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ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMITHEALTH SERVICES REVIEW BOARD
SECTION 1: IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**This Section must be completed for all projects.****Facility/Project Identification**

Facility Name:	Advocate BroMenn Medical Center - Laboratory		
Street Address:	1304 Franklin Avenue		
City and Zip Code:	Normal 61761		
County:	McLean	Health Service Area 4	Health Planning Area: D-02

Applicant /Co-Applicant Identification**[Provide for each co-applicant [refer to Part 1130.220].**

Exact Legal Name:	Advocate Health and Hospitals Corporation d/b/a Advocate BroMenn Medical Center		
Address:	1304 Franklin Avenue, Normal, IL 61761		
Name of Registered Agent:	Gail D. Hasbrouck		
Name of Chief Executive Officer:	Colleen L. Kannaday		
CEO Address:	1304 Franklin Avenue, Normal, IL 61761		
Telephone Number:	(309) 268-5180		

Type of Ownership of Applicant/Co-Applicant

☒ Non-profit Corporation	☐ Partnership
☐ For-profit Corporation	☐ Governmental
☐ Limited Liability Company	☐ Sole Proprietorship
☐ Other	
o Corporations and limited liability companies must provide an Illinois certificate of good standing .	
Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.	
APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Primary Contact**[Person to receive all correspondence or inquiries during the review period]**

Name:	Sonja Reece, FACHE
Title:	Director, Health Facilities Planning
Company Name:	Advocate Health Care
Address:	1304 Franklin Avenue, Normal, IL 61761
Telephone Number:	(309) 268-5482
E-mail Address:	Sonja.Reece@advocatehealth.com
Fax Number:	(309) 888-0961

Additional Contact**[Person who is also authorized to discuss the application for permit]**

Name:	Robert S. Miller, FACHE
Title:	Vice President, Operations
Company Name:	Advocate BroMenn Medical Center
Address:	1304 Franklin Avenue, Normal, IL 61761
Telephone Number:	(309) 268-2030
E-mail Address:	Robert-S.Miller@advocatehealth.com
Fax Number:	(309) 888-0961

Additional Contact

[Person who is also authorized to discuss the application for permit]

Name:	Joe Ourth
Title:	Attorney
Company Name:	Arnstein & Lehr, LLP
Address:	120 S. Riverside Plaza, Suite 1200, Chicago, IL 60606-3910
Telephone Number	(312) 876-7815
E-mail Address:	jourth@arnstein.com
Fax Number:	(312) 876-6215

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	Advocate BroMenn Medical Center - Laboratory		
Street Address:	1304 Franklin Avenue		
City and Zip Code:	Normal 61761		
County:	McLean	Health Service Area 4	Health Planning Area: D-02

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Advocate Health Care Network
Address:	2025 Windsor Drive, Oak Brook, IL 60423
Name of Registered Agent:	Gail D. Hasbrouck
Name of Chief Executive Officer:	James H. Skogsbergh
CEO Address:	2025 Windsor Drive, Oak Brook, IL 60423
Telephone Number:	(630) 990-5008

Type of Ownership of Applicant/Co-Applicant

☒ Non-profit Corporation	☐ Partnership	
☐ For-profit Corporation	☐ Governmental	
☐ Limited Liability Company	☐ Sole Proprietorship	☐ Other

o Corporations and limited liability companies must provide an **Illinois certificate of good standing**.

Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

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Name:	Sonja Reece, FACHE
Title:	Director, Health Facilities Planning
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Telephone Number	(312) 876-7815
E-mail Address:	jourth@arnstein.com
Fax Number:	(312) 876-6215

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-**THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960**

Name:	Sonja Reece, FACHE
Title:	Director, Health Facilities Planning
Company Name:	Advocate Health Care
Address:	1304 Franklin Avenue, Normal, IL 61761
Telephone Number:	(309) 268-5482
E-mail Address:	Sonja.Reece@advocatehealth.com
Fax Number:	(309) 888-0961

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Advocate Health and Hospitals Corporation
Address of Site Owner:	2025 Windsor Drive, Oak Brook, IL 60523
Street Address or Legal Description of Site:	1304 Franklin Avenue, Normal, IL 61761
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.	
APPEND DOCUMENTATION AS <u>ATTACHMENT-2</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name:	Advocate Health and Hospitals Corporation d/b/a Advocate BroMenn Medical Center		
Address:	1304 Franklin Avenue, Normal, IL 61761		
☒ Non-profit Corporation ☐ For-profit Corporation ☐ Limited Liability Company	☐ Partnership ☐ Governmental ☐ Sole Proprietorship	☐ Other	
○ Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. ○ Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. ○ Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.			
APPEND DOCUMENTATION AS <u>ATTACHMENT-3</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS ATTACHMENT -5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT**1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification: ☐ Substantive ☒ Non-substantive	Part 1120 Applicability or Classification: [Check one only.] ☐ Part 1120 Not Applicable ☐ Category A Project ☒ Category B Project ☐ DHS or DVA Project
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2. Narrative Description

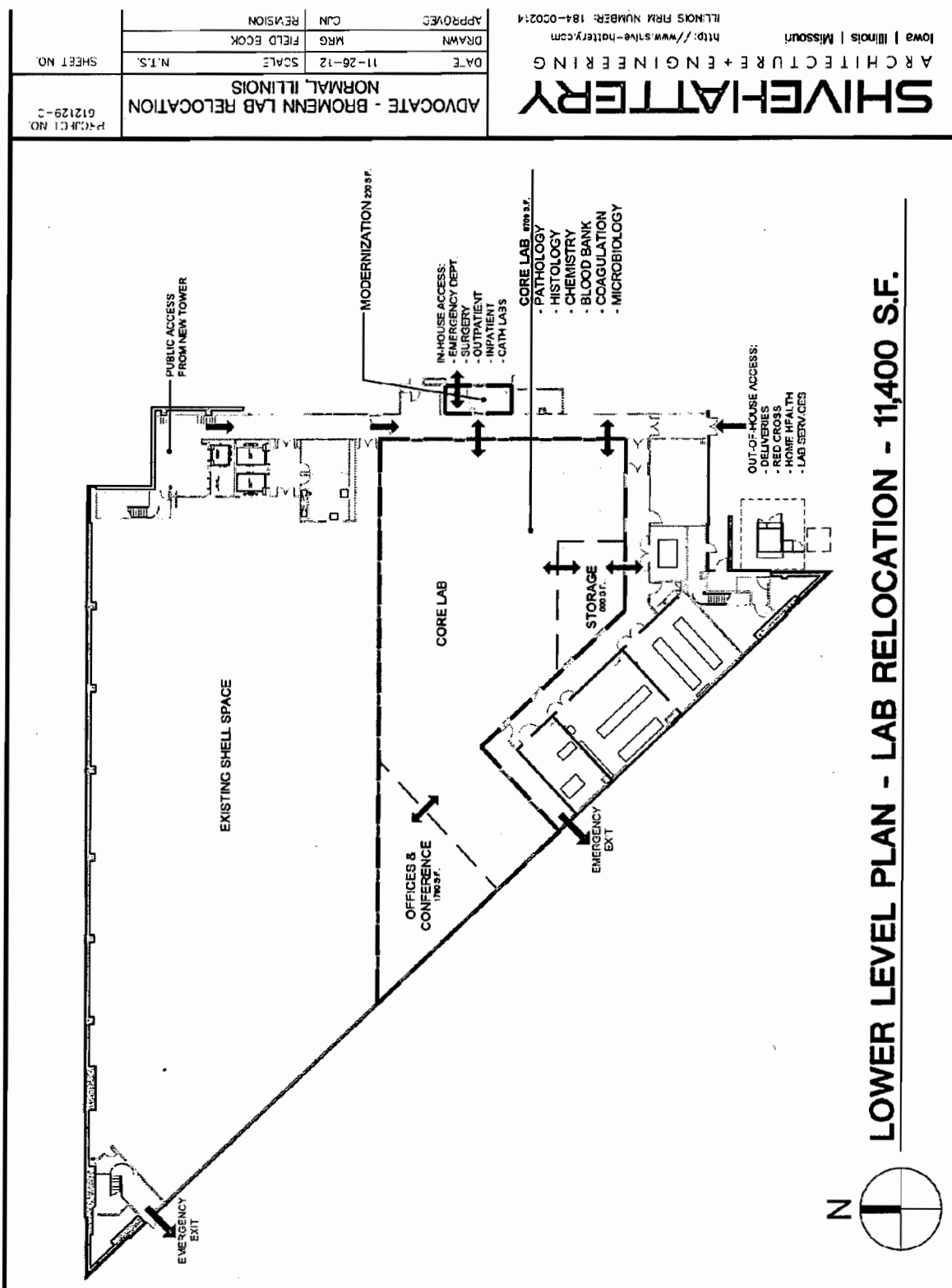
Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Advocate BroMenn Medical Center (BroMenn), 1304 Franklin Avenue, Normal, IL, is proposing to modernize shell space by relocating its Laboratory to space that was designated as shell space in the patient tower. As part of that patient tower permit application, BroMenn had committed to the Board that it would return to the Board at the time it proceeded with build-out of the shell space. The patient tower was approved January 28, 2009, as Project # 08-076, and is a three story addition to the existing hospital. The completion date for that project is March 31, 2013.

The 11,400 square foot Laboratory will use a portion of the 32,271 square foot shell space in the lower level of the new patient tower. Space vacated by the Laboratory is anticipated be used for administrative and support purposes, with specifics to be determined at a later date, and included in BroMenn's facilities plan and budget.

The project is classified as non-substantive, Category "B" because it does not meet the criteria defined in Public Act 96-31. This is not a new or replacement facility, it does not propose a new service or discontinuance of a service, and it does not make a change in the bed count, which are conditions that would make a project substantive.

Because this project is well below the capital expenditure threshold and does not proposed a new category of service, it would not normally require a permit. This project is the subject of a permit solely because BroMenn is fulfilling its commitment to seek Board approval of the shell space build-out.





SERVICE CORPORATION

2163 Ravina Park Road
Decatur, Illinois 62526

Sue A. Strayer, M.D., President
Alan F. Frigy, M.D., Vice President/Treasurer

December 10, 2012

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, IL 62761

Re: Advocate BroMenn Medical Center Laboratory CON Application

Dear Ms. Avery,

We are writing in regard to the need for enhanced laboratory space at Advocate BroMenn Medical Center (ABMC). Currently, we have reduced capacity due to inefficient laboratory floor plan design as well as simply lack of sufficient space to perform the volumes of testing necessary to accommodate our patients. Our turn-around times on laboratory tests are not optimum, given the erratic placing of instrumentation currently in place due to poor floor design. In addition, lab staffing is not efficient given the repetitive floor traffic and work flow induced by this inconvenient blueprint.

The current location is extremely remote from patient care areas where the pathologists must attend to procedures. This adds significantly to the length of time that it takes for pathologists and lab staff to get to where the patients are located and again, becomes very cost – ineffective for our patients and community. Increased floor space, as well as redesigned testing areas, are paramount to a successful, well – run, cost efficient laboratory; the current lack thereof necessitates change.

Respectfully,

Dana L. Altenburger, M.D., Medical Director, ABMC

Sue A. Strayer, M.D., Chairperson, Department of Pathology, ABMC

Marlene Gallegos, M.D. Staff Pathologist, ABMC

Alan F. Frigy, M.D. Staff Pathologist, ABMC

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS			
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project ☐ Yes ☒ No

Purchase Price: \$ _____

Fair Market Value: \$ _____

The project involves the establishment of a new facility or a new category of service

☐ Yes ☒ No

If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is \$ _____.

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

☒ None or not applicable

☐ Preliminary

☐ Schematics

☐ Final Working

Anticipated project completion date (refer to Part 1130.140): January 31, 2015

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

☐ Purchase orders, leases or contracts pertaining to the project have been executed.

☐ Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies

☒ Project obligation will occur after permit issuance.

APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

State Agency Submittals

Are the following submittals up to date as applicable:

☒ Cancer Registry

☒ APORS

☒ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted

☒ All reports regarding outstanding permits

Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							
APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.							

Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which the data are available**. Include **observation days in the patient day totals for each bed service**. Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME: Advocate BroMenn Medical Center		CITY: Normal, IL			
REPORTING PERIOD DATES:					
		From: 01/01/2011		to: 12/31/2011	
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	134	6,246	24480	0	134
Obstetrics	30	1,661	3940	0	30
Pediatrics	11	290	689	0	11
Intensive Care	12	404	1708	0	12
Comprehensive Physical Rehabilitation	15	275	2,959	0	15
Acute/Chronic Mental Illness	19	654	3,345	0	19
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	0	0	0	0	0
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other ((identify))	0	0	0	0	0
TOTALS:	221	9,530	37,121	0	221

CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of Advocate Health Care Network in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

JA Skogsbergh
SIGNATURE

James H. Skogsbergh
PRINTED NAME

President and CEO
PRINTED TITLE

William Santulli
SIGNATURE

William Santulli

PRINTED NAME

Executive Vice President / COO
PRINTED TITLE

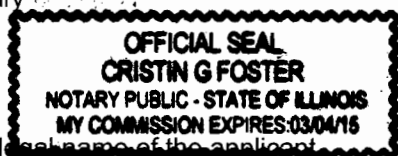
Notarization:

Subscribed and sworn to before me
this 17 day of December 2012

Cristin G. Foster

Signature of Notary

Seal



*Insert EXACT legal name of the applicant

Notarization:

Subscribed and sworn to before me
this 17 day of December

Cristin G. Foster

Signature of Notary

Seal



CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

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- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of **Advocate Health and Hospitals Corporation d/b/a Advocate BroMenn Medical Center** in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.


SIGNATURE

Colleen L. Kannaday **Advocate BroMenn**
PRINTED NAME **Medical Center**

President
PRINTED TITLE

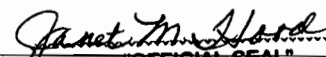
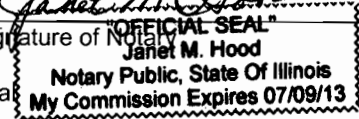

SIGNATURE

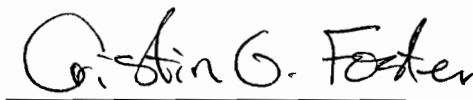
William Santulli
PRINTED NAME

Executive Vice President / COO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 12th day of December, 2012

Notarization:
Subscribed and sworn to before me
this 17 day of December


Signature of Notary
Seal 


Signature of Notary
Seal 

*Insert EXACT legal name of the applicant

SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT-11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.

NOTE: Information regarding the "Purpose of the Project" will be included in the State Agency Report.

APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

- 1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE**Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space**

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following::
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
 - c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

R. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐		
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(c)(3)(B) -	Utilization - Service or Facility
APPEND DOCUMENTATION AS <u>ATTACHMENT-37</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5)	For any option to lease, a copy of the option, including all terms and conditions.
	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
		TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

IX. 1120.130 - Financial Viability

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. All of the projects capital expenditures are completely funded through internal sources
2. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
3. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

X. 1120.140 - Economic Feasibility

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									
* Include the percentage (%) of space for circulation									

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT -42 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XI. Safety Net Impact Statement

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for **ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS**:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			
Charity (cost in dollars)	Year	Year	Year
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			

Medicaid (revenue)			
Inpatient			
Outpatient			
Total			

APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care **must** be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS ATTACHMENT-44, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant/Coapplicant Identification including Certificate of Good Standing	26
2	Site Ownership	29
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	35
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	38
5	Flood Plain Requirements	40
6	Historic Preservation Act Requirements	43
7	Project and Sources of Funds Itemization	45
8	Obligation Document if required	47
9	Cost Space Requirements	48
10	Discontinuation	-
11	Background of the Applicant	50
12	Purpose of the Project	56
13	Alternatives to the Project	64
14	Size of the Project	67
15	Project Service Utilization	-
16	Unfinished or Shell Space	-
17	Assurances for Unfinished/Shell Space	-
18	Master Design Project	-
19	Mergers, Consolidations and Acquisitions	-
	Service Specific:	
20	Medical Surgical Pediatrics, Obstetrics, ICU	-
21	Comprehensive Physical Rehabilitation	-
22	Acute Mental Illness	-
23	Neonatal Intensive Care	-
24	Open Heart Surgery	-
25	Cardiac Catheterization	-
26	In-Center Hemodialysis	-
27	Non-Hospital Based Ambulatory Surgery	-
28	General Long Term Care	-
29	Specialized Long Term Care	-
30	Selected Organ Transplantation	-
31	Kidney Transplantation	-
32	Subacute Care Hospital Model	-
33	Post Surgical Recovery Care Center	-
34	Children's Community-Based Health Care Center	-
35	Community-Based Residential Rehabilitation Center	-
36	Long Term Acute Care Hospital	-
37	Clinical Service Areas Other than Categories of Service	69
38	Freestanding Emergency Center Medical Services	-
	Financial and Economic Feasibility:	
39	Availability of Funds	77
40	Financial Waiver	89
41	Financial Viability	89
42	Economic Feasibility	90
43	Safety Net Impact Statement	-
44	Charity Care Information	95

Type of Ownership of Applicant/Co-Applicant

- | | | |
|---|--|--------------------------------|
| ☒ Non-profit Corporation | ☐ Partnership | |
| ☐ For-profit Corporation | ☐ Governmental | |
| ☐ Limited Liability Company | ☐ Sole Proprietorship | ☐ Other |

- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.

Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment 1, Exhibits 1 and 2.

File Number 1004-695-5



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1212501084

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 4TH day of MAY A.D. 2012 .

Jesse White

SECRETARY OF STATE

File Number 1707-692-2



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH CARE NETWORK, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 14, 1923, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1213501096

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of MAY A.D. 2012 .

Jesse White

SECRETARY OF STATE

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Advocate Health and Hospitals Corporation
Address of Site Owner: 2025 Windsor Drive, Oak Brook, IL 60523
Street Address or Legal Description of Site: 1304 Franklin Avenue, Normal, IL 61761
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.
APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Proof of site ownership is appended as Attachment 2, Exhibit 1.

COMMITMENT FOR TITLE INSURANCE

Chicago Title Insurance Company

CHICAGO TITLE INSURANCE COMPANY ("Company"), for valuable consideration, commits to issue its policy or policies of title insurance, as identified in Schedule A, in favor of the Proposed Insured named in Schedule A, as owner or mortgagee of the estate or interest in the Land described or referred to in Schedule A, upon payment of the premiums and charges and compliance with the requirements; all subject to the provisions of Schedule A and B and to the Conditions of this Commitment.

This Commitment shall be effective only when the identity of the Proposed Insured and the amount of the policy or policies committed for have been inserted in Schedule A by the Company.

All liability and obligation under this Commitment shall cease and terminate 6 months after the Effective Date or when the policy or policies committed for shall issue, whichever first occurs, provided that the failure to issue the policy or policies is not the fault of the Company.

The Company will provide a sample of the policy form upon request.

IN WITNESS WHEREOF, Chicago Title Insurance Company has caused its corporate name and seal to be affixed by its duly authorized officers on the date shown in Schedule A.

Issued By:

CHICAGO TITLE COMPANY, LLC
121 N. MAIN STREET
BLOOMINGTON, IL 61701

Refer Inquiries To:
(309) 828-5097

Fax Number:
(309) 827-4342



CHICAGO TITLE INSURANCE COMPANY

By

A handwritten signature in black ink, appearing to read "Michael J. Mc", written over a horizontal line.

Authorized Signatory

Commitment No.:

1606 000283200 BLO

CHICAGO TITLE INSURANCE COMPANY
COMMITMENT FOR TITLE INSURANCE
SCHEDULE A

YOUR REFERENCE: BroMenn Search

ORDER NO.: 1606 000283200 BLO

EFFECTIVE DATE: NOVEMBER 5, 2012

1. POLICY OR POLICIES TO BE ISSUED:

2. THE ESTATE OR INTEREST IN THE LAND DESCRIBED OR REFERRED TO IN THIS COMMITMENT IS FEE SIMPLE, UNLESS OTHERWISE NOTED.

**3. TITLE TO THE ESTATE OR INTEREST IN THE LAND IS AT THE EFFECTIVE DATE VESTED IN:
ADVOCATE HEALTH AND HOSPITALS CORPORATION**

**4. MORTGAGE OR TRUST DEED TO BE INSURED:
NONE**

CHICAGO TITLE INSURANCE COMPANY
COMMITMENT FOR TITLE INSURANCE
SCHEDULE A (CONTINUED)

ORDER NO.: 1606 000283200 BLO

5. THE LAND REFERRED TO IN THIS COMMITMENT IS DESCRIBED AS FOLLOWS:

TRACT NO. 1:

Parcel 1:

Lots 4 through 13 in Block 5, EXCEPT the North 60 feet thereof in the Fourteenth Addition to the Town of Normal, in McLean County, Illinois.

TAX ID NUMBERS: 14-33-181-006, 14-33-181-009, 14-33-181-011, 14-33-181-013 and 14-33-181-014.

Parcel 2:

Lot 2 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, in McLean County, Illinois.

TAX ID NUMBERS: 14-33-179-001 and 14-33-179-002

Parcel 3:

All of Lots 1 and 3 through 13, inclusive, EXCEPT those portions of said Lots, lying within the right of way of the Bloomington-Normal Water Reclamation District, all in Block 2 in the Twenty-Fifth Addition to the Town of Normal, in McLean County, Illinois.

ALSO, all that part of the 20 foot vacated alley lying East of and adjoining the East line of Lots 2, 3, 6, 7, 10 and 11 and also that part of the East 1/2 of the alley lying West of and adjoining the West line of that part of Lot 1 lying South and West of the right of way of the Bloomington-Normal Water Reclamation District, all in Block 2 of the Twenty-Fifth Addition to the Town of Normal, in McLean County, Illinois.

TAX ID NUMBERS: 14-33-179-024, 14-33-179-011, 14-33-179-003, 14-33-179-004, 14-33-179-005, 14-33-179-006, 14-33-179-007, 14-33-179-025 and 14-33-179-018

Parcel 4:

A part of Lot 1 in Sunset Subdivision of Lot 16, Block 2 of the Twenty-Fifth Addition to the Town of Normal and a part of Lot 13 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, described as follows: Commencing at the Northeast corner of Lot 2 in Sunset Subdivision to the Town of Normal; thence North along the East line of Block 2 in the Twenty-Fifth Addition to the Town of Normal, 90 feet to the Northeast corner of Lot 13 in said Twenty-Fifth Addition; thence West along the North line of said Lot 13 a distance of 150 feet; thence South and parallel to the East line of said Lots 100 feet; thence East along the South line of said Lot 1, a distance of 49.5 feet; thence North 10 feet to the Northwest corner of Lot 2 in said Sunset Subdivision; thence East along the North line of said Lot 2, a distance of 100.5 feet to the place of beginning, in McLean County, Illinois.

TAX ID NUMBER: 14-33-179-019 and 14-33-179-018.

CONTINUED ON NEXT PAGE

CHICAGO TITLE INSURANCE COMPANY
COMMITMENT FOR TITLE INSURANCE
SCHEDULE A (CONTINUED)

ORDER NO.: 1606 000283200 BLO

5. THE LAND REFERRED TO IN THIS COMMITMENT IS DESCRIBED AS FOLLOWS (CONTINUED):

Parcel 5:

Lots 1, 2, 3, 4, 5, 6, 7, 8 and 9 in Block 1 in Phoenix Addition to the City of Bloomington, now located in the Town of Normal, in McLean County, Illinois.
TAX ID NUMBERS: 14-33-180-010, 14-33-180-009, 14-33-180-008, 14-33-180-007, 14-33-180-006, 14-33-180-016, 14-33-180-017 and 14-33-180-002.

Parcel 6:

Lot 1 and 2 in BroMenn Healthcare Subdivision, according to the plat thereof recorded March 16, 1989 as Document Number 89-3932, EXCEPTING THEREFROM Bromenn Healthcare Subdivision 2nd Addition, according to the Plat thereof recorded March 31, 2011 as Document No. 2011-8063, in the Town of Normal in McLean County, Illinois.
TAX ID NUMBERS: 14-33-182-010, 14-33-254-021 and 14-33-254-020.

TRACT NO. 2:

Parcel 1:

Lot 14 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, EXCEPT all coal and other minerals together with the right to mine and remove the same, and the West 1/2 of the vacated alley lying East and adjacent to said Lot, in McLEAN COUNTY, ILLINOIS.
TAX ID NUMBER: 14-33-179-008

Parcel 2:

Lot 15 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, and the West 1/2 of the vacated alley lying East and adjacent to said Lot, in McLEAN COUNTY, ILLINOIS.
TAX ID NUMBER: 14-33-179-009

Parcel 3:

Lot 2 in Sunset Subdivision of Lot 16 in Block 2 and of Lots 1 and 2 in the Subdivision of Lots 17, 20 and 21 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, in McLEAN COUNTY, ILLINOIS.
TAX ID NUMBER: 14-33-179-020

Parcel 4:

Lot 3 in Sunset Subdivision to the Town of Normal, according to the Plat thereof recorded December 12, 1928 in Book 8 of Plats, page 143 as Document No. 196, in McLEAN COUNTY, ILLINOIS.
TAX ID NUMBER: 14-33-179-021

Parcel 5:

COMLGCM 11/06 DGC

KES

PAGE A2

KES

11/07/12

10:37:26

CHICAGO TITLE INSURANCE COMPANY
COMMITMENT FOR TITLE INSURANCE
SCHEDULE A (CONTINUED)

ORDER NO.: 1606 000283200 BLO

5. THE LAND REFERRED TO IN THIS COMMITMENT IS DESCRIBED AS FOLLOWS (CONTINUED):

Lot 4 in Sunset Subdivision of Lot 16 in Block 2 and of Lots 1 and 2 in the Subdivision of Lots 17, 20 and 21 in Block 2 in the Twenty-Fifth Addition to the Town of Normal, in McLEAN COUNTY, ILLINOIS.

TAX ID NUMBER: 14-33-179-022

Parcel 6:

Lot 4 in the Subdivision of Lots 17, 20 and 21 in Block 2 in the Twenty-Fifth Addition to the Town of Normal (EXCEPT all coal and other minerals underlying said property and the right to mine and remove the same), and the North 1/2 of the vacated alley lying South and adjacent to said Lot;

and

The West 101.7 feet of Lot 1 and Lot 3 and Lot 5 in the Subdivision of Lots 17, 20 and 21 in Block 2 in the Twenty-Fifth Addition to Normal, in McLEAN COUNTY, ILLINOIS.

TAX ID NUMBER: 14-33-179-026 and 14-33-179-012.

Parcel 7:

Lot 5 in Sunset Subdivision in the Town of Normal, according to the Plat recorded in Book 8 of Plats, page 143, and the North 1/2 of the vacated alley lying South and adjacent to said Lot, in McLEAN COUNTY, ILLINOIS.

TAX ID NUMBER: 14-33-179-023

TRACT NO. 3:

Lot 1 in Titan Subdivision, Normal, according to the Plat thereof recorded May 13, 2008 as Document No. 2008-13249, in McLEAN COUNTY, ILLINOIS.

TAX ID NUMBER: 14-33-182-009

TRACT NO. 4:

Beginning at the Southwest corner of Lot 10 in Block 6 in the Fourteenth Addition to the Town of Normal, and running thence East 88 feet along the South line of Lots 10, 11 and 12 in said Block, thence running Northwesterly across said Lots 12, 11 and 10 to a point on the West line of said Lot 10, 4 feet South of the Northwest corner of said Lot 10, thence running South to the Place of Beginning, said premises being in Block 6 in the Fourteenth Addition to the Town of Normal, in McLEAN COUNTY, ILLINOIS.

TAX ID NUMBER: 14-33-178-003

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name of Site Owner: Advocate Health and Hospitals Corporation	
Address of Site Owner: 2025 Windsor Drive, Oak Brook, IL 60523	
☒ Non-profit Corporation	☐ Partnership
☐ For-profit Corporation	☐ Governmental
☐ Limited Liability Company	☐ Sole Proprietorship ☐
☐ Other	
○ Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. ○ Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. ○ Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Certificates of Good Standing for Advocate Health and Hospital Corporation d/b/a Advocate BroMenn Medical Center and Advocate Health Care Network are appended as Attachment 3, Exhibits 1 and 2.

File Number 1004-695-5



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1212501084

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 4TH day of MAY A.D. 2012 .

Jesse White

SECRETARY OF STATE

File Number 1707-692-2



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH CARE NETWORK, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 14, 1923, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1213501096

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of MAY A.D. 2012 .

Jesse White

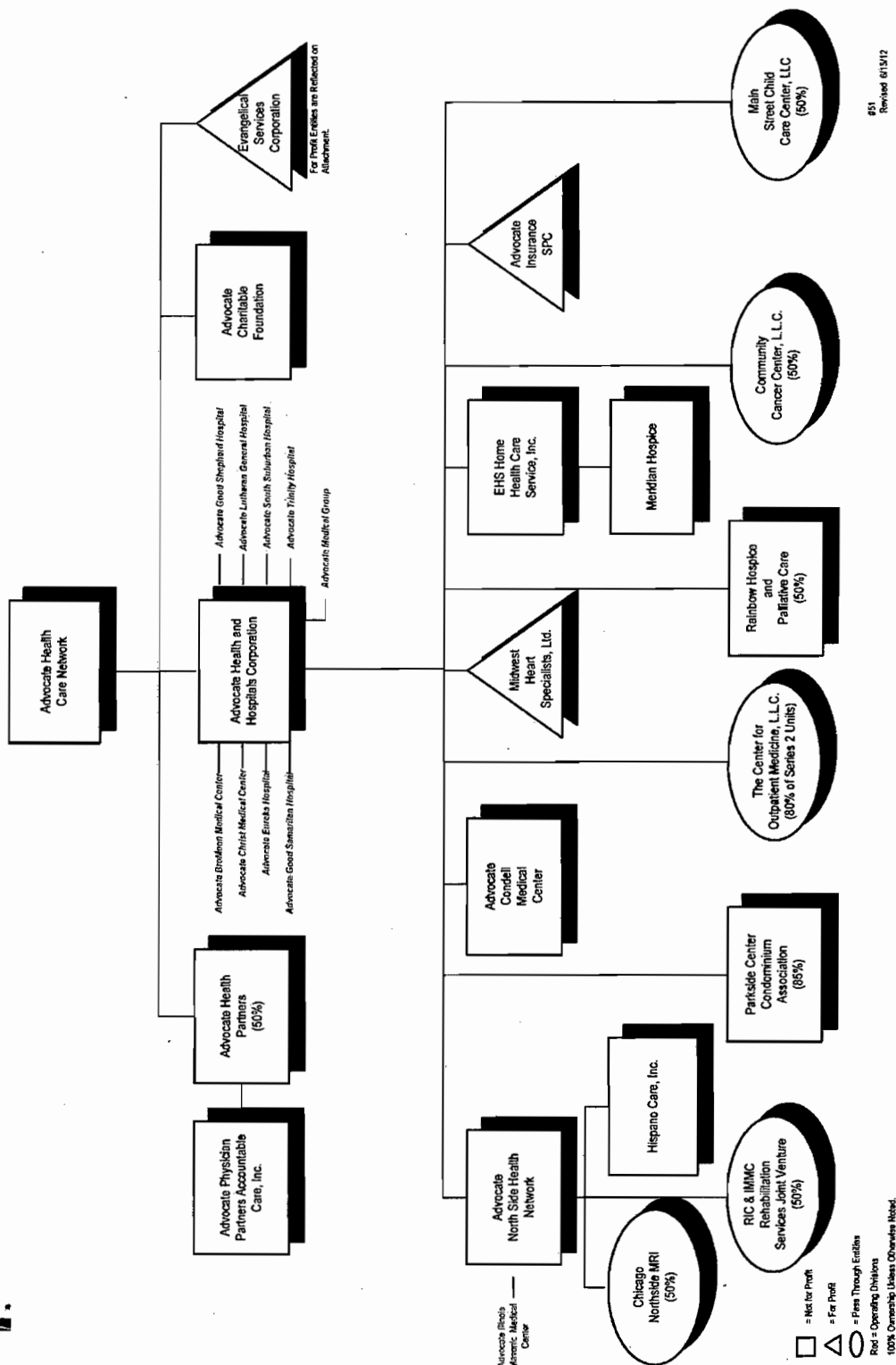
SECRETARY OF STATE

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Attachment 4, Exhibit 1, is an organization chart of Advocate Health Care that shows all of the relevant organizations including Advocate Health and Hospitals Corporation and Advocate Health Care Network.



Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS **ATTACHMENT -5**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment 5, Exhibit 1



Illinois Department of Natural Resources

One Natural Resources Way • Springfield, Illinois 62702-1271
<http://dnr.state.il.us>

Rod R. Blagojevich, Governor

Sam Flood, Acting Director

September, 2, 2008

Mr. Don Adams, P.E.
Farnsworth Group
1819 South Neil Street, Suite F
Champaign, IL 61820

RE: BroMenn Regional Medical Center Addition, Normal, Illinois

Dear Mr. Adams:

Thank you for requesting a floodplain determination for the proposed addition to the BroMenn Regional Medical Center in Normal, Illinois to ensure compliance with Illinois Executive Order V 2006 (E.O. V). I apologize for my delayed response. This office has been very busy with ongoing flooding across the state.

In brief, E.O. V (2006) requires that state agencies which plan, promote, regulate, or permit activities, as well as those which administer grants or loans in the State's floodplain areas, must ensure that all projects meet the standards of the state floodplain regulations or the National Flood Insurance Program (NFIP) whichever is more stringent. These standards require that new or substantially improved buildings as well as other development activities be protected from damage by the 100-year flood. In addition, no construction activities in the floodplain may cause increases in flood heights or damages to other properties. Lastly, development activities which are determined to be "critical facilities" must be protected to the 500-year flood elevation.

Based on the information you have provided, **we have determined that this parcel is located within a designated 100-year floodplain** and therefore would fall under the requirements of E.O. V.

Hospitals are specifically listed as a "critical facility". The Executive Order requires that all new Critical Facilities shall be located outside of the floodplain. Where this is not practicable, Critical Facilities shall be developed with the lowest floor elevation equal to or greater than the 500-year frequency flood elevation or structurally dry floodproofed to at least the 500-year frequency flood elevation. Based on the site plans you have submitted, it appears that the new BroMenn addition cannot be constructed outside of the mapped floodplain. Plans also show that the addition does meet the lowest floor requirement and will be elevated above the 500-year flood level.

Mr. Don Adams, P.E.
Farnsworth Group
Page 2

Should you have any questions or comments regarding this flood hazard determination, feel free to contact me at (217) 782-4428.

Sincerely,



Paul A. Osman, Manager
Statewide Floodplain Programs

CC: Mike Bryant, FEMA Region V
Gene Brown, Town of Normal

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Attachment 6, Exhibit 1, is a letter from the Illinois Historic Preservation Agency which documents that no historic, architectural, or archaeological sites exist within the Project area.



**Illinois Historic
Preservation Agency**

DEC 10 2012

FAX (217) 782-8161

1 Old State Capitol Plaza • Springfield, Illinois 62701-1512 • www.illinois-history.gov

McLean County
Normal

CON - Relocation of Laboratory
1304 Franklin Ave.
IHPA Log #001120512

December 5, 2012

Janet Hood
Advocate BroMenn Medical Center
Advocate Eureka Hospital
P.O. Box 2850
Bloomington, IL 61702-2850

Dear Ms. Hood:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5027.

Sincerely,

Anne E. Haaker

Anne E. Haaker
Deputy State Historic
Preservation Officer

- 44 -

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

PROJECT COSTS AND SOURCES OF FUNDS			
USE OF FUNDS	CLINICAL	NON CLINICAL	TOTAL
Preplanning Costs	\$ 17,171	\$ 5,329	\$ 22,500
Site Survey and Soil Investigation	\$ -	\$ -	\$ -
Site Preparation	\$ -	\$ -	\$ -
Off Site Work	\$ -	\$ -	\$ -
New Construction Contracts	\$ -	\$ -	\$ -
Modernization Contracts	\$ 2,376,750	\$ 194,500	\$ 2,571,250
Contingencies	\$ 341,263	\$ 40,237	\$ 381,500
Architectural/Engineering Fees	\$ 195,697	\$ 67,353	\$ 263,050
Consulting and Other Fees	\$ 84,421	\$ 19,579	\$ 104,000
Movable or Other Equipment (not in construction contracts)	\$ 3,500,300	\$ 300,000	\$ 3,800,300
Bond Issuance Expense (project related)	\$ 40,295	\$ 12,505	\$ 52,800
Net Interest Expense During Construction (project related)	\$ 78,173	\$ 24,260	\$ 102,433
Fair Market Value, Leased Space, Equipment	\$ -	\$ -	\$ -
Other Costs To Be Capitalized	\$ 308,000	\$ 43,000	\$ 351,000
Acquisition of Building or Other Property (excluding land)	\$ -	\$ -	\$ -
TOTAL USES OF FUNDS	\$ 6,942,069	\$ 706,764	\$ 7,648,833
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			\$ 3,424,863
Pledges			
Gifts and Bequests			
Bond Issues (project related)			\$ 4,223,970
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			\$ 7,648,833

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM!

Itemization of Costs

Preplanning Costs	\$22,500
Master planning for tower Lower Level	\$17,500
Lab space validation	\$5,000
Site Survey and Soil Investigation	\$ -
Site Preparation	\$ -
Off Site Work	\$ -
New Construction Contracts	\$ -
Modernization Contracts	\$2,571,250
Contingencies	\$381,500
Architectural/Engineering Fees	\$263,050
Consulting and Other Fees	\$104,000
Lab programming	\$79,000
Mechanical conditions validation	\$25,000
Movable or Other Equipment (not in construction contracts)	\$3,800,300
Core Lab modular furniture	\$780,000
Office/supporting furntiure	\$50,000
Lab Clinical Equipment	\$2,720,000
Freezers/Refrigerators	\$250,300
Bond Issuance Expense (project related)	\$52,800
Net Interest Expense During Construction (project related)	\$102,433
Fair Market Value, Leased Space, Equipment	\$ -
Other Costs To Be Capitalized	\$351,000
Voice/Data hardware	\$250,000
CON, IDPH and review expenses	\$30,000
Misc fees	\$71,000
Acquisition of Building or Other Property (excluding land)	\$ -
TOTAL USES OF FUNDS	\$7,648,833

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

☒ None or not applicable

☐ Preliminary

☐ Schematics

☐ Final Working

Anticipated project completion date (refer to Part 1130.140) January 31, 2015

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

☐ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies

☒ Project obligation will occur after permit issuance.

APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

No further documentation needed.

Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							

APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment 9, Exhibit 1.

Cost Space

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Laboratory	\$6,942,069	7,203	8,700	0	8,700	0	7,203
Total Clinical	\$6,942,069	7,203	8,700	0	8,700	0	7,203
NON REVIEWABLE							
Admin/Conf Rm	\$ 445,000	845	1,700	0	1,700	0	845
Storage	\$ 209,412	125	800	0	800	0	125
Connector	\$ 52,353	0	200	0	200	0	0
Total Non-clinical	\$706,764	970	2,700	0	2,700	0	970
TOTAL	\$7,648,833	8,173	11,400	0	11,400	0	8,173
APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.							

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT-11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

1. The listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.

Attachment 11, Exhibit 1 is the listing of all the facilities owned by Advocate Health Care Network. Exhibit 2 is the current state hospital license for Advocate Health and Hospitals, d/b/a Advocate BroMenn Medical Center. The most recent DNV accreditation certificate for the Medical Center is included as Attachment 11, Exhibit 3. The College of American Pathologists accreditation of the Laboratory is documented at Attachment 11, Exhibit 4.

2. Certified Listing of Any Adverse Action Against Any Facility Owned or Operated by the Applicant

By the signatures on the Certification pages, the applicants attest there have been no adverse actions against any facility owned and/or operated by Advocate Health Care Network, Advocate Health and Hospitals Corporation d/b/a Advocate BroMenn Medical Center, as demonstrated by compliance with the CMS Conditions of Participation with Medicare and Medicaid, during the three years prior to the filing of this application.

3. Authorization Permitting IHFPB and DPH to Access Necessary Documentation

By the signatures on the Certification pages, the applicants hereby authorize the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to access information in order to verify any documentation or information submitted in response to the requirements of this subsection, or to obtain any documentation or information which the State Board or Department of Public Health find pertinent to this subsection.

4. Exception for Filing Multiple Certificates of Need in One Year

Not applicable. This is the first certificate of need filed by Advocate BroMenn Medical Center in 2012.

1. The licensing, certification, and accreditation numbers of each organization owned or operated by Advocate Health and Hospitals Corporation, along with relevant identification numbers, are listed below.

Facility	Location	License No.	Joint Commission Accreditation No.	DNV Accreditation No.
Advocate BroMenn Medical Center	1304 Franklin Ave. Normal, IL	1756947	Dropped	127532-2012-AHC-USA-NIAHO

Additional hospitals owned and operated as a part of Advocate Health Care Network:

Facility	Location	License No.	Joint Commission Accreditation No.	DNV Accreditation No.
Advocate Christ Medical Center	4440 W. 95 th St. Oak Lawn, IL	1899693	7397	Not yet surveyed
Advocate Condell Medical Center	801 S. Milwaukee Ave. Libertyville, IL	1756928	7372	Not yet surveyed
Advocate Eureka Hospital	101 S. Major Eureka, IL	1756949	Dropped	127988-2012-AHC-USA-NIAHO
Advocate Good Samaritan Hospital	3815 Highland Ave. Downers Grove, IL	1899765	Dropped	115804-2012-AHC-USA-NIAHO
Advocate Good Shepherd Hospital	450 W. Highway, #22 Barrington, IL	1899765	Dropped	114892-2012-AHC-USA-NIAHO
Advocate Illinois Masonic Medical Center	836 W. Wellington Chicago, IL	1895997	4068	Not yet surveyed
Advocate Lutheran General Hospital	1775 Dempster Park Ridge, IL	1899780	Dropped	117368-2012-AHC-USA-NIAHO
Advocate South Suburban Hospital	17800 S. Kedzie Ave Hazel Crest, IL	1899779	7356	Survey results pending
Advocate Trinity Hospital	2320 E. 93 rd St. Chicago, IL	1927349	Dropped	120735-2012-AHC-USA-NIAHO

		
State of Illinois 2067100		
Department of Public Health		
LICENSE, PERMIT, CERTIFICATION, REGISTRATION		
The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.		
Issued under the authority of The State of Illinois Department of Public Health		
KENNETH SOYEMI, M.D. M.P.H.		
ACTING DIRECTOR		
EXPIRATION DATE	CATEGORY	ID NUMBER
01/05/13	8680	0005645
FULL LICENSE		
GENERAL HOSPITAL		
EFFECTIVE: 01/06/12		
BUSINESS ADDRESS		
ADVOCATE HEALTH AND HOSPITALS CORP		
D/B/A ADVOCATE BROMENN MEDICAL CENTER		
1304 FRANKLIN		
NRKAL IL 61751		
The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •		



DNV HEALTHCARE INC.

CERTIFICATE OF ACCREDITATION

Certificate No. 127532-2012-AHC-USA-NIAHO

This is to certify that

Advocate BroMenn Regional Medical Center

1304 Franklin Avenue, Normal, IL 61761

Complies with the requirements of the:

NIAHO® Hospital Accreditation Program

Pursuant to the authority granted to Det Norske Veritas Healthcare, Inc. by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, this organization is deemed in compliance with the Medicare Conditions of Participation for Hospitals (42 C.F.R. §482). This certificate is valid for a period of three (3) years from the Effective Date of Accreditation.

Effective Date of Accreditation:

December 07, 2012

for the Accreditation Body:

DET NORSKE VERITAS
HEALTHCARE, INC.
HOUSTON, TEXAS

Patrick Horine
Executive Vice President, Accreditation



Yehuda Dror
President

Lack of continual fulfillment of the conditions set out in the Certification/Accreditation Agreement may render this Certificate invalid.

ACCREDITED UNIT: DNV HEALTHCARE INC., 400 TECHNECENTER DRIVE, SUITE 100 MILFORD, OHIO 45150, OH, UNITED STATES, TEL: 513-947-8334
WWW.DNVACCREDITATION.COM

The College of American Pathologists

certifies that the laboratory named below

Advocate BroMenn Medical Center

Main Laboratory

Normal, Illinois

David J. Huddleston, MD

LAP Number: 1902001

AU-ID: 1184444

CLIA Number: 14D0432295

has met all applicable standards for accreditation and is hereby accredited by the College of American Pathologists' Laboratory Accreditation Program. Reinspection should occur prior to April 10, 2014 to maintain accreditation.

Accreditation does not automatically survive a change in director, ownership, or location and assumes that all interim requirements are met.

Frank R. Rudy

Chair, Commission on Laboratory Accreditation

Stanley H. Huddleston, MD

President, College of American Pathologists



Advancing Excellence

Accredited Laboratory



SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.

For over 110 years, the precursor institutions to Advocate BroMenn Medical Center have been serving the health care needs of the central Illinois area. The continuing need for a modern hospital was reconfirmed in 2009 when a permit was granted (#08-076) for the addition of a three story patient tower. Essential to the diagnosis and treatment of patients is having a reliable, comprehensive clinical and anatomical laboratory. The importance of having accurate test results is often assumed by the clinicians and the responsibility to provide it rests with hospital management. Patients appreciate receiving care in a familiar site, with easy access. Physicians appreciate being able to engage the pathologists and laboratory professionals while interpreting the results. The proposed relocation of the laboratory services within the hospital addresses both the patients' and physicians' needs.

2. Define the planning area or market area, or other, per the applicant's definition.

The Illinois Health Facilities and Services Review Board (IHFSRB) definition of Health Planning Area D-02 is shown as Attachment 12, Exhibit 1. The service area (market area) that Advocate BroMenn Medical Center serves is shown on Attachment 12, Exhibit 2, as the primary and secondary market area. The definitions are very similar. In addition to McLean and Livingston Counties, Advocate BroMenn serves Woodford County (where it operates Advocate Eureka Hospital) and DeWitt County. The four Ford County Townships, with a combined population of 1,950, are served but not singled out as a significant section of the market.

A zip code analysis of the inpatients seen in 2011 showed that 80% of the patients come from the HPA D-02 which demonstrates that hospital serves the health planning area. See Attachment 12, Exhibit 3.

3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The purpose of this project is to relocate the laboratory within the existing hospital to space that is configured for more efficiency, closer to the area of growth of inpatient care, and meets the expectations of the Illinois Department of Public Health per their citation. (See Attachment 37, Exhibits 1-4)

The existing laboratory is in a long, narrow area with some sections located across a public corridor. It was built before the era of automation so it has been challenging to accommodate the newer clinical testing equipment. The need to cross the public corridor results in extra work for staff to move back and forth in appropriate protective clothing. The microbiology section is in a modular structure that was added to the side of the hospital about ten years ago and has been cited by the Illinois Department of Public Health because the structure doesn't meet current state standards.

An earlier intention had been to put the laboratory in vacated space in the older part of the hospital. When the new patient tower was occupied in June, 2012, the travel time from the Laboratory to ICU, Level II Nursery, C-Section Rooms, Obstetrics, and progressive care units proved to be so long, it caused leadership to reconsider that plan. The future hospital growth area is the west side of the facility, but the hospital cannot use the lower level for patient beds because of the lack of windows, so it seems prudent to locate the laboratory in that space.

The other consideration is to design a laboratory to accommodate Community Based Testing. In 2010, when BroMenn Healthcare and Advocate Health Care merged, the Advocate practice was for more tests to be done in the central laboratories operated by ACL. This is an entity affiliated with Advocate. In 2011, some testing that had been done in Normal, IL, was referred to central labs in Rosemont and other Chicago sites causing a drop in utilization at BroMenn. ACL has recently announced they are moving away from that centralized model and will again be doing the testing locally, in the communities where the physicians and patients are situated. See the letter from ACL (Attachment 12, Exhibit 4) describing that change. As a result, the volume of work is expected to return to the pre-2011 level and grow further by 2014. This laboratory needs to be ready to handle that volume and accommodate new technology.

4. Cite the sources of the information provided as documentation.

Information used in this application includes the IDPH Hospital Profile, assembled from the Annual Hospital Questionnaires, other reports made to the State and various credentialing organizations, the Medical Center's Facilities Master Plan, and analysis done by external planners, architects, and engineers. Physicians were consulted as well.

The following documents are singled out for inclusion:

- IDPH has indicated the urgency of getting the lab relocate in the attached letters. (See Attachment 37, Exhibits 1-4)
- Increased demand for testing is noted in the letter from ACL. (See Attachment 12, Exhibit 4)

The codes used in the design include:

- IDPH Licensing Act
- Life Safety Code
- Town of Normal Building Code
- Town of Normal Electrical Code
- 2000 National Fire Protection Act 101

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.

By relocating the laboratory to a part of the hospital that is experiencing higher patient and physician traffic, it will be more accessible for both groups and easier to get quick, dependable results into the hands of the physicians. By being in a more efficient site, that will help hold down the cost of services, and improve the economic well-being of the patients. By improving the turnaround time on tests, the impact will help the patients depending on prompt results for their care.

6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

Goal 1 - Implement a careful conceived plan to build the new laboratory.

Goal 2 - Make temporary changes to the existing laboratory, as indicated, to bridge the time until the new lab opens.

Goal 3 - Return to performing tests that were sent to ACL by 2013.

Goal 4 - Implement the new internet-based results reporting system by 2014.

Goal 5 - Plan a transition process engaging the nursing and support departments in 2014.

Goal 6 - Relocate the laboratory by early 2015.

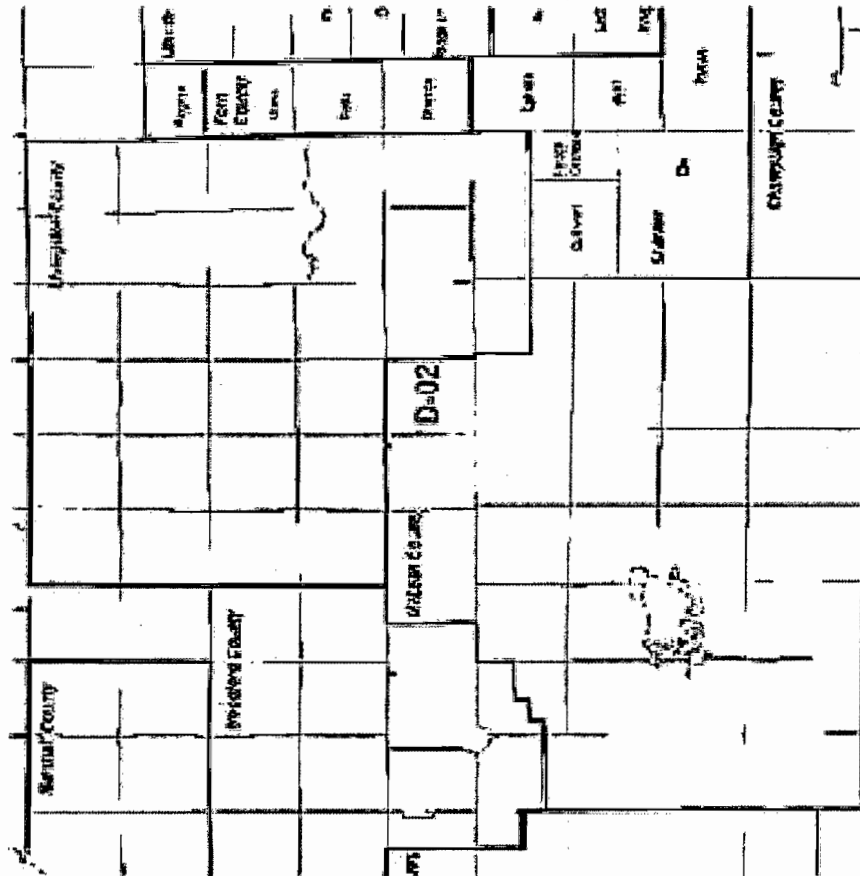
IHFSRB Planning Area A-02 Map

2-10-10
Page 28

INVENTORY OF HEALTH CARE FACILITIES AND SERVICES AND NEED DETERMINATIONS

Illinois Department of Public Health
Illinois Health Facilities and Services Review Board

PLANNING AREA D-02



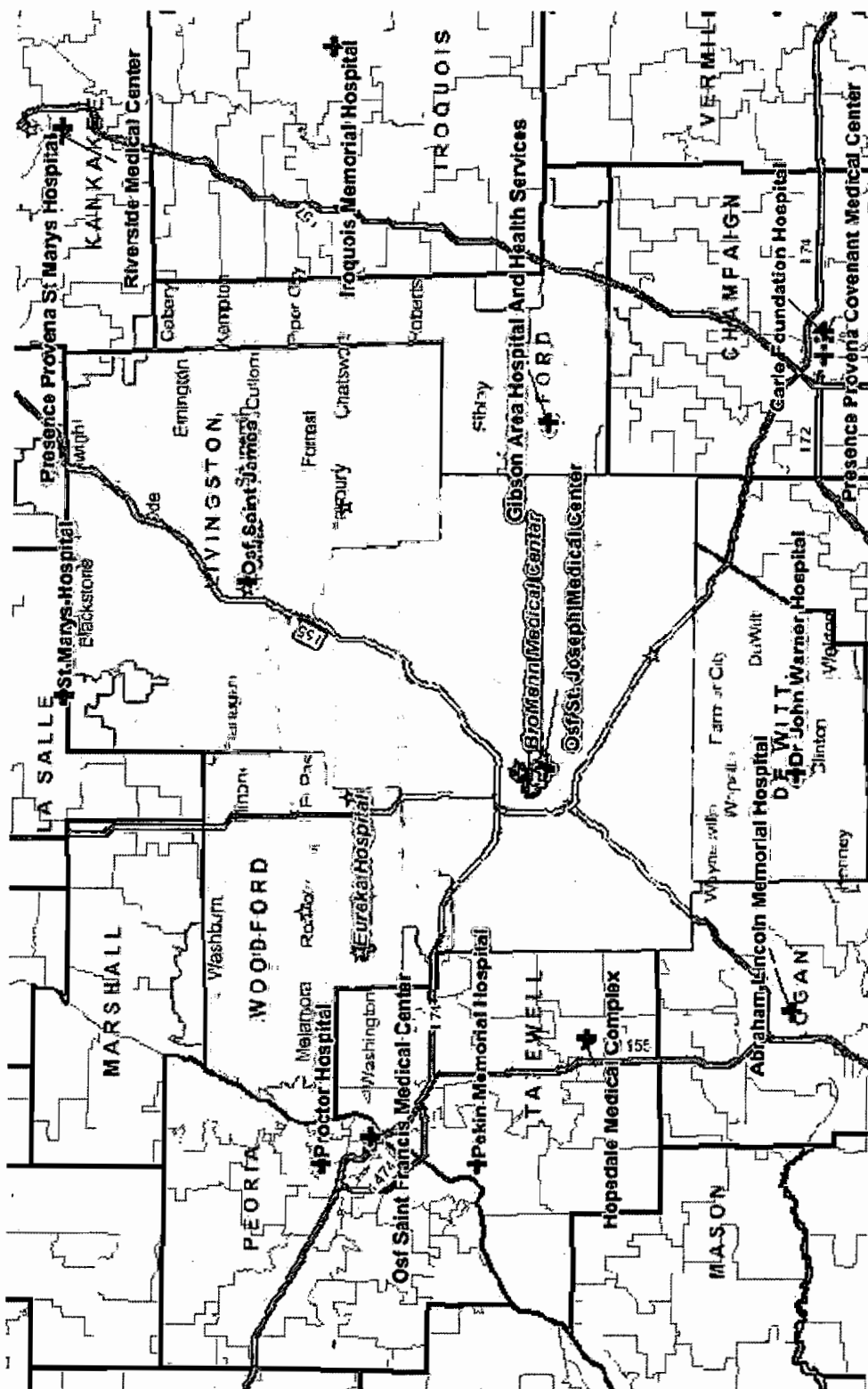
Ford County Townships

Brenton
Mena
Pella
Rogers

Livingston County

McLean County

Advocate BroMenn Medical Center — Service Area Map



Advocate BroMenn Medical Center Patient Origin 2011

2011 Inpatient Data			
Health Planning Area	Zip Code	Total Discharges	%
D-02	61701	2,264	22.7%
D-02	61761	1,916	19.2%
D-02	61704	1,386	13.9%
D-02	61705	387	3.9%
D-02	61752	275	2.8%
D-02	61753	168	1.7%
D-02	61745	155	1.6%
D-02	61739	151	1.5%
D-02	61764	150	1.5%
D-02	61748	127	1.3%
D-02	61744	117	1.2%
D-02	61726	99	1.0%
D-02	61732	96	1.0%
D-02	61728	71	0.7%
D-02	61725	67	0.7%
D-02	61754	62	0.6%
D-02	61736	54	0.5%
D-02	61776	52	0.5%
D-02	61774	44	0.4%
D-02	61770	40	0.4%
D-02	61772	35	0.4%
D-02	61741	33	0.3%
D-02	61740	23	0.2%
D-02	61737	20	0.2%
D-02	60921	19	0.2%
D-02	60420	18	0.2%
D-02	61720	14	0.1%
D-02	61731	14	0.1%
D-02	60959	13	0.1%
D-02	61319	12	0.1%
D-02	61722	12	0.1%
D-02	60460	9	0.1%
D-02	61730	9	0.1%
D-02	61724	7	0.1%
D-02	61775	5	0.1%
D-02	60929	4	0.0%
D-02	60934	4	0.0%
D-02	60946	4	0.0%
D-02	61743	4	0.0%
D-02	61769	4	0.0%
D-02	60962	2	0.0%
D-02	61311	2	0.0%
D-02	61333	2	0.0%
D-02	60919	1	0.0%

D-02	60949	1	0.0%
D-02	60968	1	0.0%
D-02	60917	-	0.0%
D-02	60941	-	0.0%
D-02	60955	-	0.0%
D-02	61313	-	0.0%
D-02	61790	-	0.0%
		7,953	79.7%
Other PSA/SSA	61738	275	2.8%
Other PSA/SSA	61727	224	2.2%
Other PSA/SSA	61530	110	1.1%
Other PSA/SSA	61760	75	0.8%
Other PSA/SSA	60936	64	0.6%
Other PSA/SSA	61842	43	0.4%
Other PSA/SSA	61771	35	0.4%
Other PSA/SSA	61777	34	0.3%
Other PSA/SSA	61561	32	0.3%
Other PSA/SSA	61778	27	0.3%
Other PSA/SSA	61729	21	0.2%
Other PSA/SSA	61749	19	0.2%
Other PSA/SSA	60957	15	0.2%
Other PSA/SSA	61516	13	0.1%
Other PSA/SSA	61742	11	0.1%
Other PSA/SSA	60952	10	0.1%
Other PSA/SSA	61735	9	0.1%
Other PSA/SSA	61882	8	0.1%
Other PSA/SSA	61548	7	0.1%
Other PSA/SSA	61570	6	0.1%
Other PSA/SSA	61773	5	0.1%
	Other PSA/SSA	1,043	10.5%
All Other		981	9.8%
BRO Total		9,977	100.0%

PSA=Primary Service Area SSA=Secondary Service Area

Source: Compdata (Market Expert)

Note: These are inpatient discharges, which may vary from admissions during the same period



November 23, 2012

Sonja Reece
Director, Health Facilities Planning | Advocate Health Care

Sonja,

Please see below for the communication posted on ACL's internal website. It describes ACL's intent to revise our service model and move testing to the hospitals near the patients and physicians. Core Laboratory testing is routine testing currently performed at the hospitals to serve the inpatients. While we plan to utilize existing testing platforms and staff, there are space needs due to additional volume and processes related to specimen handling. This project solidifies the commitment of ACL in partnership with Advocate Healthcare to serve the local communities. Please let me know if you need additional information.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Marykathryn Ahleong'.

Marykathryn Ahleong
Vice President, ACL Illinois Operations

Community Based Testing - CBT - highly reliable, quality laboratory services for every patient, every time

(11.14.12) From northern Wisconsin to central Illinois, ACL associates and caregivers are hearing a lot about Community Based Testing - CBT. **Just what is CBT?** Basically, it's the return of Core Laboratory testing from the Central Laboratories back to the hospital laboratories, our Rapid Response Laboratories (RRLs). **Why the move to CBT?** There are many good reasons to make this transition now. The main reasons focus on 1) reducing test costs; 2) reducing transport and test turnaround time to help physicians better serve patients and 3) maximizing our resources – people, sites, equipment. A look to the future tells us that laboratories must be flexible to adjust to local service needs and that changes in health care require more tests to be offered routinely and resulted faster. This is a complex project that is calling on individuals and teams from across all of ACL and in partnership with aLabs colleagues. ACL's Program Management Office is devoting detailed planning and management resources to make sure that the project is successful and meets the goal of delivering highly reliable, quality laboratory services for every patient, every time. Stay tuned to this space to keep up to date on CBT accomplishments, expectations, celebrations.

SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

ALTERNATIVES

- 1) Identify **ALL** of the alternatives to the proposed project:
Alternative options **must** include:
 - A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Advocate BroMenn Medical Center has known for several years that the configuration of the current laboratory was problematic regarding work flow and efficiency. Options considered included the following;

1. Relocating the laboratory to the lower level of an adjoining medical office building was an early option. The likelihood that space would become available in the immediate future was anticipated in 2008 but has not materialized.

Early estimates of the cost were: \$8,200,000

2. Moving the laboratory to an off site location was considered. Finding a suitable site to lease presented a challenge to the property management team. Most buildings were going to take considerable remodeling to meet the requirements. The ongoing lease expense would affect the economics of the operation and could negatively affect the cost to the patient. In addition, the option would bring significant logistical issues to move specimens. It would necessitate keeping a stat laboratory on the hospital site and transporting specimens to the off site core laboratory. By having staff in two locations, that reduces the flexibility to quickly move technologists to accommodate changing work load.

Cost for this option: \$6,500,000 Depending on the site, this could be the expected cost to buildout or remodel, PLUS the ongoing lease and operational cost of two sites.

3. Moving the laboratory to the space vacated by Obstetrics Department (after it moved to the new patient tower) was carefully considered. As the new patient tower opened it became apparent that the travel time was greatly extended between the patients in

the new building and the older vacated areas, so it was an efficiency factor in getting the laboratory closer to the patients.

Anticipated cost: \$7,200,000 or more was needed to remodel and modernize the Obstetrics department to meet the state standards for the laboratory. There would also be the ongoing expense of being remote from the location of the ICU, Obstetrics, and progressive care unit with patients that have significant volume of laboratory tests.

4. Sending the more complex testing to a reference laboratory has been the model for the past two years as BroMenn became a part of the Advocate system. Advocate is a partner in the ownership and operation of ACL Laboratories and maintains sites in Rosemont and other locations in Chicagoland. While that addressed some of the immediate need for testing capacity, ACL has determined to move back to the model of "community based testing" to get the results and communications with the physicians and patients closer to where they are located. See the letter in the Purpose section defining this change in operations. (Attachment 12, Exhibit 4)

Cost: There is no ACL facility cost directly allocated to the Advocate BroMenn Laboratory but the loss of closer communications, and rapid processing has been a factor with the physicians on the medical staff.

5. Relocating the laboratory to the lower level of the new patient tower, into the shell space, was finally selected as the best option. This improves the travel time to the patients, the work flow efficiencies, and access to physicians. Further, this will get the laboratory relocated more quickly than other options. That is important because there is time pressure from the Illinois Department of Public Health to vacate the structure that houses the microbiology section, as the construction is not in keeping with the current hospital building standards. Since the shell space is open, it will not need to be reconfigured and can be designed with the best work flow for current practices.

Proposed cost: \$7,648,833

	Description	Patient Access	Quality	Cost	Financial Benefit, Short Range	Financial Benefit, Long Range	Conclusion
1.	Relocate the lab to an adjoining medical office building was an early plan, however, the space has not been vacated as expected.	Would be farther for the staff to travel to inpatients	Would be farther for the physicians to go to meet with pathologists and thus unlikely to happen.	\$8,200,000 (Cost was a preliminary estimate and not pursued because not a viable option).	Had the space become available, would have relocated earlier to get the advantage of improved testing efficiencies	Would have incurred the added travel time to get to the inpatients.	Rejected
2.	Move lab to offsite location	Would be acceptable for outpatients but not easy to get to inpatients.	It would decrease the lab contact with the attending physicians	\$6,500,000 plus the ongoing lease cost and cost to cover hospital site	Depending on the layout of the new site, the modernization might have been done faster	Would see a loss in attending physician contact and possible loss of referral outpatient work. Would incur lease costs.	Rejected
3.	Relocate the lab to the area vacated by the Obstetrics department	Would be farther for the staff to travel to the new growth area for inpatients	Could have larger space than current	\$7,200,000	The project would not have required a CON	Would have incurred the added travel time to get to the inpatients and harder for physicians to access the lab.	Rejected
4.	Utilize a reference lab for the more complex testing, keeping the basic procedures at BroMenn, as done with ACL Labs	Patients would not realize a big change as specimen collection would remain in lab.	The loss of communication with attending physicians has caused this plan to change back to community based testing	No direct cost to Advocate BroMenn	Less cost for new space and equipment	The rapport with community physicians and rapid turnaround is so important that this option is not continuing.	Rejected
5.	Relocate the lab to the shell space in the new patient tower.	Improved by being closer to the growing inpatient area of the hospital.	Will bring pathologists and staff closer to attending physicians making rounds.	\$7,648,833	Will get operations in a site with better work flow efficiency	Will be closer to the inpatients and physicians, improving referrals that will improve the financial operation.	✓ Accepted

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
 - c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Size of the Project

Document that the amount of physical space for the proposed project is necessary and not excessive.

The size of laboratories today varies with the complexity of the testing and the amount and size of the equipment. In the past, state standard for the size of a laboratory was based on the number of staff working there and the unit of measure was 225 GSF per full-time equivalent in the laboratory. That standard was discontinued, appropriately, and no standard has replaced it.

The Clinical and Laboratory Standards Institute has noted the design of the laboratory should be based on achieving efficiency, safety, and incorporating new technologies. There is no one measure of space needed as that also varies with the architecture, mechanicals and the communications systems. The Institute has notes: "Rapid advancements in technologies and methodologies have rendered many existing labs inefficient. Incorporating new technologies can substantially alter demands placed on the laboratory environment. Flexibility and room for expansion in the floor plan and mechanical systems are necessary." Safe storage of laboratory supplies requires space with environment and security control. Flammables, combustibles, high voltage, biohazards, and high technology make staff safety a concern.

InformeDesign, a company that studies the implications of design on human behavior noted that about two-thirds of all objective information on patients' health status is provided by the clinical laboratory. The volume and type of testing is constantly changing as hospital services grow, patient acuity increases, diseases are discovered, and the healthcare system evolves. Automated testing represents almost 75% of the testing volume and is the most susceptible to changes. Almost 100% of the labs this company surveyed have expanded their test menu at least once every two years and 90% added new technologies every two years.

The implications are to design lab infrastructure that will support initial and relocation of equipment and accommodate new equipment. More open spaces, fewer walls, are critical in design. Modular furniture, movable workstations, and "plug and play" utility systems are essential.

With this in mind the proposed laboratory has been sized at 8,700 square feet, compared to the 7,203 square feet today. The sections that particularly need more space include the Blood Bank, Histology and Lab Draw.

To make some comparison with other laboratories, three other Advocate hospital laboratories were considered. The hospitals, their bed size, and lab size were compared to the proposed lab for Advocate BroMenn. They are as follows:

	Beds	Lab Sq footage	Sf/bed
Advocate Condell	273	8,832	32
Advocate Good Samaritan	333	10,582	32
Advocate Good Shepherd	169	5,712	34
Advocate BroMenn	221	8,700*	39

Source: Lab sizes provided by ACL Laboratories

*Proposed size of Advocate BroMenn lab.

While at first glance it appears that the BroMenn project is significantly larger, it is important to note that the other three hospitals do not perform Microbiology or Histology at their site, but refer that work out. The size of the proposed Microbiology and Histology sections add 2,600 dgsf to the BroMenn laboratory. When those two sections are taken out of the comparison, the following is the result:

$$8,700 - (1,800 \text{ for Microbiology} + 800 \text{ for Histology}) = 6,100 \text{ adjusted dgsf}$$

$$6,100 \div 221 \text{ beds} = 28 \text{ dgsf/bed}$$

With this comparison, it appears that the proposed Advocate BroMenn laboratory is well within the size of other hospitals' laboratories.

R. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☒ Laboratory	NA	NA
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(c)(3)(B) -	Utilization - Service or Facility
APPEND DOCUMENTATION AS <u>ATTACHMENT-37</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

Laboratory Services

c) Service Modernization

The applicant shall document that the proposed project meets one of the following:

1. Deteriorated Equipment or Facilities

The proposed Project will replace a section of the laboratory (microbiology) that has been cited by the Illinois Department of Public Health as not meeting current building standards. The documentation of the communications between IDPH and Advocate BroMenn about this issue is shown in Attachment 37, Exhibit 1-4.

2. Necessary Expansion

The history of change in the clinical and anatomical laboratory has been one of increasing automation and rapid reporting. There are 7-10 new tests added each year, and numerous upgrades to the methodologies. Each year brings 1-2 new instruments that replace or expand the capability and improve the testing platform.

In anticipation of further changes in clinical and anatomical automation and the increase in variety of procedures offered, the laboratory is designing the new space with an open core lab with modular case work and flexible HVAC and electrical service.

The expansion from 7,203 square feet to 8,700 square feet is a 21% increase. The importance of having flexibility in design and room for newer methodologies is crucial in times of changing health care. As noted in the section on Size, the comparison with other laboratories indicates the equivalent proposed size is less than other hospitals.

3. Utilization

A) Major Medical Equipment

N/A. There is no Laboratory equipment in this Project that meets or exceeds the major medical equipment threshold.

B) Service or Facility

From 2006-2010 the volume of laboratory work done at BroMenn continued to grow each year. The mean increase in volume each year was 2.2%. In 2010, BroMenn became a part of the Advocate Health System, an organization that owns a central laboratory. By 2011, a significant amount of the lab work was referred out to ACL Laboratories. Those referrals resulted in a procedure drop from 624,535 to 535,104, a 14.3% decrease between 2010 and 2011. That practice has continued in 2012 but will soon change.

	Historic Utilization , with testing done by BroMenn							Referrals to ACL Labs	
	2006	2007	2008	2009	2010	% change 2006-2010	Annual Increase Projected	Change to ref. lab use in 2011	Estimated with ref lab use in 2012
IP Studies	280,363	291,566	276,442	283,106	286,292	2.1%	0.5%	232,961	232,861
OP Studies	273,206	275,185	305,527	316,603	318,445	16.6%	3.9%	281,386	281,386
Contract Services	18,807	19,938	19,751	19,436	19,798	5.3%	1.3%	20,757	20,757
Total	572,376	586,689	601,720	619,145	624,535	9.1%	2.2%	535,104	535,104

Source: Hospital records

After evaluating the changing times, ACL has announced they are discontinuing the practice of moving laboratory testing to a central lab, whenever the procedures can be done in the community. The essence of their recent announcement said that Community Based Testing marks the return of Core Laboratory testing from the central laboratories back to the hospital laboratories. A copy of their announcement is shown as Attachment 37, Exhibit 5. The 2010 level of testing is expected to resume in 2013 and continue to grow, especially in the outpatient area.

	2010 Annual Increase Projected	Referrals to ACL Labs			Projected Utilization using CAGR			
		Change in ref lab use in 2011	Estimated lab use in 2012	Return to 2010 level in 2013	2014	2015	2016	2017
IP Studies	0.5%	232,861	232,861	286,292	287,794	289,303	290,821	292,346
OP Studies	3.9%	281,386	281,386	318,445	330,880	343,801	357,226	371,175
Contract Services	1.3%	20,757	20,757	19,798	20,054	20,313	20,575	20,841
Total	2.2%	535,004	535,004	624,535	638,301	652,371	666,750	681,447

Source: Hospital records

This move will reduce transport and test turnaround time on orders, which will help physicians better serve their patients. It will also reduce test costs, and maximize the resources of people, sites, and equipment.

While there are no state utilization standards for laboratories, the past pattern of growth is expected to resume, with the return of tests that had been referred to ACL Laboratories, and the history of positive relationships with referring physicians that has been the hallmark of this laboratory.

525-535 West Jefferson Street • Springfield, Illinois 62761-0001 • www.idph.state.il.us

Pat Quinn, Governor

Damon T. Arnold, M.D., M.P.H., Director

January 13, 2010

Mr. David Burnison
Farnsworth Group
2401 E. Washington St, Ste B
Bloomington, IL 61704-

RECEIVED
JAN 21 2010
Farnsworth Group

Re: BroMenn Regional Medical Center
Normal
Microbiology Building

Dear Mr. Burnison:

We have received your letter dated December 23, 2009, regarding the removal of the microbiology building as agreed to in April 2007. We have no objection to the time table outlined in your letter with the demolition of the building to be in 2013 and the new lab/microbiology department to be constructed in 2012. Please note that if a federal Center for Medicare and Medicaid Services (CMS) survey is requested, these deficiencies may appear on a federal survey and the Plan of Correction will have to be accepted by CMS.

If you have any questions regarding the status of the project, please contact our office at 217-785-4264. The Illinois Department of Public Health's TTY number is (800) 547-0466, for use by the hearing impaired.

Sincerely,

Henry Kowalenko, Supervisor
Design Standards Unit
Division of Health Care Facilities & Programs

Cc: Dwight Hill
BroMenn Healthcare
P.O. Box 2850
Bloomington, IL 61702

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PAGE 01/01

HCFP

01/21/2010 14:53 2177820382



200 W. College Avenue, Suite 301
Normal, Illinois 61761
p 309.663.8436 f 309.663.8862

www.f-w.com | www.greennavigation.com

December 23, 2009

Ms. Jody Gudgel
Illinois Department of Public Health
Design Standards Unit
Division of Health Care Facilities and Programs
525 West Jefferson Street
Springfield, IL 62761

RE: BroMenn Regional Medical Center; Normal, Illinois
Plan of Correction for Microbiology Building

Ms. Gudgel:

We have been engaged by the BroMenn Healthcare to assist them with follow up to the Plan for Correction regarding their existing Microbiology Building addition adjacent to the 1953 wing of the existing hospital. In a previous project, IDPH No. 8176, an approved automatic sprinklering system was added to the existing Microbiology Building in keeping with direction established in April, 2007 (per 4/25/07 letter from your office to Sharon Gonzalez of VOA Associates). Occupancy was granted on 1/30/08.

The plan of correction involved provision of the AASS as a protective measure until the Microbiology building could be removed in April of 2010. At the time that this plan of correction was developed, the Hospital's planned expansion would have been implemented and the new space allocated for Microbiology would be developed and available by that date. Due to the severe economic downturn, capital constraints have prohibited the construction of planned expansion as originally scheduled and the new Microbiology space is not yet available. Current plans call for construction to begin in March, 2010 and to be completed by the end of 2012. The new lab Lab/Microbiology department will be constructed by December 2012 and demolition of the existing Microbiology building will be completed by March 2013.

The hospital remains committed to the completion of this plan of correction as originally planned, but requests re-identification of the date for removal of the existing Microbiology Building to March 1, 2013. Please don't hesitate to contact me if you need any additional information.

Sincerely,

FARNSWORTH GROUP, Inc

A handwritten signature in dark ink, appearing to read 'David Bumison'.

David G. Bumison, AIA, LEED® AP
Principal

Cc: Dan Cooper, BroMenn Healthcare
Andy Kaufman, PJ Hoerr

Letter 12-23-09.doc

ENGINEERS | ARCHITECTS | SURVEYORS | SCIENTISTS

FHS 007000.00
617
(4)

RECEIVED

FEB 06 2008

FARNSWORTH GROUP

Rod R. Blagojevich, Governor

Mon T. Arnold, M.D., M.P.H., Director

525-535 West Jefferson Street • Springfield, Illinois 62761-0001 • www.idph.state.il.us

January 30, 2008

Mr. Roger Hunt, Administrator
BroMenn Regional Medical Center
1304 Franklin Avenue
Normal, IL 61761

Permanent Occupancy

Re: BroMenn Regional Medical Center
Normal
Add AASS to Existing Microbiology Building
IDPH No: 8176

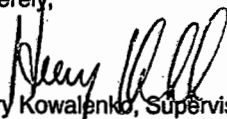
Dear Mr. Hunt:

Based on the evaluation of the physical plant and life safety standards, the above project has been approved for occupancy on 01/28/2008.

As required for the entire facility, this unit must be operated and maintained in accordance with the requirements of the Hospital Licensing Act (210 ILCS 8/1 et. seq.) and the Department's rules entitled Hospital Licensing Requirements (77 Ill. Adm. Code 250). For eligibility for Medicare reimbursement, the unit must be operated and maintained in accordance with the federal Conditions of Participation for hospitals (42 CFR 482.1 et. seq.).

If you have any questions about this approval, please do not hesitate to call us at 217/785-4264. The Department's TTY number is 800/547-0466, for use by the hearing impaired.

Sincerely,


Henry Kowalenko, Supervisor
Design Standards Unit
Division of Health Care Facilities & Programs

Cc: David Burnison
Farnsworth Group
2401 E. Washington St, Ste B
Bloomington, IL 61704-

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525-535 West Jefferson Street • Springfield, Illinois 62761-0001 • www.idph.state.il.us

Rod R. Blagojevich, Governor

Eric E. Whitaker, M.D., M.P.H., Director

July 20, 2007

David Burnison
Farnsworth Group
2401 E. Washington St, Ste B
Bloomington, IL 61704-

Re: BroMenn Regional Medical Center
Normal, IL
Add AASS to Existing Microbiology Building
IDPH No: 8176
Completion Date: 07/20/2007

Dear David Burnison:

We have received your working drawings submission for the above project. The submission has been reviewed for completeness under the Hospital Licensing Act Sect.8, [210 ILCS 85/8] or Ambulatory Surgical Treatment Center Licensing Act Sect.8, [210 ILCS 5] and found to be complete. Reviews are completed in accordance with the Hospital Licensing Requirements, Title 77, Part 250.2420 or the Ambulatory Surgical Treatment Center Licensing Act, Section 8 b).

If you receive drawing comments, you will be required to submit an item by item reply to those comments and an additional submission of revised drawings incorporating the corrections. This will require a subsequent review of the project. Please note that the fee is a per project fee and not a per submission fee.

The Illinois Department of Public Health TTY number is (800) 547-0466, for use by the hearing impaired.

Sincerely,

A handwritten signature in black ink that reads "Jody Gudgel" with a stylized initial "JB" at the end.

Jody Gudgel, Administrative Assistant
Design Standards Unit
Division of Health Care Facilities & Programs

Cc: Dwight Hill, Director Facilities Mgt.
BroMenn Regional Medical Center
P.O. Box 2850
Bloomington, IL 61702

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November 23, 2012

Sonja Reece
Director, Health Facilities Planning | Advocate Health Care

Sonja,

Please see below for the communication posted on ACL's internal website. It describes ACL's intent to revise our service model and move testing to the hospitals near the patients and physicians. Core Laboratory testing is routine testing currently performed at the hospitals to serve the inpatients. While we plan to utilize existing testing platforms and staff, there are space needs due to additional volume and processes related to specimen handling. This project solidifies the commitment of ACL in partnership with Advocate Healthcare to serve the local communities. Please let me know if you need additional information.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Marykathryn Ahleong'.

Marykathryn Ahleong
Vice President, ACL Illinois Operations

Community Based Testing - CBT - highly reliable, quality laboratory services for every patient, every time

(11.14.12) From northern Wisconsin to central Illinois, ACL associates and caregivers are hearing a lot about Community Based Testing - CBT. **Just what is CBT?** Basically, it's the return of Core Laboratory testing from the Central Laboratories back to the hospital laboratories, our Rapid Response Laboratories (RRLs). **Why the move to CBT?** There are many good reasons to make this transition now. The main reasons focus on 1) reducing test costs; 2) reducing transport and test turnaround time to help physicians better serve patients and 3) maximizing our resources – people, sites, equipment. A look to the future tells us that laboratories must be flexible to adjust to local service needs and that changes in health care require more tests to be offered routinely and resulted faster. This is a complex project that is calling on individuals and teams from across all of ACL and in partnership with aLabs colleagues. ACL's Program Management Office is devoting detailed planning and management resources to make sure that the project is successful and meets the goal of delivering highly reliable, quality laboratory services for every patient, every time. Stay tuned to this space to keep up to date on CBT accomplishments, expectations, celebrations.

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds See Fitch and Moody's ratings, Attachment 39, Exhibits 1 and 2

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges, including a list of the pledged receipts and discounted value, estimate time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5)	For any option to lease, a copy of the option, including all terms and conditions.
	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
	TOTAL FUNDS AVAILABLE	

APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

FitchRatings

Fitch Rates Advocate Health Care's (IL) Series 2012 Bonds 'AA'; Outlook Stable

Ratings Endorsement Policy
05 Nov 2012 9:54 AM (EST)

Fitch Ratings-Chicago-05 November 2012: Fitch Ratings has assigned an 'AA' rating to the following Illinois Finance Authority revenue bonds issued on behalf of Advocate Health Care (Advocate):

—\$150 million revenue bonds, series 2012.

In addition, Fitch affirms the 'AA' rating on approximately \$1.06 billion of revenue bonds issued by the Illinois Health Facilities Authority and the Illinois Finance Authority on behalf of Advocate. Fitch also affirms the 'F1+' short-term ratings on the following Illinois Finance Authority bonds based upon self-liquidity provided by Advocate:

—\$51.9 million put bonds, series 2003A&C;
—\$137.2 million put bonds, series 2008A-1,2&3;
—\$21.9 million put bonds, series 2008C-3B;
—\$70 million variable rate demand bonds, series 2011B.

The series 2012 bonds are expected to be fixed rate and will price the week of Nov. 12, 2012 via negotiated sale. Bond proceeds will be used for various capital projects, reimbursement for prior capital expenditures, and to pay costs of issuance.

The Rating Outlook is Stable.

SECURITY

The bonds are unsecured obligations of the obligated group. They are not secured by a pledge of, mortgage on, or security interest in any obligated group assets.

KEY RATING DRIVERS

LIGHT DEBT BURDEN: The additional debt will not impact Advocate's relatively low burden. The system's strong profitability combined with light debt burden generates robust coverage of pro forma maximum annual debt service (MADS) by EBITDA of 9.9x through the nine month interim period ended Sept. 30, 2012, which well exceeds Fitch's 'AA' category median of 4.8x. Pro forma debt to capitalization remains a manageable 25.5% while pro-forma MADS equates to a low 1.6% of fiscal 2011 (Dec. 31 year end) revenues.

CONSISTENT PROFITABILITY SUPPORTS LIQUIDITY: Advocate's strong operating cash flow generation has resulted in substantial balance sheet strength, with liquidity indicators that exceed Fitch's 'AA' category median ratios. Further, Advocate consistently maintains ample liquidity to meet Fitch's criteria for the 'F1+' short term rating against its mandatory put exposure.

LEADING MARKET SHARE POSITION: Advocate maintains a leading market share in the Chicago metropolitan area that is more than double its nearest competitor and remains the largest provider in the state. Still, Fitch notes the service area remains highly competitive, and the regulatory environment remains challenging.

STRONG CLINICAL INTEGRATION: Advocate's high level of integration with its clinicians has enabled better care coordination, operating efficiencies, effective contracting, physician engagement, and should position it well to navigate continued pressures on reimbursement and focus on clinical quality metrics.

CREDIT PROFILE

The 'AA' rating is supported by Advocate's light pro forma debt level, consistent cash flow and strong coverage levels, strong market position, and well integrated care delivery model.

http://www.fitchratings.com/creditriskdesk/press_releases/detail.cfm?print=1&pr_id=767589

11/6/2012

Following the series 2012 issuance, Advocate's debt will total nearly \$1.3 billion of which \$608.3 million is fixed, \$321.3 million are variable rate demand bonds supported by SBPAs, \$281 million are put bonds supported by self-liquidity (of which \$119.9 million is subject to tender within 13 months), and \$100 million are non-rated variable rate direct bank placements. Pro forma MADS is estimated at \$72.6 million per the underwriter. While Advocate faces sizable put, renewal, and interest rate exposure, its SBPAs were recently renewed through 2015-2017, and its balance sheet strength further mitigates these risks.

Robust operating profitability has resulted in operating EBITDA of over \$500 million (12.1% and 11.1% operating EBITDA margins in 2010 and 2011, respectively) and net EBITDA over \$600 million (EBITDA margins of 15% and 13.2% in 2010 and 2011, respectively). Strong performance continued through September 2012, with a 10.3% operating EBITDA and 14.2% EBITDA margins. The series 2012 bonds will be used to finance some of Advocate's capital plans, which are notably sizeable through 2015 and will require continued strength in cash flow and perhaps additional debt issuance. Further, Advocate's defined benefit pension is well funded.

At Sept. 30, 2012, Advocate's unrestricted cash and investments totaled nearly \$3.4 billion compared \$3.1 billion at fiscal 2011. Liquidity metrics at Sept. 30, 2012 were robust with 295.4 DCOH, pro forma cushion ratio of 46.2x and cash and investments equating to 246.7% of pro forma long-term debt, all of which exceed Fitch's respective 'AA' category medians of 241.1, 24.1x and 169.4%.

Advocate's well integrated clinical platform coupled with its position as market leader and largest system in the state provide some buffer against competitive and regulatory challenges. Through June 30, 2012 Advocate's share was 15.8% against its closest competitor the newly-aligned Presence Health system with 10.4% market share. However, the presence of several well regarded academic medical centers and community hospitals and the recent merger activity by large multi-state systems present some credit risk. Fitch expects that Advocate's high level of physician integration and continued growth of the system should sustain its strong market position. The most recent expected addition to the system is Sherman Health, which announced it is pursuing a partnership with Advocate with a letter of intent signed in October 2012. The closing is expected in mid-2013.

The 'F1+' rating reflects Advocate's availability of highly liquid resources to cover the mandatory tender on its put bonds. At Sept. 30, 2012, Advocate's eligible cash and investment position available for same-day settlement would cover the cost of the maximum mandatory put on any given date well in excess of Fitch's criteria of 1.25x. Advocate provided Fitch with an internal procedures letter outlining the procedures to meet any un-remarketed puts. In addition, Advocate provides monthly liquidity reports to Fitch to monitor the sufficiency of Advocate's cash and investment position relative to its mandatory put exposure.

The Stable Outlook is supported by Fitch's expectation that Advocate will remain the market leader, allowing for consistent cash flow in support of its capital and debt service needs, while maintaining solid liquidity against the risks associated with its capital structure. Fitch believes Advocate's experienced management team and effective management practices should also ensure strong relative performance over the longer term.

Advocate is counter-party to three floating to fixed rate swaps with a total notional value of \$326.3 million against its series 2008C VRDBs. The mark to market on the swaps at Sept. 30, 2012 was approximately negative \$96.2 million requiring \$5.7 million in collateral be posted.

Advocate is an integrated health care system composed of 10 acute care hospitals and an integrated children's hospital (totaling approximately 3,200 licensed beds), primary and specialty physician services, home health, hospice, outpatient centers, via over 250 sites serving the Chicago metropolitan area and central Illinois. Total revenues in audited fiscal 2011 were \$4.65 billion (reflects Fitch's reclassification of bad debt to an expense).

Advocate's disclosure includes annual audited financial statements as well as quarterly unaudited balance sheet, income statement, cash flow statement, an extensive MD&A, and utilization statistics. The information is posted to the Municipal Securities Rulemaking Board's EMMA system. In addition, management holds routine calls with rating agencies and with investors. Fitch considers Advocate's disclosure standards to be best practice.

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In addition to the sources of information identified in Fitch's Revenue Supported Rating Criteria, this action was informed by information from Citigroup as Underwriter.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Jun. 12, 2012;
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated July 23, 2012;
--'Criteria for Assigning Short-Term Ratings Based on Internal Liquidity', dated June 15, 2012.

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11/6/2012

Moody's

INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Advocate Health Care Network's \$150 million of Series 2012 bonds; Outlook is stable

Global Credit Research - 29 Oct 2012

Aa2, Aa2/VMIG 1, and Aa2/P-1 ratings on \$1.1 billion of outstanding debt affirmed

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE

RATING

Revenue Bonds, Series 2012 (Fixed Rate)

Aa2

Sale Amount \$150,000,000

Expected Sale Date 11/15/12

Rating Description Revenue: 501c3 Unsecured General Obligation

Moody's Outlook: STA

Opinion

NEW YORK, October 29, 2012—Moody's Investors Service has assigned an Aa2 rating to Advocate Health Care Network's (Advocate) \$150 million of Series 2012 fixed rate bonds. The rating outlook is stable. At this time, we are affirming the the Aa2, Aa2/VMIG 1 and Aa2/P-1 ratings on Advocate's outstanding bonds as listed at the conclusion of this report. The rating outlook is stable.

SUMMARY RATINGS RATIONALE:

The Aa2 long-term rating is based on Advocate's status as the largest healthcare system in the greater Chicago area with good geographic diversity and well positioned individual hospitals, sustained improvement in operating margins, moderate debt levels driving exceptional debt measures, a strong and growing investment portfolio, and well funded pension plan. The system's challenges include an increasingly competitive and consolidating healthcare market, moderate margins compared with similarly-rated peers, and expected increases in capital spending.

STRENGTHS

*Leading market position in greater Chicagoland with good geographic coverage and individual hospitals that maintain leading or prominent market shares in their local markets; geographic reach and diversification expanding with strategy to extend further statewide

*Consistent margins over the last several years with operating cashflow margins in the 9-10% range; in 2011, most hospitals improved or were relatively stable compared with the prior year; through nine months of fiscal year 2012, operating performance is consistent with previous levels with 5.8% operating and 10.8% operating cashflow margins

*Conservative and balanced approach to financing capital needs; proforma debt measures based on nine months of fiscal year 2012 annualized are strong with a low 30% debt-to-operating revenue, exceptional Moody's adjusted peak debt service coverage of over 10 times, and favorably low Moody's adjusted debt-to-cashflow of 1.9 times

*Strong and growing balance sheet position with 301 days of cash on hand as of September 30, 2012, providing a strong 251% coverage of proforma debt

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*Debt structure risks are manageable relative to cash and investments with over 400% cash-to-demand debt and over 300% monthly liquidity-to-demand debt based on fiscal year end 2011

*Strong management capabilities evidenced by the organization's historical ability to absorb operating challenges and continue to generate consistently solid absolute operating cashflow levels, meet or exceed operating budgets, execute strategies effectively including integrating newly acquired hospitals, and a commitment to very good disclosure practices

CHALLENGES

*Operating income and operating cashflow margins are below similarly-rated peers, in part due to the system's close integration with a large number of physicians

*An increasingly competitive market for a number of Advocate's hospitals, with competitors expanding facilities, growing consolidation with several large mergers or new entrants into the market, and increasing competition for physicians

*Capital spending is anticipated to increase, although capital needs can be funded with cashflow and bond proceeds; the system has a history of closely managing capital spending relative to cashflow and adjusting to operating shortfalls if necessary

*Changes in investment strategy with an increased allocation to alternative investments, resulting in a less liquid portfolio relative to historically conservative practices (based on fiscal year 2011, 74% of unrestricted investments can be liquidated within a month, compared with 79% median for the Aa2 rating category)

*Comprehensive debt (including pension and operating lease obligations) is almost 50% higher than direct debt, primarily as a result of sizable operating leases; however, cash-to-comprehensive debt at fiscal yearend 2011 is still good at 172%, compared with a median of 162% for the Aa2 category

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the Series 2012 bonds will be used to fund capital projects.

LEGAL SECURITY: Obligated group includes the Advocate Health Care Network (system parent), Advocate Health and Hospitals Corporation (operates most of the system's hospitals), Advocate North Side Health Network, and Advocate Condell Medical Center. Security is a general, unsecured obligation of the obligated group. No additional indebtedness tests.

INTEREST RATE DERIVATIVES: Advocate has interest rate swaps associated with the Series 2008C bonds. There is a total of \$326 million of swaps associated with the Series 2008C bonds for which Advocate pays a fixed rate of 3.6% and receives 61.7% of LIBOR plus 26 basis points. The swaps mature in 2038 and the counterparties are Wells Fargo and PNC. As of September 30, 2012 the mark-to-market on the swaps was a negative \$90.6 million and collateral of \$5.7 million was posted.

RECENT DEVELOPMENTS/RESULTS

Please refer to Moody's report dated July 19, 2012 for more details. Since the July rating review, Advocate's operating performance is solid and consistent with recent trends. Admissions through the nine months of fiscal year 2012 (ended September 30) are down 1%, which is generally better than trends in the broader market. Including observation cases, total cases are flat to the prior year. Both inpatient and outpatient surgeries increased by a strong 4-5% as a result of physician recruitment and alignment strategies. Through the nine months, Advocate's operating cashflow was \$373 million (10.8%), compared with \$365 million (11.1%) in the prior year. Unrestricted cash and investments increased to \$3.4 billion (301 days cash on hand) as of September 30, 2012, compared with \$3.1 billion as of December 31, 2011. As indicated in the ratios below, the incremental \$150 million in new debt does not affect materially Advocate's strong measures.

On October 23, 2012, Advocate announced plans to sign a non-binding letter of intent to pursue a partnership with Sherman Health Systems (rated Baa2). The organizations will begin a due diligence phase with a formal closing date expected between May and July of 2013. Moody's will evaluate the effect of a partnership with Sherman upon receipt of further details related to the structure, security for the debt, governance and management, and strategic plans. Based on Advocate's current financial profile and Sherman's fiscal year 2012 performance, our preliminary assessment is that a combination with Sherman would not significantly affect Advocate's overall credit profile. Advocate's relatively low leverage affords the health system the ability to absorb the high leverage that Sherman

would bring with a moderately negative effect to key debt measures.

OUTLOOK

The stable outlook is based on the expectation that the system will continue to maintain solid operating performance and a strong market position and balance future capital spending and debt with cash flow and liquidity strength.

WHAT COULD MAKE THE RATING GO UP

Sustained improvement in operating margins, further strengthening of balance sheet, and growth in the system's size to provide significantly greater geographic diversity

WHAT COULD MAKE THE RATING GO DOWN

Significantly greater than expected increase in debt or unexpected and prolonged decline in operating performance; material weakening of balance sheet strength

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Advocate Health Care Network and Subsidiaries
- First number reflects audit year ended December 31, 2011
- Second number reflects nine-month unaudited results ended September 30, 2012, annualized and proforma including \$150 million in additional debt
- Investment returns normalized at 6% unless otherwise noted
- Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable
- Monthly liquidity to demand debt ratio is not included if demand debt is de minimis
- *Inpatient admissions: 166,756; 166,669
- *Observation stays: 39,648; 41,853
- *Medicare % of gross revenues: 40%; N/A
- *Medicaid % of gross revenues: 16%; N/A
- *Total operating revenues (\$): \$4.6 billion; \$4.6 billion (bad debt as reduction to revenue)
- *Revenue growth rate (%) (3 yr CAGR): 7.6%; N/A
- *Operating margin (%): 5.3%; 5.8%
- *Operating cash flow margin (%): 10.0%; 10.8%
- *Debt to cash flow (x): 1.9 times; 1.9 times
- *Days cash on hand: 269 days; 301 days
- *Maximum annual debt service (MADS) (\$): \$66 million; \$73 million
- *MADS coverage with reported investment income (x): 8.9 times; N/A
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 10.5 times; 10.4 times
- *Direct debt (\$): \$1.2 billion; \$1.4 billion
- *Cash to direct debt (%): 252%; 251%
- *Comprehensive debt: \$1.8 billion; N/A

*Cash to comprehensive debt (%): 170%; N/A

*Monthly liquidity to demand debt (%): 318%; N/A

RATED DEBT (as of December 31, 2011, updated for bank facility changes in 2012)

- Series 1993C (\$22 million), Series 2008D (\$167 million), Series 2010A (\$37 million), Series 2010B (\$52 million), Series 2010C (\$26 million), Series 2010D (\$112 million), Series 2011A-1 (\$9 million), Series 2011A-2 (\$33 million) fixed rate bonds: Aa2

- Series 2003A (\$26 million), Series 2003C (\$26 million), Series 2008A (\$137 million), Series 2008C-3B (\$22 million) variable rate annual and multi-annual put bonds, supported by self-liquidity: Aa2/VMIG 1

- Series 2008C-1 (\$128 million), Series 2008C-2B (\$58 million) variable rate bonds supported with SBPAs from JPMorgan Chase (expire August 1, 2016 and August 1, 2017 respectively): Aa2/VMIG 1

- Series 2008C-3A (\$87 million) variable rate bonds supported by SBPAs from Northern Trust Company (expires August 1, 2017): Aa2/VMIG 1

- Series 2008C-2A (\$49 million) variable rate bonds supported by SBPA from Wells Fargo Bank (expires August 1, 2015): Aa2/VMIG 1

-Series 2011B Windows variable rate bonds (\$70 million): Aa2/P-1

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Underwriter: Ryan Freel, Director, Citi, Health Care Group, (312) 876-3564

RATING METHODOLOGY

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

REGULATORY DISCLOSURES

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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IX. 1120.130 - Financial Viability

This section is not applicable. Advocate Health Care Network bonds have been rated by Moody's as Aa2, and Fitch AA, which qualifies the applicants for the waiver.

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

4. All of the projects capital expenditures are completely funded through internal sources
5. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
6. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

X. 1120.140 - Economic Feasibility

This section is applicable to all projects subject to Part 1120. Part A of this section is not applicable. Advocate Health Care Network bonds have been rated by Fitch as AA, and by Moody's as Aa2 which qualifies the applicants for the waiver.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

3. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

F. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT 42, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

A letter attesting to the conditions of debt financing follows as Attachment 42, Exhibit 1.



Advocate BroMenn Medical Center

1304 Franklin Avenue || Normal, IL 61761 || T 309.454.1400 || advocatehealth.com
Mailing Address: P.O. Box 2850 || Bloomington, IL 61702-2850

December 14, 2012

Mr. Dale Galassie, Chariman
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, Second Floor
Springfield, IL 62761

Dear Mr. Galassie:

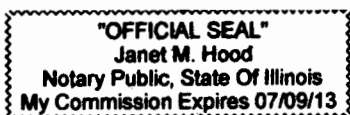
This letter is to attest to the fact that the selected form of debt financing for the proposed Advocate BroMenn Medical Center project will be at the lowest net cost available, or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional debt, term financing costs, and other factors.

Sincerely,

Colleen L. Kannaday
President

Subscribed and sworn before me this 10th day of December, 2012.

Notary Public



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Cost & Gross Square Feet by Department or Service									
	A	B	C	D	E	F	G	H	
Dept. / Area	Cost/Sq Ft		Gross Sq Ft		Gross Sq Ft		Const. \$	Mod. \$	Total Cost
	New	Mod	New	Circ	Mod.	Circ.	A x C	B x E	G + H
Reviewable									
Laboratory	\$ -	\$ 273.19	0	0	8,700	15%	\$ -	\$2,376,750	\$2,376,750
Non Reviewable									
Admin/Conf Room	\$ -	\$ 72.04	0	0	1,700	15%	\$ -	\$ 122,463	\$ 122,463
Connector	\$ -	\$ 72.04	0	0	200	85%	\$ -	\$ 14,407	\$ 14,407
Storage	\$ -	\$ 72.04	0	0	800	0%	\$ -	\$ 57,630	\$ 57,630
Total Non Reviewable	\$ -	\$ 72.04	0	0	2,700		\$ -	\$ 194,500	\$ 194,500
Total					11,400			\$2,571,250	\$2,571,250
Contingency									\$ 381,500
Total Modernization + Contingency					11,400				\$2,952,750

Comparison of State Adjusted Standard Cost to Proposed Project Cost using Complexity Factors												
Project Cost					Calculation of Adj. State Standard Cost and Application to Project							
Dept. / Area	Construction Cost	New Const. DGSF	Modernized DGSF	Construction Costs/DGSF	Complexity Factors	RS Means standard 2012	\$ Adj for 1 yr inflation at 3% 2013	\$ Adj for 1 yr inflation at 3% 2014	\$ Adj for 1 yr inflation at 3% 2015	RS Means adjusted for Modernization	Adjusted Std Cost in 2015	% difference project to std
STATE STANDARD												
RSMeans					1.00	\$330	\$340	\$350	\$361	\$252		
Inflation						100%	103%	103%	103%			
CLINICAL												
Laboratory	\$ 2,376,750	0	8,700	\$ 273.19	1.11	366	377	389	400	280	\$ 2,437,619	
Clinical total		0	8,700									
NON CLINICAL												
Admin, conf rooms	\$ 122,463	0	1,700	\$ 72.04	0.79	261	269	277	285	199	\$ 339,000	
Connector	\$ 14,407	0	200	\$ 72.04	0.79	261	269	277	285	199	\$ 39,882	
Storage	\$ 57,630	0	800	\$ 72.04	0.72	238	245	252	260	182	\$ 145,394	
Non Clinical Total	\$ 194,500	0	2,700	\$ 72.04							\$ 524,276	
TOTAL	\$ 2,571,250		11,400									
CONTINGENCY	\$ 381,500											
TOTAL + CONTINGENCY	\$ 2,952,750										\$ 2,961,896	-0.3%

Projected Operating Costs		
	2017	Cost per EPD
Operating Cost	\$5,934,997	\$146.50

Note These are the anticipated operating costs of salaries, benefits, and supplies for the Laboratory; they are not costs made essential by relocating the department.

Impact of Project on Capital Costs		
	2017	Cost per EPD
Capital Costs	\$436,473	\$10.77

A letter defining the community economic impact from the construction project is shown as Attachment 42, Exhibit 4



Peoria Office: 107 N. Commerce Place, Peoria, IL 61604 • Phone: 309.688.9567
Mailing Address: P.O. Box 3333, Peoria, IL 61612-3333 • Fax: 309.688.9556

Bloomington/Normal Office: 117 Merle Lane, Normal, IL 61761 • Phone: 309.888.9567 • Fax: 309.888.9556

November 26, 2012

Mr. Tim Bassett
Construction Project Supervisor
Advocate BroMenn Medical Center
1304 Franklin Ave.
Normal, IL 61761

Re: Advocate BroMenn Lab Relocation Project

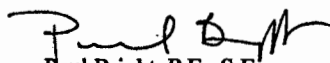
Dear Mr. Bassett:

As requested, we are writing to provide an estimate of the job creation and local economic benefits that will be generated by this project. Not even counting the engineering and architectural work that will be generated; we expect the project will result in 20,000 man hours of actual trade craft construction work. This work will be performed by union carpenters, laborers, electricians, plumbers and many other trades.

In addition to this work we also expect that the project will generate approximately \$1,500,000 of material and equipment sales, most of which will occur in the local market.

Please let me know if we can provide anything further.

Sincerely,
P.J. Hoerr, Inc.


Paul Bright, P.E., S.E.
Vice President, PJ Hoerr

XII. Charity Care Information

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care **must** be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

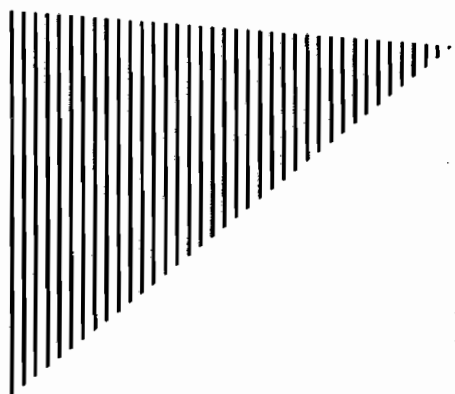
APPEND DOCUMENTATION AS **ATTACHMENT-44**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Charity Care for Advocate BroMenn Medical Center

	2009	2010	2011
Net Patient Revenue	\$ 173,350,501	\$ 167,400,354	\$ 163,249,978
Amount of Charity Care (charges)	\$ 7,018,081	\$ 14,537,880	\$ 19,007,000
Cost of Charity Care	\$ 3,037,131	\$ 5,050,460	\$ 7,923,000
Charity Care as percent of total net patient revenue	1.8%	3.0%	4.9%

Source: ABMC as reported with the Annual Hospital Questionnaires

Appendix



CONSOLIDATED FINANCIAL STATEMENTS

**Advocate Health Care Network and Subsidiaries
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors**

Ernst & Young LLP



Advocate Health Care Network and Subsidiaries**Consolidated Financial Statements****Years Ended December 31, 2011 and 2010****Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

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**ERNST & YOUNG**

Ernst & Young LLP
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Chicago, IL 60606-1787
Tel: +1 312 879 2000
Fax: +1 312 879 4000
www.ey.com

Report of Independent Auditors

The Board of Directors
Advocate Health Care Network

We have audited the accompanying consolidated balance sheets of Advocate Health Care Network and subsidiaries (collectively, the System) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2011 the System adopted authoritative guidance issued by the Financial Accounting Standards Board related to presentation and disclosures of patient service revenue, provisions for bad debts, and the allowance for doubtful accounts.

Ernst & Young LLP

March 9, 2012

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A member firm of Ernst & Young Global Limited

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets
(Dollars in Thousands)

	December 31	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 302,796	\$ 542,002
Short-term investments	20,372	25,464
Assets limited as to use	75,710	69,604
Patient accounts receivable, less allowances for uncollectible accounts of \$132,507 in 2011 and \$129,209 in 2010	511,302	400,855
Amounts due from primary third-party payors	6,357	4,056
Prepaid expenses, inventories, and other current assets	258,971	220,093
Collateral proceeds received under securities lending program	19,135	218,777
Total current assets	1,194,643	1,480,851
Assets limited as to use:		
Internally and externally designated investments limited as to use	3,636,696	2,998,858
Investments under securities lending program	19,067	213,830
	3,655,763	3,212,688
Other noncurrent assets	110,445	109,766
Interest in health care and related entities	129,955	132,324
Reinsurance receivable	177,207	164,074
Deferred costs and intangible assets, less allowances for amortization	36,708	22,175
	4,110,078	3,641,027
Property and equipment – at cost:		
Land and land improvements	180,834	170,705
Buildings	2,098,612	1,971,568
Movable equipment	1,204,236	1,111,226
Construction-in-progress	112,855	132,544
	3,596,537	3,386,043
Less allowances for depreciation	1,922,395	1,786,886
	1,674,142	1,599,157
	<u>\$ 6,978,863</u>	<u>\$ 6,721,035</u>

	December 31	
	2011	2010
Liabilities, net assets and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 22,711	\$ 17,418
Long-term debt subject to short-term remarketing arrangements	197,870	122,060
Accounts payable	201,800	166,442
Accrued salaries and employee benefits	335,044	305,421
Accrued expenses	196,584	206,874
Amounts due to primary third-party payors	214,637	237,731
Current portion of accrued insurance and claims costs	98,152	91,807
Obligations to return collateral under securities lending program	19,410	219,052
Total current liabilities	1,286,208	1,366,805
Noncurrent liabilities:		
Long-term debt, less current portion	1,000,521	901,091
Pension plan liability	108,372	34,296
Accrued insurance and claims cost, less current portion	648,885	679,317
Accrued losses subject to reinsurance recovery	177,207	164,074
Obligations under swap agreements, net of collateral posted	89,092	16,111
Other noncurrent liabilities	109,073	91,323
	2,133,150	1,886,212
Total liabilities	3,419,358	3,253,017
Net assets/shareholders' equity:		
Unrestricted	3,444,745	3,363,405
Temporarily restricted	75,331	74,786
Permanently restricted	38,463	28,794
	3,558,539	3,466,985
Non-controlling interest	966	1,033
Total net assets/shareholders' equity	3,559,505	3,468,018
	<u>\$ 6,978,863</u>	<u>\$ 6,721,035</u>

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets
(Dollars in Thousands)

	Year Ended December 31	
	2011	2010
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 3,982,373	\$ 3,885,322
Provision for uncollectible accounts	(211,507)	(212,536)
	<u>3,770,866</u>	<u>3,672,786</u>
Capitation revenue	397,485	392,854
Other revenue	<u>272,113</u>	<u>227,464</u>
	<u>4,440,464</u>	<u>4,293,104</u>
Expenses		
Salaries, wages, and employee benefits	2,221,793	2,137,097
Purchased services and operating supplies	1,085,228	1,053,932
Contracted medical services	180,130	180,921
Insurance and claims costs	89,091	46,422
Other	346,385	329,340
Depreciation and amortization	171,884	164,984
Interest	<u>45,141</u>	<u>45,205</u>
	<u>4,139,652</u>	<u>3,957,901</u>
Operating income	<u>300,812</u>	<u>335,203</u>
Nonoperating (loss) income		
Investment (loss) income	(92,062)	285,560
Change in fair value of interest rate swaps	(45,011)	(14,335)
Fair value of net assets acquired	-	225,541
Loss on refinancing of debt	(32)	(453)
Other nonoperating items, net	<u>(15,354)</u>	<u>(17,447)</u>
	<u>(152,459)</u>	<u>478,866</u>
Revenues in excess of expenses	<u>\$ 148,353</u>	<u>\$ 814,069</u>

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended December 31	
	2011	2010
Unrestricted net assets		
Revenues in excess of expenses	\$ 148,353	\$ 814,069
Net assets released from restrictions and used for capital purchases	4,767	8,716
Postretirement benefit plan adjustments	(71,780)	25,137
Increase in unrestricted net assets	81,340	847,922
Temporarily restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	\$ 12,979	\$ 11,789
Realized gains on investments	2,197	1,199
Unrealized (losses) gains on investments	(2,122)	3,524
Contribution of net assets of BroMenn Healthcare System and subsidiaries	-	9,814
Net assets released from restrictions and used for operations, medical education programs, capital purchases, and other purposes	(12,509)	(16,254)
Increase in temporarily restricted net assets	545	10,072
Permanently restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	9,669	998
Contribution of net assets of BroMenn Healthcare System and subsidiaries	-	10,223
Increase in permanently restricted net assets	9,669	11,221
Increase in net assets	91,554	869,215
Change in non-controlling interest	(67)	(204)
Net assets/shareholders' equity at beginning of year	3,468,018	2,599,007
Net assets/shareholders' equity at end of year	<u>\$ 3,559,505</u>	<u>\$ 3,468,018</u>

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2011	2010
Operating activities		
Increase in net assets	\$ 91,487	\$ 869,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization, and accretion	173,040	166,077
Provision for uncollectible accounts	211,507	212,536
Credit for deferred income taxes	3,013	16,303
Losses (gains) on disposal of property and equipment	2,726	(1,989)
Loss on refinancing of debt	32	453
Change in fair value of interest rate swaps	45,011	14,335
Postretirement benefit plan adjustments	71,780	(25,138)
Contribution of certain net assets of BroMenn Healthcare System and subsidiaries, net of \$4,918 cash received	-	(245,578)
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	(7,742)	(7,538)
Changes in operating assets and liabilities:		
Trading securities	(459,448)	(759,060)
Patient accounts receivable	(319,061)	(246,997)
Amounts due to/from primary third-party payors	(25,395)	47,926
Accounts payable, accrued salaries and employee benefits, accrued expenses, and other noncurrent liabilities	59,081	149,285
Other assets	(29,688)	(54,340)
Accrued insurance and claims cost	(24,230)	(39,384)
Net cash (used in) provided by operating activities	(207,887)	95,902
Investing activities		
Purchases of property and equipment	(250,582)	(178,656)
Proceeds from sale of property and equipment	3,685	6,929
Cash acquired in the acquisition of BroMenn Healthcare System and subsidiaries	-	4,918
Purchases of investments designated as non-trading	(253,913)	(96,976)
Sales of investments designated as non-trading	254,291	130,414
Other	(16,401)	(6,089)
Net cash used in investing activities	(262,920)	(139,460)
Financing activities		
Proceeds from issuance of debt	214,228	243,746
Payments of long-term debt	(33,319)	(173,456)
Collateral returned under swap agreements	27,969	3,930
Proceeds from restricted contributions and gains on investments	22,723	17,510
Net cash provided by financing activities	231,601	91,730
(Decrease) increase in cash and cash equivalents	(239,206)	48,172
Cash and cash equivalents at beginning of year	542,002	493,830
Cash and cash equivalents at end of year	\$ 302,796	\$ 542,002

See accompanying notes to consolidated financial statements.

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Advocate Health Care Network and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended December 31	
	2011	2010
Unrestricted net assets		
Revenues in excess of expenses	\$ 148,353	\$ 814,069
Net assets released from restrictions and used for capital purchases	4,767	8,716
Postretirement benefit plan adjustments	(71,780)	25,137
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Increase in net assets	91,554	869,215
Change in non-controlling interest	(67)	(204)
Net assets/shareholders' equity at beginning of year	3,468,018	2,599,007
Net assets/shareholders' equity at end of year	\$ 3,559,505	\$ 3,468,018

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31	
	2011	2010
Operating activities		
Increase in net assets	\$ 91,487	\$ 869,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization, and accretion	173,840	166,077
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Net cash used in investing activities	(262,920)	(139,460)
Financing activities		
Proceeds from issuance of debt	214,228	243,746
Payments of long-term debt	(33,319)	(173,456)
Collateral returned under swap agreements	27,969	3,930
Proceeds from restricted contributions and gains on investments	22,723	17,510
Net cash provided by financing activities	231,601	91,730
(Decrease) increase in cash and cash equivalents	(239,206)	48,172
Cash and cash equivalents at beginning of year	542,002	493,830
Cash and cash equivalents at end of year	\$ 302,796	\$ 542,002

See accompanying notes to consolidated financial statements.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements**
(Dollars in Thousands)

December 31, 2011

1. Organization and Summary of Significant Accounting Policies**Organization**

Advocate Health Care Network (the System) is a nonprofit, faith-based health care organization dedicated to providing comprehensive health care services, including inpatient acute and nonacute care, primary and specialty physician services and various outpatient services to communities in Northern and Central Illinois. Additionally, through a long-term academic and teaching affiliation, the System trains resident physicians. The System is affiliated with the United Church of Christ and Evangelical Lutheran Church of America. Substantially all expenses of the System are related to providing health care services.

Effective January 6, 2010, the net assets of BroMenn Healthcare System and subsidiaries (collectively, BroMenn) were merged into the System. BroMenn, a not-for-profit organization, is located in the greater Bloomington-Normal and Eureka, Illinois, areas. The transaction was accounted for as an acquisition in accordance with the authoritative guidance on not-for-profit mergers and acquisitions and is described in Note 13.

Mission and Community Benefit

As a faith-based health care organization, the mission, values and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families and communities through a holistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. The System's core values of compassion, equality, excellence, partnership and stewardship guide its actions to provide health care services to its communities. Consistent with the values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. This care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for consideration can earn up to 600% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. In 2011 and 2010, \$276,993 and \$234,295, respectively, of patient charges were foregone under this policy. The System's cost of providing charity care in 2011 and 2010 was \$76,367 and \$64,595, respectively. The cost of providing charity care is calculated using the 2010 Medicare cost to charge ratio.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)**

The System is also involved in other numerous wide-ranging community benefit activities that include providing health education, immunizations for children, support groups, health screenings, health fairs, pastoral care, home-delivered meals, transportation services, seminars and speakers, crisis lines, publication of health magazines, medical residency and internships, research and language assistance and other subsidized health services. These activities are provided free of charge or at a fee that is below the cost of providing them. The cost of these activities and the costs of uncompensated care for 2011 will be included in a community benefit report that will be filed with the Office of the Attorney General for the State of Illinois in June 2012.

Principles of Consolidation

Included in the System's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Investments**

The System has designated substantially all of its investments as trading. Certain debt-related investments are designated as non-trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. The non-trading portfolio consists mainly of cash equivalents, money market, and commercial paper. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships are recorded using the cost method of accounting, as the System's ownership percentage is less than 5% and the System has no significant influence over the partnerships. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity of limited partnerships and unrealized gains and losses) is included in investment income unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue. Unrealized gains and losses that are restricted by donor or law are reported as a change in temporarily restricted net assets.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the Board of Directors for future capital improvements and certain medical education and health care programs. The Board of Directors retains control of these investments and may, at its discretion, subsequently use them for other purposes. Additionally, assets limited as to use include investments held by trustees under debt agreements and self-insurance trusts.

Patient Service Revenue and Accounts Receivable

Patient accounts receivable are stated at net realizable value. The System evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, major payor sources of revenue, historical collection experience and trends in health care insurance programs to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts. For receivables associated with self-pay patients, the System records a significant provision for

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

uncollectible accounts 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. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

The allowance for uncollectible accounts as a percentage of accounts receivable decreased from 24% in 2010 to 21% in 2011 primarily due to an increase in Medicaid accounts receivable due to a slow down by the State of Illinois in processing claims and an increase in the number of self-pay patients qualifying for charity care. The System's combined allowance for uncollectible accounts receivable, uninsured discounts and charity care covered 100% of self-pay accounts receivable at December 31, 2011 and 2010, respectively.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), is reported at the estimated net realizable amounts from patients, third-party payors and others for service rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows for the year ended December 31, 2011:

	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 3,646,278	\$ 336,095	\$ 3,982,373

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Inventories**

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Reinsurance Receivable

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Deferred Costs

Deferred costs consist primarily of noncurrent deferred tax assets and deferred bond issuance costs. Deferred bond issuance costs are amortized over the life of the bonds using the effective interest method.

Asset Impairment

The System considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs, except for those related to investments, are recognized in operating income at the time the impairment is identified.

Property and Equipment

Provisions for depreciation of property and equipment are based on the estimated useful lives of the assets ranging from 3 to 80 years using both accelerated and straight-line methods.

Advocate Health Care Network and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Asset Retirement Obligations

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or the normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is depreciated over the life of the related asset. The obligations at December 31, 2011 and 2010, were \$19,031 and \$19,320, respectively.

Derivative Financial Instruments

The System has entered into derivative transactions to manage its interest rate risk. Derivative instruments are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating income (loss).

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and earnings on permanently restricted net assets are used in accordance with the donor's wishes primarily to purchase property and equipment or to fund medical education or other health care programs.

Assets released from restriction to fund purchases of property and equipment are reported in the consolidated statements of operations and changes in net assets as increases to unrestricted net assets. Those assets released from restriction for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with the donor's specifications.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Capitation Revenue**

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of agreeing to provide or arrange for their medical care.

Other Nonoperating Items, Net

Other nonoperating items, net primarily consist of provisions for environmental remediation, contributions to charitable organizations and income taxes.

Revenues in Excess of Expenses and Changes in Net Assets

The consolidated statements of operations and changes in net assets include revenues in excess of expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, primarily include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and postretirement benefit adjustments.

Grants

Grant revenue is recognized in the period it is earned based on when the applicable project expenses are incurred and project milestones are achieved. Grant payments received in advance of related project expenses are recorded as deferred revenue until the expenditure has been incurred. The System records grant revenue in other revenue in the consolidated statements of operations and changes in net assets.

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians and certain other professionals when they adopt certified electronic health record (EHR) technology or become "meaningful users" of EHRs in ways that demonstrate improved quality, safety and effectiveness of care. These incentive payments are being accounted for in the same manner as grant revenue.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Asset Retirement Obligations**

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or the normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is depreciated over the life of the related asset. The obligations at December 31, 2011 and 2010, were \$19,031 and \$19,320, respectively.

Derivative Financial Instruments

The System has entered into derivative transactions to manage its interest rate risk. Derivative instruments are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating income (loss).

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The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Capitation Revenue**

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of agreeing to provide or arrange for their medical care.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****New Accounting Pronouncements**

In July 2011, the System adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) requiring the reclassification of the provision for uncollectible accounts associated with patient revenue from an operating expense to a deduction from patient service revenue. Additionally the guidance requires enhanced disclosure about policies for recognizing revenue, assessing uncollectible accounts and qualitative and quantitative information about changes in the allowance for uncollectible accounts. The System early adopted this guidance in 2011.

On January 1, 2011, the System adopted the authoritative guidance issued by the FASB to clarify for health care entities that estimated insurance recoveries should not be netted against related claim liabilities. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. As the System was already following this guidance prior to 2011, there was no impact on the System's financial statements.

On January 1, 2011, the System adopted the authoritative guidance issued by the FASB requiring that cost be used as the measurement basis for charity care disclosure purposes. The method used to identify the direct and indirect costs of providing the charity care must be disclosed. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the System's consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In May 2011, the FASB issued guidance to amend disclosure requirements related to fair value measurement. The guidance expands disclosures for Level 3 fair value measurements, addresses nonfinancial assets' highest and best use and permits fair value adjustments for assets and liabilities with offsetting risks. The guidance is effective for the System with the reporting period beginning January 1, 2012. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on the System's consolidated financial statements.

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2010 consolidated financial statements to conform to the classifications used in 2011.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**2. Contractual Arrangements With Third-Party Payors**

The System provides care to certain patients under payment arrangements with Medicare, Medicaid, Health Care Service Corporation, d/b/a Blue Cross and Blue Shield of Illinois (Blue Cross) and various other health maintenance and preferred provider organizations. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction of funding levels could have a material adverse effect on the future amounts recognized as patient service revenue.

Amounts received under the above payment arrangements accounted for 92% and 91% of the System's net patient service revenue in 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, 30% of net patient service revenue was under contracts with Blue Cross, 10% was earned from the Medicaid program, and 26% was earned from the Medicare program. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in net patient service revenue of \$26,322 and \$17,758 for the years ended December 31, 2011 and 2010, respectively.

The System's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Amounts due to/from primary third-party payors in the consolidated balance sheets primarily relate to the Blue Cross, Medicare or Medicaid programs. At both December 31, 2011 and 2010, 18% of patient accounts receivable were due under contracts with Blue Cross and 13% were due from the Medicaid program. Patients accounts receivable due from Medicare program were 10% and 12% at December 31, 2011 and 2010, respectively.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)**
*(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Asset Retirement Obligations**

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or the normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is depreciated over the life of the related asset. The obligations at December 31, 2011 and 2010, were \$19,031 and \$19,320, respectively.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)**
*(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****Capitation Revenue**

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***1. Organization and Summary of Significant Accounting Policies (continued)****New Accounting Pronouncements**

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Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***2. Contractual Arrangements With Third-Party Payors**

The System provides care to certain patients under payment arrangements with Medicare, Medicaid, Health Care Service Corporation, d/b/a Blue Cross and Blue Shield of Illinois (Blue Cross) and various other health maintenance and preferred provider organizations. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction of funding levels could have a material adverse effect on the future amounts recognized as patient service revenue.

Amounts received under the above payment arrangements accounted for 92% and 91% of the System's net patient service revenue in 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, 30% of net patient service revenue was under contracts with Blue Cross, 10% was earned from the Medicaid program, and 26% was earned from the Medicare program. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in net patient service revenue of \$26,322 and \$17,758 for the years ended December 31, 2011 and 2010, respectively.

The System's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Amounts due to/from primary third-party payors in the consolidated balance sheets primarily relate to the Blue Cross, Medicare or Medicaid programs. At both December 31, 2011 and 2010, 18% of patient accounts receivable were due under contracts with Blue Cross and 13% were due from the Medicaid program. Patients accounts receivable due from Medicare program were 10% and 12% at December 31, 2011 and 2010, respectively.

Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)**
*(Dollars in Thousands)***2. Contractual Arrangements With Third-Party Payors (continued)**

The System has entered into various capitated physician provider agreements, including Humana Health Plan, Inc. and Humana Insurance Company and their affiliates (collectively, Humana, Healthspring Inc. and Wellcare Health Plans, Inc). Capitation revenues received under the agreements with Humana amounted to 38% and 37% of the System's capitation revenue for the years ended December 31, 2011 and 2010, respectively. Capitation revenues received under Healthspring Inc, Inc. and Wellcare Health Plans, Inc. agreements amounted to 25% and 27% of the System's capitation revenue for the years ended 2011 and 2010, respectively.

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under capitated arrangements with managed care organizations. The System accrues a liability for reported, as well as an estimate for incurred but not recorded (IBNR), contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. The System uses the services of a consulting actuary to determine the estimated cost of the IBNR claims. Adjustments to the estimates are reflected in current year operations. At December 31, 2011 and 2010, the liabilities for unpaid medical claims amounted to \$22,388 and \$23,552, respectively, and are included in accrued expenses in the consolidated balance sheets.

The System participates in the State of Illinois' Hospital Assessment Program, in which the System recognized \$147,779 and \$147,781 of Illinois hospital assessment revenue in net patient service revenue and \$106,190 and \$106,274 of expense in other expense in 2011 and 2010, respectively.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use)

Investments (including assets limited as to use) and other financial instruments at December 31 are summarized as follows:

	2011	2010
Assets limited as to use:		
Designated for self-insurance programs	\$ 804,174	\$ 888,753
Internally and externally designated for capital improvements, medical education and health care programs	2,773,301	2,139,891
Externally designated under debt agreements	134,931	39,818
Investments under securities lending program	19,067	213,830
	<u>3,731,473</u>	<u>3,282,292</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	323,168	567,466
	<u>\$ 4,054,641</u>	<u>\$ 3,849,758</u>

Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships are reported using the cost method of accounting. The composition and carrying value of assets limited as to use, short-term investments and cash and cash equivalents at December 31 is set forth in the following table:

	2011	2010
Cash and short-term investments	\$ 538,223	\$ 709,469
Corporate bonds and other debt securities	224,843	160,117
United States government obligations	201,740	115,720
Government mutual funds	535,663	119,446
Bond and other debt security mutual funds	549,142	912,584
Commodity mutual funds	3,205	3,770
Hedge funds	521,552	294,002
Private equity limited partnership funds	267,968	163,376
Equity securities	746,764	948,189
Equity mutual funds	465,541	423,085
	<u>\$ 4,054,641</u>	<u>\$ 3,849,758</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use)
(continued)**

The System regularly compares the net asset value (NAV), which is a proxy for the fair value of its private equity investments, to the recorded cost for potential other-than-temporary impairment. In 2011, the System identified and recorded \$1,500 of impairment losses that is included in investment (loss) income in the consolidated statements of operations and changes in net assets. In 2010, no impairment losses were identified. The NAV of these investments based on estimates determined by the investments' management was \$284,987 and \$173,496 at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the System has commitments to fund an additional \$298,118 and \$122,184, respectively. The unfunded commitments at December 31, 2011, are expected to be funded over the next seven years.

Investment returns for assets limited as to use, cash and cash equivalents and short-term investments comprise the following for the years ended December 31:

	2011	2010
Interest and dividend income	\$ 55,984	\$ 79,511
Net realized gains	70,088	89,063
Net unrealized (losses) gains	(159,770)	182,750
	<u>\$ (33,698)</u>	<u>\$ 351,324</u>

Investment returns are included in the consolidated statements of operations and changes in net assets for the years ended December 31 as follows:

	2011	2010
Other revenue	\$ 58,289	\$ 61,041
Investment (loss) income	(92,062)	285,560
Realized and unrealized gains on investments -- temporarily restricted net assets	75	4,723
	<u>\$ (33,698)</u>	<u>\$ 351,324</u>

Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use)
(continued)**

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment bankers. The loans are arranged through a bank. Borrowers are required to post collateral in the form of United States Treasury securities for securities borrowed equal to approximately 102% of the value of the security on a daily basis at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At December 31, 2011 and 2010, the System loaned \$19,067 and \$213,830, respectively, in securities and accepted collateral for these loans in the amount of \$19,410 and \$219,052, respectively, of which \$19,135 and \$218,777, respectively, represents cash collateral and is included in current assets and current liabilities in the accompanying consolidated balance sheets.

4. Fair Value Measurements

The System accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in active markets. The System categorizes each of its fair value measurements in one of the three levels based on the highest-level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices in active markets for identified assets or liabilities.

Level 2: Inputs, other than the quoted process in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which then requires the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***4. Fair Value Measurements (continued)**

The following section describes the valuation methodologies the System uses to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to Level 1 investments such as domestic and international equities, United States Treasuries, exchange-traded mutual funds and agency securities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, commercial paper and certain agency securities. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include fair value adjustments related to the System's credit risk.

The System's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose the System to market risk, performance risk and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is that risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose the System to interest rate risk, credit risk and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and 2010:

Description	2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	\$ 538,223	\$ 474,318	\$ 63,905	\$ -
Corporate bonds and other debt securities	224,843	-	224,843	-
United States government obligations	201,740	-	201,740	-
Government mutual funds	535,663	-	535,663	-
Bond and other debt security mutual funds	549,142	-	549,142	-
Commodity mutual funds	3,205	-	3,205	-
Equity securities	746,764	746,764	-	-
Equity mutual funds	465,541	385,504	80,037	-
Investments at fair value	3,265,121	\$ 1,606,586	\$ 1,658,535	\$ -
Investments not at fair value	789,520			
Total investments	<u>\$ 4,054,641</u>			
Collateral proceeds received under securities lending program				
	<u>\$ 19,135</u>		<u>\$ 19,135</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (89,092)</u>		<u>\$ (89,092)</u>	
Liability under swap agreements	<u>\$ (89,092)</u>		<u>\$ (89,092)</u>	
Obligations to return collateral under securities lending program				
	<u>\$ (19,410)</u>		<u>\$ (19,410)</u>	

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Fair Value Measurements (continued)

Description	2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	\$ 709,469	\$ 607,254	\$ 102,215	\$ -
Corporate bonds and other debt securities	160,117	-	160,117	-
United States government obligations	115,720	-	115,720	-
Government mutual funds	119,446	-	119,446	-
Bond and other debt security mutual funds	912,584	2,079	910,505	-
Commodity mutual funds	3,770	-	3,770	-
Equity securities	948,189	948,189	-	-
Equity mutual funds	423,085	367,212	55,873	-
Investments at fair value	3,392,380	\$ 1,924,734	\$ 1,467,646	\$ -
Investments not at fair value	457,378			
Total investments	<u>\$ 3,849,758</u>			
Collateral proceeds received under securities lending program	<u>\$ 218,777</u>		<u>\$ 218,777</u>	
Liabilities				
Obligations under swap agreements	\$ (44,081)		\$ (44,081)	
Collateral under swap agreements	27,970		27,970	
Liability under swap agreements	<u>\$ (16,111)</u>		<u>\$ (16,111)</u>	
Obligations to return collateral under securities lending program	<u>\$ (219,052)</u>		<u>\$ (219,052)</u>	

Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***4. Fair Value Measurements (continued)**

The carrying values of cash and cash equivalents, accounts receivable and payable, accrued expenses and short-term borrowings are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was \$1,252,830 and \$1,060,842 at December 31, 2011 and 2010, respectively, which included a consideration of third-party credit enhancements, of which there was no impact.

5. Interest in Health Care and Related Entities

During 2000, in connection with the acquisition of a medical center, the System acquired an interest in the net assets of the Masonic Family Health Foundation (the Foundation), an independent organization, under the terms of an asset purchase agreement (the Agreement). The use of substantially all of the Foundation's net assets is designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of the Foundation's investment yield, net of expenses, on substantially all of the Foundation's investments is designated for the support of one of the System's medical facilities. The Foundation must pay the System, annually, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

The interest in the net assets of this organization amounted to \$78,450 and \$82,927 as of December 31, 2011 and 2010, respectively, and is reflected in interest in health care and related entities in the accompanying consolidated balance sheets. The System's interest in the investment yield is reflected in the accompanying consolidated statements of operations and changes in net assets and amounted to \$(548) and \$8,460 for the years ended December 31, 2011 and 2010, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to \$3,169 and \$2,691 during the years ended December 31, 2011 and 2010, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed \$411 and \$376 to the System for program support of one of its medical facilities during the years ended December 31, 2011 and 2010, respectively.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Interest in Health Care and Related Entities (continued)

The System has a 50% membership and governance interest in Advocate Health Partners (d/b/a Advocate Physician Partners) (APP), which has been accounted for on an equity basis. The System's carrying value in this interest was \$0 at December 31, 2011 and 2010. Financial information relating to this interest is as follows:

	2011	2010
Assets	\$ 143,337	\$ 130,785
Liabilities	141,261	129,394
Revenues in excess of expenses	-	-

The System contracts with APP for certain operational and administrative services. Total expenses incurred for these services were \$22,219 and \$16,010 in 2011 and 2010, respectively. At December 31, 2011 and 2010, the System had an accrued liability to APP for those services for \$1,562 and \$836, respectively.

APP purchased claims processing and certain management services from the System in the amounts of \$8,827 and \$8,071 in 2011 and 2010, respectively. Under terms of an agreement with the System, APP reimburses the System for salaries, benefits and other expenses that are incurred by the System on APP's behalf. The amount billed for these services in 2011 and 2010 was \$16,809 and \$13,948, respectively. The System had a receivable from APP at December 31, 2011 and 2010, for claims processing and management services of \$5,363 and \$3,139, respectively.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt

Long-term debt, net of unamortized original issue discount or premium consisted of the following at December 31:

	2011	2010
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series:		
1993C, 6.0% to 7.0%, principal payable in varying annual installments through April 2018	\$ 24,592	\$ 24,805
1998A, 5.20%, principal payable in varying annual installments through August 2022; refunded in full during 2011	-	4,667
1998B, 4.60% to 5.25%, principal payable in varying annual installments through August 2018; refunded in full during 2011	-	11,821
2003A (weighted-average rate of 4.38% during 2011 and 2010), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	26,290	28,405
2003C (weighted-average rate of 0.44% and 0.46% during 2011 and 2010, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	25,585	27,695
2008A (weighted-average rate of 1.92% and 1.61% during 2011 and 2010, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	145,510	145,510

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Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt (continued)

	2011	2010
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2008C (weighted-average rate of 0.44% and 0.51% during 2011 and 2010, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	\$ 343,270	\$ 343,270
2008D, 4.25% to 6.50%, principal payable in varying annual installments through November 2038	163,985	167,755
2010A, 5.50%, principal payable in varying annual installments through April 2044	37,297	37,307
2010B, 5.38%, principal payable in varying annual installments through April 2044	52,180	52,173
2010C, 5.38%, principal payable in varying annual installments through April 2044	25,529	25,526
2010D, 3.00% to 5.25%, principal payable in varying annual installments through April 2038	122,415	128,143
2011A, 2.00% to 5.00%, principal payable in varying annual installments through April 2041	44,183	-
2011B, (weighted average rate of 0.25% during 2011), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period, interest tied to a market index plus a spread	70,000	-
2011C, (weighted average rate of 0.88% during 2011), principal payable in varying annual installments through April 2049, interest tied to a market index plus a spread	50,000	-
2011D, (weighted average rate of 0.98% during 2011), principal payable in varying annual installments through April 2049, interest tied to a market index plus a spread	50,000	-
Capital lease obligations	31,407	31,552
Other	8,859	11,940
	1,221,102	1,040,569
Less current portion of long-term debt	22,711	17,418
Less long-term debt subject to short-term remarketing arrangements	197,870	122,060
	<u>\$ 1,000,521</u>	<u>\$ 901,091</u>

Maturities of long-term debt, capital leases and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2016, are as follows: 2012 - \$22,711; 2013 - \$18,856; 2014 - \$18,582; 2015 - \$20,760; and 2016 - \$20,223.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***6. Long-Term Debt (continued)**

The System's unsecured variable rate revenue bonds, Series 2003C of \$25,585, Series 2008 (A-1 and A-3) of \$102,285 and Series 2011B of \$70,000, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within a maximum of 12 months after December 31, 2011, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. To address the possibility that a material amount of these bonds would be put back to the System, steps have been taken to provide various sources of liquidity in such event, including maintaining unrestricted assets as a source of self-liquidity. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, the System has taken steps to provide various sources of liquidity, including entering into standby bond purchase agreements and assessing alternate sources of financing, including lines of credit and/or unrestricted assets as a source of self-liquidity.

All outstanding bonds were issued pursuant to a Master Trust Indenture dated as of December 1, 1996 (the Master Indenture), as subsequently amended, between the System and Bank of New York Mellon as master trustee. Under the terms of the Master Indenture and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The Master Indenture and other debt agreements, including a bank credit agreement, also place restrictions on the System and require the System to maintain certain financial ratios.

Interest paid, net of capitalized interest, amounted to \$41,485 and \$38,591 in 2011 and 2010, respectively. The System capitalized interest of approximately \$2,928 and \$2,340 in 2011 and 2010, respectively.

On September 21, 2011, the Illinois Finance Authority, on behalf of the System, issued its Revenue Bonds, Series 2011A-D, in the amount of \$213,730. The proceeds of the Series 2011 Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects; to refund prior bonds (Series 1998A and Series 1998B); and pay certain costs of issuing the Series 2011 Bonds.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***6. Long-Term Debt (continued)**

On January 6, 2010, the Illinois Finance Authority, on behalf of the System, issued its Revenue Bonds, Series 2010A-D, in the amount of \$238,255. The proceeds of the Series 2010 Bonds were used, together with other funds available to the System, to pay the costs related to the merger with BroMenn and the construction and equipping of a new patient tower; to pay or reimburse the System for the payment of certain costs of acquiring, constructing, renovating and equipping certain capital projects; to refund prior bonds (Series 2008B); and to pay certain costs of issuing the Series 2010 Bonds and refunding the prior bonds.

On April 29, 2008, the Illinois Finance Authority, on behalf of the System, completed the issuance of uninsured variable rate bonds, Series 2008A, B and C in the amount of \$624,180. The proceeds were used to refund the Series 2005 and Series 2007 insured auction rate securities in the amount of \$623,225. In connection with the issuance of the Series 2008C bonds, the System transferred floating-to-fixed interest rate swap agreements, which were previously attached to the Series 2007B bonds, effectively converting the variable rate demand bonds to a fixed rate of 3.605%. Effective March 10, 2010, the notional amount of the Series 2008C interest rate swap was reduced by \$21,975. The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 7.

At December 31, 2011 the System had lines of credit with banks aggregating to \$203,000. These lines of credit provide for various interest rates and payment terms and expire as follows: \$25,000 in March 2012, \$3,000 in November 2012, \$50,000 in December 2012, \$75,000 in March 2013 and \$50,000 in November 2013. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures or for general working capital purposes. At December 31, 2011, there was \$2,974 outstanding that bears interest of prime (3.25% at December 31, 2011). At December 31, 2010, no amounts were outstanding on these lines of credit.

In 2012, \$25,000 of the lines of credit was extended to March 2013.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Derivatives

The System has interest rate related derivative instruments to manage its exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

At December 31, 2011, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps limit the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series. The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2011:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	\$ 129,900	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%
2008C-2	\$ 108,425	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%
2008C-3	\$ 88,000	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%

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Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Derivatives (continued)

The swaps are not designated as hedging instruments, and therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are included as a component of nonoperating (loss) income in the consolidated statements of operations and changes in net assets as changes in the fair value of interest rate swaps. The net cash settlement payments, representing the realized changes in fair value of the swaps and swaption, are included as interest expense in the consolidated statements of operations and changes in net assets.

The fair value of derivative instruments is as follows:

	December 31	
	2011	2010
Consolidated balance sheet location		
Obligations under swap agreements	\$ (89,092)	\$ (44,081)
Collateral posted under swap agreements	—	27,970
Obligations under swap agreements, net	<u>\$ (89,092)</u>	<u>\$ (16,111)</u>

Amounts recorded in the consolidated statements of operations and changes in net assets for the derivatives are as follows:

	Year Ended December 31	
	2011	2010
Consolidated statement of operations and changes in net assets location		
Net cash payments on interest rate swap agreements (interest expense)	\$ 10,400	\$ 10,429
Change in the fair value of interest rate swaps (nonoperating)	<u>\$ (45,011)</u>	<u>\$ (14,335)</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**7. Derivatives (continued)**

The aggregate fair value of all swap instruments with credit risk-related contingent features that are in a liability position was \$89,092 and \$44,081 at December 31, 2011 and 2010, respectively, for which the System has posted collateral of \$0 and \$27,970 at December 31, 2011 and 2010, respectively, in the normal course of business. The swap instruments contain provisions that require the System's debt to maintain an investment grade credit rating from certain major credit rating agencies. If the System's debt were to fall below investment grade on the valuation date, it would be in violation of these provisions, and the counterparty to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

8. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	2011	2010
Net assets currently available for:		
Purchases of property and equipment	\$ 5,598	\$ 5,542
Medical education and other health care programs	57,394	57,876
Net assets available for future periods:		
Purchases of property and equipment	3,952	3,031
Medical education and other health care programs	8,387	8,337
	<u>\$ 75,331</u>	<u>\$ 74,786</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)***8. Restricted Net Assets (continued)**

Permanently restricted net assets generate investment income, which is used to benefit the following purposes or periods at December 31:

	<u>2011</u>	<u>2010</u>
Net assets currently producing investment income:		
Purchases of property and equipment	\$ 1,000	\$ 1,000
Medical education and other health care programs	21,559	21,047
Net assets available to produce investment income in future periods:		
Medical education and other health care programs	15,904	6,747
	<u>\$ 38,463</u>	<u>\$ 28,794</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans

The System maintains defined-benefit pension plans that cover a majority of its employees (associates).

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status of the System's defined-benefit pension plans is as follows:

	<u>2011</u>	<u>2010</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 672,769	\$ 606,558
Actual return on plan assets	(7,294)	78,296
Employer contributions	22,300	22,560
Benefits paid	(34,257)	(34,645)
Plan assets at fair value at end of year	<u>\$ 653,518</u>	<u>\$ 672,769</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 707,064	\$ 666,903
Service cost	38,285	37,104
Interest cost	39,012	38,106
Actuarial gain (loss)	11,786	(404)
Benefits paid	(34,257)	(34,645)
Projected benefit obligation at end of year	<u>\$ 761,890</u>	<u>\$ 707,064</u>
Plan assets less than projected benefit obligation	<u>\$ (108,372)</u>	<u>\$ (34,296)</u>
Accumulated benefit obligation at end of year	<u>\$ 699,330</u>	<u>\$ 650,664</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**9. Retirement Plans (continued)**

The Condell Retirement Plan paid lump sums totaling \$3,896 and \$4,250 in 2011 and 2010, respectively. These amounts are greater than the sum of the plan's service cost and interest cost for 2011 and 2010. As a result, the System recognized a settlement charge in the amount of \$1,199 and \$767 in 2011 and 2010, respectively.

	2011	2010
Net periodic pension expense consists of the following for the years ended December 31:		
Service cost	\$ 38,285	\$ 37,104
Interest cost	39,013	38,106
Expected return on plan assets	(56,290)	(54,340)
Amortization of:		
Prior service credit	(4,823)	(4,910)
Recognized actuarial loss	7,392	5,100
Settlement/curtailment	1,199	767
Net pension expense	<u>\$ 24,776</u>	<u>\$ 21,827</u>

The amount of actuarial loss and prior service cost (credit) included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the fiscal year ending December 31, 2012, is \$12,496 and \$4,823, respectively.

For the defined benefit plans previously described, changes in plan assets and benefit obligations recognized in unrestricted net assets during 2011 and 2010 include actuarial losses of \$66,779 and \$30,227 and net prior service costs of \$4,823 and \$4,910, respectively.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	2011	2010
Unrecognized prior credit	\$ (33,063)	\$ (37,886)
Unrecognized actuarial loss	247,416	180,638
	<u>\$ 214,353</u>	<u>\$ 142,752</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

Employer contributions were paid from employer assets for both years presented. No plan assets are expected to be returned to the employer. All benefits paid under the defined-benefit pension plan were paid from the plan's assets. The System anticipates making \$28,550 in contributions to the plan's assets during 2012. Expected associate benefit payments are \$51,220 in 2012, \$52,840 in 2013, \$55,040 in 2014, \$58,870 in 2015, \$61,670 in 2016, and \$340,410 in 2017 through 2021.

The pension plan's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors and manager style to minimize the risk of loss. The System uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. The System regularly monitors manager performance and compliance with investment guidelines.

The System's target and actual pension asset allocations are as follows:

Asset Category	Target	Actual Asset Allocation	
		2011	2010
Domestic and international equity securities	42.5%	46.5%	50.7%
Private equity limited partnerships and hedge funds	17.5	15.8	12.5
Fixed income securities	30.0	28.7	29.7
Real estate	10.0	9.0	7.1
	100.0%	100.0%	100.0%

Within the domestic and international equity portfolio, investments are diversified among large and mid-capitalizations (20%), non-large capitalizations (7%) and international and emerging markets (20%).

Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)**
*(Dollars in Thousands)***9. Retirement Plans (continued)**

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. Fair value for Level 3 represents the plan's ownership interests in the NAVs of the respective private equity partnerships, hedge funds and real estate commingled funds for which active markets do not exist (alternative investments). The System opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds and private equity funds. The alternative investment assets consist of marketable securities as well as securities and other assets that do not have readily determinable fair values. The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets and subsequent developments concerning the companies or other assets to which the alternative investments relate. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity partnerships and real estate commingled funds typically have finite lives ranging from 5 to 10 years, at the end of which all invested capital is returned. For hedge funds, the typical lock-up period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plan's investment assets are exposed to the same kinds and levels of risk as described in Note 4.

At December 31, 2011 and 2010, the System, on behalf of the Plan, has commitments to fund an additional \$38,699 and \$34,273, respectively. The unfunded commitments at December 31, 2011, are expected to be funded over the next seven years.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

The following are the plan's financial instruments at December 31, 2011, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 2,864	\$ -	\$ 2,864	\$ -
Equity securities:				
Small cap	2,909	-	2,909	-
Large cap	53,827	43,033	10,794	-
Value equity	41,173	38,645	2,528	-
Growth equity	56,122	54,593	1,529	-
U.S. equity	20,993	19,954	1,039	-
International equity	94,906	31,691	63,215	-
International equity - emerging	38,533	34,327	4,206	-
Fixed income securities:				
Core plus bonds	177,007	-	177,007	-
Long duration bonds	12,314	-	12,314	-
Other types of investments:				
Hedge funds	43,083	-	-	43,083
Private equity funds	53,737	-	-	53,737
Real estate	56,050	-	39,920	16,130
Total	\$ 653,518	\$ 222,243	\$ 318,325	\$ 112,950

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2011:

	Hedge Funds	Private Equity	Real Estate
Fair value at January 1, 2011	\$ 30,414	\$ 46,290	\$ 11,194
Net purchases and sales	14,774	5,010	1,489
Realized gains and losses	—	1,053	137
Unrealized gains and losses	(2,105)	1,384	3,310
Fair value at December 31, 2011	\$ 43,083	\$ 53,737	\$ 16,130

The following are the plan's financial instruments at December 31, 2010, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 7,457	\$ 97	\$ 7,360	\$ —
Equity securities:				
Small cap	3,265	3,125	140	—
Large cap	58,593	58,559	34	—
Value equity	37,756	35,346	2,410	—
Growth equity	86,304	85,217	1,087	—
U.S. equity	41,593	38,816	2,777	—
International equity	96,891	96,370	521	—
International equity – emerging	22,810	21,841	969	—
Fixed income securities:				
Core plus bonds	196,836	95,072	101,764	—
Other types of investments:				
Hedge funds	30,414	—	—	30,414
Private equity funds	46,290	—	—	46,290
Real estate	44,560	—	33,366	11,194
Total	\$ 672,769	\$ 434,443	\$ 150,428	\$ 87,898

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the plan's Level 3 assets for 2010:

	Hedge Funds	Private Equity	Real Estate
Fair value at January 1, 2010	\$ 27,860	\$ 28,109	\$ 6,333
Net purchases and sales	3,464	14,631	1,910
Realized gains and losses	—	882	—
Unrealized gains and losses	(910)	2,668	2,951
Fair value at December 31, 2010	\$ 30,414	\$ 46,290	\$ 11,194

Assumptions used to determine benefit obligations at the measurement date are as follows:

	2011	2010
Discount rate	4.75%	5.40%
Assumed rate of return on assets	7.75	8.00
Weighted-average rate of increase in future compensation (age-based table)	4.80	4.80

Assumptions used to determine net pension expense for the fiscal years are as follows:

	2011	2010
Discount rate	5.40%	5.65%
Assumed rate of return on assets	8.00	8.00
Weighted-average rate of increase in future compensation (age-based table)	4.80	4.80

Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)**
*(Dollars in Thousands)***9. Retirement Plans (continued)**

The assumed rate of return on plan assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. The expected return for each asset class was then weighted based on the target asset allocation to develop the overall expected rate of return on assets for the portfolio. This resulted in the selection of the 7.75% and 8.00% assumption for 2011 and 2010, respectively.

In addition to the defined-benefit pension plan, the System sponsors various defined-contribution plans. Amounts contributed by the System approximated \$32,752 and \$35,042 in 2011 and 2010, respectively, and are included in salaries, wages and employee benefits expense in the consolidated statements of operations and changes in net assets.

10. General and Professional Liability Risks

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Revocable trust funds, administered by a trustee and a captive insurance company, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the irrevocable trust and captive insurance company.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the revocable trust were determined using a discount rate of 4.00% for 2011 and 2010. Accrued insurance liabilities for the System's captive insurance company were determined using a discount rate of 3.00% for 2011 and 2010. Total accrued insurance liabilities would have been approximately \$64,775 and \$62,786 greater at December 31, 2011 and 2010, respectively, had these liabilities not been discounted.

The System is a defendant in certain litigation related to professional and general liability risks. Although the outcome of the litigation cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of this litigation will not have any material adverse effect on the System's operations or financial condition.

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Advocate Health Care Network and Subsidiaries**Notes to Consolidated Financial Statements (continued)***(Dollars in Thousands)***11. Legal, Regulatory, and Other Contingencies and Commitments**

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs, and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

The System is committed to constructing additions and renovations to its medical facilities and implementing information technology projects, which are expected to be completed in future years. The estimated cost of these commitments is \$251,564, of which \$199,444 has been incurred as of December 31, 2011.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**11. Legal, Regulatory, and Other Contingencies and Commitments (continued)**

Future minimum rental commitments at December 31, 2011, for all noncancelable leases with original terms of more than one year are \$43,434, \$31,715, \$25,925, \$23,400 and \$20,039 for the years ending December 31, 2012 through 2016, respectively, and \$40,502 thereafter.

Rent expense, which is included in other expenses, amounted to approximately \$77,170 and \$83,702 in 2011 and 2010, respectively.

12. Income Taxes and Tax Status

Certain subsidiaries of the System are for-profit corporations. Significant components of the for-profit subsidiaries' deferred tax assets (liabilities) are as follows at December 31:

	2011	2010
Deferred tax assets		
Allowance for uncollectible accounts	\$ 4,523	\$ 3,363
Other accrued expenses	39	487
Reserves for incurred but not reported claims	364	384
Accrued insurance	7,732	6,351
Accrued compensation and employee benefits	4,023	3,279
Third-party settlements	848	802
Prepaid and other assets	373	373
Net operating losses	25,809	13,941
Total deferred tax assets	43,711	28,980
Less valuation allowance	25,809	13,941
Net deferred tax assets, included in deferred costs and intangible assets and prepaid expenses, inventories, and other assets	\$ 17,902	\$ 15,039
Deferred tax liabilities		
Property and equipment	\$ (7,149)	\$ (3,110)
Other accrued expenses	(272)	-
Deferred gain on BroMenn acquisition	(6,228)	(5,064)
Total deferred tax liabilities, included in other noncurrent liabilities	\$ (13,649)	\$ (8,174)

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Income Taxes and Tax Status (continued)

Significant components of the provision (credit) for income taxes are as follows for the years ended December 31:

	2011	2010
Current:		
Federal	\$ 4,629	\$ (5,505)
State	1,413	(1,239)
Deferred	2,612	16,626
	<u>\$ 8,654</u>	<u>\$ 9,882</u>

Federal and state income taxes paid relating to the System's for-profit corporations were \$1,102 and \$1,697 in 2011 and 2010, respectively.

The System and all other controlled or wholly owned subsidiaries are exempt from income taxes under Internal Revenue Code Section 501(c)(3). They do, however, operate certain programs that generate unrelated business income. The current tax provision recorded on this income was \$390 and \$685 for the years ended December 31, 2011 and 2010, respectively. Federal, state, and local governments are increasingly scrutinizing the tax status of not-for-profit hospitals and health care systems.

13. Acquisition

On January 6, 2010, the System merged with BroMenn, which was accounted for as an acquisition in accordance with the authoritative guidance on not-for-profit mergers and acquisitions. The BroMenn system, which is located in the greater Bloomington-Normal and Eureka, Illinois, areas, includes a 224-bed acute care hospital, a 34-bed acute care hospital and approximately 60 employed physicians in one medical group.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

13. Acquisition (continued)

For accounting purposes, this transaction was accounted for under the purchase accounting rules, and a contribution of \$225,541 was recorded in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2010. This contribution reflected the fair value of the unrestricted net assets of BroMenn on the date of the merger. The total increase in net assets attributable to the merger, which included the fair value of temporarily and permanently restricted net assets contributed, was \$245,578. No goodwill was recorded as a result of this transaction. In valuing these assets and liabilities, fair values were based on, but not limited to, professional appraisals, discounted cash flows, replacement costs and actuarially determined values.

The fair value of assets and liabilities of BroMenn contributed at January 6, 2010, consists of the following:

Cash and cash equivalents	\$ 10,998
Other current assets	61,836
Property and equipment	160,788
Other long-term assets	47,759
Total assets	<u>281,381</u>
Current liabilities	26,354
Other long-term liabilities	9,449
Total liabilities	<u>35,803</u>
Increase in net assets	<u>\$ 245,578</u>

14. Subsequent Events

The System evaluated events occurring between January 1, 2012 and March 9, 2012, which is the date when the consolidated financial statements were issued.

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