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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 #18-007, Dialysis Care Center Hickory Hills

Dear Courtney,

I am writing as the Chief Financial Officer for Associates in Nephrology (AIN), and we are opposed to Project 18-007, Dialysis Care Center Hickory Hills. Our opposition is based on the multiple negative findings that Board Staff raised in the State Board Staff Report prepared for the July 24, 2018 meeting and the applicant's failure to substantially address those shortcomings with supplemental information. This project should receive an Intent to Deny because the application has deficiencies that show this project is not supported by appropriate historical referrals, is financially unfeasible, and exceeds state cost standards.

Historical Referrals

We share Board Staff's concerns with the applicant's referral letters for this project. The applicant has not submitted zip code of residence for the patients reflected in this historical referral letters as required by Board rule. The applicant also has not provided a certification that these patients are not being used to support another application. This inconsistency is further

evidence that the applicant is unlikely to sustain a facility at the required state utilization target and cannot adequately document the patient base for this facility.

Financial Viability

The costs associated with this project appear to drastically underestimate what is required to establish a dialysis care facility. While the applicant points to these reduced costs as a benefit, there are several questions that must be raised. The audited financial statements also raises several issues regarding the financial viability of the applicant.

The lack of investment in this project and others filed by the applicant is likely a result of the applicant using the same cash resources to fund all of their projects and their inability to obtain financing to cover the project's costs. This bare bones approach to establishing a facility will ultimately harm the quality of patient care provided. All patients deserve access to the highest quality health care facilities, and the applicant's approach to re-purposing retail space to provide medical care is inconsistent with that idea.

There are other financial concerns with this project that the Board Staff appear to share with us. According to the information provided in the application, the facility will not be profitable in the first year of operation, and as a result the it will be unable to meet the net margin percentage ratio. Coupled with the sole reliance on the cash financing for this project, there are valid questions as to whether or not this facility could sustain operations.

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

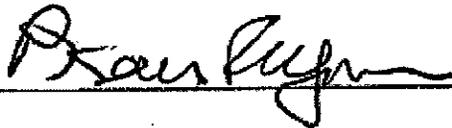
ambitious future growth they have been telling this Board they are undertaking. When you consider that event if the due from related parties (\$4.3 million) is collected on demand, the underfunding of the payor overpayment (\$3.4 million) would leave cash of only \$1 million to finance start-up operations 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,

A handwritten signature in black ink, appearing to read "P. Kevin Flynn", is written over a horizontal line.

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