

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 Outpatient Center – Lakemoor		
Street Address: 27655 IL Route 120		
City and Zip Code: Lakemoor 60051		
County: Lake	Health Service Area: HSA-08	Health Planning Area: A-09

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group		
Street Address: 3075 Highland Parkway		
City and Zip Code: Downers Grove 60515		
Name of Registered Agent: Michael Kerns		
Registered Agent Street Address: 3075 Highland Parkway		
Registered Agent City and Zip Code: Downers Grove 60515		
Name of President: James H. Skogsbergh		
President Street Address: 3075 Highland Parkway		
President City and Zip Code: Downers Grove 60515		
President Telephone Number: 630-572-9393		

Type of Ownership of Applicants

☒ 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 they are 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]

Name: Lanndon Rose
Title: Vice President, Advocate Aurora Medical Group Operations and Service Lines, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: 847-840-5593
E-mail Address: lanndon.rose@aah.org
Fax Number:

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

Myndee Balkan
Health Facility Planning, Director
Name: Advocate Aurora Health, Inc
Telephone Number (847) 721-0376

LAKE MOORE OUTPATIENT CENTER

E-mail Address: myndee.balkan@aah.org

Fax Number:

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

Name: Trent Gordon

Title: Vice President, Business Development, Northern Illinois
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Company Name: Advocate Aurora Health, Inc

Address: 450 West Highway 22, Administration, Barrington, IL 60010
--

Telephone Number: : 847-530-9336

E-mail Address: trent.gordon@aah.org

Fax Number:

Facility/Project Identification

Facility Name: Advocate Outpatient Center – Lakemoor		
Street Address: 27655 IL Route 120		
City and Zip Code: Lakemoor 60051		
County: Lake	Health Service Area: HSA-08	Health Planning Area: A-09

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Aurora Health Inc.		
Street Address: 3075 Highland Parkway, Suite 600		
City and Zip Code: Downers Grove, IL 60515		
Name of Registered Agent: The Corporation Trust		
Registered Agent Street Address: Corporation Trust Center 1209 Orange Street		
Registered Agent City and Zip Code: Wilmington DE 19801		
Name of Chief Executive Officer: James H. Skogsbergh		
CEO Street Address: 3075 Highland Parkway Suite 600		
CEO City and Zip Code: Downers Grove 60515		
CEO Telephone Number: 630-572-9393		

Type of Ownership of Applicants

☒ Non-profit Corporation	☐ Partnership	
☐ For-profit Corporation	☐ Governmental	
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E-mail Address: lanndon.rose@aah.org
Fax Number:

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

Name: Myndee Balkan
Title: Health Facility Planning, Director
Company Name: Advocate Aurora Health, Inc
Address:
Telephone Number (847) 721-0376
E-mail Address: myndee.balkan@aah.org
Fax Number:

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

Name: Trent Gordon
Title: Vice President, Business Development, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: : 847-530-9336
E-mail Address: trent.gordon@aah.org
Fax Number:

Facility/Project Identification

Facility Name: Advocate Outpatient Center - Lakemoor		
Street Address: 27655 IL Route 120		
City and Zip Code: Lakemoor 60051		
County: Lake	Health Service Area: HSA-08	Health Planning Area: A-09

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Health Inc.		
Street Address: 3075 Highland Parkway		
City and Zip Code: Downers Grove, IL 60515		
Name of Registered Agent: CT Corporation System		
Registered Agent Street Address: 208 S. LaSalle Street Suite 814		
Registered Agent City and Zip Code: Chicago, IL 60604		
Name of Co-Chief Executive Officer: James Skogsbergh		
Co-CEO Street Address: 3075 Highland Parkway Suite 600		
Co-CEO City and Zip Code: Downers Grove, IL 60515		
Co-CEO Telephone Number: 630-572-9393		

Type of Ownership of Applicants

☒ Non-profit Corporation	☐ Partnership	
☐ For-profit Corporation	☐ Governmental	
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☐ Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
☐ Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

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Primary Contact [Person to receive ALL correspondence or inquiries]

Name: Lanndon Rose
Title: Vice President, Advocate Aurora Medical Group Operations and Service Lines, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: 847-840-5593
E-mail Address: lanndon.rose@aah.org
Fax Number:

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

Name: Myndee Balkan
Title: Health Facility Planning, Director
Company Name: Advocate Aurora Health, Inc
Address:
Telephone Number (847) 721-0376
E-mail Address: myndee.balkan@aah.org
Fax Number:

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

Name: Trent Gordon
Title: Vice President, Business Development, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: : 847-530-9336
E-mail Address: trent.gordon@aah.org
Fax Number:

Post Permit Contact

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

Name: Scott Nelson
Title: Vice President, Planning, Design & Construction
Company Name: Advocate Aurora Health, Inc
Address: 3075 Highland Parkway, Suite 400, Downers Grove, IL 60515
Telephone Number: (630) 929-5575
E-mail Address: scott.nelson@aah.org
Fax Number: (630) 990-4798

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Advocate Health and Hospitals Corporation
Address of Site Owner: 3075 Highland Parkway, Ste 600, Downers Grove, IL 60515
Street Address or Legal Description of the Site: 27655 Illinois Route 120, Lakemoor, IL 60073
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, 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.

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 Medical Group			
Address: 3075 Highland Parkway, Suite 600, Downers Grove, IL 60515			
☒	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.			

Organizational Relationships

Provide (for each 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 #2006-5 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 #2006-5 (<http://www.hfsrb.illinois.gov>). **NOTE: A SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM** has been added at the conclusion of this Application for Permit that must be completed to deem a project complete.

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 1110.20 and Part 1120.20(b)]

Part 1110 Classification :

- ☐ Substantive
- ☒ Non-substantive

2. Narrative Description

In the space below, provide 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 Health and Hospitals Corporation ("AHH") doing business as Advocate Medical Group (AMG), Advocate Aurora Health, Inc. and Advocate Health, Inc. (together, the "applicants") propose to construct an outpatient medical office building at 27655 Route 120 in Lakemoor, Illinois ("Project"). The land, building and operations will be wholly owned by AHH.

The project will include a newly constructed, single-story building, which will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including physical therapy, lab, imaging, and integrative medicine and a retail/drive-thru pharmacy.

The total cost of the project, excluding land purchase, is \$29,587,191 with an anticipated completion date of Oct. 31, 2024.

The project is classified as non-substantive because it does not establish a new category of service nor facility as defined in 20 IL CS 3690/3.

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 be 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

For facilities in which prior permits have been issued please provide the permit numbers.

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): Oct. 31, 2024

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

- ☒ Purchase orders, leases or contracts pertaining to the project have been executed.
☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies
☐ Financial Commitment 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 [Section 1130.620(c)]

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 **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (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 departments or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Not Reviewable Space (i.e., non-clinical): means an area for the benefit of the patients, visitors, staff, or employees of a health care facility and not directly related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility. "Non-clinical service areas" include, but are not limited to, chapels, gift shops, newsstands, computer systems, tunnels, walkways, and elevators; telephone systems; projects to comply with life safety codes; educational facilities; student housing; patient, employee, staff, and visitor dining areas; administration and volunteer offices; modernization of structural components (such as roof replacement and masonry work); boiler repair or replacement; vehicle maintenance and storage facilities; parking facilities; mechanical systems for heating, ventilation, and air conditioning; loading docks; and repair or replacement of carpeting, tile, wall coverings, window coverings or treatments, or furniture. Solely for the purpose of this definition, "non-clinical service area" does not include health and fitness centers. [20 ILCS 3960/3]

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 the chart after this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which data is 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:		CITY:			
REPORTING PERIOD DATES:		From:		to:	
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long-Term Care					
Specialized Long-Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:					

NOT APPLICABLE

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives 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 is filed on the behalf of Advocate Health and Hospital Corporation*

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 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 fee required for this application is sent herewith or will be paid upon request.

William P. Santulli
SIGNATURE

William P. Santulli
PRINTED NAME

Chief Operating Officer
PRINTED TITLE

Notarization:

Subscribed and sworn to before me
this 24th day of January, 2023

Michael E. Kerns
Signature of Notary

Seal

*Insert the EXACT legal name of the applicant(s)



Dominic Nakis
SIGNATURE

Dominic Nakis
PRINTED NAME

Chief Financial Officer
PRINTED TITLE

Notarization:

Subscribed and sworn to before me
this 24th day of January, 2023

Michael E. Kerns
Signature of Notary

Seal



CERTIFICATION

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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 is filed on the behalf of Advocate Health, Inc.* 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 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 fee required for this application is sent herewith or will be paid upon request.

James H. Skogsbergh

SIGNATURE

James H. Skogsbergh

PRINTED NAME

Co-Chief Executive Officer

PRINTED TITLE

Michael Grebe

SIGNATURE

Michael Grebe

PRINTED NAME

Secretary

PRINTED TITLE

Notarization:

Subscribed and sworn to before me

this 21st day of January 2023

Michael E. Kerns

Signature of Notary

Seal

"OFFICIAL SEAL"**MICHAEL E. KERNS**

Notary Public, State of Illinois

*Insert the EXACT name of the applicant

Commission No. 286069

Notarization:

Subscribed and sworn to before me

this 24th day of January 2023

Michael E. Kerns

Signature of Notary

Seal

"OFFICIAL SEAL"**MICHAEL E. KERNS**

Notary Public, State of Illinois

My Commission Expires 05/26/2026

Commission No. 286069

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
CHANGE OF OWNERSHIP APPLICATION FOR EXEMPTION- 04/2021 Edition

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives 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 is filed on the behalf of Advocate Aurora Health, Inc.*

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 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 fee required for this application is sent herewith or will be paid upon request.

Domenic J. Nakis
SIGNATURE

Domenic J. Nakis
PRINTED NAME

CEO
PRINTED TITLE

Notarization:

Subscribed and sworn to before me
this 24th day of January 2023

Michael E. Kerns
Signature of Notary

Seal

*Insert the EXACT legal name of the applicant



Michael M. Grebe
SIGNATURE

Michael M. Grebe
PRINTED NAME

Secretary
PRINTED TITLE

Notarization:

Subscribed and sworn to before me
this 24th day of June 2022

Michael M. Grebe
Signature of Notary

Seal

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.

1110.110(a) – Background of the Applicant

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 listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.
3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners, and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.
 - a. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.
 - b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted, or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction, and submit any police or court records regarding any matters disclosed.
 - c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.
 - d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.
 - e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.
4. 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.**
5. 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 that the information was 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 can 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.

Criterion 1110.110(b) & (d)**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 relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the 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 the age and condition of the project site, as well as 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 Board Staff 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** 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 1110.120 - 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 and it shall include the basis used for determining the space and the methodology applied.
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 and certified by the facility's Medical Director.
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
 - c. The project involves the conversion of existing space that results in excess square footage.
 - d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

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.

UNFINISHED OR SHELL SPACE:

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area, or function.
3. Evidence that the shell space is being constructed due to:
 - a. Requirements of governmental or certification agencies; or
 - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
 - a. Historical utilization for the area for the latest five-year period for which data is available; and
 - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

M. Criterion 1110.270 - 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
1 APPEND DOCUMENTATION AS ATTACHMENT 31, 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)

VII. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document those 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]:

\$9,086,914	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 timetable 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 timetable of receipts.
\$20,500,277	d) Debt – a statement of the estimated terms and conditions (including the debt time, variable or permanent interest rates over the debt time, 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.
<u>\$29,587,191</u>	TOTAL FUNDS AVAILABLE
APPEND DOCUMENTATION AS <u>ATTACHMENT 34</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

SECTION VIII. 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. "A" Bond rating or better
2. All the project's capital expenditures are completely funded through internal sources
3. 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
4. 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 35, 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.

	Historical 3 Years			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.

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 36, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IX. 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 the cash and equivalents must be retained in the balance sheet asset accounts 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 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION X. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, *including the impact on racial and health care disparities 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 each community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all 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 37.

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

	Outpatient				
	Total				

APPEND DOCUMENTATION AS ~~ATTACHMENT 38~~ IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – Non-substantive project

SECTION X. CHARITY CARE INFORMATION

Charity Care information **MUST** be furnished for **ALL** projects [1120.20(c)].

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 39.

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

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

SECTION XI -SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM

In accordance with Executive Order 2006-5 (EO 5), the Health Facilities & Services Review Board (HFSRB) must determine if the site of the CRITICAL FACILITY, as defined in EO 5, is in a mapped floodplain (Special Flood Hazard Area) or a 500-year floodplain. All state agencies are required to ensure that before a permit, grant or a development is planned or promoted, the proposed project meets the requirements of the Executive Order, including compliance with the National Flood Insurance Program (NFIP) and state floodplain regulation.

1. Applicant: _____

 (Name) (Address)

 (City) (State) (ZIP Code) (Telephone Number)
2. Project Location: _____

 (Address) (City) (State)

 (County) (Township) (Section)

3. You can create a small map of your site showing the FEMA floodplain mapping using the FEMA Map Service Center website (<https://msc.fema.gov/portal/home>) by entering the address for the property in the Search bar. If a map, like that shown on page 2 is shown, select the **Go to NFHL**

Viewer tab above the map. You can print a copy of the floodplain map by selecting the



icon in the top corner of the page. Select the pin tool icon  and place a pin on your site. Print a FIRMETTE size image.

If there is no digital floodplain map available select the **View/Print FIRM** icon above the aerial photo. You will then need to use the Zoom tools provided to locate the property on the map and use the **Make a FIRMette** tool to create a pdf of the floodplain map.

IS THE PROJECT SITE LOCATED IN A SPECIAL FLOOD HAZARD AREA:

Yes **No** **?**

IS THE PROJECT SITE LOCATED IN THE 500-YEAR FLOOD PLAIN?

If you are unable to determine if the site is in the mapped floodplain or 500-year floodplain, contact the county or the local community building or planning department for assistance.

If the determination is being made by a local official, please complete the following:

FIRM Panel Number: _____ Effective Date: _____

Name of Official: _____ Title: _____

Business/Agency: _____ Address: _____

(City)	(State)	(ZIP Code)	(Telephone Number)

Signature: _____ Date: _____

NOTE: This finding only means that the property in question is or is not in a Special Flood Hazard Area or a 500-year floodplain as designated on the map noted above. It does not constitute a guarantee that the property will or will not be flooded or be subject to local drainage problems.

If you need additional help, contact the Illinois Statewide Floodplain Program at 217/782-4428

Type of Ownership of Applicants

- | | | | | |
|-------------------------------------|---------------------------|--------------------------|---------------------|--------------------------------|
| ☒ | 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 they are 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.

Provided for Attachment #1:

Advocate Health and Hospitals Corporation

IL Certificate of Good Standing

Advocate Aurora Health, Inc.

IL Certificate of Good Standing

DE Certificate of Good Standing

Advocate Health, Inc.

IL Certificate of Good Standing

DE Certificate of Good Standing

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 I am the keeper of the records of the Department of Business Services. I 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 # 2230702658 verifiable until 11/03/2023
Authenticate at: <https://www.isus.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .

Jesse White

SECRETARY OF STATE

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.



6645600 8300C

SR# 20223973842

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JBULLOCK", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock Secretary of State" is printed.

Authentication: 204813506

Date: 11-09-22

File Number

7155-851-7

***To all to whom these Presents Shall Come, Greeting:***

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication # 2230702624 verifiable until 11/03/2023
Authenticate at <https://www.ilsos.gov>

***In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .***

Jesse White

SECRETARY OF STATE

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.



6784998 8300C

SR# 20223974042

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JB", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock - Secretary of State" is printed.

Authentication: 204813661

Date 11-09-22

File Number

7376-313-4



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS



Authentication # 2231201844 verifiable until 11/08/2023
Authenticate at <https://www.isos.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 8TH
day of NOVEMBER A.D. 2022 .

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: 3075 Highland Parkway, Ste 600, Downers Grove, IL 60515
Street Address or Legal Description of the Site: 27655 Illinois Route 120, Lakemoor, IL 60073
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, 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.

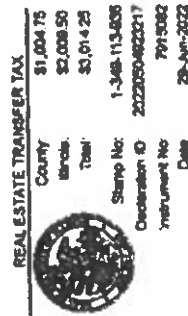
A copy of the deed that outlines the terms and provides evidence of control over the Premises is provided as Attachment 2 Exhibit 1.

This document prepared by

John P. Starkweather
Boardman & Clark LLP
1 S. Pinckney Street, Suite 410
Madison, WI 53703

After recording return to:

James S. ...
Advocate ... Health
3075 Highland Parkway, Suite 600
Dowd's Grove, IL 60515



Images: 002384780011 Type: Du
Recorded: 06/29/2022 at 12:48:59 PM
Receipts: 2022-00049440
Page 1 of 11
Fee: \$3,074.26
IL Rental Housing Fund: \$0.00
Lake County IL Recorder
Mary Ellen Vanderventer Recorder
File 7915082

SPECIAL WARRANTY DEED

This Indenture, made effective as of May 24, 2021, between WOODMAN'S FOOD MARKET, INC., a Wisconsin corporation ("Grantor"), and ADVOCATE HEALTH AND HOSPITALS CORPORATION, an Illinois not-for-profit corporation ("Grantee"). WITNESSETH, that Grantor, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration in hand paid by Grantee, the receipt of which is hereby acknowledged pursuant to authority given by Grantor, by these presents does REMISE, RELEASE, ALIENATE AND CONVEY unto Grantee, FOREVER, all the following described real estate, situated in the County of Lake and State of Illinois, known and described as follows (hereinafter referred to as the "Subject Property") to wit:

See legal description attached as Exhibit A.

Together with all and singular the hereditaments and appurtenances belonging there, or in any way appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, claim or demand whatsoever, of Grantor, either at law or in equity, of, in and to the Subject Property, with the hereditaments and appurtenances:

TO HAVE AND TO HOLD the Subject Property, with the appurtenances, unto Grantee, its successors and assigns, forever.

PERMANENT REAL ESTATE INDEX NUMBERS: see Exhibit A

ADDRESS OF REAL ESTATE: see Exhibit A

And Grantor, for itself and its successors, does covenant, promise and agree, to and with Grantee, for itself and its successors, that it has not done or suffered to be done, anything whereby the Subject Property hereby granted is, or may be, in any manner encumbered or charged, except as herein recited; and that Grantor will warrant and defend the Subject Property against all persons lawfully claiming, or to claim the same, by, through or under it, subject only to the matters set forth on Exhibit B.

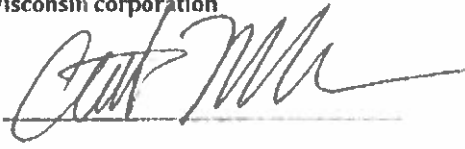
After Recording Return to
First American Title Insurance Company, Inc.
25 W Main St, Suite 400
Madison, WI 53703

Recorded by: 06/29/2022 12:48:59 PM on 06/29/2022 12:48:59 PM

Page 1

SIGNATURE PAGE TO SPECIAL WARRANTY DEED:**GRANTOR:**

WOODMAN'S FOOD MARKET, INC.,
a Wisconsin corporation

By: 

Clint Woodman, President

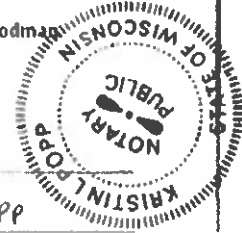
STATE OF WISCONSIN)

COUNTY OF ROCK)

This instrument was acknowledged before me on

May 20 2022, by Clint Woodman

Notary Public, State of Wisconsin

Print name: KRISTIN L. POPPMy commission expires: 3/27/2026*Mail future tax bills to:*

Advocate Health and Hospital Corporation
3075 Highland Parkway, Suite 600
Downers Grove, IL 60515

EXHIBIT A—LEGAL DESCRIPTION**PARCEL 1:**

LOT ONE (1), FINAL PLAT OF ADVOCATE SUBDIVISION, RECORDED MAY 20, 2022 AS DOCUMENT NO. 7905890, BEING A RESUBDIVISION OF LOT 8 IN LAKEMOOR COMMONS SUBDIVISION, BEING A SUBDIVISION IN SECTION 3, TOWNSHIP 44 NORTH, RANGE 9, EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED OCTOBER 17, 2018 AS DOCUMENT 7519735, IN LAKE COUNTY, ILLINOIS.

PERMANENT INDEX NUMBER:	A portion of 09-03-301-002-0000
STREET ADDRESS:	27655 Illinois Route 120, Lakemoor, Illinois, 60073

GRANTOR ALSO CONVEYS ALL OF ITS RIGHT, TITLE, AND INTEREST, IF ANY, IN AND TO THE FOLLOWING DESCRIBED PROPERTY, BUT WITHOUT WARRANTY:

PARCEL 2:

A PERPETUAL NON-EXCLUSIVE EASEMENT FOR THE BENEFIT OF PARCEL 1 AS CREATED BY EASEMENT AGREEMENT DATED MAY 14, 2007 AND RECORDED MAY 18, 2007 AS DOCUMENT 6186342, FROM CHICAGO TITLE LAND TRUST COMPANY AS TRUSTEE UNDER TRUST AGREEMENT DATED MARCH 14, 1991 AND KNOWN AS TRUST NUMBER 109543900 TO TDC INLAND LAKEMOOR, LLC, FURTHER MODIFIED BY EASEMENT AGREEMENT AMENDMENT RECORDED OCTOBER 19, 2017 AS DOCUMENT NUMBER 7436710, FROM VILLAGE OF LAKEMOOR TO IRC LAKEMOOR, L.L.C., FOR THE PURPOSE OF INGRESS AND EGRESS, AND THE INSTALLATION, MAINTENANCE, REPAIR AND REPLACEMENT OF UTILITIES AND/OR WATER AND SEWER LINES OVER THE FOLLOWING DESCRIBED LAND (EASEMENT AREA 'B'):

THE NORTH 10.00 FEET OF THE SOUTH 710.00 FEET OF THE SOUTHEAST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPT THE EAST 665.00 FEET THEREOF; IN LAKE COUNTY, ILLINOIS.

TOGETHER WITH:

THE EAST 10.00 FEET OF THE SOUTHWEST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPT THE SOUTH 700.00 FEET THEREOF; IN LAKE COUNTY, ILLINOIS.

TOGETHER WITH:

THE EAST 10.00 FEET OF THE SOUTH 746.00 FEET OF THE NORTHWEST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN; IN LAKE COUNTY, ILLINOIS.

\\np012\g000\sydaca\W01\2023\06\06\161110 ADVOCATE LAKEMOOR 1 (1).docx

Page 3

PARCEL 3:

A PERPETUAL NON-EXCLUSIVE EASEMENT FOR THE BENEFIT OF PARCEL 1 AS CREATED BY EASEMENT AGREEMENT DATED MAY 14, 2007 AND RECORDED MAY 18, 2007 AS DOCUMENT 6186342 FROM CHICAGO TITLE LAND TRUST COMPANY AS TRUSTEE UNDER TRUST AGREEMENT DATED MARCH 14, 1991 AND KNOWN AS TRUST NUMBER 109543900 TO TDC INLAND LAKEMOOR, LLC, FURTHER MODIFIED BY EASEMENT AGREEMENT AMENDMENT RECORDED OCTOBER 19, 2017 AS DOCUMENT NUMBER 7436710, FROM VILLAGE OF LAKEMOOR TO IRC LAKEMOOR, L.L.C., FOR THE PURPOSE OF INGRESS AND EGRESS, AND THE INSTALLATION, MAINTENANCE, REPAIR AND REPLACEMENT OF UTILITIES AND/OR WATER AND SEWER LINES OVER THE FOLLOWING DESCRIBED LAND (EASEMENT AREA 'D'):

THAT PART OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, DESCRIBED AS FOLLOWS: COMMENCING AT THE SOUTHWEST CORNER OF SAID SECTION 3; THENCE NORTH 00 DEGREES 37 MINUTES 02 SECONDS WEST, 2250.72 FEET; THENCE SOUTH 89 DEGREES 41 MINUTES 48 SECONDS EAST, 66.01 FEET TO THE POINT OF BEGINNING; THENCE NORTH 00 DEGREES 37 MINUTES 02 SECONDS WEST, PARALLEL WITH THE WEST LINE OF SAID SOUTHWEST QUARTER, A DISTANCE OF 403.27 FEET; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS EAST, PARALLEL WITH THE WEST LINE OF THE NORTHWEST QUARTER OF SAID SECTION 3, A DISTANCE OF 878.24 FEET; THENCE SOUTH 89 DEGREES 08 MINUTES 44 SECONDS EAST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 10.00 FEET; THENCE SOUTH 00 DEGREES 51 MINUTES 16 SECONDS WEST, PARALLEL WITH THE WEST LINE OF SAID NORTHWEST QUARTER, A DISTANCE OF 878.11 FEET; THENCE SOUTH 00 DEGREES 37 MINUTES 02 SECONDS EAST, PARALLEL WITH THE WEST LINE OF THE SOUTHWEST QUARTER OF SAID SECTION 3, A DISTANCE OF 403.30 FEET; THENCE NORTH 89 DEGREES 41 MINUTES 48 SECONDS WEST, 10.00 FEET TO THE POINT OF BEGINNING; IN LAKE COUNTY, ILLINOIS.

TOGETHER WITH:

THAT PART OF THE NORTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, DESCRIBED AS FOLLOWS: COMMENCING AT THE SOUTHWEST CORNER OF THE SOUTHWEST QUARTER OF SAID SECTION 3; THENCE NORTH 00 DEGREES 37 MINUTES 02 SECONDS WEST ALONG THE WEST LINE OF SAID SOUTHWEST QUARTER, A DISTANCE OF 2653.77 FEET TO THE NORTHWEST CORNER OF SAID SOUTHWEST QUARTER; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS EAST ALONG THE WEST LINE OF THE NORTHWEST QUARTER OF SAID SECTION 3, A DISTANCE OF 1024.93 FEET; THENCE SOUTH 89 DEGREES 08 MINUTES 44 SECONDS EAST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 76.00 FEET TO THE POINT OF BEGINNING; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS EAST, PARALLEL WITH THE WEST LINE OF SAID NORTHWEST QUARTER, A DISTANCE OF 281.11 FEET; THENCE NORTH 89 DEGREES 09 MINUTES 16 SECONDS EAST, 718.80 FEET TO A POINT OF CURVATURE; THENCE EASTERLY AND SOUTHEASTERLY ALONG A CURVE CONCAVE SOUTHWESTERLY, TANGENT TO THE LAST DESCRIBED COURSE, HAVING A RADIUS OF 956.74 FEET, A CHORD BEARING OF SOUTH 81 DEGREES 04 MINUTES 03 SECONDS EAST, A CHORD LENGTH OF 324.97 FEET, AN ARC LENGTH OF 326.55 FEET; THENCE NORTH 21 DEGREES 30 MINUTES 32 SECONDS EAST, 10.01 FEET TO THE SOUTHERLY RIGHT

THAT PART OF THE NORTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, DESCRIBED AS FOLLOWS:
COMMENCING AT THE
SOUTHWEST CORNER OF THE SOUTHWEST QUARTER OF SAID SECTION 3;
THENCE NORTH 00 DEGREES 37 MINUTES 02 SECONDS WEST ALONG THE WEST
LINE OF SAID SOUTHWEST
QUARTER, A DISTANCE OF 2653.77 FEET TO THE NORTHWEST CORNER OF SAID
SOUTHWEST QUARTER; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS
EAST ALONG THE WEST LINE
OF THE NORTHWEST QUARTER OF SAID SECTION 3, A DISTANCE OF 1024.93 FEET; THENCE
SOUTH 89 DEGREES 08 MINUTES 44 SECONDS EAST, AT RIGHT ANGLES TO THE LAST
DESCRIBED COURSE, 76.00 FEET TO THE POINT OF BEGINNING; THENCE NORTH 00
DEGREES 51 MINUTES 16 SECONDS EAST, PARALLEL WITH THE WEST LINE OF SAID
NORTHWEST QUARTER, A DISTANCE OF 281.11 FEET; THENCE NORTH 89 DEGREES 09
MINUTES 16 SECONDS EAST, 718.80 FEET TO A POINT OF CURVATURE; THENCE
EASTERLY AND SOUTHEASTERLY ALONG A CURVE CONCAVE SOUTHWESTERLY,
TANGENT TO THE LAST DESCRIBED COURSE, HAVING A RADIUS OF 956.74
FEET, A CHORD BEARING OF SOUTH 81 DEGREES 04 MINUTES 03 SECONDS EAST, A
CHORD LENGTH OF 324.97 FEET, AN ARC LENGTH OF 326.55 FEET; THENCE SOUTH
21 DEGREES 30 MINUTES 32 SECONDS WEST, 10.01 FEET; THENCE NORTHWESTERLY
AND WESTERLY ALONG A CURVE CONCAVE SOUTHWESTERLY, NOT TANGENT TO THE
LAST DESCRIBED COURSE, HAVING A RADIUS OF 946.74 FEET, A CHORD BEARING OF
NORTH 81 DEGREES 04 MINUTES 57 SECONDS WEST, A CHORD LENGTH OF 321.09
FEET, AN ARC LENGTH OF 322.65 FEET; THENCE SOUTH 89

EASEMENT AGREEMENT DATED MAY 14, 2007 AND RECORDED MAY 18, 2007 AS DOCUMENT 6186342 FROM CHICAGO TITLE LAND TRUST COMPANY AS TRUSTEE UNDER TRUST AGREEMENT DATED MARCH 14, 1991, AND KNOWN AS TRUST NUMBER 109543900, TO TDC INLAND LAKEMOOR, LLC, FURTHER MODIFIED BY EASEMENT AGREEMENT AMENDMENT RECORDED OCTOBER 19, 2017 AS DOCUMENT NUMBER 7436710, FROM VILLAGE OF LAKEMOOR TO IRC LAKEMOOR, L.L.C., FOR THE PURPOSE OF ACCESS, INGRESS, EGRESS AND USE, WHICH USE IS INTENDED TO CONTAIN THE WATER FACILITIES OVER THE FOLLOWING DESCRIBED LAND (EASEMENT AREA 'H'):

THAT PART OF THE NORTHWEST QUARTER OF SECTION 3, TOWNSHIP 44 NORTH, RANGE 9, EAST OF THE THIRD PRINCIPAL MERIDIAN, DESCRIBED AS FOLLOWS: COMMENCING AT THE SOUTHWEST CORNER OF THE SOUTHWEST QUARTER OF SAID SECTION 3; THENCE NORTH 00 DEGREES 37 MINUTES 02 SECONDS WEST, 2653.77 FEET TO THE NORTHWEST CORNER OF SAID SOUTHWEST QUARTER; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS EAST, ALONG THE WEST LINE OF THE NORTHWEST QUARTER OF SAID SECTION 3, A DISTANCE OF 879.09 FEET; THENCE SOUTH 89 DEGREES 08 MINUTES 44 SECONDS EAST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 66.00 FEET TO THE POINT OF BEGINNING; THENCE NORTH 00 DEGREES 51 MINUTES 16 SECONDS EAST, PARALLEL WITH THE WEST LINE OF SAID NORTHWEST QUARTER, A DISTANCE OF 145.84 FEET; THENCE SOUTH 89 DEGREES 08 MINUTES 44 SECONDS EAST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 95.84 FEET; THENCE SOUTH 00 DEGREES 51 MINUTES 16 SECONDS WEST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 145.84 FEET; THENCE NORTH 89 DEGREES 08 MINUTES 44 SECONDS WEST, AT RIGHT ANGLES TO THE LAST DESCRIBED COURSE, 95.84 FEET TO THE POINT OF BEGINNING; IN LAKE COUNTY, ILLINOIS.

PARCEL 7:

NON-EXCLUSIVE EASEMENT FOR THE BENEFIT OF PARCEL 1 AS GRANTED BY THE DECLARATION OF SERVITUDES: LAKEMOOR COMMONS RECORDED MAY 11, 2018 AS DOCUMENT NUMBER 7482965 FOR THE PURPOSE OF THE USE AND ENJOYMENT OF THE STORMWATER SYSTEM LOCATED OVER LOTS 9 AND 11 OF THE FINAL PLAT OF LAKEMOOR COMMONS SUBDIVISION.

PARCEL 8:

A NON-EXCLUSIVE, PERPETUAL EASEMENT FOR THE BENEFIT OF PARCEL 1 AS CREATED BY LOT 7 DRIVEWAY EASEMENT AGREEMENT DATED MAY 24, 2022, AND RECORDED SUBSTANTIALLY CONCURRENTLY HERewith WITH THE REGISTER OF DEEDS FOR LAKE COUNTY, ILLINOIS, FROM WOODMAN'S FOOD MARKET, INC., A WISCONSIN CORPORATION, TO ADVOCATE HEALTH AND HOSPITALS CORPORATION, FOR THE PURPOSE OF INGRESS AND EGRESS TO AND FROM THE PRIVATE ROAD KNOWN AS LOT 10, LAKEMOOR COMMONS SUBDIVISION.

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EXHIBIT B—PERMITTED EXCEPTIONS

1. General real estate taxes against the subject property as are not due and payable on the date of delivery of this deed.
2. Terms, powers and provisions of an Ordinance regarding waterworks and sewerage systems of the County Board of Lake County, Illinois, a copy of which was recorded as document number 2737883.
3. Ordinances by the County of Lake, one recorded as Document 2853414 as modified by the Amended and Restated Annexation Agreement and Redevelopment Agreement recorded May 11, 2018 as Document number 7482963, others recorded from time to time, relating to the payment of certain charges as a condition precedent to permission to tap into a sewer or water system. Assignment of RDA dated April 26, 2018, but effective April 30, 2018 and recorded May 11, 2018 as Document Number 7482964 made by and between IRC Lakemoor, L.L.C., and Woodman's Food Market, Inc.
4. Intentionally omitted.
5. Terms, covenants, conditions and restrictions contained in Declaration of Servitudes: Lakemoor Commons recorded May 11, 2018 as document 7482965, and the terms and provisions contained therein which includes, among other things, assessments, approval rights in favor of The architectural control committee and use restrictions and the rights of Adjoining owners to the concurrent use of the easements granted therein. As amended by First Amendment to Declaration of Servitudes being recorded substantially concurrently herewith.
6. Access point restrictions as contained in the IDOT access notes contained on the final plat of Lakemoor Commons Subdivision recorded October 17, 2018 as Document Number 7519735 as follows: Access to Lot 8 shall be from internal circulation.
7. Easement for public utility in favor of Commonwealth Edison granted by Grant of Easement recorded December 21, 2018 as document number 7533487.
8. Terms, conditions, and provisions of Ordinance 18-02 entitled "An Ordinance Annexing Lakemoor Commons Subdivision in Lakemoor, Illinois to the Northern Moraine Wastewater Reclamation District Counties of Lake and McHenry, State of Illinois" recorded August 7, 2018 as Document Number 7503845.
9. Public utility easement in favor of Northern Illinois Gas Company as granted by Grant of Easement recorded May 6, 2019 as Document Number 7559709.
10. Terms, covenants, conditions and restrictions contained in the Road Improvements Recapture Agreement (Lakemoor Commons, Village of Lakemoor) dated April 10, 2018 and recorded April 24, 2019 as document number 755181.

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11. Terms, Provisions and Conditions contained in Easement Agreement between Chicago Title Land Trust Company, as Trustee under a Trust Agreement dated March 14, 1990 and known as Trust Number 1095439 and TDC Inland Lakemoor, LLC recorded May 18, 2007 as document No. 6186342. Easement Agreement Amendment between 92131, LLC successor to the Stade Family Trust #11-05 92131 LLC, as Successor to Chicago Title Land Trust Company, as Trustee under a Trust Agreement dated March 14, 1990 and known as Trust Number 1095439 and Village of Lakemoor, an Illinois municipal corporation and IRC Lakemoor, L.L.C., recorded October 19, 2017 as document number 7436710.
12. Amended and Restated Annexation Agreement and Redevelopment Agreement dated December 27, 2017 and recorded May 11, 2018 as Document number 7482963 made by and between IRC Lakemoor, L.L.C., Woodman's Food Market, Inc. and the Village of Lakemoor; and Assignment of RDA dated April 26, 2018, but effective April 30, 2018 and recorded May 11, 2018 as Document Number 7482964 made by and between IRC Lakemoor, L.L.C. and Woodman's Food Market, Inc.; First Amendment to Amended and Restated Annexation Agreement and Redevelopment Agreement, recorded October 24, 2019, as File No. 7603126.
13. Terms and provisions of an Intergovernmental Agreement for the Expansion of Sanitary Sewer Infrastructure Necessitated by the Development of Property Located at Routes 12 and 120 Between the Northern Moraine Wastewater Reclamation District and the Village of Lakemoor, Lake and McHenry Counties, Illinois recorded September 21, 2017 as document 7429671 and Certification with amendments recorded October 19, 2017 as document 7436701.
14. The use and enjoyment of the easement referenced in Parcel 7 is subject to it being open and in use.
15. Survey prepared by R.E. Allen and Associates, Ltd., dated October 26, 2021.
16. Intentionally deleted.
17. Rights of the adjoining owners in and to the concurrent use of the easements described in Exhibit A.
18. Intentionally deleted.
19. Easements, dedications, reservations, provisions, relinquishments, recitals, certificates, and any other matters disclosed on the final plat of Advocate Subdivision, recorded May 20, 2022, as Document No. 214016203748.
20. Terms, provisions, and conditions of a Third Amendment to Amended and Restated Annexation Agreement and Redevelopment Agreement being recorded substantially concurrently herewith.
21. Terms, provisions, conditions, covenants, restrictions, costs and all other matters as set forth in Lot 7 Driveway Easement Agreement, being recorded substantially concurrently herewith.

22. Terms, provisions, conditions, covenants, restrictions, easements, costs and all other matters as set forth in Lot 8-East Driveway Easement Agreement, being recorded substantially concurrently herewith.
23. Acts done or suffered by Grantee and any person claiming by, through or under Grantee.

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Plat Act Affidavit

18 N County St - 6th Floor
Waukegan, IL 60085-4358
Phone: (847) 377-2575
FAX: (847) 984-5860

STATE OF ILLINOIS }
COUNTY OF LAKE } SS

Clint Woodman, as President of Woodmans' Food Market, Inc.
I, (name) whose principal office is at 2236 Liberty Lane, Janesville, WI 53545, being duly sworn on oath, state that I reside at _____, and that the attached

deed is not in violation of the Plat Act, Ch. 765 ILCS 205/1.1(b), as the provisions of this Act do not apply and no plat is required due to the following allowed exception (Circle the number applicable to the attached deed):

1. The division or subdivision of land into parcels or tracts of 5 acres or more in size which does not involve any new streets or easements of access;
2. The division of lots or blocks of less than 1 acre in any recorded subdivision which does not involve any new streets or easements of access;
3. The sale or exchange of parcels of land between owners of adjoining and contiguous land;
4. The conveyance of parcels of land or interests therein for use as a right of way for railroads or other public utility facilities and other pipe lines which does not involve any new streets or easements of access;
5. The conveyance of land owned by a railroad or other public utility which does not involve any new streets or easements of access;
6. The conveyance of land for highway or other public purposes or grants or conveyances relating to the dedication of land for public use or instruments relating to the vacation of land impressed with a public use;
7. Conveyances made to correct descriptions in prior conveyances;
8. The sale or exchange of parcels or tracts of land following the division into no more than 2 parts of a particular parcel or tract of land existing on July 17, 1959, and not involving any new streets or easements of access;
9. The sale of a single lot of less than 5 acres from a larger tract when a survey is made by an Illinois Registered Land Surveyor; provided, that this exemption shall not apply to the sale of any subsequent lots from the same larger tract of land, as determined by the dimensions and configuration of the larger tract on October 1, 1973, and provided also that this exemption does not invalidate any local requirements applicable to the subdivision of land;
10. The conveyance of land does not involve any land division and is described in the same manner as title was taken by grantor(s).

AFFIANT further states that this affidavit is made for the purpose of inducing the RECORDER OF LAKE COUNTY, ILLINOIS to accept the attached deed for recording. (This affidavit is not applicable to Facsimile Assignment of Beneficial Interest.)

WOODMAN'S FOOD MARKET, INC.


(Signature)

Clint Woodman, President

Revised: September 7, 2010 11:40 AM

SUBSCRIBED and SWORN to before me this 20th day
of May, 2022



(seal)

EXP. 03/27/2026

Operating Identity/Licensee

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

Exact Legal Name: Advocate Health and Hospital Corporation d/b/a Advocate Medical Group

Address: 3075 Highland Parkway, Downers Grove, IL 60615

☒	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.**

Provided for Attachment #1:**Advocate Health and Hospitals Corporation****IL Certificate of Good Standing****Advocate Aurora Health, Inc.****IL Certificate of Good Standing****DE Certificate of Good Standing****Advocate Health, Inc.****IL Certificate of Good Standing****DE Certificate of Good Standing**

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 I am the keeper of the records of the Department of Business Services. I 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 #: 2230702658 verifiable until 11/03/2023
Authenticate at: <https://www.ilsos.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .

Jesse White

SECRETARY OF STATE

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.



6645600 8300C

SR# 20223973842

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JBullock", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed in a small font.

Authentication: 204813506

Date: 11-09-22

File Number

7155-851-7

***To all to whom these Presents Shall Come, Greeting:***

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication # 2230702624 verifiable until 11/03/2023

Authenticate at <https://www.sos.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .

A handwritten signature in cursive script that reads "Jesse White".

SECRETARY OF STATE

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.



6784998 8300C

SR# 20223974042

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JB", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed in a small font.

Authentication: 204813661

Date: 11-09-22

File Number

7376-313-4

***To all to whom these Presents Shall Come, Greeting:***

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication # 2231201844 verifiable until 11/08/2023
Authenticate at <https://www.ilsos.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 8TH
day of NOVEMBER A.D. 2022 .

Jesse White

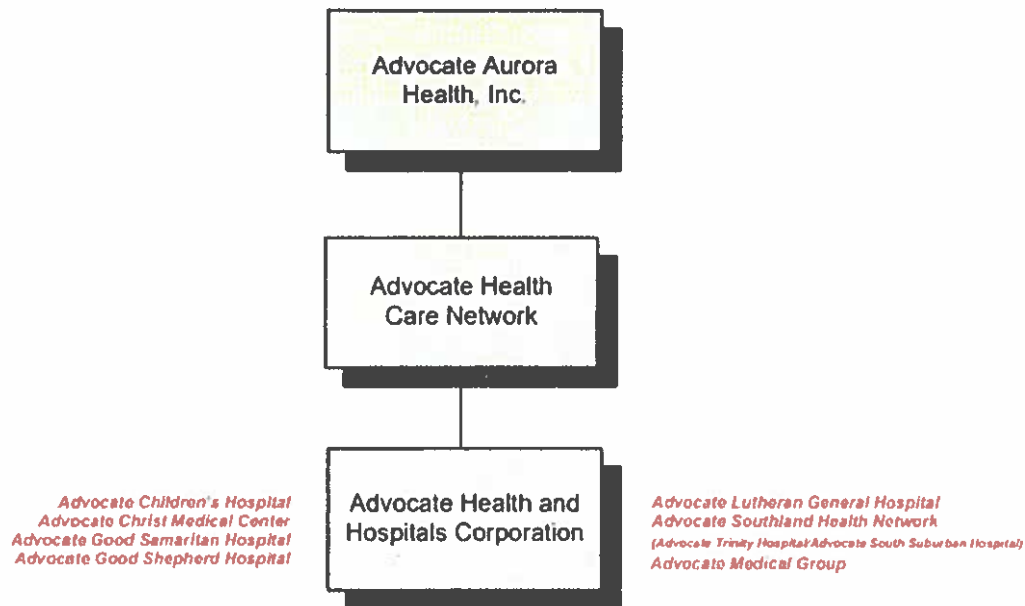
SECRETARY OF STATE

Organizational Relationships

Provide (for each 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.

See Attachment 4, Exhibit 1.



☐ • Not for Profit
Red = Operating Divisions
100% Ownership Unless Otherwise Noted

November 9, 2022

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 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 #2006-5 (<http://www.hfsrb.illinois.gov>). **NOTE: A SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM has been added at the conclusion of this Application for Permit that must be completed to deem a project complete.**

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

By their signatures on the certifications, the applicants certify that the site for the proposed project is not in a flood plain, as identified by the most recent FEMA Flood Insurance Rate Map for this location. As the Project is not in a Special Flood Hazard Area, it complies with Illinois Executive Order #2006-5

See Attachment #5, Exhibit 1.



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.

The location of the project is 27655 IL Route 120, Lakemoor, IL.

A letter was sent to the Illinois Department of Natural Resources (IDNR) on January 5, 2023, requesting a determination letter for this project. The IDNR, Historic Preservation Division is in the process of replying to that request. A copy of the letter is attached as Attachment 6 Exhibit 1.



150 N. Riverside Plaza, Suite 3000, Chicago, IL 60606 • (312) 819-1900

January 5, 2023

Via Email

Anne M. Cooper
(312) 873-3606
(312) 276-4317 Fax
acooper@polsinelli.com

Carey Mayer
Deputy State Historic Preservation Officer
Illinois State Historic Preservation Office
Attn: Review & Compliance
1 Old State Capitol Plaza
Springfield, Illinois 62701

Re: Advocate Medical Group Lakemoor Medical Office Building

Dear Ms. Meyer:

This office represents Advocate Health, Inc. and Advocate Health and Hospitals Corporation (collectively "Advocate"). Pursuant to Section 4 of the Illinois State Agency Historic Resources Preservation Act, Advocate seeks a formal determination from the Illinois Historic Preservation Agency as to whether Advocate's proposed project to establish a medical office building in Lakemoor, Illinois (the "Proposed Project") affects historic resources.

1. Project Description

Advocate seeks to establish an outpatient medical office building at 27655 Illinois Route 120 in Lakemoor, Illinois. The project will include a newly constructed, single-story building, which will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including physical therapy, lab, imaging, and integrative medicine and a retail drive-thru pharmacy. The project's total square footage will be approximately 20,000 square feet. No demolition or physical alteration of any existing buildings will occur as a result of the Proposed Project.

2. Topographical or Metropolitan Map

A metropolitan map showing the location of the Proposed Project is attached at Attachment

1.

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Atlanta	Boston	Chicago	Dallas	Denver	Houston	Kansas City	Los Angeles	Miami	Nashville	New York
Phoenix	St. Louis	San Francisco	Seattle	Silicon Valley	Washington, D.C.	Wilmington				

Partners: PC, Polsinelli P.A. California

8754X706-1



Ms. Cary Meyer
January 5, 2023
Page 2

3. Historic Architectural Resources Geographic Information System

A map from the Historic Architectural Resources Geographic Information System is attached at Attachment 2. The property is not listed on the (i) National Register, (ii) within a local historic district, or (iii) within a local landmark.

4. Photographs of Site

Photographs of the site where the medical office building will be located are attached at Attachment 3.

5. Address for Building/Structure

The Proposed Project will be located at 27655 Illinois Route 120 in Lakemoor, Illinois 60051.

Thank you for your time and consideration of our request for Historic Preservation Determination. If you have any questions or need any additional information, please feel free to contact me at 312-873-3606 or acooper@polsinelli.com

Sincerely,

A handwritten signature in cursive script that reads "Anne M. Cooper".

Anne M. Cooper

Attachments

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 be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$57,127	\$193,285	\$250,412
Site Survey and Soil Investigation	\$10,793	\$36,517	\$47,310
Site Preparation	\$524,755	\$1,775,459	\$2,300,214
Off Site Work	\$0	\$0	\$0
New Construction Contracts	\$3,980,698	\$12,395,706	\$16,376,404
Modernization Contracts	\$0	\$0	\$0
Contingencies	\$213,038	\$720,793	\$933,831
Architectural/Engineering Fees	\$320,948	\$1,085,900	\$1,406,848
Consulting and Other Fees	\$254,005	\$859,401	\$1,113,406
Movable or Other Equipment (not in construction contracts)	\$796,806	\$142,628	\$939,434
Bond Issuance Expense (project related)	\$57,738	\$195,352	\$253,090
Net Interest Expense During Construction (project related)	\$147,827	\$500,159	\$647,986
Fair Market Value of Leased Space or Equipment	\$0	\$0	\$0
Other Costs to Be Capitalized	\$1,213,270	\$4,104,986	\$5,318,256
Acquisition of Building or Other Property (excluding land)	\$0	\$0	\$0
TOTAL USES OF FUNDS	\$7,577,004	\$22,010,186	\$29,587,191
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$2,327,074	\$6,759,840	\$9,086,914
Pledges			
Gifts and Bequests			
Bond Issues (project related)	\$5,249,930	\$15,250,347	\$20,500,277
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$7,577,004	\$22,010,186	\$29,587,191
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 Project Costs

Items	
Preplanning Costs	\$250,412
Concept and Programming	\$65,154
Pre-Construction Services	\$185,258
Site Survey and Soil Investigation	47,310
Off Site Work	\$0
Site Preparation	\$2,300,214
New Construction Contracts	\$16,376,404
Modernization Contracts	\$0
Contingencies	\$933,831
Architectural/Engineering Fees	\$1,406,848
Building Design	\$1,305,848
Civil Design	\$101,000
Consulting and Other Fees	\$1,113,406
CON Application & Regulatory Fees	\$162,000
Commissioning	\$60,000
Village Permitting	\$398,806
Testing (Soil / Concrete / Asphalt)	\$60,000
Project Management	\$360,000
Miscellaneous (Pharmacy, Shielding)	\$72,600
Movable and Other Equipment; (not in construction contracts)	\$939,434
Major Medical	\$680,527
Minor Medical	\$258,907
Fair Market Value Lease Space:	\$0
Bond Issuance Expense	\$253,090
Net Interest Expense During Construction	\$647,986
Other Costs to be Capitalized	\$5,318,256
Furnishings	\$590,090
IS / Telecommunications	\$646,317
Signage	\$354,000
Artwork	\$54,000
Pharmacy Casework	\$150,000
Miscellaneous (Cleaning)	\$50,000
Owner Project Contingency (Non-Construction)	\$1,236,864
Utility Costs	\$157,500
Land Purchase	\$2,079,485
Acquisition of Building or Other Property (excluding land)	\$0
TOTAL	\$29,587,191

Lakemoor OP Clinic Equipment	
	Quantity
Alcove -Equipment	12
Cart, Equipment	2
Electrocardiograph (ECG)	2
Monitor, Physiologic	6
Scale, Clinical	2
Alcove - Lab	1
Refrigerator	1
Alcove - Wheelchair Scale	4
Scale, Clinical	2
Stadiometer	2
Behavioral Health Consult Room	4
Dispenser	1
Waste Can	3
Blood Draw - open	12
Cart, Procedure	1
Chair, Clinical	1
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Rack	1
Stool	1
Waste Can	2
Blood Draw - Private	13
Cart, Procedure	1
Chair, Clinical	2
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Rack	1
Stool	1
Waste Can	2
Clean Soiled Processing	17
Cart, Supply	3
Dispenser	6
Dispenser, Glove	2
Disposal, Sharps	1
Incubator, Lab	1
Sterilizer	1
Waste Can	3
Clean Supply	13
Cabinet, Storage, Clinical	1

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD	APPLICATION FOR PERMIT- 06/2021 - Edition
Cart, Cylinder	1
Cart, Supply	7
Cart, Utility	1
Dispenser	1
Stool	1
Waste Can	1
Consult	3
Dispenser	1
Waste Can	2
Doctorless Encounter Room	14
Dispenser	4
Monitor, Physiologic	2
Scale, Clinical	2
Stadiometer	2
Stool	2
Waste Can	2
Dressing Room	6
Dispenser	2
Hamper	2
Waste Can	2
EVS	3
Dispenser	1
Rack	1
Waste Can	1
Exam Room - Primary Care/OB	132
Dispenser	48
Dispenser, Glove	12
Disposal, Sharps	12
Oto/Ophthalmoscope Set	12
Scale, Clinical	12
Stool	12
Table, Exam/Treatment	12
Waste Can	12
Gen Rad	18
Apron	5
Dispenser	4
Hamper	1
Immobilizer	1
Rack	1
Shield	1
Stool	3
Waste Can	1
X-Ray Unit	1
Lab Processing	12
Centrifuge	2

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD	APPLICATION FOR PERMIT- 06/2021 - Edition
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Refrigerator	2
Waste Can	2
Lounge	11
Coffee Maker	1
Dispenser	3
Dispenser, Water	1
Oven	2
Refrigerator	2
Waste Can	2
Medication Room	11
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Freezer	1
Mat, Floor	1
Refrigerator	2
Waste Can	1
Multipurpose room	4
Dispenser	1
Waste Can	3
NST	14
Dispenser	5
Dispenser, Glove	1
Monitor, O.B.	2
Monitor, Physiologic	2
Stool	1
Warmer	1
Waste Can	2
Office - Shared	3
Dispenser	1
Waste Can	2
Pharmacy	9
Allowance	1
Cart, Utility	1
Dispenser	2
Dispenser, Glove	1
Refrigerator	2
Waste Can	2
Phone Room	4
Dispenser	1
Waste Can	3
POC	16

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

APPLICATION FOR PERMIT- 06/2021 - Edition

Analyzer, Lab	4
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Doppler	1
Freezer	1
Microscope	1
Refrigerator	1
Waste Can	2
Procedure/Ultrasound Room - OB/GYN	24
Cart, Procedure	1
Colposcope	1
Dispenser	5
Dispenser, Glove	1
Disposal, Sharps	1
Electrosurgical Unit	2
Hamper	1
Light, Exam/Procedure	1
Monitor, Physiologic	1
Oto/Ophthalmoscope Set	1
Scale, Clinical	1
Stadiometer	1
Stand, IV	1
Stand, Mayo	1
Stool	1
Table, Exam/Treatment	1
Ultrasound, Imaging	1
Waste Can	2
PT Exam Room	9
Dispenser	4
Dispenser, Glove	1
Stool	1
Table, Exam/Treatment	1
Table, Work	1
Waste Can	1
Reception	4
Waste Can	4
Respite Room	5
Dispenser	4
Waste Can	1
Soiled Holding	6
Cart / Truck	1
Dispenser	2
Dispenser, Glove	1
Waste Can	2

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

APPLICATION FOR PERMIT - 06/2021 - Edition

Staff Area	6
Dispenser	3
Oven	1
Refrigerator	1
Waste Can	1
Storage	6
Cart, Supply	3
Dispenser	1
Stool	1
Waste Can	1
Storage Shell	8
Cart, Supply	8
Teamwork Area	19
Bin	1
Box	1
Cabinet, Storage, Clinical	1
Defibrillator	1
Dispenser	1
Waste Can	14
Tech Workroom	3
Dispenser	1
Waste Can	2
Therapist Workroom	3
Dispenser	1
Waste Can	2
Toilet	40
Dispenser	32
Waste Can	8
Touchdown	6
Dispenser	2
Waste Can	4
Waiting - Public	2
Dispenser	1
Waste Can	1
Wheelchair Storage	4
Wheelchair	4
(blank)	
(blank)	
Grand Total	481

Project Status and Completion Schedules**For facilities in which prior permits have been issued please provide the permit numbers.**

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): Oct 31, 2024

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

☒ Purchase orders, leases or contracts pertaining to the project have been executed.☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies☐ Financial Commitment will occur after permit issuance.**APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

The following CON/COE applications have received permits from the HFSRB and are in process of development. These projects are expected to be completed on time and within budget without any changes in scope.

Advocate Christ Medical Center	#14-057
Advocate Condell Medical Center	#20-004
Advocate Lutheran General Hospital	#21-003
Advocate Illinois Masonic Medical Center	# 22-009
Advocate South Suburban Hospital	#22-028
Advocate Christ Medical Center	#E-051-22

Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (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 departments or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Building Gross Square Feet		Proposed Total Building Gross Square Feet			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
CLINICAL Reviewable							
Gen Radiology	\$2,163,387	0	1,083 BGSF	1,083 BGSF	0	0	0
Ultrasound	\$625,369	0	191 BGSF	191 BGSF	0	0	0
Total Clinical - Reviewable	\$2,788,755	0	1,274 BGSF	1,274 BGSF	0	0	0

CLINICAL Non-Reviewable							
Physician Exam Procedure rooms – 14 Rooms	\$2,786,698	0	1,825 BGSF	1,825 BGSF	0	0	0
NST	\$353,191	0	194 BGSF	194 BGSF	0	0	0
Well - Lab	\$1,096,738	0	733 BGSF	733 BGSF	0	0	0
Physical Therapy	\$267,191	0	177 BGSF	177 BGSF	0	0	0
OP Behavioral Health room	\$268,775	0	193 BGSF	193 BGSF	0	0	0
Total Clinical - Non-Reviewable	\$4,772,593	0	3,122 BGSF	3,122 BGSF	0	0	0

NON-CLINICAL Non-Reviewable							
Public, Circulation, Staff Support, Building Support	\$18,503,661	0	13,194 BGSF	13,194 BGSF	0	0	0
Integrative Medicine - Multipurpose room	\$1,951,849	0	748 BGSF	748 BGSF	0	0	0
Retail Pharmacy	\$1,570,332	0	932 BGSF	932 BGSF	0	0	0
Total Non-Clinical Non-Reviewable	\$22,025,842	0	14,874 BGSF	14,874 BGSF	0	0	0
TOTAL	\$29,587,191	0	19,270 BGSF	19,270 BGSF	0	0	0

There is no vacated space in the project.

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.

1110.110(a) – Background of the Applicant

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 listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.
3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners, and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.
 - a. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.
 - b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted, or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction, and submit any police or court records regarding any matters disclosed.
 - c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.
 - d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.
 - e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.
4. 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.**
5. 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 that the information was 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 can 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.

See Attachment #11, Exhibits 1,2,3

1. For the following questions, please a 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 Illinois licensed health care facilities owned by the applicants.

2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.

By the signatures on the Certification pages of this application, the applicants attest there has been no "adverse action" (as that term is defined in Section 1130.140 of the Illinois Health Facilities and Services Review Board (HFSRB) rules) against any Illinois health care facility owned and/or operated by the applicants, during the three-year period immediately prior to the filing of this application.

3. Authorization permitting HFSRB and DPH access to any documents necessary.

The applicants hereby authorize the HFSRB and the Illinois Department of Public Health to access information that may be required 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 HFSRB or Illinois Department of Public Health find pertinent to this subsection.

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 that the information was 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

All licensure and accreditation information required with this Attachment 11 is attached and the applicants are not relying on a previously filed application.

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

Illinois Hospitals owned and operated by the applicants.			
Facility	Location	License No.	DNV Accreditation No.
Advocate Christ Medical Center	4440 West 95th St Oak Lawn, IL 60453	315	PRJC-435588-2012-MSL-USA
Advocate Condell Medical Center	801 South Milwaukee Ave Libertyville, IL 60048	5579	PRJC-492361-2013-AST-USA
Advocate Good Samaritan Hospital	3815 Highland Ave Downers Grove, IL 60515	3384	PRJC-369029-2012-MSL-USA
Advocate Good Shepherd Hospital	450 West Highway 22 Barrington, IL 60010	3475	PRJC-369027-2012-MSL-USA
Advocate Illinois Masonic Medical Center	836 West Wellington Ave Chicago, IL 60657	5165	PRJC-529782-2015-AST-USA
Advocate Lutheran General Hospital	1775 Dempster St Park Ridge, IL 60068	4796	PRJC-369033-2012-MSL-USA
Advocate Sherman Hospital	1425 North Randall Rd Elgin, IL 60123	5884	PRJC-496379-2013-MSL-USA
Advocate South Suburban Hospital	17800 South Kedzie Ave Hazel Crest, IL 60429	4697	PRJC-409982-2012-MSL-USA
Advocate Trinity Hospital	2320 East 93rd Street Chicago, IL 60617	4176	PRJC-408213-2012-MSL-USA
Additionally, AHHC has ownership interest of 50% or more in the following licensed health care facilities			
Facility	Location	License No.	Joint Commission Accreditation No/ Accreditation Association for Ambulatory Health Care, Inc.
Dreyer Ambulatory Surgery Center	1220 N. Highland Ave, Aurora, IL	7001779	AAAHC

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 I am the keeper of the records of the Department of Business Services. I 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 # 2230702658 verifiable until 11/03/2023
Authenticate at <https://www.isos.gov>

***In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .***

Jesse White

SECRETARY OF STATE

Delaware

The First State

Page 1

I, **JEFFREY W. BULLOCK**, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.

6645600 8300C

SR# 20223973842

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature of Jeffrey W. Bullock in black ink, written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed.

Authentication: 204813506

Date: 11-09-22

File Number

7155-851-7

***To all to whom these Presents Shall Come, Greeting:***

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication #: 2230702624 verifiable until 11/03/2023
Authenticate at: <https://www.isos.gov>

In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 3RD
day of NOVEMBER A.D. 2022 .

Jesse White

SECRETARY OF STATE

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.



6784998 8300C

SR# 20223974042

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JB", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock Secretary of State" is printed.

Authentication: 204813661

Date: 11-09-22

File Number

7376-313-4

***To all to whom these Presents Shall Come, Greeting:***

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE HEALTH INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication # 2231201844 verifiable until 11/08/2023
Authenticate at <https://www.isos.gov>

***In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 8TH
day of NOVEMBER A.D. 2022***

Jesse White

SECRETARY OF STATE

Criterion 1110.110(b) & (d)**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 relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the 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 the age and condition of the project site, as well as 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 Board Staff 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.

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

1. This project will improve access to Advocate physicians and screening services through the expansion of clinicians and services to a new location. The project will serve patients by offering primary care and specialty physicians and outpatient services all in one building, providing more services to the community. The co-location of services will provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting location. The multi-disciplinary care decisions and plans developed will improve management of chronic and acute conditions. This will improve care coordination and allow patients to see multiple specialists and have a variety of tests performed in a single day. This new facility will improve availability for the specialty physicians in the building closer to residents of this community. This will increase access to needed services as it has been challenging to access appointments with existing primary care physicians in this location.

The new clinic will be located at the corner of State Highway 12 and State Highway 120, both of which are important transportation arteries in Lake County. This will make the facility easily accessible for patients driving from any direction.

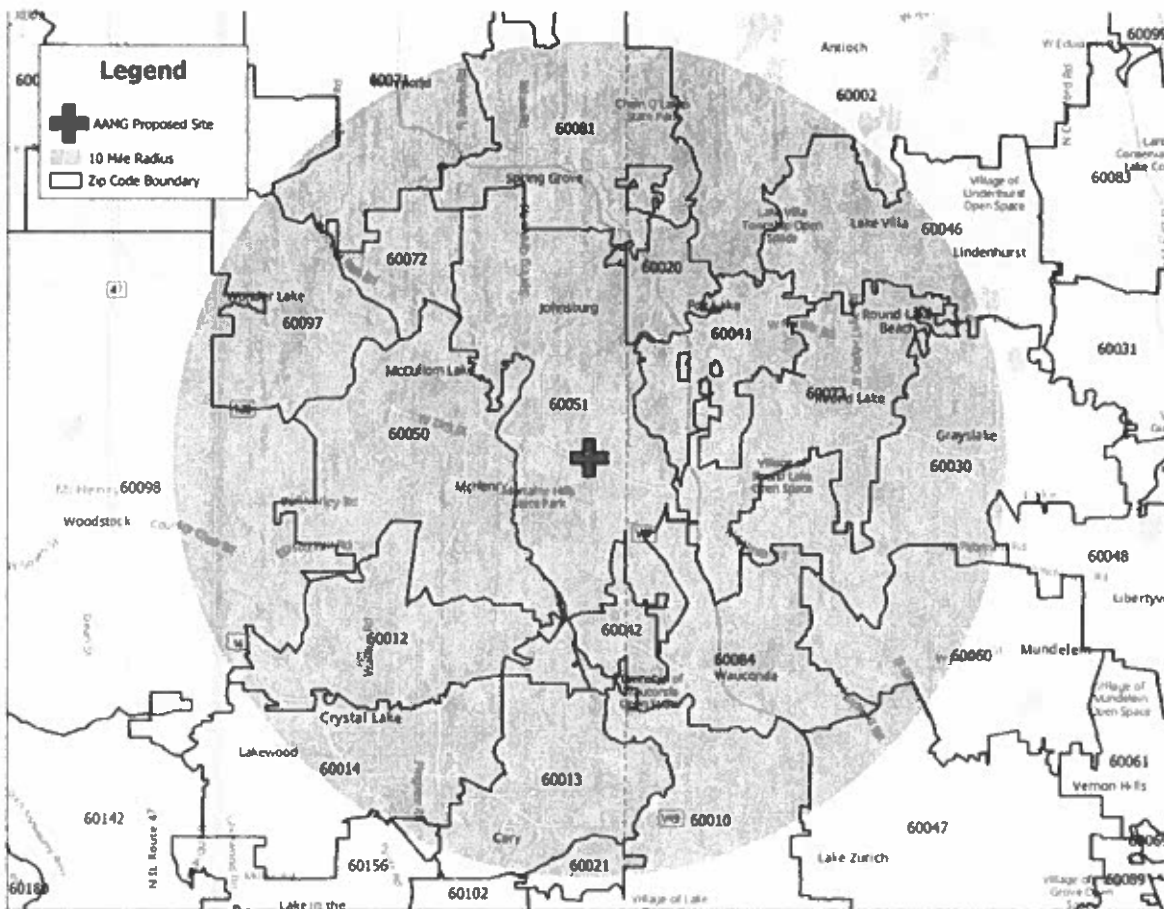
This project will help increase access to Advocate physicians and screening services by opening a location in a geography where very few physicians practice. The project will serve patients by offering primary care and specialty physicians and outpatient services all in one building. This co-location offers nearby residents one location to fill many of their health care needs. It also locates services closer to many residents north of this location such as Fox Lake and Spring Grove who have a long drive to a primary care office, Immediate Care and Advocate Good Shepherd Hospital.

The co-location of services will provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting location. The multi-disciplinary care decisions and plans developed will improve management of chronic and acute conditions. This will improve care coordination and allow patients to see multiple specialists and have a variety of tests performed in a single day.

2. Define the planning area or market area

The project is planned to serve the residents that live in the western Lake County and eastern McHenry County. The primary market area is defined by a ten-mile radius of the Medical Office Building location as shown in the map below.

Projections for this site anticipate that the majority of patients will live within this ten-mile radius service area. Approximately 36% of Good Shepherd's inpatient, observation and hospital outpatient activity originates from these zip codes.



The zipcodes in the service area with their population is provided below.

Zip Code	City	2022 Population
60012	Crystal Lake	11,081
60013	Cary	26,206
60020	Fox Lake	9,689
60041	Ingleside	9,837
60042	Island Lake	8,145
60046	Lake Villa	33,312
60050	McHenry	31,300
60051	McHenry	24,757
60071	Richmond	3,802
60072	Ringwood	857
60073	Round Lake	60,804
60081	Spring Grove	9,798
60084	Wauconda	16,804
60097	Wonder Lake	10,983

Age Groups	2022 Population	2027 Population
0-19	67,170	65,681
20-44	83,941	83,397
45-64	70,549	65,347
65+	35,365	38,715
TOTAL	257,375	256,700

This area is projected to continue to see tremendous growth based on the commercial growth and economic development planned and in process for this area.

Although the total population in the service area is projected to be consistent over the next 5 years, the growth in the 65+ population is projected to increase by 10% from 35,365 to 38,715.

The race and ethnicity for this community is projected to continue to change over the next 5 years. The Hispanic population is 20% of this service area and is expected to grow. The physicians and outpatient team members has a strong pattern of providing care to the Hispanic population with multilingual staff in many areas.

Advocate Health Care has continued to adapt to the changing health care needs and provide the continuum of health care services to families that live in the service areas.

3. Identify the existing problems or issues that need to be addressed

Using Good Shepherd's 2019 Community Health Needs Assessment (CHNA) as a guide, the proposed project will address a number of health needs for the project's planning area. Having primary care in the building will allow residents to build trusting relationships with residents and make sure they have access to preventative services. The CHNA identified a number of issues in the project's targeted geography that informed the type of providers to be located in this new building:

- The number of primary care providers per 100,000 in both Lake and McHenry counties are decreasing
- Opportunities to improve heart failure and hypertension, particularly in zip codes 60051 (the home zip code of the building),
- 60050, 60042 and 60013
- Cervical cancer rates, which while high decreased from the previous study
- Emergency Room visits due to mental health

Access to health services affects a person's health and well-being. Regular and reliable access to health services can:

- Prevent disease and disability
- Detect and treat illnesses and other health conditions
- Increase quality of life
- Reduce the likelihood of premature death
- Increase life expectancy
- <https://khn.org/news/article/primary-care-physician-for-every-american-national-academies-recommendation-empanelment/>

Through interviews and a data driven approach, we learned of the community's greatest health care needs. Many of the communities do not have a primary care physician who practices in the zip code, forcing residents to travel outside their communities to seek even basic care. Five of the zip codes in the proposed geography that do not have any primary care physicians.

Cite the sources of documentation

Information was gathered from the following sources:

- Advocate Good Shepherd Hospital Community Health Needs Assessment Study 2019
- IHA Compdata
- Sg2
- Esri Demographics
- Internal data
- 3d Health
- Coorudent Health Communities, County Health Rankings, 2016

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

The project would add primary care physicians to an area with a decreasing number of primary care physicians in Lake County. These primary care physicians can refer to and partner with the specialists, and OB/GYNs in the building. Obstetrics and gynecology physicians will practice in the building which should increase cervical cancer screening rates for the communities served. Finally, there will be a licensed clinical social work practitioner who will practice in the building, providing more access to much needed mental health services and collaborating with the other clinicians in the building. Offering the ancillary services at the same location provides patients with the necessary services that are part of a comprehensive visit at the time of their provider visit.

Provide goals for the proposed project

The goal of the proposed project is to increase accessibility to AAH preventative services and early therapeutic services in their community. More accessible clinician services will prove beneficial in improving health status, increasing life spans, and elevating the quality of life as well as lowering the costs associated with treating late-stage diseases resulting from a lack of preventative and maintenance care.

ALTERNATIVES

- 1) Identify **ALL** 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.

The proposed project will increase access to Advocate Aurora Health (AAH) services by providing clinician care and ancillary services to this geography. The project provides enhanced space for physician and APC clinics and non-hospital-based outpatient services such as Physical Therapy, Lab, and OB Ultrasound and General Imaging services.

The location of the project will be in Lakemoor, approximately 13 miles or 20 minutes by car from Advocate Good Shepherd Hospital in Barrington, the closest AAH acute care facility, and 13 miles or 28 minutes from Advocate Condell Medical Center in Libertyville. The building will be located next to a Woodman's grocery store and will be at the busy intersection of State Highway 12 and State Highway 120, making the facility easily accessible for patients driving from any direction.

AAH considered a number of alternatives to develop an appropriately sized ambulatory building to provide improved access and growth in the right location to support the needs of this community.

The following alternatives were evaluated that looked at the complement of services that would co-locate the clinical providers and ancillary services to increase collaboration and continuum of care for the residents of this service area.

Alternative #1: Do nothing (Cost: \$0)

This option would continue to provide physician offices and ancillary services at current locations. It was determined that additional primary care physicians and specialists were needed for the patients who live in this geography. AAH currently serves residents from this geography in the AMG Wauconda office. However, the clinicians practicing at this site are at capacity and have lengthy wait times. This alternative was rejected as services such as lab and imaging that are part of a clinic visit could not be added at this location due to space constraints. Patients would continue to need to locate and schedule these on another date and location.

This option was rejected because the closest AMG site did not allow for the necessary expansion to serve the targeted geography.

Alternative #2: Lease space in the geography (Cost: \$unknown)

This option would be to lease space for the needed clinicians and services. AAH looked for appropriately sized lease spaces in this geography and were not able to identify suitable space to lease.

This alternative was rejected because we did not find a space that would fill the needs of the community.

Alternative #3: Develop a Project of lesser scope and cost (Cost: \$ 18,000,000)

This option would be to construct a medical office building that would include only primary care physician offices without the ancillary and specialty services. This would not provide patients complementary services such as imaging during their physician visit. Patients would need to locate these services and schedule time on another day to receive care.

This would increase time to diagnosis and treatment and increase non-compliance of needed services. In this geography, these services are not readily available and often out of the area. The scope of this project was planned based on the increasing needs in this community.

This alternative was not chosen because it does not address the need for increased access for the identified preventative services and better continuity of care for patients living in this geography.

Alternative #4: Develop a Project of greater scope and cost (Cost: \$33,000,000)

This option considered building a facility that included additional imaging services, more compressive integrative medicine space, gym retail, physical therapy, and expansive physician-based services.

As good financial stewards of AAH, the plan to build beyond the scope of this project at this time was determined to be a significant undertaking. It was in the best interest of AAH and the community to plan for current needs.

Alternative #5: Build the Medical Clinic in Lakemoor with Primary and Specialty physicians and the Ancillary Services (Cost: \$ 29,587,191) - Project selected

This option was selected as it provides the services that have been identified to be needed in this community and will serve the residents by offering required outpatient services all in one building, providing the continuum of service needed. This location is highly visible and is accessible to patients and physicians.

Criterion 1110.120 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

4. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**
5. 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 and certified by the facility's Medical Director.
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.
 - c. The project involves the conversion of existing space that results in excess square footage.
 - d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

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?

The services in the proposed project will be provided by Advocate Aurora Medical Group and will not be hospital-based services.

The Clinical services included in the project are provided in the table below. The proposed square footage is included and compared where there are state standards.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Imaging – General Radiology	1,083 BGSF	1,300 dgft/unit	217	Yes
Ultrasound	191 BGSF	900 dgsf/unit	709	Yes
Physician Exam Rooms (14 rms)	1,825 BGSF	NA	-	NA
NST (1 rm)	194 BGSF	NA	-	NA
Well-Lab (1 rm, 1 bay)	733 BGSF	NA	-	NA
Physical Therapy (1 rm)	177 BGSF	NA	-	NA
OP Behavioral Health room (1 rm)	193 BGSF	NA	-	NA
Non-Clinical Department/Areas		PROPOSED BGSF (in project)		
Ground Level		14,874 BGSF		

Clinical Components**Diagnostic Imaging**

The proposed project includes diagnostic imaging services that will be available to clinic patients and those receiving care at the Immediate Care service.

The Imaging Center will include the following types of diagnostic imaging equipment:

- 1 General Radiology
- 1 Ultrasound Unit

The proposed square footage of 1,083 BGSF for General Radiology and 191 for Ultrasound are below the State guidelines for imaging equipment and the necessary support space for these services.

Physician Office Space and Immediate Care

The proposed project includes physician office for Advocate Aurora Medical Group (AAMG) physicians.

It is anticipated that physicians in the following specialties will be included in the proposed project: Primary care, and Obstetrics/Gynecology.

There will be 14 Exam Rooms for Primary and Specialty Physicians. This space will include non-stress testing for patients as part of their examination. The space was developed based on AAH guidelines for primary and specialty provider offices to include 1,825 BGSF for the exam rooms and 194 BGSF for NST rooms.

There are no State Guidelines for square footage for the examination rooms for these services.

Well-Patient Laboratory (Blood Draw)

The Lab will include 1 room for well-patient blood draw with 733 BGFT.

There are no State Guidelines for square footage for Laboratory Blood Draw.

Other services:

The site will also house physical therapy ("PT") services. This space will be designed for both in-person and virtual consultations. AAH found that during the pandemic, virtual PT sessions were well accepted by many patients. This design will allow for maximum flexibility in patient care and will offer patients choices in how they receive their rehabilitation care.

Additionally, there will be a licensed clinical social worker ("LCSW") who will see patients at the site. Similar to the description above of PT services, this space will be designed for both in-person and virtual care. In conversations with local leaders, it was identified that there is a lack of accessible behavioral health options in the area. We look forward to bringing these services to the community.

There are no State Guidelines for square footage for these types of clinical rooms.

Non-Clinical Components

The Non-clinical components of the project total 14,874 BGFT of space.

This includes physician offices, retail pharmacy, staff support space, storage, integrative medicine multipurpose rooms, retail pharmacy, public waiting, circulation, building support and lobby.

There are no State Guidelines for the non-clinical components of the project.

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	MEET STANDARD?
YEAR 1					
YEAR 2					

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

The services in the proposed project will be provided by Advocate Medical Group (AMG) and will not be hospital-based services.

The proposed Project includes the following Departments/Services for which the Illinois Health Facilities and Services Review Board has established standards:

Diagnostic Imaging

- 1 General Radiology unit
- 1 Ultrasound unit

Diagnostic imaging projections are based on the historic utilization at AMG Outpatient centers at other sites based on the number and types of physicians who will practice at the site. The utilization at the site is projected to grow as it provides easy access to residents in the area who now have to drive long distances and leave the service area to receive such services. This area has also experienced a tremendous growth rate of 25% since 2000. There are several housing developments that are being developed in Lakemoor and the adjacent Village of Volo which will further the demand for such services.

DEPT./SERVICE	PROJECTED UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.		STATE STANDARD	MEET STANDARD?
	Year 1	Year 2		
General Radiology (1 unit)	183 procedures	337 procedures	8,000/unit	Yes
Ultrasound (1 unit)	363 procedures	484 procedures	5,000/unit	Yes

Based on the projected utilization in year 2, the standards have been met for all of the Imaging modalities as these are represent the clinical reviewable services in the project.

There are other clinical services which will be provided at the site that do have a state utilization standard. Provided below are the projected utilization based on the number of providers in the building and the need in the service area.

DEPT./SERVICE	UTILIZATION	
	PROJECTED UTILIZATION	
	Year 1	Year 2
Physician Office visits	9,118 visits	11,923 visits
NST	363 visits	484 visits
Well-Patient Lab	15,502 visits	21,506 visits
PT visits	2180 visits	2180 visits
BH visits	690 visits	690 visits

UNFINISHED OR SHELL SPACE:

Provide the following information:

4. Total gross square footage (GSF) of the proposed shell space.
5. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.
6. Evidence that the shell space is being constructed due to:
 - a. Requirements of governmental or certification agencies; or
 - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
 - c. Historical utilization for the area for the latest five-year period for which data is available; and
 - d. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – no shell space.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – no shell space.



January 5, 2023

Mr. John Kniery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

RE: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group

Dear Mr. Kniery:

This letter is to affirm that Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group will submit a Certificate of Need permit application for the development of the shell space in the proposed Advocate Outpatient Center Lakemoor project. This commitment to file a CON application is independent of the capital expenditure thresholds that will be in effect at that time and the categories of service included in the project. The timeframe for the development of the shell space will be determined following the completion of the project.

Respectfully,

A handwritten signature in black ink, appearing to read "Jon Kluge".

Jon Kluge
Chief Operating Officer
Senior Vice President
Advocate Medical Group

Subscribed and sworn to me
This 5 day of January, 2023

A handwritten signature in black ink, appearing to read "Jody Heiden".

JODY HEIDEN
Notary Public
State of Wisconsin

Criterion 1110.270 - 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
☐ Imaging – General Radiology	0	1
☐ Imaging – Ultrasound	0	1
☐ Physician Examination/Clinic Rooms	0	14
☐ NST	0	1
☐ Well-Patient Lab	0	1
☐ PT room	0	1
☐ BH consult room	0	1

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 ATTACHMENT 31, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

The services in the proposed project will be provided by Advocate Medical Group (AMG) and will not be hospital-based services. The Proposed project includes services that allow patients to receive care closer to home with ancillary services provided. The project will support residents that live within a 10-mile radius.

Outpatient Imaging

c) Service Modernization

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

2) - Necessary Expansion

There are no imaging services between this project location and the Wisconsin border. This project will bring important screening services, to residents and increase access to the residents of the service area.

The imaging services are an important component of the primary care and specialty office visit. The imaging services are designed based on the specialties located in the building.

3)(B) -Utilization – Service or Facility

The imaging volume is provided below. The projected volume was determined based on ratios of clinicians practicing at the site and AAH historical ratios of those sites.

Imaging Projected Utilization		
	Year 1	Year 2
General Radiology (1 unit)	183 procedures	337 procedures
Ultrasound (1 unit)	363 procedures	484 procedures

Physician Offices/Clinics

c) Service Modernization

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

2) - Necessary Expansion

Lakemoor and adjacent communities, such as Volo, are experiencing tremendous growth and have housing and retail developments in flight. Examples include the Savannah and Rockwell Place developments in Lakemoor and Lennar in Volo, five minutes north of the proposed project.

Five of the zip codes in the proposed service area do not have any primary care providers, which are necessary for patients to access preventative services and serve their overall health needs.

3)(B) -Utilization – Service or Facility

The Clinic volume and ancillary services provided in the office visit are outlined below. The patients will be able to receive many of their primary care and specialty services in one building. The projected volume was determined based on AMG historical growth of clinicians entering new geographies and the need for these ancillary services as part of their visit. There are no state standards for these clinical services.

This new building will provide a location for new clinicians and allow for additional specialties and the ancillary services that will be included as part of the patient's clinic visit. This will benefit patients to have one location to allow for collaboration and referrals between providers and have all testing completed at one location.

Projected Utilization		
	Year 1	Year 2
Primary Care	8,518	10,423
Specialty Clinicians	600	1,500
NST	363	484
BH	690	690
PT	2,180	2,180
Well Lab	15,502	21,506

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)

VII. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document those 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]:

<u>\$9,086,914</u>	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 timetable 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 timetable of receipts.
<u>\$20,500,277</u>	d) Debt – a statement of the estimated terms and conditions (including the debt time, variable or permanent interest rates over the debt time, 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.
<u>\$29,587,191</u>	TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The criterion is not applicable. Advocate Aurora Health, Inc has a AA long-term bond rating from Fitch and Standard & Poors. Advocate Aurora Health, Inc has an Aa3 long-term bond rating from Moody's. See Attachment 34.

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Advocate Aurora Health's (IL) IDR at 'AA'; Outlook Stable

Mon 02 Aug. 2021 - 11:49 AM ET

Fitch Ratings - Chicago - 02 Aug 2021: Fitch Ratings has affirmed Advocate Aurora Health's (AAH) Issuer Default Rating (IDR) at 'AA'. Fitch has also affirmed the outstanding revenue bonds issued by the Wisconsin Health and Educational Facilities Authority, Illinois Finance Authority, and Illinois Health Facilities Authority on behalf of AAH as well as taxable fixed-rate bonds issued directly by AAH at 'AA'. Finally, AAH's 'F1+' Short-Term Rating on variable rate debt and CP debt supported by AAH's self-liquidity has been affirmed.

The Rating Outlook is Stable.

SECURITY

Bonds are unsecured joint and several obligations of the obligated group, which consists of the vast majority of AAH hospitals, the AAH parent, and the Advocate Health Care Network and AAH physician practices.

ANALYTICAL CONCLUSION

AAH's 'AA' IDR rating is driven by the system's very strong financial profile assessment, leading market position over a broad and diversified service area covering the population centers of two states, and expectations for a return to strong operating margins over time, as Fitch believes the system's fundamental operating platform remains strong.

The 'F1+' Short-Term Rating is based on AAH maintaining a Long-Term Rating of at least 'AA-' as well as adequate internal liquidity and written procedures consistent with Fitch's criteria. AAH has "eligible" discounted cash, U.S. Treasuries, municipal bonds, and corporate bonds in excess of 125% of its maximum self-liquidity funding exposure for assignment of the 'F1+' rating.

KEY RATING DRIVERS

Revenue Defensibility: 'bbb'

AAH is the largest health system in both Illinois and Wisconsin with a broad market reach operating in multiple markets across the major population centers of both states. The system benefits from a generally favorable payor mix.

Operating Risk: 'a'

Track Record of Strong Operating Results; Margins Expected to Continue to Rebound

AAH's operating risk profile remains strong. The system has a track record of generating an operating EBITDA margin in the 10% range. Fitch expects long-term margins should be consistent with a strong assessment, despite financial pressure presented over the last year by the coronavirus pandemic. Capital spending plans are elevated but manageable.

Financial Profile: 'aa'

Strong Capital-Related Ratios

AAH's financial profile is strong. Capital-related ratios should remain strong in Fitch's forward-looking scenario analysis, even in a stress case.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

There are no asymmetric risk factors identified with AAH's rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained improvement in operating EBITDA margin consistently above 10%;
- Considerable growth in unrestricted cash levels leading to superlative cash-to-adjusted debt.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Unexpectedly prolonged compression in operating margins, such that the operating EBITDA margin is expected to remain at 7% or lower for a sustained period beyond what Fitch currently expects, which would lead to an operating

risk profile more consistent with a midrange assessment;

--Weaker balance sheet metrics, leading to thinner capital-related ratios in the long term, more consistent with an 'a' assessment, particularly if compounded with an above-mentioned sustained weakening of operating EBITDA margin.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/en/10111579>.

CREDIT PROFILE

AAH is the result of the April 2018 merger between Advocate Health Care (IL) (Advocate) and Aurora Health Care (WI) (Aurora). The system includes 24 acute care hospitals and one behavioral health hospital (totaling more than 5,100 staffed beds), approximately 3,600 employed physicians, and operates roughly 500 outpatient locations and 100 retail clinics in contiguous markets stretching from the Chicago metro area north through Milwaukee, to Marinette, WI in the north. AAH is the largest healthcare provider in both Illinois and Wisconsin. Combined, AAH recorded more than \$13 billion in operating revenue in audited fiscal 2020 (Dec. 31 year-end).

A system of AAH's size and scope of operations is constantly evaluating its portfolio of assets. Most recently, in 2020 the system sold two central Illinois hospitals (the former Advocate BroMenn Medical Center in Normal, IL and Advocate Eureka) to the Carle Foundation (AA-).

REVENUE DEFENSIBILITY

AAH's payor mix is well under the 25% threshold for a midrange assessment. Combined Medicaid and self-pay consistently account for approximately 17% of gross revenue (including 17.5% in fiscal 2020). Illinois expanded Medicaid under the Affordable Care Act (ACA), while Wisconsin did not expand Medicaid under the ACA guidelines, the state did expand eligibility in prior years.

AAH operates in multiple markets covering a contiguous service area stretching from northeastern Illinois (Chicago area) through Milwaukee to northeastern Wisconsin. AAH is the market share leader in both states. Despite the leading position, the system operates in many competitive service areas, notably Chicago (where AAH is the market leader in a crowded market) and Milwaukee, the population hubs of the combined service area. AAH's largest competitor is Ascension Health (AA+), which also operates multiple facilities in both the Milwaukee and Chicago markets. AAH also has one of the largest and most sophisticated physician integration models in the industry with broad population health management capabilities, including employing approximately 3,600 physicians, and nearly three million unique lives.

AAH operates in varying service area demographic profiles, as expected from a large and geographically diverse health system. AAH's service area characteristics are generally stable supporting a midrange assessment. Much of suburban Chicago (e.g., Lake County), suburban Milwaukee, and other markets such as Brown County, WI (Green Bay) demonstrate generally favorable characteristics such as median household income levels in-line with or better than the national average and low poverty rates. Fitch does not expect AAH's payor mix to change materially in the near term.

OPERATING RISK

AAH has a track record of strong operating margins, with the operating EBITDA margin averaging 10.1% between fiscals 2016 and 2019. The margin compressed to 7.3% in fiscal 2020, as the system contended with the coronavirus pandemic. These results do not include nonrecurring operating expenses in recent years (e.g., early retirement incentive plans, one-time Epic EMR upgrade/installation costs, and one-time merger costs, etc.).

Management estimates that the pandemic cost AAH approximately \$900 million in fiscal 2020 in terms of revenue loss and increased PPE costs, not to mention added labor costs and other disruptions. These pressures were balanced in part by the receipt of \$847 million of CARES Act and related stimulus funding grants (which AAH recorded in 2020).

Despite the considerable challenges presented by the coronavirus pandemic, Fitch expects that long term the system maintains a robust operating platform and margins will return to a level consistent with a strong operating risk profile, with an operating EBITDA margin in the 9% range. Management has budgeted an operating margin of approximately 2.2% in fiscal 2021, which would translate to an operating EBITDA margin in the 7.5% range. In fiscal Q12021, AAH recorded an operating margin of 2.0% and operating EBITDA margin of 7.1% (excluding nonrecurring expenses of approximately \$13 million).

Fitch expects AAH's capital spending will continue at a measured pace. The system has nearly \$1.3 billion in capex budgeted for fiscal 2021, which translates to a capital spending ratio of more than 2x. Beyond that, management expects to maintain a capital spending ratio of around 1.5x. Fitch expects, however, that under a strained economic or operating environment AAH would defer or cut capex, as the system did during the early months of the pandemic and related economic recession in 2020.

Key projects are aligned with AAH's Transformation 2025 strategy, and include continued expansion of AAH's ambulatory network with a focus on consumer-driven access, as well as upgrades in certain markets. AAH has maintained a healthy pace of capex in recent years, as the capital spending ratio averaged approximately 1.3x over the last five years, and the average age of plant measured a comfortable 9.2 years at FYE 2020.

While AAH does not have formal new money debt plans in the near term, Fitch expects a system of AAH's size and scale to access the capital markets from time to time. Also, in September 2020 the system increased the authorization of its CP program to a maximum amount of \$1 billion, although only \$50 million was outstanding as of March 31, 2021.

FINANCIAL PROFILE

AAH's financial profile is strong in the context of the system's midrange revenue defensibility and strong operating risk profile assessments. Capital-related ratios should remain strong in Fitch's forward-looking analysis, even in a stress case.

AAH has nearly \$3.9 billion of debt outstanding, inclusive of operating leases (which are now captured on the balance sheet). Unrestricted cash and investments measured almost \$10.5 billion at FYE 2020.

AAH's debt equivalents are manageable. AAH has two frozen defined benefit (DB) pension plans. The plans combined were approximately \$200 million underfunded compared to a projected benefit obligation (PBO) of roughly \$2.6 billion at FYE 2020, translating to a funded ratio of 92%. Because the pension plan is more than 80% funded, Fitch does not include the underfunded status in calculating adjusted debt, and as a result AAH's adjusted debt is equal to its direct debt. AAH's net adjusted debt (adjusted debt minus unrestricted cash and investments) is favorably negative, measuring -\$6.6 billion at FYE 2020. Fitch expects net adjusted debt to remain favorably negative in the coming years, even in the stress case of Fitch's scenario analysis.

Per Fitch's forward-looking scenario analysis, AAH's capital-related ratios should be consistent with the broad 'AA' category, even in a stress case. Based on fiscal 2020 results, AAH's net adjusted debt-to-adjusted EBITDA was favorably negative at better than negative 4x and cash-to-adjusted debt was about 270% at FYE 2020. Looking forward, net adjusted debt-to-adjusted EBITDA is negative in every year of the scenario analysis, including the stress case, and cash-to-adjusted debt never drops below 270% in the base case or 230% in the stress case.

The 'F1+' short-term rating is based on AAH maintaining a long-term rating of at least 'AA'. AAH maintains sufficient discounted internal liquid resources (composed of cash, U.S. Treasuries, municipal bonds, and corporate bonds) and has implemented written procedures to fund any un-remarketed put on the \$1.2 billion of theoretical maximum potential debt supported by self-liquidity. AAH's self-liquidity supported demand debt is comprised of its puttable VRDO bonds not supported by standby bond purchase agreements (SBPAs) as well as the \$1 billion maximum authorized under the taxable CP program (increased from a maximum of \$500 million in September 2020, although only \$50 million was outstanding as of March 31, 2021). AAH had "eligible" cash, U.S. Treasuries, municipal bonds and corporate bonds in excess of the 125% threshold of its maximum self-liquidity funding exposure for assignment of the 'F1+' rating.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

There are no asymmetric risk factors associated with AAH's rating.

The senior management team is deep and is comprised of members of both the legacy Advocate and Aurora systems. AAH added a new Chief Strategy Officer in spring 2021, and the former CSO is now the President of the system's AAH Enterprises. The system also appointed a new Chief Government Relations Officer in 2020. No significant senior management retirements are planned in the near term, although the board is engaged on succession planning.

AAH has nearly \$3.9 billion of debt outstanding (including operating leases). The system has a CP program in place and other variable rate debt supported by internal liquidity. Most VRDO bonds are supported by SBPAs, which expire between January 2024 and September 2025. Maximum annual debt service (MADS) is approximately \$227 million, based on smoothing debt service (actual MADS is just over \$820 million, based on a bullet payment in 2050). MADS coverage based on fiscal 2020 results is strong at approximately 6x and does not pose an asymmetric risk. The MTI includes a minimum historical debt service coverage covenant of 1.10x.

AAH had just over 310 days cash on hand at FYE 2020 and just over 315 days at unaudited March 31, 2021 (excluding Medicare advance payment funds and deferred employer FICA tax), and therefore days cash does not pose an asymmetric risk.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Advocate Aurora Health Inc. (WI)	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
● Advocate Aurora Health, Inc. (WI) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
● Advocate Health Care Network (IL)	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD**APPLICATION FOR PERMIT- 06/2021 - Edition**

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APPLICABLE CRITERIA

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 18 Nov 2020) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 23 Feb 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.2 (1)

ADDITIONAL DISCLOSURES

Dodd Frank Rating Information Disclosure Form
 Solicitation Status
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EU Endorsed, UK Endorsed

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S&P Global
Ratings

RatingsDirect®

Advocate Aurora Health, Illinois; CP; System

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Credit Profile

Illinois Finance Authority, Illinois

Advocate Aurora Health, Illinois

Illinois Fin Auth (Advocate Aurora Health Credit Group) sys

Long Term Rating

AA/Stable

Current

Rationale

S&P Global Ratings' long-term rating on Advocate Health and Hospitals Corp. (AHHHC), Ill.'s various series of taxable debt and its long-term ratings on the Illinois Finance Authority's (IFA) and the Wisconsin Health and Education Facilities Authority's various series of fixed-rate, tax-exempt revenue bonds is 'AA'. S&P Global Ratings' long-term component of its dual ratings ('AA/A-1+' and 'AA/A-1'), where applicable, on the IFA's various series of variable-rate demand bonds (VRDBs) is also 'AA'. Finally, S&P Global Ratings' short-term rating on AHHHC's commercial paper (CP) program (authorized to \$1 billion from \$500 million with \$50 million outstanding) is 'A-1+'. All bonds were issued for AHHHC and the related obligated group (known as Advocate Aurora Health credit group, or AAH). The outlook, where applicable, is stable. Our analysis of AAH reflects the consolidated system.

The 'A-1+' short-term component of the rating on the issuer's series 2008C-3A bonds and the 'A-1' short-term component of the rating on the series 2008C-1 and 2008C-2B bonds reflect our view of the standby bond purchase agreements (SBPAs) in effect from various financial institutions. They further reflect our view of the likelihood of payment of tenders, and our view of liquidity facilities that cover all of the bond series. The 'A-1+' short-term component of the rating on the issuer's CP and series 2011B bonds reflects our view of the credit strength inherent in the 'AA' long-term rating on AAH's debt and the sufficiency of AAH's unrestricted reserves to provide liquidity support for the bonds.

Credit overview

Specifically, the 'AA' rating reflects AAH's excellent enterprise profile and solid market position in the broad Chicagoland and eastern Wisconsin markets as well as its solid financial profile, including sound performance, healthy coverage, low debt, and favorable unrestricted reserves and operational liquidity. Increasingly, nonoperating income, primarily investment income, has helped support cash flow as operating cash flow has weakened slightly even before the pandemic. Key enterprise strengths include considerable size and scale with more than \$13 billion in annual operating revenue, servicing of a large population base (albeit with some mixed economics and demographics in certain service areas, particularly Illinois), the expansive footprint of the care continuum (including inpatient and outpatient services), and physician integration models that should support value-based reimbursement as that transition continues. While operating in Illinois (compared with Wisconsin) presents some ongoing challenges given the state and payer environment, the diversity of facilities and the broad geographic region help offset some of that risk.

While operating margins are rebounding after a challenging fiscal 2020 related to COVID-19, they have lightened over

the past few years from highs in the 4% area. In the past year and a half margin declines have largely been due to COVID-19, but since the merger in 2018 AAH has absorbed operating investments for the new system and various operating pressures related to industry transitions. Management expects operating margins to be stable for the remainder of 2021 and continues to focus on identifying further areas of improvement over time, which will help support credit stability.

AAH took advantage of the Medicare Advance and Accelerated Payment program and received approximately \$773 million from that program and \$787 million of CARES Act funds in fiscal 2020. No additional support was received in fiscal 2021, and management has recognized all of the CARES Act funds that it received in 2020. AAH shored up additional liquidity during 2020, including establishing a \$1.2 billion line (nothing outstanding at the end of 2020 or in fiscal 2021), and increased its authorized CP amount to \$1 billion but with no plans to use additional CP.

AAH continues to implement its strategic plan to support financial health, growth, and delivery of quality integrated care, while positioning for the out-years with a focus on wellness and value-based payments. To that end, AAH invested in Quartz for a Medicare Advantage plan and fully acquired Senior Helpers on April 1, 2021 (a franchise-based home health entity), helping diversify revenue and positioning itself for value-based payments and patients' increasingly choosing care outside the hospital. AAH continues to have a healthy capital appetite, including both information technology and capital building projects using primarily operating cash flow and potentially some modest debt.

The 'AA' long-term rating reflects our view of AAH's:

- Broad and diverse position across two states, including the broad Chicago metro and eastern Wisconsin markets, coupled with enterprise strengths around clinical integration, employed physician models, and sound accountable care organization (ACO) and risk-based payer strategies;
- Leading and stable position in the market as a whole although AAH operates in competitive markets;
- Healthy balance sheet measures with light debt, including leverage of 20%, unrestricted reserves to long-term debt of more than 3x, and unrestricted reserves of 320 days' cash on hand; and
- Sound maximum annual debt service coverage (smoothed) returning to more than 6x in interim fiscal 2021 (after dipping in fiscal 2020) as a result of improving operating margins, very good investment returns, and a low debt burden.

Partly offsetting the above strengths, in our view, are AAH's:

- Operating margins that, while improving in 2021, are still at lower-than-historical levels;
- Strong competition in almost all of the markets in which it operates--from other systems and large academic medical centers--coupled with broader volume pressures related to both the health care industry and the economy; and
- Continued exposure to Illinois Medicaid (through legacy Advocate Health Care).

The stable outlook reflects our view of AAH's healthy business position in core markets coupled with a sound balance sheet flexibility and improving margins. The stable outlook also reflects expectations of minimal new money debt over

the next couple of years and a disciplined management team that, while generating lower-than-historical operating margins, continues to balance cash flow with execution of strategic and capital spending plans while managing expenses and looking to diversify revenue and grow.

Environmental, social, and governance factors

We view AAH's governance risks as in line with the sector and note that AAH has successfully brought two large enterprises together with minimal operating challenges; we attribute the latter to good management and governance. Additionally, the board will return to a self-perpetuating board in the next year. (Following the merger, legacy health system members populated the board evenly for four years.) We view environmental risk as in line with the industry as a whole given the dispersion of facilities in a broad service area covering northern Illinois and eastern and northeastern Wisconsin with limited environmental challenges. The team is focused on reducing its environmental footprint, which we believe could benefit the organization if future regulations come into play. Social risks also remain in line with the sector, but we monitor COVID-19 and the recent variant that could cause operating pressures in case of sustained challenges in caring for these patients as a result of increased costs from supplies, labor, and or equipment or reduced revenue stemming from patients' forgoing care for safety reasons. In addition, AAH's exposure to Illinois Medicaid payer mix presents increased social risk given AAH's slightly higher Medicaid levels (relative to peers), although its diversified footprint helps offset this risk.

Stable Outlook

Downside scenario

We could revise the outlook to negative or lower the rating in case AAH records operating margins of less than 3% for a sustained period, particularly if the balance sheet weakens. Any significant issuance of debt could also result in rating pressure, as the strong balance sheet is a key credit strength.

Upside scenario

We are not likely to raise the rating over the next two years given the increased capital spending and lower-than-historical lighter margins. Over time, we could raise the rating if AAH executes on system strategies and demonstrates meaningful multiyear improvement to its financial profile with financial ratios commensurate with a higher rating.

Credit Opinion

Enterprise Profile: Very Strong

AAH maintains expanded market position with focus on changes for its future state

AAH maintains a strong presence in its various markets, but has outlined goals it believes it needs to meet over the next five years as part of its 2025 strategic plan to maintain that strength. Key supporting areas of the credit include a large revenue base supported by a broad service area across two states (with a service area population of more than 11 million) and healthy business position in its core markets. Most of its entities operate well, but Trinity remains a

challenge given a challenging payer mix. As expected, AAH divested BroMenn and Eureka hospitals in central Illinois. AAH has a full complement of inpatient and outpatient services (including tertiary and quaternary care), a wide geographic network of clinics and outpatient centers, a large employed physician and advanced practitioner base, and other post-acute-care services across the service area. AAH also has a small joint venture insurance plan in Wisconsin that is small and is in conjunction with Anthem. We also view the diversification from payers (including different Medicaid programs) and from the demographics and economies of two states (and multiple markets) as a positive for the credit, particularly given the state pressures in Illinois.

AAH's strategies over the next several years are aimed at improving its overall position in its markets by broadening its patient base through improvement of access, quality and costs of care, and the customer experience. In the markets in which it operates, AAH maintains very solid and often leading market shares, though the markets remain competitive with a host of competitors. We believe that, overall, competition in the Chicago metropolitan statistical area is increasing partly as a result of recent consolidations. While competition in the Chicagoland market is much tighter, trends are evolving in Wisconsin, as Ascension appears to be downsizing some of its facilities in the northern region.

AAH has a number of physician integration models and continues to expand those across the system and push the organization toward value-based care models. We believe that the mix of physician and payer models, including various pilot projects such as those that incorporate Medicare Advantage, allows AAH to experiment and learn what works best with which markets and populations. These strategies should help achieve the goals in AAH's 2025 strategic plan, assuming that the projects are undertaken and evaluated in a disciplined manner. More specifically, in the Illinois market AAH benefits from a clinically integrated network (Advocate Physician Partner, or APP) with both its employed (Advocate Medical Group) and independent physicians. In the Wisconsin market, AAH has a stronger physician employment model. AAH has also had success in its various Medicare ACO models, so we expect it to continue to build on that. Additionally, legacy AHCN has accepted full and partial risk (capitation) on certain commercial and Medicare advantage contracts directly and through APP. Legacy AHC has had a history of working directly with employers.

While volume recovery continues in fiscal 2021, inpatient volumes prior to the pandemic were flat to slightly down given shifts to outpatient as well as the competitive market and stable population. Outpatient volumes have historically increased with a focus on access and physician growth. AAH continues to expand its ambulatory network, but market and industry dynamics (including the impact from COVID-19) lead us to believe that growth will likely depend on AAH's ability to capture additional market share and lives under risk-based contracts, including Medicare Advantage.

While continuing to recover, AAH continues to implement initiatives for the 2025 strategic plan

We believe AAH has a very strong and capable management team with considerable bench strength throughout the organization and a history of financial discipline and strategic focus that we believe will serve the organization well as it enters a period of increased challenges both related to industry pressures as well as COVID-19 recovery. We also view favorably AAH's ability to operate from a position of strength, particularly in a challenging state and payer environment for the facilities in Illinois.

One board oversees AAH, evenly populated with legacy AHC and AHCN board members. While we view self-perpetuating boards as best practice, we also recognize that AAH will transition to a self-perpetuating board in the

next year.

Management is moving forward on its strategic plan. While core strategies focus on financial health, customer service, and safety and quality, the far years of the 2025 strategic plan begin to pivot the organization toward managing under different reimbursement models including a focus on health and wellness as demonstrated by its recent investments mentioned above. Efforts around clinical integration and decreased variability in care across the organization will continue to play a role as the organization targets its 2025 goals.

Table 1

Advocate Health Care Network and Subsidiaries Utilization

	Three months ended March 31--	Fiscal year ended Dec. 31--		
	2021*	2020	2019	2018
Inpatient admissions§	56,025	236,526	258,468	260,516
Equivalent inpatient admissions	155,859	630,121	707,393	551,304
Emergency visits	182,284	812,533	806,276	794,037
Inpatient surgeries	14,738	55,382	67,790	68,666
Outpatient surgeries	38,204	134,882	162,245	157,212
Medicare case mix index	NA	1.9617	1.8959	1.8213
FTE employees	64,000	64,000	63,000	61,000
Active physicians	8,400	9,500	9,800	8,900
Medicare (%)†	29	31	32	30
Medicaid (%)†	12	12	11	11
Commercial/Blues (%)†	57	54	54	56

*Giving recent release of second-quarter 2021 financial results, enterprise statistics reflect first quarter 2021. §Excludes normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. †Based on net revenue. FTE--Full-time equivalent. NA--Not available.

Financial Profile: Very Strong

Recovery in fiscal 2021 with nonoperating revenue providing healthy support to cash flow

AAH generated steady improvement to operating margins through the first six months of fiscal 2021 following a weaker fiscal 2020. That said margins remain lighter than historical highs of around 3.5% to 4.0%. Fiscal 2020 results, while positive, were of course affected by COVID-19 and reduced volumes. In addition, AAH didn't reduce the number of full-time equivalent employees or furlough any employees to support care givers, and was further affected by higher agency costs in late 2020 and early 2021, as were many providers. Interim results through the second quarter are showing recovery and are beating budget as a result of good revenue yield, volume recovery, and ongoing expense management. While management expects no significant changes in the near term related to its payer contracts, the team is focused on trying to find solutions in value-based care in partnership with its payers over the medium term. AAH maintains some risk through capitated revenue and shared savings programs, among other modest initiatives. The team remains committed to managing expenses as well as identifying opportunities to further improve the cost structure. While all of AAH's markets are fairly competitive, we believe that Illinois is more challenging and believe that some of the growth, payer, and market trends in Wisconsin will continue to benefit AAH's operating performance. Growth and revenue diversification will remain focus, as the aforementioned acquisitions and investments indicate.

Healthy nonoperating income, particularly investment income, has helped support cash flow considerably in recent years as operating cash flow has lightened a bit. Nonoperating income, along with good cash flow, contributed to good maximum annual debt service coverage on a smoothed basis through interim 2021. The actual debt service schedule is slightly more uneven and includes a number of bullets.

The team is focused on targeting closer-to-historical operating margins over time with steady improvement over the next couple of years, but industry trends—including a muted payer environment, increased labor expense pressures, and the lingering impact of COVID-19—could challenge this.

Healthy liquidity support capital spending and strategic priorities

Unrestricted reserves have recovered since our previous review given the taxable debt issuance, healthy investment returns, and the sale of AAH's central Illinois assets in mid-2020. (AAH excludes some self-insurance reserves from its unrestricted reserve calculation, so we believe that overall cash on hand could be slightly stronger but not materially different.) Through the first half of 2021, despite good investment returns, reserve growth slowed to about 4% given ongoing capital expenditures and the acquisition of Senior Helpers.

AAH's investment allocation mix has a reduced equities exposure of only 30% but a fair amount of exposure to alternatives at about 50%, meaning that AAH has given up some liquidity with the goal of solid returns with less volatility. That said, we view overall liquidity as healthy given AAH's \$781 million of cash and cash equivalents, which includes MAAP (Medicare Accelerated and Advance Payment) funds of around \$700 million, a \$1.2 billion syndicated line of credit, and an authorized \$1.0 billion of its commercial paper program. Within its investments, AAH maintains good liquidity with about \$5.3 billion (excluding MAAP funds) available in 30 days.

Capital spending was lower than expected in fiscal 2020 as projects slowed in the spring 2020 but picked up in late summer and early fall. Key projects that continued include legacy AHCN's large Epic implementation whose completion was slightly delayed but was completed in early 2021, a new enterprise resource planning system that is to be completed in fall 2022, ongoing spending at Illinois Masonic Medical Center (IMMC), a replacement facility in Sheboygan, and construction of an AAH inpatient facility and two ambulatory facilities in the Racine/Kenosha market. Management will use the 2020A proceeds to help support those projects as well as cash flow. Capital spending was around \$700 million in fiscal 2020 compared with a budgeted \$1 billion-plus and around \$650 million in 2019. Through June 30, 2021, capital spending is slightly less than prior-year levels, excluding the acquisition of Senior Helpers and likely to be well below the \$1.2 billion full year capital budget as a result of timing of projects and payments.

AAH had increased unfunded commitments on its investment portfolio of about \$1.4 billion for its private equity and real estate partnership investments as of Dec. 31, 2020 (to be funded over the next seven years), which we view as manageable given its more than \$10 billion in unrestricted reserves. Management reports that it should have no sizable calls in the next year but will monitor that.

Low debt with diversified structure supports rating but some risks in remarketing and bullets

AAH's long-term debt remains low with modest debt service relative to revenue, thus providing some ongoing flexibility. However, we note several bullets and tenders over the 34-year schedule that will have to be refinanced or paid along with some remarketing and renewal risks.

Other than the bullets and a small amount of contingent debt, we believe AAH's debt structure is reasonable, given its balance sheet profile and investment allocation. More specifically, about 80% of AAH's debt is fixed, excluding swaps, and the remainder is in some type of variable-rate mode (such as index rate bonds, floating-rate notes, VRDBs, and CP).

AAH's long-term operating lease liability is about \$243 million with a commensurate operating lease right-of-use assets on June 30, 2021. We have historically incorporated lease risk into lease-adjusted debt service coverage, and we believe this continues to capture risk associated with lease exposure. Including the operating lease liability in our calculation of leverage brings debt as a percentage of capitalization to about 22%.

Based on AAH's liquidity analysis provided to our funds group, the system can amply cover its total \$120 million self-liquidity-backed VRDBs and CP (\$50 million outstanding).

While we don't view the bank debt as a significant risk given AAH's healthy financial profile, key rating and financial covenants related to the bank-held debt are maintenance of a credit rating of 'BBB' or higher and coverage of 1.1x or higher. Total contingent debt (as calculated by S&P Global Ratings and including other VRDBs) is about 30% of debt outstanding.

AAH maintained five floating- to fixed-rate swaps with a total notional amount of \$351.6 million as of June 30, 2021 (including two that are not tied to any specific debt). Counterparties vary, and as of that date the liability on the swaps was \$98.5 million with no collateral posting required in recent years.

We view AAH's defined benefit plans as being of minimal risk given the good funding and legacy AHCN's active plan's status as a church plan. Legacy AHCN also has an Employee Retirement Income Security Act of 1974 plan that is frozen. Legacy AHC also maintains a defined benefit plan that is well funded (more than 90%) and frozen to new benefits and entrants (as of 2012). Together, the plans have been well funded at more than 90% for the past several years. Management is also considering investment strategies that could limit the need for future funding.

Table 2

Advocate Health Care Network and Subsidiaries Financial Summary

	--Six months ended March 31--	--Fiscal year ended Dec. 31--		'AA' rated health care system medians	
	2021	2020	2019	2018*	2019
Financial performance					
Net patient revenue (\$000s)	6,239,207	11,337,814	11,925,131	8,569,463	4,050,320
Total operating revenue (\$000s)	6,717,433	13,068,012	12,743,703	9,186,580	4,887,899
Total operating expenses (\$000s)	6,522,452	12,969,315	12,385,102	8,888,922	MNR
Operating income (\$000s)	194,981	98,697	358,601	297,658	MNR
Operating margin (%)	2.90	0.76	2.81	3.24	4.40
Net nonoperating income (\$000s)	158,269	(25,506)	205,956	243,543	MNR
Excess income (\$000s)	353,250	73,191	564,557	541,201	MNR
Excess margin (%)	5.14	0.56	4.36	5.74	6.60
Operating EBITDA margin (%)	7.91	5.90	8.12	8.60	9.80
EBITDA margin (%)	10.03	5.72	9.58	10.96	12.70

Table 2

Advocate Health Care Network and Subsidiaries Financial Summary (cont.)

	—Six months ended March 31—	—Fiscal year ended Dec. 31—		'AA' rated health care system medians	
	2021	2020	2019	2018*	2019
Net available for debt service (\$000s)	689,769	745,532	1,240,827	1,033,376	603,513
MADS (\$000s)	223,783	223,783	223,783	223,783	MNR
MADS coverage (x)	6.16	3.33	5.54	6.16	7.60
Operating-lease-adjusted coverage (x)	4.58	2.45	3.92	3.87	4.90
Liquidity and financial flexibility					
Unrestricted reserves (\$000s)	10,946,323	10,497,642	8,812,556	7,544,843	4,057,238
Unrestricted days' cash on hand	320.1	308.8	272.2	243.6	335.5
Unrestricted reserves/total long-term debt (%)	315.6	301.7	292.9	255.0	283.1
Unrestricted reserves/contingent liabilities (%)	1,108.4	1,063.0	849.5	773.7	863.5
Average age of plant (years)	9.6	9.2	8.7	9.5	10.5
Capital expenditures/depreciation and amortization (%)	92.3	125.6	114.6	134.6	153.8
Debt and liabilities					
Total long-term debt (\$000s)	3,468,183	3,480,061	3,008,901	2,958,931	MNR
Long-term debt/capitalization (%)	20.7	21.2	20.8	22.8	20.8
Contingent liabilities (\$000s)	987,592	987,592	1,037,353	975,171	MNR
Contingent liabilities/total long-term debt (%)	28.5	28.4	34.5	33.0	43.2
Debt burden (%)	1.63	1.72	1.73	1.78	1.80
Defined benefit plan funded status (%)	NA	92.29	91.14	96.59	85.60
Miscellaneous					
Medicare accelerated and advance payments (\$000s)§	703,000	773,000	N/A	N/A	MNR
Short-term borrowings (\$000s)§	0	0	0	0	MNR
CARES Act (\$000s)	-	786,655	N/A	N/A	MNR
Other stimulus funds	-	37,000	N/A	N/A	MNR
Total net special funding (\$000s)	NA	232,533	199,859	156,061	MNR

*Only nine months of data. §Excluded from unrestricted reserves, long-term debt and contingent liabilities. MADS--Maximum annual debt service. MNR--Median not reported. N/A--Not applicable. NA--Not available.

Credit Snapshot

- **Security:** The rated bonds are the general, unsecured joint and several obligations of the obligated group.
- **Group rating methodology status:** The rating reflects our view of AAH's group credit profile and the obligated group's core status. Accordingly, we rate the obligated group at the level of the AAH group credit profile.
- **Credit overview:** AAH operates across northern Illinois and eastern Wisconsin with more than 25 acute care hospitals, more than 3,600 employed physicians, and numerous clinics and outpatient settings. The system also includes two ACOs, Advocate Physician Partners (a clinically integrated network), and a joint venture insurance company in Wisconsin with Anthem. AAH also includes long-term teaching affiliations with the University of Illinois at Chicago Health Sciences Center, Rosalind Franklin University, and Midwestern University. As part of these affiliations, AAH trains about 600 residents in 31 residency programs.
- **Self-liquidity rating:** The 'A-1+' short-term component of the rating on the \$70 million series 2011B windows bonds and \$50 million CP program reflects our view of the credit strength inherent in the 'AA' long-term rating on AAH's debt and the sufficiency of AAH's unrestricted reserves to provide liquidity support for the bonds. Our Fund Ratings and Evaluations Group assesses the liquidity of AAH's unrestricted investment portfolio to determine the adequacy and availability of these funds to guarantee the timely purchase of the bonds tendered in the event of a failed remarketing. We monitor the liquidity and sufficiency of AAH's investment portfolio monthly. AAH identified approximately \$800 million of discounted assets as of June 30, 2021, to provide self-liquidity. The assets are invested in highly rated money market funds, Treasuries, agencies, investment-grade debt, speculative-grade debt, and domestic equities, providing sufficient coverage in the event of a failed remarketing. Management has established clear and detailed procedures to ensure the maintenance of sufficient asset coverage and to meet liquidity demands on a timely basis. We will monitor the liquidity and sufficiency of assets pledged by AAH on a monthly basis. In addition, and as relates to the CP program, management has a restriction of only \$50 million coming due within a seven-day period, but this may change depending on what management ends up using in that program.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 1, 2021)

Advocate Aurora Health taxable bnds

<i>Long Term Rating</i>	AA/Stable	Current
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Advocate Aurora Health taxable comm pap nts ser 2019 dtd 02/25/2019 due 08/01/2019

<i>Short Term Rating</i>	A-1+	Current
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Illinois Finance Authority, Illinois

Advocate Aurora Health, Illinois

Illinois Finance Authority (Advocate Aurora Health) rev bnds rmkt'd 02/12/2020 (Advocate Hlth Care Network)

<i>Long Term Rating</i>	AA/Stable	Current
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Illinois Finance Authority (Advocate Aurora Health) rev bnds rmkt'd 1/15/2020 (Advocate Hlth Care Network) ser 2008A 1 dtd 04/23/2008 due 11/01/2030

Ratings Detail (As Of September 1, 2021) (cont.)

<i>Long Term Rating</i>	AA/Stable	Current
Illinois Fin Auth (Advocate Aurora Health Credit Group) sys		
<i>Long Term Rating</i>	AA/Stable	Current
Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys		
<i>Long Term Rating</i>	AA/A-1+/Stable	Current
Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys		
<i>Long Term Rating</i>	AA/A-1/Stable	Current
Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys		
<i>Long Term Rating</i>	AA/A-1+/Stable	Current
Illinois Hlth Fac Auth, Illinois		
Advocate Aurora Health, Illinois		
Illinois Hlth Fac Auth (Advocate Aurora Health Credit Group) sys		
<i>Long Term Rating</i>	AA/Stable	Current
Illinois Hlth Fac Auth (Advocate Aurora Health Credit Group) sys		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth, Wisconsin		
Advocate Aurora Health, Illinois		
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) (AGM)		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) (MBIA) (National)		
<i>Long Term Rating</i>	NR	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds rmkted 4/8/2021 (Advocate Aurora Health) ser 2018C-1 did 08/16/2018 due 08/15/2054		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds (Advocate Hlth Care) ser 2018C-2		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds (Advocate Hlth Care) ser 2018C-3		
<i>Long Term Rating</i>	AA/Stable	Current
Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds (Advocate Hlth Care) ser 2018C-4		
<i>Long Term Rating</i>	AA/Stable	Current

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MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms Advocate Aurora Health's Aa3; outlook positive

13 Aug 2021

New York, August 13, 2021 — Moody's Investors Service has affirmed the Aa3, Aa3/VMIG 1, and Aa3/P-1 ratings assigned to Advocate Aurora Health's (AAH) outstanding debt, which includes the obligations of legacy borrower Aurora Health Care, Inc., WI. The outlook is positive. AAH has approximately \$3.55 billion of debt outstanding.

RATINGS RATIONALE

Affirmation of the Aa3 reflects AAH's leading market positions across two regions, business line breadth and strong financial discipline. After achieving lower but still solid operating cash flow (OCF) margins in fiscal 2020 and YTD 2021 amid pandemic related volume disruptions, AAH will likely return to and sustain OCF margins at pre-pandemic expectations of 9% to 10%. This would be supported by ongoing recovery in volume and strategic growth but will likely take longer than anticipated when the positive outlook was first assigned due to COVID related volume disruptions and staffing challenges. Operating and balance sheet leverage will remain moderate with management expecting to maintain current levels of debt and well-funded frozen and highly hedged pension plans. A return to pre-pandemic levels of operating cash flow and ongoing improvement in cash levels, however, would help contribute to cash to total debt, total debt to cash flow and days cash metrics that would be more in line with a higher rating. In addition to intensifying wage issues, offsets include strong competition in rapidly consolidating markets and ongoing payer pressures.

The affirmation of the short-term P-1 rating is supported by Moody's market access cash flow approach to longer-term variable rate instruments and our estimation of AAH's ability to pay the purchase price of a mandatory tender when due at the end of the mandatory tender "window" as well as AAH's strong liquidity. Moody's expects that AAH will be able to access the market given its strong revenue bond rating and the system's frequency of market participation. Affirmation of the VMIG 1 reflects the presence of standby bond purchase agreements and the creditworthiness of AAH.

RATING OUTLOOK

The positive outlook reflects Moody's view that AAH will likely be able to return to and sustain OCF margins at levels expected pre-pandemic while increasing absolute cash levels (excluding Medicare Advances and FICA deferrals). This would allow AAH to achieve or exceed stronger days cash, cash to debt and debt to cash flow metrics as forecasted.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Able to recover to pre-pandemic OCF levels in the 9% to 10% range and demonstrate durability
- Evidence that operating leverage as measured by debt to cash flow will be sustained at or below 2.0 times
- Ability to show ongoing improvement in cash to debt and days cash
- Unenhanced ST rating: Not applicable
- Enhanced ST rating: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained decline in solid operating cash flow margins
- Meaningful decline in days cash or cash to debt metrics
- Additional debt resulting in less favorable leverage metrics
- Unenhanced ST rating: downgrade by Moody's of AAH's long-term rating below A2 or material adverse changes to AAH's access to the capital markets

- Enhanced ST ratings: downgrade by Moody's of the short-term Counterparty Risk Assessment of the banks that provide the SBPAs or the long-term rating of AAH

LEGAL SECURITY

Under an Amended and Restated Master Trust Indenture, issued in 2018, security is a general, unsecured obligation of the obligated group. There are no additional indebtedness tests. The members of the obligated group under the Master Indenture are: Advocate Aurora Health, Inc., Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Sherman Hospital, Advocate North Side Health Network, Advocate Condell Medical Center, Aurora Health Care, Inc., Aurora Health Care Metro, Inc., Aurora Health Care Southern Lakes, Inc., Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center, Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County, Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc., Aurora Medical Center Grafton LLC. The Amended and Restated MTI contains a substitution of notes provision.

PROFILE

Advocate Aurora Health, Inc. (AAH, \$13.1 billion revenue in FY 2020), provides a continuum of care through its 24 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have 6,475 licensed beds, primary and specialty physician services with approximately 3,600 employed physicians, outpatient centers, physician office buildings, pharmacies, behavioral health care, rehabilitation, home health and hospice care in northern Illinois, eastern Wisconsin and the upper peninsula of Michigan.

METHODOLOGY

The principal methodology used in the long-term ratings was Not-For-Profit Healthcare published in December 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1154632. The principal methodology used in the short-term underlying rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749. The principal methodology used in the short-term enhanced ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1057134. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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SECTION VIII. 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:

5. "A" Bond rating or better
6. All the project's capital expenditures are completely funded through internal sources
7. 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
8. 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 35, 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.

	Historical 3 Years			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.

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 36, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The criterion is not applicable. Advocate Aurora Health, Inc has a AA long-term bond rating from Fitch and Standard & Poors. Advocate Aurora Health, Inc has an Aa3 long-term bond rating from Moody's. See Attachment 34.

SECTION IX. 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 the cash and equivalents must be retained in the balance sheet asset accounts 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 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment #37, Exhibit 1, 2 and 3.

The AGC (Association of General Construction's 2022 Construction Inflation Report is provided in the Appendix.



January 5, 2023

Mr. John Kniery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group

Dear Mr. Kniery:

This letter is to attest to the fact that the selected form of debt financing for the purpose of the Advocate Outpatient Center - Lakemoor will be 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 mortgages, access to additional debt, term financing costs and other factors.

Respectfully,

A handwritten signature in black ink, appearing to read "Jon Kluge".

Jon Kluge
Chief Operating Officer
Senior Vice President
Advocate Medical Group

Subscribed and sworn to me
This 5 day of January, 2023

A handwritten signature in black ink, appearing to read "Jody Heiden".

Notary Public

JODY HEIDEN
Notary Public
State of Wisconsin

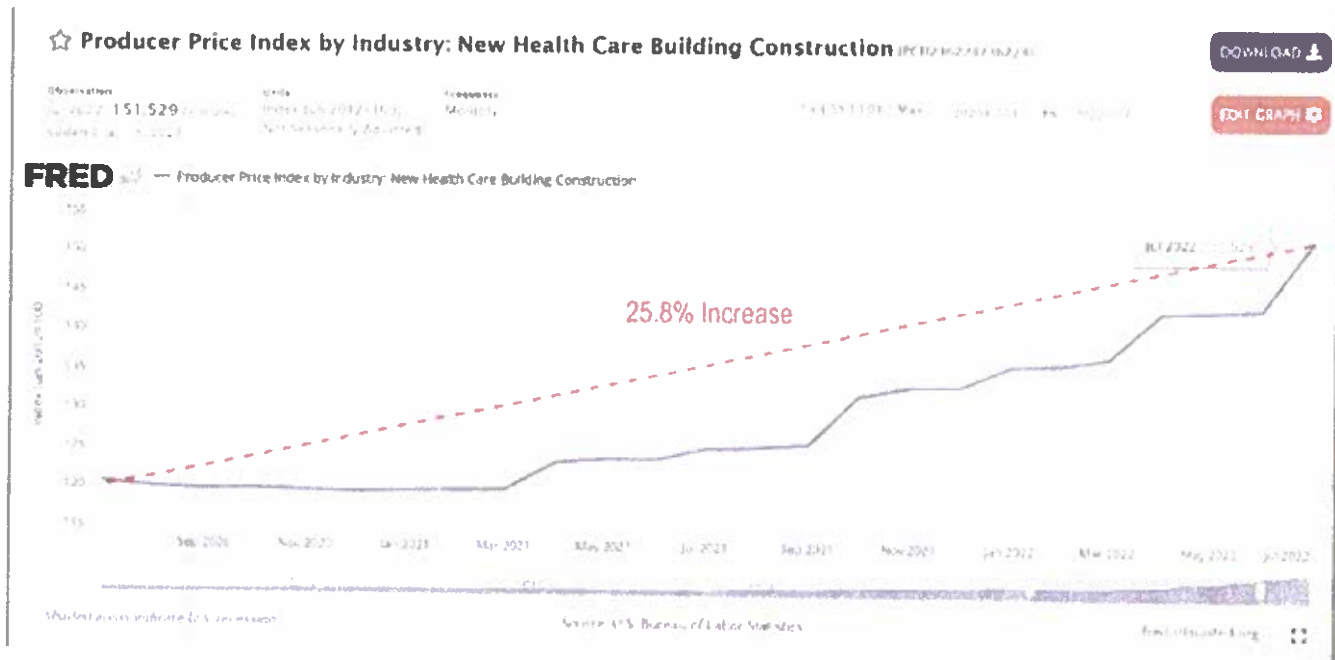
Cost & Gross Square Feet by Department									
Dept. / Area	A	B	C	D	E	F	G	H	
	Cost / Sq. Ft.		Gross Sq. Ft.		Gross Sq. Ft.		Const. \$	Mod. \$	Total Cost (G+H)
	New	Mod.	New	Circ.*	Mod.	Circ.*	AxC	BxE	(G+H)
Clinical									
General Radiology (1 Room)	\$1,072.38	\$0	1,083	5.7%	0	0%	\$1,161,390	\$0	\$1,161,390
Ultrasound (1 Room)	\$1,022.44	\$0	191	0%	0	0%	\$195,388	\$0	\$195,388
Physician Exam Procedure Rooms (14 Rooms)	\$856.65	\$0	1,825	0%	0	0%	\$1,563,480	\$0	\$1,563,480
NST (1 Room)	\$897.31	\$0	194	0%	0	0%	\$173,808	\$0	\$173,808
Well-Lab (1 Private, 1 Bay)	\$816.90	\$0	733	17.7%	0	0%	\$598,954	\$0	\$598,954
Physical Therapy (1 Room)	\$799.78	\$0	177	0%	0	0%	\$141,561	\$0	\$141,561
OP Behavioral Health (1 Room)	\$757.08	\$0	193	0%	0	0%	\$146,117	\$0	\$146,117
Total Clinical			4,396		0		\$3,980,698	\$0	\$3,980,698
Clinical Contingency									\$213,038
Total Clinical Reviewable + Contingency									\$4,193,736
Non-Clinical									
Public, Circulation, Staff Support, Building Support	\$755.85	\$0	13,194	57%	0	0%	\$9,972,708	\$0	\$9,972,708
Integrative Medicine (Multipurpose Room)	\$1,987.72	\$0	748	0%	0	0%	\$1,486,615	\$0	\$1,486,615
Retail Pharmacy	\$1,004.81	\$0	932	0%	0	0%	\$936,383	\$0	\$936,383
Total Non-Clinical			14,874		0		\$ 12,395,706	\$0	\$12,395,706
Non-Clinical Contingency									\$720,793
Total Non-Clinical + Contingency									\$13,116,499
Total									\$16,376,404
Contingency									\$933,831
Total + Contingency									\$17,310,235

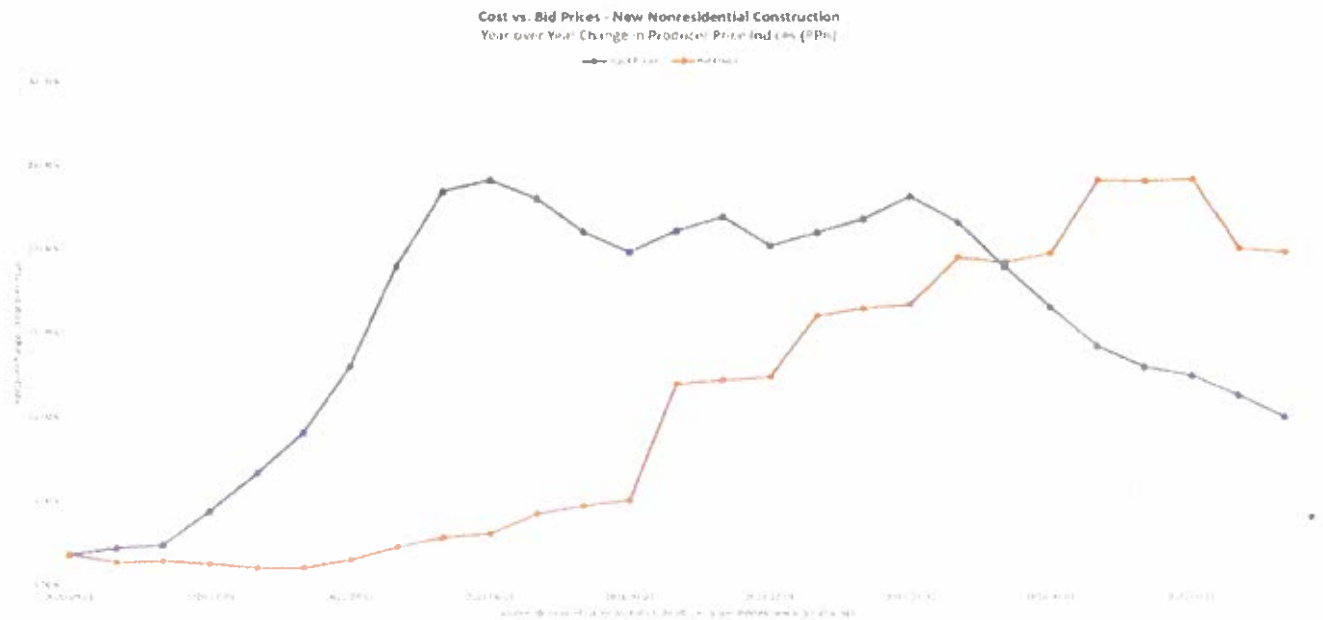
** Percentage of space for circulation

** Construction Costs Only

Lakemoor Ambulatory Outpatient Center construction costs include premiums that are above typical New Construction Business Occupancy Classification. A Higher cost per Square Feet (SF) is attributed to the following factors:

1. Clinical Reviewable costs consist of only of 1 Radiology Room and 1 Ultrasound Room (net 1,274SF) compared to the overall 19,270SF facility. These two clinical services are well below Illinois State Standard square footages, making these spaces as efficient as possible. This results in a higher cost per square footage as it compares to the overall facility cost per square foot.
2. Imaging Rooms have special construction required to make the surrounding rooms safe from radiation. Higher \$/SF is attributed to lead shielding, infrastructure requirements (i.e., Humidifiers), and other imaging-specific equipment requirements.
3. Construction escalation is at an all-time high. Current contractor pricing indicates that bid price escalation is approximately 28.4% averaged across the various trades since July 2020, well above the typical 3%. Forecasting to September 2023 (near the anticipated Project Completion Date) shows escalation can represent an additional 4.9% on top of the 28.4%. Current pricing reflects an Output-based / bid price indices whereas, it is our understanding that RS Means indexing accounts for Cost Inputs of labor and material. As outlined in the graphs below, there is a gap between Output-based and Cost Input based costs. National new healthcare construction costs are documented at 25.8% escalation since July 2020.





Description of Building Construction Premiums for Lakemoor AOC Project:	Estimated Premium \$
Imaging rooms are the only clinic reviewable spaces and account for a very small SF, resulting in higher \$/SF	Reference narrative
Integrative Medicine Multipurpose Room with access to exterior patio to support wide range of services offered.	\$170,000
On-stage / Off-stage circulation, doors, and portal entries for elevated level of services	\$330,000
Retail Pharmacy incorporating vehicular drive-thru component.	\$150,000
Generator Infrastructure to support emergency power to facility.	\$208,000
Hydronic mechanical system in lieu of Electric Reheat Type to reduce long term energy consumption and costs.	\$315,000
Building Construction Cost Premiums Only	\$1,173,000

<u>Description of Site Preparation Premiums for Lakemoor AOC Project:</u>	<u>Estimated Premium \$</u>
Retail Pharmacy incorporating vehicular drive-thru component – Civil Work Only	\$66,000
Exterior patio amenity to support health and wellness	\$70,000
Earthwork balancing to maintain strong visibility from Route 120 and neighboring businesses throughout 7 Acre parcel.	\$287,000
Southern access road to support HOA land purchase agreement.	\$150,000
Site Preparation Cost Premiums Only	\$573,000

D. Projected Operating Cost per Equivalent Pt Day in Year 1E. Impact of Project on Capital Costs in Year of Completion Year 1

Projected Operating Cost	Cost Per Visit Year 2
Operating Expense	\$ 233.38
Impact on Capital Costs	Cost Per Visit Year 2
Annual Capital Costs	\$ 53.54

SECTION X. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

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 37.

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)	Year	Year	Year
Inpatient			
Outpatient			
Total			

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable - not required for non-substantive projects

SECTION X. CHARITY CARE INFORMATION

Charity Care information **MUST** be furnished for **ALL** projects [1120.20(c)].

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 39.

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

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

See Attachment 39, Exhibit 1

CHARITY CARE			
	2019	2020	2021
Net Patient Revenue	\$ 4,526,518,372	\$ 4,328,346,158	\$ 4,891,752,006
Amount of Charity Care (charges)	\$ 416,789,717	\$ 190,768,385	\$ 342,625,287
Cost of Charity Care	\$ 99,758,960	\$ 50,107,969	\$ 76,109,520

Source: Advocate Aurora Hospital records

SECTION XI -SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM

In accordance with Executive Order 2006-5 (EO 5), the Health Facilities & Services Review Board (HFSRB) must determine if the site of the CRITICAL FACILITY, as defined in EO 5, is in a mapped floodplain (Special Flood Hazard Area) or a 500-year floodplain. All state agencies are required to ensure that before a permit, grant or a development is planned or promoted, the proposed project meets the requirements of the Executive Order, including compliance with the National Flood Insurance Program (NFIP) and state floodplain regulation.

4. Applicant: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
(Name)
3075 Highland Parkway Downers Grove Illinois 60515 847-842-4002
 (Address) (City) (State) (Zip code) (Telephone Number)
- Project Location: 27655 IL Route 120 Lakemoor Illinois
 (Address) (City) (State)
Lake Wauconda Township
 (County) (Township) (Section)

5. You can create a small map of your site showing the FEMA floodplain mapping using the FEMA Map Service Center website (<https://msc.fema.gov/portal/home>) by entering the address for the property in the Search bar. If a map, like that shown on page 2 is shown, select the **Go to NFHL**

Viewer tab above the map. You can print a copy of the floodplain map by selecting the



icon in the top corner of the page. Select the pin tool icon  and place a pin on your site. Print a FIRMETTE size image.

If there is no digital floodplain map available select the **View/Print FIRM** icon above the aerial photo. You will then need to use the Zoom tools provided to locate the property on the map and use the **Make a FIRMette** tool to create a pdf of the floodplain map.

IS THE PROJECT SITE LOCATED IN A SPECIAL FLOOD HAZARD AREA: Yes ___ No X ?

IS THE PROJECT SITE LOCATED IN THE 500-YEAR FLOOD PLAIN?

If you are unable to determine if the site is in the mapped floodplain or 500-year floodplain, contact the county or the local community building or planning department for assistance.

If the determination is being made by a local official, please complete the following:

FIRM Panel Number: _____ Effective Date: _____

Name of Official: _____ Title: _____

Business/Agency: _____ Address: _____

(City) (State) (ZIP Code) (Telephone Number)

Signature: _____ Date: _____

NOTE: This finding only means that the property in question is or is not in a Special Flood Hazard Area or a 500-year floodplain as designated on the map noted above. It does not constitute a guarantee that the property will or will not be flooded or be subject to local drainage problems.

If you need additional help, contact the Illinois Statewide Floodplain Program at 217/782-4428

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

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24	In-Center Hemodialysis	NA
25	Non-Hospital Based Ambulatory Surgery	NA
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APPENDIX

Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Years Ended December 31, 2021 and 2020



ADVOCATE AURORA HEALTH, INC.
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 Chicago, IL 60606-1787 ey.com

Report of Independent Auditors

The Board of Directors
 Advocate Aurora Health, Inc.

Opinion

We have audited the consolidated financial statements of Advocate Aurora Health, Inc. and subsidiaries (the Organization), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we



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- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other information

Management is responsible for the other information. The other information comprises the Condensed Consolidated Financial Statements and Other Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst & Young LLP

March 21, 2022

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands)

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 703,725	\$ 959,878
Assets limited as to use	139,742	125,053
Patient accounts receivable	1,816,705	1,570,738
Other current assets	706,253	686,686
Third-party payors receivables	22,154	16,933
Collateral proceeds under securities lending program	18,550	19,789
Total current assets	<u>3,407,129</u>	<u>3,379,077</u>
 Assets limited as to use	 12,394,605	 11,107,210
 Property and equipment, net	 5,943,011	 5,851,977
 Other assets		
Reinsurance receivable	42,100	50,514
Goodwill and intangible assets, net	271,178	82,752
Investments in unconsolidated entities	259,127	210,303
Operating lease right-of-use assets	283,398	309,678
Other noncurrent assets	538,013	458,132
Total other assets	<u>1,393,816</u>	<u>1,111,379</u>
 Total assets	 <u><u>\$ 23,138,561</u></u>	 <u><u>\$ 21,449,643</u></u>

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current liabilities		
Long-term debt and commercial paper, current portion	\$ 96,185	\$ 101,996
Long-term debt subject to short-term financing arrangements	166,350	119,660
Operating lease liabilities, current portion	68,247	79,934
Accrued salaries and employee benefits	1,296,458	1,207,672
Accounts payable and other accrued liabilities	1,562,089	1,341,619
Third-party payors payables	354,186	318,801
Accrued insurance and claims costs, current portion	151,230	130,391
Collateral under securities lending program	18,550	19,789
Total current liabilities	<u>3,713,295</u>	<u>3,319,862</u>
Noncurrent liabilities		
Long-term debt, less current portion	3,298,508	3,310,401
Operating lease liabilities, less current portion	248,062	268,575
Accrued insurance and claims cost, less current portion	615,576	593,739
Accrued losses subject to insurance recovery	42,100	50,514
Obligations under swap agreements	91,217	118,620
Other noncurrent liabilities	798,824	1,387,888
Total noncurrent liabilities	<u>5,094,287</u>	<u>5,729,737</u>
Total liabilities	<u>8,807,582</u>	<u>9,049,599</u>
Net assets		
Without donor restrictions		
Controlling interest	13,911,862	12,012,719
Noncontrolling interests in subsidiaries	167,440	154,645
Total net assets without donor restrictions	<u>14,079,302</u>	<u>12,167,364</u>
With donor restrictions	251,677	232,680
Total net assets	<u>14,330,979</u>	<u>12,400,044</u>
Total liabilities and net assets	<u>\$ 23,138,561</u>	<u>\$ 21,449,643</u>

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue		
Patient service revenue	\$ 11,702,581	\$ 10,216,386
Capitation revenue	1,196,109	1,121,428
Other revenue	1,163,442	1,794,375
Total revenue	14,062,132	13,132,189
Expenses		
Salaries, wages and benefits	7,665,848	7,427,903
Supplies, purchased services and other	4,530,877	4,200,203
Contracted medical services	564,586	502,420
Depreciation and amortization	563,409	560,215
Interest	106,101	112,126
Total expenses	13,430,821	12,802,867
Operating income before nonrecurring expenses	631,311	329,322
Nonrecurring expenses	37,759	116,355
Operating income	593,552	212,967
Nonoperating income		
Investment income, net	1,303,546	593,283
Loss on debt refinancing	(14,468)	(12,244)
Change in fair value of interest rate swaps	27,403	(27,280)
Pension settlement loss	—	(119,658)
Other nonoperating income (loss), net	12,220	(38,943)
Total nonoperating income, net	1,328,701	395,158
Revenue in excess of expenses	1,922,253	608,125
Less income attributable to noncontrolling interests	(73,130)	(50,093)
Revenue in excess of expenses - attributable to controlling interest	\$ 1,849,123	\$ 558,032

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net assets without donor restrictions, controlling interest		
Revenue in excess of expenses - attributable to controlling interest	\$ 1,849,123	\$ 558,032
Pension-related changes other than net periodic pension costs	48,236	138,208
Net assets released from restrictions for purchase of property and equipment	9,709	6,206
Other, net	(7,925)	454
Increase in net assets without donor restrictions, controlling interest	1,899,143	702,900
Net assets without donor restrictions, noncontrolling interests		
Revenues in excess of expenses	73,130	50,093
Distributions to noncontrolling interests	(60,335)	(41,948)
Other, net	—	(240)
Increase in net assets without donor restrictions, noncontrolling interests	12,795	7,905
Net assets with donor restrictions		
Contributions	18,693	22,971
Investment income, net	21,106	9,948
Net assets released from restrictions for operations	(11,102)	(17,074)
Net assets released from restrictions for purchase of property and equipment	(9,709)	(6,206)
Central IL net assets with donor restrictions sold	—	(18,949)
Other, net	9	(115)
Increase (decrease) in net assets with donor restrictions	18,997	(9,425)
Increase in net assets	1,930,935	701,380
Net assets at beginning of period	12,400,044	11,698,664
Net assets at end of period	\$ 14,330,979	\$ 12,400,044

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash flows from operating activities		
Increase in net assets	\$ 1,930,935	\$ 701,380
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	555,983	555,515
Amortization of operating lease right-of-use assets	79,398	63,840
Loss on debt refinancing	14,468	12,244
(Gain) loss on sale of property and equipment	(13,117)	12,571
Change in fair value of swap agreements	(27,403)	27,280
Pension-related changes other than net periodic pension cost	(48,236)	(138,208)
Net assets released from restrictions for operations	(11,102)	(17,074)
Distribution to noncontrolling interests	60,335	50,205
Distributions from unconsolidated entities	11,442	14,951
Loss on sale of Central IL disposal group	—	21,346
Central IL net assets with donor restrictions sold	—	18,949
Changes in operating assets and liabilities		
Trading securities, net	(1,330,868)	(2,025,066)
Accounts receivable, net	(245,966)	31,871
Accounts payable and accrued liabilities	(56,718)	1,006,265
Third-party payors receivables and payables, net	30,163	16,896
Other assets and liabilities, net	(342,705)	240,620
Net cash provided by operating activities	<u>606,609</u>	<u>593,585</u>
Cash flows from investing activities		
Capital expenditures	(570,166)	(703,611)
Proceeds from sale of property and equipment	2,019	1,998
Sales of investments designated as non-trading, net	4	241
Investments in unconsolidated entities, net	(38,021)	(8,016)
Acquisition of Senior Helpers, net of cash acquired	(183,672)	—
Cash received from sale of Central IL disposal group	—	190,000
Other	(2,879)	(15,879)
Net cash used in investing activities	<u>(792,715)</u>	<u>(535,267)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	182,157	695,915
Repayments of long-term debt	(231,668)	(226,781)
Distribution to noncontrolling interests	(60,335)	(50,205)
Proceeds from restricted contributions and income (loss) on investments	39,799	32,919
Net cash (used in) provided by financing activities	<u>(70,047)</u>	<u>451,848</u>
Net (decrease) increase in cash and cash equivalents	<u>(256,153)</u>	<u>510,166</u>
Cash and cash equivalents at beginning of period	959,878	449,712
Cash and cash equivalents at end of period	<u>\$ 703,725</u>	<u>\$ 959,878</u>
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	\$ 46,016	\$ 24,272

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(dollars in thousands)

1. ORGANIZATION AND BASIS OF PRESENTATION**Description of Business**

Advocate Aurora Health, Inc., is a Delaware nonprofit corporation (the "Parent Corporation"). The Parent Corporation is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate") and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("Aurora"). The Parent Corporation, Advocate, Aurora and their controlled subsidiaries are collectively referred to herein as the "System." The System was formed in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the communities they serve.

The System is comprised of various not-for-profit and for-profit entities, the primary activities are the delivery of health care services and the provision of goods and services ancillary thereto.

The System provides a continuum of care through its 24 acute care hospitals, an integrated children's hospital and a psychiatric hospital, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, rehabilitation and home health and hospice care in northern and central Illinois and eastern Wisconsin.

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.

2. SIGNIFICANT EVENTS

Due to the COVID-19 pandemic, the behavior of businesses and people globally was altered in a manner that had a negative impact on global and local economies including significant investment market volatility, various temporary business closures resulting in increased unemployment and other effects which have and could continue to result in supply disruptions, lower collections on patient accounts receivable and/or decisions to defer medical treatments at the System's facilities.

At various times and at various locations the System postponed or canceled elective procedures to comply with public health protocols. This, along with the growth in the volume of COVID-19 patients, had a negative impact on operations and revenues and also caused the System to estimate the timing, source and rate of reimbursement for COVID-19 related patient care.

The continuing and total impact of the COVID-19 pandemic on the System is difficult to predict and could adversely impact the business, investment portfolio, financial condition or results of operations and, accordingly, may have a material adverse impact on the financial condition of the System. The System continues to monitor liquidity and cash flow and has taken, and continues to take, steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations. In addition, the System applied for certain COVID-19 related resources, including supplies, financial support,

payroll tax deferrals and relief and other assistance made available through local, state and federal governments.

The System received \$34,354 and \$786,655 for the years ended December 31, 2021 and 2020, respectively in grant payments from the U.S. Department of Health and Human Services ("HHS") from the Provider Relief Fund established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which has been recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets. Payments from the Provider Relief Fund are intended to cover unreimbursed healthcare related expenses and lost revenue from patient care attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. Management of the System believes that the System is in compliance with the terms and conditions of the Provider Relief Fund distributions and will continue to monitor compliance. The CARES Act also entitled eligible employers to an employee retention tax credit designed to encourage employers to keep employees on their payroll. The refundable tax credit is limited to 50% of up to \$10 in qualified wages paid to each employee by an eligible employer whose business had been financially impacted by COVID-19. The System recognized \$0 and \$37,060 for the years ended December 31, 2021 and 2020, respectively for the employee retention tax credit, which is included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets and a corresponding receivable that is included in other current assets in the consolidated balance sheets. The recognition of the COVID-19 support falls under the grant accounting guidance of accounting principles generally accepted in the United States. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the System will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the System's revenues and expenses.

In addition, the System received \$0 and \$773,000 for the years ended December 31, 2021 and 2020, respectively from the Centers for Medicare and Medicaid Services ("CMS") as an advance payment for Medicare services. The funds were provided through the expansion of the Medicare Accelerated and Advance Payment Program to ensure providers and suppliers had the resources needed to combat the COVID-19 pandemic. The advances are being recouped by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped, unless the System elects to repay the advances prior to full recoupment. Subsequent to the twenty-nine month recoupment period any unpaid remaining balance is subject to an interest charge of 4 percent per annum. For the year ended December 31, 2021, CMS payments accelerated and advance of approximately \$257,000 have been recouped. Medicare accelerated and advance payments of approximately \$515,000 and \$285,000 are included in accounts payable and other accrued liabilities within the consolidated balance sheets at December 31, 2021 and 2020, respectively. Medicare accelerated and advance payments of approximately \$0 and \$488,000 are included in other noncurrent liabilities within the consolidated balance sheets at December 31, 2021 and 2020, respectively. The CARES Act also permitted employers to defer the employer portion of social security taxes through December 31, 2020. Employers were required to remit one-half of the amount deferred by December 31, 2021 and the remaining half by December 31, 2022. During 2020 the System deferred approximately \$215,000 of these taxes and approximately \$107,500 were remitted during 2021. At December 31, 2021 and 2020, approximately \$107,500 is included in accrued salaries and employee benefits within the consolidated balance sheets. At December 31, 2021 and 2020, \$0 and approximately \$107,500 is included in other noncurrent liabilities, respectively, within the consolidated balance sheets.

Additionally, the System was awarded approximately \$16,600 in Federal American Rescue Plan Act funds by the Illinois Department of Healthcare and Family Services in 2021. These funds are meant to cover premium pay and payroll and benefit expenses for employees who spent time mitigating or

responding to COVID from March 2021 through June 30, 2022. For the year ended December 31, 2021, approximately \$4,900 of these funds were recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets. The remainder of these funds are anticipated to be recognized in 2022.

On April 1, 2021, the System purchased the stock of SH Corporate Company, Inc. and SHF Acquisition Company, Inc. (collectively "Senior Helpers") for \$183,672, net of cash acquired, to further the System's strategy. The System acquired the following significant assets: \$101,459 of goodwill and \$96,200 of intangible assets. Included in the accompanying consolidated statements of operations and changes in net assets from the date of acquisition is \$26,488 of revenue and \$9,543 of operating loss for the year ended December 31, 2021. The related changes in net assets without donor restrictions of \$(9,517) from the date of acquisition is included in the consolidated balance sheets.

On July 1, 2020, the System sold a majority of the assets and certain liabilities (the "disposal group") related to operations of the System in central Illinois. The disposal group had assets sold in excess of liabilities transferred of \$205,273, consisting primarily of property and equipment and certain investment interests in unconsolidated entities. The purchase price for the disposal group was \$190,000. The System recorded a loss, inclusive of selling costs, of \$21,346 that is included in nonrecurring expenses for the year ended December 31, 2020 in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated 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, liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated 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, other than those included in the investment portfolio, to be cash equivalents.

Investments

The System has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or otherwise observable inputs. Investments in private equity limited partnerships and derivative products (hedge funds) are reported at fair value using net asset value as a practical expedient. Commingled funds are carried at fair value based on other observable inputs. Investment income or loss (including realized gains and losses, interest, dividends and unrealized gains and losses) is included in the nonoperating section of the accompanying consolidated statements of operations and changes in net assets, unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income or loss on self-insurance trust funds is reported in other revenue in the accompanying consolidated statements of operations and changes in net assets. Investment income or loss that is restricted by donor or law is reported as a change in net assets with donor restrictions.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the System for future capital improvements and certain medical education and other health care programs. The System 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 or in trust under debt agreements, self-insurance trusts, assets held in reinsurance trust accounts and donor-restricted funds.

Patient Service Revenue and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed within days after the services are performed or after discharge. Revenue is recognized as performance obligations are satisfied. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has applied the optional exemption provided in the guidance and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component, due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

The System has entered into payment arrangements with patients that allow for payments over a term in excess of one year. The System has evaluated historical collections in excess of one year and current market interest rates to determine whether a significant financing component exists that would require an adjustment to the promised amount of consideration from patients and third-party payors. The System has determined that the impact of implicit financing arrangements for payment agreements in excess of one year is insignificant to the accompanying consolidated statements of operations and changes in net assets.

The System does not incur significant incremental costs in obtaining contracts with patients. Any costs incurred are expensed in the period of occurrence, as the amortization period of any asset that the System would have recognized is one year or less in duration.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

Inventories

Inventories, consisting primarily of medical supplies, pharmaceuticals and durable medical equipment, are stated at the lower of cost or net realizable value.

Reinsurance Receivables

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

Goodwill and Intangible Assets, Net

Goodwill of \$151,655 and \$63,740 is included in goodwill and intangible assets, net in the accompanying consolidated balance sheets as of December 31, 2021 and 2020, respectively. As described in Note 2. SIGNIFICANT EVENTS, the System recognized \$101,459 of goodwill related to the stock purchase of Senior Helpers. The System has elected to amortize goodwill prospectively using the straight-line method over a 10-year period in accordance with Accounting Standards Update ("ASU") 2019-06. Goodwill amortization of \$16,483 and \$7,255 is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2021 and 2020, respectively. Intangible assets with expected useful lives are amortized over that period.

Asset Impairment

The System considers whether indicators of impairment are present and, if indicators are present, performs the necessary tests to determine if the carrying value of an asset is recoverable. Impairment write-downs are recognized in the accompanying consolidated statements of operations and changes in net assets as a component of operating expense at the time the impairment is identified. There were no material impairment charges recorded for the years ended December 31, 2021 and 2020.

Property and Equipment, Net

Property and equipment are reported at cost or, if donated, at fair value at the date of the gift. Costs of computer software developed or obtained for internal use, including external and internal direct costs of materials and labor directly associated with internal-use software development projects, are capitalized during the application development stage and included in property and equipment. Internal labor and interest expense incurred during the period of construction of significant capital projects are capitalized as a component of the costs of the asset.

Property and equipment capitalized under direct financing leases are recorded at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Property and equipment capitalized under direct financing leases are amortized using the straight-line method over the related lease term. Amortization of property and equipment under financing leases is included in the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expense.

Property and equipment assets are depreciated on the straight-line method over a period ranging from 3 years to 80 years.

Operating Lease Right-of-use Assets

The System records an operating lease right-of-use asset (an asset that represents the System's right to use the leased asset for the lease term) for leases that do not meet the criteria as a sales-type lease or a direct financing lease.

The System records operating lease right-of-use assets at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating lease right-of-use assets are amortized using the straight-line method over the related lease term. Amortization of operating lease right-of-use assets is included in the accompanying consolidated statements of operations and changes in net assets in supplies, purchased services and other expense.

Included within operating lease right-of-use assets are assets that the System previously sold and then leased back. Those sale/leaseback transactions, which related to various administrative and medical support buildings, did not meet the accounting criteria as a sales-type lease or a direct financing lease. The buyer-lessors for such transactions are generally unrelated special-purpose entities.

Investments in Unconsolidated Entities

Investments in unconsolidated entities are accounted for using either the equity method or as an equity security without a readily determinable fair value. The System applies the equity method of accounting for investments in unconsolidated entities when its ownership or membership interest is 50% or less and the System has the ability to exercise significant influence over the operating and financial policies of the investee. The income (loss) on these unconsolidated entities is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. All other unconsolidated entities are accounted for as an equity security without a readily determinable fair value. These unconsolidated entities are initially recorded at cost, tested for impairment at least annually and adjusted as market transactions occur that would indicate a fair value adjustment is needed. The income (loss) on these unconsolidated entities is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

The System enters into transactions to manage its interest rate, credit and market risks. Derivative financial instruments, including exchange-traded and over-the-counter derivative contracts and interest rate swaps, are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating income, net.

Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are amortized over the term of the bonds using the effective interest method and are included in long-term debt, less current portion in the accompanying consolidated balance sheets.

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. The System measures the cost of its unfunded obligations under such programs based upon actuarial calculations and records a liability on a discounted basis.

Net Assets With Donor Restrictions

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

Assets released from restrictions to fund purchases of property and equipment are reported in the accompanying consolidated statements of operations and changes in net assets as increases to net assets without donor restrictions. Those assets released from restriction for operating purposes are reported in the accompanying consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as net assets with donor restrictions until amounts are expended in accordance with the donor's specifications.

Nonrecurring Expenses

The System has incurred salaries, purchased services and other expenses in connection with the implementation of an electronic medical records in 2020 and billing system and the implementation of an enterprise resource planning system in 2020 and 2021. Also recorded in nonrecurring expenses is the loss incurred on the divestiture of central Illinois disposal group (see Note 2. SIGNIFICANT EVENTS) in 2020. Due to the nature of these expenses, the costs were reported as nonrecurring in the accompanying consolidated statements of operations and changes in net assets.

Other Nonoperating Income (Loss), Net

Revenues and expenses from delivering health care services and the provision of goods and services ancillary thereto are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to the System's main purpose are included in other nonoperating income (loss), net. Other nonoperating income (loss), net primarily consists of fund-raising expenses, contributions to charitable organizations, income taxes and the net non-service components of the periodic benefit expense on the System's pension plans.

Revenue in Excess of Expenses and Changes in Net Assets

The accompanying consolidated statements of operations and changes in net assets includes the revenue in excess of expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from revenue 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), pension-related changes other than net periodic pension costs and distributions to noncontrolling interests.

Accounting Pronouncements Adopted

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)* to improve the effectiveness of disclosures for defined benefit plans under Accounting Standards Codification ("ASC") 715-20. The ASU applies to employers that sponsor defined benefit pension or other postretirement plans. This ASU is effective for non-public business entities for fiscal years ending after December 15, 2021. The amendments in this update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. The System adopted this guidance retrospectively.

In March 2021, the FASB issued updated guidance on goodwill impairment. ASU 2021-03-*Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events* attempts to simplify the goodwill triggering event evaluation process for private companies and not-for-profit entities. ASU 2021-03 provides an alternative for private companies and not-for-profit organizations by eliminating the ongoing triggering event analysis and instead allows organizations to evaluate the facts and circumstances as of the end of the reporting period to determine whether goodwill impairment has occurred. For entities who elect this alternative, the assessment is limited to the reporting date only. The scope of the alternative is limited to goodwill that is tested for impairment in accordance with Accounting Standards Codification Subtopic 350-20, *Intangibles—Goodwill and Other—Goodwill*. For private companies and not-for-profit organizations that have elected to amortize goodwill, the adoption of ASU 2021-03 is still applicable. The amendments in this ASU are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued as of March 30, 2021. The amendments in the ASU also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date. No additional disclosures would be required. The System adopted this guidance during 2021.

Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships and other transactions affected by the transition from the use of London Interbank Offered Rate ("LIBOR") to an alternative reference rate. In response to concerns about structural risks of interbank offered rates ("IBORs"), and, particularly, the risk of cessation of LIBOR, regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. This guidance provides companies the option to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which adds implementation guidance to ASU 2020-04 to clarify certain optional expedients in Topic 848. The guidance has to be adopted no later than December 1, 2022 with early adoption permitted. Management is currently evaluating the impact of this guidance.

4. COMMUNITY BENEFIT

The System provides health care services without charge to patients who meet the criteria of its charity care policies. Charity care services are not reported as patient service revenue, because payment is not anticipated while the related costs to provide the health care are included in operating expenses. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. The System's cost of providing charity care was \$126,600 and \$106,789 for the years ended December 31, 2021 and 2020, respectively, as determined using total cost to charge ratios.

In addition to the provision of charity care, the System provides significant financial support to its communities to sustain and improve health care services.

These activities include:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.
- The cost of providing services that are not self-sustaining, for which patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-

income patients, as well as the broader community, but are not expected to be financially self-supporting.

- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

5. REVENUE AND RECEIVABLES

Patient service revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are identified based on the nature of the services provided. Revenue associated with performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients receiving inpatient acute care services. The System measures the performance obligation from admission into the hospital to the point when there are no further services required for the patient, which is generally the time of discharge. For outpatient services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, the System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services based on charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the System's criteria for charity care are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in

the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews and investigations.

For the years ended December 31, 2021 and 2020, changes in the System's estimates of implicit price concessions, discounts and contractual adjustments or other reductions to expected payments for performance obligations related to prior years were not significant.

In the normal course of business, the System does receive payments in advance for certain services provided and would consider these amounts to represent contract liabilities. The amounts received in the normal course of business at December 31, 2021 and 2020 were not material. In 2020 the CMS accelerated and advance payments received in relation to the COVID-19 pandemic for Medicare services are deemed contract liabilities at December 31, 2021 and 2020. See Note 2. SIGNIFICANT EVENTS.

Currently, the State of Illinois utilizes supplemental reimbursement programs to increase reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the CMS and are funded with a combination of state and federal resources, including assessments levied on the providers. Under these supplemental programs, the System recognizes revenue and related expenses in the period in which amounts are estimable and collection is reasonably assured. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2021	Year Ended December 31, 2020
Reimbursement	Patient service revenue	\$ 321,123	\$ 286,105
Assessment	Supplies, purchased services and other	181,784	171,312

The State of Wisconsin assesses a fee or tax on gross patient service revenue. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. The System's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients and hospital tax assessment expense reflects the fees assessed by the State. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2021	Year Ended December 31, 2020
Reimbursement	Patient service revenue	\$ 136,679	\$ 137,317
Assessment	Supplies, purchased services and other	99,140	101,477

Management has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payor's geographical location, the line of business that renders services to patients and the timing of when revenue is recognized and billed.

The composition of patient service revenue by payor is as follows:

	Year Ended December 31, 2021		Year Ended December 31, 2020	
Managed care	\$ 6,534,404	55 %	\$ 5,521,363	54 %
Medicare	3,371,753	29 %	3,124,812	30 %
Medicaid - Illinois	825,834	7 %	773,851	8 %
Medicaid - Wisconsin	539,922	5 %	481,215	5 %
Self-pay and other	430,668	4 %	315,145	3 %
	<u>\$ 11,702,581</u>	<u>100 %</u>	<u>\$ 10,216,386</u>	<u>100 %</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table above.

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 the System agreeing to provide or arrange for their medical care.

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include grant revenues from the CARES Act, income from joint ventures, retail pharmacy revenue, grant revenue, cafeteria revenue, rent revenue and other miscellaneous revenue.

Revenue disaggregation by state and business line are as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Illinois	\$ 6,388,560	\$ 5,713,977
Wisconsin	6,510,130	5,623,837
Total patient service revenue and capitation	<u>12,898,690</u>	<u>11,337,814</u>
Other revenue	1,163,442	1,794,375
Total revenue	<u>\$ 14,062,132</u>	<u>\$ 13,132,189</u>
Hospital	\$ 8,640,613	\$ 7,611,197
Clinic	2,711,468	2,231,783
Home Care	259,692	240,043
Other	90,808	133,363
Total patient service revenue	<u>11,702,581</u>	<u>10,216,386</u>
Capitated revenue	1,196,109	1,121,428
Other revenue	1,163,442	1,794,375
Total revenue	<u>\$ 14,062,132</u>	<u>\$ 13,132,189</u>

Patient accounts receivable

The System's patient accounts receivable is reported at the amount that reflects the consideration to which it expects to be entitled, in exchange for providing patient care. Patient accounts receivable are reported at net realizable value based on certain assumptions. For third-party payors, including Medicare, Medicaid and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay, the net realizable value is determined using estimates of historical collection experience including an analysis by aging category. These estimates are adjusted for expected recoveries and any anticipated changes in trends, including significant changes in payor mix and economic conditions or trends in federal and state governmental health care coverage.

The composition of patient accounts receivable is summarized as follows:

	December 31, 2021		December 31, 2020	
Managed care	\$ 935,709	52 %	\$ 681,078	43 %
Medicare	356,959	20 %	350,948	22 %
Medicaid - Illinois	177,188	10 %	188,280	12 %
Medicaid - Wisconsin	50,111	3 %	41,694	3 %
Self-pay and other	296,738	15 %	308,738	20 %
	<u>\$ 1,816,705</u>	<u>100 %</u>	<u>\$ 1,570,738</u>	<u>100 %</u>

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, installment payment plans and amounts due from patients without insurance.

6. INVESTMENTS

The System invests in a diversified portfolio of investments, including alternative investments, such as real asset funds, hedge funds and private equity limited partnerships, whose fair value was \$5,856,960 and \$4,504,346 at December 31, 2021 and 2020, respectively. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods typically ranging from 1 to 90 days. Certain of these investments have redemption restrictions that may restrict redemption for up to 11 years. However, the potential for the System to sell its interest in these funds in a secondary market prior to the end of the fund term does exist for prices at or other than the carrying value.

At December 31, 2021, the System had additional commitments to fund alternative investments, including callable distributions of \$1,609,264 over the next seven years.

In the normal course of operations and within established investment policy guidelines, the System may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the System's strategic asset allocation and hedge security price movements. These instruments require the System to deposit cash or securities collateral with the broker or custodian. Collateral provided was \$16,589 and \$13,301 at December 31, 2021 and 2020, respectively. The gross notional value of the derivatives outstanding was \$282,289 and \$149,370 at December 31, 2021 and 2020, respectively.

By using derivative financial instruments, 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 may 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 the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within other current assets and accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. Unsettled sales resulted in receivables due from brokers of \$25,384 and \$49,512 at December 31, 2021 and 2020, respectively. Unsettled purchases resulted in payables of \$135,997 and \$88,890 at December 31, 2021 and 2020, respectively.

Investment returns for assets limited as to use and cash and cash equivalents are composed of the following:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest income and dividends	\$ 99,332	\$ 83,232
Income from alternative investments	926,066	51,675
Net realized gains	273,325	41,293
Net unrealized gains	79,580	476,794
Total	<u>\$ 1,378,303</u>	<u>\$ 652,994</u>

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Other revenue	\$ 53,651	\$ 49,763
Investment income, net	1,303,546	593,283
Net assets with donor restrictions	21,106	9,948
Total	<u>\$ 1,378,303</u>	<u>\$ 652,994</u>

The cash and cash equivalents and assets limited as to use presented within the accompanying consolidated balance sheets are comprised of the following:

	December 31, 2021	December 31, 2020
Internally designated for capital and other	\$ 11,572,323	\$ 10,291,819
Held for self-insurance	649,513	658,466
Donor restricted	155,009	137,980
Investments under securities lending program	17,760	18,945
Total noncurrent assets limited as to use	<u>12,394,605</u>	<u>11,107,210</u>
Cash and cash equivalents	703,725	959,878
Current assets limited as to use	139,742	125,053
Total cash and cash equivalents and assets limited as to use	<u>\$ 13,238,072</u>	<u>\$ 12,192,141</u>

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 banks. The loans are arranged through a bank. Borrowers are required to post collateral for securities borrowed equal to no less than 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, 2021 and 2020, the System loaned \$17,760 and \$18,945, respectively, in securities and

accepted collateral for these loans in the amount \$18,550 and \$19,789, respectively, which represents cash and governmental securities, and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

7. FAIR VALUE

The System accounts for certain assets and liabilities at fair value and categorizes assets and liabilities measured at fair value in the accompanying consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available under the circumstances.

The fair value of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. Assets and liabilities that are measured at fair value are disclosed and classified in one of the three categories. Category inputs are defined as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.

Level 2 — Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs that are unobservable for the asset or liability for which there is little or no market data.

The following section describes the valuation methodologies used by the System 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, exchange-traded funds and agency securities.

If quoted prices in active markets for identical assets and liabilities are not available to determine the 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, fixed-income securities, including fixed-income government obligations, commercial paper and certain agency, United States and international equities, which are not traded on an active exchange. 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 adjustments related to the System's credit risk.

Investments owned by the System are exposed to various kinds and levels of risk. Equity securities and equity 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 the 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.

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

The fair values of financial assets and liabilities that are measured at fair value on a recurring basis are as follows:

	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	\$ 1,251,915	\$ 895,856	\$ 356,059	\$ —
Corporate bonds and other debt securities	816,147	—	816,147	—
United States government bonds	667,877	—	667,877	—
Bond and other debt security funds	559,769	99,237	460,532	—
Non-government fixed-income obligations	34,374	—	34,374	—
Equity securities	1,202,388	1,174,214	28,174	—
Equity funds	2,819,140	147,118	2,672,022	—
	<u>7,351,610</u>	<u>\$ 2,316,425</u>	<u>\$ 5,035,185</u>	<u>\$ —</u>
Investments at net asset value				
Alternative investments	<u>5,886,462</u>			
Total investments	<u>\$ 13,238,072</u>			
Collateral proceeds received under securities lending program				
	<u>\$ 18,550</u>		<u>\$ 18,550</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (91,217)</u>		<u>\$ (91,217)</u>	
Obligations to return capital under securities lending program	<u>\$ (18,550)</u>		<u>\$ (18,550)</u>	

	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	\$ 1,861,490	\$ 1,296,986	\$ 564,504	\$ —
Corporate bonds and other debt securities	705,552	—	705,552	—
United States government bonds	615,723	—	615,723	—
Bond and other debt security funds	1,325,705	73,668	1,252,037	—
Non-government fixed-income obligations	18,944	—	18,944	—
Equity securities	826,194	826,194	—	—
Equity funds	2,307,912	143,521	2,164,391	—
	<u>7,661,520</u>	<u>\$ 2,340,369</u>	<u>\$ 5,321,151</u>	<u>—</u>
Investments at net asset value				
Alternative investments	<u>4,530,621</u>			
Total investments	<u>\$ 12,192,141</u>			
Collateral proceeds received under securities lending program				
	<u>\$ 19,789</u>		<u>\$ 19,789</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (118,620)</u>		<u>\$ (118,620)</u>	
Obligations to return capital under securities lending program	<u>\$ (19,789)</u>		<u>\$ (19,789)</u>	

8. PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net are summarized as follows:

	December 31, 2021	December 31, 2020
Land and improvements	\$ 470,257	\$ 461,831
Buildings and fixed equipment	7,819,014	7,536,013
Movable equipment and computer software	2,554,215	2,520,502
Construction-in-progress	629,941	478,335
	<u>11,473,427</u>	<u>10,996,681</u>
Accumulated depreciation and amortization	<u>(5,530,416)</u>	<u>(5,144,704)</u>
Property and equipment, net	<u>\$ 5,943,011</u>	<u>\$ 5,851,977</u>

During 2021, the System wrote off fully depreciated property and equipment totaling \$122,973.

Property and equipment, net include assets recorded as finance leases and under other financing arrangements. See additional disclosure in Note 9. LEASES.

Depreciation expense was \$536,567 and \$553,634 for the years ended December 31, 2021 and 2020, respectively.

9. LEASES

The System leases office and clinical space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. The System combines lease and non-lease components, except for medical equipment leases.

The depreciable lives of assets are limited by the expected lease terms. Most leases include options to renew. The majority of leases do not provide an implicit rate; therefore, the System has elected to use its incremental borrowing rate, which is the interest rate the System would borrow on a collateralized basis over a similar term, as the discount rate. The System used its incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date.

Operating and finance leases are classified as follows within the accompanying consolidated balance sheets:

Leases	Classification	December 31, 2021	December 31, 2020
Assets			
Operating	Operating lease right-of-use assets	\$ 283,398	\$ 309,678
Finance	Property and equipment, net	226,766	149,961
Total lease assets		<u>\$ 510,164</u>	<u>\$ 459,639</u>
Liabilities			
Current			
Operating	Operating lease liabilities, current portion	\$ 68,247	\$ 79,934
Finance	Long-term debt and commercial paper, current portion	16,669	9,182
Noncurrent			
Operating	Operating lease liabilities, less current portion	248,062	268,575
Finance	Long-term debt, less current portion	248,069	165,507
Total lease liabilities		<u>\$ 581,047</u>	<u>\$ 523,198</u>

Finance lease assets are recorded net of accumulated amortization of \$69,861 and \$57,873 as of December 31, 2021 and 2020, respectively.

Lease costs are classified as follows within the accompanying consolidated statements of operations and changes in net assets:

Lease cost	Classification	December 31, 2021	December 31, 2020
Operating lease cost	Supplies, purchased services and other	\$ 82,822	\$ 85,253
Short term lease cost	Supplies, purchased services and other	13,956	13,407
Variable lease cost	Supplies, purchased services and other	36,358	36,740
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	11,998	11,629
Interest on lease liabilities	Interest	11,482	12,093
Sublease income	Other revenue	(2,503)	(2,434)
Net lease cost		<u>\$ 154,113</u>	<u>\$ 156,688</u>

Lease terms, discount rates and other supplemental information are as follows:

	December 31, 2021	December 31, 2020
Weighted average remaining lease term (in years)		
Operating	5.2	5.5
Finance	10.4	11.6
Weighted average discount rate		
Operating	2.05 %	2.24 %
Finance	8.52 %	7.54 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 86,743	\$ 88,387
Operating cash flows from finance leases	11,482	11,500
Financing cash flows from finance leases	9,246	8,184

Future maturities of lease liabilities at December 31, 2021 are as follows:

	Operating Leases	Finance Leases	Total
2022	\$ 82,805	\$ 33,312	\$ 116,117
2023	72,918	34,803	107,721
2024	57,647	35,638	93,285
2025	47,747	35,472	83,219
2026	39,859	35,440	75,299
Thereafter	71,183	226,454	297,637
Future minimum lease payments	372,159	401,119	773,278
Less remaining imputed interest	55,850	136,381	192,231
Total	\$ 316,309	\$ 264,738	\$ 581,047

10. INTEREST IN MASONIC FAMILY HEALTH FOUNDATION

The System has an interest in the net assets of the Masonic Family Health Foundation ("MFHF"), an independent organization, under the terms of an asset purchase agreement (the "Agreement"). Substantially all of MFHF's net assets are designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of MFHF's investment yield, net of expenses, on substantially all of MFHF's investments is designated for the support of one of the System's medical facilities. MFHF 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 MFHF amounted to \$122,793 and \$109,017 at December 31, 2021 and 2020, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System's interest in the investment income is reflected in the accompanying consolidated statements of operations and changes in net assets and amounted to \$17,853 and \$17,287 for the years ended December 31, 2021 and 2020, respectively. Cash distributions of \$3,584 and \$3,978 were received by the System from MFHF under terms of the Agreement during the years ended December 31, 2021 and 2020, respectively. In addition, MFHF made \$694 and \$537 in contributions to the System for program support during the years ended December 31, 2021 and 2020, respectively.

The summarized financial position and results of operations for MFHF accounted for under the equity method as of and for the periods ended is outlined below:

	December 31, 2021	December 31, 2020
Total assets	\$ 127,838	\$ 112,993
Total liabilities	4,440	3,661
Net assets	123,398	109,332
Total revenue	\$ 19,867	\$ 18,613
Revenue in excess of (less than) expenses	14,014	13,697

11. LONG-TERM DEBT

Long-term debt, net of unamortized original issue discount or premium and unamortized deferred bond issuance costs, consisted of the following:

	December 31, 2021	December 31, 2020
Revenue bonds and revenue refunding bonds		
Series 2003A (weighted average rate of 1.38% during 2021 and 2020), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	\$ 2,637	\$ 5,194
Series 2003C (weighted average rate of 1.60% during 2021 and 2020), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	2,640	5,200
Series 2008A (weighted average rate of 4.35% and 4.41% during 2021 and 2020, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	114,310	116,719
Series 2008C (weighted average rate of 0.05% and 0.58% during 2021 and 2020, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	271,672	271,640
Series 2011A, 4.00%, principal payable in annual installments through April 2022	221	440
Series 2011B (weighted average rate of 0.34% and 0.86% during 2021 and 2020, respectively), 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	69,006	68,983
Series 2011C (weighted average rate of 0.67% and 1.11% during 2021 and 2020, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,570	49,540
Series 2011D (weighted average rate of 0.67% and 1.11% during 2021 and 2020, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,570	49,540
Series 2012, 4.00%, principal payable in varying annual installments through June 2044	—	39,048
Series 2013A, 5.00%, principal payable in varying annual installments through June 2024	15,014	43,918
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	97,886	149,629
Series 2015, 4.13%, principal payable in varying annual installments through May 2045	31,342	88,283
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	15,980	15,990
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	104,603	105,184
Series 2018B (weighted average rate of 5.00% during 2021 and 2020), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	197,045	201,762
Series 2018C (weighted average rate of 1.31% and 1.06% during 2021 and 2020, respectively), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread or prevailing market conditions at remarketing	196,879	198,256
	1,218,375	1,409,326

	December 31, 2021	December 31, 2020
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	803,497	709,865
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	442,067	354,813
Taxable Bond Series 2020A, 2.21% to 3.01%, principal payable in varying annual installments through June 2050	696,009	695,822
	<u>1,941,573</u>	<u>1,760,500</u>
Finance lease obligations and financing arrangements	270,876	214,360
Commercial paper, weighted average interest rate of 0.14% and 1.06% during 2021 and 2020, respectively	50,000	50,000
Taxable Term Loan, (weighted average rate of 2.68% during 2021 and 2020), principal payable in varying annual installments through September 2024	80,219	97,871
	<u>3,561,043</u>	<u>3,532,057</u>
Less amounts classified as current		
Long-term debt, current portion	(46,185)	(51,996)
Commercial paper	(50,000)	(50,000)
Long-term debt and commercial paper, current portion	<u>(96,185)</u>	<u>(101,996)</u>
Long-term debt subject to short-term financing arrangements	(166,350)	(119,660)
	<u>(262,535)</u>	<u>(221,656)</u>
	<u>\$ 3,298,508</u>	<u>\$ 3,310,401</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, 2026, are as follows: 2022 - \$46,185; 2023 - \$50,582; 2024 - \$121,943; 2025 - \$46,173; and 2026 - \$40,595.

The System's outstanding bonds are secured by obligations issued under the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018, as the same may be amended from time to time, between Advocate Aurora Health, Inc., the other affiliates identified therein as the Members of the Obligated Group and U.S. Bank National Association, as master trustee ("the System Master Indenture"). Under the terms of the bond indentures 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 System Master Indenture and other debt agreements, including bank agreements, also place restrictions on the System and require the System to maintain certain financial ratios.

The System's unsecured variable rate revenue bonds, Series 2011B of \$69,660, Series 2018B-1 of \$46,690 and Series 2018C-2 of \$50,000, 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 12 months after December 31, 2021, the principal amount of such bonds has been classified as a current obligation as long-term debt subject to short-term financing arrangements in the accompanying consolidated balance sheets. 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 assessing alternate sources of financing, including lines of credit and/or net assets without donor restrictions as a source of self-liquidity.

The System has standby bond purchase agreements with banks to provide liquidity support for the Series 2008C Bonds. In the event of a failed remarketing of a Series 2008C Bond upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would

be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2021, there were no bank-purchased bonds outstanding. To the extent that the standby bond purchase agreement expiration date is within 12 months after December 31, 2021, the principal amount of such bonds would be classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: \$129,456 in January 2024, \$87,694 in September 2024 and \$58,225 in September 2025.

In May 2020, the System issued its Series 2020A Taxable Bonds in the aggregate principal amount of \$700,000. The proceeds of the Series 2020A Taxable Bonds were used for general corporate purposes, to refinance a portion of the Series 2011B, Series 2011C, Series 2011D, Series 2012, Series 2013A, Series 2015 and Series 2015B Bonds, to repay \$82,000 of commercial paper and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of \$12,231.

In April 2021, the System issued additional Series 2018 Taxable Bonds in the principal amount of \$85,000 and additional Series 2019 Taxable Bonds in the principal amount of \$85,210 ("Additional Taxable Bonds"). The proceeds of the Additional Taxable Bonds were used to refinance a portion of the Series 2012, Series 2013A, Series 2014, Series 2015 Bonds and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of \$14,421.

As of December 31, 2021, the System authorized the issuance of up to \$1,000,000 in commercial paper aggregate principal outstanding. As of December 31, 2021, \$50,000 of commercial paper notes was outstanding, with maturities ranging from 120 to 149 days. As of December 31, 2020, \$50,000 of commercial paper was outstanding, with maturities ranging from 119 to 122 days.

At December 31, 2021, the System had lines of credit with banks aggregating to \$1,250,000 in available commitments. These lines of credit provide for various interest rates and payment terms and as of December 31, 2021 expire as follows: \$100,000 in December 2022, \$350,000 in December 2023, \$150,000 in August 2024, \$325,000 in December 2024 and \$325,000 in December 2025. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures for general working capital purposes or to provide for certain letters of credit. At December 31, 2021, letters of credit issued totaling \$75,802 have been issued under one of these lines. At December 31, 2021, no amounts were outstanding on these lines or letters of credit.

The System maintains an interest rate swap program on certain of its variable rate debt, as described in Note 12. INTEREST RATE SWAP PROGRAM.

The System's interest paid amount includes all debt agreements including revenue bonds and revenue refunding bonds, taxable bonds, finance lease obligations, financing arrangements and interest rate swaps. The System's interest paid, net of capitalized interest, amounted to \$113,633 and \$116,953 for the years ended December 31, 2021 and 2020, respectively. The System capitalized interest of \$13,027 and \$8,198 for the years ended December 31, 2021 and 2020, respectively.

12. INTEREST RATE SWAP PROGRAM

The System has interest rate-related derivative instruments to manage the exposure of its variable rate debt instruments. 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 may 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 derivative 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, 2021, 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 convert 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 the principal outstanding under various bond series.

The System has two swaps that are being held as a swap portfolio as the related debt is no longer outstanding.

The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2021:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	\$ 129,900	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-2B	58,425	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-3A	88,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	50,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	25,280	February 1, 2038	70.0% of LIBOR	3.314 %

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 classified as changes in fair value of swaps in the accompanying consolidated statements of operations and changes in net assets. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the accompanying consolidated statements of operations and changes in net assets.

The fair value of the interest rate swap agreements was a liability of \$91,217 and \$118,620 as of December 31, 2021 and 2020, respectively. No collateral was posted under these swap agreements as of December 31, 2021 and 2020.

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net cash payments on interest rate swap agreements (interest expense)	\$ 11,487	\$ 10,241
Change in fair value of interest rate swaps	\$ 27,403	\$ (27,280)

The interest rate swap instruments contain provisions that require the System to maintain an investment grade credit rating on its bonds from certain major credit rating agencies. If the System's bonds were to fall below investment grade, it would be in violation of these provisions and the counterparties to the swap instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on interest rate swap instruments in net liability positions.

13. RETIREMENT PLANS

The System maintains various employee retirement benefit plans available to qualifying employees and retirees.

The Condell Health Network Retirement Plan ("Condell Plan") was frozen effective January 1, 2008 to new participants and participants ceased to accrue additional pension benefits. During the year ended December 31, 2020, \$3,000 in cash contributions were made to the Condell Plan.

The Aurora Health Care, Inc. Pension Plan ("Aurora Plan") was frozen on December 31, 2012 and participants ceased to accrue additional pension benefits. During the year ended December 31, 2020, no contributions were made to the Aurora Plan.

On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan. With the merger of the liabilities and assets, the Aurora Plan was renamed the Advocate Aurora Health Pension Plan ("AAH Plan") on January 1, 2021. The accompanying consolidated balance sheets contain an other noncurrent liability related to the AAH Plan of \$57,617 and \$66,494 at December 31, 2021 and 2020, respectively. The noncurrent liability of the AAH Plan at both dates, reflects the merged liabilities of the Condell Plan and the Aurora Plan. During the year ended December 31, 2021, no contributions were made to the AAH Plan.

The Advocate Health Care Network Pension Plan ("Advocate Plan") was frozen effective December 31, 2019, to new participants and participants ceased accruing additional pension benefits. The accompanying consolidated balance sheets contain an other noncurrent liability related to the Advocate Plan totaling \$75,012 and \$134,325 at December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, \$30,000 and \$40,000, respectively, in cash contributions were made to the Advocate Plan.

In September 2020, the System transferred benefit obligations for certain participants of the Advocate Plan, Condell Plan and Aurora Plan through the purchase of annuity contracts. As a result of this transaction, all three Plans were remeasured as of September 30, 2020 and a combined settlement loss of \$119,658 was recorded in the nonoperating income section in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2020.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2021 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	\$ 952,588	\$ 1,449,588	\$ 2,402,176
Actual return on plan assets	53,662	(2,694)	50,968
Employer contributions	30,000	—	30,000
Benefits paid	(54,173)	(41,220)	(95,393)
Plan assets at fair value at end of period	<u>\$ 982,077</u>	<u>\$ 1,405,674</u>	<u>\$ 2,387,751</u>
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	\$ 1,086,913	\$ 1,516,082	\$ 2,602,995
Interest cost	28,119	41,650	69,769
Actuarial gain	(3,770)	(53,221)	(56,991)
Benefits paid	(54,173)	(41,220)	(95,393)
Projected benefit obligation at end of period	<u>\$ 1,057,089</u>	<u>\$ 1,463,291</u>	<u>\$ 2,520,380</u>
Plan assets less than projected benefit obligation	<u>\$ (75,012)</u>	<u>\$ (57,617)</u>	<u>\$ (132,629)</u>
Accumulated benefit obligation at end of period	<u>\$ 1,057,089</u>	<u>\$ 1,463,291</u>	<u>\$ 2,520,380</u>

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2020 is as follows:

	Advocate	AAH **	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	\$ 1,011,800	\$ 1,652,715	\$ 2,664,515
Actual return on plan assets	28,898	223,387	252,285
Employer contributions	40,000	3,000	43,000
Benefits paid	(128,110)	(429,514)	(557,624)
Plan assets at fair value at end of period	<u>\$ 952,588</u>	<u>\$ 1,449,588</u>	<u>\$ 2,402,176</u>
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	\$ 1,185,739	\$ 1,737,860	\$ 2,923,599
Interest cost	34,835	53,855	88,690
Actuarial (gain) loss	(5,551)	153,881	148,330
Benefits paid	(128,110)	(429,514)	(557,624)
Projected benefit obligation at end of period	<u>\$ 1,086,913</u>	<u>\$ 1,516,082</u>	<u>\$ 2,602,995</u>
Plan assets less than projected benefit obligation	<u>\$ (134,325)</u>	<u>\$ (66,494)</u>	<u>\$ (200,819)</u>
Accumulated benefit obligation at end of period	<u>\$ 1,086,913</u>	<u>\$ 1,516,082</u>	<u>\$ 2,602,995</u>

**AAH includes the legacy Condell and Aurora Plans. On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan and renamed the AAH Plan on January 1, 2021.

The AAH Plan actuarial gain of \$53,221 for the year ending December 31, 2021 was primarily driven by an increase in discount rates which was slightly offset by an actuarial loss due to updated mortality

improvement assumptions. The AAH Plan actuarial loss of \$153,881 for the year ending December 31, 2020 was primarily driven by a decrease in discount rates which was slightly offset by an actuarial gain due to updated mortality improvement assumptions.

The Advocate Plan paid lump sums totaling \$51,104 and \$75,349 in 2021 and 2020, respectively. The amount in 2021 and 2020 was greater than the sum of the Advocate Plan's service cost and interest cost, resulting in a settlement charge in the amount of \$12,102 and \$5,455, respectively. The Condell Plan paid lump sums totaling \$4,235 in 2020. The amount in 2020 was greater than the sum of the Condell Plan's service cost and interest cost, resulting in a settlement charge in the amount of \$104. The Aurora Plan paid lump sums totaling \$5,400 in 2020. The amount in 2020 was greater than the sum of the Aurora Plan's service cost and interest cost, resulting in a settlement charge in the amount of \$452.

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Interest cost	\$ 28,119	\$ 41,650	\$ 69,769
Expected return on plan assets	(42,421)	(43,487)	(85,908)
Amortization of:			
Actuarial loss	4,477	10,410	14,887
Prior service cost	—	3	3
Settlement	12,102	—	12,102
Net pension expense	<u>\$ 2,277</u>	<u>\$ 8,576</u>	<u>\$ 10,853</u>

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2020:

	Advocate	AAH **	Total
Interest cost	34,835	53,855	88,690
Expected return on plan assets	(43,456)	(62,558)	(106,014)
Amortization of:			
Actuarial loss	4,897	11,798	16,695
Prior service cost	—	3	3
Settlement	33,561	92,107	125,668
Net pension expense	<u>\$ 29,837</u>	<u>\$ 95,205</u>	<u>\$ 125,042</u>

**AAH includes the legacy Condell and Aurora Plans. On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan and renamed the AAH Plan on January 1, 2021.

The components of net periodic benefit costs, other than the service cost component, are included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets.

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Net change recognized	\$ 31,590	\$ 17,454	\$ 49,044

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2020:

	Advocate	AAH **	Total
Net change recognized	\$ 29,450	\$ 110,855	\$ 140,305

**AAH includes the legacy Condell and Aurora Plans. On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan and renamed the AAH Plan on January 1, 2021.

Included in net assets without donor restrictions at December 31, 2021 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	AAH	Total
Unrecognized prior credit	\$ —	\$ 96	\$ 96
Unrecognized actuarial loss	244,128	340,451	584,579
	<u>\$ 244,128</u>	<u>\$ 340,547</u>	<u>\$ 584,675</u>

Expected employee benefit payments to be paid from the pension plans are as follows:

	Advocate	AAH	Total
2022	\$ 63,891	\$ 51,638	\$ 115,529
2023	60,825	54,806	115,631
2024	61,364	58,001	119,365
2025	62,050	61,627	123,677
2026	62,199	64,417	126,616
2027-2031	291,885	356,338	648,223
Total	<u>\$ 602,214</u>	<u>\$ 646,827</u>	<u>\$ 1,249,041</u>

Expected contributions to the pension plans are as follows:

	Advocate	AAH	Total
2022	\$ —	\$ —	\$ —

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Advocate Plan and AAH Plan (collectively referred to as the "Plans") were paid from the Plans' assets.

The System'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 utilizes 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 for the Plans are as follows:

Asset Category - Advocate Plan	December 31, 2021		December 31, 2020	
	Target	Actual	Target	Actual
De-risking portfolio	70 %	70 %	75 %	67 %
Domestic and international equity securities	21	21	21	22
Alternative investments	6	6	2	7
Cash and fixed-income securities	3	3	2	4
	100 %	100 %	100 %	100 %

Asset Category - AAH/Aurora Plan **	December 31, 2021		December 31, 2020	
	Target	Actual	Target	Actual
De-risking portfolio	85 %	83 %	85 %	82 %
Domestic and international equity securities	12	14	12	15
Real estate	1	1	1	1
Cash and fixed income securities	2	2	2	2
	100 %	100 %	100 %	100 %

**On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan and the Plan was renamed the AAH Plan on January 1, 2021.

The de-risking portfolio is comprised of cash and fixed-income instruments designed to hedge Plan liabilities.

At December 31, 2021, the Advocate Plan had commitments to fund alternative investments, including recyclable distributions of \$19,254 over the next five years.

In the normal course of operations and within established investment policy guidelines, the Plans may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the Plans' strategic asset allocation and hedge security price movements. These instruments require the Plans to deposit cash collateral with the broker or custodian.

Derivative contract information at December 31, 2021 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	\$ 15,978	\$ 6,065	\$ 22,043
Gross notional value	\$ (539,122)	\$ 262,962	\$ (276,160)

Derivative contract information at December 31, 2020 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	\$ 16,922	\$ 10,455	\$ 27,377
Gross notional value	\$ (527,126)	\$ 307,840	\$ (219,286)

By using derivative financial instruments, 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 may 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 the underlying reference security. The market risk associated with market changes is

managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within Advocate Plan assets. Unsettled sales resulted in receivables due from brokers of \$8,515 and \$3,313 at December 31, 2021 and 2020, respectively. Unsettled purchases resulted in payables of \$17,265 and \$10,846 at December 31, 2021 and 2020, respectively.

Receivables and payables for investment trades not settled are presented within AAH Plan assets. Unsettled sales resulted in receivables due from brokers of \$7,808 and \$10,108 at December 31, 2021 and 2020, respectively. Unsettled purchases resulted in payables of \$16,500 and \$19,198 at December 31, 2021 and 2020, respectively.

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. FAIR VALUE. Real estate commingled funds for which an active market exists are included in Level 2. The System opted to use the net asset value per share, or its equivalent, as a practical expedient for the fair value of the Plans' interest in hedge funds, private equity limited partnerships and real estate commingled funds. 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 limited partnerships and real estate commingled funds typically have finite lives ranging from five to ten years, at the end of which all invested capital is returned. For hedge funds, the typical lockup 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 Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 7. FAIR VALUE.

The following are the Plans' financial instruments at December 31, 2021, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 78,247	\$ 43,778	\$ 34,469	\$ —
Corporate bonds and other debt securities	984,539	—	984,539	—
United States government obligations	740,439	—	740,439	—
Bond and other debt security funds	53,923	—	53,923	—
Equity securities	19,900	19,900	—	—
Equity funds	432,928	12,474	420,454	—
Real estate funds	16,180	—	16,180	—
	2,326,156	\$ 76,152	\$ 2,250,004	\$ —
Investments at net asset value				
Alternative investments	61,595			
Total investments	\$ 2,387,751			

The following are the Plans' financial instruments at December 31, 2020, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 58,006	\$ 32,876	\$ 25,130	\$ --
Corporate bonds and other debt securities	985,564	--	985,564	--
United States government obligations	646,797	--	646,797	--
Bond and other debt security funds	128,142	--	128,142	--
Equity securities	22,280	22,280	--	--
Equity funds	473,728	11,648	462,080	--
Real estate funds	17,855	--	17,855	--
	<u>2,332,372</u>	<u>\$ 66,804</u>	<u>\$ 2,265,568</u>	<u>\$ --</u>

Investments at net asset value

Alternative investments	69,804
Total Investments	<u><u>\$ 2,402,176</u></u>

Assumptions used to determine benefit obligations are as follows:

	December 31, 2021	December 31, 2020
Discount rate - Advocate Plan	2.85 %	2.49 %
Discount rate - AAH Plan	3.05 %	2.79 %
Assumed rate of return on assets - Advocate Plan	4.50 %	4.40 %
Assumed rate of return on assets - AAH Plan	3.80 %	3.40 %
Interest crediting rate - Advocate Plan	1.80 %	1.35 %

Assumptions used to determine net pension expense are as follows:

	December 31, 2021	December 31, 2020
Discount rate - Advocate Plan	2.49 %	3.23 %
Discount rate - AAH Plan **	2.79 %	3.37 %
Assumed rate of return on assets - Advocate Plan	4.40 %	4.50 %
Assumed rate of return on assets - AAH Plan **	3.40 %	**
Interest crediting rate - Advocate Plan	1.35 %	2.25 %

***On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan and the Plan was renamed the AAH Plan on January 1, 2021. The assumed rate of return on assets used to determine net pension expense in December 31, 2020 for the Aurora Plan and Condell Plan was 4.50% and 2.50%, respectively.*

The assumed rate of return on each of the Plan's assets is based on historical and projected rates of return for asset classes in which the portfolio is invested.

The 2021 mortality assumption for the Plans was the amounts-weighted aggregate rates from the Pri-2012 mortality study, with white-collar adjustments projected generationally from 2012 with Scale MP-2021. The 2020 mortality assumption for the Plans was the amounts-weighted aggregate rates from the Pri-2012 mortality study, with white-collar adjustments projected generationally from 2012 with Scale MP-2020.

In addition to these Plans, the System sponsors a defined contribution plan for its employees. Expense related to the plan, is included in salaries, wages and benefits expense in the accompanying

consolidated statements of operations and changes in net assets, were \$296,894 and \$300,971 for the years ended December 31, 2021 and 2020, respectively.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	December 31, 2021	December 31, 2020
Purchases of property and equipment	\$ 17,579	\$ 17,504
Medical education and other health care programs	234,098	215,176
	<u>\$ 251,677</u>	<u>\$ 232,680</u>

15. FUNCTIONAL OPERATING EXPENSES

Operating expenses directly attributable to a specific functional area of the System are reported as expenses of those functional areas. Expenses other than interest expense are directly allocated to functional departments at the time they are incurred. Interest expense that relates to debt financing is allocated based on the use of the related funds. General and administrative expenses primarily include legal, finance, purchasing and human resources. Health care services require the benefit of and the expense of general and administrative services; therefore, these costs are further allocated to health care services. A majority of fundraising costs are reported as other nonoperating income (loss), net in the accompanying consolidated statements of operations and changes in net assets.

Functional operating expenses for the year ended December 31, 2021 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	\$ 6,936,615	\$ 727,322	\$ 7,663,937
Supplies, purchased services and other	3,937,999	632,548	4,570,547
Contracted medical services	564,586	—	564,586
Depreciation and amortization	495,608	67,801	563,409
Interest	106,101	—	106,101
Total operating expenses	12,040,909	1,427,671	13,468,580
Allocation of general and administrative	1,427,671	(1,427,671)	—
Total operating expenses after allocation	<u>\$ 13,468,580</u>	<u>\$ —</u>	<u>\$ 13,468,580</u>

Functional operating expenses for the year ended December 31, 2020 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	\$ 6,789,955	\$ 659,016	\$ 7,448,971
Supplies, purchased services and other	3,701,429	675,846	4,377,275
Contracted medical services	420,587	—	420,587
Depreciation and amortization	467,340	92,923	560,263
Interest	112,126	—	112,126
Total operating expenses	11,491,437	1,427,785	12,919,222
Allocation of general and administrative	1,427,785	(1,427,785)	—
Total operating expenses after allocation	<u>\$ 12,919,222</u>	<u>\$ —</u>	<u>\$ 12,919,222</u>

16. LIQUIDITY

The System's financial assets available within one year of the consolidated balance sheets date for general expenditures are as follows:

	December 31, 2021	December 31, 2020
Current assets		
Cash and cash equivalents	\$ 703,725	\$ 959,878
Assets limited as to use	139,742	125,053
Patient accounts receivable	1,816,705	1,570,738
Third-party payors receivables	22,154	16,933
Collateral proceeds under securities lending program	18,550	19,789
Total current assets	2,700,876	2,692,391
Assets limited as to use		
Internally designated for capital and other	11,572,323	10,291,819
Held for self-insurance	649,513	658,466
Donor restricted	155,009	137,980
Investments under securities lending program	17,760	18,945
Total assets limited as to use	12,394,605	11,107,210
Total financial assets	\$ 15,095,481	\$ 13,799,601
Less		
Amounts unavailable for general expenditures		
Alternative investments	(2,727,059)	(2,110,330)
Total amounts unavailable for general expenditure	(2,727,059)	(2,110,330)
Amounts unavailable to management without approval		
Held for self-insurance	(789,255)	(783,519)
Donor restricted	(155,009)	(137,980)
Investments under securities lending program	(17,760)	(18,945)
Total amounts unavailable to management without approval	(962,024)	(940,444)
Total financial assets available to management for general expenditure within one year	\$ 11,406,398	\$ 10,748,827

17. COMMITMENTS AND CONTINGENCIES

Aurora West Allis Medical Center has the right to operate the hospital under the terms of a lease agreement with the City of West Allis ("the City"). In accordance with the lease agreement, the City has title to all assets and any subsequent additions (with the exception of certain equipment used by Aurora for laboratory services). Aurora West Allis Medical Center has an exclusive right to the use of the assets and the obligation to maintain and replace them. The historical cost to the System of the leased facilities is included within the System's property and equipment, net. The agreement provides for annual payments of less than \$100 in lieu of annual lease payments and includes payment escalations each subsequent year. The lease expires in 2063.

The System is committed to constructing additions and renovations to its medical facilities that are expected to be completed in future years. The estimated cost of these commitments is \$669,952, of which \$595,927 has been incurred as of December 31, 2021.

The System entered into agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$145,000 over the next nine years and approximately \$27,000 is included in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets at

December 31, 2021. The System has also entered into various other agreements. The future commitments under these agreements are \$30,116 over the next four years.

18. 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 captive insurance companies, 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 companies.

The System's hospitals, clinics, surgery centers, physicians and certified registered nurse anesthetist providers that provide health care in Wisconsin are qualified health care providers that are fully covered for losses in excess of statutory limits through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund.

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 trust were determined using a discount rate of 3.00% as of December 31, 2021 and 2020. Total accrued insurance liabilities would have been \$78,450 and \$77,007 greater at December 31, 2021 and 2020, respectively, had these liabilities not been discounted.

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

19. LEGAL, REGULATORY AND OTHER CONTINGENCIES

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, due to 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. 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.

20. INCOME TAXES AND TAX STATUS

The subsidiaries of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and their related income is exempt from federal income tax. Accordingly, no income taxes are recorded for the majority of the income in the accompanying consolidated financial statements for these entities. Unrelated business income is generated by certain of these entities through the provision of services or other activities not directly related to the provision of patient care.

At December 31, 2021, the System had \$98,410 of federal and \$113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2021 and 2037. At December 31, 2020, the System had \$87,382 of federal and \$111,826 of state net operating loss carryforwards, with unutilized amounts of state net operating loss carryforwards expiring between 2020 and 2037. As a result of the Tax Cuts and Jobs Act of 2017, net operating losses generated after 2017 do not expire for federal purposes. Of the \$98,410 of federal net operating loss carryforwards at December 31, 2021, \$83,315 was generated after 2017.

The System calculated income taxes for its taxable subsidiaries. Taxable income differs from pretax book income primarily due to certain income and deductions for tax purposes being recorded in the consolidated financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

The System had deferred tax assets of \$51,248 and \$46,711, including \$30,326 and \$27,161 related to net operating loss carryforwards, as of December 31, 2021 and 2020, respectively. These deferred tax assets were partially offset by valuation allowances of \$14,534 and \$21,620, respectively, which were recorded due to the uncertainty regarding the use of the deferred tax assets.

Provisions (credits) for federal, state and deferred income taxes are included in other nonoperating income (loss), net in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Federal	\$ (1,019)	\$ 5,677
State	(303)	2,100
Deferred	(8,668)	(9,311)
	<u>\$ (9,990)</u>	<u>\$ (1,534)</u>

21 SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2021 through March 21, 2022, the date of consolidated financial statement issuance.

In January 2022, the Series 2018C-2 bonds were remarketed as Indexed Floating Rate Bonds and will next be subject to mandatory purchase on July 1, 2026. In addition, \$46,690 of the Series 2018B-1

Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on July 1, 2027. In connection with the remarketing, \$6,560 of the Series 2018B-1 Bonds were redeemed and a loss on refinancing was recorded in the amount of \$33.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors

Advocate Aurora Health, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

March 21, 2022

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2021

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 1,252,337	\$ (548,612)	\$ —	\$ 703,725
Assets limited as to use	111,198	28,544	—	139,742
Patient accounts receivable	1,578,437	238,268	—	1,816,705
Other current assets	615,193	132,210	(41,150)	706,253
Third-party payors receivables	21,297	857	—	22,154
Receivable from subsidiaries	249,013	374,807	(623,820)	—
Collateral proceeds under securities lending program	18,550	—	—	18,550
Total current assets	3,846,025	226,074	(664,970)	3,407,129
 Assets limited as to use	 12,198,034	 196,571	 —	 12,394,605
 Note receivable from subsidiaries	 181,509	 —	 (181,509)	 —
 Property and equipment, net	 5,505,429	 447,401	 (9,819)	 5,943,011
 Other assets				
Reinsurance receivable	3,859	38,241	—	42,100
Goodwill and intangible assets, net	53,891	217,287	—	271,178
Investment in subsidiaries	(126,458)	—	126,458	—
Investments in unconsolidated entities	714,616	23,432	(478,921)	259,127
Operating lease right-of-use assets	245,060	38,338	—	283,398
Other noncurrent assets	646,172	12,575	(120,734)	538,013
Total other assets	1,537,140	329,873	(473,197)	1,393,816
 Total assets	 \$ 23,268,137	 \$ 1,199,919	 \$ (1,329,495)	 \$ 23,138,561

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2021

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Long-term debt and commercial paper, current portion	\$ 94,740	\$ 26,897	\$ (25,452)	\$ 96,185
Long-term debt subject to short-term financing arrangements	166,350	—	—	166,350
Operating lease liabilities, current portion	58,269	9,978	—	68,247
Accrued salaries and employee benefits	1,194,158	102,300	—	1,296,458
Accounts payable and accrued liabilities	1,435,437	146,688	(20,036)	1,562,089
Third-party payors payables	350,165	4,021	—	354,186
Accrued insurance and claims costs, current portion	114,713	36,517	—	151,230
Accounts payable to subsidiaries	385,761	237,350	(623,111)	—
Collateral under securities lending program	18,550	—	—	18,550
Total current liabilities	3,818,143	563,751	(668,599)	3,713,295
Noncurrent liabilities				
Long-term debt, less current portion	3,295,130	124,557	(121,179)	3,298,508
Operating lease liabilities, less current portion	216,896	31,166	—	248,062
Accrued insurance and claims cost, less current portion	535,319	80,257	—	615,576
Accrued losses subject to insurance recovery	3,859	38,241	—	42,100
Obligations under swap agreements	91,217	—	—	91,217
Due to subsidiaries	326,671	(145,162)	(181,509)	—
Other noncurrent liabilities	758,529	41,236	(941)	798,824
Total noncurrent liabilities	5,227,621	170,295	(303,629)	5,094,287
Total liabilities	9,045,764	734,046	(972,228)	8,807,582
Net assets				
Without donor restrictions				
Controlling interest	13,882,704	512,883	(483,725)	13,911,862
Noncontrolling interests in subsidiaries	167,440	123	(123)	167,440
Total net assets without donor restrictions	14,050,144	513,006	(483,848)	14,079,302
With donor restrictions	172,229	79,448	—	251,677
Common stock	—	1,862	(1,862)	—
Additional paid-in capital	—	43,581	(43,581)	—
Retained (deficit) earnings/partnership losses	—	(172,024)	172,024	—
Total net assets	14,222,373	465,873	(357,267)	14,330,979
Total liabilities and net assets	\$ 23,268,137	\$ 1,199,919	\$ (1,329,495)	\$ 23,138,561

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2021
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	\$ 10,533,313	\$ 1,562,850	\$ (393,582)	\$ 11,702,581
Capitation revenue	501,034	704,752	(9,677)	1,196,109
Other revenue	707,283	849,999	(393,840)	1,163,442
Total revenue	11,741,630	3,117,601	(797,099)	14,062,132
Expenses				
Salaries, wages and benefits	6,692,587	1,007,741	(34,480)	7,665,848
Supplies, purchased services and other	3,686,381	1,037,179	(192,683)	4,530,877
Contracted medical services	278,064	738,820	(452,298)	564,586
Depreciation and amortization	500,638	65,140	(2,369)	563,409
Interest	101,689	13,773	(9,361)	106,101
Total expenses	11,259,359	2,862,653	(691,191)	13,430,821
Operating income (loss) before nonrecurring expenses	482,271	254,948	(105,908)	631,311
Nonrecurring expenses	37,759	—	—	37,759
Operating income (loss)	444,512	254,948	(105,908)	593,552
Nonoperating income (loss)				
Investment income, net	1,227,237	76,309	—	1,303,546
Loss on debt refinancing	(14,468)	—	—	(14,468)
Change in fair value of interest rate swaps	27,403	—	—	27,403
Other nonoperating income (loss), net	11,090	5,824	(4,694)	12,220
Total nonoperating income (loss), net	1,251,262	82,133	(4,694)	1,328,701
Revenue in excess of (less than) expenses	1,695,774	337,081	(110,602)	1,922,253
Less income attributable to noncontrolling interests	—	(20)	(73,110)	(73,130)
Revenue in excess of (less than) expenses- attributable to controlling interests	\$ 1,695,774	\$ 337,061	\$ (183,712)	\$ 1,849,123

Notes to Supplementary Information

1. Credit Group

The supplementary financial information for the Credit Group is in accordance with the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018 between Advocate Aurora Health, Inc, the other affiliates identified therein as the Members of the Obligated Group, the Restricted Affiliates, and U.S. Bank National Association, as master trustee ("the System Master Indenture").

2. Credit Group Members

The Credit Group is comprised of the Obligated Group in combination with the Restricted Affiliates. The Obligated Group includes Advocate Aurora Health, Inc.; Advocate Health Care Network; Advocate Health and Hospitals Corporation; Advocate North Side Health Network; Advocate Condell Medical Center; Advocate Sherman Hospital; Aurora Health Care, Inc.; Aurora Health Care Metro, Inc.; Aurora Health Care Southern Lakes, Inc.; Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center; Aurora Medical Center of Washington County, Inc.; Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County; Aurora Medical Center of Oshkosh, Inc.; Aurora Medical Group, Inc.; Aurora Medical Center Grafton LLC; and Aurora Medical Center Bay Area, Inc. The Restricted Affiliates include Advocate Charitable Foundation; Advocate Home Care Products, Inc.; EHS Home Health Care Services, Inc.; Evangelical Services Corporation, d/b/a Advocate Network Services, Inc.; High Technology, Inc.; Meridian Hospice; and West Allis Memorial Hospital Inc. d/b/a Aurora West Allis Medical Center. The Credit Group is with U.S. Bank National Association, as master trustee ("the System Master Indenture").



AGC
THE CONSTRUCTION
ASSOCIATION

JULY

2022

CONSTRUCTION INFLATION ALERT

For more than two years the U.S. construction industry has been buffeted by unprecedented increases in materials costs, supply chain bottlenecks, and a tight labor market. To help project owners, government officials, and the public understand how these conditions are affecting contractors and their workers, the Associated General Contractors of America (AGC) has posted frequent updates of the Construction Inflation Alert.

Several recent developments have raised the specter of a sharp slowdown or even a recession in the U.S. economy. Inflation is at a 40-year high, sapping consumers' purchasing power despite elevated wage increases. Major stock indexes have declined sharply—a frequent but not foolproof harbinger of recession. A growing number of companies have announced layoffs, although the job market remains vibrant, as indicated by large monthly employment increases, near-record job openings, and a persistently low unemployment rate.

However, a recession is far from certain. Demand for infrastructure, manufacturing, and power construction appears to be strong and likely to strengthen further, perhaps for several years to come. In any case, the cost of construction materials and labor does not generally move in sync with the overall economy. In short, owners should not assume that delaying projects will enable them to avoid volatility and disruptions in construction costs, delivery times, and labor supply, even if the economy slows significantly.

Meanwhile, Russia's ongoing attack on Ukraine and Western sanctions against Russia have disrupted production and transport of dozens of commodities. China's prolonged lockdown of Shanghai and other areas in an attempt to control the spread of covid has also affected production and shipping. New variants of covid, as well as a growing number of people with lingering or recurrent symptoms ("long haul covid"), add to uncertainty about labor supply.

This version of the Alert is the seventh update since the first edition was posted in March 2021—an indication that the situation remains far from "normal." This document will continue to be revised to keep it timely as conditions affecting demand for construction, labor supply, and materials costs and availability change. Each new version is posted here: <https://www.agc.org/learn/construction-data/agc-construction-inflation-alert>

Please send comments and feedback, along with "Dear Valued Customer" letters or other information about material's costs and supply-chain issues, to AGC of America's chief economist, Ken Simonson, ken.simonson@agc.org.

www.agc.org

Recent changes in input costs

Previous editions of this guide have highlighted the extreme runup in materials costs that began in early 2020. More recently, prices have moved in divergent directions for different materials. But, on balance, they continue to climb at a much higher rate than the consumer price index.

The extent of these increases is documented by the Bureau of Labor Statistics (BLS). BLS posts producer price indexes (PPIs) around the middle of each month for thousands of products and services (at www.bls.gov/ppi). Most PPIs are based on the prices that sellers say they charged for a specific item on the 11th day of the preceding month. Producers include manufacturers and fabricators, intermediaries such as steel service centers and distributors, and providers of services ranging from design to trucking.

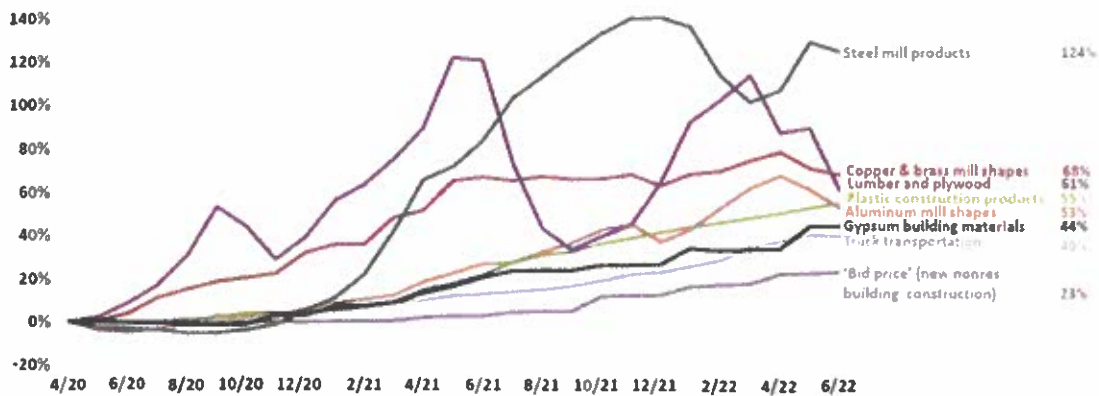
Figure 1 shows the magnitude of the increases for seven widely used categories of construction inputs. From April 2020, the low point for prices of many goods during the early stage of the pandemic, to June 2022, the PPI for steel mill products more than doubled (up 124% in 26 months). There were increases of more than 60% in the indexes for copper and brass mill shapes (up 68%) and lumber and plywood (up 61%). PPIs rose by more than half for plastic construction products (up 55%) and aluminum mill shapes (up 53%). The index for gypsum products increased 44% and the PPI for truck transportation climbed 40%. Numerous other indexes rose by more than the 23% increase in the "bid price" index.

124%

The PPI for steel mill products rose 124% in 26 months

Figure 1

PPIs for construction bid prices and selected inputs
cumulative change in PPIs, April 2020-June 2022 (not seasonally adjusted)



Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

Supply-chain issues

From the first days of the pandemic, availability and delivery times for materials have been never-ending headaches for construction firms. Problems began as early as February 2020, when factories in China and northern Italy were shut down, causing shortages of items as diverse as elevator parts, floor tiles, and kitchen appliances. Two years later, another round of covid-related restrictions in China disrupted production and shipping from that country.

Russia's attack on Ukraine, Western countermeasures against Russia, and diversions or blockages of cargo ships are impeding or cutting off supplies of items as diverse as pig iron used in steelmaking, neon for lasers used in semiconductor manufacturing and other applications, and Ukrainian clay used in producing ceramic tile exported to the U.S. from Italy and Spain. Some of these impacts are far down the supply chain from the actual construction item. For instance, a producer of electrical switchgear reported in May that the time for delivering products from its plant had doubled from 20 weeks to 40, in part because of difficulty acquiring a fire-retardant chemical produced in Europe that goes into a plastic resin used to make the housing for its switchgear.

Adding to these pandemic- and conflict-induced problems, a series of unusual mishaps interfered with output or delivery of numerous goods. The biggest impact for construction came from the severe freeze in Texas in February 2021 that damaged all of the petrochemical plants producing resins for a host of construction plastics. Damage to the electrical grid in Louisiana from Hurricane Ida last September further interfered with the production of some plastics inputs. Some cement plants have incurred unusually long outages, in part because of delays in sourcing replacement parts.

Contractors have also been affected by the much-publicized shortage of computer chips. Not only is the construction industry a major buyer of pickup trucks that are in short supply, but deliveries of construction equipment also have been held up by a lack of semiconductors.

Contractors have reported being quoted exceptionally long lead times and/or allocations (less-than-full shipments, generally tied to previously ordered quantities) for inputs as varied as electrical transformers, traffic signal equipment, highway striping paint, wallboard, insulation, windows, and roofing fasteners. Strong demand, plant outages, and truck driver shortages have meant long delays in completing ready-mix concrete pours in several states in the Southeast and West.

So far, there is little sign that the supply chain will consistently improve before 2023—or even 2024, in the case of some computer chips. While the lead time for some items has shortened, deliveries for many materials remain delayed or unpredictable. In fact, the expiration of labor contracts for West Coast longshore workers and rail workers nationwide could result in new disruptions of shipments later this year.

466,000

The number of job openings at the end of May, a record for the month

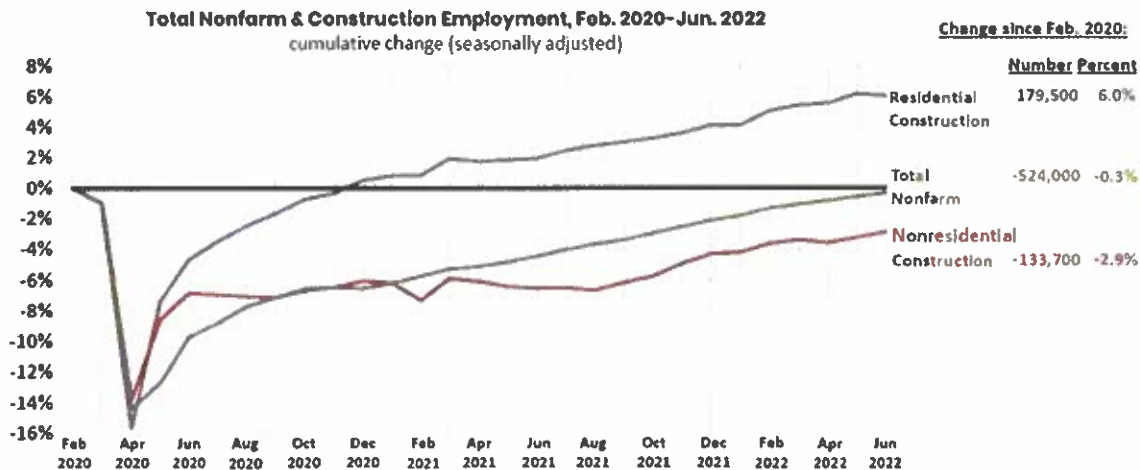
Labor supply and cost

Construction employment has bounced back well from the early months of the pandemic. However, construction firms are far short of the number of workers they have been seeking. They have partially closed the gap by getting more overtime from the workers they have, but this cannot continue indefinitely.

The construction industry lost 1.1 million employees from February to April 2020—a 15% decline in just two months. While both residential and nonresidential construction employment rebounded somewhat in May 2020, employment stalled for more than a year after that among nonresidential firms—nonresidential building and specialty trade contractors plus civil and heavy engineering construction firms. During that period, thousands of experienced workers moved into residential construction (homebuilding and remodeling), found jobs in other sectors, or left the workforce completely.

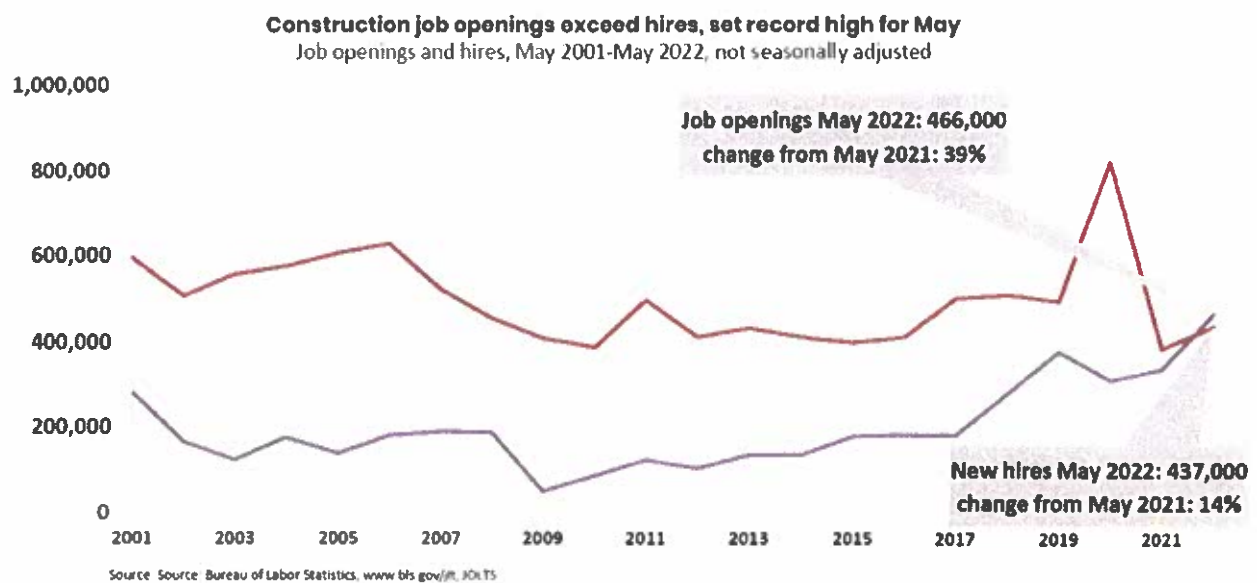
By June 2022, seasonally adjusted construction employment totaled 7,670,000—modestly higher than the 7,624,000 employed in February 2020. But there was a large shift between residential and nonresidential subsectors. Compared to February 2020 levels, residential construction firms had added nearly 180,000 workers, while employment in nonresidential construction was still down 134,000 employees or 2.9%, as shown in Figure 2.

Figure 2



There is strong evidence that the construction industry would have added many more workers if they had been available. Job openings in construction at the end of May totaled 466,000 (not seasonally adjusted), a jump of 130,000 or 39% from a year earlier and by far the largest May total in the 22-year history of the data, as shown in Figure 3. In fact, job openings exceeded the 437,000 workers hired in May, implying that construction firms would have hired twice as many workers that month as they were able to, if there had been enough qualified applicants.

Figure 3



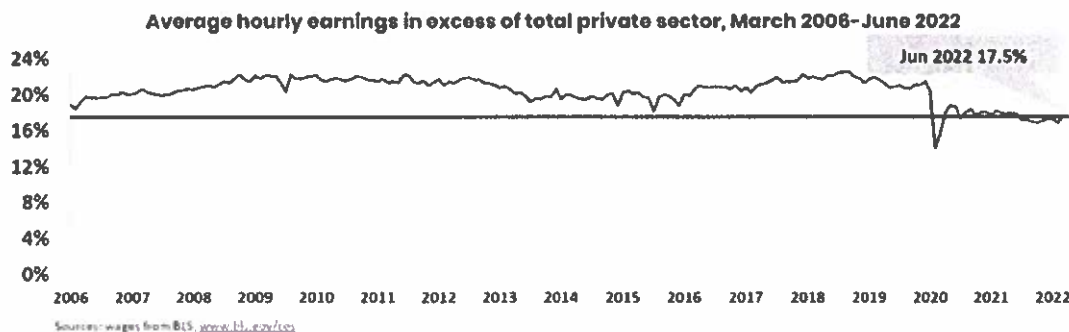
In order to attract, retain, and bring back workers, construction firms are raising pay. Average hourly earnings in construction for “production and nonsupervisory employees”—mainly hourly craft workers—rose 6.0% from June 2021 to June 2022. That compared with increases of 4.0% in the previous 12 months and 2.8% in the 12 months ending in June 2000.

Despite the acceleration in wages, construction pay has not risen as fast as in other industries. Historically, as shown in Figure 4, contractors paid a “premium” to attract workers willing to work in the conditions, locations, and hours required for construction. Specifically, average hourly earnings for production workers in construction typically averaged 20% to 23% more than for all private sector employees, up until the onset of the pandemic. This premium shrank to less than 18% since the start of the pandemic as restaurants, warehouses, delivery services, and other industries drastically increased pay. Other sectors were also able to offer greater flexibility regarding hours and worksites, including work from home, that are not possible for construction.

Figure 4

Wage premium for construction has shrunk

- “Premium” for construction wages relative to total private sector has shrunk from 20-23% pre-pandemic to 17.5% for production & nonsupervisory employees as other sectors boost pay, benefits and offer flexible hours and locations
- Implications: Contractors will have raise pay still more, pay more overtime, invest more in labor-saving software and equipment



These differences imply that construction wages will have to rise even more steeply to restore (and perhaps expand) the pay “premium.” In addition, it is likely that contractors will pay more overtime to make up for the workers they don’t have. They may also turn more to offsite production and onsite drones, robotics, 3-D printers, and other ways of reducing the number or skill level of the workers they employ.

Changes in bid prices

The extreme runup in so many input costs caused financial hardship for many contractors and subcontractors, especially for those whose purchases are concentrated in materials with extra-steep increases.

BLS posts several PPIs for new nonresidential construction. Since every construction project is unique, it is not possible to collect prices for identical construction “products” in the same way as for most goods and services. Instead, the agency creates “bid price” PPIs (BLS refers to them as output price indexes) through a two-step process. Each quarter it receives data from construction cost-estimating firms regarding the cost of a package of installed components or “assemblies” of a particular nonresidential building. Every month BLS asks a fixed group of contractors the amount of overhead and profit they would charge to erect that building—the same building that contractor was asked about previously. BLS combines the answers from a set of contractors to create PPIs for new warehouse, school, office, industrial, and healthcare building construction, along with a weighted average of these building types for an overall index for new nonresidential building construction.

BLS also creates PPIs for inputs to construction--weighted averages of the cost of materials and services purchased for every type of project.

As shown in Figure 5, the PPI for bid prices rose at the same rate as the PPI for inputs from September 2019 to September 2020, 1.8% year-over-year. The bid-price PPI continued rising at a modest rate through mid-2021, while the year-over-year change in input prices accelerated to more than 24% by June 2021.

Since mid-2001, the bid-price PPI also has accelerated considerably, as contractors attempt to pass on their rising materials and labor costs. By June 2022, the bid-price index was climbing at a 19.8% year-over-year rate, compared to 16.8% for the PPI for inputs to new nonresidential construction.

Figure 5



The bid-price index only indicates the price contractors propose for new starts. On projects for which they had already submitted a bid or begun work, contractors were stuck with paying elevated materials prices that they could not pass on.

What's next for bid prices?

There is no fixed relationship between input costs and bid prices. For every firm and time period, the relationship depends on specific market conditions and expectations.

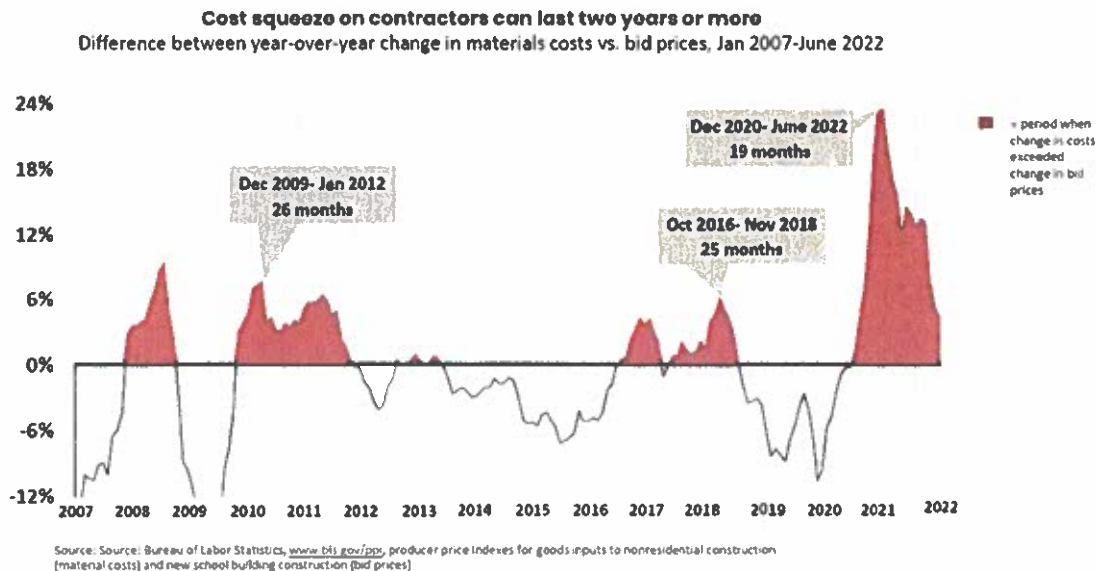
However, it is possible to look at past relationships. Figure 6 shows the difference between the year-over-year change in the PPI for materials costs for goods inputs to construction and the bid-price index for new school construction. The areas in red indicate periods in which the year-over-year change in the PPI for exceeded the bid-price PPI for schools. (Similar patterns exist for the bid-price indexes for new warehouse, office, industrial and healthcare buildings.)

Materials costs outran bid prices for as long as 26 months from late 2009 to early 2012 and for 25 months from late 2016 to late 2018. The current gap hasn't lasted as long but the peak was more than twice as high as in previous episodes, indicating the pain for contractors has been that much more intense.

26 months

The year-over-year change in materials costs may exceed the change in bid prices for 2 years or more

Figure 6



What can contractors and owners do?

Contractors can provide project owners with timely and credible third-party information about changes in relevant material costs and supply-chain snarls that may impact the cost and completion time for a project that is underway or for which a bid has already been submitted.

Owners can authorize appropriate adjustments to design, completion date, and payments to accommodate or work around these impediments. Nobody welcomes a higher bill, but the alternative of having a contractor go out of business because of impossible costs or timing is likely to be worse for many owners.

For projects that have not been awarded or started, owners should start with realistic expectations about current costs and the likelihood of increases. They should provide potential bidders with accurate and complete design information to enable bidders to prepare bids that minimize the likelihood of unpleasant surprises for either party.

Owners and bidders may want to consider price-adjustment clauses that would protect both parties from unanticipated swings in materials prices. Such contract terms can enable the contractor to include a smaller contingency in its bid, while providing the owner an opportunity to share in any savings from downward price movements (as has occurred recently with lumber, diesel fuel, and some metals prices). The ConsensusDocs set of contract documents (www.consensusdocs.org) is one source of industry-standard model language for such terms. The ConsensusDocs website includes a price escalation resource center (<https://www.consensusdocs.org/price-escalation-clause/>).

The parties may also want to discuss the best timing for ordering materials and components. Buying items earlier than usual can provide protection against cost increases. But purchase before use entails paying sooner for the items; potentially paying for storage, security against theft and damage, and insurance; and the possibility of design changes that make early purchase unwise.

Conclusion

The construction industry is in the midst of a period of exceptionally steep and fast-rising costs for a variety of materials, compounded by major supply-chain disruptions and difficulty finding enough workers—a combination that threatens the financial health of many contractors. No single solution will resolve the situation, but there are steps that government officials, owners, and contractors can take to lessen the pain.

Federal trade policy officials can act immediately to end tariffs and quotas on imported products and materials. With many U.S. mills and factories already at capacity, bringing in more imports at competitive prices will cool the overheated price spiral and enable many users of products that are in short supply to avoid layoffs and shutdowns.

The federal government can improve the labor supply by allowing employers to sponsor more foreign-born workers to fill positions for which there are not enough qualified applicants. In addition, the federal government should fund and approve more apprenticeship and training programs to enable students and career-switchers to acquire the skills needed for construction trades.

Officials at all levels of government should review all regulations, policies, and enforcement actions that may be unnecessarily driving up costs and slowing importation, domestic production, transport, and delivery of raw materials, components, and finished goods.

Owners need to recognize that fast-changing materials costs and availability require a quick decision regarding bids and requests for changes. For new and planned projects, owners should expect quite different pricing from previous estimates. They may want to consider building in more flexibility regarding design, timing, or cost-sharing.

Contractors need, more than ever, to closely monitor costs and delivery schedules for materials and to communicate information with owners, both before submitting bids and throughout the construction process.

Materials prices do eventually reverse course. Owners and contractors alike will benefit when that happens. Until then, cooperation and communication can help reduce the damage.

AGC resources

This document will be updated if market conditions warrant. Check for the latest edition at:
<https://www.agc.org/learn/construction-data/agc-construction-inflation-alert> for the latest edition

The AGC website, www.agc.org, has a variety of resources available to contractors, owners, and others wanting to know more about the construction industry.

AGC posts tables showing changes in PPIs and national, state, and metro construction employment each month at:
<https://www.agc.org/learn/construction-data>

AGC's Data Digest is a weekly one-page summary of economic news relevant to construction. Subscribe at:
https://store.agc.org/Store/Store/StoreLayouts/Item_Detail.aspx?iProductCode=4401
 or email chief economist Ken Simonson at ken.simonson@agc.org.

Construction documents are available for viewing and purchase from ConsensusDocs at www.consensusdocs.org, including the price escalation resource center, www.consensusdocs.org/price-escalation-clause/

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TOTALS	1	2,500.00		2,500.00		