspections, tests of internal controls, and other procedures as needed. Thus, the differences between an audit, a review, and a compilation are as follows:
*Level of assurance*. The level of assurance that the financial statements of a client are fairly presented is at its highest for an audit and at its lowest (none at all) for a compilation, with a review somewhere in between.
*Reliance on management*. In all three cases, the auditor begins with the account balances provided by management, but an audit requires in a significant amount of corroboration of this information. A review requires some testing of the information, while a compilation almost entirely relies on the presented information.
*Understanding of internal control*. The auditor only tests the internal controls of the client in an audit; no testing is conducted for a review or a compilation.
*Work performed*. An audit requires a significant number of hours to complete, since there are many audit procedures to be performed. A review requires substantially fewer hours, while the effort associated with a compilation is relatively minor.
*Price*. It requires vastly more effort for an auditor to complete an audit, so **audits are much more expensive** than a review, which in turn is more expensive than a compilation.
Another issue is the level of demand for each of these services. The users of financial statements, such as investors and lenders, nearly always demand an audit, since it provides the greatest assurance that what they are reading is a fair representation of the financial results, financial position, and cash flows of the reporting entity. (Source: cpajournal.com)

| TABLE SEVEN<br>Pro-Forma Income Statement<br>DCC Vollmer | | | |
|---|---|---|---|
| | | Year 1 | Year 2 |
| Overhead (3% of Revenue) | $5,807 | $47,974 | $61,950 |
| Write-Off (1% of Revenue) | $1,936 | $15,991 | $20,650 |
| Total Expense | $959,962 | $1,613,725 | $1,994,439 |
| Income Loss | -$766,410 | -$14,580 | $70,566 |

## XII. Economic Feasibility

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

The Applicants are funding this project with cash in the amount of $1,705,360 and the fair market value of a lease in the amount of $750,886. The operating lease (NNN)[4] is for 10-years at a base rent of $15.00/psf[5] or the first five-years and $16.50/psf for the second five-years with two 5-year options. During the first year of the Initial Term Additional Rent is estimated to be $8.00/SF for taxes, $.50/SF for insurance, and $3.00/SF for other operating expenses.

The tenant and the landlord have common ownership. The cost per GSF of the lease is approximately $10 per GSF less than previously approved Applications for Permit in the Chicago Heights Area. The lease appears to be reasonable.

[4] A triple net lease is a lease agreement that designates the lessee, which is the tenant, as being solely responsible for all the costs relating to the asset being leased, in addition to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay the net amount for three types of costs, including net real estate taxes on the leased asset, net building insurance and net common area maintenance. The lease is an operating lease and the lease expense is paid over the life of the lease and not depreciated.
[5] Price per square foot

## 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 the meeting the State Board Standards in Part 1120 Appendix A.***

Only Clinical Costs are reviewed in this criterion. As shown below, the Applicants have met all the State Board Standards published in Part 1120, Appendix A. The Applicants are proposing 4,680 GSF of clinical space. *"Modernization" means modification of an existing health care facility by means of building, alteration, reconstruction, remodeling, replacement and/or expansion, the erection of new buildings, or the acquisition, alteration, or replacement of equipment. Modification does not include a substantial change in either the bed count or scope of the facility.*

New Construction and Contingency Costs total $772,480 or $165.05 per GSF ($772,480 ÷4,680 GSF = $165.05 per GSF). This appears reasonable when compared to the State Board Standard of $212.94 per GSF or $667,625 (4,680 GSF x $212.94 = $996,559.20).

**TABLE EIGHT**
**New Construction and Contingency Costs (3)**

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | **2021(1)** | 2022 |
|---|---|---|---|---|---|---|---|---|
| New Cost per GSF | $178.33 (2) | $183.68 | $189.19 | $194.87 | $200.71 | $206.73 | **$212.94** | $219.32 |

1. Midpoint of the construction
2. 2015 is based year costs and inflated by 3% per year.
3. See Part 1120 Appendix A Modernization and Contingency Costs ESRD

Contingency Costs are $57,220 or 7.99% of new construction costs. This appears reasonable when compared to the State Board Standard of 10% of new construction costs or $61,250.

Architectural/Engineering Fees are $30,000 or 3.88% of new construction and contingency costs of $772,480. This is reasonable when compared to the State Board Standard of 7.36-11.06% or $73,839.
Consulting and Other Fees are $15,000. The State Board does not have a standard for these costs.

Movable or Other Equipment Costs not in Construction Contracts are $386,000 or $42,889 per station ($386,000 ÷ 12 stations). This appears reasonable when compared to the State Board standard of $56,952 or $539,568 ($56,952 x 9 stations = $539,568).

**TABLE NINE**
**Movable or Other Equipment Costs (3)**

| Year | 2008 | 2016 | 2017 | 2018 | 2019 | 2020 | **2021** |
|---|---|---|---|---|---|---|---|
| Cost per Station | $39,945 (1) | $49,127 | $50,601 | $52,119 | $53,683 | $55,293 | **$56,952** |

1. 2008 is base year inflated by 3% per year to midpoint of construction.
2. 2020 midpoint of construction
3. See Part 1120 Appendix A – Movable or Other Equipment not in Construction Contracts

Fair Market Value of Leased Space of $491,830. The State Board does not have a standard for this cost.

**D) Criterion 1120.140(d) – Projected Operating Costs**

The Applicants are projecting $232.34 operating expense per treatment. The Applicants have addressed this criterion.

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

The Applicants are projecting capital costs of $6.72 per treatment. The Applicants have addressed this criterion.