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October 9, 2018

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62706

Re: Letter in Opposition to Project #17-071, Dialysis Care Center Hazel Crest

Dear Courtney,

I am writing as the Chief Financial Officer for Associates in Nephrology (AIN), and we are opposed to Project 17-071, Dialysis Care Center Hazel Crest. Our opposition is based on the very serious shortcomings pointed out by Board Staff in the State Board Staff Report prepared for the July 24, 2018 meeting, the recently submitted audited financial statements, and the several issues raised by Board members during the applicant's testimony at the July 24th meeting. In short, we ask that this Board give this project a final denial because of the negative effect it's establishment would have on other area providers, the applicant's clear financial viability issues, and the inability to bring the project's cost under the Board's standards.

Unnecessary Duplication and Historical Referrals

There are already ten (10) facilities that this Board has already approved that are either in the ramp-up phase or not even fully operational. Only 9 of the remaining 25 facilities meet the state's target utilization rate, and the number of stations per resident in the 20-minute service

area is 1.5 times the State of Illinois ratio per resident. The approval of this project will present a significant hurdle for the applicant, give their relatively small size and patient base. Ultimately, the patients will be the ones who will suffer at this underutilized facility.

We also share Board Staff's concerns with the applicant's referral letters for this project. Initially, the applicant submitted projected referrals in excess of what the physicians working for the applicant have historically referred. This inconsistency required the applicant to submit additional project referrals and State Board staff again found issues with 6 of these historical referrals, as they did not meet State Board standards. We believe this is further evidence that the applicant is unlikely to sustain a facility at the required state utilization target.

Financial Viability

We believe the audited financial statement provided by the applicant raises more questions than were raised by the Board and staff over the past several months. The audited statement reveal that the applicant's assertion of liquidity is not entirely accurate. If you look at the liability Due to Third Party Payors ($14.4 million) then you quickly realize that the company is $3.4 million short on operating cash if the due to payor becomes due in 30-days as is stated in the footnotes. This is a common problem for companies with cash flow issues and the applicant's approach to addressing the issue is not a best practice. Payor overpayments should be 100% reserved with cash on hand.

The audited financial statement also do not describe the nature of the amount due from related parties or the ability of the related parties to pay the amount owed to the company. The nature of the advances to an unconsolidated entity is also not known. The audited financial statement also reflects that trade payables (typical supplies, utilities, rent, and other operating costs) are just over $2 million and the operating expense per day is $62,300. This indicates that an unpaid operating expense balance of 33 days, which is relatively high and could indicate a cash flow problem. The statement also does not reflect any liability for salary or benefits in these statements, which could be easily explained if the employees are part of another company. However, if that entity is commonly owned, it should be included in the consolidated financial statements for the organization as a whole.

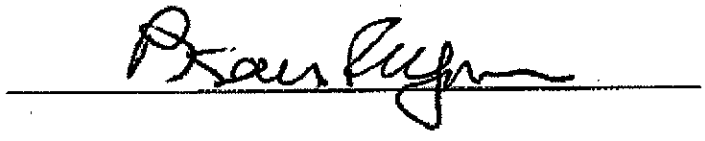
Finally, the audited financial statement indicates the company's earnings before taxes were $3.1 million, and that represents a margin of 13.6% of revenue. Most home dialysis centers carry a normal margin of greater than 20%. The applicant has no apparent source of cash for the ambitious future growth they have been telling this Board they are undertaking. When you consider that event if the due from related parties ($4.3 million) is collected on demand, the underfunding of the payor overpayment ($3.4 million) would leave cash of only $1 million to finance start-up operations and capital expansion. I would imagine that most financial experts would affirm that the cash positioning of the applicant would appear to be in a risky position. This calls into question the applicant's financial viability and overall ability to complete this and other projects.

Reasonableness Project Costs

The applicant has made no effort to supply additional information to address the previous deficiency in their application regarding reasonableness of cost. The contingency costs associated with this project are in excess of the state standard. The applicant's failure to modify their application to address an issue that was raised during their presentation before the Board is clear sign of disregard for the concerns raised by the members of this Board.

Thank you for you opportunity to provide you with my opposition to this project. I respectfully ask the Board to consider my concerns when reviewing this project and give this project a final denial.

Sincerely,



P. Kevin Flynn
Chief Financial Officer
Associates in Nephrology, SC