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CN21-18

October 29, 2020

Eric Hernandez, Program Manager
Certificate of Need Program
Department of Health
111 Israel Road Southeast
Tumwater, WA 98501

VIA EMAIL

Dear Mr. Hernandez:

Enclosed please find a copy of a certificate of need application for the Puget Sound Kidney Centers (PSKC) proposing to add one station to the existing PSKC Anacortes Kidney Center, located in the Skagit County Dialysis Planning Area.

Also, please note that the appropriate review and processing fee of \$25,054 was previously sent to the Certificate of Need Program on October 27, 2020.

Should you have any questions, please do not hesitate to contact me.

Sincerely,


A handwritten signature in blue ink, appearing to read "Amanda Crain", is written over a faint, light blue circular watermark.

Amanda Crain,
Chief Operating Officer

Certificate of Need Application Kidney Disease Treatment Facilities

Certificate of Need applications must be submitted with a fee in accordance with Washington Administrative Code ([WAC](#)) 246-310-990.

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington ([RCW](#)) 70.38 and [WAC 246-310](#), rules and regulations adopted by the Washington State Department of Health. I attest that the statements made in this application are correct to the best of my knowledge and belief.

<p>Signature and Title of Responsible Officer:</p> <div style="text-align: center; margin: 10px 0;">  </div> <p>Amanda Crain, Chief Operating Officer Email Address: Amandac@pskc.net</p>	<p>Date: October 29, 2020</p> <p>Telephone Number: 425-259-1827</p>
<p>Legal Name of Applicant:</p> <p>Puget Sound Kidney Centers</p> <p>Address of Applicant:</p> <p>1019 Pacific Ave Everett, WA 98201</p>	<p>Provide a brief project description:</p> <p>Expand existing PSKC Anacortes by one station</p> <p>Estimated capital expenditure: \$15,235</p>
<p>This application is submitted under (check one box only):</p> <p><input type="checkbox"/> Concurrent Review Cycle 1 – Special Circumstances:</p> <p><input type="checkbox"/> Concurrent Review Cycle 1 – Nonspecial Circumstance</p> <p>-----</p> <p><input checked="" type="checkbox"/> Concurrent Review Cycle 2 – Special Circumstances:</p> <p><input type="checkbox"/> Concurrent Review Cycle 2 – Nonspecial Circumstance</p>	
<p>Identify the Planning Area for this project as defined in WAC 246-310-800(15):</p> <p><u>Skagit County Dialysis Planning Area</u></p>	



PUGET SOUND
kidney centers

Care. Compassion. Community.

**CERTIFICATE OF NEED APPLICATION
SPECIAL CIRCUMSTANCES**

**EXPANSION OF
PUGET SOUND KIDNEY CENTER ANACORTES,
SKAGIT COUNTY DIALYSIS PLANNING AREA**

October 2020

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**SECTION 1
APPLICANT DESCRIPTION**

1. Provide the legal name(s) and address(es) of the applicant(s)

Note: The term “applicant” for this purpose includes any person or individual with a ten percent or greater financial interest in the partnership or corporation or other comparable legal entity.

The legal name of the applicant is Puget Sound Kidney Centers (PSKC). PSKC is a State of Washington 501(c) (3) nonprofit corporation. No person, or entity, holds any financial interest in PSKC.

2. Identify the legal structure of the applicant (LLC, PLLC, etc.) and provide the UBI number.

PSKC is a State of Washington 501(c) (3) nonprofit corporation. PSKC’s UBI number is: 600401431.

3. Provide the name, title, address, telephone number, and email address of the contact person for this application.

Questions regarding this application should be addressed to:

Amanda Crain,
Chief Operating Officer
Puget Sound Kidney Centers
1019 Pacific Ave
Everett, WA 98201
Email: amandac@pskc.net
Phone: 425-259-1827

- 4. Provide the name, title, address, telephone number, and email address of the consultant authorized to speak on your behalf related to the screening of this application (if any).**

The consultant authorized to speak on behalf of the screening related to this application is:

Jody Carona
Health Facilities Planning & Development
120 1st Avenue West, Suite 100
Seattle, WA 98119
(206) 441-0971
Email: healthfac@healthfacilitiesplanning.com

- 5. Provide an organizational chart that clearly identifies the business structure of the applicant(s).**

Exhibit 1 contains the organizational chart for PSKC.

- 6. Identify all healthcare facilities owned, operated by, or managed by the applicant. This should include all facilities in Washington State as well as out-of-state facilities and should identify the license/accreditation status of each facility.**

Table 1 includes the information requested on the seven operational outpatient centers owned and operated by PSKC. These facilities are located throughout Snohomish, Skagit, Island and Pierce Counties. All seven of these facilities are Medicare and Medicaid certified.

Table 1
PSKC Dialysis Facilities
Planning Area, Number of Stations and Services Provided

Facility	Year Opened	Address	Planning Area	No. of Stations	Services
PSKC Everett	1981	1005 Pacific Avenue Everett WA 98201	Snohomish 2	25	In-center hemodialysis services including maintenance hemodialysis, Acute Kidney Injury (AKI) patient and visitor dialysis, backup hemodialysis for home patients as well as peritoneal dialysis and home hemodialysis training. Isolation and permanent bed provided, along with shifts starting after 5pm.
PSKC South	1997	21309 44th Ave W. Mountlake Terrace, WA 98043	Snohomish 3	31	
PSKC Smokey Point	2005	18828 Smokey Point Blvd Arlington, WA 98223	Snohomish 1	28	
PSKC Whidbey Island	2012	430 SE Midway Blvd, Oak Harbor, WA 98277	Island County	9	
PSKC Anacortes	2014	809 31 st Street Anacortes, WA 98221	Skagit County	5	
PSKC Monroe	2014	18121 149th St. SE Monroe, WA 98272	Snohomish 2	12	
PSKC Lakewood	2019	11950 47 th Ave SW Lakewood, WA 98499	Pierce 5	29	

Source: Applicant

In addition to the seven PSKC owned and operated outpatient dialysis facilities, PSKC also provides inpatient dialysis at Providence Regional Medical Center – Everett.

PSKC is also CN approved to develop and operate four new facilities (a new 19-station facility in Shoreline, King County Planning Area 1, a 10-station dialysis facility in Arlington, Snohomish County Planning Area 1, an 8 station dialysis facility in Silverdale, Kitsap County and a 24-station facility in Vancouver, Clark County). The Vancouver facility is currently under legal appeal by DaVita and Fresenius.

Beginning in October 2018, PSKC began managing Olympic Peninsula Kidney Center (OPKC) with facilities located in Kitsap and Jefferson Counties. The requested information on OPKC's facilities is included in Table 2.

**Table 2
OPKC Dialysis Facilities (Managed by PSKC)
Planning Area, Number of Stations and Services Provided**

Facility	Year Opened	Address	Planning Area	No. of Stations	Services
OPKC Bremerton	1980	2613 Wheaton Way Bremerton, WA 98310	Kitsap	19	In-center hemodialysis services including maintenance hemodialysis, Acute Kidney Injury (AKI) patient and visitor dialysis. Isolation and permanent bed provided, along with shifts starting after 5pm. This facility has been operating the 4 stations that were previously located at the Coordinated Care Unit. A CN application has been submitted requesting to make this a permanent transfer.
OPKC South (Port Orchard)	2001 ¹	1476 Olney Avenue SE Port Orchard, WA 98366	Kitsap	11	In-center hemodialysis services including maintenance hemodialysis, Acute Kidney Injury (AKI) patient and visitor dialysis, backup hemodialysis for home patients as well as peritoneal dialysis and home hemodialysis training. Isolation and permanent bed provided, along with shifts starting after 5pm.
OPKC North (Poulsbo)	2006	19472 Powder Hill Pl. Suite 100 Poulsbo, WA 98370	Kitsap	8	In-center hemodialysis services including maintenance hemodialysis, Acute Kidney Injury (AKI) patient and visitor dialysis, backup hemodialysis for home patients as well as peritoneal dialysis and home hemodialysis training. Isolation and permanent bed provided, along with shifts starting after 5pm.
OPKC Northwest (Port Townsend)	2010	2500 Sims Way Suite 102 Port Townsend, WA 98368	Jefferson	6	In-center hemodialysis services including maintenance hemodialysis, Acute Kidney Injury (AKI) patient and visitor dialysis, backup hemodialysis for home patients as well as peritoneal dialysis and home hemodialysis training. Isolation and permanent bed provided, along with shifts starting after 5pm.

Source: Applicant

PSKC does not own, operate, or manage any facilities outside of Washington State.

¹ Relocated to new location in 2019 per CN #1716R.

SECTION 2 PROJECT DESCRIPTION

1. Provide the name and address of the existing facility.

The name of the existing facility is PSKC Anacortes. The address of PSKC Anacortes is:

809 31st Street
Anacortes, WA 98221

2. Provide the name and address of the proposed facility. If an address is not yet assigned, provide the county parcel number and the approximate timeline for assignment of the address.

Not applicable for Special Circumstances projects.

3. Provide a detailed project description of the proposed project.

PSKC Anacortes is currently CN approved and certified to operate five in-center stations, which includes one permanent bed station, and one CN exempt isolation station. Additionally, PSKC Anacortes is authorized to train home hemodialysis and peritoneal dialysis patients. This project proposes to add one additional in-center station to PSKC Anacortes. Consistent with the requirements of WAC 246-310-818, PSKC-Anacortes has operated above 5.0 patients per station for the most recent six-month period on its five stations.

4. Identify any affiliates for this project, as defined in [WAC 246-310-800\(1\)](#).

Per WAC 246-310-800 (1) "Affiliate" or "affiliated" means:

- (a) Having at least a ten percent but less than one hundred percent ownership in a kidney dialysis facility;
- (b) Having at least a ten percent but less than one hundred percent financial interest in a kidney dialysis facility; or
- (c) Three years or more operational management responsibilities for a kidney dialysis facility.

There are no affiliates associated with this project.

5. With the understanding that the review of a Certificate of Need application typically takes 6-9 months, provide an estimated timeline for project implementation, below:

As outlined in WAC 246-310-806, the concurrent review timeline for the Special Circumstances Cycle 2 indicates that decisions will be rendered by mid-February 2021. Assuming a timely decision, and further assuming that project implementation means ready for survey, PSKC anticipates that the project will be implemented in March 2021 as depicted in Table 3.

**Table 3
PSKC Anacortes Timeline**

Event	Anticipated Date
Design Complete	Not applicable
Construction Commenced	Not applicable
Construction Completed	Not applicable
Facility Prepared for Survey	March 2021
Stations Operational	March 2021

Source: Applicant

6. Identify the Month/Year the facility is expected to be operational as defined in [WAC 246-310-800\(12\)](#).

WAC 246-310-800 (12) defines operational as:

“Operational” means the date when the kidney dialysis facility provides its first dialysis treatment in newly approved certificate of need stations, including relocated stations

As noted in Table 3, and because there is no construction, this date will be in March 2021.

- 7. Provide a detailed description of the services represented by this project. For existing facilities, this should include a discussion of existing services and how these would or would not change as a result of the project. Services can include but are not limited to in-center hemodialysis, home hemodialysis training, peritoneal dialysis training, a late shift (after 5:00 pm), etc.**

PSKC Anacortes currently provides the following services:

- Outpatient maintenance hemodialysis.
- Isolation in a private room.
- A bed for patients who are unable to dialyze in an upright position.
- Home peritoneal and home hemodialysis training.
- Back up support treatments for both home hemodialysis and home peritoneal dialysis patients.
- Hemodialysis services for visitors.
- Shift beginning after 5:00 PM.

This Special Circumstances CN request will not change the services listed above.

- 8. Provide a general description of the types of patients to be served by the facility at project completion.**

PSKC Anacortes serves the following patient population:

- *Stable hemodialysis patients* who are unable, unwilling, or otherwise not interested in dialyzing at home.
- *Home hemodialysis patients* who require home training and occasional facility backup treatments.
- *Visiting or transient hemodialysis patients.*
- *Other home patients (peritoneal)* who require training and occasional facility backup treatments.
- *Patients needing to be isolated* while dialyzing.
- *Patients needing a bed* while dialyzing.

This Special Circumstances CN request will not change the types of patients served.

- 9. Provide a copy of the letter of intent that was already submitted according to [WAC 246-310-080](#).**

A copy of the Letter of Intent is included in Exhibit 2.

10. Provide single-line drawings (approximately to scale) of the facility, both before and after project completion. Reference [WAC 246-310-800\(11\)](#) for the definition of maximum treatment area square footage. Ensure that stations are clearly labeled with their square footage identified, and specifically identify future expansion stations (if applicable).

A single line drawing, with the requested information, is included in Exhibit 3. The proposed additional station is numbered with a 6 on the drawings. Table 4 provides the requested information for PSKC following the addition of the one new station.

**Table 4
PSKC Anacortes
Actual Square Footage and Maximum Allowable Treatment Area Square Footage at
Project Completion**

Category	Square Footage
Actual Square Footage	
Treatment Floor Space- Stations Actual	
In-center Dialysis Station (5)	480
Isolation Station (1)	224
Permanent Bed Station (1)	96
Future Stations (2)	192
Sub-Total Treatment Floor Space	992
Other Treatment Floor Space	1,433
Total Treatment Floor Space	2,425
Non Treatment Floor Space	4,236
Total Square Footage - Actual	6,511
Maximum Allowable Treatment Area Square Footage Calculation	
Maximum Treatment Area Square Footage	
In-Center (5) x 150	750
Permanent bed station (1) and Isolation station (1) x 200	400
2 Future Stations x 150	300
Total Station Space per MTASF	1,450
Other Treatment Floor Space @75% of Station Space per MTASF	1,087.5
Total	2,537.5

Source: Applicant

11. Provide the gross and net square feet of this facility. Treatment area and non-treatment area should be identified separately (see explanation above re: maximum treatment area square footage).

The gross and net square feet of this facility are 6,511 and 6,289, respectively.

12. Confirm that the facility will be certified by Medicare and Medicaid. If this application proposes the expansion of an existing facility, provide the existing facility's Medicare and Medicaid numbers.

PSKC Anacortes is Medicare and Medicaid certified. The existing provider numbers are:

Medicare Number: 50-2573

Medicaid Number: 2036232

SECTION 3
A. Need (WAC 246-310-210)

- 1. List all other dialysis facilities currently operating in the planning area, as defined in [WAC 246-310-800\(15\)](#).**

The other dialysis facilities operating in Skagit County Dialysis Planning Area are DaVita Cascade Kidney Center in Burlington and FKC Skagit Kidney Center in Mt. Vernon.

- 2. Provide utilization data for the facilities listed above, according to the most recent Northwest Renal Network modality report. Based on the standards in [WAC 246-310-812\(5\) and \(6\)](#), demonstrate that all facilities in the planning area either:
 - a) have met the utilization standard for the planning area;**
 - b) have been in operation for three or more years; or**
 - c) have not met the timeline represented in their Certificate of Need application.****

This application requests one Special Circumstances station. The award of this station is based on internal need and utilization and is not affected by the utilization or occupancy of any other facility. As such, and per WAC 246-310-818, this question is not applicable.

- 3. Complete the methodology outlined in [WAC 246-310-812](#). For reference, copies of the [ESRD Methodology](#) for every planning area are available on our website. Please note, under [WAC 246-310-812\(1\)](#), applications for new stations may only address projected station need in the planning area where the facility is to be located, unless there is no existing facility in an adjacent planning area. If this application includes an adjacent planning area, station need projections for each planning area must be calculated separately.**

This application requests one Special Circumstances station. The award of this station is based on internal need and utilization and is not affected by the need for additional stations in the Planning Area. As such, and per WAC 246-310-818, this question is not applicable.

4. For existing facilities, provide the facility’s historical utilization for the last three full calendar years.

Table 5 provides the requested information for the last three full calendar years.

Table 5
PSKC Anacortes
Historical Utilization, 2017-2019

	2017	2018	2019
Total in-center stations	5	5	5
Total in-center patients	19	20	20
Total in-center treatments	2,552	2,704	2,909
Total home patients	5	5	2
Total home treatments	1,740	1,823	1,832

Source: Applicant

5. For existing facilities proposing to add one or two stations under [WAC 246-310-818](#), provide the facility’s historical utilization data for the most recent six months preceding the letter of intent period. This data should be acquired from the Northwest Renal Network.

Data for the most recent six month period preceding the Letter of Intent is included in Table 6. This data is from the Northwest Renal Network (NRN). Exhibit 4 is documentation from NRN.

Table 6
PSKC Anacortes
Monthly Patient Census and Utilization

	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020
Total in-center stations	5	5	5	5	5	5
Total in-center patients	27	27	28	27	28	27
Patients per Station	5.4	5.4	5.6	5.4	5.6	5.4

Source: Northwest Renal Network

6. Provide projected utilization of the proposed facility for the first three full years of operation. For existing facilities, also provide the intervening years between historical and projected. Include all assumptions used to make these projections.

The first three full years of operation is 2022-2024. The requested information is included in Table 7 for the first three full years of operation. The assumptions are included in Exhibit 5.

**Table 7
Projected Utilization, 2020-2024**

	2020 Estimated	2021 Projected Partial year	2022 Projected First Full Year	2023 Projected Second Full Year	2024 Projected Third Full Year
Total in-center stations last day of Year	5	6	6	6	6
Total in-center patients last day of Year	26	28	30	31	32
Total in-center treatments	3,864	4,144	4,440	4,588	4,736
Total home patients	4	5	7	9	11
Total home treatments	714	1,197	2,112	2,628	3,144

Source: Applicant

7. For existing facilities, provide patient origin zip code data for the most recent full calendar year of operation.

Patient origin data is included in Table 8:

**Table 8
PSKC Anacortes
Number of Patients by Zip Code and Modality, September 2020**

Zip Code	HD	PD	HH	Total
98221	19	2	0	21
98233	1	1	0	2
98239	1	0	0	1
98245	1	0	0	1
98273	2	0	0	2
98274	2	0	0	1
98277	1	0	0	1
98261	0	0	1	1
Total	27	3	1	31

Source: Applicant

8. Identify any factors in the planning area that could restrict patient access to dialysis services. [WAC 246-310-210\(1\), \(2\)](#).

This application requests one Special Circumstances station. The award of this station is based on internal need and utilization and is not affected by the utilization or occupancy of any other facility. As such, and per WAC 246-310-818, this question is not applicable. That said, approval of this project will immediately improve patient access.

9. Identify how this project will be available and accessible to low-income persons, racial and ethnic minorities, women, mentally handicapped persons, and other under-served groups. [WAC 246-310-210\(2\)](#)

PSKC strives to ensure that all individuals in need of dialysis services have access to high quality care. PSKC's New Patient Financial Admission policy, included in Exhibit 6, prohibits discrimination on the basis of race, color, creed, religion, sex, national origin, ancestry, age, marital status, protected veteran status, sexual orientation, gender identity, genetic information, physical or mental disability, or medical condition, ethnicity, sex, or handicap. PSKC reinvests in the communities it serves and does not turn patients away on the basis of income or payment resources. PSKC is committed to caring for the underserved and disenfranchised and is truly a nonprofit provider in every sense of the word. Our policy differentiates us from many other dialysis providers in that we identify patients prospectively and qualify them as eligible for charity care (as opposed to re-categorizing bad debt). We are proud of our policy and appreciate how well it has benefited dialysis patients over the years.

10. If this project proposes either a partial or full relocation of an existing facility, provide a detailed discussion of the limitations of the current site consistent with [WAC 246-310-210\(2\)](#).

This project does not propose any relocation. This question is not applicable.

11. If this project proposes either a partial or full relocation of an existing facility, provide a detailed discussion of the benefits associated with relocation consistent with [WAC 246-310-210\(2\)](#).

This project does not propose any relocation. This question is not applicable.

12. Provide a copy of the following policies:

- **Admissions policy**
- **Charity care or financial assistance policy**
- **Patient Rights and Responsibilities policy**
- **Non-discrimination policy**
- **Any other policies directly associated with patient access (example, involuntary discharge)**

Copies of the requested policies are included in Exhibit 6.

SECTION 4
B. Financial Feasibility (WAC 246-310-220)

Financial feasibility of a dialysis project is based on the criteria in WAC 246-310-220 and WAC 246-310-815.

- **Provide documentation that demonstrates the immediate and long-range capital and operating costs of the project can be met. This should include but is not limited to:**
- **Utilization projections. These should be consistent with the projections provided under the Need section. Include all assumptions.**
- **Pro Forma financial projections for at least the first three full calendar years of operation. Include all assumptions.**
- **For existing facilities proposing a station addition, provide historical revenue and expense statements, including the current year. Ensure these are in the same format as the pro forma projections. For incomplete years, identify whether the data is annualized.**

Due to the small capital expenditure, PSKC proposes to use existing reserves to fund the project's costs. Included in Exhibit 7 is a letter from PSKC's CFO, Mr. Ken Kouchi, stating that PSKC has adequate reserves for this project.

The requested pro forma financial information is included in Exhibit 5.

1. Provide the following agreements/contracts:

- **Management agreement**
- **Operating agreement**
- **Medical director agreement**
- **Development agreement**
- **Joint Venture agreement**

PSKC Anacortes does not have a management agreement, operating agreement, development agreement or a joint venture agreement. A copy of the medical director agreement is included in Exhibit 8.

- 2. Provide documentation of site control. This could include either a deed to the site or a lease agreement for the site. If a lease agreement is provided, the terms must be for at least five years following project completion.**

Puget Sound Kidney Centers owns the site on which the existing PSKC Anacortes is located. Included in Exhibit 9 is documentation from the Skagit County Assessor's office demonstrating PSKC's ownership and site control.

- 3. Provide county assessor information and zoning information for the site. If zoning information for the site is unclear, provide documentation or letter from the municipal authorities showing the proposed project is allowable at the identified site.**

PSKC Anacortes has been in business and has had all local municipal and state approvals at the current location, since 2014. This one additional station will be located in the existing building. Included in Exhibit 9 is documentation regarding the zoning for the site.

- 4. Complete the table below with the estimated capital expenditure associated with this project. Capital expenditure for the purposes of dialysis applications is defined under WAC 246-310-800(3). If you have other line items not listed below, include the definition of the line item. Include all assumptions used to create the capital expenditure estimate.**

The capital expenditures for the proposed one station addition are included in Table 9:

**Table 9
PSKC Anacortes
Estimated Capital Expenditure**

Item	Cost
a. Land Purchase	
b. Land Improvements	
c. Building Purchase	
d. Residual Value of Replaced Facility	
e. Building Construction	
f. Fixed Equipment	
g. Moveable Equipment	\$14,862
h. Architect & Engineering Fees	
i. Consulting Fees	
j. Site Preparation	
k. Supervision and Inspection	
l. Costs Associated with Financing to Include Interim Interest	
m. Sales Tax:	
Building Construction	
Fixed Equipment	
Moveable Equipment	\$373
Other: Art/Signage	
n. Other Project Costs:	
p. Total Estimated Capital Expenditure	\$15,235

Source: Applicant

- 5. Identify the entity responsible for the estimated capital costs identified above. If more than one entity is responsible, provide breakdown of percentages and amounts for all.**

This project requires equipment for one station only. These costs were generated internally, based on actual experience in recent equipment purchases.

- 6. Provide a non-binding contractor's estimate for the construction costs for the project.**

No construction is required for this project. Therefore, this question is not applicable.

7. Provide a detailed narrative regarding how the project would or would not impact costs and charges for services. WAC 246-310-220.

The project will not affect charges for services. Importantly, this project will have no effect on billed rates to patients, providers, or payers. PSKC’s charges for dialysis services are not determined by any capital expenditures for an expansion or a new facility.

As noted in the CN Program’s published quintiles for dialysis superiority, six of PSKC’s existing seven facilities are in 5th Quintile (the lowest net revenue per treatment quintile), providing further assurance that PSKC strives to reduce the cost of health care for patients.

8. Provide documentation that the costs of the project, including any construction costs, will not result in an unreasonable impact on the costs and charges for health services in the planning area. WAC 246-310-220.

This project will have no effect on the costs and charges for services. The capital costs for this project are minor and will not negatively affect payers or patients. PSKC’s charges for services are not determined by capital expenditures. The pro forma operating assumptions and statement are included in Exhibit 5.

9. Provide the projected payer mix by revenue and by patients using the example table below. If “other” is a category, define what is included in “other.”

The current payer mix for PSKC Anacortes is detailed in Table 10. As noted, no change in payer mix is assumed for this project.

**Table 10
PSKC Anacortes
Current and Projected Payer Mix**

Payer Mix	Percentage by Revenue	Percentage by Patient
Medicare	82.07%	89.44%
Medicare Managed Care	17.65%	8.91%
Medicaid	0.02%	0.33%
Other: Commercial	0.26%	1.32%
Total	100.0%	100.0%

Source: Applicant

10. If this project proposes the addition of stations to an existing facility, provide the historical payer mix by revenue and patients for the existing facility. The table format should be consistent with the table shown above.

The current and projected payer mix is detailed in Table 10.

11. Provide a listing of all new equipment proposed for this project. The list should include estimated costs for the equipment. If no new equipment is required, explain.

Table 11 details the proposed equipment for this project.

**Table 11
PSKC Anacortes
Proposed Equipment List**

Item	Quantity	Cost
Dialysis machine, chair ²	1 of each item	\$15,235

Source: Applicant

12. Identify the source(s) of financing (loan, grant, gifts, etc.) and provide supporting documentation from the source. Examples of supporting documentation include: a letter from the applicant’s CFO committing to pay for the project or draft terms from a financial institution.

As discussed earlier in this section, PSKC will use existing cash reserves to fund this project. Included in Exhibit 7 is a letter from PSKC’s CFO, Mr. Ken Kouchi, documenting the intent of PSKC to use existing cash reserves for the project.

13. If this project will be debt financed through a financial institution, provide a repayment schedule showing interest and principal amounts for each year over which the debt will be amortized. WAC 246-310-220

No financing is required for this project. This question is not applicable.

14. Provide the applicant’s audited financial statements covering at least the most recent three years. WAC 246-310-220

PSKC has reviewed, not audited, financial statements. Copies of the reviewed financial statements are included in Appendix 1.

²Please note that PSKC Anacortes has an extra TV for the proposed station.

SECTION 5
C. Structure and Process (Quality) of Care (WAC 246-310-230)

1. Provide a table that shows FTEs [full time equivalents] by category for the proposed facility. If the facility is currently in operation, include at least the last three full years of operation, the current year, and the first three full years of operation following project completion. There should be no gaps in years. All staff categories should be defined.

Table 12 details the historic, current, and projected staffing by year.

Table 12
Current and Proposed Staffing – PSKC Anacortes

	2017	2018	2019	2020	2021	2022	2023	2024
Staffing Needs:					FTE	FTE	FTE	FTE
Stations:	5	5	5	5	6	6	6	6
Clinical Services:								
Direct Care Manager	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Home RN	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Registered Nurse	2.0	2.0	2.0	2.875	2.875	2.875	2.875	2.875
Dialysis Technicians	2.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0
Technical Services:								
Biomed Technologist	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Computer Technician	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social Services:								
Social Worker	0.2	0.2	0.2	0.375	0.375	0.375	0.375	0.375
Nutrition Services:								
Dietitian	0.2	0.2	0.2	0.375	0.375	0.375	0.375	0.375
Administrative Services:								
Admin. Asst.	0.375	0.375	0.375	0.375	0.375	0.375	0.375	0.375
Total	6.375	6.375	6.275	8.6	8.6	8.6	8.6	8.6

Source: Applicant

2. Provide the assumptions used to project the number and types of FTEs identified for this project.

The staffing in Table 12 is based on current staff to patient ratios. No changes in these ratios are proposed.

3. Identify the salaries, wages, and employee benefits for each FTE category.

The average salary by FTE category is detailed in Table 13. Employee benefits are assumed to be 21.2% inclusive of applicable payroll taxes.

Table 13
Current Average Salary by FTE Category- PSKC Anacortes

FTE Category	Average Salary By FTE Category
Clinical Services:	
Direct Care Manager	\$93,533
Home RN	\$82,871
Registered Nurse	\$86,017
Dialysis Technicians	\$46,732
Technical Services:	
Biomed Technologist	\$49,702
Computer Technician	\$42,514
Social Services:	
Social Worker	\$65,505
Nutrition Services:	
Dietitian	\$64,773
Administrative Services:	
Admin. Asst.	\$42,066

Source: Applicant

4. Provide the name and professional license number of the current or proposed medical director. If not already disclosed under 210(1) identify if the medical director is an employee or under contract.

The medical director for PSKC Anacortes is Parampreet Ghuman, MD. Dr. Ghuman’s license number is MD60347939. Dr. Ghuman is a contracted medical director. A copy of the medical director agreement is included in Exhibit 8.

5. Identify key staff, if known. (nurse manager, clinical director, etc.)

A listing of key staff is detailed in Exhibit 10. Shawnette Henry, RN is the Direct Care Manager.

6. For existing facilities, provide names and professional license numbers for current credentialed staff.

The requested information is provided in Exhibit 10.

7. Describe your methods for staff recruitment and retention. If any barriers to staff recruitment exist in the planning area, provide a detailed description of your plan to staff this project.

In addition to providing exceptional patient care, PSKC offers a competitive wage and benefit package, a positive and supportive work environment, and a philosophy that encourages existing staff to receive training and additional education. While PSKC is aware of a nursing staffing shortage across the State and nation, it has not been a deterrent to PSKC being able to staff our facilities with patient safety as our top priority. PSKC is an excellent place to work with competitive wages or salaries, and a generous benefit plan.

PSKC's commitment to, and involvement with the communities we serve, has resulted in many long standing and collaborative relationships with various educational health care programs. This has also opened opportunities for promoting dialysis to new graduates and health care professionals in other specialty areas that might be looking to change specialties. For example, phlebotomists apply for dialysis technician positions, and for dialysis technicians looking to advance their careers and complete RN curriculum, PSKC helps with scholarship support.

Further, PSKC's Educational Department provides training and education to various patients, university, and community college health care student populations, and actively promotes positions that are open. This active promotion occurs at community events such as job/health fairs and college nursing program presentations.

PSKC has also benefited greatly from "word of mouth" by current employees and use of social media networking sites to attract potential candidates using a more informal or individual approach. PSKC employs these strategies for potential referral sources at all of its facilities.

It is also common for nurses and technicians to compare employers, especially when the job market is as strong as it is currently in Western Washington, and using this information, nurses and dialysis technicians continue to choose PSKC as their employer.

As noted in response to Question 1, no additional staffing is proposed for this small expansion. However, should additional staffing be needed, based on our historical record and performance, we do not anticipate any difficulties recruiting the additional staff needed. In addition, PSKC does have other nearby facilities from which it can share staff should that be needed.

8. Provide a listing of proposed ancillary and support agreements for the facility. For existing facilities, provide a listing of the vendors.

The Ancillary and support services currently in place at PSKC Anacortes are detailed in Table 14.

**Table 14
Existing Ancillary and Support Service Agreements**

Agreement Type	Vendor(s)
Electronic Medical Records	Constellation Kidney Group (Infian)
Anemia Management	Metro Medical, Amgen
Laboratory Services	Spectra Laboratory
Required CMS Data Reporting	National Healthcare Safety Network (NHSN), CROWNWeb, NRAA Health Information Exchange (HIE)
Equipment/Materials Management	Amerisource Bergen, Baxter, Henry Schein, Fresenius, Praxair, BBraun, McKesson, Metro Medical (Division of Cardinal Health), Champion, Hospital Therapy Products. MarCor
Transportation Services	Paratransit, Merts Taxi Service, Skagit Transit
Biohazard/Waste Management	Waste Management
Janitorial Services	ZNG Janitorial Service

Source: Applicant

9. For existing facilities, provide a listing of ancillary and support service vendors already in place.

Table 14 details the existing ancillary and support service vendors already in place at PSKC Anacortes.

10. For new facilities, provide a listing of ancillary and support services that will be established.

PSKC Anacortes is not a new facility. This question is not applicable.

11. Provide a listing of ancillary and support services that would be provided on site and those provided through a parent corporation off site.

Table 15 details which services are on site and which ones are supplied via the Support Centers (Off-site).

Table 15
Existing Ancillary and Support Services for PSKC Anacortes

Service	Offered Onsite/Offsite
Administration	On site
Human Resources	Off site
Information Systems	Off site
Material Management	On site
Nursing Services	On site
Nutrition Services	On site
Patient Education	On site
Patient Financial Counseling	Off site
Plant Operations	On site
Social Services	On site
Staff Education	Off site
Technical Services	On site

Source: Applicant

12. Identify whether any of the existing ancillary or support agreements are expected to change as a result of this project.

No changes to existing ancillary or support agreements are anticipated as a result of this project.

13. If the dialysis center is currently operating, provide a listing of healthcare facilities with which the dialysis center has working relationships.

Table 16 details the health care entities that PSKC has working relationships with.

**Table 16
PSKC’s Working Relationships with Healthcare Facilities**

Type	Organizations/Scope
Hospital	<ul style="list-style-type: none"> ▪ Island Hospital, Anacortes ▪ Providence Everett Regional Medical Center ▪ Skagit Valley Hospital, Mount Vernon ▪ Cascade Valley Hospital, Arlington ▪ Peace Island Medical Center, Friday Harbor
Public Health	<ul style="list-style-type: none"> ▪ Skagit Health District for supportive health services for patients
Emergency Planning	<ul style="list-style-type: none"> ▪ Northwest Healthcare Response Network – Western Washington Coalition (North and Central District) ▪ WATrac access ▪ Everbridge access
Clinicians	<ul style="list-style-type: none"> ▪ Western Washington Medical Group ▪ Anacortes Family Medicine Clinic ▪ Island Family Physicians ▪ North Sound Kidney Physicians ▪ Snohomish Kidney Institute ▪ PolyClinic ▪ Kaiser Permanente ▪ Skagit Regional Clinics – Nephrology ▪ Mount Baker Nephrology ▪ Many other independent physician group practices
Transportation	<ul style="list-style-type: none"> ▪ Community Transit –bus service in Skagit County ▪ TAP – Bus service for rural areas of North Snohomish County ▪ Paratransit services – Medicaid transportation broker in Skagit County ▪ DSHS Home and Community Services ▪ DSHS Department of Vocational Rehabilitation
Long-Term Care	<ul style="list-style-type: none"> ▪ Life Care Center of Skagit Valley, Sedro-Woolley ▪ Prestige Care & Rehabilitation, Burlington ▪ Mira Vista Care Center, Mt. Vernon ▪ San Juan Rehab and Care Center, Anacortes ▪ The Bridge at Mount Vernon, Mt. Vernon ▪ Cyprus Assisted Living, Anacortes ▪ Rosario Assisted Living, Anacortes
Higher Education	<ul style="list-style-type: none"> ▪ Everett Community College ▪ Skagit Valley College ▪ Bastyr University, Kenmore ▪ University of Washington School of Public Health

Source: Applicant

14. For a new facility, provide a listing of healthcare facilities that the dialysis center would establish working relationships.

PSKC Anacortes is an existing facility. This question is not applicable.

15. Provide a copy of the existing or proposed transfer agreement with a local hospital.

A copy of PSKC's existing transfer agreement is included in Exhibit 11.

16. Clarify whether any of the existing working relationships would change as a result of this project.

No change to any existing working relationships will result from this project.

17. Fully describe any history of the applicant concerning the actions noted in Certificate of Need rules and regulations WAC 246-310-230(5)(a). If there is such history, provide documentation that the proposed project will be operated in a manner that ensures safe and adequate care to the public to be served and in conformance with applicable federal and state requirements. This could include a corporate integrity agreement or plan of correction.

PSKC has no history with respect to the actions noted in CN regulation WAC 246-310-230(5) (a).

18. Provide documentation that the proposed project will promote continuity in the provision of health care services in the planning area, and not result in an unwarranted fragmentation of services. WAC 246-310-230

As with all PSKC facilities, PSKC Anacortes provides a collaborative, comprehensive, and patient-centered approach to the provision of dialysis services. PSKC's unrelenting focus on high-quality, compassionate care, coupled with respect for the patients, staff, and other providers has served the communities well. With this small expansion of PSKC Anacortes, PSKC will continue to maintain all existing working relationships and will enter into new relationships to ensure that our care remains outstanding and our patient's care is coordinated.

19. Provide documentation that the proposed project will have an appropriate relationship to the service area's existing health care system as required in WAC 246-310-230.

PSKC maintains appropriate relationships with the existing health care system in the Planning Area. Table 16 provided examples of PSKC's existing working relationships with area health care providers. This project will not change any of these existing relationships.

20. Provide documentation to verify that the facility would be operated in compliance with applicable state and federal standards. The assessment of the conformance of a project to this criterion shall include, but not be limited to, consideration as to whether:

- a. The applicant or licensee has no history, in this state or elsewhere, of a criminal conviction which is reasonably related to the applicant's competency to exercise responsibility for the ownership or operation of a health care facility, a denial or revocation of a license to operate a health care facility, a revocation of a license to practice a health profession, or a decertification as a provider of services in the Medicare or Medicaid program because of failure to comply with applicable federal conditions of participation; or**
- b. If the applicant or licensee has such a history, whether the applicant has affirmatively established to the department's satisfaction by clear, cogent and convincing evidence that the applicant can and will operate the proposed project for which the certificate of need is sought in a manner that ensures safe and adequate care to the public to be served and conforms to applicable federal and state requirements.**

PSKC operates all existing programs in conformance with applicable federal and state laws, rules, and regulations. its recent CN decision in Vancouver, Clark County (December 2019) the CN Program reviewed PSKC's quality and compliance with state and federal requirements. As part of its review, the CN Program considered the CMS star ratings for each of PSKC's six operational facilities, finding that the existing PSKC facilities had an average current rating of 4.00; PSKC's average rating is currently 4.17 (with PSKC Anacortes rated a 5 star facility for quality of patient care).

SECTION 6
D. Cost Containment (WAC 246-310-240)

1. Identify all alternatives considered prior to submitting this project.

WAC 246-310-818 allows dialysis facilities to request up to two additional stations based on internal utilization; regardless of whether there is need in the planning area. Given the current census at PSKC Anacortes, this project will provide some relief to the continued census pressures at PSKC Anacortes. Therefore, no other alternative was considered.

2. Provide a comparison of the project with alternatives rejected by the applicant. Include the rationale for considering this project to be superior to the rejected alternatives. Factors to consider can include but are not limited to patient access to healthcare services, capital cost, legal restrictions, staffing impacts, quality of care, and cost or operation efficiency.

As discussed in response Question #1, WAC 246-310-818 allows providers to submit special circumstance applications based on internal need. The addition of one station at PSKC Anacortes will improve patient access to dialysis services by adding capacity with relatively minimal capital expenditure. There are no legal restrictions related to this proposal and this project will have no effect on either the cost of services or the high quality of care we provide. Finally, minimal staffing is required; ultimately, PSKC Anacortes will operate more efficiently with one more station.

3. For existing facilities, identify your closest two facilities as required in WAC 246-310-827(3)(a).

This application requests one Special Circumstance station. The award of this station is based on internal data and is not subject to concurrent review or any test of superiority. As such, and per WAC 246-310-827, this question is not applicable.

4. For new facilities, identify your closest three facilities as required in WAC 246-310-827(3)(b).

This application requests one Special Circumstance station. The award of this station is based on internal data and is not subject to concurrent review or any test of superiority. As such, and per WAC 246-310-827, this question is not applicable.

- 5. Do any other applications you submitted under this concurrent review cycle rely on the same facilities listed in response to questions 3 or 4? If yes, identify the applications. WAC 246-310-827(3)(c). (Note: A maximum of two applications can rely on the same three facilities.)**

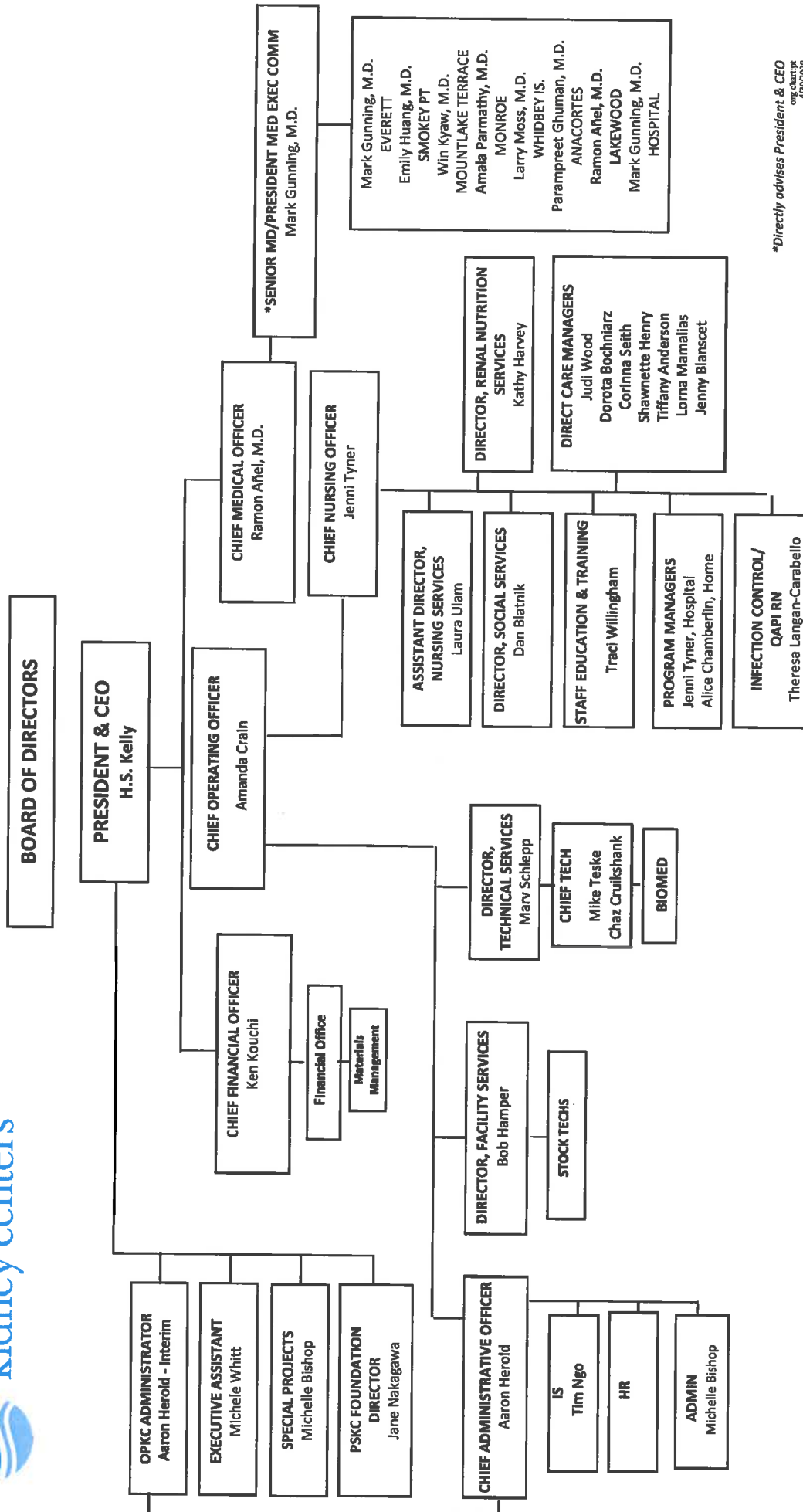
This application is being submitted under WAC 246-310-818 and as such, WAC 246-310-827 is not applicable.

- 6. Identify whether any aspects of the facility's design could lead to operational efficiency. This could include but is not limited to: LEED building, water filtration, or the methods for construction, etc. WAC 246-310-240(2) and (3).**

This project does not require any construction; as such, no changes in the facility's design are being made. Therefore, this question is not applicable.

Exhibit 1
Organizational Chart

ORGANIZATIONAL CHART



*Directly advises President & CEO
org change
4/20/2020

Exhibit 2
Letter of Intent



RECEIVED
By CERTIFICATE OF NEED PROGRAM at 11:28 am, Oct 01, 2020

October 1, 2020

LOI20-10PSKDSK
ex: NOV 02, 2020

Eric Hernandez, Program Manager
Certificate of Need Program
Department of Health
111 Israel Road Southeast
Tumwater, WA 98501

VIA EMAIL

Dear Mr. Hernandez:

Puget Sound Kidney Centers (PSKC) submits this letter of intent for the addition of one in-center station to the existing Puget Sound Kidney Center-Anacortes facility (PSKC-Anacortes) per WAC 246-310-818 (Special Circumstances) in the Skagit County Dialysis Planning Area. In accordance with WAC 246-310-080, the following information is provided:

1. A Description of the Extent of Services Proposed:

PSKC is proposing to add one in-center station to PSKC-Anacortes. Upon project completion, PSKC-Anacortes will operate a total of six in-center stations plus one exempt isolation station (as allowed per WAC 246-310-800 (9)).

2. Estimated Cost of the Proposed Project:

The approximate cost of the proposed one station addition is estimated to be \$15,000.

3. Description of the Service Area:

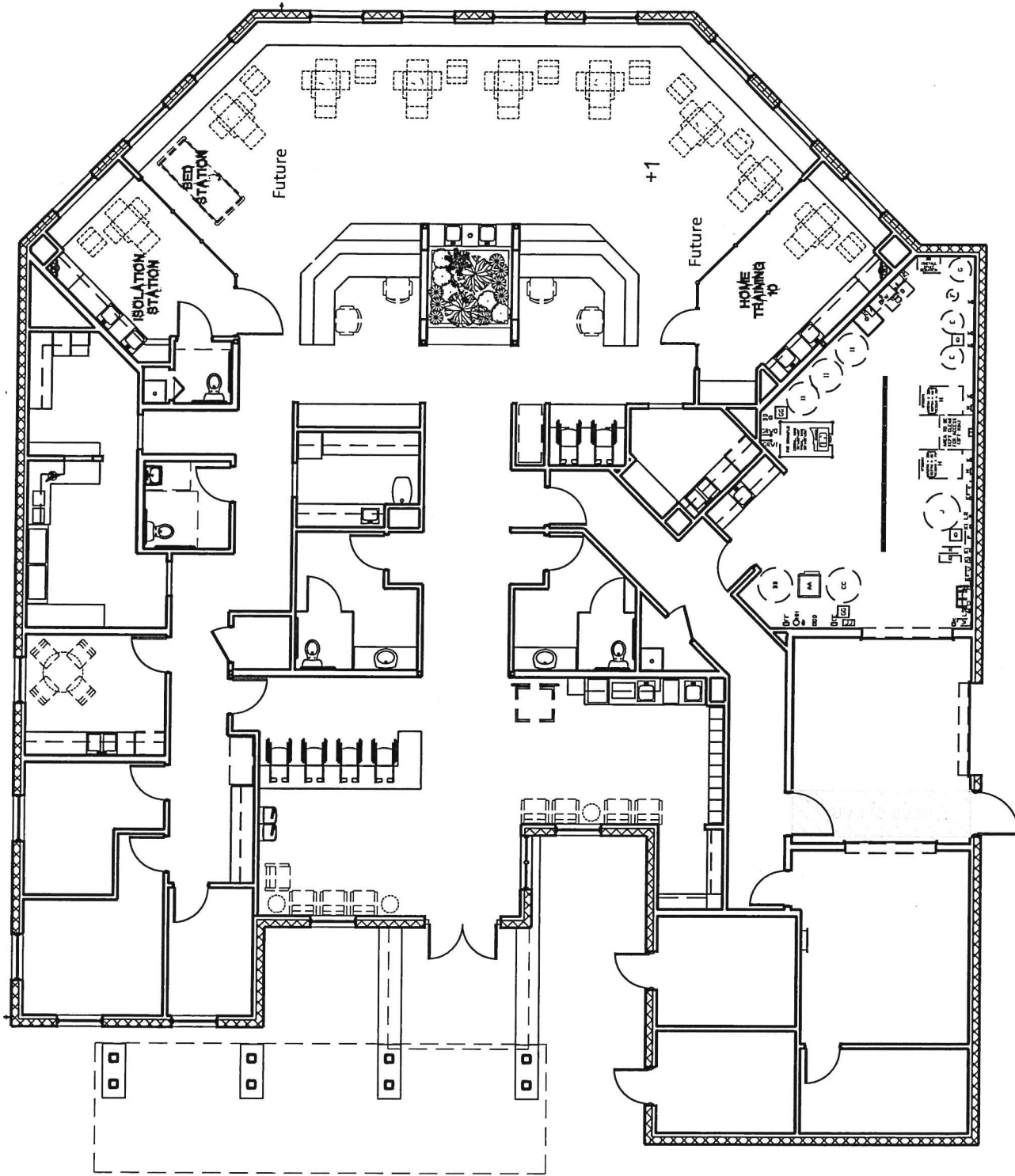
Per WAC 246-310-280, the service area is the Skagit County Dialysis Planning Area.

Thank you for your support in this matter. Please contact me if you have any questions.

Sincerely,

Amanda Crain,
Chief Operating Officer
Puget Sound Kidney Centers

Exhibit 3
Single Line Drawing



36 PUGET SOUND KIDNEY CENTER

ANACORTES, WA
6,511 SQUARE FEET

Exhibit 4
Email Documentation from Northwest Renal Network

From: [Leah Skrien](#)
To: [Amanda Crain](#)
Subject: EXTERNALRE: Census counts from Network request
Date: Thursday, October 22, 2020 12:04:08 PM
Attachments: [CoN Monthly Request - PSKC 502573 Oct 2020.xlsx](#)

Hello Amanda,

I have attached the monthly in-center census numbers from the Network for April 2020-September 2020. Please note, the station count is based off of what is currently in CROWNWeb for certified stations (including any isolation stations).

Leah Skrien

Director of Information Management
ESRD Network 16
Comagine Health
Office: (206) 923-0714 x106
Mobile: (206) 354-8570

[Comagine Health](#)



From: Amanda Crain <AmandaC@pskc.net>
Sent: Wednesday, October 21, 2020 9:54 AM
To: Leah Skrien <LSkrien@comagine.org>
Subject: Census counts from Network request
Importance: High

[Attn: This is an external email.]

Hello,

We are working on a Certificate of Need application to add stations to our PSKC Anacortes (502573) facility. The application is due end of next week and I was told I need to get confirmation on our monthly in-center census numbers from the Network for April 2020 – September 2020.

Are you able to send me something confirming our census numbers for these months?

Thank you for your help,

Amanda Crain MBA, BSN, CHN

Chief Operating Officer
Puget Sound Kidney Centers
1019 Pacific Ave Everett, WA 98201

[p. \(425\) 259-1827](tel:(425)259-1827) | [f. \(425\) 259-4860](tel:(425)259-4860)

AmandaC@pskc.net



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CCN	CountOfUPI	CERTIFIED_STATION_COUNT	Report Run Date
502573	27	6	2020/04
502573	27	6	2020/05
502573	28	6	2020/06
502573	27	6	2020/07
502573	28	6	2020/08
502573	27	6	2020/09

Exhibit 5
Pro Forma Financials, Utilization and Financial Assumptions

Pro Forma Assumptions
For PSKC-Anacortes Plus One-Station Expansion

1. Volumes

- A. Patients – In-Center. Census was based on anticipated growth for facilities based on PSKC prior experience and the growth rate in new patients produced in application of the methodology in WAC 246-310-812.
- B. Patients – Home Program. Increases in patient census by modality were projected based upon PSKC’s historical experience.
- C. Treatments – In-Center. Treatments were assumed to average 148 treatments per patient annually to account for missed treatments.
- D. Treatments – Home Program. Treatments were based on PSKC experience and assumed an average of 360 treatments per PD patient per year and 156 treatments per HHD patient per year.

2. Revenues

- A. Revenues and current payer mix were based on the current experience of the PSKC-Anacortes facility for all modalities. Payer mix by patient and revenue was provided in Table 10 of the application.
Net revenue per treatment is assumed to be \$299.54 for in-center treatments which is the average of the Anacortes facility for the past three years.
Net revenue per treatment for home treatments is based upon the net revenue by modality for home hemodialysis (\$299.54) and peritoneal dialysis treatments (\$134.80).
- B. Charity care is assumed to be .80% of net revenue.
- C. Bad debts are assumed to be 1.0% of net revenue.

3. Direct Expenses

- A. Staffing FTEs were based on our staffing model increased for growth as patient population increases. Salaries were based on the expected wages of the Anacortes facility.
- B. Benefits were assumed to be 21.20%, which is based on the Anacortes facility expense for the past three years.
- C. Medical Director fees are based on medical director agreements applicable to PSKC-Anacortes (see Exhibit 8 of the application; \$40,000/year).
- D. Professional Fees are based on the 2019 expenses multiplied by the expected percentage PSKC-Anacortes would receive in a corporate allocation across all facilities.
- E. Expenses related to patient treatments (medical supplies, pharmacy (including Epogen and Mircera), were based on cost per treatment experience for PSKC - Anacortes.
- F. Office and miscellaneous expenses include office supplies, small equipment, information technology expenses (including licenses, software maintenance, and IT-related supplies), equipment rent, and other miscellaneous expenses. These expenses were based on the cost per treatment experience for PSKC-Anacortes.

- G. Repairs and Maintenance include maintenance agreements and parts for various operating equipment. These expenses were based on the cost per treatment experience of PSKC-Anacortes
- H. Housekeeping: These expenses were based on the cost per treatment experience of PSKC-Anacortes
- I. Occupancy costs include building repairs and maintenance, and utilities. Building maintenance was estimated using the cost per square foot average of PSKC-Anacortes' prior three years. Utilities were based on the cost per treatment experience of PSKC-Anacortes.
- J. Communication expenses include telephone (both land and cell), postage, connectivity, and internet costs. They were estimated based on the cost per treatment experience of PSKC-Anacortes' prior three years.
- K. Laboratory expenses were based on the contract rate charged for each bundled patient. This rate applies to all of PSKC's facilities.
- L. Training: These expenses were based on the cost per treatment experience at PSKC-Anacortes.
- M. Public relations: Based on actual experience at PSKC-Anacortes.
- N. Depreciation expenses were estimated based on the actual useful lives PSKC assigned to certain equipment classifications. Classifications are as follows:

1. Building	40 years
2. Building improvements	15 years
3. Medical equipment	7 years
4. Furniture and office equipment	7 years

4. Overhead

- a. Indirect expenses are estimated based on actual experience by estimating how our allocations would be modified with an additional facility.
- B. The Corporate Medical Director fees are based on the corporate medical director agreement multiplied by the expected percentage PSKC-Anacortes would receive in a corporate allocation across all facilities.

PUGET SOUND KIDNEY CENTERS
PSKC-ANACORTES
FORECASTED STATEMENTS OF OPERATIONS
For the Years Ending December 31, 2021 Through 2024

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
PATIENTS:				
In-center	28	30	31	32
Home	5	7	9	11
TREATMENTS:				
In-center Treatments	4,144	4,440	4,588	4,736
Home Treatments - HHD	95	268	424	580
Home Treatments - PD	1,070	1,780	2,140	2,500
Home Training - HHD	22	44	44	44
Home Training - PD	10	20	20	20
Total Treatments	<u>5,341</u>	<u>6,552</u>	<u>7,216</u>	<u>7,880</u>
PATIENT SERVICE REVENUE:				
In-center dialysis	\$ 1,241,294	\$ 1,329,958	\$ 1,374,290	\$ 1,418,621
Home Treatments - HHD	28,456	80,277	127,005	173,733
Home Treatments - PD	144,236	239,944	288,472	337,000
Home Training - HHD	6,590	13,180	13,180	13,180
Home Training - PD	1,348	2,696	2,696	2,696
Mobile	-	-	-	-
	<u>1,421,924</u>	<u>1,666,055</u>	<u>1,805,643</u>	<u>1,945,230</u>
Charity Care	(11,375)	(13,328)	(14,445)	(15,562)
Bad Debts	(14,219)	(16,661)	(18,056)	(19,452)
	<u>1,396,330</u>	<u>1,636,066</u>	<u>1,773,142</u>	<u>1,910,216</u>
OPERATING EXPENSES:				
Salaries and wages	437,962	583,951	583,951	583,951
Employee benefits & taxes	92,848	123,798	123,797	123,798
Medical director (direct)	30,000	40,000	40,000	40,000
Medical supplies	188,686	247,312	279,810	312,308
Pharmacy	48,763	59,820	65,882	71,944
Erythropoiesis Stimulating Agents	88,500	108,567	119,569	130,572
Office & miscellaneous	10,442	12,809	14,107	15,405
Repairs & maintenance	21,309	26,141	28,789	31,438
Housekeeping	41,860	51,352	56,556	61,760
Occupancy - Maintenance	14,109	18,813	18,813	18,813
Occupancy - Utilities	25,116	41,081	45,244	49,408
Communications	32,436	39,790	43,822	47,854
Laboratory	18,563	27,750	30,000	32,250
Training	974	1,195	1,316	1,437
Interest	-	-	-	-
Depreciation (new building)	61,606	82,141	82,141	82,141
Depreciation & amortization	27,281	44,047	40,070	34,916
	<u>1,140,455</u>	<u>1,508,567</u>	<u>1,573,867</u>	<u>1,637,995</u>
Corporate MD OH Allocation	2,027	2,063	2,073	2,103
Overhead Allocation	225,666	242,006	248,665	257,011
	<u>227,693</u>	<u>244,069</u>	<u>250,738</u>	<u>259,114</u>
Income from Operations	<u>\$ 28,182</u>	<u>\$ (116,570)</u>	<u>\$ (51,463)</u>	<u>\$ 13,107</u>
Overhead per treatment	42.63	37.25	34.75	32.88

Exhibit 6
Puget Sound Kidney Centers' Policies

Community Service Statement

Administrative/General

I. PURPOSE

The mission of the Puget Sound Kidney Centers (PSKC) is to enhance the quality of life of those with kidney disease through outstanding dialysis care, education, and community support.

We work in collaboration with partners in the communities we serve to deliver outstanding care and patient support services.

As a patient-centered, community-based nonprofit, Puget Sound Kidney Centers is committed to ensuring that all patients and their families receive high-quality, convenient, comfortable, compassionate, and affordable care, and a deep and long-lasting commitment to the patients and communities we serve in Washington State.

New Patient Financial Admission Policy

I. PURPOSE

This document outlines the process for screening the insurance status/eligibility of patients referred for admission to Puget Sound Kidney Centers (PSKC).

II. POLICY

1. The insurance status or eligibility for insurance for each patient referred to PSKC for services will be determined prior to the first treatment.
2. Demographics and insurance information will be faxed to the appropriate Patient Benefits Coordinator immediately upon referral.
3. If any of the following applies, approval must be obtained from the President & CEO, or his/her designee, prior to accepting the patient.
 - a. The insurance policy covers less than 60% of insurance coverage.
 - b. The patient will not have insurance coverage for a period of time after admission.
 - c. The personnel in the Finance Department are unable to determine the patient's eligibility for coverage.
4. PSKC does not discriminate on the basis of race, color, creed, religion, sex, national origin, ancestry, age, marital status, protected veteran status, sexual orientation, gender identity, genetic information, physical or mental disability or medical condition as defined by applicable laws.

III. PROCEDURE

1. Admissions Coordinator will notify the Patient Benefits Coordinator of the patient referral and will provide a copy of the patient's demographic sheet and completed Fax Cover Sheet.

Procedure for Admission of Patients WITH Active Insurance Coverage

The Patient Benefits Coordinator will use the following procedure:

1. Create file folder for patient with all information received.
2. Open new patient spreadsheet in the designated directory and enter patient information.
3. Check eligibility using online resources (examples: Medicare, Medicaid, or OneHealthPort).
4. If online verification is not available, call payer for eligibility and benefits, and obtain authorization and referral, if needed. Document the call reference number and representative spoken with for each call.

POLICY AND PROCEDURE / NEW PATIENT FINANCIAL SCREENING

- a. Use new patient verification form to ensure all questions are asked when obtaining eligibility and prior authorization.
5. If required, obtain primary care referral form from primary care physician or referring nephrologist's office.
6. Add insurance information to the insurance policy maintenance screen in the billing module of the Electronic Medical Record (EMR) system.
 - a. Refer to desk procedures to load insurance policy maintenance screen.
7. Copy and paste results of insurance verification or eligibility notes into the insurance information tab of the insurance policy maintenance screen in the billing module.
8. Email Admissions Coordinator, with:
 - a. Patient first name, last name, and account number if assigned (Chart ID).
 - b. Coverage with which payer and whether the patient has full coverage or percentage covered.
 - c. Authorization information.
 - d. Verify (communicate) that patient is approved to start at facility.

Procedure for Admission of Patients WITHOUT Active Insurance Coverage

The Patient Benefits Coordinator will use the following procedure:

1. Review the available information from the referral.
2. If additional information is needed to determine potential eligibility for insurance coverage, the Patient Benefit Coordinator will as needed:
 - a. Contact the discharging hospital social worker, discharge planner, or financial counselor.
 - b. Contact the patient or responsible person to request additional information.
 - c. Request the patient or responsible person, apply for coverage (such as Medicaid), or come in for an in-person meeting.
3. Based on the information collected, develop a plan of action for patient to be able to cover cost of dialysis.
4. Prepare a summary of information to present to CEO for approval.
5. If admission is approved, notify the Admissions Coordinator and proceed with the plan by developing a conditional admission letter, customized for the patient.
 - a. Describe the patient's responsibilities, assigning specific dates for completion of each requirement.
 - b. The Chief Operating Officer, or his/her designee, will sign the conditional admission letter.
 - c. Send the original letter to the Administrative Coordinator to be reviewed and signed by the patient prior to first treatment.

POLICY AND PROCEDURE / NEW PATIENT FINANCIAL SCREENING

- d. Send copies to the DCM and social worker at the facility.
6. Add information to the new patient spreadsheet.
7. Contact patient to inform them of the details of the conditional admission. If the patient raises any issues, discuss with the Financial Office Supervisor.

New Patient Admission

Administrative/General

I. PURPOSE

This document outlines the process for admitting a new or returning patient to a Puget Sound Kidney Center (PSKC) facility once approved and scheduled for admission.

II. POLICY

1. Prior to the first treatment, a PSKC staff member must review with each new patient the contents of the *New Patient Admission Packet*.
 - a. Based on the facility, either the Admin. Coordinator or Admin. Assistant is responsible for meeting with each patient to review the contents of the packet.
 - i. With the permission of the Admin. Supervisor, another PSKC staff member may be requested to review the packet with the patient.
 - ii. A nurse must review the *Informed Consent for Treatment Form* with the patient prior to the first treatment. For home patients only, the home nurse will also review with the patient *Home Patient Agreement* and *Home Patient Equipment Agreement* forms.
 - b. In most cases, the packet will be reviewed just prior to the first treatment. However, other arrangements can be made with a patient to complete the paperwork prior to starting, including coming into the facility on another day or time.
 - i. The Admin. Supervisor may approve other arrangements (including reviewing the paperwork with the patient at a local hospital).
2. New Patient Admission Packets are assembled by the Administrative Assistant at each facility.
 - a. The packets contain the following items:

Left side:

 - i. Welcome Letter – Benefit Coordinator
 - ii. Benefit Coordinator Business Card
 - iii. Facility Business Card
 - iv. Hemodialysis: What to Expect (or Home Training: What to Expect for home packet)
 - v. PSKC Brochure (includes list of locations)
 - vi. *You and Your Kidneys Brochure*
 - vii. Getting Started with Nutrition for Dialysis
 - viii. Potassium Food List
 - ix. Coming to Dialysis (removed for home patients)

POLICY AND PROCEDURE / NEW PATIENT ADMISSION

Right side:

- x. Your Information. Your Rights. Notice of Privacy Practices
 - xi. Grievance
 - xii. Involuntary Discharge or Transfer
 - xiii. Patient Rights and Responsibilities
 - xiv. Informed Consent for Treatment
 - xv. Financial Packet Checklist
 - xvi. Patient Financial Agreement
 - xvii. Patient Registration Form
 - xviii. Authorization Form to Use or Disclose Info.
 - xix. Authorized Rep. Form
 - xx. Home Dialysis Agreement (home packet only)
 - xxi. Equipment Agreement (home packet only)
- b. The contents of the packets cannot be modified, placed in a different order, or added without permission from the Director, Administrative Services.
 - c. *Add in the following forms for the right side of packet:*
 - i. *Admission Height Form*
 - ii. *2728*
 - iii. *Spectra Form*
 - d. Hand write the patients Chart ID number in the upper right corner of each page of the right side documents.
 - e. Each facility is requested not to have on hand more than 10 copies of the packet in order to avoid having outdated versions of the document.
3. In the case of unusual circumstances, the Direct Care Manager may approve a patient starting without a staff member reviewing the complete contents of the packet.
 - a. However, the patient must, at a minimum, sign the *Patient Financial Agreement* and *Informed Consent Form*.
 - b. Arrangements must be made for a staff member to review the complete packet prior to the next scheduled treatment.
-
- Key Point(s): For legal reasons, the patient **must sign** the *Patient Financial Agreement* and *Informed Consent Form* prior to initiating dialysis.
4. Returning patients will be given a new packet and will be required to re-sign all forms.
 - a. If the patient has been gone **less than one (1) year**, the patient may review a copy of the prior Patient Registration Form, make any changes, and initial/date the first page.

III. PROCEDURE

POLICY AND PROCEDURE / NEW PATIENT ADMISSION

1. Admin. Coordinator or Admin. Assistant will register the patient in the Electronic Medical Record (EMR).
 - a. Upon receipt of all records, Admin. Coordinator or Admin. Assistant will establish a complete electronic medical record.
2. Scan the Standing Orders into the electronic medical record.
3. Admin. Coordinator or Admin. Assistant will meet with the patient to complete and sign admission paperwork prior to initiating dialysis per policy.

Key Point(s): Copies of identification and all insurance cards must be obtained. If patient does not bring them, require the patient to bring them at the next scheduled treatment.

4. Admin. Coordinator or Admin. Assistant will measure the patient's height using a Stadiometer. *Fill out the Admission Height Record and give to the Care Coordinator or Nurse at your facility.*

Key Point(s): Staff must subtract the height of heel on shoe. If patient can't stand, staff will get a stated height from the patient.

5. A photo must be taken of the patient for his/her EMR.
 - a. A patient may refuse to have a photo taken. If the patient refuses, notify the *Admin. Assistant at Monroe.*
6. The patient will be given a bag, headphones, and a blanket.
7. The patient is given a tour of the patient lounge, and is offered a locker to store belongings.
8. The CMS 2728 form will be initiated through CROWNWeb by the center's Admin. Coordinator on admission.
9. Send copies of the following to the financial office when completed:
 - a. A copy of the CMS 2728 form
 - b. Copies of all insurance cards, front and back
 - c. Copy of Patient Financial Agreement
 - d. Patient Registration Form
 - e. Authorization to Disclose Health Care Information
 - f. Department of Social and Health Services Form
10. The Home Department will be notified by the Direct Care Manager or his/her designee of all new patients for information consult.

Patient Transfer and Discharge

Clinical/General

I. PURPOSE

To ensure proper discharge, or transfer of patients from Puget Sound Kidney Centers (PSKC).

II. V-TAG(S)

V468-V469, V766-V767

III. POLICY

1. A patient can choose to transfer within PSKC as space and services are available. A patient can choose to discharge or transfer from PSKC at any time.
2. A patient may be *involuntarily* discharged/*transferred* from a PSKC facility only for the reasons listed here:
 - a. The facility can no longer meet the patient's documented medical needs.
 - b. The facility has reassessed the patient and determined that the patient's behavior is disruptive and abusive to the extent that the delivery of care to the patient, or the ability of the facility to operate safely is seriously impaired.
 - c. The patient does not have a nephrologist that has privileges at PSKC.
 - d. The patient or payer no longer reimburses the facility for ordered services.
 - e. The facility ceases to operate.
3. *The facility Medical Director must be informed of, and approve, any involuntary discharge or transfer of a patient.*
4. Any patient at risk of involuntary discharge is considered unstable and requires monthly reassessments and review of their care plan.
 - a. *Prior to being given an official 30 day notice of intent to discharge, this would also include patients on a behavioral contract, and patients who have been given progressive notices from Finance Dept. regarding lack of payment.*

IV. PROCEDURE – VOLUNTARY TRANSFER AND DISCHARGE

1. Notify nephrologist of patient's request for transfer using the Transfer Notification Fax.
2. Inside PSKC:
 - a. If the nephrologist expresses no concerns for the transfer:
 - i. Notify patient scheduler and Direct Care Manager (DCM) of the request.
 - ii. The patient scheduler will check for availability.
 - a) If there is no availability for the requested transfer, the patient scheduler will place the patient on a waiting list and notify the patient and DCM's of both units when the spot becomes available.
 - iii. Patient scheduler will notify the DCM's of both units of availability and coordinate the transfer between the units.

POLICY AND PROCEDURE / TRANSFER AND DISCHARGE

- iv. *The Patient Scheduler will email the finance department for benefits review for the receiving unit.*
 - v. *The Patient Scheduler will email the Administrative Assistants for both units to ensure the appropriate updates have been made in the Electronic Medical Record (EMR) and other databases.*
 - vi. *The DCM will facilitate a handoff report to the receiving DCM and arrange for a handoff report between primary nurses.*
 - b. If the nephrologist expresses concerns, he/she will follow up with the patient and notify the unit of the outcome.
3. Outside PSKC:
- a. The patient will contact the unit they are transferring to.
 - b. The administrative staff will coordinate with the accepting unit the transfer of all needed information.
 - c. The patient will remain a PSKC patient until their first run at their new unit.

V. PROCEDURE – INVOLUNTARY TRANSFER AND DISCHARGE

1. *In the event a clinical staff member(s) believes the patient may have to be involuntarily discharged/transferred, the DCM should be notified of the reason and do a medical record review as stated below, and interview appropriate staff as needed to gather enough details to proceed:*
 - a. **Medical Needs:** If the facility staff is unable to meet the patient's medical needs safely, ensure there is documentation of the patient's medical need and reasons why facility can no longer meet the need and efforts made/offered to accommodate patient.
 - b. **Disruptive/Abusive Behavior:** Ensure there is documentation of the patient's ongoing behavior problem(s) and facility/*interdisciplinary team (IDT)* efforts to resolve the problem(s). *Ensure the IDT has reassessed the patient with an intent to identify any potential action or plan that could prevent the need to discharge or transfer the patient involuntarily. The reassessment must focus on identifying the root causes of the disruptive or abusive behavior and result in a plan of care aimed at addressing those causes and resolving unacceptable behavior.*
 - c. **Lack of Nephrologist with Privileges at PSKC:** A patient cannot dialyze at PSKC unless they are under the care of a nephrologist with privileges at PSKC.
 - i. If the patient-doctor relationship is severed by the nephrologist, the nephrologist must give a 30 day written notice to the patient and coordinate this notice with the dialysis unit. During this time, PSKC will attempt to help the patient find another nephrologist with privileges at PSKC.
 - ii. *The nephrologist is encouraged to notify the facility when a patient is considered 'at risk' for termination of the nephrologist/patient relationship for assistance with mediation and root cause analysis.*
 - iii. If the patient-doctor relationship is severed by the patient, the patient must have another nephrologist with privileges at PSKC willing to take over his/her care prior to the dissolution in order to continue to receive care at PSKC.

POLICY AND PROCEDURE / TRANSFER AND DISCHARGE

- iv. If the nephrologist withdraws or loses privileges at PSKC, the patient must find another nephrologist with privileges at PSKC.
 - v. The DCM will ensure there is documentation of the termination of relationship between nephrologist and patient and facility efforts to resolve the problem(s).
 2. **For Non-payment for Ordered Services:** *In the event a finance staff member(s) believes the patient may have to be involuntarily discharged/transferred, the Billing & Contracting Manager should be notified of the reason. Ensure documentation of the non-adherence to the signed agreement, and that efforts to resolve the issue are complete and accurate. Interview appropriate staff as needed to gather enough details to proceed.*
 3. The DCM (or Finance Staff for **Non-Payment**) will notify the Director, Nursing Services (DNS), Chief Operating Officer (COO) and Chief Medical Officer (CMO) for discussion.
 - a. After the needed information has been obtained, the President & CEO will be notified for approval. The President & CEO, or his/her designee, is the only individual authorized to make the final decision.
 4. The DNS or his/her designee will notify the Northwest Renal Network *by phone* of intent to discharge the patient *and ensure decision is in compliance with regulations.*
 - a. *Person notifying the Network should be familiar with the situation and be prepared to provide patient's name, date of birth, anticipated date of last treatment, steps taken by facility to resolve the problem, psychosocial history, medical conditions and contributing factors to discharge/transfer.*
 - b. *Clarify which required documents should be sent, and which should be sent if/when involuntary transfer/discharge actually occurs (see list of required documentation below).*
 - c. *Notification should be documented in medical record.*
 5. Once discussed and approved, the DNS or his/her designee will notify *and get approval* from the Medical Director of the facility *and update the patient's nephrologist.*
 - a. For **Disruptive Behavior**, a physician order, signed by both the Medical Director and attending nephrologist, must be obtained showing they both concur with discharge/transfer.
 6. The DNS or his/her designee will document the reason for discharge, *nephrologist and Medical Director update/approval* in the patient's medical record as a *Unique Order and/or Progress Note.*
 7. A 30 day notice of Intent to Discharge will be sent to the patient with the following documents (*either sent by certified and regular mail and/or hand delivered*):
 - a. A copy of this Patient Transfer and Discharge Policy and Procedure.
 - b. A copy of the *patient's* signed Patient Rights and Responsibilities document.
 8. The DNS or his/her designee will notify the State Survey Agency of the *potential* involuntary transfer/discharge and document this notification in the medical record.
 - a. *Complete the "State Notification of Involuntary Discharge/Transfer" form and fax to WA DOH ESRD Supervisor.*
 9. The following documentation must be faxed or mailed to the Network *as directed* and within five (5) business days of being requested:

POLICY AND PROCEDURE / TRANSFER AND DISCHARGE

- a. *Copy of the 30 day discharge/transfer notice given to the patient, which includes resources for finding another dialysis facility.*
 - b. A copy of this Patient Transfer and Discharge Policy and Procedure.
 - c. The Patient's Rights and Responsibilities Policy and Procedure.
 - d. The signed Patient Rights and Responsibilities document.
 - e. Documentation that the Nephrologist and Medical Director were notified and/or approved the discharge or transfer.
 - f. Documentation of the *reason for discharge, efforts to avoid discharge and attempts to place at another facility.*
 - g. Documentation that the State Survey agency was notified (*copy of faxed form*).
10. In the event of an **immediate severe threat to the health and safety of others**:
- a. The patient will not be allowed on dialysis, or if already dialyzing, the patient will be taken off dialysis and required to leave the premises immediately. If the patient does not comply, 911 will be called to ask the police to escort the patient off PSKC's private property.
 - b. Notify DCM immediately who will then assist with the situation to ensure the immediate safety of the staff and patients, and make appropriate notifications to the DNS, the CMO, *the COO* and the President & CEO.
 - c. *If discharge is recommended, the DNS or his/her designee will notify the Northwest Renal Network immediately and ensure decision is in compliance with regulations.*
 - d. The patient's nephrologist, Medical Director of the facility and State Survey agency will be notified. *Only Medical Director must give recommendation.*
 - e. A 30 day notice is not required but an immediate discharge notice must still be sent *to the patient* as outlined above.
 - f. *Ensure documentation of the exact nature of the immediate severe threat to the health and safety of others is completed and sent to the Network along with patient discharge notice and other items listed above.*

State Notification Form:

<https://s3-us-west-2.amazonaws.com/nwrn.org/files/ivd/IVDNotifyForm.pdf>

Source: <https://www.nwrn.org/providers-and-professional-staff/patient-services/ivd.html>

Patient's Rights and Responsibilities

Clinical/General

I. PURPOSE

To ensure that patients are informed of their rights and responsibilities at Puget Sound Kidney Centers (PSKC).

II. V-TAG(S)

V450-V467, V470

III. POLICY

1. All new patients will be given the New Patient Packet which will include the following documents:
 - a. Patient's Rights and Responsibilities
 - b. Coming to Dialysis
 - c. Grievance
 - d. Involuntary Discharge or Transfer
2. These documents will be read by the patient or their legal representative and the Patient's Rights and Responsibilities will be signed by the patient or their legal representative within the first three treatments at PSKC.
3. Every reasonable effort will be made to present the material in a manner that the patient or their legal representative can understand. Opportunity will be given for the patient or their legal representative to ask questions regarding the information. The patient or their legal representative will acknowledge their understanding by signing the Patient's Rights and Responsibilities form.
4. Staff members will document in the patient's medical record how forms requiring a signature were explained to patients or their legal representatives who have vision, speech, or hearing barriers and those who do not speak or read English.
5. The signed copy of the Patient's Rights and Responsibilities will be filed in the patient's medical record for future reference and the patient will be given a copy to take home.
6. The Patient's Rights and Responsibilities will be prominently displayed in each facility where it can be easily seen and read by patients.

Exhibit 7
CFO Financing Letter



October 28, 2020

Eric Hernandez, Program Manager
Certificate of Need Program
Department of Health
111 Israel Road Southeast
Tumwater, WA 98501

RE: Certificate of Need Application for the Puget
Sound Kidney Centers, Proposing the Addition of
One Station (PSKC Anacortes)

Dear Mr. Hernandez:

I am writing to confirm that Puget Sound Kidney Centers (PSKC) will use reserves for the capital expenditures associated with the addition of one station in Skagit County (PSKC-Anacortes).

The capital expenditure of \$15,235 will be funded from PSKC's cash reserves. Included in Appendix 1 of the application submittal are the most recent reviewed financial statements for PSKC, which indicates there are sufficient cash reserves for this project.

Please contact me if you have any questions.

Thank you,

Sincerely,

A handwritten signature in blue ink that reads "Ken Kouchi".

Ken Kouchi
Chief Financial Officer
Puget Sound Kidney Centers

Care. Compassion. Community.

Exhibit 8
Medical Director Agreement



PSKC – ANACORTES
MEDICAL DIRECTOR AGREEMENT
BETWEEN
PUGET SOUND KIDNEY CENTERS,
AND
PARAMPREET GHUMAN, MD

This MEDICAL DIRECTOR AGREEMENT (this “Agreement”), effective as of January 1, 2019, (the “Effective Date”) made by and among Puget Sound Kidney Centers, a Washington nonprofit corporation (“PSKC”) and Parampreet Ghuman, MD (“Physician”), is for the provision of medical director services.

RECITALS

WHEREAS, PSKC operates dialysis centers and related kidney treatment programs throughout the Puget Sound area, including in particular the facility described in the attached Exhibit A (the “Facility”), which requires the services of a medical director;

WHEREAS, Article IX of the PSKC Bylaws directs the Board of Directors to select and engage a qualified Medical Director for the Facility who shall devote adequate time to general supervision of all ESRD treatments at the Facility for which PSKC is responsible; and describes the duties of the Facility’s Medical Director to be those required for the Facility’s conformity with Centers for Medicare and Medicaid Services (CMS) Medical Standards of Participation for End Stage Renal Disease Facilities, including but not limited to those set forth at 42 CFR 494.150.

WHEREAS, Physician is a qualified nephrology physician and a member of the medical staff of the Facility; and

WHEREAS, PSKC and Physician have agreed that Physician shall provide the Services, as defined in this Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual covenants, terms and conditions contained herein, it is agreed between the parties as follows:

AGREEMENT

1. MEDICAL DIRECTOR SERVICES

1.1 Appointment. Effective as of January 1, 2019, (the “Commencement Date”), PSKC engages and hereby appoints Physician to serve as the medical director of Facility. Physician shall be referred to herein as “Medical Director.”

1.2 Services. Physician's primary task as Medical Director shall be to ensure that, at all times, the Facility is providing quality patient care in a safe, comfortable setting while ensuring efficiency and a high level of patient satisfaction. Physician shall devote his best efforts to serving as Medical Director of the Facility, including, but not limited to, performing: (a) those services customarily performed by medical directors of dialysis facilities; (b) the duties set forth in the attached Exhibit A; and (c) such other duties as PSKC may reasonably request from time to time. The services described in this Section 1.2, together with all other services to be provided by Medical Director hereunder, shall be referred collectively as the "Services."

1.3 Absences. If Physician foresees an absence that will prevent Physician from performing the Services for ten (10) or more business days, or in the event of Physician's disability that will prevent Physician from performing the Services for ten (10) or more business days, Physician shall provide at least one (1) month prior written notice to PSKC's President & CEO.

1.4 Expenditures and Contracting. Physician shall participate in reviewing expenditures and agreements of PSKC and/or the Facility as provided in Exhibit A. Notwithstanding any other provision of this Agreement, Physician shall not have any authority to make any expenditure or enter into any agreement on behalf of or in the name of PSKC or the Facility, without PSKC's express advance written approval.

1.5 Private Practice. Physician may provide professional services outside the scope of this Agreement to the extent consistent with the satisfactory discharge of the Services.

1.6 Professional Services. This Agreement relates solely to the furnishing of administrative services as Medical Director and is not an agreement for professional medical services furnished to patients. With respect to any such professional medical services, Physician shall provide all billing and collection services for those identifiable professional services provided to patients at the Facility.

2. QUALIFICATIONS

2.1 Qualifications. At all times during the Initial Term and any subsequent Renewal Term, Physician shall maintain the following qualifications, none of which may at any time be restricted, suspended, revoked or unrenewed: (a) licensure to practice medicine in the State of Washington and good standing with the Washington State Medical Quality Assurance Commission; (b) a Federal DEA number; (c) membership on PSKC's active medical staff with appropriate clinical privileges; (d) participation in and qualification for reimbursement from the Medicare program and the Washington Medicaid program; and (e) insurance coverage as required in Section 7 below. Upon PSKC's request, Physician shall provide evidence satisfactory to PSKC of Physician's compliance with this section. Physician shall immediately notify PSKC in writing if Physician lacks any of the above qualifications or if Physician's medical staff membership or privileges at any other health care facility are revoked, terminated, restricted, suspended or unrenewed.

2.2 Medical Staff Activities. Physician shall attend staff conferences and shall comply with the procedures, rules and regulations of PSKC's Medical Staff. Physician shall perform such

teaching and similar duties as are in accordance with the education program of PSKC's staff and employees and consistent with ESRD program requirements.

3. SPACE, UTILITIES, SUPPLIES, EQUIPMENT AND PERSONNEL

PSKC shall, within annual budgetary allowances, provide space, utilities, supplies and equipment necessary for Physician to perform Physician's duties as Medical Director. Physician will not use any such space, utilities, supplies, equipment or personnel at any time for the private practice of medicine.

4. INDEPENDENT CONTRACTOR

At all times during the performance of any Services hereunder, Physician shall be acting and discharging all duties and responsibilities required hereunder as an independent contractor of PSKC. PSKC shall provide a Form 1099 to Physician and shall not withhold any local, state or federal employment taxes on Physician's behalf. Physician shall be responsible for paying all taxes due on all amounts paid to Physician hereunder, and for paying all taxes and local, state and federal withholding taxes for all employees of Physician. Physician shall indemnify and hold PSKC harmless from any failure to pay such taxes, including any interest and penalties assessed against PSKC. Physician shall not be considered an employee of PSKC for purposes of any PSKC employment policy or employment benefit plan, and will not be entitled to any benefits under any such policy or benefit plan, except liability coverage to the extent and limits established by PSKC for liabilities incurred while Physician is acting within the scope of duties as Medical Director under this Agreement.

5. COMPENSATION

Physician's entire compensation under this Agreement is set forth in the attached Exhibit B. The parties agree that all compensation to be paid under this Agreement does not exceed fair market value, is not determined in a manner that takes into account the volume or value of referrals or other business that might be generated between Physician and PSKC, except as permitted by law, and does not require the limitation or withholding of items or services from patients in violation of any federal, state or local law. PSKC will evaluate Physician's performance of this Agreement in October or November of each contract year.

6. TERM AND TERMINATION

6.1 Term. The term of this Agreement, unless earlier terminated as provided herein or in Exhibit D, is three (3) years, commencing on the Commencement Date (the "Initial Term"). This Agreement shall automatically renew for additional one-year term(s) (each a "Renewal Term") unless earlier terminated as provided herein or by notice of nonrenewal at least thirty (30) days before an anniversary of the Commencement Date.

6.2 Automatic Termination. This Agreement shall terminate automatically without notice upon the occurrence of any of the following events:

- (a) Failure of Physician to maintain any of the qualifications described in Section 2.1 above;
- (b) Physician is convicted of any offense punishable as a felony or engages in unprofessional conduct as defined in RCW 18.130.180;
- (c) Physician is terminated or debarred from participation in any third-party payor plan, including but not limited to Medicare, Medicaid, and other public or private insurance programs;
- (d) Physician fails to immediately remove himself in accordance with Section 1.3 in the event Physician is not qualified to perform the duties required under this Agreement due to Physician's disability, as reasonably determined by PSKC;
- (e) Physician commits a violation of law in the course of his engagement that has an adverse impact on PSKC or its employees or that breaches Physician's duties or obligations to PSKC under this Agreement; or
- (f) Physician's medical staff privileges at Providence Everett Medical Center (the "Hospital") are terminated, suspended or restricted or Physician ceases to be a fully qualified member of the Hospital's medical staff.

6.3 Termination for Material Breach. Either party may terminate this Agreement in the event of a material breach of this Agreement by the other party. The non-breaching party shall send the breaching party written notice describing the breach with reasonable specificity, including any steps that must be taken to cure such breach. If the breaching party fails to cure such breach to the reasonable satisfaction of the other party within thirty (30) days after receipt of such notice, this Agreement shall immediately terminate at the end of such 30-day period. A material breach of this Agreement shall include any act or omission by a party that, in the other party's reasonable judgment, jeopardizes the health, safety or well-being of any person.

6.4 Effect of Termination. Upon termination of this Agreement, Physician shall not in any way interfere with the assumption by a successor group or physician of Physician's duties under this Agreement. Physician shall deliver to PSKC all records necessary for the conduct of the business of PSKC and the Facility, and all other PSKC property in Physician's possession; and each provision requiring continuing performance shall survive termination of this Agreement, including but not limited to Sections 7, 8, 9, and 10. Termination of this Agreement shall not entitle Physician to any rights of appeal or hearing under PSKC's medical staff bylaws or otherwise. If the Agreement is terminated any time prior to one (1) year from the Commencement Date, the parties shall not enter into a new arrangement for the services that are the subject of this Agreement before the expiration of one (1) year from the Commencement Date.

7. INSURANCE

7.1 Physician's Responsibility. Physician hereby agrees to maintain at all times and at Physician's own expense policies and professional and general liability insurance to cover Physician

against liability for damages caused by the acts or omissions of Physician in the performance of his professional practice of medicine. Such coverage shall include, but not be limited to, medical malpractice and professional liability insurance coverage with minimum limits of one million dollars (\$1,000,000) per occurrence and five million dollars (\$5,000,000) in the aggregate as approved by PSKC. Within thirty (30) days after this Agreement's commencement date, Physician shall provide PSKC with documentation substantiating the existence of such insurance.

Physician shall notify PSKC if any premium payment for insurance required by this Section is delinquent and hereby authorizes PSKC to make such payments on the insured's behalf, said payments to be repaid by Physician within fourteen (14) days along with interest at prime plus two percent (2%). Failure to repay PSKC any amounts advanced by PSKC for delinquent payments shall be cause to terminate this Agreement upon ten (10) days written notice to Physician. Notwithstanding the foregoing, PSKC shall have no obligation to make any payment toward any premium on Physician's behalf.

If any of the policies described above are on a "claims made" basis, the requirements of this section shall survive termination of this Agreement and shall continue for four (4) years thereafter. In lieu of continued coverage, Physician may provide a "tail" policy in a form approved by PSKC covering this Agreement's Initial Term and any Renewal Term(s).

7.2 PSKC's Responsibility. PSKC provides professional and general liability coverage for its employees, which includes independent contractors such as medical directors and advisors while working within the scope of their assigned duties. PSKC shall maintain professional and general liability insurance coverage for Physician while acting within the scope of his duties as Medical Director under this Agreement, with minimum limits of one million dollars (\$1,000,000) per occurrence and five million dollars (\$5,000,000) in the aggregate. If PSKC's policy is on a "claims made" basis during this Agreement, PSKC shall provide continued professional and general liability coverage for Physician for five years after termination of this Agreement.

8. REPORTS AND RECORDS

8.1 Ownership of Reports and Records. It is agreed that all reports and records relative to the Facility and PSKC are the property of PSKC and are to be considered and treated as the PSKC's records.

8.2 Maintenance of and Access to Books and Records. Upon the written request of the Secretary of Health and Human Services or the Comptroller General or any of their duly authorized representatives, Physician shall make available those contracts, books, documents, and records necessary to verify the nature and extent of the costs of providing services under this Agreement. Such inspection shall be available up to four (4) years after the rendering of such services. If Physician carries out any of the duties of this Agreement through a subcontract with a value of \$10,000 or more over a 12-month period with a related individual or organization, Physician shall include this requirement in any such subcontract. This section is included pursuant to and is governed by the requirements of Public Law 96-499, Section 952 (Section 1861(v)(1) of the Social Security Act) and the regulations promulgated thereunder. No attorney-client, accountant-client, or

other legal privilege will be deemed to have been waived by Physician or PSKC by virtue of this Agreement.

9. CONFIDENTIALITY

Physician shall not, directly or indirectly, divulge, disclose or communicate to any person or entity, any nonpublic, confidential information with regard to this Agreement, or the operational, financial, contractual, or other affairs of PSKC or the Facility, except as may be required by law, or use such confidential information for any purpose other than the performance of Physician's obligations under this Agreement. As used in this Section 9, confidential information shall include nonpublic information about the financial performance, strategic plans, cost and expense data, trade secrets, payor, supplier or patient contracts, partnership arrangements, manuals, policies and procedures, patient lists, and similar data of PSKC or the Facility. Confidential information shall not include any information in the public domain or any information that becomes part of the public domain through no fault of Physician. The terms of this section shall survive any termination or expiration of this Agreement.

10. COVENANTS

Physician acknowledges and agrees that, as a consequence of Physician's performance of this Agreement, Physician will be exposed to valuable confidential knowledge, which is proprietary to PSKC, and will participate at PSKC's expense in building and maintaining its goodwill with patients, employees, vendors and others. Physician further acknowledges and agrees that PSKC and Facility would suffer serious, irreparable, competitive injury if Physician were to engage in any business or activities in competition with PSKC or Facility. Accordingly, Physician shall comply with the following covenants, which the parties consider to be fair, reasonable and integral to PSKC's protection and which are a material inducement to PSKC entering into this Agreement:

10.1 Noncompetition; Waiver. During this Agreement's Initial Term, any Renewal Terms, and for a period of two (2) years following this Agreement's termination (the "Relevant Period"), and except as expressly provided in Exhibit E attached hereto, Physician shall not, directly or indirectly, alone or in conjunction with any other person, serve as medical director of, nor be an officer, director, shareholder, partner, member, owner, part owner (through equity or debt), employee, advisor or consultant of any kidney dialysis center or other program, center or entity offering dialysis services of any kind operating or intending to operate within thirty (30) miles of any dialysis center or treatment program operated by PSKC.

10.2 Non-Solicitation; Non-Disparagement. During the Relevant Period, Physician shall not, for his, her or its own benefit or the benefit of others, directly or indirectly, take any action that constitutes, results or may reasonably be expected to result in (a) soliciting any business from any person or entity that has or has had a business relationship with PSKC, or disrupting or attempting to disrupt, any relationship, contractual or otherwise, between PSKC and any such person or entity, including any patient, payor, physician, provider, managed care organization, or supplier; (b) inducing, or attempt to induce, any employee of PSKC to terminate his or her association with PSKC; or (c) criticizing, denigrating or disparaging PSKC or the Facility.

10.3 Remedies. The parties agree that any breach or any threatened breach of any covenant in this Section 10 will cause irreparable injury to PSKC and that the remedy at law will be inadequate. Therefore, in the event of any actual or threatened breach of any provision of this Section 10, PSKC shall be entitled to any or all of the following remedies: (a) preliminary and permanent injunctions restraining such actual or threatened breach; (b) reasonable attorneys' fees to enforce this Agreement; (c) damages; and (d) any and all other remedies provided for at law or in equity. The remedies under this section are cumulative, are in addition to any others given under this Agreement, by law or in equity, and may be enforced successively or concurrently at PSKC's option.

10.4 Priority of Patient Care. Nothing in these covenants shall be deemed to prohibit Physician from exercising his medical judgment concerning the medical treatment of his patients in any manner whatsoever in any location whatsoever, and shall not be deemed to require the referral of any such patient to any facility of PSKC.

10.5 Divisibility. The parties agree that the covenants in this Section 10, including the scope of the restricted activities and the duration and geographic extent of such restrictions, are fair and reasonably necessary for the protection of the legitimate interests of PSKC, in light of all of the facts and circumstances of the relationship between the parties. If any court or other tribunal of competent jurisdiction finds that this Section 10 is excessively broad and declines to enforce any provision of this Section 10, the covenants herein shall be deemed to be modified to restrict the activities of Physician to the maximum extent enforceable by law and in equity.

11. DISPUTE RESOLUTION

11.1 Mediation. Except as otherwise provided in this Agreement, in the event the parties are unable to resolve a dispute relating to the terms of this Agreement through good faith efforts, the parties shall submit such dispute to mediation before a mutually agreeable mediator or if such person cannot be agreed upon within five (5) business days, to that mediator designated by the Seattle office of Judicial Dispute Resolution, L.L.C. In the event that Judicial Dispute Resolution, L.L.C. no longer operates in Seattle, the mediator shall be chosen by the Presiding Judge (or designee) of the Superior Court of the State of Washington for Snohomish County. When the mediator cannot be mutually agreed upon, the party seeking mediation shall apply to Judicial Dispute Resolution, L.L.C. or the court within thirty (30) days of the date it learns, or reasonably should have learned, of the dispute and shall request mediation within forty (40) days. The mediator's fees shall be shared equally by the parties.

11.2 Arbitration. If such dispute is not resolved through mediation, the parties agree to submit the dispute to binding arbitration before a mutually agreeable arbitrator. If the parties are unable to agree upon an arbitrator within ten (10) business days of the initial demand to arbitrate the dispute, then the arbitrator may be designated by the Seattle Office of Judicial Dispute Resolution, L.L.C. or any similar service mutually acceptable to the parties. If the Seattle Office Judicial Dispute Resolution, L.L.C. is no longer operating, and no mutual acceptable service is identified, either party may petition for the appointment of an arbitrator by the presiding judge of the Superior Court of Snohomish County in and for the State of Washington.

The arbitrator shall not be bound by the Civil Rules or the Rules of Evidence but shall have the authority to control the conduct and timing of the proceedings, and may permit or deny discovery as he or she deems appropriate. The decision of the arbitrator shall be binding on the parties and enforceable by the courts of the State of Washington. Each party shall bear its own attorneys' fees and share equally in the costs of arbitration, unless the arbitrator, in his or her discretion, awards arbitration costs and attorneys' fees to the substantially prevailing party.

11.3 Violations of Selected Covenants. Notwithstanding any other provision of this Agreement, disputes relating to any breach or alleged breach of the covenants set forth in Section 10 shall not be subject to the mediation or arbitration provisions set forth in Sections 11.1 and 11.2 above. The parties may seek relief from any court for disputes involving such matters.

12. GENERAL PROVISIONS

12.1 Relationship of Parties. In the performance of the professional work and responsibilities for medical services assumed by Physician under this Agreement, it is mutually understood and agreed that Physician is an independent nephrologist with respect to PSKC. Physician shall exercise medical judgment as a nephrologist, free of any direction or control of the PSKC, in a manner consistent with currently approved methods and practices of the profession and in compliance with the standards and policies of the PSKC's Medical Staff. In administrative matters, it is mutually understood and agreed that Physician shall cause the Facility to comply with all business and administrative policies prescribed by the PSKC.

12.2 Business Associate Agreement. In recognition that in the performance of its obligations under this Agreement, Physician may be PSKC's business associate (as that term is defined under the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations (as amended and as may be amended in the future)), Physician and PSKC shall enter into a business associate agreement in substantially the form attached as Exhibit C.

12.3 Nonassignability. Physician shall not assign or delegate rights and duties under this Agreement.

12.4 Notices. Any notice given hereunder shall be in writing and shall be served personally or by depositing same in the United States mail, registered or certified, return receipt requested, postage prepaid and addressed to the intended party set forth below, or to such other address as a party may have furnished to the other as a place for the service of notice. Any notice so mailed shall be deemed to have been given upon personal delivery or three (3) days after the time the same is deposited in the United States mail.

PSKC: Harold S. Kelly
President & CEO
Puget Sound Kidney Centers
1019 Pacific Avenue
Everett, WA 98201

Physician: Parampreet Ghuman, MD
1111 Pacific Avenue, STE B
Everett, WA 98201

12.5 No Requirement to Refer or Limit Services. Nothing in this Agreement shall be interpreted as requiring either party to make referrals of any items or services to the other, or to limit or withhold items or services from patients, in violation of any federal, state or local law.

12.6 Compliance with Applicable Laws. At all times during this Agreement's Initial Term and any Renewal Terms, each of the parties shall perform their respective obligations hereunder in accordance with all applicable federal, state and local laws and regulations.

12.7 Tax Exemption. This Agreement shall be amended by the parties as PSKC deems necessary to protect its tax-exempt status.

12.8 Modifications for Prospective Legal Events. If any federal, state or local law or regulation, now existing or enacted or promulgated after the effective date of this Agreement is interpreted by judicial decision, a regulatory agency or legal counsel to either party in such a manner as to indicate that a provision of this Agreement may be in violation of such law or regulation, the parties shall amend this Agreement as necessary. To the maximum extent possible, any such amendment shall preserve the underlying economic and financial arrangements between the parties.

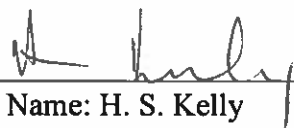
12.9 Miscellaneous. This Agreement (along with the exhibits attached hereto, which are incorporated herein by this reference) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior offers and negotiations, oral and written. This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by the parties hereto. No waiver of any provision hereof shall be deemed to have been made unless and until such waiver shall have been reduced to writing and signed by the party to be bound. No waiver of any default under this Agreement shall constitute or operate as a waiver of any subsequent default hereunder. All terms of this Agreement shall be binding upon and inure to the benefit of the parties' respective successors and permitted assigns. If one or more of the provisions of this Agreement for any reason is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of hereof, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been contained herein.

IN WITNESS WHEREOF, the parties, by their duly authorized representatives, have executed this Agreement on the dates indicated below to be effective as of the Effective Date.

PHYSICIAN

PUGET SOUND KIDNEY CENTERS,
a Washington nonprofit corporation

By: 
Printed Name: Parampreet Ghuman, M.D.

By: 
Printed Name: H. S. Kelly
Title: President & CEO

11/1/19
Date

1-1-19
Date

Exhibit A

Medical Director Services for Puget Sound Kidney Centers – Anacortes (the “Facility”)

- Comply with PSKC’s policies and procedures;
- Support, cooperate with, and share in the responsibility with the Quality of Care team of the Facility in the enforcement of the PSKC’s policies, and delivery of high quality care to ESRD patients at the Facility;
- Provide advice on procurement of supplies and capital equipment for the Facility;
- Provide general medical supervision and guidance for nursing and technical services furnished to patients of the Facility;
- Attend, annually, at least 80% of the Facility’s meetings requiring medical input and direction, such as quality of care meetings, Medical Director, QAPI, and patient care conferences;
- Record all hours and attendance as the PSKC-Anacortes Medical Director and submit a monthly report to the PSKC President & CEO;
- Participate and contribute to productivity enhancements and assessments of the quality of service provided at the Facility;
- Annually conduct and/or assist in an in-service program for PSKC employees assigned to the Facility;
- As requested, provide input for the long range planning of the Facility; and
- As requested, provide input to the Facility’s management on the medical and technical techniques of staff for the purposes of performance evaluation.

Exhibit B

Medical Director Compensation and Log

1. The compensation from PSKC to Physician is \$40,000 per year, payable in equal monthly installments of \$3,333.33.

2. On or before the 10th day of each month, Physician shall submit a signed medical director log documenting the hours he spent during the previous month on medical director Services. PSKC shall not be required to pay Physician unless and until Physician submits the completed medical director log for the previous month.

Exhibit C

Business Associate Agreement

This Business Associate Agreement (“BAA”), effective as of January 1, 2019, (“Effective Date”), is entered into by Puget Sound Kidney Centers, a Washington nonprofit corporation (“PSKC”), and Parampreet Ghuman, MD (“Business Associate”), (each a “Party” and collectively the “Parties”) in connection with that certain Medical Director Agreement entered into by the Parties on January 1, 2019.

1. DEFINITIONS

Capitalized terms in this BAA shall have the meaning set forth in the Health Insurance Portability and Accountability Act of 1996, as amended, and its implementing regulations (collectively, “HIPAA”) unless otherwise defined. “Protected Health Information” shall have the meaning set forth at 45 C.F.R. § 160.103, but shall be limited to information created, received, maintained, or transmitted on behalf of PSKC. “Individual” shall have the meaning set forth at 45 C.F.R. § 160.103, but shall also include a personal representative as set forth at 45 C.F.R. § 164.502(g).

2. PERMITTED USES AND DISCLOSURES OF PROTECTED HEALTH INFORMATION

2.1. Business Associate will provide certain services to PSKC pursuant to the terms of the Medical Director Agreement that involve the Use and/or Disclosure of Protected Health Information to Business Associate (the “Services”). Except as otherwise specified herein, Business Associate may make any and all Uses and Disclosures of Protected Health Information necessary to perform its obligations under the Medical Director Agreement to the extent that such Uses or Disclosures would be permissible under HIPAA if done by PSKC.

2.2. Business Associate may Use or Disclose Protected Health Information for its proper management and administration and to carry out its legal responsibilities, provided that any such Disclosure is: (a) Required By Law; or (b) Business Associate obtains PSKC’s prior written approval and reasonable assurances from the recipient that the Protected Health Information will be held confidentially and Used or further Disclosed only as Required By Law or for the purpose for which the information was Disclosed to the recipient and the recipient shall notify Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.

3. RESPONSIBILITIES OF THE PARTIES WITH RESPECT TO PROTECTED HEALTH INFORMATION

3.1. Responsibilities of Business Associate. With regard to its Use and/or Disclosure of Protected Health Information, Business Associate agrees to:

3.1.a. Use and/or Disclose the Protected Health Information only as permitted or required by this BAA or as otherwise Required By Law.

- 3.1.b. Report to PSKC any Use and/or Disclosure of the Protected Health Information that is not permitted or required by this BAA of which Business Associate becomes aware without unreasonable delay and in no case later than within one business day of Business Associate's discovery of such unauthorized Use and/or Disclosure.
- 3.1.c. Report to PSKC any Security Incident of which Business Associate becomes aware without unreasonable delay and in no case later than within one business day of after Business Associate's discovery of such Security Incident.
- 3.1.d. In addition to the reporting set forth in Sections 3.1.b. and 3.1.c. of this BAA, report to PSKC the information required by 45 C.F.R. § 164.410 for any Breach of Unsecured Protected Health Information without unreasonable delay and in no case later than thirty (30) calendar days after discovery.
- 3.1.e. Use commercially reasonable efforts to comply, where applicable, with the Security Standards at 45 C.F.R. Part 164 Subpart C for Electronic Protected Health Information, and to prevent the unauthorized Use and/or Disclosure of Protected Health Information, which shall in no event be less than the efforts Business Associate applies in protecting its own patient information and shall include appropriate background checks on Business Associate's employees who will have access to Protected Health Information.
- 3.1.f. Require all of its subcontractors that create, receive, maintain, or transmit Protected Health Information on Business Associate's behalf, to agree to the same restrictions and conditions that apply to the Business Associate pursuant to this BAA with respect to such information, including providing adequate safeguards against improper Use or Disclosure.
- 3.1.g. Make available all records, books, agreements, policies and procedures relating to the Use and/or Disclosure of Protected Health Information to the Secretary of HHS for purposes of determining compliance with the Privacy Regulation. Nothing in this section shall be construed as a waiver of any legal privilege or of any protections for trade secrets or confidential commercial information. Business Associate shall immediately notify Covered Entity of such request from the Secretary pertaining to an investigation of Covered Entity's compliance with HIPAA.
- 3.1.h. Upon PSKC's written request, make available Protected Health Information to PSKC, to the extent such information is maintained in a Designated Record Set, as necessary for PSKC to provide access to the Individual in accordance with 45 C.F.R. § 164.524.
- 3.1.i. Upon PSKC's written request, amend Protected Health Information, to the extent such information is maintained in a Designated Record Set, as necessary for PSKC to comply with 45 C.F.R. § 164.526.

- 3.1.j. Upon PSKC's written request, make available to PSKC within thirty (30) days information necessary for PSKC to make an accounting of Disclosures of an individual's Protected Health Information.
- 3.1.k. Forward to PSKC within two (2) business days any requests Business Associate receives directly from individuals for access to, amendment or, or an accounting of disclosures or Protected Health Information.
- 3.1.l. To the extent Business Associate is to carry out one or more of PSKC's obligation(s) under the Privacy Standards at 45 C.F.R. Part 164 Subpart E, including provision to individuals of notices of privacy practices, comply with the requirements of such Privacy Standards that apply to PSKC in the performance of such obligation(s).
- 3.1.m. Mitigate, to the extent practicable, any known harm resulting from a Use or Disclosure not permitted by this BAA.

4. TERM AND TERMINATION

4.1. Term. This BAA shall become effective on the Effective Date and shall continue in effect unless terminated as provided in this Section 4. In addition, certain provisions and requirements of this BAA shall survive the expiration or termination of this BAA in accordance with Section 4.4 herein.

4.2. Termination by PSKC. This BAA and the Medical Director Agreement may be terminated by either Party upon thirty (30) days written notice to the other Party in the event that the other Party materially breaches any provision contained in this BAA and such breach is not cured within such thirty (30) day period. Notwithstanding the above, PSKC may terminate this BAA immediately if Business Associate materially breaches any provision contained in this BAA, cure is not possible, and Business Associate's breach represents a continuing risk to the confidentiality, integrity, and availability of Protected Health Information.

4.3. Automatic Termination. This BAA will automatically terminate without any further action of the Parties upon the termination or expiration of the Medical Director Agreement between the Parties.

4.4. Effect of Termination. Upon the termination of this BAA pursuant to this Section 4, Business Associate agrees to return or destroy within thirty (30) days all Protected Health Information identifiable to PSKC, including such information in possession of Business Associate's subcontractors, if it is feasible to do so. If Business Associate or its subcontractors destroy Protected Health Information pursuant to this Section, Business Associate shall provide PSKC a certificate of destruction upon PSKC's request. If return or destruction of said Protected Health Information is not feasible, Business Associate agrees to extend any and all protections, limitations and restrictions contained in this BAA to the Business Associate's Use and/or Disclosure of any Protected Health Information retained after the termination of this BAA, and to limit any further Uses and/or

Disclosures to the purposes that make the return or destruction of the Protected Health Information infeasible.

5. MISCELLANEOUS

5.1. Entire Agreement. This BAA constitutes the entire agreement of the Parties with respect to the Parties' compliance with federal and/or state health information confidentiality laws and regulations, as well as the Parties' obligations under the business associate provisions of 45 C.F.R. Parts 160 and 164. This BAA supersedes all prior or contemporaneous written or oral memoranda, arrangements, contracts or understandings between the Parties hereto relating to the Parties' compliance with federal and/or state health information confidentiality laws and regulations and the Parties' health information confidentiality and security obligations under 45 C.F.R. Parts 160 through 164.

5.2. No Third Party Beneficiaries. Nothing express or implied in this BAA is intended to confer upon any person or entity other than the Parties and their respective successors or assigns any rights, remedies, obligations, or liabilities whatsoever.

5.3. Construction of Terms. Any ambiguity in this BAA shall be resolved to permit compliance with the law. The Parties agree to take such action as is necessary to amend this BAA from time to time to comply with the requirements of law.

5.4. Amendment; Waiver. This BAA may not be modified, nor shall any provision hereof be waived or amended, except in a writing duly signed by authorized representatives of the Parties. A waiver with respect to one event shall not be construed as continuing, or as a bar to or waiver of any right or remedy as to subsequent events.

5.5. Notices. Any notices to be given hereunder to a Party shall be made via U.S. Mail or express courier to such Party's address given below, and/or via facsimile to the facsimile telephone numbers listed below.

If to Business Associate, to:

Parampreet Ghuman, MD
1111 Pacific Avenue, STE B
Everett, WA 98201

If to PSKC, to:

Harold S. Kelly
President & CEO
Puget Sound Kidney Centers
1019 Pacific Avenue
Everett, WA 98201

Each Party named above may change its address and that of its representative for notice by the giving of notice thereof in the manner herein above provided.

5.6. Counterparts; Facsimiles. This BAA may be executed in any number of counterparts, each of which shall be deemed an original. Facsimile copies hereof shall be deemed to be originals.

IN WITNESS WHEREOF, the Parties hereby execute this BAA.

COVERED ENTITY:

BUSINESS ASSOCIATE:

PUGET SOUND KIDNEY CENTERS,
a Washington nonprofit corporation

By: 
Printed Name: H. S. Kelly
Title: President & CEO

By: 
Printed Name: Parampreet Ghuman, M.D.

Date: 1-1-19


Date: 1/1/19

Exhibit D

Physician has entered into a Medical Director Agreement with Puget Sound Kidney Centers, dated January 1, 2019, ("the Medical Director Agreement"). North Sound Kidney Physicians ("Employer") employs Physician and hereby consents to the Medical Director Agreement on the following terms and conditions:

1. Physician's performance of duties under the Medical Director Agreement does not interfere with Physician's performance of his duties for Employer.
2. Physician shall defend and indemnify Employer from any claims, demands, causes of action, or liability (including any tax liability) arising from Physician's performance of duties under the Medical Director Agreement.
3. Physician complies with all insurance requirements under the Medical Director Agreement.
4. This exhibit constitutes a written waiver from Puget Sound Kidney Centers as to Physician's employment with Employer, with regard to Paragraphs 10.1 and 10.2 of the Medical Director Agreement, which waiver extends to Physician's employment and scope of duties as of the Effective Date and which waiver does not include Physician's performance of medical director services at any freestanding dialysis center other than PSKC. If Physician or Employer desire to expand Physician's responsibilities of employment to include medical director services at any location that would violate the restrictive covenant in Paragraph 10.1, then Physician must provide written notice to PSKC at least one (1) year in advance of the commencement of such responsibilities. Contingent upon such one (1) year notice from Physician, PSKC shall have the option to either continue this Agreement and waive the restrictive covenant in Section 10.1 or to terminate this Agreement and waive the restrictive covenant. PSKC shall notify Physician in writing of its election. There shall be no abrogation of PSKC's rights to enforce the restrictive covenants in Section 10 for any activities commencing with less than one (1) years' written notice to PSKC.
5. On the basis of the foregoing, Physician may retain all compensation received pursuant to the Medical Director Agreement, notwithstanding paragraph 2(c) of the Physician Employment Agreement.

Consented To and Agreed by Employer:

 2/10/2019

Chia-Jen Kuan, MD
North Sound Kidney Physicians

Exhibit E

Exceptions to Noncompetition Restriction

The noncompetition restriction set forth in Section 10.1 of the Medical Director Agreement shall not apply to any kidney dialysis center or other program, center or entity offering dialysis services identified below:

- DaVita Burlington
- Fresenius Skagit

IN WITNESS WHEREOF, the parties hereby execute this Exhibit E - ENR.

PHYSICIAN

PUGET SOUND KIDNEY CENTERS,
a Washington nonprofit corporation

By: 
Printed Name: Parampreet Ghuman, M.D.

By: 
Printed Name: H. S. Kelly
Title: President & CEO

Date: 1/1/19

Date: 1-1-19

Exhibit 9
Skagit County Assessor Information and Zoning Documentation

Details for Parcel: P60578



Jurisdiction: ANACORTES

Zoning Designation: Please contact the city of **ANACORTES** for ANACORTES zoning information.

[Recorded Documents](#) Documents scanned and recorded by the Auditor's office

[Excise Affidavits](#) Document scans of excise affidavits

Parcel Number P60578	XrefID 3837-003-004-0011	Quarter Section Township Range NW 30 35 02
Owner Information PUGET SOUND KIDNEY CENTERS 1019 PACIFIC AVE EVERETT, WA 98201	Site Address(es) 809 31ST STREET Anacortes, WA (Jurisdiction, State) Zip Code Lookup Site Address Information	Map Links Open in IMap Assessor's Parcel Map: PDF DWF

Current Legal Description [Abbreviation Defintions](#)

LOTS 1 TO 4, BLOCK 3, WHITE'S 1ST TO ANACORTES, RECORDED IN VOLUME 2 OF PLATS, PAGE 41, RECORDS OF SKAGIT COUNTY, WASHINGTON. SURVEY AF#201201300135

2020 Values for 2021 Taxes* [Exemption](#)

Building Market Value	\$1,919,900.00
Land Market Value	+\$238,500.00
Total Market Value	\$2,158,400.00
Assessed Value	\$2,158,400.00
Taxable Value	\$.00

Sale Information

Deed Type	WARRANTY DEED
Sale Date	2011-09-14
Sale Price	\$490,000.00

2021 Property Tax Summary

2021 Taxes will be available after 2/15/2021
Use the Taxes link above for 2020 taxes

* Effective date of value is January 1 of the assessment year (2020)

Legal Description at time of Assessment

*Assessment Use Code	(650) PROFESSIONAL SERVICES		WAC 458-53-030
Neighborhood	(605ANA) ANACORTES MEDICAL/DENTAL OFFICE		
Levy Code	0900	Fire District	
School District	SD103	Exemptions	DOR
Utilities	*SEW, PWR, WTR-P	Acres	0.23
Improvement 1 Attributes Summary			
Building Style	COMMERCIAL REAL PROPERTY		
Year Built		Foundation	
Above Grade Living Area	6,861 Square Feet	Exterior Walls	
Finished Basement		Roof Covering	
*Total Living Area	6,861 Square Feet	Heat/Air Conditioning	
Unfinished Basement		Fireplace	
*Total Garage Area		Bedrooms	
Bathrooms			
<i>For additional information on individual segments see Improvements tab</i>			

* Assessment Use Code is for assessment administration purposes and has no relation to zoning or allowable land use.

* Total living area includes above grade living area and finished basement area.

* Garage square footage includes all garage areas; basement garages, attached garages, detached garages, etc.

Assessment data for improvements is based on exterior inspections. Please contact the Assessor's office if the information does not accurately reflect the interior characteristics.

Exhibit 10
Key Staff Names and Licenses

Name	Title	License Number
Dr. Parampreet Ghuman	Medical Director	MD60347939
Shawnette Henry, RN	Direct Care Manager	RN60545404
Kacey Roach	Dietitian	DI60727139
Lindsay Holloway, ACSW	Social Worker (CA77790)	LCSW exam pending
Katie Bolster	Biomedical Technician	CCNT20321692R
Elizabeth Atienza, RN	Staff RN	RN60400565
Myca Dauz, RN	Staff RN	RN60824380
Silvy Yamazaki, RN	Staff RN	RN60474665
Ronnel Gonzalez, RN	Staff RN	RN60946600
Nichole Woodmansee, RN	Staff RN	RN00169465
Ed Boza	Dialysis Technician	HT60365600
Amber Tonkovich	Dialysis Technician	HT60412622
Arminda Bobadilla	Dialysis Technician	HT61024337
Amanda Barker	Home RN	RN60448998

Exhibit 11
Transfer Agreement

TRANSFER AGREEMENT BETWEEN
 PUGET SOUND KIDNEY CENTERS AND SKAGIT VALLEY HOSPITAL
 TO PROVIDE
 DIALYSIS TREATMENTS AT PSKC FOR PATIENTS DIAGNOSED WITH END STAGE
 RENAL DISEASE

This Transfer Agreement (“Agreement”) is entered into this 1 day of October, 2011, (the “Effective Date”), between Skagit Valley Hospital (“SVH”) and Puget Sound Kidney Centers (“PSKC”), the transferring facility.

To facilitate continuity of patient care and the timely transfer of patients and records between PSKC and SVH, the parties agree as follows:

1. If a determination is made by the attending physician that a patient requires transfer from PSKC to SVH, SVH agrees to admit the patient as promptly as possible, as long as it has the available space, qualified personnel, and appropriate services for the treatment of the patient, and the requirements are met in accordance with Federal and State laws/regulations.
2. PSKC will have the responsibility for transferring the patient and agrees to use qualified personnel and equipment as required, including the use of necessary and medically appropriate life support measures, during the transfer. Medical control will be assumed by the Medical Director of the transport service in EMS situations.
3. PSKC agrees to provide appropriate documentation and completed forms of clinical care in order to insure continuity of patient care. This information should include, without limitation, the patient’s medical record and relevant transfer forms. This information will be sent at the time of transfer unless doing so would jeopardize the patient; in which case, the documentation will be sent as promptly as possible after the transfer.
4. To the extent possible, patients will be stabilized prior to transfer and treatment initiated to ensure that the transfer will not within reasonable medical probability, result in harm to the patient or jeopardize survival.
5. All transfers will be done in accordance with Federal and State laws/regulations and in accordance with the standards of The Joint Commission on Accreditation of Healthcare Organizations.
6. PSKC will be responsible for the transfer or other appropriate disposition of personal effects, particularly money and valuables and information related to those items.

7. Charges for services performed by either party shall be collected by the party rendering the service from the patient, third party payor, or other sources normally billed by the party. Neither party shall have any liability to the other for such charges, except to the extent such liability would exist separate from this Agreement. The parties shall cooperate with each other in the exchange of information about financial responsibility for services rendered by them to patients who are transferred to SVH.

8. PSKC shall indemnify, hold harmless and defend SVH, its agents and employees from and against any claim, loss damage, cost, expense or liability, including reasonable attorney's fees, arising out of or related to the performance or nonperformance of PSKC, its agents and employees or any services to be performed or provide by PSKC under this Agreement.

9. SVH shall indemnify, hold harmless and defend PSKC, its agents and employees from and against any claim, loss damage, cost, expense or liability, including reasonable attorney's fees, arising out of or related to the performance or nonperformance of SVH, its agents and employees or any services to be performed or provide by SVH under this Agreement.

10. The parties shall maintain at their own expense comprehensive general and professional liability insurance and property damage insurance adequate to insure them against risk arising out of this Agreement, with limits no less than those customarily carried by similar facilities. Upon require, both parties shall furnish each other with evidence of such insurance. During the term of this Agreement, each party shall immediately notify the other of any material change in such insurance.

11. Nothing in this Agreement shall be construed as limiting the rights of either party to contract with any other facility or entity on a limited or general basis.

12. This Agreement may be modified and amended from time to time by mutual agreement of all parties.

13. This Agreement shall be in force and in effect on the time of signing and shall continue in effect until either party chooses to withdraw from participation by providing thirty (30) days written notice to all other parties. If any party fails to maintain licensure and/or certification, this Agreement will be automatically terminated.

14. This Agreement may be signed by a counterpart and all signed copies will be considered part of an original when the same has been filed with the offices of both parties.

15. PSKC hereby represents and warrants that neither PSKC nor its principals (if applicable) are presently debarred, suspended, proposed for debarment, declared ineligible, or excluded from participate in any federally funded health care program, including Medicare and Medicaid. PSKC hereby agrees to immediately notify SVH of any threatened, proposed, or actual debarment, suspension, or exclusion from any federally funded health care program, including Medicare and Medicaid. In the event that PSKC is debarred, suspended, proposed for debarment, declared ineligible or excluded from participation in any federally funded health care

program during the term of this Agreement, or if at any time after the effective date of this Agreement it is determined that PSKC is in breach of this Section, this Agreement shall as of the effective date of such action or breach, automatically terminate. PSKC further understands that SVH periodically checks contracted individuals and entities against the Office of the Inspector General (OIG) and General Service Administration (GSA) databases of Excluded Individuals and Entities and will notify PSKC if it discovers a match. SVH will take reasonable measures to verify that the match is the same individual or entity before taking any action to terminate any underlying agreement(s).

Puget Sound Kidney Centers

Signed: 

Name: H. S. Kelly

Title: President & CEO

Date: 9-19-11

Skagit Valley Hospital

Signed: 

Name: ~~Gregg Davidson~~ Lori Daisky

Title: ~~Chief Executive Officer~~ CEO

Date: 9/27/11

Business Associate Agreement

THIS BUSINESS ASSOCIATE AGREEMENT (this “**Agreement**”) is made as of the 1st day of September, 2011, between Public Hospital District No. 1 Skagit County, WA, d/b/a Skagit Valley Kidney Center, (“**Covered Entity**”), and Puget Sound Kidney Centers, (“**Business Associate**”).

WHEREAS, the Covered Entity and Business Associate have entered into a contract or contracts (the “**Services Agreements**”) pursuant to which Business Associate will provide certain services to the Covered Entity;

WHEREAS, Business Associate will collect, receive, use and/or disclose PHI (as defined below) in its performance of the Service Agreements on behalf of the Covered Entity, as described below; and

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement and the Services Agreement, and other good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, the parties, hereto agree as follows:

1. Definitions.

- (a) Breach. “Breach” shall have the same meaning as the term “breach” in 45 C.F.R. §164.402.
- (b) Privacy Rule. “Privacy Rule” means the privacy regulations set forth in 45 C.F.R. Parts 160-64 and promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 (“**HIPAA**”).
- (c) PHI. “PHI” shall have the same meaning as the term “protected health information” in 45 C.F.R. §160.103, except limited to the information created or received by Business Associate from or on behalf of the Covered Entity.
- (d) Security Rule. “Security Rule” shall the security regulations set forth in 45 C.F.R. Parts 160-164 and promulgated pursuant to HIPAA.
- (e) Unsecured PHI. “Unsecured PHI” shall have the same meaning as the term “unsecured protected health information” in 45 C.F.R. § 164.402.
- (f) All other capitalized terms not defined in this Agreement or the Services Agreements shall have the meanings ascribed to such terms in the Privacy Rule or the Security Rule, as applicable.

2. General Business Associate Provisions.

Business Associate acknowledges that in connection with its performance of the services on behalf of Covered Entity pursuant to the Services Agreements, it may have access to PHI created, maintained or transmitted by, or on behalf of the Covered Entity. Business Associate agrees to protect PHI in accordance with its obligations as a “business associate” under HIPAA to the extent set forth in this Agreement.

3. Specific Obligations of Business Associate.

Business Associate agrees that:

- (a) *Uses.* It will not use or further disclose PHI except as permitted or required by this Agreement, or as Required By Law;
- (b) *Reporting of Prohibited Disclosures.* It will report to the Covered Entity any use or disclosure of PHI not provided for by this Agreement of which it becomes aware;
- (c) *Safeguards.* It will use appropriate safeguards to prevent use or disclosure of PHI other than as permitted by this Agreement;
- (d) *Agents.* It will require that all of its subcontractors and agents to which it provides PHI pursuant to the terms of this Agreement agree to substantially the same restrictions and conditions to which Business Associate is bound through this Agreement, including agreeing to implement reasonable and appropriate safeguards to protect any PHI in electronic form;
- (e) *Access.* Following Business Associate's receipt of a written request from Covered Entity, it will, in accordance with the Privacy Rule, make available for access PHI that it possesses (to the extent that PHI is part of a Designated Record Set, provided that nothing in this Agreement shall require Business Associate to maintain a Designated Record Set on behalf of Covered Entity if such is not required by the Services Agreement);
- (f) *Amendment of PHI.* Following Business Associate's receipt of a written request from Covered Entity, in accordance with 45 C.F.R. § 164.526, Business Associate will make available PHI for amendment, and incorporate any amendment received from the Covered Entity in the original data format to the relevant PHI so long as the PHI is maintained in a Designated Record Set (to the extent that PHI is part of a Designated Record Set, provided that nothing in this Agreement shall require Business Associate to maintain a Designated Record Set on behalf of Covered Entity if such is not required by the Services Agreement).
- (g) *Accounting.* Following Business Associate's receipt of a written request from Covered Entity, Business Associate will make available to Covered Entity any information Covered Entity may reasonably need for Covered Entity to provide an accounting of disclosures made by Business Associate of an individual's PHI in accordance with 45 C.F.R. § 164.528. Such information will be made available by Business Associate within sufficient time for the Covered Entity to comply with 45 C.F.R. §164.528(c);
- (h) *Records, Practices and Procedures.* It will make available to the U.S. Secretary of Health and Human Services upon reasonable notice its internal books and records including practices, policies, and procedures relating to its use and disclosure of PHI, to the extent necessary to determine the Covered Entity's compliance with the Privacy Rule;
- (i) *Administrative, Physical, and Technical Safeguards.* It will implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of any of PHI in electronic form;
- (j) *Reporting Breach of Unsecured PHI.* Except as provided in 45 C.F.R. §164.412, it will report to Covered Entity without unreasonable delay any Breach of Unsecured PHI and promptly provide to the Covered Entity (i) a list of all individuals whose Unsecured PHI has been, or is

reasonably believed by Business Associate to have been, accessed, acquired, used, or disclosed during such Breach, and (ii) any other available information that the Covered Entity is required to include in notifications to such individuals pursuant to 45 C.F.R. §164.404(C);

(k) *Cooperation.* In the event of any Breach referred to in Section 3(j) above, cooperate with the Covered Entity to notify, at Business Associate's expense, (i) individuals whose Unsecured PHI has been, or is reasonable believed by Business Associate to have been, accessed, acquired, used, or disclosed, and (ii) the media, as required pursuant to 45 C.F.R. §164.406, if the legal requirements for media notification are triggered by the circumstances of such breach.

(l) *Compliance with Security Rule.* In accordance with the Security Rule, Business Associate agrees:

(i) To implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of the electronic PHI that it creates, receives, maintains or transmits on behalf of the Covered Entity as required by the Security Rule;

(ii) To ensure that any agent, including a subcontractor, to whom it provides such PHI, agrees to implement reasonable and appropriate safeguards to protect the PHI;

(iii) To report to the Covered Entity any security incident, as defined by HIPAA, of which it becomes aware; and

(iv) To timely implement, and require its agents and subcontractors to timely implement, administrative, physical, and technical safeguards in accordance with standards and guidelines issued by the Department of Health and Human Services pursuant to Section 13401 of the American Recovery and Reinvestment Act of 2009.

(m) To observe all other requirements related to privacy and information security that were imposed on business associates by the Health Information Technology for Economic and Clinical Health Act, which requirements are incorporated into this Business Associate Agreement.

4. Specific Permitted Uses and Disclosures by Business Associate.

(a) Business Associate may use or disclose PHI to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Services Agreements.

(b) Business Associate may use PHI for the proper management and administration of the Business Associate or to carry out the legal responsibilities of Business Associate.

(c) Business Associate may use PHI to provide data aggregation services to the Covered Entity and its customers as permitted by 45 C.F.R. § 164.504(e)(2)(i)(B).

(d) Business Associate may use PHI to report violations of law to the appropriate federal and state authorities, consistent with 45 C.F.R. §164.502(j)(1).

(e) Business Associate may use PHI to create de-identified health information to the extent permitted by the Privacy Rule. There will be no restrictions on Business Associate's use of the de-identified health information once it is so de-identified.

5. Representations and Covenants of Covered Entity

(a) The Covered Entity shall furnish Business Associate with a copy of the Covered Entity's notice of privacy practices and the Covered Entity's privacy policies and procedures and shall not modify such notice or procedures in any manner that may affect Business Associate's authority to use or disclose PHI pursuant to this Agreement without the consent of Business Associate.

(b) If applicable, the Covered Entity shall notify Business Associate of any changes in, or revocation of, permission by an individual to use or disclose PHI, to the extent that such changes may affect Business Associate's use or disclosure of PHI.

(c) Except as provided in Sections 4(b)-(d), neither the Covered Entity nor the Covered Entity shall request Business Associate to use or disclose PHI in any manner that would not be permissible under the Privacy Rule if done by the Covered Entity.

6. Termination.

(a) Upon termination of this Agreement Business Associate will, where feasible, return or destroy all PHI received from the Covered Entity under this Agreement and, if return or destruction of records is not feasible, Business Associate will continue to extend the protections of this Agreement, to such PHI and limit any further use of PHI to those purposes that make the return or destruction of the PHI infeasible; and

(b) In the event that Business Associate materially breaches this Agreement, Covered Entity may terminate this Agreement and the Services Agreements, pursuant to the notice and breach provisions of the Services Agreements. This Agreement shall automatically terminate upon any termination of the Service Agreements (with the exception of Section 6(a) with respect to retained PHI, which shall survive the termination of this Agreement and the Service Agreement indefinitely).

7. Miscellaneous

(a) *Governing Law and Venue.* The construction, interpretation and performance of this Agreement and all transactions contemplated under this Agreement shall be governed under such laws, and in the same manner, as is set forth in the Services Agreements for the construction, interpretation and performance of the Services Agreements. Any dispute arising out of or relating to this Agreement shall be brought in such forum, venue and manner as any disputes relating to the terms of the Services Agreement, in accordance with the terms of the Services Agreements.

(b) *No Third Party Beneficiary.* Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than the parties and the respective successors or assigns of the parties, any rights, remedies, obligations, or liabilities whatsoever.

(c) *Amendment.* The parties agree to negotiate in good faith as is necessary to amend this Agreement from time to time as is necessary for Covered Entity to comply with the requirements of the Privacy Rule, Security Rule and other provisions of HIPAA.

(d) *Assignment.* Neither party may assign this Agreement without the prior written consent of the other party, except in connection with the sale of all or substantially all of its assets or equity securities.

IN WITNESS WHEREOF, the parties hereto have executed this Business Associate Agreement.

By: W. H. Hurlburt
Its: President & CEO

Public Hospital District No. 1 Skagit County, WA,
d/b/a Skagit Valley Kidney Center
By: [Signature]
Its: COO

Notice Address:

Appendix 1
Reviewed Financial Statements



PUGET SOUND
kidney centers

Care. Compassion. Community.

FINANCIAL STATEMENTS

December 31, 2019 and 2018

PUGET SOUND KIDNEY CENTERS
FINANCIAL STATEMENTS
December 31, 2019 and 2018

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Puget Sound Kidney Centers

We have reviewed the accompanying financial statements of Puget Sound Kidney Centers (PSKC), a nonprofit organization, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of PSKC management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, except for the issue noted in the Known Departure from U.S. Generally Accepted Accounting Principles paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Known Departure from U.S. Generally Accepted Accounting Principles

U.S. generally accepted accounting principles require an affiliated entity of a nonprofit organization be consolidated where both control and economic interest exist. As discussed in Note 18, management has not consolidated Puget Sound Kidney Centers Foundation which meets the definition of an affiliated entity, and, therefore, the financial statements referred to above are not intended to be a complete presentation of the consolidated financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 20 to the financial statements, economic uncertainties have arisen with the spread of the coronavirus (COVID-19). Given the uncertainty of the situation, management has determined that the duration of any disruption to PSKC's activities and operations and related financial effect cannot be reasonably estimated at this time. Our conclusion is not modified with respect to this matter.

Restriction on Use of Report

This information is intended solely for the information and use of the Board of Directors and the management of Puget Sound Kidney Centers and their current lender and is not intended to be and should not be used by anyone other than these specified parties.

Vine Dahlen PwC

August 24, 2020

PUGET SOUND KIDNEY CENTERS
BALANCE SHEETS
December 31, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS:		
Cash and equivalents	\$ 5,023,678	\$ 8,027,812
Receivables, net	3,950,334	4,083,438
Inventories	677,965	692,182
Prepaid expenses and other assets	82,049	56,634
TOTAL CURRENT ASSETS	9,734,026	12,860,066
OTHER ASSETS:		
Investments, board-designated endowment	1,729,086	1,432,522
Interest in net assets of the Foundation	933,636	704,481
Construction in progress	14,334	3,956,689
Property and equipment, net	48,505,361	39,752,349
Other long-term assets	174,469	124,724
TOTAL OTHER ASSETS	51,356,886	45,970,765
TOTAL ASSETS	\$ 61,090,912	\$ 58,830,831

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Line of credit	\$ 3,698,450	\$ 2,348,450
Current portion of note payable	73,985	72,089
Accounts payable	734,182	1,214,781
Accrued expenses	1,879,903	1,764,929
TOTAL CURRENT LIABILITIES	6,386,520	5,400,249
NOTE PAYABLE, net of current portion	3,220,599	3,296,451
OTHER LONG-TERM LIABILITIES	178,783	123,773
TOTAL LIABILITIES	9,785,902	8,820,473
NET ASSETS:		
Without donor restrictions	51,305,010	50,010,358
TOTAL LIABILITIES AND NET ASSETS	\$ 61,090,912	\$ 58,830,831

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2019 and 2018

	2019	2018
REVENUES AND OTHER SUPPORT:		
Patient service revenues (net of contractual allowances)	\$ 29,895,104	\$ 30,575,855
Provision for uncollectible accounts	(296,277)	(217,010)
Net patient service revenues	29,598,827	30,358,845
Other revenue	576,819	214,146
TOTAL REVENUES AND OTHER SUPPORT	30,175,646	30,572,991
OPERATING EXPENSES:		
Program expenses	24,146,893	24,249,310
Support expenses	5,502,073	5,216,437
TOTAL OPERATING EXPENSES	29,648,966	29,465,747
INCOME FROM OPERATIONS	526,680	1,107,244
OTHER NON-OPERATING NET REVENUES:		
Net investment return	332,708	(31,018)
EXCESS OF REVENUES OVER EXPENSES	859,388	1,076,226
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Change in interest in the Foundation net assets	229,155	(403)
Transfer from the Foundation	206,109	199,200
TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	435,264	198,797
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,294,652	1,275,023
BEGINNING NET ASSETS	50,010,358	48,735,335
ENDING NET ASSETS	\$ 51,305,010	\$ 50,010,358

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 1,294,652</u>	<u>\$ 1,275,023</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	(273,056)	94,086
Depreciation and amortization	1,825,061	1,795,308
Loss on disposal of property and equipment	10,335	10,961
Loss on disposal of other long-term assets	44,293	0
Change in interest in the Foundation net assets	(229,155)	403
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	133,104	212,747
Inventories	14,217	(52,079)
Prepaid expenses and other assets	(25,415)	(10,223)
Increase (decrease) in liabilities:		
Accounts payable	(480,599)	(14,262)
Accrued expenses and other liabilities	169,984	212,973
Total adjustments and changes	<u>1,188,769</u>	<u>2,249,914</u>
	<u>2,483,421</u>	<u>3,524,937</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(160,506)	(208,847)
Proceeds from maturity and sale of investments	136,998	536,479
Purchase of other long-term assets	(94,038)	(124,724)
Purchase of property and equipment	(6,638,126)	(5,846,744)
Payments for construction in progress	(7,927)	(3,478,419)
	<u>(6,763,599)</u>	<u>(9,122,255)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Principal payments on line of credit	(50,000)	(1,550)
Proceeds from line of credit	1,400,000	1,100,000
Principal payments on note payable	(73,956)	(31,460)
Proceeds from note payable	0	3,400,000
	<u>1,276,044</u>	<u>4,466,990</u>
NET DECREASE IN CASH AND EQUIVALENTS	(3,004,134)	(1,130,328)
BEGINNING CASH AND EQUIVALENTS	<u>8,027,812</u>	<u>9,158,140</u>
ENDING CASH AND EQUIVALENTS	<u><u>\$ 5,023,678</u></u>	<u><u>\$ 8,027,812</u></u>

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2019 and 2018

	2019					
	Patient Dialysis and Related Care	Community Education and Support	Dialysis Management Services	Total Program Expenses	Support Expenses	Total Expenses
Wages, taxes, benefits and contract labor	\$ 12,806,474	\$ 84,401	\$ 489,022	\$ 13,379,897	\$ 4,041,690	\$ 17,421,587
Medical, patient and cleaning supplies	7,332,694	18,264	0	7,350,958	24,898	7,375,856
Occupancy expenses	2,346,016	492	0	2,346,508	324,546	2,671,054
Office, phones, taxes, interest and support	748,504	127,668	10,304	886,476	776,827	1,663,303
Professional, IT, marketing and recruiting	181,093	1,961	0	183,054	334,112	517,166
TOTAL EXPENSES	\$ 23,414,781	\$ 232,786	\$ 499,326	\$ 24,146,893	\$ 5,502,073	\$ 29,648,966

	2018					
	Patient Dialysis and Related Care	Community Education and Support	Dialysis Management Services	Total Program Expenses	Support Expenses	Total Expenses
Wages, taxes, benefits and contract labor	\$ 12,791,161	\$ 68,156	\$ 148,625	\$ 13,007,942	\$ 3,907,021	\$ 16,914,963
Medical, patient and cleaning supplies	8,006,637	20,368	0	8,027,005	19,171	8,046,176
Occupancy expenses	2,230,758	387	0	2,231,145	295,587	2,526,732
Office, phones, taxes, interest and support	577,345	148,864	2,109	728,318	536,137	1,264,455
Professional, IT, marketing and recruiting	252,134	2,766	0	254,900	458,521	713,421
TOTAL EXPENSES	\$ 23,858,035	\$ 240,541	\$ 150,734	\$ 24,249,310	\$ 5,216,437	\$ 29,465,747

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. NATURE OF ORGANIZATION

Puget Sound Kidney Centers (PSKC), is a nonprofit Washington State corporation formed in 1980 to provide kidney dialysis and related patient care services to the citizens of Western Washington. Patients are served at PSKC facilities located in Everett, Mountlake Terrace, Arlington (referred to as "Smokey Point"), Oak Harbor (referred to as "Whidbey Island"), Anacortes, Monroe and Lakewood.

Patient dialysis and related care

PSKC provides in-center dialysis treatments to patients. Dialysis treatments are also provided to hospitalized patients at a number of area hospitals. Training, supplies, equipment and continuing supervision are provided to patients who self-dialyze in their homes. Professional medical social workers work with each of PSKC's patients to ensure each patient has the support they need to manage physical, financial and psycho-social needs. Renal dietitians provide kidney patients with nutritional counseling so patients can learn to manage their diet and live well with kidney disease.

Community education and support

PSKC provides an education program designed to assist the community regarding chronic kidney disease. This program includes teaching community residents about shopping, preparing and consuming kidney-friendly foods. The program also gives them an understanding of treatment options available if their condition progresses from chronic kidney disease to kidney failure.

Dialysis management services

PSKC uses its expertise for enhancing the quality of life of kidney patients through providing administration and management services to a number of unaffiliated patient dialysis facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of PSKC is presented to assist in understanding PSKC's financial statements. These accounting policies conform to U.S. generally accepted accounting principles (U.S. GAAP), except for the item discussed in Note 18, and have been consistently applied in the preparation of the financial statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates included in or affecting the presentation of the accompanying financial statements include (1) contractual adjustments affecting revenue recognition, (2) allowance for doubtful accounts, (3) the useful lives of property and equipment, and (4) estimates related to contingent liabilities.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and equivalents

All short-term highly liquid investments with original maturities of three months or less are considered to be cash equivalents reported in the statements of cash flows. However, cash equivalents included within investment accounts are reported as investments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the balance sheets. Net investment return includes realized and unrealized gains and losses, interest and dividends, less investment expenses and is included in other non-operating net revenues on the statements of operations.

Accounts receivable

Accounts receivable are carried at estimated net realizable amounts and are reduced by an allowance for doubtful accounts. PSKC does not provide for accrual of interest or service charges on receivables. In evaluating the collectability of accounts receivable, PSKC analyzes its history of write-offs, collections and current credit conditions of the receivables to identify trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, PSKC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, PSKC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For receivables associated with services provided to patients who have government coverage such as Medicare, PSKC receives payment directly from those payors for 80% of the amounts due. The remaining 20% is billed to a secondary carrier and PSKC analyzes those amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the same reasoning as described for third-party coverage or self-pay patients above.

After all reasonable collection efforts have been exhausted, the difference between the net realizable rates and the amounts collected are charged off against the allowance for doubtful accounts.

Inventories

In-center medical and pharmaceutical supplies and parts inventories are stated at the lower of cost or net realizable value, on a first-in, first-out basis.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Foundation net assets

Puget Sound Kidney Centers Foundation (the Foundation), is an entity that was formed under the laws of the State of Washington and is a 501(c)(3) tax exempt organization with the Internal Revenue Service. The purpose of the Foundation is to operate exclusively for the benefit of PSKC by supporting PSKC's programs and services through solicitation of charitable donations. As such, PSKC is the sole member of the Foundation and accounts for its interest in the Foundation membership as an asset on its balance sheets and adjusts that interest for its share of the change in net assets of the Foundation using a method similar to the equity method of accounting. See Note 18 for additional information.

Property and equipment

Property and equipment, whether purchased or constructed, are stated at cost. Constructed assets include amounts incurred during pre-acquisition, acquisition, design and construction. Donated assets are stated at fair value at the date of the gift.

PSKC reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	5-40 years
Land improvements	8-25 years
Other improvements	8-20 years
Medical equipment	5-10 years
Office furniture and equipment	5-15 years
Transportation equipment	5 years

Net assets

PSKC is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions

Net assets without donor restrictions are available for use in general operations and Board of Directors' (the Board) designations and are not subject to donor restrictions.

Net assets with donor restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that funds be maintained in perpetuity.

PSKC has no net assets with donor restrictions.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Gifts of cash and other assets are reported as contributions with or without donor restrictions depending on the existence and/or nature of any donor stipulations that limit the use of the donated assets. Contributions with donor restrictions whose restrictions are met in the same period the contribution is received are reported as support without donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets with explicit donor stipulations that specify how the assets are to be used are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PSKC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue recognition

Patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These amounts are deducted from gross service revenues to determine net patient service revenues.

Due to the complex nature of the Centers for Medicare & Medicaid Services' system, it is at least reasonably possible that recorded estimates will change by a material amount in the near term (see Note 16).

Dialysis management service revenues are recognized when the service has been performed.

Charity care

PSKC has a policy of providing care to patients without regard to their ability to pay. Those patients who are unable to pay are identified only after financial information is obtained from the patient and all means of helping them obtain financial assistance have been exhausted. Currently, the charges are waived and thereby excluded from net patient service revenues. PSKC has not determined the amount of charity care provided as the amounts cannot be reasonably estimated.

Excess of revenues over expenses

The statements of operations and changes in net assets include excess of revenues over expenses. Other changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, include change in interest in the Foundation net assets and transfer from Foundation.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statements of operations. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of PSKC are reported as expenses of those functional areas. Direct identification of specific expenses with a program or supporting service is the primary method used to assign costs to various functions. When an expense relates to program and supporting services that benefit more than one function, the shared or indirect costs are allocated based upon time spent and square footage.

Income taxes

PSKC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The information return is filed annually and is subject to examination by the Internal Revenue Service, generally for three years after the returns are filed. PSKC would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of other expense.

Recently issued accounting standards

The Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. This standard will be effective for the calendar year ending December 31, 2020.

PSKC is currently in the process of evaluating the impact of adoption of this accounting standard on the financial statements.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, within one year from the date of the balance sheet, consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 5,023,678	\$ 8,027,812
Receivables, net	3,950,334	4,083,438
Total financial assets	8,974,012	12,111,250
Less amounts intended for ongoing construction	<u>0</u>	<u>5,600,000</u>
Total financial assets available for general expenditures within one year	<u>\$ 8,974,012</u>	<u>\$ 6,511,250</u>

See independent accountant’s review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY (Continued)

PSKC's liquidity management includes a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due, including routine annual capital expenditures for facility upkeep and equipment replacement. PSKC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. None of the financial assets noted above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. As fully described in Note 8, PSKC has a committed line of credit in the amount of \$4,000,000, with an available balance of \$301,550, which it could draw upon in the event of an unanticipated liquidity need.

4. RECEIVABLES

Receivables consisted of the following at December 31:

	2019	2018
Accounts receivable	\$ 4,080,344	\$ 4,051,204
Due from the Foundation	204,046	220,672
Other receivables	115,944	261,562
	4,400,334	4,533,438
Less allowance for doubtful accounts	450,000	450,000
	\$ 3,950,334	\$ 4,083,438

The allowance for doubtful accounts remains unchanged as the level and quality of accounts receivable is consistent with the prior year.

5. INVESTMENTS

Investments consisted of the following at December 31:

Long-term (see Note 17):		
Equities	\$ 1,173,126	\$ 951,051
Mutual funds	330,329	292,506
Non-U.S. securities	57,350	34,430
Level 1 investments (see Note 11)	1,560,805	1,277,987
Money market funds	114,112	113,335
Cash	54,169	41,200
	\$ 1,729,086	\$ 1,432,522

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS (Continued)

Net investment return consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 75,045	\$ 77,798
Net realized gain on sale of investments	68,308	80,959
Net unrealized gain (loss) on investments	<u>204,749</u>	<u>(175,541)</u>
	348,102	(16,784)
Less investment expense	<u>15,394</u>	<u>14,234</u>
	<u>\$ 332,708</u>	<u>\$ (31,018)</u>

6. CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following at December 31:

Lakewood dialysis center	\$ 0	\$ 3,950,283
Other	<u>14,334</u>	<u>6,406</u>
	<u>\$ 14,334</u>	<u>\$ 3,956,689</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

Buildings and improvements	\$ 42,177,249	\$ 33,749,472
Land improvements	939,226	932,160
Other improvements	177,726	177,726
Medical equipment	4,610,320	4,323,739
Office furniture and equipment	2,635,878	2,245,789
Transportation equipment	<u>158,862</u>	<u>133,554</u>
	50,699,261	41,562,440
Less accumulated depreciation and amortization	<u>14,594,279</u>	<u>12,808,882</u>
	36,104,982	28,753,558
Land	<u>12,400,379</u>	<u>10,998,791</u>
	<u>\$ 48,505,361</u>	<u>\$ 39,752,349</u>

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT (Continued)

Included in the above totals are the following at December 31:

	2019	2018
Land held for future use	\$ 6,641,761	\$ 5,767,254
Building held for future use	\$ 713,197	\$ 713,197

PSKC previously purchased land for \$435,566 from Providence General Foundation. According to the terms of the agreement, PSKC is required to use the property consistent with the operations supporting end stage renal disease and the property cannot be sold, leased, used, conveyed or encumbered by or to any hospital, hospital system, healthcare system or health care provider.

Depreciation expense totaled \$1,825,061 and \$1,795,308 for the years ended December 31, 2019 and 2018, respectively.

8. LINE OF CREDIT

PSKC has a \$4,000,000 unsecured line of credit with a bank which expires on January 29, 2021. Interest is at the Wall Street Journal prime rate less 0.50% with a floor rate of 0.00%. The line of credit and note payable (see Note 9) require PSKC to maintain, at all times, a minimum tangible net worth of \$30,000,000 and an annual debt service coverage ratio of at least 1.25 to 1.0. The line of credit had an outstanding balance of \$3,698,450 and \$2,348,450 at December 31, 2019 and 2018, respectively.

9. NOTE PAYABLE

Note payable at December 31 is summarized as follows:

Note payable to a bank, due in initial monthly payments of \$19,939, including 4.93% interest for 60 months; after which, the rate will reset to the Bullet Rate for the 5-year FHLB Fixed Rate Advances plus 1.9% or 3.0%, whichever is higher. The note is secured by real property with a net book value of approximately \$3,000,000 at December 31, 2019. The note matures in June 2028, at which time, a balloon payment estimated at \$2.5 million will be due. For covenants, see Note 8.

	\$ 3,294,584	\$ 3,368,540
Less current portion	73,985	72,089
	\$ 3,220,599	\$ 3,296,451

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

9. NOTE PAYABLE (Continued)

Future maturities on notes payable are as follows:

<u>Year ending December 31,</u>	
2020	\$ 73,985
2021	80,000
2022	84,000
2023	88,000
2024	93,000
Thereafter	<u>2,875,599</u>
	<u>\$ 3,294,584</u>

Interest expenses incurred on the line of credit and note payable during the years ended December 31, 2019 and 2018 was \$304,650 and \$174,586, respectively.

10. ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Accrued wages	\$ 440,562	\$ 428,504
Accrued vacation and sick leave	787,945	705,122
Accrued payroll taxes and benefits	284,152	260,220
Estimated cost of claims incurred (see Note 16)	130,000	160,000
Amounts to be refunded to payors	<u>237,244</u>	<u>211,083</u>
	<u>\$ 1,879,903</u>	<u>\$ 1,764,929</u>

11. FAIR VALUE MEASUREMENTS

The fair values of financial assets are classified based on the following hierarchy reflecting the significance of inputs used in determining fair value measurements:

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The following table presents assets that are measured at fair value on a recurring basis at December 31:

<u>Asset Description</u>	<u>Fair Value Hierarchy Level</u>	<u>2019</u>	<u>2018</u>
Investments (see Note 5):			
Equities, mutual funds, and securities	1	\$ 1,560,805	\$ 1,277,987

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

12. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2019	2018
Cash paid during the year for:		
Interest	\$ 304,650	\$ 174,586
Non-cash investing activities:		
Transfers of construction in progress to property and equipment	\$ 3,950,283	\$ 0
Vendor financing for construction	\$ 0	\$ 374,084

13. TAX-SHELTERED ANNUITY PLAN

PSKC has established a tax-sheltered annuity retirement plan covering substantially all employees. Participating employees may elect to have tax deferred contributions to the plan made from their compensation, while PSKC may make a discretionary matching contribution at a rate of up to 7% of allowable compensation. PSKC's contributions for the years ended December 31, 2019 and 2018 were \$536,761 and \$535,578, respectively.

14. RELATED PARTY TRANSACTIONS

Cash and equivalents

PSKC has a money market account with a financial institution where a PSKC board member serves as a director of the bank's board. The balance in the account at December 31, 2019 and 2018 was \$1,137,304 and \$3,417,294, respectively.

Affiliated organization

During the years ended December 31, 2019 and 2018, PSKC provided in-kind support to the Foundation of \$72,807 and \$98,789, respectively. Contributions and grants include \$206,109 and \$199,200 of support to PSKC from the Foundation during 2019 and 2018, respectively, which is included with non-operating revenues. See Note 4 for amounts due from the Foundation.

15. CONCENTRATIONS

Financial instruments which potentially subject PSKC to a concentration of credit risk consist of cash and equivalents. PSKC typically maintains balances in excess of federally insured limits. PSKC has not experienced any losses in such instruments.

PSKC maintains an account with an investment firm. The account contains cash and securities. Within the limits of protection offered by the Securities Investor Protection Corporation (SIPC), claims against a broker-dealer are satisfied on cash up to a maximum of \$250,000 and securities up to a maximum of \$500,000. Coverage provided by the SIPC and the investment firms' insurance companies does not protect against the loss of market value of securities.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

15. CONCENTRATIONS (Continued)

During the years ended December 31, 2019 and 2018, approximately 71% and 70% of revenue, respectively, was received from government agencies. Most of the remainder of revenue was from private insurance companies. Consequently, PSKC is vulnerable to changes in government policies and reimbursement rates paid by both government agencies and private insurance companies. Periodically, PSKC enters into contract negotiations with commercial insurance carriers. An unfavorable outcome of negotiations could result in a material effect on PSKC's operations, financial condition and cash flows.

As of December 31, 2019, approximately 61% of the accounts receivable of PSKC was held with government agencies and approximately 31% was held with private insurance companies in the health care industry. Consequently, PSKC's ability to collect the amounts due is affected by legislative and economic fluctuations in those industries.

16. CONTINGENCIES

Health insurance

PSKC provides health insurance benefits through a partially self-funded employee health benefit program whereby health insurance coverage is maintained for all eligible employees. PSKC is responsible for an annual maximum stop loss limit per eligible employee with an aggregate stop loss limit that reduces the overall exposure in any given year.

There were 158 and 167 participants covered at December 31, 2019 and 2018, respectively. Employee health and additional insurance benefit expense was \$1,038,727 and \$1,276,724 for the years ended December 31, 2019 and 2018, respectively.

Management's estimate of the cost of claims that have been incurred but not yet reported are included in accrued expenses on the balance sheets (see Note 10). It is at least reasonably possible that a change in the estimated liability could occur in the near term.

The maximum annual plan cost is \$1,792,870 and the estimated expected cost is \$1,603,579 based on 163 covered participants for the 2020 plan year. These estimates are not offset by amounts the employee participant contributes.

Unemployment claims

PSKC has elected to be under a direct reimbursable plan with the Washington State Department of Employment Security. Under this plan, PSKC does not pay in quarterly taxes and does not have unemployment insurance. PSKC will be liable to the state for any future claims; however, management has not recorded a liability in the financial statements for any potential outstanding claims as they cannot be reasonably estimated. PSKC uses this self-insured plan since their history of claims has been low and they anticipate infrequent claims going forward. During the years ended December 31, 2019 and 2018, PSKC recognized \$22,329 and \$10,245, respectively, in unemployment related expenses.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

16. CONTINGENCIES (Continued)

Revenue adjustments

PSKC's revenues may be subject to adjustment as a result of (1) examinations of PSKC or Medicare or Medicaid Managed Care programs that PSKC serves, by government agencies or contractors, for which the resolution of any matters raised may take extended periods of time to finalize; (2) differing interpretations of government regulations by different fiscal intermediaries or regulatory authorities; (3) differing opinions regarding a patient's medical diagnosis or the medical necessity of service provided; (4) retroactive applications or interpretations of governmental requirements; and (5) claims for refund from commercial and private payors, including as the result of government actions.

Uncertainties

PSKC filed an application with the Washington Department of Health to construct and operate a dialysis facility in Vancouver, Washington. PSKC was awarded 24 stations. The ruling is being appealed and the ultimate outcome of the appeal is uncertain.

17. BOARD-DESIGNATED ENDOWMENT

PSKC maintains investments in an account designated by the Board to provide organizational funding for long-term purposes. Since that account resulted from an internal designation and is not donor-restricted and the Board retains the authority to alter or eliminate endowment funds, it is classified and reported as net assets without donor restrictions. In accordance with accounting standards, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition

Changes in endowment net assets were as follows at December 31:

	2019	2018
Beginning endowment net assets	\$ 1,432,522	\$ 1,504,241
Contributions	0	0
Net investment return	296,564	(71,719)
Amounts appropriated for expenditure	0	0
Ending endowment net assets	\$ 1,729,086	\$ 1,432,522

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

17. BOARD-DESIGNATED ENDOWMENT (Continued)

Return objectives and risk parameters

PSKC has adopted investment and spending policies for its board-designated endowment assets that intend to grow the assets so a predictable stream of funding will provide support for PSKC and will be available when needed while seeking to preserve, at necessary and appropriate levels, the endowment assets. Endowment assets include board-designated funds that the Board has instructed PSKC to hold for a long but unspecified period of time. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to provide a reasonable and competitive rate of return and to minimize the risks of loss of principal with reasonable capital gains to offset inflation and provide for the growth of principal at a moderate level of risk.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, PSKC's investment strategy is to emphasize long-term growth (capital appreciation plus investment income). PSKC targets a diversified asset allocation that places a greater emphasis on equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

Annually, PSKC reviews the performance of the endowment fund portfolio to determine what, if any, income in the form of interest, dividends and net capital appreciation may be appropriated for use to support PSKC's programs and services. In making this decision, PSKC exercises prudent judgment so as to assure that the funds retain sufficient assets and income to allow for reasonable future unfavorable market conditions and the preservation of principal.

18. CONSOLIDATED FINANCIAL STATEMENTS

U.S. GAAP requires consolidated financial statements when a nonprofit organization has both control and economic interest in another nonprofit organization. As disclosed in Note 2, PSKC has such a relationship with the Foundation but has not consolidated the Foundation's accounts in the accompanying financial statements.

If the financial statements of the Foundation had been consolidated with those of PSKC, there would have been no material effect on the amount of total assets, total liabilities or net assets without donor restrictions for the years ended December 31, 2019 and 2018.

19. RECLASSIFICATION

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements. The reclassifications had no impact on previously reported total net assets.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

20. SUBSEQUENT EVENTS

Economic uncertainties have arisen with the spread of the coronavirus (COVID-19). The extent of the impact of COVID-19 on our patients, employees, and vendors cannot be predicted. The duration of this disruption and the related operational and financial impact to PSKC cannot be reasonably estimated at this time. To assist with additional capital and operating costs related to the COVID-19 pandemic, PSKC received Provider Relief Funds under the CARES Act and received \$1,914,869 in April 2020. The Provider Relief Funds will not have to be repaid as long as the funds are used by July 31, 2021, for approved costs.

Subsequent to the year ended December 31, 2019, PSKC incurred design fees for the construction of new dialysis treatment centers. Through the end of July 2020 amounts incurred were approximately \$65,000 for the Richmond Beach center and \$230,000 for the Silverdale center. These projects are expected to be completed in 2021 with anticipated total project costs of \$4,125,000 for the Richmond Beach center and \$3,143,000 for the Silverdale center.

In January 2020, PSKC received a conditional promise to give of \$5,000,000 to be distributed in installments over a three-year period as follows: February 2020 \$1,670,000; February 2021 \$1,670,000; and February 2022 \$1,660,000. The contribution contains certain stipulations and conditions, which are designed to provide for chronic kidney disease education and support for home dialysis.

PSKC has evaluated subsequent events through the date these statements were available to be issued on August 24, 2020.



PUGET SOUND
kidney centers
Care. Compassion. Community.

FINANCIAL STATEMENTS

December 31, 2018 and 2017

PUGET SOUND KIDNEY CENTERS
FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Puget Sound Kidney Centers

We have reviewed the accompanying financial statements of Puget Sound Kidney Centers (PSKC), a nonprofit organization, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of PSKC management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, except for the issue noted in the Known Departure from U.S. Generally Accepted Accounting Principles paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Known Departure from U.S. Generally Accepted Accounting Principles

U.S. generally accepted accounting principles require an affiliated entity of a nonprofit organization be consolidated where both control and economic interest exist. As discussed in Note 18, management has not consolidated Puget Sound Kidney Centers Foundation which meets the definition of an affiliated entity, and, therefore, the financial statements referred to above are not intended to be a complete presentation of the consolidated financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, PSKC adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Our conclusion is not modified with respect to this matter.

Restriction on Use of Report

This information is intended solely for the information and use of the Board of Directors and the management of Puget Sound Kidney Centers and their current lender and is not intended to be and should not be used by anyone other than these specified parties.



June 21, 2019

PUGET SOUND KIDNEY CENTERS
BALANCE SHEETS
December 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Cash and equivalents	\$ 8,027,812	\$ 9,158,140
Investments	0	350,000
Receivables, net	4,083,438	4,296,185
Inventories	692,182	640,103
Prepaid expenses and other assets	56,634	46,411
TOTAL CURRENT ASSETS	12,860,066	14,490,839
OTHER ASSETS:		
Investments	1,432,522	1,504,241
Interest in net assets of Foundation	704,481	704,884
Construction in progress	3,956,689	104,186
Property and equipment, net	39,752,349	35,711,872
Other long-term assets	124,724	0
TOTAL OTHER ASSETS	45,970,765	38,025,183
TOTAL ASSETS	\$ 58,830,831	\$ 52,516,022

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Line of credit	\$ 2,348,450	\$ 1,250,000
Current portion of note payable	72,089	0
Accounts payable	1,214,781	854,957
Accrued expenses	1,764,929	1,606,967
TOTAL CURRENT LIABILITIES	5,400,249	3,711,924
NOTE PAYABLE, net of current portion	3,296,451	0
OTHER LONG-TERM LIABILITIES	123,773	68,763
TOTAL LIABILITIES	8,820,473	3,780,687
NET ASSETS:		
Without donor restrictions	50,010,358	48,735,335
TOTAL LIABILITIES AND NET ASSETS	\$ 58,830,831	\$ 52,516,022

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2018 and 2017

	2018	2017
REVENUE:		
Patient service revenue (net of contractual allowances)	\$ 30,575,855	\$ 29,782,512
Provision for uncollectible accounts, before change in allowance	217,010	538,506
Change in allowance for uncollectible accounts	0	(50,000)
Less: provision for uncollectible accounts	217,010	488,506
NET PATIENT SERVICE REVENUE	30,358,845	29,294,006
OPERATING EXPENSES:		
Program expenses	24,108,453	22,569,258
Support expenses	5,357,294	4,884,759
TOTAL OPERATING EXPENSES	29,465,747	27,454,017
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	893,098	1,839,989
NON-OPERATING REVENUES, net	381,925	396,040
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,275,023	2,236,029
BEGINNING NET ASSETS	48,735,335	46,499,306
ENDING NET ASSETS	\$ 50,010,358	\$ 48,735,335

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	\$ 1,275,023	\$ 2,236,029
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	94,086	(170,959)
Depreciation and amortization	1,795,308	1,552,648
Change in allowance for doubtful accounts	0	(50,000)
Loss on disposal of assets	10,961	128,282
Change in interest in Foundation	403	(88,860)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	212,747	614,333
Inventories	(52,079)	(50,069)
Prepaid expenses and other assets	(10,223)	9,927
Increase (decrease) in liabilities:		
Accounts payable	(14,262)	(270,735)
Accrued expenses and other liabilities	212,973	44,032
Total adjustments and changes	2,249,914	1,718,599
	3,524,937	3,954,628
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(208,847)	(105,418)
Proceeds from maturity and sale of investments	536,479	434,774
Purchase of other long-term assets	(124,724)	0
Purchase of property and equipment	(5,846,744)	(4,109,122)
Payments for construction in progress	(3,478,419)	(104,186)
	(9,122,255)	(3,883,952)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Net advances on line of credit	1,098,450	1,250,000
Principal payments on note payable	(31,460)	0
Proceeds from note payable	3,400,000	0
	4,466,990	1,250,000
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,130,328)	1,320,676
BEGINNING CASH AND EQUIVALENTS	9,158,140	7,837,464
ENDING CASH AND EQUIVALENTS	\$ 8,027,812	\$ 9,158,140

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2018 and 2017

2018

	Patient Dialysis and Related Care	Community Education and Support	Dialysis Management Services	Total Program Expenses	Support Expenses	Total Expenses
Wages, taxes, benefits and contract labor	\$ 12,791,161	\$ 68,156	\$ 148,625	\$ 13,007,942	\$ 3,907,021	\$ 16,914,963
Medical, patient and cleaning supplies	8,006,637	20,368	0	8,027,005	19,171	8,046,176
Occupancy expenses	2,230,758	387	0	2,231,145	295,587	2,526,732
Office, phones, taxes, interest and support	514,987	148,864	2,109	665,960	598,495	1,264,455
Professional, IT, marketing and recruiting	173,635	2,766	0	176,401	537,020	713,421
TOTAL EXPENSES	\$ 23,717,178	\$ 240,541	\$ 150,734	\$ 24,108,453	\$ 5,357,294	\$ 29,465,747

2017

	Patient Dialysis and Related Care	Community Education and Support	Dialysis Management Services	Total Program Expenses	Support Expenses	Total Expenses
Wages, taxes, benefits and contract labor	\$ 12,565,856	\$ 71,283	\$ 0	\$ 12,637,139	\$ 3,633,509	\$ 16,270,648
Medical, patient and cleaning supplies	7,254,002	46,583	0	7,300,585	16,796	7,317,381
Occupancy expenses	2,009,941	438	0	2,010,379	247,019	2,257,398
Office, phones, taxes, interest and support	480,329	136,658	0	616,987	589,458	1,206,445
Professional, IT, marketing and recruiting	0	4,168	0	4,168	397,977	402,145
TOTAL EXPENSES	\$ 22,310,128	\$ 259,130	\$ 0	\$ 22,569,258	\$ 4,884,759	\$ 27,454,017

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. NATURE OF ORGANIZATION

Puget Sound Kidney Centers (“PSKC”), is a nonprofit Washington corporation formed in 1980 to provide kidney dialysis and related patient care services to the citizens of Western Washington. Patients are served at PSKC facilities located in Everett, Mountlake Terrace, Arlington (referred to as “Smokey Point”), Oak Harbor (referred to as “Whidbey Island”), Anacortes and Monroe.

Patient dialysis and related care

PSKC provides in-center dialysis treatments to patients. Dialysis treatments are also provided to hospitalized patients at a number of area hospitals. Training, supplies, equipment and continuing supervision are provided to patients who self-dialyze in their homes. Professional medical social workers work with each of PSKC’s patients to ensure each patient has the support they need to manage physical, financial and psycho-social needs. Renal dietitians provide kidney patients with nutritional counseling, so patients can learn to manage their diet and live well with kidney disease.

Community education and support

PSKC provides an education program designed to assist the community regarding chronic kidney disease. This program includes teaching community residents about shopping, preparing and consuming kidney-friendly foods. The program also gives them an understanding of treatment options available if their condition progresses from chronic kidney disease to kidney failure.

Dialysis management services

PSKC uses its expertise for enhancing the quality of life of kidney patients through providing administration and management services to a number of unaffiliated patient dialysis facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of PSKC is presented to assist in understanding PSKC’s financial statements. These accounting policies conform to U.S. generally accepted accounting principles, except for the item discussed in Note 18, and have been consistently applied in the preparation of the financial statements.

Basis of presentation

The financial statement of PSKC have been prepared in accordance with U.S. generally accepted accounting principles, which requires PSKC to present financial statements on an accrual basis of accounting.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates included in or affecting the presentation of the accompanying financial statements include (1) contractual adjustments affecting revenue recognition, (2) allowance for doubtful accounts, (3) the useful lives of property and equipment, and (4) estimates related to contingent liabilities.

See independent accountant’s review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and equivalents

All short-term highly liquid investments with original maturities of three months or less are considered to be cash equivalents reported in the statements of cash flows. However, cash equivalents included within investment accounts are reported as investments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the balance sheets. Net investment return includes realized and unrealized gains and losses, interest and dividends and is included in non-operating revenues on the statements of operations.

Accounts receivable

Accounts receivable are carried at estimated net realizable amounts and are reduced by an allowance for doubtful accounts. PSKC does not provide for accrual of interest or service charges on receivables. In evaluating the collectability of accounts receivable, PSKC analyzes its past history of write-offs, collections and current credit conditions of the receivables to identify trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, PSKC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, PSKC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For receivables associated with services provided to patients who have government coverage such as Medicare, PSKC receives payment directly from those payors for 80% of the amounts due. The remaining 20% is billed to a secondary carrier and PSKC will analyze those amounts due and provide an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the same reasoning as described for third-party coverage or self-pay patients above.

The difference between the net realizable rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories

In-center medical and pharmaceutical supplies and parts inventories are stated at the lower of cost or net realizable value, on a first-in, first-out basis.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in net assets of Foundation

Puget Sound Kidney Centers Foundation (the Foundation), is an entity that was formed under the laws of the State of Washington and is a 501(c)(3) tax exempt organization with the Internal Revenue Service. The purpose of the Foundation is to operate exclusively for the benefit of PSKC by supporting PSKC's programs and services through solicitation of charitable donations. As such, PSKC is the sole member of the Foundation and accounts for its interest in the Foundation membership as an asset on its balance sheet and adjusts that interest for its share of the change in net assets of the Foundation using a method similar to the equity method of accounting. See Note 18 for additional information.

Property and equipment

Property and equipment, whether purchased or constructed, are stated at cost. Constructed assets include amounts incurred during pre-acquisition, acquisition, development and construction. Donated assets are stated at fair value at the date of the gift.

PSKC reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	5-40 years
Land improvements	8-25 years
Other improvements	8-20 years
Medical equipment	5-10 years
Office furniture and equipment	5-15 years
Transportation equipment	5 years

Net assets

PSKC is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions

Net assets without donor restrictions are available for use in general operations and Board of Director designations and are not subject to donor restrictions.

Net assets with donor restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that funds be maintained in perpetuity.

PSKC has no net assets with donor restrictions.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Gifts of cash and other assets are recorded as contributions with or without donor restrictions depending on the existence and/or nature of any donor stipulations that limit the use of the donated assets. Contributions with donor restrictions whose restrictions are met in the same period the contribution is received are reported as support without donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets with explicit donor stipulations that specify how the assets are to be used are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PSKC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue recognition

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These amounts are deducted from gross service revenue to determine net patient service revenue.

Due to the complex nature of the Centers for Medicare & Medicaid Services' system, it is at least reasonably possible that recorded estimates will change by a material amount in the near term. See Note 16.

Dialysis management service revenue is recognized when the service has been performed.

Charity care

Puget Sound Kidney Centers has a policy of providing care to patients without regard to their ability to pay. Those patients who are unable to pay are identified only after financial information is obtained from the patient and all means of helping them obtain financial assistance have been exhausted. Currently, the charges are waived and thereby excluded from net patient service revenue. PSKC has not determined the amount of charity care provided as the amounts cannot be reasonably estimated.

Excess of revenues over expenses from operations

The statements of operations include excess of revenues over expenses from operations. Excluded from excess of revenues over expenses from operations, consistent with industry practice, are, among other items, gains and losses on investments, change in unrestricted interest in Foundation, charitable contributions received, loss on disposal of assets, and other income.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statements of operations. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of PSKC are reported as expenses of those functional areas. Direct identification of specific expenses with a program or supporting service is the primary method used to assign costs to various functions. When an expense relates to program and supporting services that benefit more than one function, the shared or indirect costs are allocated based upon time spent and square footage.

Income taxes

PSKC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been designated as an organization which is not a private foundation. The information return is filed annually and is subject to examination by the Internal Revenue Service, generally for three years after the returns are filed. PSKC would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of other expense.

Newly adopted accounting standard

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The main provision of this update includes the presentation of two classes of net assets rather than the previously required three classes. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PSKC has adopted this ASU retrospectively and has adjusted the presentation of the financial statements for all periods presented, except for the liquidity and availability information (see Note 3), which only has a current year presentation as permitted under the ASU in the year of adoption.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, within one year from the date of the balance sheet, comprise the following at December 31, 2018:

Cash and equivalents	\$ 8,027,812
Receivables, net	<u>4,083,438</u>
Total financial assets	12,111,250
Less amounts intended for ongoing construction	<u>5,600,000</u>
Total financial assets available for general expenditures within one year	<u>\$ 6,511,250</u>

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY (Continued)

PSKC's liquidity management includes a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. PSKC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. None of the financial assets noted above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. As more fully described in Note 8, PSKC has a committed line of credit in the amount of \$3,000,000, with an available balance of \$651,550, which it could draw upon in the event of an unanticipated liquidity need.

4. RECEIVABLES

Receivables consist of the following:

	2018	2017
Accounts receivable	\$ 4,051,204	\$ 4,311,904
Due from the PSKC Foundation	220,672	180,758
Other receivables	261,562	253,523
	4,533,438	4,746,185
Less allowance for doubtful accounts	450,000	450,000
	\$ 4,083,438	\$ 4,296,185

The allowance for doubtful accounts remains unchanged as the level and quality of accounts receivable is consistent with the prior year.

5. INVESTMENTS

Investments consist of:

Current:		
Money market funds	\$ 0	\$ 350,000
Total short-term	0	350,000
Long-term:		
Cash	41,200	19,926
Equities	951,051	1,041,000
Mutual funds	292,506	294,356
Money market funds	113,335	110,205
Non U.S. securities	34,430	38,754
Total long-term (see Note 17)	1,432,522	1,504,241
	\$ 1,432,522	\$ 1,854,241

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS (Continued)

Net investment return consists of:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 77,798	\$ 62,738
Net realized gain on sale of investments	80,959	19,475
Net unrealized gain (loss) on investments	<u>(175,541)</u>	<u>151,484</u>
	(16,784)	233,697
Less investment expense	<u>14,234</u>	<u>13,062</u>
	<u>\$ (31,018)</u>	<u>\$ 220,635</u>

6. CONSTRUCTION IN PROGRESS

Construction in progress consists of the following:

Lakewood dialysis center design (see Note 20)	\$ 3,950,283	\$ 101,476
Other	<u>6,406</u>	<u>2,710</u>
	<u>\$ 3,956,689</u>	<u>\$ 104,186</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Buildings and improvements	\$ 33,749,472	\$ 32,972,507
Land improvements	932,160	925,516
Other improvements	177,726	177,726
Medical equipment	4,323,739	4,140,443
Office furniture and equipment	2,245,789	2,162,536
Transportation equipment	<u>133,554</u>	<u>133,554</u>
	41,562,440	40,512,282
Less accumulated depreciation and amortization	<u>12,808,882</u>	<u>11,221,409</u>
	28,753,558	29,290,873
Land	<u>10,998,791</u>	<u>6,420,999</u>
Property and equipment, net	<u>\$ 39,752,349</u>	<u>\$ 35,711,872</u>

Included in the above totals are the following at December 31, 2018 and 2017:

Land held for future use	\$ 5,767,254	\$ 1,189,464
Building held for future use	\$ 713,197	\$ 0

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT (Continued)

PSKC previously purchased land for \$435,566 from Providence General Foundation. According to the terms of the agreement, PSKC is required to use the property consistent with the operations supporting end stage renal disease and the property cannot be sold, leased, used, conveyed or encumbered by or to any hospital, hospital system, healthcare system or health care provider.

8. LINE OF CREDIT

PSKC has an unsecured \$3,000,000 revolving line of credit available with a bank which expires on October 29, 2019. Interest is at the Wall Street Journal prime rate less 0.50%. The line of credit and note payable (see Note 9) require PSKC to maintain at all times a minimum tangible net worth of \$30,000,000 and an annual debt service coverage ratio of 1.25 to 1.0. The line of credit had an outstanding balance of \$2,348,450 and \$1,250,000 at December 31, 2018 and 2017, respectively.

9. NOTE PAYABLE

Note payable at December 31 is summarized as follows:

	2018	2017
Note payable to a bank, due in initial monthly payments of \$19,939, including 4.93% interest for 60 months; after which the rate will reset to the Bullet Rate for the 5-year FHLB Fixed Rate Advances plus 1.9% or 3.0%, whichever is higher. The note is secured by real property with a net book value of approximately \$3,000,000 at December 31, 2018. The note matures in June 2028, at which time a balloon payment estimated at \$2.5 million will be due.	\$ 3,368,540	\$ 0
Less current portion	72,089	0
	\$ 3,296,451	\$ 0

Future maturities on notes payable are as follows:

Year ending December 31,	
2019	\$ 72,089
2020	76,000
2021	80,000
2022	84,000
2023	89,000
Thereafter	2,967,451
	\$ 3,368,540

Interest expense incurred on the line of credit and note payable during the years ended December 31, 2018 and 2017 was \$174,586 and \$18,840, respectively.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

10. ACCRUED EXPENSES

Accrued expenses consist of the following:

	2018	2017
Accrued wages	\$ 428,504	\$ 376,898
Accrued vacation and sick leave	705,122	554,724
Accrued payroll taxes and benefits	260,220	267,369
Estimated cost of claims incurred (see Note 16)	160,000	210,000
Amounts to be refunded to payors	211,083	197,976
	\$ 1,764,929	\$ 1,606,967

11. FAIR VALUE MEASUREMENTS

The fair values of financial assets are classified based on the following hierarchy reflecting the significance of inputs used in determining fair value measurements:

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

Asset Description	Fair Value Hierarchy Level	2018	2017
Investments (Note 5):			
Equities, mutual funds, and securities	1	\$ 1,277,987	\$ 1,374,110

12. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	\$ 174,586	\$ 18,840
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Non-cash investing activities:

Transfers of construction in progress to property and equipment	\$ 0	\$ 3,005,990
Vendor financing for construction	\$ 374,084	\$ 0

13. TAX-SHELTERED ANNUITY PLAN

PSKC has established a tax-sheltered annuity retirement plan covering substantially all employees. Participating employees may elect to have tax deferred contributions to the plan made from their compensation, while PSKC may make a discretionary matching contribution at a rate of up to 7% of allowable compensation. PSKC's contributions for the years ended December 31, 2018 and 2017 were \$535,578 and \$538,568, respectively.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

14. RELATED PARTY TRANSACTIONS

Cash and equivalents

PSKC has a money market account with a financial institution where a PSKC board member serves as a director of the bank board. The balance in the account at December 31, 2018 and 2017 was \$3,417,294 and \$4,086,732, respectively.

Affiliated organization

During the years ended December 31, 2018 and 2017, PSKC provided in-kind support to the Foundation of \$98,789 and \$83,556, respectively. Contributions and grants include \$199,200 and \$182,426 of support to PSKC from the Foundation during 2018 and 2017, respectively, which is included with non-operating revenues. See Note 4 for amounts due from the Foundation.

15. CONCENTRATIONS

Financial instruments which potentially subject PSKC to a concentration of credit risk consist of cash and equivalents. PSKC typically maintains balances in excess of federally insured limits. PSKC has not experienced any losses in such instruments.

PSKC maintains an account with an investment firm. The account contains cash and securities. Within the limits of protection offered by the Securities Investor Protection Corporation (SIPC), claims against a broker-dealer are satisfied on cash up to a maximum of \$250,000 and securities up to a maximum of \$500,000. Coverage provided by the SIPC and the investment firms' insurance companies does not protect against the loss of market value of securities.

Approximately 70% and 68% of revenue during the years ended December 31, 2018 and 2017, respectively, was received from government agencies. The majority of the remainder was from private insurance companies. Consequently, PSKC is vulnerable to changes in government policies and reimbursement rates paid by both government agencies and private insurance companies. Periodically, PSKC enters into contract negotiations with commercial insurance carriers. An unfavorable outcome of pending negotiations could result in a material effect on PSKC's operations, financial condition and cash flows.

As of December 31, 2018, approximately 54% of the accounts receivable of PSKC was held with government agencies and approximately 29% was held with private insurance companies in the health care industry. Consequently, PSKC's ability to collect the amounts due is affected by legislative and economic fluctuations in those industries.

16. CONTINGENCIES

Health insurance

Puget Sound Kidney Centers provides health insurance benefits through a partially self-funded employee health benefit program whereby health insurance coverage is maintained for all eligible employees. PSKC is responsible for an annual maximum stop loss limit per eligible employee with an aggregate stop loss limit that reduces the overall exposure in any given year.

There were 167 and 168 participants covered at December 31, 2018 and 2017, respectively. Employee health and additional insurance benefit expense was \$1,276,724 and \$1,392,049 for the years ended December 31, 2018 and 2017, respectively.

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

16. CONTINGENCIES (Continued)

Health insurance (continued)

Included in accrued expenses on the balance sheets at December 31, 2018 and 2017, is \$160,000 and \$210,000, respectively, which represents management's estimate of the cost of claims that have been incurred but not yet reported.

The maximum annual plan cost is \$2,310,522 and the estimated expected cost is \$1,952,697 based on 171 covered participants for the 2019 plan year. These estimates are not offset by amounts the employee participant contributes.

Unemployment claims

PSKC has elected to be under a direct reimbursable plan with the Washington State Department of Employment Security. Under this plan, PSKC does not pay in quarterly taxes and does not have unemployment insurance. PSKC will be liable to the state for any future claims; however, management has not recorded a liability in the financial statements for any potential outstanding claims as they cannot be reasonably estimated. PSKC uses this self-insured plan since their history of claims has been low and they anticipate infrequent claims going forward. During the years ended December 31, 2018 and 2017, PSKC recognized \$10,245 and \$16,130, respectively, in unemployment related expenses.

Revenue adjustments

PSKC's revenues may be subject to adjustment as a result of (1) examinations of PSKC or Medicare or Medicaid Managed Care programs that PSKC serves, by government agencies or contractors, for which the resolution of any matters raised may take extended periods of time to finalize; (2) differing interpretations of government regulations by different fiscal intermediaries or regulatory authorities; (3) differing opinions regarding a patient's medical diagnosis or the medical necessity of service provided; (4) retroactive applications or interpretations of governmental requirements; and (5) claims for refund from commercial and private payors, including as the result of government actions.

Uncertainties

PSKC filed five applications with the Washington Department of Health to construct and operate a dialysis facility in Arlington, Lacey, Shoreline, Silverdale, and Vancouver, Washington. PSKC was awarded 19 stations for the Shoreline location and 10 stations for the Arlington location but was denied for the Lacey location. All three rulings are being appealed and the ultimate outcome of the appeals and the initial outcome on the other two pending applications is uncertain.

17. BOARD-DESIGNATED ENDOWMENT

PSKC maintains investments in an account designated by the Board of Directors to provide organizational funding for long-term purposes. Since that account resulted from an internal designation and is not donor-restricted and the board retains the authority to alter or eliminate endowment funds, it is classified and reported as net assets without donor restrictions. In accordance with accounting standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

17. BOARD-DESIGNATED ENDOWMENT (Continued)

Endowment net asset composition

Changes in endowment net assets for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Beginning endowment net assets	\$ 1,504,241	\$ 1,312,638
Contributions	0	0
Net investment return	(71,719)	191,603
Amounts appropriated for expenditure	0	0
Ending endowment net assets	\$ 1,432,522	\$ 1,504,241

Return objectives and risk parameters

PSKC has adopted investment and spending policies for its board-designated endowment assets that intend to grow the assets so a predictable stream of funding to provide support for PSKC will be available when needed while seeking to preserve, at necessary and appropriate levels, the endowment assets. Endowment assets include board designated funds that the Board has instructed PSKC to hold for a long but unspecified period of time. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide a reasonable and competitive rate of return and to minimize the risks of loss of principal with reasonable capital gains to offset inflation and provide for the growth of principal at a moderate level of risk.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, PSKC's investment strategy is to emphasize long-term growth (capital appreciation plus investment income). PSKC targets a diversified asset allocation that places a greater emphasis on equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

Annually, PSKC reviews the performance of the endowment fund portfolio to determine what, if any, income in the form of interest, dividends and net capital appreciation may be appropriated for use to support PSKC's programs and services. In making this decision, PSKC exercises prudent judgment so as to assure that the funds retain sufficient assets and income to allow for reasonable future unfavorable market conditions and the preservation of principal.

18. CONSOLIDATED FINANCIAL STATEMENTS

U.S. generally accepted accounting principles require consolidated financial statements when a nonprofit organization has both control and economic interest in another nonprofit organization. As disclosed in Note 2, PSKC has such a relationship with the Foundation but has not consolidated the Foundation's accounts in the accompanying financial statements.

If the financial statements of the Foundation had been consolidated with those of PSKC, there would have been no material effect on the amount of total assets, total liabilities or net assets without donor restrictions for the years ended December 31, 2018 and 2017.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

19. RECLASSIFICATION

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements. The reclassifications had no impact on previously reported total net assets.

20. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2018, PSKC incurred approximately \$2,100,000 in costs through the end of May 2019 for the construction of the dialysis treatment center in Lakewood, Washington (see Note 6). These costs have been financed through PSKC's cash and equivalents. The project is expected to be completed in the fall and PSKC expects to incur approximately \$3,500,000 more in 2019 bringing the total cost of the Lakewood project, including taxes, equipment and furnishings, to an estimated \$9,500,000.

PSKC has evaluated subsequent events through the date these statements were available to be issued on June 21, 2019.

21. RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019.

The FASB also issued ASU 2016-02, *Leases*. This standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020.

PSKC is currently in the process of evaluating the impact of adoption of these accounting standards on the financial statements.



PUGET SOUND
kidney centers
Care. Compassion. Community.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

PUGET SOUND KIDNEY CENTERS
FINANCIAL STATEMENTS
December 31, 2017 and 2016

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Puget Sound Kidney Centers

We have reviewed the accompanying financial statements of Puget Sound Kidney Centers (PSKC), a nonprofit organization, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of PSKC management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, except for the issue noted in the Known Departure from U.S. Generally Accepted Accounting Principles paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Known Departure from U.S. Generally Accepted Accounting Principles

U.S. generally accepted accounting principles require an affiliated entity of a nonprofit organization be consolidated where both control and economic interest exist. As discussed in Note 15, management has not consolidated Puget Sound Kidney Centers Foundation which meets the definition of an affiliated entity, and, therefore, the financial statements referred to above are not intended to be a complete presentation of the consolidated financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles.

Other Matter

This information is intended solely for the information and use of the Board of Directors and the management of Puget Sound Kidney Centers and their current lender and is not intended to be and should not be used by anyone other than these specified parties.

Vine Dahlen PUC

June 14, 2018

PUGET SOUND KIDNEY CENTERS
BALANCE SHEETS
December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and equivalents	\$ 9,158,140	\$ 7,837,464
Investments	350,000	700,000
Receivables, net	4,296,185	4,860,518
Inventories	640,103	590,034
Prepaid expenses and other assets	46,411	56,338
TOTAL CURRENT ASSETS	14,490,839	14,044,354
OTHER ASSETS:		
Investments	1,504,241	1,312,638
Interest in net assets of Foundation	704,884	616,024
Construction in progress	104,186	3,005,990
Property and equipment, net	35,711,872	30,277,690
TOTAL OTHER ASSETS	38,025,183	35,212,342
TOTAL ASSETS	\$ 52,516,022	\$ 49,256,696

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Line of credit	\$ 1,250,000	\$ 0
Accounts payable	854,957	1,125,692
Accrued expenses	1,606,967	1,617,945
TOTAL CURRENT LIABILITIES	3,711,924	2,743,637
OTHER LONG-TERM LIABILITIES	68,763	13,753
TOTAL LIABILITIES	3,780,687	2,757,390
NET ASSETS:		
Unrestricted	48,735,335	46,499,306
TOTAL LIABILITIES AND NET ASSETS	\$ 52,516,022	\$ 49,256,696

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2017 and 2016

	2017	2016
REVENUE:		
Patient service revenue (net of contractual allowances)	\$ 29,782,512	\$ 28,810,253
Provision for bad debt, before change in allowance	538,506	490,227
Change in allowance for doubtful accounts	(50,000)	(200,000)
Less: provision for bad debt	488,506	290,227
NET PATIENT SERVICE REVENUE	29,294,006	28,520,026
OPERATING EXPENSES:		
Patient care expenses	22,757,681	21,504,046
Support expenses	4,418,366	4,329,829
TOTAL OPERATING EXPENSES	27,176,047	25,833,875
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	2,117,959	2,686,151
NON-OPERATING REVENUES (EXPENSES)	(33,414)	78,122
EXCESS OF REVENUES OVER EXPENSES	2,084,545	2,764,273
NET UNREALIZED GAIN ON INVESTMENTS	151,484	59,531
INCREASE IN UNRESTRICTED NET ASSETS	2,236,029	2,823,804
BEGINNING NET ASSETS	46,499,306	43,675,502
ENDING NET ASSETS	\$ 48,735,335	\$ 46,499,306

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 2,236,029</u>	<u>\$ 2,823,804</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(170,959)	(93,718)
Depreciation and amortization	1,552,598	1,474,096
Change in allowance for doubtful accounts	(50,000)	(200,000)
Loss on disposal of assets	128,282	2,660
Change in unrestricted interest in Foundation	(88,860)	(42,584)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	614,333	(447,905)
Inventories	(50,069)	6,886
Prepaid expenses and other assets	9,927	(22,814)
Increase (decrease) in liabilities:		
Accounts payable	(270,735)	62,316
Accrued expenses and other liabilities	44,032	250,391
Total adjustments and changes	<u>1,718,549</u>	<u>989,328</u>
	<u>3,954,578</u>	<u>3,813,132</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Purchase of investments	(105,418)	(654,291)
Proceeds from maturity and sale of investments	434,774	1,715,243
Purchase of property and equipment	(4,109,072)	(1,676,767)
Payments for construction in progress	(104,186)	(2,535,742)
	<u>(3,883,902)</u>	<u>(3,151,557)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Net advances on line of credit	<u>1,250,000</u>	<u>0</u>
NET INCREASE IN CASH AND EQUIVALENTS	1,320,676	661,575
BEGINNING CASH AND EQUIVALENTS	<u>7,837,464</u>	<u>7,175,889</u>
ENDING CASH AND EQUIVALENTS	<u>\$ 9,158,140</u>	<u>\$ 7,837,464</u>

See accompanying notes and independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

Puget Sound Kidney Centers ("PSKC"), is a nonprofit Washington corporation formed in 1980 to provide kidney dialysis and related patient care services to the citizens of Western Washington. Patients are served at PSKC facilities located in Everett, Mountlake Terrace, Arlington (referred to as "Smokey Point"), Oak Harbor (referred to as "Whidbey Island"), Anacortes and Monroe.

In addition, PSKC provides treatments to hospitalized patients at a number of area hospitals through its hospital dialysis program. Training, supplies, equipment and continuing supervision are provided to a number of patients who self-dialyze in their homes through the home training and treatment programs.

Significant accounting policies

This summary of significant accounting policies of PSKC is presented to assist in understanding PSKC's financial statements. These accounting policies conform to U.S. generally accepted accounting principles, except for the item discussed in Note 15, and have been consistently applied in the preparation of the financial statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates included in or affecting the presentation of the accompanying financial statements include (1) contractual adjustments affecting revenue recognition, (2) allowance for doubtful accounts, (3) the useful lives of property and equipment, and (4) estimates related to contingent liabilities.

Basis of presentation

PSKC is required to report information regarding its balance sheets and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Recognition of donor restrictions

PSKC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same period the contribution is received are reported as unrestricted support.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Recognition of donor restrictions (continued)

PSKC reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PSKC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and equivalents

All short-term highly liquid investments with original maturities of three months or less are considered to be cash equivalents reported in the statements of cash flows. However, cash equivalents included within investment accounts are reported as investments.

Investments

Investments are measured at fair value in the balance sheets. Investment gains (including realized gains and losses on investments, interest and dividends) are included in excess of revenues over expenses unless restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses. Investment expenses are treated as a deduction from investment gains.

Accounts receivable

Accounts receivable are carried at estimated net realizable amounts and are reduced by an allowance for doubtful accounts. PSKC does not provide for accrual of interest or service charges on receivables. In evaluating the collectability of accounts receivable, PSKC analyzes its past history of write-offs, collections and current credit conditions of the receivables to identify trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, PSKC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, PSKC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For receivables associated with services provided to patients who have government coverage such as Medicare, PSKC receives payment directly from those payors for 80% of the amounts due. The remaining 20% is billed to a secondary carrier and PSKC will analyze those amounts due and provide an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the same reasoning as described for third-party coverage or self-pay patients above.

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounts receivable (continued)

The difference between the net realizable rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories

In-center medical and pharmaceutical supplies and parts inventories are stated at the lower of cost or net realizable value, on a first-in, first-out basis.

Interest in net assets of Foundation

Puget Sound Kidney Centers Foundation (the Foundation), is an entity that was formed under the laws of the State of Washington and is a 501(c)(3) tax exempt organization with the Internal Revenue Service. The purpose of the Foundation is to operate exclusively for the benefit of PSKC by supporting PSKC's programs and services through solicitation of charitable donations. As such, PSKC is the sole member of the Foundation and accounts for its interest in the Foundation membership as an asset on its balance sheet and adjusts that interest for its share of the change in net assets of the Foundation using a method similar to the equity method of accounting. See Note 15 for additional information.

Property and equipment

Property and equipment, whether purchased or constructed, are stated at cost. Constructed assets include amounts incurred during pre-acquisition, acquisition, development and construction. Donated assets are stated at fair value at the date of the gift.

PSKC reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	5-40 years
Land improvements	8-25 years
Other improvements	8-20 years
Medical equipment	5-10 years
Office furniture and equipment	5-15 years
Transportation equipment	5 years

Excess of revenues over expenses from operations

The statement of operations includes excess of revenues over expenses from operations. Excluded from excess of revenues over expenses from operations, consistent with industry practice, are, among other items, gains and losses on investments, change in unrestricted interest in Foundation, charitable contributions received and made, and interest expense.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Net patient service revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These amounts are deducted from gross service revenue to determine net patient service revenue.

Due to the complex nature of the Centers for Medicare & Medicaid Services' system, it is at least reasonably possible that recorded estimates will change by a material amount in the near term. See Note 13.

Charity care

Puget Sound Kidney Centers has a policy of providing care to patients without regard to their ability to pay. Those patients who are unable to pay are identified only after financial information is obtained from the patient and all means of helping them obtain financial assistance have been exhausted. Currently, the charges are waived and thereby excluded from net patient service revenue. PSKC has not determined the amount of charity care provided as the amounts cannot be reasonably estimated.

Functional allocation of expenses

The costs of providing services and other activities have been summarized on a functional basis in the statements of operations and changes in net assets. Accordingly, certain costs have been allocated among the patient care and support services benefited.

Income taxes

PSKC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been designated as an organization which is not a private foundation. The information return is filed annually and is subject to examination by the Internal Revenue Service, generally for three years after the returns are filed. PSKC would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of other expense.

2. RECEIVABLES

Receivables consist of the following:

	2017	2016
Accounts receivable	\$ 4,311,904	\$ 5,190,507
Other receivables (2017 includes \$180,758 due from the PSKC Foundation)	434,281	170,011
	4,746,185	5,360,518
Less allowance for doubtful accounts	450,000	500,000
	\$ 4,296,185	\$ 4,860,518

The decrease in the allowance for doubtful accounts was a result of the reduction in the level of receivables at December 31, 2017.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS

Investments, stated at fair value include:

	2017	2016
Current:		
Certificate of deposit	\$ 0	\$ 350,000
Money market funds	350,000	350,000
Total short-term	\$ 350,000	\$ 700,000
Long-term:		
Cash	\$ 19,926	\$ 20,152
Equities	1,041,000	607,506
Mutual funds	294,356	544,950
Money market funds	110,205	106,776
Non U.S. securities	38,754	33,254
Total long-term (see Note 14)	\$ 1,504,241	\$ 1,312,638
	\$ 1,854,241	\$ 2,012,638
Investment gain consists of:		
Interest and dividend income	\$ 62,738	\$ 60,481
Net realized gain on sale of investments	19,475	38,988
	82,213	99,469
Less investment expense	13,062	13,337
Investment income	\$ 69,151	\$ 86,132
Net unrealized gain on investments	\$ 151,484	\$ 59,531

4. CONSTRUCTION IN PROGRESS

Construction in progress consists of the following:

Everett dialysis center remodel	\$ 0	\$ 3,005,990
Lakewood dialysis center design (see Note 16)	101,476	0
Other	2,710	0
	\$ 104,186	\$ 3,005,990

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Buildings and improvements	\$ 32,972,507	\$ 28,385,000
Land improvements	925,516	925,516
Other improvements	177,726	177,726
Medical equipment	4,140,443	3,688,180
Office furniture and equipment	2,162,536	1,863,369
Transportation equipment	133,554	133,721
	40,512,282	35,173,512
Less accumulated depreciation and amortization	11,221,409	11,316,821
	29,290,873	23,856,691
Land	6,420,999	6,420,999
Property and equipment, net	\$ 35,711,872	\$ 30,277,690

Included in the above total for land is the following at December 31, 2017 and 2016:

Land held for future use and development	\$ 1,189,464	\$ 1,189,464
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PSKC previously purchased land for \$435,566 from Providence General Foundation. According to the terms of the agreement, PSKC is required to use the property consistent with the operations supporting end stage renal disease and the property cannot be sold, leased, used, conveyed or encumbered by or to any hospital, hospital system, healthcare system or health care provider.

6. ACCRUED EXPENSES

Accrued expenses consists of the following:

Accrued wages	\$ 376,898	\$ 329,363
Accrued vacation	554,724	535,433
Accrued payroll taxes and benefits	267,369	226,171
Estimated cost of claims incurred (see Note 13)	210,000	180,000
Amounts to be refunded to payors	197,976	346,978
	\$ 1,606,967	\$ 1,617,945

7. LINE OF CREDIT

PSKC has an unsecured \$3,000,000 revolving line of credit available with a bank which expires on October 29, 2018. Interest is at the Wall Street Journal prime rate less 0.50%. The agreement requires PSKC to maintain at all times a minimum tangible net worth of \$30,000,000. The line of credit had an outstanding balance of \$1,250,000 and \$0 at December 31, 2017 and 2016, respectively.

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

8. FAIR VALUE MEASUREMENTS

The fair values of financial assets are classified based on the following hierarchy reflecting the significance of inputs used in determining fair value measurements:

- Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2017 and 2016:

Asset Description	Fair Value Hierarchy Level	2017	2016
Investments (Note 3):			
Equities, mutual funds, and securities	1	\$ 1,374,110	\$ 1,185,710

9. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:			
Interest	\$	18,840	\$ 0
Non-cash investing activities:			
Transfers of construction in progress to property and equipment	\$	3,005,990	\$ 0
Vendor financing for construction	\$	0	\$ 427,958

10. TAX-SHELTERED ANNUITY PLAN

PSKC has established a tax-sheltered annuity retirement plan covering substantially all employees. Participating employees may elect to have tax deferred contributions to the plan made from their compensation, while PSKC may make a discretionary matching contribution at a rate of up to 7% of allowable compensation. PSKC's contributions for the years ended December 31, 2017 and 2016 were \$538,568 and \$505,842, respectively.

11. RELATED PARTY TRANSACTIONS

Cash and equivalents

PSKC has a money market account with a financial institution where a PSKC board member serves as a director of the bank board. The balance in the account at December 31, 2017 and 2016 was \$4,086,732 and \$2,067,595, respectively.

Affiliated organization

During the years ended December 31, 2017 and 2016, PSKC provided in-kind support to the Foundation of \$83,556 and \$88,945, respectively, which is included with other expense. Contributions and grants include \$182,426 and \$164,786 of support to PSKC from the Foundation during 2017 and 2016, respectively.

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

12. CONCENTRATIONS

Financial instruments which potentially subject PSKC to a concentration of credit risk consist of cash and equivalents. PSKC typically maintains balances in excess of federally insured limits. PSKC has not experienced any losses in such instruments.

PSKC maintains an account with an investment firm. The account contains cash and securities. Within the limits of protection offered by the Securities Investor Protection Corporation (SIPC), claims against a broker-dealer are satisfied on cash up to a maximum of \$250,000 and securities up to a maximum of \$500,000. Coverage provided by the SIPC and the investment firms' insurance companies does not protect against the loss of market value of securities.

Approximately 68% and 65% of revenue during the years ended December 31, 2017 and 2016, respectively, was received from government agencies. The majority of the remainder was from private insurance companies. Consequently, PSKC is vulnerable to changes in government policies and reimbursement rates paid by both government agencies and private insurance companies.

As of December 31, 2017, approximately 60% of the accounts receivable of PSKC was held with government agencies and approximately 28% was held with private insurance companies in the health care industry. Consequently, PSKC's ability to collect the amounts due is affected by legislative and economic fluctuations in those industries.

13. CONTINGENCIES

Health insurance

Puget Sound Kidney Centers provides health insurance benefits through a partially self-funded employee health benefit program whereby health insurance coverage is maintained for all eligible employees. PSKC is responsible for an annual maximum stop loss limit per eligible employee with an aggregate stop loss limit that reduces the overall exposure in any given year.

There were 168 and 170 participants covered at December 31, 2017 and 2016, respectively. Employee health and additional insurance benefit expense was \$1,392,049 and \$1,428,829 for the years ended December 31, 2017 and 2016, respectively.

Included in accrued expenses on the balance sheets at December 31, 2017 and 2016, is \$210,000 and \$180,000, respectively, which represents management's estimate of the cost of claims that have been incurred but not yet reported.

The maximum annual plan cost is \$2,360,222 and the estimated expected cost is \$2,027,286 based on 174 covered participants for the 2018 plan year. These estimates are not offset by amounts the employee participant contributes.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

13. CONTINGENCIES (Continued)

Unemployment claims

PSKC has elected to be under a direct reimbursable plan with the Washington State Department of Employment Security. Under this plan, PSKC does not pay in quarterly taxes and does not have unemployment insurance. PSKC will be liable to the state for any future claims; however, management has not recorded a liability in the financial statements for any potential outstanding claims as they cannot be reasonably estimated. PSKC uses this self-insured plan since their history of claims has been low and they anticipate infrequent claims going forward. During the years ended December 31, 2017 and 2016, PSKC recognized \$16,130 and \$25,468, respectively, in unemployment related expenses.

Revenue adjustments

PSKC's revenues may be subject to adjustment as a result of (1) examinations of PSKC or Medicare or Medicaid Managed Care programs that PSKC serves, by government agencies or contractors, for which the resolution of any matters raised may take extended periods of time to finalize; (2) differing interpretations of government regulations by different fiscal intermediaries or regulatory authorities; (3) differing opinions regarding a patient's medical diagnosis or the medical necessity of service provided; (4) retroactive applications or interpretations of governmental requirements; and (5) claims for refund from commercial and private payors, including as the result of government actions.

14. BOARD-DESIGNATED ENDOWMENT

PSKC maintains investments in an account designated by the Board of Directors to provide organizational funding for long-term purposes. Since that account resulted from an internal designation and is not donor-restricted and the board retains the authority to alter or eliminate endowment funds, it is classified and reported as unrestricted net assets. In accordance with accounting standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition

Changes in endowment net assets for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Beginning endowment net assets	\$ 1,312,638	\$ 1,219,748
Investment return:		
Investment income	20,644	21,481
Net appreciation	170,959	71,409
Total investment return	191,603	92,890
Contributions	0	0
Amounts appropriated for expenditure	0	0
Ending endowment net assets	\$ 1,504,241	\$ 1,312,638

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

14. BOARD-DESIGNATED ENDOWMENT (Continued)

Return objectives and risk parameters

PSKC has adopted investment and spending policies for its board-designated endowment assets that attempt to provide a predictable stream of funding to provide support for PSKC's ongoing needs while seeking to preserve, at necessary and appropriate levels, the endowment assets. Endowment assets include board designated funds that the Board has instructed PSKC to hold for a long but unspecified period of time. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide a reasonable and competitive rate of return and to minimize the risks of loss of principal with reasonable capital gains to offset inflation and provide for the growth of principal at a moderate level of risk.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, PSKC's investment strategy is to emphasize long-term growth (capital appreciation plus investment income). PSKC targets a diversified asset allocation that places a greater emphasis on equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

Annually, PSKC reviews the performance of the endowment fund portfolio to determine what, if any, income in the form of interest, dividends and net capital appreciation may be appropriated for use to support PSKC's programs and services. In making this decision, PSKC exercises prudent judgment so as to assure that the funds retain sufficient assets and income to allow for reasonable future unfavorable market conditions and the preservation of principal.

15. CONSOLIDATED FINANCIAL STATEMENTS

U.S. generally accepted accounting principles require consolidated financial statements when a nonprofit organization has both control and economic interest in another nonprofit organization. As disclosed in Note 1, PSKC has such a relationship with the Foundation but has not consolidated the Foundation's accounts in the accompanying financial statements.

If the financial statements of the Foundation had been consolidated with those of PSKC, there would have been no material effect on the amount of total assets, total liabilities or unrestricted net assets for the years ended December 31, 2017 and 2016.

16. SUBSEQUENT EVENTS

On June 11, 2018, PSKC entered into a contract to construct a dialysis center in Lakewood, Washington. The anticipated costs for construction of this new facility is \$6,800,000 including taxes. PSKC previously entered into a contract for the architectural design of the new facility for a total of \$584,000 (see Note 4), of which approximately \$340,000 was incurred during 2018. Both the design and the construction costs will be funded through PSKC's cash and equivalents. Construction is set to commence in June 2018 and be completed around June 2019.

On May 7, 2018, PSKC purchased land in Arlington, Washington for \$475,000 which was paid for with cash.

See independent accountant's review report.

PUGET SOUND KIDNEY CENTERS
NOTES TO FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS (Continued)

During 2018, PSKC deposited earnest funds of \$120,000 toward the acquisition of property in Lacey, Shoreline, Silverdale and Vancouver, Washington. The combined purchase price of these properties amounts to \$4,800,000 which will be mostly funded through bank financing. Closing on these properties is estimated at various times from June through August 2018.

During May 2018, PSKC filed five applications with the Washington Department of Health to construct and operate a dialysis facility in Arlington, Lacey, Shoreline, Silverdale, and Vancouver, Washington. Approval of these applications is uncertain.

PSKC has evaluated subsequent events through the date these statements were available to be issued on June 14, 2018.

17. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard makes targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for PSKC for the calendar year ending December 31, 2018.

The Federal Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019.

The FASB also issued ASU 2016-02, *Leases*. This standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020.

The Company is currently in the process of evaluating the impact of adoption of these accounting standards on the financial statements.