

December 07, 2016

VIA: Overnight Courier and email to HFSRB staff

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

Re: CON #16-038 Advocate Sherman Ambulatory Surgery Center

Dear Ms. Avery:

This letter is to provide additional information for the Advocate Sherman Ambulatory Surgery Center Certificate of Need application submitted September 12, 2016. This is in response to the letter sent by Mike Constantino on November 21, 2016.

1. The projected financial statements for the ratios provided on pages 166-167 are attached.
2. The assumptions used for the projected financial information are included.
3. "All other clinical space" includes areas outside the Operation Room area and the Post Anesthesia Care Unit. That includes staff lounge, male and female lockers and toilets, janitor's closet, medical gases room, vacuum pump room, clinical engineering, clean linen, soiled linen, equipment storage, nurses' station, six pre-operative bays and a patient toilet.

By comparison, the sterile Operating Room area includes three operating rooms, two scrub stations, sterile storage, clean workroom, soiled workroom, sterile closet, anesthesia office, waste holding room, bio-waste room, equipment storage, dictation area, and janitor's closet. In addition, there are 12 beds in the Post Anesthesia Care Unit with a nursing station, nourishment station, medications area, and patient toilets.

4. The expected payor mix was included in the CON application on page 173. It should be noted that there was no category of private pay broken out but blended with the charity care. The "other" category under payor mix would reflect Worker's Compensation cases and an occasional employer self-funded case.
5. The pre-operative stations are only for patients before surgery. Patient education, processing of permits, changing clothes for the procedure, physician pre-op visits, marking of the surgical site, and administering medications are some of the pre-operative

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activities that will happen there. Once the surgery is done, all patients will go to the 12 station post anesthesia care unit.

If there are any questions or concerns, please contact me at [sonja.reece@advocatehealth.com](mailto:sonja.reece@advocatehealth.com) or at 309-268-5482.

Sincerely,

A handwritten signature in black ink that reads "Sonja Reece". The signature is written in a cursive style with a large, prominent initial 'S'.

Sonja Reece, FACHE  
Director, Health Facilities Planning  
Advocate Health Care

## Advocate Sherman Ambulatory Surgery Center Income Statement

	<b>Year 1</b>	<b>Year 2</b>
Net Patient Revenue (NPR)	5,686,695	7,072,085
Salaries/Wages/Benefits	1,279,506	1,335,963
Supplies	794,732	830,972
Ground lease	30,000	30,450
Insurance	67,791	68,808
Other variable expenses	776,735	811,643
Bad debt	113,734	123,761
EBITDA	2,624,197	3,870,488
Depreciation	1,470,724	1,875,724
Management fee	284,335	353,604
Net interest expense	544,751	529,514
Capital allowance	-	477,576
Pre-Tax Income	324,387	634,069
Tax	97,316	221,924
Net Income	227,071	412,145

**Assumptions:**

1. Increase in case volume yr. 2 of 6.82%
2. NPR/case in yr. 1 of \$2205
3. Yr. 2 NPR/case of \$2567 After start up year, surgeons typically bring higher acuity cases, resulting in associated higher reimbursement.
4. Capital allowance of ~6.75% of NPR in yr. 2 as safety buffer if any additional equipment/materials are needed once operations are seasoned.
5. Bad debt ~1.75%-2.0% of NPR
6. Net interest expense decreasing due to loan pay down
7. Tax rate of 30% yr. 1 and 35% yr. 2
8. Depreciation higher in yr. 2 due to way capital expenses are placed on books
9. Management fee of 5%
10. Variable expense increases 4.5% yr. 2
11. Salaries/wages/benefits increase 4.4% yr. 2

## Advocate Sherman Ambulatory Surgery Center Balance Sheet

	Year 1	Year 2
<b>ASSETS</b>		
Current Assets		
Cash	514,687	562,819
Pre-paid expenses	112,458	140,501
Inventory	128,454	157,550
Accounts Receivable, net	1,469,406	1,539,147
Total Current Assets	2,225,005	2,400,017
Fixed Assets		
Land	-	-
Leasehold Improvements	8,648,617	8,648,617
Equipment	4,241,221	4,630,911
Less: Accumulated Depreciation	(1,470,724)	(3,346,448)
Net Fixed Assets	11,419,114	9,933,080
<b>Total Assets</b>	<b>13,644,119</b>	<b>12,333,097</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	205,168	224,504
Accrued expenses	594,997	483,160
Interest	268,435	257,211
Current Portion, Long Term Debt	81,419	85,160
Total Current Liabilities	1,150,019	1,050,035
Long Term Liabilities		
Construction Loan	6,091,156	5,523,061
Equipment Loan	3,149,038	2,715,954
Total Long Term Liabilities	9,240,193	8,239,014
<b>Total Liabilities</b>	<b>10,390,213</b>	<b>9,289,049</b>
Stockholders' Equity	3,253,906	3,044,048
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>13,644,119</b>	<b>12,333,097</b>

**Assumptions:**

1. A/R ~3 months of billing
2. Cash increases 9.4% yr. 2
3. Inventory increases 22.7% yr. 2
4. A/P increases 9.4% yr. 2
5. Interest expense decreases 4.6% yr. 2
6. Equipment increases yr. 2 due to placement in service schedule
7. Current portion, LTD increases yr. 2 due to amortization schedule