

STATE OF NEW YORK
PUBLIC HEALTH AND HEALTH PLANNING COUNCIL
SPECIAL ESTABLISHMENT AND PROJECT REVIEW COMMITTEE

AGENDA

December 4, 2014
to begin immediately following the Committee on Codes, Regulations and Legislation
scheduled at 10:15 a.m.

Century House
997 New Loudon Road (Route 9)
Main Ball Room
Latham

I. SPECIAL COMMITTEE ON ESTABLISHMENT AND PROJECT REVIEW

Christopher Booth, Vice Chair

Applications for Establishment and Construction of Health Care Facilities

Dialysis Services – Establish/Construct

Exhibit #1

	<u>Number</u>	<u>Applicant/Facility</u>
1.	142058 E	Massena Center, LLC d/b/a Massena Dialysis Center (St. Lawrence County)

MEMORANDUM

TO: Members of the Public Health and Health Planning Council

FROM: Charles P. Abel, Deputy Director
Center for Health Care Facility Planning, Licensure, and Finance

SUBJECT: Project #142058 Massena Center, LLC d/b/a Massena Dialysis Center

DATE: November 25, 2014

The subject project was deferred at the November 13, 2014 Establishment and Project Review Committee (EPRC) meeting as the Committee members were seeking additional information related to New York State Board for Professional Medical Conduct disciplinary action taken against one of the proposed applicant members. It was requested that the additional material be presented at a special meeting of the EPRC to be held just prior to the full Public Health and Health Planning Council meeting on December 4, 2014.

In the intervening period, however, the applicant member who was the subject of the disciplinary action suffered a serious medical incident and has withdrawn from the project. The applicant has submitted the necessary revisions to the proposed project. Staff reviewed the revised material, found it acceptable, and a revised exhibit is provided to all members.

The Office of Primary Care and Health Systems Management recommends approval, with contingencies and conditions.



Public Health and Health Planning Council

Project # 142058-E
Massena Center, LLC d/ba/ Massena Dialysis Center

Program: Diagnostic and Treatment Center **County:** St. Lawrence
Purpose: Establishment **Acknowledged:** August 18, 2014

Executive Summary

Description

Massena Center, LLC d/b/a Massena Dialysis Center, an existing limited liability company, requests approval to acquire the 8-station Massena Memorial Hospital Dialysis Center, an extension site of Massena Memorial Hospital located at 290 Main Street, Massena in St. Lawrence County, via an Asset Purchase Agreement. The applicant plans to provide the same services currently provided.

The members of Massena Center, LLC are as follows:

	<u>Ownership %</u>
American Renal Associates LLC	60%
Craig G. Hurwitz, MD	20%
Laura G. Carbone, MD	20%

OPCHSM Recommendation
Contingent Approval.

Need Summary

This change in ownership will not change the number of dialysis stations in St Lawrence County. The facility in question is currently well-utilized, having an established patient base.

Program Summary

Based on the information reviewed, staff found nothing that would reflect adversely upon the applicant's character and competence or standing in the community.

Financial Summary

There are no project costs associated with this application. The purchase price of \$600,000 will be provided by \$202,552 in equity from the proposed members and \$397,448 from an intercompany term loan at 5% over five years from American Renal Associates.

Budget:	Revenues:	\$2,647,497
	Expenses:	<u>2,430,615</u>
	Gain:	\$ 216,882

Subject to noted contingencies, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner.

Recommendations

Health Systems Agency

There will be no HSA recommendation for this project.

Office of Primary Care and Health Systems Management

Approval contingent upon:

1. Submission of an executed transfer and affiliation agreement, acceptable to the Department, with a local acute care hospital. [HSP]
2. Submission of an executed Administrative Services Agreement (ASA), acceptable to the Department. [HSP]
3. Submission of an executed Medical Director Agreement, acceptable to the Department. [HSP]
4. Submission of an executed building lease acceptable to the Department of Health. [BFA]
5. Submission of an executed employee lease acceptable to the Department of Health. [BFA]
6. Submission of an executed equipment lease acceptable to the Department of Health. [BFA]
7. Submission of the finalized and executed lease agreement between the applicant and Massena Memorial Hospital, acceptable to the Department. [CSL]
8. Submission of an executed amendment to the Operating Agreement of Massena Center, LLC, acceptable to the Department. [CSL]

Approval conditional upon:

1. The project must be completed within three years from the date of the Public Health and Health Planning Council recommendation letter. Failure to complete the project within the prescribed time shall constitute an abandonment of the application by the applicant and an expiration of the approval. [PMU]
2. The staff of the facility must be separate and distinct from other adjacent entities. [HSP]
3. The signage must clearly denote the facility is separate and distinct from other adjacent entities. [HSP]
4. The entrance to the facility must not disrupt any other entity's clinical program space. [HSP]
5. The clinical space must be used exclusively for the approved purpose. [HSP]

Council Action Date

December 4, 2014

Need Analysis

Background

Massena Center, LLC d/b/a Massena Dialysis Center is seeking approval for the acquisition of Massena Memorial Hospital Dialysis Center, an 8-station chronic renal dialysis center located at 290 Main Street, Massena, NY 13662. The Center is currently operating as an extension clinic of Massena Memorial Hospital, a 50-bed public hospital located at 1 Hospital Drive, Massena, NY 13662. Both the hospital and the clinic are located in St. Lawrence County.

Massena Memorial Hospital has stated that, due to operating losses, they may have to close Massena Memorial Hospital Dialysis Center if they are unable to sell it.

Demographic Information

The population of St. Lawrence County in 2013 was 111,963. The population was 7.6% non-white and 15.0% over the age of 65. Those two demographics are the most at-risk for developing end stage renal disease.

	<u>St Lawrence County</u>	<u>New York State</u>
Ages 65 and over:	15.0%	14.4%
Non-white:	7.6%	42.4%

Source: U.S. Census 2013

Capacity

The Department's methodology to estimate capacity for chronic dialysis stations is specified in Part 709.4 of Title 10 and is as follows:

- One free-standing station represents 702 treatments per year. This is based on the expectation that a center will operate 2.5 patient shifts per day at 6 days per week, which can accommodate 15 patients per week (2.5 x 6 x 15 x 52 weeks). This projected 702 treatments per year is based on a potential 780 treatments x 52 weeks x 90% utilization rate = 702. The estimated average number of dialysis procedures each patient receives per year is 156.
- One hospital-based station is calculated at 499 treatments per year per station. This is the result of 2.0 shifts per day x 6 days per week x 52 weeks x 80% utilization rate. One hospital-based station can treat 3 patients per year.
- Per Department policy, hospital-based stations may treat fewer patients per year than do free-standing stations. Statewide, the majority of stations are free-standing, as are the majority of applications for new stations. As such, when calculating the need for additional stations, the Department bases the projected need on establishing additional free-standing stations.
- There are currently 32 free-standing chronic dialysis stations operating in St. Lawrence County and 0 in pipeline for a total of 32.
- Based upon DOH methodology, the 32 existing free standing stations in St. Lawrence County could treat a total of 144 patients annually. Including the additional 0 pipeline stations, the county could treat a total of 144 patients annually.

Need Projections

	2012	2013	2017	
	Total Patients Treated	Total Residents Treated	Projected Total Patients Treated ¹	Projected Residents Treated ²
		118	116	137
Free-standing Stations Needed	27	26	31	30
Existing Stations	32	32	32	32
Pipeline Stations	0	0	0	0
Total stations with Pipeline	32	32	32	32
With Approval of this CON	32	32	32	32
Unmet Need with Approval	-5	-6	-1	-2

¹Patient data is from 2012 and is projected out 5 years, assuming a 3% annual rate of increase.

²Resident data is from 2013 and is projected out 4 years, assuming a 3% annual rate of increase.

The data in the first row, "Free Standing Stations Needed," comes from the DOH methodology of each station being able to treat 4.5 patients, and each hospital station being able to treat 3 patients annually. The data in the next row, "Existing Stations," comes from the Department's Health Facilities Information System (HFIS). "Unmet Need" comes from subtracting needed stations from existing stations. "Total Patients Treated" is from IPRO data from 2013 of information.

Conclusion

St Lawrence County is currently over-served by renal dialysis, and demand is not expected to overtake supply through 2017. However, if this facility were to close the County would be underserved. In light of the fact that this project would not add stations, and that the loss of existing resources would leave gaps in this critical service, approval is recommended.

Recommendation

From a need perspective, approval is recommended.

Program Analysis

Project Proposal

Massena Center, LLC d/b/a Massena Dialysis Center, an existing limited liability company, requests approval to acquire the 8-station Massena Memorial Hospital Dialysis Center, an extension site of Massena Memorial Hospital. The existing center is located at 290 Main Street, Massena, NY (St. Lawrence County). There are no significant programmatic changes anticipated as a result of this proposal. The applicant plans to provide the same services which currently appear on the Massena Memorial Hospital Dialysis Center Operating Certificate.

Proposed Operator	Massena Center, LLC
Doing Business As	Massena Dialysis Center
Site Address	290 Main Street Massena, NY (St Lawrence County)
Approved Services	Chronic Renal Dialysis (8 stations) Home Peritoneal Dialysis Training & Support
Shifts/Hours/Schedule	Three shifts per day, 6 days per week Open Monday through Saturday, 5:30am – 9pm
Staffing (1 st Year / 3 rd Year)	Number and mix of staff based on current operations (13.3 FTEs)
Medical Director(s)	Khurram Mumtaz, MD

Emergency, In-Patient and Backup Support Services Agreement and Distance	Expected to be provided by Massena Memorial Hospital (limited acute care) 1.59 miles / 3 minutes <i>and</i> Champlain Valley Physicians' Hospital 83.14 miles / 1 hour, 39 minutes
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Character and Competence

The members of the LLC are:

<u>Name</u>	<u>Percent</u>
American Renal Associates, LLC (ARA)	60%
American Renal Holdings, Inc. (100%)	
Manager- Joseph A. Carlucci (Pres./CEO)	
Manager - John J. McDonough (COO)	
Individual Physician Owners	40%
Craig G. Hurwitz, MD	20%
Laura G. Carbone, MD	20%

American Renal Holdings, Inc. (ARH) is a national provider of kidney dialysis services which owns and operates over 150 dialysis clinics in 21 states and the District of Columbia. The Company's operating model is based on shared ownership of its facilities with nephrologists practicing in the area served by the clinic. Each clinic is maintained as a separate joint venture in which the ARH owns a controlling interest.

Currently, American Renal is affiliated with three (3) dialysis centers in New York State: Elizabethtown Center, LLC; Mohawk Valley Dialysis Center, LLC; and Plattsburgh Associates, LLC.

Drs. Hurwitz and Carbone are local physicians, board-certified in Internal Medicine and Nephrology.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Drs. Carbone and Hurwitz each disclosed one (1) pending malpractice case.

Additionally, the staff from the Division of Certification & Surveillance reviewed the ten-year surveillance history of all associated facilities. Sources of information included the files, records, and reports found in the Department of Health. Included in the review were the results of any incident and/or complaint investigations, independent professional reviews, and/or comprehensive/focused inspections. The review found that any citations were properly corrected with appropriate remedial action.

Summary of Dialysis Facility Compare Statistics

The table below provides the Summary Statistic (which is the percent of scores at, or better than, the New York State average) of the dialysis facility to be acquired and the three (3) dialysis facilities in New York State that the proposed management corporation (ARA) currently operates

The Summary Statistic is intended to be a rough indicator of performance. *(Higher is better.)*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Operator	Sites	Reportable Statistics per Site	Total Statistics Possible	Statistics Not Available or Do Not Apply	Denominator	Statistics Not Reported	Statistics worse than NYS Average	Numerator	Summary Statistic [at or better than NYS Average]
			(1) x (2)		(3)-(4)			(6)+(7)	1.00-((8)/(5))
Massena	1	10	10	1	9	0	2	2	78%
ARA's NY facilities	3	10	30	15	15	0	7	7	53%

Data taken from <http://www.medicare.gov/DialysisFacilityCompare/search.html> as it appeared on September 24, 2014.

Recommendation

From a programmatic perspective, approval is recommended.

Financial Analysis

Asset Purchase Agreement

The change in ownership will be effectuated in accordance with an executed asset purchase agreement, the terms of which are summarized below:

Date:	August 7, 2014
Seller:	Massena Memorial Hospital
Purchaser :	Massena Center, LLC
Purchased Assets:	All assets used in the operation of the facility: facilities; equipment; supplies and inventory; prepaid expenses; documents and records; assignable leases, contracts, licenses and permits; telephone numbers, fax numbers and all logos; accounts and notes receivable; cash, deposits and cash equivalents
Excluded Assets:	Any security, vendor, utility or other deposits with any Governmental Entity; any refunds, debtor claims, third-party retroactive adjustments and related documents prior to closing.
Assumed Liabilities:	Those associated with purchased assets.
Excluded Liabilities:	Pre-closing debt, obligations or liabilities of seller.
Purchase Price:	\$600,000.
Payment of Purchase Price:	Cash to be paid at closing.

The proposed members will commit to capital contributions of \$202,552 based on their membership interest, with the remaining \$397,448 to be financed. BFA Attachment D is the schedule of capital contributions.

The proposed members have submitted an original affidavit, which is acceptable to the Department, in which the applicant agrees, notwithstanding any agreement, arrangement or understanding between the applicant and the transferor to the contrary, to be liable and responsible for any Medicaid overpayments made to the facility and/or surcharges, assessments or fees due from the transferor pursuant to Article 28

of the Public Health Law with respect to the period of time prior to the applicant acquiring interest, without releasing the transferor of its liability and responsibility.

Administrative Services Agreement

Massena Center, LLC will enter into an Administrative Services Agreement with American Renal Management, LLC. The consultant would provide certain professional business and administrative services to the renal dialysis center relating to the operation of the facility.

The applicant has submitted an executed agreement, which is summarized below:

Date:	August 7, 2014
Facility:	Massena Center, LLC d/b/a Massena Dialysis Center
Contractor:	American Renal Management, LLC
Administrative Term:	3 years, with option to renew for three additional terms of 3 year periods.
Compensation:	\$200,000 per annum (\$16,666.67/month) for administrative services, billing and collection.
Duties of the Contractor:	Financial Management Services, Strategic Planning and Development, Policies and Procedures, Contracting Services, Personnel, Supplies, Maintenance and repair of equipment, Operating Licenses and Banking, Billing and Collection Services.

While American Renal Management, LLC will be providing all of the above services, the Facility retains ultimate control in all of the final decisions associated with the services through their managing committee which is comprised of the CEO and COO of American Renal Associates, Dr. Craig Hurwitz and Dr. Laura Carbone.

Lease Agreement

The applicant has submitted a draft lease rental agreement for the site to be occupied, the terms of which are summarized below:

Premises:	6,120 square feet located at 290 Main Street, Massena, New York
Landlord:	Massena Memorial Hospital
Tenant:	Massena Center, LLC
Term:	10 Years with two additional 5 year renewals.
Rental:	\$119,340 per annum (\$19.50 per sq. ft.) or \$9,945 per month
Provisions:	The lessee shall be responsible for utilities.

The proposed lease agreement is an arm's length transaction since neither party is related. Letters of opinion from license commercial real estate brokers have been submitted indicating rent reasonableness.

Leased Employee Agreement

The applicant has submitted a draft lease employee agreement whereas Massena Memorial Hospital will lease qualified and licensed employees to Massena Center, LLC for a period of five years with five successive 5 year renewals at a fee of \$1,111,472 and \$ 1,176,669 for the first and third years, respectively, based on job description and title of current hospital employees. These fees represent salaries, wages and benefits passed through to the applicant by the Hospital.

Equipment Lease Agreement

The applicant has submitted a draft lease rental agreement whereas Massena Memorial Hospital will lease certain equipment to Massena Center, LLC for a period of 12 months at a fee of \$1,000 per month.

Operating Budget

The applicant has submitted an operating budget for the first and third years, in 2014 dollars, which is summarized below:

	<u>Year One</u>	<u>Year Three</u>
Total Revenues	\$2,500,808	\$2,647,497
Expenses:		
Operating	\$2,108,448	\$2,212,530
Capital	<u>223,477</u>	<u>218,085</u>
Total Expenses	\$2,331,925	\$2,430,615
Net Income(Loss)	<u>\$168,883</u>	<u>\$216,882</u>
Utilization: (treatments)	6,947	7,354
Cost Per Treatment	\$335.67	\$330.52

Utilization by payor source for the first and third years is as follows:

Medicare Fee-For-Service	78.83%
Medicaid Managed Care	6.84%
Commercial Fee-For-Service	9.87%
Other	4.46%

Expense and utilization assumptions are based on historical data from Massena Memorial Hospital and comparable clinics from the geographical area.

Capability and Feasibility

There are no project costs associated with this application. The purchase price of \$600,000 will be provided by \$202,552 in equity from the proposed members and \$397,448 from an intercompany term loan at 5% over five years from American Renal Associates.

Working capital requirements, estimated at \$388,654, appear reasonable based on two months of first year expenses and will be provided through \$194,327 equity of the proposed members and the remaining \$194,327 through an intercompany term loan from American Renal Associates at 5% over five years. A letter of interest has been submitted by American Renal Associates. Presented as BFA Attachment B is the financial statement of American Renal Associates, LLC showing sufficient equity. Presented as BFA Attachment C is the pro forma balance sheet of Massena Dialysis Center as of the first day of operation, which indicates positive equity of \$202,552.

The submitted budget projects a net profit of \$168,883 and \$216,882 during the first and third years, respectively. Medicare and Medicaid reflect prevailing reimbursement methodologies. All other revenues assume current reimbursement methodologies. The budget appears reasonable.

Subject to noted contingencies, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner, and approval is recommended.

Recommendation

From a financial perspective, contingent approval is recommended.

Attachments

BFA Attachment A	Net Worth Statement of Proposed Physicians
BFA Attachment B	Financial Summary of American Renal Associates, LLC
BFA Attachment C	Pro Forma Balance Sheet
BFA Attachment D	Schedule of Capital Contributions
HSP Attachment A	Massena Center, LLC - "Dialysis Facility Compare"

AMERICAN RENAL HOLDINGS INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except for share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash	\$ 41,820	\$ 32,864
Accounts receivable, less allowance for doubtful accounts of \$5,155 and \$4,149 at June 30, 2014 and December 31, 2013, respectively	63,865	69,242
Inventories	3,495	4,440
Prepaid expenses and other current assets	14,441	9,155
Income tax receivable	1,155	1,155
Deferred tax assets	2,846	6,592
Total current assets	127,625	123,448
Property and equipment, net	115,090	109,774
Deferred financing costs, net	2,450	2,549
Intangible assets, net	29,396	31,759
Other long-term assets	5,971	7,134
Goodwill	563,350	563,200
Total assets	<u>\$ 843,882</u>	<u>\$ 837,864</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 17,177	\$ 27,372
Accrued compensation and benefits	20,208	17,104
Accrued expenses and other current liabilities	34,458	34,007
Current portion of long-term debt	11,898	11,001
Current portion of capital lease obligations	34	57
Total current liabilities	83,775	89,536
Long-term debt, less current portion	639,010	637,053
Capital lease obligations, less current portion	-	5
Other long-term liabilities	7,156	6,444
Deferred tax liabilities	14,052	14,461
Commitments and contingencies		
Noncontrolling interests subject to put provisions	89,328	82,539
Equity:		
Common stock, no par value, 1,000 shares authorized, issued and outstanding as June 30, 2014 and December 31, 2013		
Additional paid-in capital	(1,428)	4,443
Receivable from shareholders	(531)	(271)
Accumulated deficit	(164,440)	(171,140)
Accumulated other comprehensive income, net of tax	221	835
Total American Renal Holdings Inc. deficit	(166,178)	(166,133)
Noncontrolling interests not subject to put provisions	176,739	173,989
Total equity	10,561	7,826
Total liabilities and equity	<u>\$ 843,882</u>	<u>\$ 837,864</u>

AMERICAN RENAL HOLDINGS INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Patient service operating revenues	\$ 139,492	\$ 122,654	\$ 270,008	\$ 239,135
Provision for uncollectible accounts	(72)	(860)	(1,006)	(1,632)
Net patient service operating revenues	139,420	121,794	269,002	237,503
Operating expenses:				
Patient care costs	81,330	68,421	160,214	138,915
General and administrative	15,601	14,784	30,436	44,534
Transaction-related costs	—	31	—	533
Depreciation and amortization	6,858	5,752	13,497	11,450
Total operating expenses	103,789	88,988	204,147	195,432
Operating income	35,631	32,806	64,855	42,071
Interest expense, net	(11,213)	(10,087)	(21,846)	(16,585)
Loss on early extinguishment of debt	—	—	—	(21,503)
Income before income taxes	24,418	22,719	43,009	3,983
Income tax expense (benefit)	3,447	2,366	5,324	(9,945)
Net income	20,971	20,353	37,685	13,928
Less: Net income attributable to noncontrolling interests	(16,638)	(16,025)	(30,985)	(29,858)
Net income (loss) attributable to American Renal Holdings Inc.	\$ 4,333	\$ 4,328	\$ 6,700	\$ (15,930)

AMERICAN RENAL HOLDINGS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2013 and 2012

(in thousands, except share and per share data)

	2013	2012
Assets		
Current assets:		
Cash	\$ 32,864	\$ 26,322
Accounts receivable, less allowance for doubtful accounts of \$4,149 and \$3,985 at December 31, 2013 and 2012, respectively	69,242	60,019
Inventories	4,440	2,820
Prepaid expenses and other current assets	9,155	8,307
Income tax receivable	1,155	
Deferred tax asset	6,592	5,299
Total current assets	<u>123,448</u>	<u>102,767</u>
Property and equipment, net	109,774	91,026
Deferred financing costs, net	2,549	3,932
Intangible assets, net	31,759	34,480
Other long term assets	7,134	3,238
Goodwill	<u>563,200</u>	<u>547,466</u>
Total assets	<u>\$ 837,864</u>	<u>\$ 782,909</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 27,372	\$ 18,972
Accrued compensation and benefits	17,104	13,493
Accrued expenses and other current liabilities	34,002	31,512
Amount due to sellers	-	675
Current portion of long-term debt	11,001	3,644
Current portion of capital lease obligations	57	98
Total current liabilities	<u>89,536</u>	<u>68,424</u>
Long term debt, less current portion	637,053	257,943
Capital lease obligations, less current portion	5	129
Other long term liabilities	6,444	4,213
Deferred tax liabilities	14,461	16,935
Commitments and contingencies (notes L and P)		
Noncontrolling interests subject to put provisions	82,539	61,207
Equity:		
Common stock, no par value, 1,000 shares authorized, issued and outstanding at December 31, 2013 and 2012	-	-
Additional paid in capital	4,443	188,945
Receivable from shareholders	(271)	(285)
Accumulated (deficit) earnings	(171,140)	20,779
Accumulated other comprehensive income, net of tax	835	
Total American Renal Holdings Inc. (deficit) equity	<u>(166,133)</u>	<u>209,439</u>
Noncontrolling interests not subject to put provisions	173,959	164,619
Total equity	<u>7,826</u>	<u>374,058</u>
Total liabilities and equity	<u>\$ 837,864</u>	<u>\$ 782,909</u>

AMERICAN RENAL HOLDINGS INC. AND SUBSIDIARIES

Consolidated Statements of Operations
 Years ended December 31, 2013 and 2012
 (in thousands)

	<u>2013</u>	<u>2012</u>
Patient service operating revenues	\$ 498,699	\$ 424,010
Provision for uncollectible accounts	2,773	2,543
Net patient service operating revenues	<u>495,926</u>	<u>421,467</u>
Operating expenses:		
Patient care costs	288,384	244,973
General and administrative	72,450	45,783
Transaction-related costs	533	-
Depreciation and amortization	23,707	20,991
Total operating expenses	<u>385,074</u>	<u>311,747</u>
Operating income	110,852	109,720
Interest expense, net	(39,396)	(23,711)
Loss on early extinguishment of debt	<u>(21,503)</u>	<u>-</u>
Income before income taxes	49,953	86,009
Income tax (benefit) expense	<u>(3,194)</u>	<u>15,774</u>
Net income	53,147	70,235
Less: Net income attributable to noncontrolling interests	<u>(62,074)</u>	<u>(50,808)</u>
Net (loss) income attributable to American Renal Holdings Inc.	<u>\$ (8,927)</u>	<u>\$ 19,427</u>

Massena Center, LLC
Pro Forma Balance Sheet

		<u>Day 1</u>
Assets		
Current Assets		
(1)	Cash	\$252,552
(2)	Net Patient Accounts Receivable	\$0
(3)	Inventory	\$0
(4)	Prepaid Expenses	\$0
(5)	Construction Pending Financing	\$0
(6)	Other Current Assets	\$0
(7)	Total Current Assets	<u>\$ 252,552</u>
(8)	Net Property, Plant & Equipment	\$200,000
(9)	Net Intangible Assets	\$550,000
(10)	Other Assets	\$0
(11)	Total Assets	<u>\$ 1,002,552</u>
Liabilities & Equity		
Liabilities		
(12)	Accounts Payable	\$0
(13)	Other Current Liabilities	\$0
(14)	Accrued Expenses	\$0
(15)	Due to ARA	\$0
Long and Short Term Debt		
(16)	Corporate	\$0
(17)	Facility	\$800,000
(18)	Total Liabilities	<u>\$ 800,000</u>
Equity		
(19)	Stock	\$0
(20)	Equity - ARA (facility)	\$103,302
(21)	Equity - Partners	\$99,250
(23)	Distributions - ARA	\$0
(24)	Distributions - Partners	\$0
(26)	Retained Earnings	\$0
(27)	Net Equity	<u>\$202,552</u>
(28)	Total Liabilities & Equity	<u>\$ 1,002,552</u>

MASSENA CENTER, LLC

MEMBERSHIP INTERESTS

<u>Member Name and Address</u>	<u>Percentage of Membership Interest</u>	<u>Capital Contribution Commitment</u>
American Renal Associates LLC 500 Cummings Center Suite 6550 Beverly, MA 01915	60%	\$121,531.20*
Craig G. Hurwitz, M.D. Northern Nephrology & Hypertension 159 Margaret St Suite 600 Plattsburgh, NY 12901	20%	\$40,510.40*
Laura G. Carbone, M.D. 11 Hammond Lane Plattsburgh, NY 12901	20%	\$40,510.40*
Totals	100%	Up to \$202,552 (represents approximately 20.25% of the acquisitions costs with remainder financed)

*The Capital Contribution commitments listed above may be made in one or more than one installment. The maximum Capital Contribution amounts listed above shall be deemed, notwithstanding the actual making of such Capital Contribution in more than one installment, absolute Capital Contribution Commitments of the Members and not "additional Capital Contributions" pursuant to a Capital Call under Section 3.3 of the Agreement. If made in more than one installment, each installment shall be made by each Member in his or its Membership Interest percentage of the total installment amount required of all Members on any occasion. Guaranty obligations incurred pursuant to Section 3.2 shall not constitute Capital Contributions, unless and except to the extent that payment is made upon demand under any guaranty (and, in the case of any Excess Guaranty Payment, where an election shall not have been made to treat the same as a loan) in accordance with Section 3.4. Any Capital Contribution by a Member resulting from a payment upon demand under such Member's guaranty shall not be deemed to reduce any outstanding and unpaid Capital Contribution commitment of such Member.