

E-019-14

RECEIVED

OCT 15 2014

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY
HEALTH FACILITIES
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Advocate BroMenn Medical Center
Address 1304 Franklin Avenue
City Normal Zip Code 61761 County McLean
Name of current licensed entity for the facility
Advocate Health and Hospitals Corporation, d/b/a Advocate BroMenn Medical Center
Does the current licensee: own this facility X OR lease this facility (if leased, check
if sublease ☐)
Type of ownership of the current licensed entity (check one of the following):
X Sole Proprietorship X Not-for-Profit Corporation For Profit Corporation
Partnership Governmental Limited Liability Company Other,
specify _____
Illinois State Senator for the district where the facility is located:
Sen. Jason Barickman
State Senate District Number 53 Mailing address of the State Senator
2401 E. Washington Street, Suite 201, Bloomington, IL 61704
Illinois State Representative for the district where the facility is located:
Rep. Dan Brady
State Representative District Number 105 Mailing address of the State Representative
104 W. North Street, Normal, IL 61761

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes X No ☐. If yes, refer to Section 1130.520(f), and indicate the projects by Project #
#12-104 Laboratory was obligated Oct 2, 2103
#14-027 Pharmacy permit was granted August 27, 2014 and is proceeding with due diligence..

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant
Advocate Health Care Network (to be renamed Advocate NorthShore Health Partners)
Address 3075 Highland Parkway
City, State & Zip Code Downers Grove, IL 60515
Type of ownership of the current licensed entity (check one of the following):
X Sole Proprietorship X Not-for-Profit Corporation For Profit Corporation
Partnership Governmental Limited Liability Company
Other, specify _____

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Advocate Health and Hospitals Corporation
 Address 3075 Highland Parkway
 City, State & Zip Code Downers Grove, IL 60515
 Type of ownership of the current licensed entity (check one of the following:)
 _____ Sole Proprietorship ☒ Not-for-Profit Corporation _____ For Profit
 Corporation _____ Partnership _____ Governmental _____ Limited Liability
 Company _____ Other, specify _____

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant NorthShore University HealthSystem
 Address 1301 Central Street
 City, State & Zip Code Evanston, IL 60201
 Type of ownership of the current licensed entity (check one of the following:)
 _____ Sole Proprietorship ☒ Not-for-Profit Corporation _____ For Profit Corporation
 _____ Partnership _____ Governmental _____ Limited Liability Company _____ Other,
 specify _____

4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

Exact Legal Name of Entity to be Licensed

Advocate Health and Hospitals Corporation, d/b/a Advocate BroMenn Medical Center

Address 1304 Franklin Avenue

City, State & Zip Code Normal, IL 61761

Type of ownership of the current licensed entity (check one of the following:)

Sole Proprietorship X Not-for-Profit Corporation For Profit Corporation

Partnership Governmental Limited Liability Company

Other, specify _____

5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site:

Advocate Health and Hospitals Corporation

Address 3075 Highland Parkway

City, State & Zip Code Downers Grove, IL 60515

Type of ownership of the current licensed entity (check one of the following:)

 Sole Proprietorship X Not-for-Profit Corporation For Profit

Corporation _____ Partnership _____ Governmental _____ Limited Liability _____

Company _____ Other, specify _____

6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

- ☐ Purchase resulting in the issuance of a license to an entity different from current licensee;
- ☐ Lease resulting in the issuance of a license to an entity different from current licensee;
- ☐ Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- ☐ Stock transfer resulting in no change from current licensee;
- ☐ Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- ☐ Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- ☐ Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
- ☒ Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- ☐ Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- ☐ Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- ☐ Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. APPLICATION FEE. Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.

8. FUNDING. Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.

9. ANTICIPATED ACQUISITION PRICE: \$ N/A See Attachment 2

10. FAIR MARKET VALUE OF THE FACILITY: \$ 146,498,918 net book value of plant, property and equipment, please see Attachment 2 (to determine fair market value, refer to 77 IAC 1130.140)

11. DATE OF PROPOSED TRANSACTION: On or about January 1, 2015

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.

13. BACKGROUND OF APPLICANT (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.

14. TRANSACTION DOCUMENTS. Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**.

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as **ATTACHMENT #6**. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES ☐ , and indicate the date the entity was formed _____

16. PRIMARY CONTACT PERSON. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Scott Powder, SR VP, Chief Strategy Officer, Advocate Health Care
 Address: 3075 Highland Parkway
 City, State & Zip Code: Downers Grove, IL 60515
 Telephone () Ext. (630) 929-8710

17. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Joe Ourth, Arnstein & Lehr LLP
 Address: 120 S. Riverside Plaza, Suite 1200
 City, State & Zip Code: Chicago, Illinois 60606
 Telephone () Ext. (312) 876-7815

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Sonja Reece, Director, Health Facilities Planning, Advocate Health Care
 Address: 1304 Franklin Ave.
 City, State & Zip Code: Normal, IL 61761
 Telephone () Ext. 309-268-5482

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Wendy Mulvihill, Strategic Planning Manager, Advocate Health Care
 Address: 9401 S. Pulaski, Suite 201
 City, State & Zip Code: Evergreen Park, IL 60805
 Telephone () Ext. 708-684-5765

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: David Dahlquist, Esq., Winston & Strawn LLP
 Address: 35 W. Wacker Drive
 City, State & Zip Code: Chicago, IL 60601-9703
 Telephone () Ext. (312) 558-5660

ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Gerald P. Gallagher, Chief Operating Officer, NorthShore University HealthSystem
 Address: 1301 Central Street
 City, State & Zip Code: Evanston, IL 60201
 Telephone () Ext. (847) 570-5151

18. CERTIFICATION Advocate Health Care Network (to be renamed Advocate NorthShore Health Partners)

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer JA Skogsbergh

Typed or Printed Name of Authorized Officer James H. Skogsbergh

Title of Authorized Officer: President and Chief Executive Officer

Address: 3075 Highland Parkway

City, State & Zip Code: Downers Grove, IL 60515

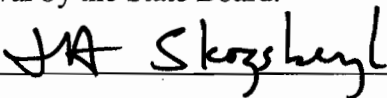
Telephone (630) 990-5018 Date: October 13, 2014

NOTE: complete a separate signature page for each co-applicant and insert following this page.

CERTIFICATION Advocate Health and Hospitals Corporation

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer James H. SkogsberghTitle of Authorized Officer: President and Chief Executive OfficerAddress: 3075 Highland ParkwayCity, State & Zip Code: Downers Grove, IL 60515

Telephone (630) 990-5018

Date:

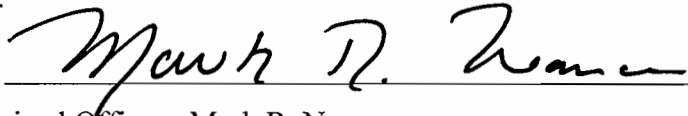
October 13, 2014

NOTE: complete a separate signature page for each co-applicant and insert following this page.

CERTIFICATION NorthShore University HealthSystem

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer


Typed or Printed Name of Authorized Officer Mark R. NeamanTitle of Authorized Officer: President and Chief Executive OfficerAddress: 1301 Central StreetCity, State & Zip Code: Evanston, IL 60201Telephone (847) 570-5005 Date: October 13, 2014

NOTE: complete a separate signature page for each co-applicant and insert following this page.

APPLICATION FEE**ATTACHMENT #1**

A single check in the amount of \$47,500 payable to the Illinois Department of Public Health has been submitted covering 19 COE applications from Advocate and NorthShore.

FUNDING**ATTACHMENT #2**

Not Applicable. There is no monetary consideration being exchanged between the parties as part of this transaction.

In response to question 10 of the COE application, the amount listed as Fair Market Value is the Net Book Value from the most recent audited financials.

NARRATIVE DESCRIPTION

ATTACHMENT #3

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction.

Advocate Health Care Network (“Advocate”), Advocate Health and Hospitals Corporation (“AHHC”) and NorthShore University HealthSystem (“NorthShore”) have entered into an Affiliation Agreement dated September 11, 2014. Under this Affiliation Agreement, subject to Review Board and other regulatory approvals, Advocate and NorthShore agree to affiliate (the “Affiliation”) their organizations and operate under the name “Advocate NorthShore Health Partners.”

NorthShore is a not-for-profit, fully-integrated healthcare delivery system serving the Chicagoland area whose operations include four hospitals within Illinois. Advocate is a not-for-profit population health management company whose operations include 11 hospitals in Illinois and additional healthcare facilities in which it has partial ownership interests. This application is part of a series of 19 applications seeking Review Board approval for Certificates of Exemption (“COEs”) for changes of ownership.

To effect the Affiliation, Advocate Health Network will change its name to “Advocate NorthShore Health Partners” (“ANHP”). No new corporate entity will be formed as part of this transaction. Upon consummation of this transaction, Advocate NorthShore Health Partners will become the sole corporate member of NorthShore and will remain the sole corporate member of AHHC (as well as Advocate’s other direct subsidiaries). Following consummation of this transaction, the Board of Directors of ANHP will consist of 12 members, five designated by NorthShore, five designated by Advocate and the Co-CEOs of ANHP, who will be Jim Skogsbergh and Mark Neaman.

NorthShore (or one of its direct or indirect subsidiaries) currently operates the following four hospitals and all are part of this series of COE applications:

Evanston Hospital, Evanston
Glenbrook Hospital, Glenview
Highland Park Hospital, Highland Park
Skokie Hospital, Skokie

Advocate (or one of its direct or indirect subsidiaries) currently operates the following 11 hospitals and all are a part of this series of COE applications:

Advocate BroMenn Medical Center, Normal
Advocate Christ Medical Center, Oak Lawn
Advocate Condell Medical Center, Libertyville
Advocate Eureka Hospital, Eureka
Advocate Good Samaritan Hospital, Downers Grove
Advocate Good Shepherd Hospital, Barrington
Advocate Illinois Masonic Medical Center, Chicago
Advocate Lutheran General Hospital, Park Ridge

Advocate South Suburban Hospital, Hazel Crest
Advocate Sherman Hospital, Elgin
Advocate Trinity Hospital, Chicago

In addition, Advocate(or one of its direct or indirect subsidiaries) has an ownership interest in the following licensed health care facilities and are part of this series of COE applications.

BroMenn Comfort and Care Suites, Bloomington
Dreyer Ambulatory Surgery Center, Aurora
RML Chicago, Chicago
RML Specialty Hospital, Hinsdale
Sherman West Court, Elgin

All of the above listed Advocate related facilities are included in the series of COE applications with the exception of Sherman West Court which is exempt because it is licensed under the Nursing Home Care Act. The applicants will notify the Review Board upon the change of ownership of Sherman West Court which will occur as part of the Affiliation.

Neither the licensed entity of the health care facilities listed above nor the legal entity that owns the physical plant of such facilities will change as part of the Affiliation.

There is no monetary consideration being exchanged between the parties as part of the Affiliation. The applicants have scheduled a January 1, 2015 closing, subject to obtaining regulatory approvals.

BACKGROUND OF APPLICANT**ATTACHMENT #4**

See Certificates of Good Standing for applicants on following pages.

File Number 1707-692-2



To all to whom these Presents Shall Come, Greeting:

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

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



Authentication #: 1416001288

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

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 9TH day of JUNE A.D. 2014 .

Jesse White

SECRETARY OF STATE

File Number 1004-695-5



To all to whom these Presents Shall Come, Greeting:

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

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



Authentication #: 1416001324

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

*In Testimony Whereof, I hereto set
my hand and cause to be affixed the Great Seal of
the State of Illinois, this 9TH
day of JUNE A.D. 2014 .*

Jesse White

SECRETARY OF STATE

File Number 0567-540-5



To all to whom these Presents Shall Come, Greeting:

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

NORTHSHORE UNIVERSITY HEALTHSYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 04, 1891, 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 #: 1428301484

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

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 10TH day of OCTOBER A.D. 2014 .

Jesse White

SECRETARY OF STATE

TRANSACTION DOCUMENTS**ATTACHMENT #5**

Attached is a copy of the executed Affiliation Agreement, dated September 11, 2014, among NorthShore University HealthSystem, Advocate Health Care Network, and Advocate Health and Hospitals Corporation. Page 45 of the Affiliation Agreement addresses the need to obtain certificates of exemption from the Illinois Health Facilities and Services Review Board. See the following pages for Affiliation Agreement.

EXECUTION VERSION

AFFILIATION AGREEMENT

dated September 11, 2014

among

NORTSHORE UNIVERSITY HEALTHSYSTEM,

ADVOCATE HEALTH CARE NETWORK,

and

ADVOCATE HEALTH AND HOSPITALS CORPORATION

TABLE OF CONTENTS

	Page
ARTICLE 1 DEFINITIONS AND INTERPRETATION	2
1.1 Defined Terms.	2
1.2 Other Terms.	12
1.3 Interpretation.	14
ARTICLE 2 RATIONALE AND VISION OF THE TRANSACTIONS	15
ARTICLE 3 GOVERNANCE AND MANAGEMENT.....	16
3.1 Amendment of Organizational Documents.	16
3.2 Board; Term.	17
3.3 Designation of Members of ANHP Board.	17
3.4 Chairperson and Vice-Chairperson of ANHP Board.....	18
3.5 Co-CEOs; Senior Management.....	19
3.6 Special Consent and Approval Rights.	20
3.7 ANPP Governance.	23
3.8 Other Subsidiaries.	23
ARTICLE 4 POST-CLOSING COVENANTS.....	23
4.1 General Commitments including Commitments to Quality and Patient Safety.	23
4.2 Charity Care and Other Policies.	25
4.3 Indebtedness.....	25
4.4 Medical Staff Continuity.....	25
4.5 Physician Matters.....	25
4.6 ANPP Matters.	26
4.7 Research Institute.....	27
4.98 Corporate Headquarters.	28
4.9 Donor Restricted Funds.	28
4.10 Further Assurances.....	28
ARTICLE 5 REPRESENTATIONS AND WARRANTIES.....	28
5.1 Authority.....	28
5.2 Validity.	29
5.3 No Conflict.....	29
5.4 Organization; Standing; Power; Capitalization; Governance.	29
5.5 Non-Exclusion.	30
5.6 Financial Statements.	31
5.7 Accounting Records; Internal Controls.	31
5.8 Interim Changes.....	31
5.9 Tax Exempt Matters.....	32

5.10	Insurance.....	33
5.11	Properties.....	33
5.12	Permits.....	34
5.13	Material Contracts.....	35
5.14	Taxes.....	35
5.15	Litigation.....	36
5.16	Compliance with Law.....	37
5.17	Payors.....	37
5.18	Accreditation.....	38
5.19	Employee Benefit Plans.....	39
5.20	Employees and Employee Relations.....	40
5.21	Intellectual Property; Information Technology; Privacy.....	41
5.22	Environmental.....	43
5.23	Charitable Foundation Matters.....	44
5.24	Brokers.....	44
ARTICLE 6 PRE-CLOSING COVENANTS		44
6.1	Interim Conduct of Business.....	44
6.2	Information and Notification; Pre-Closing Transition Activities.....	45
6.3	Conditions; Third Party Authorizations.....	45
6.4	Exclusivity.....	46
6.5	Non-Solicit; No Hire.....	46
ARTICLE 7 CONDITIONS PRECEDENT TO OBLIGATIONS OF PARTIES.....		47
7.1	Conditions of Each Party's Obligation.....	47
7.1	Conditions of NorthShore's Obligation.....	47
7.1	Conditions of the Obligations of Advocate and AHHC.....	48
ARTICLE 8 CLOSING		49
8.1	Closing Date; Closing.....	49
8.2	Deliverables of Advocate.....	49
8.3	Deliverables of NorthShore.....	50
ARTICLE 9 ENFORCEMENT OF OBLIGATIONS		50
ARTICLE 10 TERMINATION.....		51
10.1	Termination.....	51
10.2	Effect of Termination.....	51
ARTICLE 11 GENERAL PROVISIONS		52
11.1	Amendment.....	52
11.2	Assignment.....	52
11.3	Equitable Relief.....	52

11.4	Attorneys' Fees	52
11.5	Choice of Law; WAIVER OF JURY TRIAL	53
11.6	Confidentiality	53
11.7	Dispute Resolution	53
11.8	Entire Agreement	53
11.9	Expenses	54
11.10	Notices	54
11.11	Severability	55
11.12	Waiver	55
11.13	Counterparts	55
11.14	Drafting of Agreement	56
11.15	Schedules and Other Documents	56
11.16	Legal Representation; Related Matters	56

Exhibits

- Exhibit A-1 Amended Advocate Articles of Incorporation
Exhibit A-2 Amended Advocate Bylaws

Schedules

- Schedule 5.4(b) Organizational Documents
Schedule 6.1(a) Interim Conduct of Business
Advocate Disclosure Schedule
NorthShore Disclosure Schedule

**AFFILIATION AGREEMENT FOR
NORTHSHORE UNIVERSITY HEALTHSYSTEM
AND
ADVOCATE HEALTH CARE NETWORK**

This Affiliation Agreement (this “**Agreement**”) is entered into as of September 11, 2014 (the “**Agreement Date**”) by and among NorthShore University HealthSystem, an Illinois not-for-profit corporation (“**NorthShore**”), Advocate Health Care Network, an Illinois not-for-profit corporation (“**Advocate**” or, when referring to it herein with respect to events or circumstances following the Closing, “**ANHP**”), and Advocate Health and Hospitals Corporation, an Illinois not-for-profit corporation (“**AHHC**”) (each a “**Party**” and collectively, the “**Parties**”).

WITNESSETH:

WHEREAS, the healthcare community in the United States has been challenged to provide a greater range of services, at lower costs and in a more efficient manner, and improve the quality of patient care through collaboration and coordination, while simultaneously experiencing significant change in government regulation, payment for services, technological developments, patient demographics and demand as well as an increased need for capital;

WHEREAS, NorthShore is a not-for-profit, fully-integrated healthcare delivery system serving the Chicagoland area and the principal teaching affiliate for the University of Chicago Pritzker School of Medicine;

WHEREAS, Advocate is a nationally-recognized, not-for-profit, population health management company;

WHEREAS, the Parties and their respective Affiliates share a common and unifying not-for-profit health care mission to improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the residents of the areas which they serve in a culture of compassion, respect, integrity and excellence, and to advance medical education, training and research;

WHEREAS, the Parties consider it in the best interests of their respective communities and constituencies to affiliate (the “**Affiliation**”) their organizations so as to better serve their communities and constituencies in a manner that exemplifies their not-for-profit and charitable missions and to enable NorthShore and Advocate to provide high-quality care in a cost-effective manner;

WHEREAS, the Parties intend for the Affiliation to achieve significant benefits that could not be achieved independently by either organization, including development of risk-based and narrow network care delivery models, development and analysis of data to transform patient care at reduced cost and reduce variation in clinical practice through evidence-based medicine, improved coordination of patient care services in the most appropriate setting, reduction in the duplication of resources, enhanced access to capital markets at lower cost, and other efficiencies and cost reductions, increased access to specialized health care services and other clinical and educational benefits;

WHEREAS, to effect the Affiliation, Advocate's name will be changed to "Advocate NorthShore Health Partners" and ANHP will become the sole corporate member of NorthShore;

WHEREAS, ANHP will remain the sole corporate member of AHHC;

WHEREAS, upon the consummation of the Affiliation, (a) ANHP will serve as the sole corporate member of NorthShore and AHHC (and Advocate's other direct subsidiaries) and shall generally hold the same reserved powers with respect to each of NorthShore and AHHC (and Advocate's other direct subsidiaries), (b) except as otherwise expressly contemplated hereby, ANHP shall have the exclusive authority to govern, direct, and oversee the property, funds and affairs of the NorthShore Corporations (as defined below) and the Advocate Corporations (as defined below) and (c) ANHP, in its capacity as the sole member of NorthShore and AHHC (and Advocate's other direct subsidiaries), may act on behalf of the NorthShore Corporations and the Advocate Corporations;

WHEREAS, the Parties intend to operate ANHP, the NorthShore Corporations and the Advocate Corporations following the Affiliation with a single mission and commitment to preserve and improve the health of the individuals, families and communities they serve and to improve quality and patient safety consistent with the current missions of Advocate and NorthShore;

WHEREAS, the members of the Board of Directors of NorthShore (the "**NorthShore Board**") immediately prior to the Affiliation shall remain the members of the NorthShore Board following the Affiliation and certain members of the Board of Directors of AHHC ("**AHHC Board**") immediately prior to the Affiliation shall remain members of the AHHC Board following the Affiliation, in each case, to continue to serve on such boards in accordance with the terms and conditions prescribed by NorthShore and AHHC, respectively; and

WHEREAS, the Boards of Directors of each of NorthShore and Advocate have approved the Affiliation.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained herein, the Parties hereby agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATION

1.1 Defined Terms. The following terms shall have the meanings specified below:

"**Advocate Charitable Foundation**" means the Advocate Charitable Foundation, an Illinois not-for-profit corporation.

"**Advocate Corporations**" means, prior to the Affiliation, Advocate and each of its Controlled Subsidiaries and, after the Affiliation, AHHC, North Side, Condell, Sherman, AISPC and each other Controlled Subsidiary of Advocate (prior to the Affiliation).

“Advocate Disclosure Schedule” means the Advocate Disclosure Schedule delivered by Advocate to NorthShore on the date hereof.

“Advocate Master Indenture” means the Amended and Restated Master Trust Indenture dated as of September 1, 2011, as supplemented and amended to date, among Advocate, the Advocate Obligated Group and U.S. Bank, National Association, as master trustee.

“Advocate Medical Group” means Advocate Medical Group, an operating division of AHHC.

“Advocate Obligated Group” means AHHC, North Side and Condell.

“Advocate System” means all of the Advocate Corporations, taken as a whole.

“Affiliate” means with respect to any Person, any other Person directly or indirectly Controlled by or under common Control with such Person.

“AISPC” means Advocate Insurance SPC, a Cayman Islands corporation exempt from taxation in that jurisdiction.

“ANHP Board” means the Board of Directors of ANHP.

“ANPP Board” means the Board of Directors of ANPP.

“Applicable Laws” means all foreign, federal, state or local laws (including common laws), statutes, regulations, ordinances, codes, rules, interpretations or guidance of any Governmental Entity or any Governmental Orders, in each case, applicable to the relevant entity and to the businesses and assets thereof.

“CHAMPVA” means the health benefits program in which the Department of Veterans Affairs shares the cost of certain health care services and supplies with eligible beneficiaries.

“CI Program” means the Clinical Integration program developed by APP, including hospital-to-hospital clinical integration, joint contracting, and performance standards and criteria, including clinical care delivery and management standards, quality assurance and utilization management criteria and standards, and risk management programs, for use by APP in the implementation of payor agreements and other components and dimensions of the program.

“Clinical Integration” means the integration of hospitals, physicians and other providers into a network of providers that fosters the change in the provision of and payment for patient care contemplated by the three-part aim of recent federal health reform legislation – better care for individuals, better health for populations, and slower growth in costs through improvements in care – and by the standards established by the Federal Trade Commission for a network of providers to be clinically integrated under the antitrust laws through means such as: (a) eliminating unnecessary clinical care

variation through the adoption of clinical pathways; (b) improving the economic efficiency of providers; (c) applying evidence-based medicine techniques and principles; (d) implementing an active and on-going program to evaluate and modify the practice patterns of all participating providers and create a high degree of interdependence and cooperation among the providers to control costs and achieve quality; and (e) establishing an integrated information technology platform.

"Code" means the Internal Revenue Code of 1986.

"Condell" means Advocate Condell Medical Center, an Illinois not-for-profit corporation.

"Control" means (including, with correlative meanings, "Controlled by" and "under common Control with"), with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Controlled Subsidiary" means, with respect to a Person, each other Person that, directly or indirectly through one or more intermediaries, is Controlled by such Person.

"Disclosure Schedule(s)" means, if singular, either the Advocate Disclosure Schedule or the NorthShore Disclosure Schedule as the context so implies or, if plural, the Advocate Disclosure Schedule and the NorthShore Disclosure Schedule.

"eICU" means the remote telemedicine monitoring and intervention by eIntensivist physicians and eRNs on behalf of intensive care unit patients. Remote telemedicine monitoring includes real time vital sign monitoring, electronic medical record ("EMR") monitoring, and performing diagnostic and EKG imaging. Interventions, which are made in collaboration with each patient's attending/managing physician, include writing orders for medications, procedures, and diagnostic testing and imaging via computerized physician order entry (or other mutually agreed upon method).

"Employee Benefit Plan" means any of the following covering any current or former employee, officer, director, consultant or agent of either NorthShore or any ERISA Affiliate of NorthShore, on the one hand, or Advocate or any ERISA Affiliate of Advocate, on the other hand, as applicable: (a) any "employee pension benefit plan" as defined in Section 3(2) of ERISA (including any "multiemployer" plans as defined in Section 3(37) of ERISA), (b) any "employee welfare benefit plan" as defined in Section 3(1) of ERISA, including severance, sick leave, medical, dental, hospitalization, vision, disability, life insurance, long term care insurance and pet insurance plans, policies, or arrangements, and (c) any retirement, deferred compensation, retention, change in control, severance, bonus, thrift, equity compensation or incentive plan, agreement or arrangement and any "fringe benefits" or perquisites (including benefits related to automobiles, clubs, vacation or holiday pay, paid time off, child care, parenting, or sabbatical), which does not constitute an employee benefit plan (as defined in Section 3(3) of ERISA), regardless of whether any of the foregoing items (a) through (c) are funded, unfunded, insured, self-insured, written or oral.

"Encumbrance" means any claim, charge, easement, encumbrance, encroachment, security interest, option, pledge, mortgage, lien, pledge, or restriction (whether on sale, transfer, disposition or otherwise), whether imposed by agreement or Applicable Law.

"Environmental Laws" means all Applicable Laws concerning worker health and safety, pollution or protection of the environment, including all those relating to the presence, production, generation, handling, transport, treatment, storage, disposal, distribution, labeling, testing, processing, emissions, discharges, releases or threatened releases, or the manufacture or use, control or cleanup of, or exposure to, Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA Affiliate" means, with respect to any Person, each other Person that is treated as a single employer with such Person pursuant to Section 414 of the Code.

"Federal Health Care Program" has the meaning ascribed thereto in 42 U.S.C. § 1320a-7b(f), and includes the Medicare and Medicaid programs, Indian health service programs, TRICARE and CHAMPVA, and similar or successor programs whether administered directly by a Governmental Entity or through contracted entities, administrative contractors, health maintenance organizations, commercial health plans third party administrators, health care services or other health insurance plans or programs.

"Federal Trade Commission" means the United States Federal Trade Commission.

"FPA" means NorthShore University HealthSystem Faculty Practice Associates, an Illinois not-for-profit corporation.

"GAAP" means accounting principles as generally accepted in the United States as in effect from time to time.

"Governmental Entity" means any government, quasi-governmental or administrative agency, instrumentality, bureau, board, directorate, commission, court, department, official, political subdivision, tribunal, body or other instrumentality of any government, whether federal, state, municipal, provincial, local, domestic, or foreign or arbitrator, arbitration panel or other similar dispute-resolving panel or body or any contractor acting on behalf of any of the foregoing.

"Governmental Order" means any order, decree, writ, stipulation, judgment, determination, injunction or award entered by any Governmental Entity.

"Hazardous Materials" means any material, substance or waste that is or becomes characterized, classified, regulated or designated under Environmental Law as hazardous, toxic, a pollutant, or radioactive, including petroleum, asbestos, noise, radiation, odor, toxic mold and pesticides.

"Healthcare Laws" means all statutes, regulations and manual provisions governing Federal Healthcare Programs and relationships with other third party payor programs applicable to the relevant entity and to the businesses and assets thereof, including 42 U.S.C. 1320a-7a, 42 U.S.C. §1320a-7b(b), 42 U.S.C. 1395nn, 31 U.S.C. §3729 et seq., the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and the Illinois Health Facilities Planning Act, 20 ILCS 3960/1 (the **"Health Facilities Planning Act"**) and the regulations promulgated pursuant to each such statute.

"HFSRB" means the Illinois Health Facilities and Services Review Board and, as applicable, its predecessor organization, the Illinois Health Facilities Planning Board.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"Indebtedness" means, with respect to a Person, all (a) obligations of such Person for indebtedness for borrowed money, (b) Liabilities of such Person in respect of any guarantees, letters of credit (to the extent drawn), performance bonds, surety bonds, sureties or similar obligations issued by or on behalf of such Person, (c) Liabilities of such Person under any capital lease and (d) obligations of such Person for any accrued but unpaid interest relating to any of the foregoing; provided that, notwithstanding anything in the foregoing to the contrary, Indebtedness shall not include (i) any intercompany accounts, payables or loans of any kind or nature between or among such Person and any of its other System Corporations and (ii) any Liabilities under any lease (other than any capital lease).

"Information Privacy and Security Laws" means all Applicable Laws concerning the privacy or security of Personal Information or concerning call or electronic monitoring or recording or any outbound communications (including outbound calling and text messaging, telemarketing and e-mail marketing).

"Insurance" means policies of insurance and self-insurance programs or fidelity bonds.

"Intellectual Property" means all worldwide (a) patents and patent applications, including all provisionals, continuations, continuations-in-part, divisions, reissues, re-examinations and extensions thereof, patent disclosures, inventions (whether or not patentable) and improvements thereto, (b) trademarks, service marks, logos, trade dress and trade names or other source-identifying designations or devices, all registrations and applications therefor and all goodwill associated therewith (collectively, **"Trademarks"**), (c) copyrights and design rights, whether registered or unregistered, and pending applications to register the same and all moral rights associated therewith, (d) Internet domain names and registrations thereof and social media accounts, and (e) confidential ideas, trade secrets, computer software (including its source code), algorithms, know-how, works-in-progress, concepts, methods, processes, inventions, invention disclosures and formulae (collectively, **"Trade Secrets"**).

"Interim Financial Statements" means, with respect to a Party, the unaudited financial statements of such Party's System for the month just ended, (a) prepared based upon the information contained in books and records of such Party and such Party's System Corporations, (ii) presenting fairly in all material respects the financial position, assets and liabilities and results of operation of such Party and its System Corporations (taken as a whole) as of the date and for the periods referred to therein; and (c) prepared in accordance with GAAP on a basis consistent with past practice of such Party (subject to any normal year-end adjustments, which are not, in the aggregate, material).

"IRS" means the United States Internal Revenue Service.

"IT Assets" means, with respect to any Person, software, systems, servers, computers, hardware, firmware, middleware, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation, in each case, used or held for use in the operation of such Person.

"Knowledge" when used in the case of Advocate, means the actual knowledge of James Skogsbergh, William Santulli, Dominic Nakis, Kevin Brady or Mike Englehart and, when used in the case of NorthShore, means the actual knowledge of Mark Neaman, Gerald P. Gallagher, Gary Weiss or Bill Luehrs.

"Liability" or "Liabilities" means any direct or indirect liability, Indebtedness, obligation, commitment, expense (including legal fees and costs and any other amounts paid incident to any compromise or settlement of any claim, lawsuit or arbitration), damage, fine, penalty, claim, deficiency, guarantee or endorsement of or by any Person of any type, whether accrued, unaccrued, absolute, contingent, matured or unmatured.

"Material Adverse Effect" means any change, effect, event, circumstance, development or occurrence that has, or could reasonably be expected to have, or results in, or could reasonably be expected to result in, with the passage of time, individually or in the aggregate, (a) a material adverse effect on the business, assets, liabilities, properties, operations; results of operations or condition (financial or otherwise) of the Advocate System or the NorthShore System (as applicable), taken as a whole; (b) a loss of licensure, accreditation, permits or approvals necessary for the Advocate System or the NorthShore System (as applicable), taken as a whole, to operate in all material respects consistent with historic practice; (c) a material adverse effect on the Party's ability to consummate the Affiliation or to perform its material obligations pursuant to this Agreement; (d) actual or threatened exclusion from a material Federal Health Care Program of a material part of the Advocate System or the NorthShore System (as applicable); or (e) loss of any Tax-exemption for a material entity in the Advocate System or the NorthShore System, as applicable; provided; however, that none of the following (or the results thereof) shall be a Material Adverse Effect: (i) any change in any Applicable Law or accounting standard; (ii) any change in economic, regulatory, political or business conditions or financial market conditions generally, or in the industry in which the NorthShore System and the Advocate System operate; (iii) any change in any government or private payor program generally applicable to operators of

similarly situated businesses in the State of Illinois; (iv) any change arising in connection with hostilities, acts of war (physical or cyber), sabotage or terrorism or military actions or any escalation or material worsening thereof; or (v) any change resulting from the public announcement of this Agreement, compliance with terms of this Agreement or the consummation of the Transactions, unless, in the case of the foregoing clauses (i), (ii), (iii) or (iv), such effect, event, development or change referred to therein disproportionately affects the Advocate System or the NorthShore System, as applicable and taken as a whole, relative to other participants in the industry in which they operate.

"Material Contracts" means the following categories of contracts, leases (capital and operating), and other agreements entered into by or on behalf of any one or more of the NorthShore Corporations or Advocate Corporations which are currently in effect:

- (i) non-cancellable leases of real property by a NorthShore Corporation or an Advocate Corporation, as applicable, and all leases of Owned Real Property;
- (ii) the Advocate Master Indenture and the NorthShore Master Indenture;*
- (iii) agreements or instruments regarding other Indebtedness;
- (iv) all documents evidencing negative pledges or other covenant or transfer restrictions on the assets of any NorthShore Corporation or any Advocate Corporation, as applicable;*
- (v) all joint venture agreements to which any NorthShore Corporation or Advocate Corporation is a party and which generates net income to (or results in a Liability of) a Party or a System Corporation in excess of Ten Million Dollars (\$10,000,000) annually;*
- (vi) all agreements for employment, retention, severance or change in control or the primary purpose of which is indemnification of another Person;
- (vii) all (x) Federal Health Care Programs or (y) contracts with private insurance companies that individually account for payments in excess of Twenty-Five Million Dollars (\$25,000,000) annually;*
- (viii) all insurance policies, trust agreements and other related agreements, including stop-loss and self-insurance arrangements;
- (ix) corporate integrity agreements;*
- (x) agreements which contain executory non-competition covenants binding upon a NorthShore Corporation or an Advocate Corporation that could reasonably be expected to include the primary service area of the other Party;*
- (xi) agreements or commitments materially affecting ownership of, title to, or any interest in real property other than those which are covered by clause (i) above;*

- (xii) collective bargaining agreements;*
- (xiii) agreements with supporting/sponsor organizations;*
- (xiv) joint purchasing agreements;*
- (xv) agreements which would require a NorthShore Corporation (in the event of an agreement to which an Advocate Corporation is party) or an Advocate Corporation (in the event of an agreement to which a NorthShore Corporation is party) to become obligated under or otherwise participate in such agreement as a result of the Affiliation;*
- (xvi) any other agreement: (a) that involves an obligation of a NorthShore Corporation or an Advocate Corporation in excess (or expected to be in excess) of Twenty-Five Million Dollars (\$25,000,000) in any one year; (b) that involves an obligation of a NorthShore Corporation or an Advocate Corporation in excess of Fifty Million Dollars (\$50,000,000) over the remaining term of the agreement; or (c) the cancellation or termination of which would be reasonably likely to result in a Material Adverse Effect, in each case, other than those which are covered by clauses (i) to (xv) above.*

"Medicaid" means the healthcare program established under Title XIX of the Social Security Act, which provides health insurance for low income individuals

"Medicare" means the healthcare program established under Title XVIII of the Social Security Act, which provides health insurance for individuals 65 and over, individuals with end stage renal disease, and certain disabled individuals.

"NFPs" means, with respect to NorthShore, NorthShore, FPA and RMI, and, with respect to Advocate, Advocate, AHHC, North Side, Condell, Sherman, EHS Home Health Care Services, Inc., an Illinois not-for-profit corporation, Sherman West Court, an Illinois not-for-profit corporation and Sherman Home Health Care Corporation, an Illinois not-for-profit corporation.

"North Side" means Advocate North Side Health Network, an Illinois not-for-profit corporation.

"NorthShore Corporations" means NorthShore and each of its Controlled Subsidiaries.

"NorthShore Disclosure Schedule" means the NorthShore Disclosure Schedule delivered by NorthShore to Advocate on the date hereof.

"NorthShore Foundation" means the charitable and philanthropic foundation of the NorthShore System.

"Northshore Master Indenture" means the Restated Master Trust Indenture dated as of September 23, 2010, as supplemented and amended to date, between NorthShore and U.S. Bank National Association, as successor master trustee.

"NorthShore Research Institute" means the research institute established and operated by the NorthShore Corporations.

"NorthShore System" means all of the NorthShore Corporations, taken as a whole.

"NPA" means NorthShore Physician Associates, Inc., an Illinois corporation.

"Organizational Documents" means articles of organization, articles of incorporation, operating agreements, bylaws and other equivalent organizational documents.

"Permits" means any license, permit, franchise, certificate of authority, certificate of need, authorization, approval, variance, exemption, consent, operating certificate, franchise, or order, or any waiver of the foregoing, required to be issued by any Governmental Entity, including Medicare and Medicaid certifications and provider and supplier numbers.

"Permitted Encumbrance(s)" means all (a) liens for Taxes or assessments and other similar charges not yet due and payable or which are being contested in good faith by appropriate proceedings and for which appropriate reserves are being maintained in accordance with GAAP; (b) easements, quasi-easements, licenses, covenants, rights-of-way, rights of re-entry or other similar restrictions, including any other agreements, conditions or restrictions that would be shown by a current title report or other similar report or listing none of which materially interfere with occupancy or use of the real property to which they apply; (c) mechanics, materialmen and similar liens arising in the ordinary course of business; (d) Encumbrances that do not materially interfere with the operations of the entity's assets in a manner consistent with the current use of such assets of such the entity; (e) restrictions on transfer arising under applicable securities laws; (f) zoning, entitlement, building, environmental and other land use regulations imposed by Governmental Entities which are not violated by the current use and operation of the applicable real property; (g) liens arising under worker's compensation, employment insurance, social security, retirement and similar legislation for amounts not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings; and (h) purchase money liens and liens of landlord's, lessors and licensors arising under lease agreements or license arrangements.

"Person" means an individual, corporation, partnership, limited liability company, joint venture, association, trust or other entity or organization, including a Governmental Entity.

"Personal Information" means (a) any information with respect to which there is a reasonable basis to believe that the information can be used to identify an individual,

including demographic information; (b) social security numbers; and (c) any information that is regulated or protected by one or more Information Privacy and Security Laws.

"PHO Director" means has the meaning set forth in the Amended APP Bylaws.

"Post-Closing Period" means the period from the Closing Date to the date that is six (6) years following the Closing Date.

"Pre-Closing Period" means the period from the Agreement Date to the earlier of (a) immediately prior to the Closing and (b) the termination of this Agreement in accordance with its terms.

"Proceeding" means any claim, charge, complaint, demand, action, suit, litigation, arbitration, proceeding, audit, examination, hearing or investigation by or before any Governmental Entity.

"RMI" means Radiation Medicine Institute, an Illinois not-for-profit corporation.

"Sherman" means Advocate Sherman Hospital, an Illinois not-for-profit corporation.

"Social Security Act" means the United States Social Security Act of 1935.

"System" means, with respect to NorthShore, the NorthShore System, and with respect to Advocate, the Advocate System.

"System Corporations" means each of the Advocate Corporations and the NorthShore Corporations.

"System Director" has the meaning set forth in the Amended APP Bylaws.

"Tax" means any federal, state, local, foreign or other tax, levy, impost, fee, assessment or other government charge, including any income, business, occupation, franchise, property, payroll, personal property, sales, transfer, use, employment, commercial rent, occupancy, or withholding tax, and any premium, including penalties and additions in connection therewith.

"Transaction Documents" means this Agreement and each other agreement delivered (or to be delivered) pursuant to this Agreement in connection with the Closing.

"Transactions" means the Affiliation and each of the other transactions contemplated hereby to occur at the Closing.

"TRICARE" means the health insurance program established by the U.S. Department of Defense for members of the military and military retirees, and their families

1.2 Other Terms. Each of the following terms is defined in the Section set forth opposite such term:

<u>Term</u>	<u>Section</u>
Accreditations	5.18
Advocate	Preamble
Advocate Closing Documents	8.2
Advocate Co-CEO	3.5(a)
Advocate Directors	3.3(b)(ii)
Affiliation	Recitals
Agreement	Preamble
Agreement Date	Preamble
AHHC	Preamble
AHHC Board	Recitals
Amended Advocate Articles of Incorporation	3.1(a)
Amended Advocate Bylaws	3.1(a)
Amended AHHC Articles of Incorporation	3.1(d)
Amended AHHC Bylaws	3.1(d)
Amended APP Articles of Incorporation	3.1(f)
Amended APP Bylaws	3.1(f)
Amended NorthShore Articles of Incorporation	3.1(c)
Amended NorthShore Bylaws	3.1(c)
Amended NPA Articles of Incorporation	3.1(e)
Amended NPA Bylaws	3.1(e)
ANHP	Preamble
ANPP	3.1(e)

<u>Term</u>	<u>Section</u>
APP	3.1(e)
Audited Financial Statements	5.6(a)
Business Associate Agreement	5.21(e)
Closing	8.1
Closing Date	8.1
Co-CEO(s)	3.5(a)
Confidentiality Agreement	11.6
Disclosed Material Contracts	5.13(a)
DME MAC	5.17(a)
Employment Laws	5.20
EMR	Definition of eICU
End Date	10.1(e)
Financial Statements	5.6(a)
Health Facilities Planning Act	Definition of Healthcare Laws
HIPAA	Definition of Healthcare Laws
Initial Advocate Directors	3.3(a)(ii)
Initial ANHP Directors	3.3(a)
Initial NorthShore Directors	3.3(a)(i)
MAC	5.17(a)
NorthShore	Preamble
NorthShore Board	Recitals
NorthShore Closing Documents	8.3

<u>Term</u>	<u>Section</u>
NorthShore Co-CEO	3.5(a)
NorthShore Directors	3.3(b)(i)
Owned Real Property	5.11(a)
Party(ies)	Preamble
RAC	5.17(a)
Required Filings	6.3(b)
System Intellectual Property	5.21(a)
System IT Assets	5.21(d)
Trade Secrets	Definition of Intellectual Property
Trademarks	Definition of Intellectual Property
Unaudited Financial Statements	5.6(a)
W&S	11.6
ZPIC	5.17(a)

1.3 Interpretation.

(a) The words “**hereof**,” “**herein**” and “**hereunder**” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) The captions or headings are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

(c) References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified.

(d) All Exhibits and Schedules attached hereto or referred to herein are incorporated in and made a part of this Agreement as if set forth in full herein.

(e) Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement.

(f) Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular.

(g) Whenever the words “**include**,” “**includes**” or “**including**” are used in this Agreement, they shall be deemed to be followed by the words “**without limitation**,” whether or not they are in fact followed by those words or words of like import.

(h) References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof.

(i) References to any Person include the successors and permitted assigns of that Person.

(j) References from or through any date mean, unless otherwise specified, from and including or through and including, respectively.

(k) References in this Agreement to a statute shall be to such statute, as amended from time to time, and to the rules and regulations promulgated thereunder.

(l) References to “**days**” means calendar days unless specified otherwise.

(m) References to “**Dollars**” and “**\$**” means United States Dollars.

(n) All references to the “**Advocate Corporations**” (as defined above) shall be construed to mean “each of the Advocate Corporations” or “any of the Advocate Corporations” where appropriate.

(o) All references to the “**NorthShore Corporations**” (as defined above) shall be construed to mean “each of the NorthShore Corporations” or “any of the NorthShore Corporations” where appropriate.

ARTICLE 2

RATIONALE AND VISION OF THE TRANSACTIONS

The Parties share a common understanding and belief that health care is transforming from a transactional, acute-care orientation to a value-based, consumer driven, population health management orientation based upon evidence-based practices and coordination of care for patients in the inpatient, outpatient, post-acute care and home settings. They believe that the financial and regulatory environment for health care providers has become, and will continue to be, extremely challenging, characterized by intense cost pressures, shifts in care settings to ambulatory, home and other settings, rapid growth in consumerism, and new industry entrants and business models. The Parties share the belief that the development of an integrated delivery system model of multi-specialty physician-hospital alignment focused on population health management provides the best opportunity to make health care more affordable by providing clinically integrated, high quality, cost-effective health services in a seamless continuum of care and enhanced access to such services for patients throughout the communities they serve. In

furtherance of their charitable missions, by undertaking the Affiliation, the Parties intend to further develop leading EMRs and data analytics platforms, and to integrate management and clinical operations of hospitals, physicians and other entities to transform the care that patients receive, resulting in a combined service capability with seamless access for caregivers and patients, thereby reducing costs, improving quality and enhancing access while creating exceptional patient experiences.

ARTICLE 3

GOVERNANCE AND MANAGEMENT

3.1 Amendment of Organizational Documents. It is the intent of the Parties that, subsequent to the Closing, ANHP shall have and exercise centralized authority to establish the goals and strategic directions of the Affiliation, including particularly the authority to initiate and direct strategic and capital planning, clinical alignment and integration, and the standardization of best practices throughout the organization consistent with the terms of this Agreement. Effective as of the Closing,

(a) the articles of incorporation of Advocate shall be amended and restated in substantially the form set forth in Exhibit A-1 (the “**Amended Advocate Articles of Incorporation**”) and the bylaws of Advocate shall be amended and restated in substantially the form set forth in Exhibit A-2 (the “**Amended Advocate Bylaws**”) to reflect, among other things, (i) a name change to “Advocate NorthShore Health Partners” and (ii) the governance and organizational changes described in this Article 3;

(b) ANHP shall become the sole corporate member of NorthShore;

(c) the articles of incorporation of NorthShore shall be amended and restated (the “**Amended NorthShore Articles of Incorporation**”) and the bylaws of NorthShore shall be amended and restated (the “**Amended NorthShore Bylaws**”) to reflect, among other things, (i) ANHP as its sole corporate member, (ii) the delegation of certain powers, including those relating to fundraising and related back office functions, the NorthShore Research Institute, clinical appointments, medical staff privileging, department chair appointments and physician compensation, to the NorthShore Board, and (iii) the other governance and organizational changes described in this Article 3;

(d) the articles of incorporation of AHHC shall be amended and restated (the “**Amended AHHC Articles of Incorporation**”) and the bylaws of AHHC shall be amended and restated (the “**Amended AHHC Bylaws**”) to reflect, among other things, (i) the delegation of certain powers, including those relating to fundraising and related back office functions, clinical appointments, medical staff privileging, department chair appointments and physician compensation, to the AHHC Board and (ii) the governance and organizational changes set forth in this Article 3;

(e) the articles of incorporation of NPA shall be amended and restated (the “**Amended NPA Articles of Incorporation**”) and the bylaws of NPA shall be amended and restated (the “**Amended NPA Bylaws**”) to permit it to participate in Advocate Health

Partners, an Illinois not-for-profit corporation doing business as Advocate Physician Partners ("APP" or, when referring to it herein with respect to events or circumstances following the Closing, "ANPP");

(f) the articles of incorporation of APP shall be amended and restated (the "**Amended APP Articles of Incorporation**") and the bylaws of APP shall be amended and restated (the "**Amended APP Bylaws**") to, among other things, (i) permit NPA and physicians affiliated with the NorthShore Corporations to participate in it, (ii) reflect a name change to "Advocate NorthShore Physician Partners" and (iii) provide for the governance structure set forth in Section 3.7;

(g) in addition to the other amendments and restatements set forth in this Section 3.1, the Organizational Documents of each Advocate Corporation shall be amended (i) to provide that, upon dissolution or liquidation thereof, the assets of such Advocate Corporation be distributed as a majority (or, during the Post-Closing Period, at least three-fourths (3/4)) of the members of the ANHP Board may determine and (ii) to conform to the terms set forth in this Agreement; and

(h) in addition to the other amendments and restatements set forth in this Section 3.1, the Organizational Documents of each NorthShore Corporation shall be amended (i) to provide that, upon dissolution or liquidation thereof, the assets of such NorthShore Corporation be distributed as a majority (or, during the Post-Closing Period, at least three-fourths (3/4)) of the members of the ANHP Board may determine and (ii) to conform to the terms set forth in this Agreement.

3.2 Board; Term.

(a) During the Post-Closing Period and unless otherwise approved pursuant to Section 3.6, the ANHP Board shall consist of twelve (12) members who shall be designated and appointed as set forth in Section 3.3 and who shall (i) serve terms of three (3) years with a maximum of three (3) terms and (ii) be seventy (70) years of age or younger at the time such person's term (including any subsequent term) commences; provided, however, the Parties agree that this clause (ii) does not apply to any members of the NorthShore Board as of the Agreement Date or any members of the Advocate Board as of the Agreement Date.

(b) Following the Post-Closing Period, the ANHP Board shall consist of the number of members prescribed by the articles of incorporation and bylaws of ANHP, who shall be designated and appointed as provided in the articles of incorporation and bylaws of ANHP and who shall (i) serve terms of three (3) years with a maximum of three (3) terms and (ii) be seventy (70) years of age or younger at the time such person's term (including any subsequent term) commences; provided, however, the Parties agree that this clause (ii) does not apply to any members of the NorthShore Board as of the Agreement Date or any members of the Advocate Board as of the Agreement Date.

3.3 Designation of Members of ANHP Board.

(a) The members of the ANHP Board immediately following the Closing (the "**Initial ANHP Directors**") shall be designated and appointed as follows:

(i) five (5) (together with the director designated pursuant to clause (iii) below, the “**Initial NorthShore Directors**”) of whom shall be designated by the Board of Directors of NorthShore serving immediately prior to the Closing Date;

(ii) five (5) (together with the director designated pursuant to clause (iv) below, the “**Initial Advocate Directors**”) of whom shall be designated by the Advocate Board of Directors serving immediately prior to the Closing Date (provided that the Initial Advocate Directors shall include one (1) representative from each of the Evangelical Lutheran Church in America and the United Church of Christ);

(iii) one (1) of whom shall be the NorthShore Co-CEO (as defined below) who shall serve on the ANHP Board *ex officio* with a vote; and

(iv) one (1) of whom shall be the Advocate Co-CEO (as defined below) who shall serve on the ANHP Board *ex officio* with a vote.

(b) During the Post-Closing Period, the members of the ANHP Board, including the successors to the Initial ANHP Directors, shall be designated and appointed as follows:

(i) five (5) of whom, including the successors to the Initial NorthShore Directors (all such successors, together with the Initial NorthShore Directors and the director designated pursuant to clause (iii) below, the “**NorthShore Directors**”), shall be designated by the other NorthShore Directors then serving on the ANHP Board;

(ii) five (5) of whom, including the successors to the Initial Advocate Directors (all such successors, together with the Initial Advocate Directors and the director designated pursuant to clause (iv) below, the “**Advocate Directors**”), shall be designated by the other Advocate Directors then serving on the ANHP Board (provided that the Advocate Directors shall include one representative from each of the Evangelical Lutheran Church in America and the United Church of Christ);

(iii) one (1) of whom shall initially be the NorthShore Co-CEO who shall serve on the ANHP Board *ex officio* with a vote and, following the resignation of the NorthShore Co-CEO as a member of the ANHP Board pursuant to Section 3.5(b), such Person as shall be designated and appointed by the NorthShore Directors then serving on the ANHP Board; and

(iv) one (1) of whom shall be the Advocate Co-CEO or, following the resignation of the NorthShore Co-CEO, the Chief Executive Officer of ANHP who shall serve on the ANHP Board *ex officio* with a vote.

(c) Following the Post-Closing Period, the ANHP Board shall be self-perpetuating.

3.4 Chairperson and Vice-Chairperson of ANHP Board.

(a) During the Post-Closing Period, there shall exist a chairperson and a vice-chairperson of the ANHP Board, who shall be designated and appointed as follows:

(i) for the period from the Closing Date to the date that is three (3) years following the Closing Date, (A) the chairperson of the ANHP Board shall be designated and appointed by the Advocate Directors and (B) the vice-chairperson of the ANHP Board shall be designated and appointed by the NorthShore Directors; and

(ii) for the period from the date that is three (3) years following the Closing Date to the last day of the Post-Closing Period, (A) the chairperson of the ANHP Board shall be designated and appointed by the NorthShore Directors and (B) the vice-chairperson of the ANHP Board shall be designated and appointed by the Advocate Directors.

(b) Following the Post-Closing Period, the ANHP Board shall determine the manner for selecting a chairperson and vice-chairperson of the ANHP Board.

3.5 Co-CEOs; Senior Management.

(a) For the period from the Closing Date to the date that is two (2) years following the Closing Date, the senior management of ANHP shall be led by Co-Chief Executive Officers (each, a "Co-CEO" and together, the "Co-CEOs"), one of whom shall be referred to herein as the "Advocate Co-CEO" and one of whom shall be referred to herein as the "NorthShore Co-CEO." Effective immediately following the Closing, the Advocate Co-CEO shall be Mr. James Skogsbergh (or, if Mr. Skogsbergh is unable or unwilling to serve as Co-CEO as of the Closing, such Person as is designated by the majority of the Advocate Directors and reasonably acceptable to the majority of the NorthShore Directors) and the NorthShore Co-CEO shall be Mr. Mark Neaman (or, if Mr. Neaman is unable or unwilling to serve as Co-CEO as of the Closing, such Person as is designated by the majority of the NorthShore Directors and reasonably acceptable to the majority of the Advocate Directors). Mr. Skogsbergh's successor as Advocate Co-CEO, if necessary, shall be selected by a majority of the Advocate Directors and Mr. Neaman's successor as NorthShore Co-CEO, if necessary, shall be designated in writing by Mr. Neaman, provided, however, that any successor (other than Gerald P. Gallagher) so selected shall be subject to the reasonable approval of a collective majority of (i) a majority of the NorthShore Directors (other than Mr. Neaman if he is then a member) and (ii) the Advocate Co-CEO. For the avoidance of doubt, each Co-CEO shall also maintain his position as President and Chief Executive Officer of his respective System following the Closing.

(b) Effective as of the date that is two (2) years following the Closing Date:

(i) Mr. Neaman or, if applicable, his successor will resign as Co-CEO of ANHP, President and Chief Executive Officer of NorthShore and a NorthShore Director, in each case, subject and pursuant to the terms and conditions of any agreement between Mr. Neaman or, if applicable, his successor, on the one hand, and ANHP or NorthShore, on the other hand; and

(ii) Mr. Skogsbergh or, if applicable, his successor shall assume the role of sole Chief Executive Officer of ANHP subject and pursuant to the terms and conditions of any agreement between Mr. Skogsbergh or, if applicable, his successor and ANHP.

(c) The senior management of ANHP shall be structured immediately following the Closing as set forth in the organizational chart agreed to by the Co-CEOs prior to the Agreement Date, unless otherwise approved by the ANHP Board.

(d) During the Post-Closing Period, neither Co-CEO, nor, following the date that is two (2) years following the Closing Date, the ANHP CEO may be removed as Co-CEO or CEO of ANHP, as applicable, without the approval of at least three-fourths (3/4) of the members of the ANHP Board.

3.6 Special Consent and Approval Rights.

(a) During the Post-Closing Period,

(i) each of the following actions shall require the approval of at least three-fourths (3/4) of the members of the ANHP Board; provided however, if at any time there are more than twelve (12) members of the ANHP Board, then each of the following actions also shall require the approval of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand:

(A) amendment or restatement of the Amended Advocate Articles or the Amended Advocate Bylaws;

(B) the granting of a blocking, approval or other right to any Person with respect to any actions of any NorthShore Corporation or Advocate Corporation;

(C) except as contemplated in the Amended NorthShore Articles, the Amended NorthShore Bylaws, the Amended AHHC Articles, the Amended AHHC Bylaws or in this Agreement, the delegation to or reservation for the board of directors, committee of the board of directors or similar governing body of any System Corporation other than ANHP of any power or authority;

(D) amendment or restatement of the Amended APP Articles of Incorporation or the Amended APP Bylaws; and

(E) any dissolution or liquidation of ANHP, any NorthShore Corporation or any Advocate Corporation and the distribution of the assets thereof upon such dissolution or liquidation; provided, however, it is the Parties intent as of the Agreement Date that the final distribution of the assets of the NorthShore Corporations, on the one hand, and the assets of the Advocate Corporations, on the other hand, be made as closely as is reasonably practicable to the distribution that would have occurred pursuant to the Organizational Documents of each entity as in effect immediately prior to the Closing;

(ii) any change in the number of members of the ANHP Board shall require the approval of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand;

(iii) each of the following actions shall require the approval of at least three-fourths (3/4) of the members of the ANHP Board; provided however, if at any time there are more than twelve (12) members of the ANHP Board, then each of the following actions shall also require the approval of at least a majority of the NorthShore Directors:

(A) amendment or restatement of any of the following:

- (1) the Amended NorthShore Articles;
- (2) the Amended NorthShore Bylaws;
- (3) the Amended NPA Articles of Incorporation;
- (4) the Amended NPA Bylaws; and
- (5) the Organizational Documents of any of the other NorthShore Corporations;

(B) any amendment, restatement or termination of, or other material alteration in the relationship with the counterparty to, any of the following agreements:

(1) that certain Standard License and Support Agreement, dated August 8, 2001, as amended or modified from time to time, between NorthShore and Epic System Corporation;

(2) that certain Master Affiliation Agreement, dated July 16, 2008, as amended or modified from time to time, among NorthShore, the University of Chicago and the University of Chicago Medical Center,

(3) that certain Sub-Agreement, dated April 14, 2009, as amended or modified from time to time, among NorthShore, the University of Chicago and the University of Chicago Medical Center; and

(4) that certain Member Provider Group Agreement, dated July 27, 2012, as amended or modified from time to time, between NorthShore and Mayo Foundation for Medical Education and Research;

(C) any NorthShore Corporation being required to participate in any faith-based initiative of any Advocate Corporation or otherwise;

(D) the discontinuance of the "NorthShore" name with respect to the businesses, facilities and services of ANHP;

(E) any acquisition by a NorthShore Corporation that requires the granting of a seat on the board of directors (or similar governing body) of a NorthShore Corporation to a Person(s) designated by the target of such acquisition; and

(F) any material reduction or other modification to any capital expenditure approved by the NorthShore Board prior to the Agreement Date, including reasonable reductions or modifications intended to support the collective goal of NorthShore and Advocate to create efficiencies and synergies among the two Systems; and

(iv) each of the following actions shall require the approval of at least three-fourths (3/4) of the members of the ANHP Board; provided however, if at any time there are more than twelve (12) members of the ANHP Board, then each of the following actions shall also require the approval of at least a majority of the Advocate Directors:

(A) amendment or restatement of any of the following:

- (1) the Amended AHHC Articles;
- (2) the Amended AHHC Bylaws; and
- (3) the Organizational Documents of any of the other Advocate Corporations;

(B) any amendment, restatement or termination of, or other material alteration in the relationship with the counterparty to, any of the following agreements:

(1) that certain Master Educational Affiliation Agreement, dated July 1, 2012, between the Advocate Obligated Group and the Board of Trustees for the University of Illinois for Undergraduate Medical Education and Graduate Medical Education;

(2) that certain Master Affiliation Agreement, dated May 8, 2011, between the Advocate Obligated Group and Rosalind Franklin University of Medicine and Science, through its Chicago Medical School; and

(3) that certain Master Affiliation Agreement, dated June 20, 2012, between the Advocate Obligated Group and Midwestern University;

(C) any material change to or termination of the Advocate Corporations' relationship with United Church of Christ or the Evangelical Lutheran Church in America;

(D) the discontinuance of the "Advocate" name with respect to the businesses, facilities and services of ANHP;

(E) any material reduction or other modification to any capital expenditure approved by the Advocate Board of Directors prior to the Agreement Date, including reasonable reductions or modifications intended to support the

collective goal of NorthShore and Advocate to create efficiencies and synergies among the two Systems; and

(F) any acquisition by an Advocate Corporation that requires the granting of a seat on the board of directors (or similar governing body) of an Advocate Corporation to a Person(s) designated by the target of such acquisition.

(b) During the period from the Closing Date to the date that is two (2) years from the Closing Date, the discontinuance of the "NorthShore" name with respect to the businesses, facilities and services of any of the NorthShore Corporations shall require the approval of at least a majority of the NorthShore Directors.

3.7 ANPP Governance. During the Post-Closing Period,

(a) one (1) physician nominated by NPA shall serve as a PHO Director of the ANPP Board;

(b) one (1) representative nominated by the NorthShore Board shall serve as a "System Director" on the ANPP Board;

(c) one (1) physician executive nominated by FPA shall serve as a "System Director" on the ANPP Board; and

(d) NPA and FPA shall each designate no less than one (1) physician representative to serve on each of the ANPP consolidated finance, quality improvement, credentialing, and utilization management committees.

3.8 Other Subsidiaries. During the Post-Closing Period, except as otherwise set forth in this Agreement or expressly reserved in the applicable Organizational Documents, ANHP will exercise all powers currently exercised by NorthShore or Advocate with respect to the NorthShore Corporations and the Advocate Corporations, respectively. The Parties shall use all commercially reasonable efforts to cause the Organizational Documents of each of their respective System Corporations to be amended effective as of the Closing to reflect or otherwise provide for (i) the reservation of power to ANHP described in the preceding sentence and (ii) the organizational structure contemplated by this Agreement.

ARTICLE 4

POST-CLOSING COVENANTS

4.1 General Commitments, including Commitments to Quality and Patient Safety. Following the Closing, ANHP, NorthShore and AHHC will use reasonable efforts to:

(a) operate all Advocate Corporations and NorthShore Corporations with a single mission and commitment to preserve and improve the health of the individuals, families, and communities they serve;

(b) continue to improve quality of care and patient safety consistent with the current missions of Advocate and NorthShore and with the goal of continuing to provide excellence in patient care and population health management capabilities to patients in the communities they serve;

(c) make health care more affordable by the creation of efficiencies and reduction of costs through the implementation of means such as best clinical practices, use of an integrated EMR platform, and the consolidation of redundant administrative functions;

(d) serve their patient communities through the maintenance of charity care policies and practices that are consistent with the missions of Advocate and NorthShore, as permitted and/or required by Applicable Law;

(e) continue their commitments to their patient communities through academic medical training and excellence and clinical research principally in conjunction with NorthShore's ongoing relationship with the University of Chicago and Advocate's relationships with the University of Illinois at Chicago Health Sciences Center, Rosalind Franklin University and Midwestern University;

(f) create, to the extent feasible, a unified credit structure to (i) permit the necessary flow of financial support between and among the Advocate Corporations and the NorthShore Corporations and (ii) permit ANHP to access the most effective capital structure to benefit ANHP as a whole;

(g) improve quality, safety, and efficiency, reduce costs, transform care delivery by use of data analytics and evidence-based medicine, realign clinical services, and further develop population health management strategies and techniques through Clinical Integration;

(h) incorporate the use of electronic information technology to support the CI Program, including (i) the electronic capability to exchange claims data and medical record information; (ii) the electronic capability to measure and conduct analyses (e.g., ANPP participating providers' clinical performance, clinical outcomes, cost-effectiveness, compliance quality programs, and patient experience); (iii) an electronic data warehouse/patient registry of claims data, EMR data and other appropriate and available data elements; (iv) a disease and wellness registry; (v) an eICU; and (vi) management and support functions for the CI Program;

(i) promote the participation of all ANPP physicians in the eICU program, which is a critical component to the quality and outcomes standards in the CI Program;

(j) cause all hospitals that are part of ANPP to meet hospital-specific clinical integration and quality measures, which are updated annually based on external reporting requirements, improvement opportunity, impact on the population served, efficiency, and overall impact for population health, but which presently include metrics in the following areas: length of stay, readmissions, inpatient core measures composite, emergency department core measures composite, falls, infection control composite, ICU ventilator days,

and patient experience, including both hospital inpatients and the emergency department (as quantified in Press-Ganey Surveys); and

(k) cause all hospitals that are part of ANPP to participate in hospital-specific initiatives in the areas of transfusion safety, high reliability training, and serious safety event rate tracking.

4.2 Charity Care and Other Policies. The Parties will use reasonable efforts to develop, adopt and implement, as of or as soon as practicable following the Closing, each of the following:

(a) standardized charitable assistance policies for patients that (i) reflect material concepts present in the Parties' existing policies; (ii) are designed to best meet the needs of the communities served by ANHP; and (iii) are consistent with industry standards and Applicable Law;

(b) a financial approval policy;

(c) an audit policy; and

(d) such other policies as the Parties shall reasonably agree are necessary or desirable to standardize systems and procedures for all System Corporations.

4.3 Indebtedness. Following the Closing, the Parties will use reasonable efforts, taking into account the terms and conditions of the current indebtedness of the Advocate Corporations and the NorthShore Corporations and the prevailing financial, credit and capital market conditions, to refinance or restructure the existing debt of the Advocate Corporations and the NorthShore Corporations as of or as soon as practicable following the Closing to permit the consolidation of the Advocate Corporations and the NorthShore Corporations into a single obligated group, so that the parties may mutually benefit from more favorable credit terms resulting from the expected combined credit rating of the NorthShore Corporations and the Advocate Corporations.

4.4 Medical Staff Continuity. Neither the Transactions, nor the consummation thereof, shall, without considering anything else, (a) affect, change or require a change to (i) the medical staff privileges held by any member of a medical staff of a NorthShore Corporation or an Advocate Corporation as of the Closing Date; (ii) the bylaws, rules and regulations, or credentialing procedures of the medical staff of any NorthShore Corporation or Advocate Corporation as of the Closing Date; or (iii) any agreement with any physician member of the staff of any NorthShore Corporation or Advocate Corporation, whether as an employee or independent contractor or (b) result in a need for any reapplications for credentials or privileges by members of the medical staff of any NorthShore Corporation or Advocate Corporation as of the Closing Date.

4.5 Physician Matters.

(a) Following the Closing,

(i) subject to Section 4.5(b), the Parties will use reasonable efforts to create a single, unified employed medical group, including by combining Advocate Medical Group and FPA and by establishing consistent standards for physician alignment within the combined Advocate System and NorthShore System; and

(ii) all non-employed physicians affiliated with any NorthShore Corporation or Advocate Corporation will be invited to join the CI Program subject to the terms and conditions of such program and such physicians acknowledging that, as a participant in the CI Program, any incentives available will be based upon actual performance on the CI Program metrics and initiatives and any incentive payments will be made contingent upon the implementation of the CI Program.

(b) During the Post-Closing Period, the non-employed physicians affiliated with the NorthShore Corporations shall have the right to (i) maintain and appoint their own department chairpersons and (ii) appoint at least one physician affiliated with a NorthShore Corporation to each committee that is part of the CI Program.

4.6 ANPP Matters.

(a) Following the Closing,

(i) all ANPP physicians shall have full access to the ANPP organizational infrastructure supporting the CI Program, including a field operations advisor with working knowledge of ANPP systems and programs, a quality improvement nurse to support clinical initiatives, and access to the ANPP call center for information about ANPP and ANPP decision support staff.

(ii) ANPP shall provide a disease/wellness registry and other population health solutions to each of the physicians participating in NPA; and

(iii) ANPP shall make the following Clinical Integration programs and interventions available to ANHP physicians and/or patients as reasonably necessary and appropriate:

(A) collaborative quality improvement sessions;

(B) patient-centered medical home initiative;

(C) EMR implementation and support;

(D) online and interactive disease registries for diabetes, asthma, CAD, childhood immunizations, pediatric wellness, adult wellness, and senior wellness, as well as any other disease registries developed after the Closing Date;

(E) such clinical integration roundtable meetings as ANPP deems necessary and appropriate, acting reasonably, which roundtable meetings will focus on the CI Program metrics and available clinical support or interventions;

(F) such other online and in-person continuing medical education programs as ANPP makes generally available to its participating physicians;

(G) patient outreach programs, including mailing of educational materials and reminders to patients;

(H) pharmacy academic detailing for NorthShore physician offices;

(I) use of the Advocate ambulatory clinical pathways, which currently include:

(1) recommended reference guideline;

(2) clinical practice guideline (a 1-2 page practical summary of key points on the recommended reference guideline);

(3) supported clinical education program development; and

(4) clinical pathways in the areas of depression screening and management, management of hypertension, childhood obesity, asthma management (pediatric and adult), type 2 diabetes, and pediatric wellness; and

(J) such other tools, forms, and programmatic support as ANPP makes available to physicians related to all Clinical Integration registry initiatives to promote evidence-based medicine and patient engagement, including reporting on quality and cost measurement activities.

(b) Upon the later of (i) January 1, 2016 or (ii) the expiration of that certain Management Services Agreement, dated January 1, 2012, between NPA and Valence Health, Inc., ANHP shall use reasonable efforts to transition the infrastructure for all back office services of NPA and FPA to ANPP.

(c) From and after January 1, 2016, ANHP shall use reasonable efforts to cause all non-employed physicians affiliated with either the NorthShore System or the Advocate System to participate in all agreements regarding Clinical Integration to which ANPP is party.

(d) The Parties shall use reasonable efforts to consolidate that certain State of Illinois Contract, dated February 24, 2014, between the Department of HealthCare and Family Services and Community Care Partners, LLC for Care Coordination Services in the Accountable Care Entities Program by an Accountable Care Entity and that certain State of Illinois Contract, dated July 17, 2014, between the Department of HealthCare and Family Services and Advocate Health Partners for Care Coordination Services in the Accountable Care Entities Program.

4.7 Research Institute. Following the Closing, the Parties will use reasonable efforts to promote and continue to support the mission of the NorthShore Research Institute and

to allow all physicians and other professional personnel of the Advocate Corporations and the NorthShore Corporations access to and the ability to participate in the NorthShore Research Institute, which has built a national and international reputation in six areas of research, specifically cancer, cardiovascular, imaging, medical genetics, neuroscience and peri-neonatal.

4.8 Corporate Headquarters. The initial corporate headquarters of ANHP shall be located at 3075 Highland Parkway, Downers Grove, Illinois.

4.9 Donor Restricted Funds. As soon as practicable following the Closing Date and to the extent permitted under Applicable Law, ANHP shall form a single foundation (the "ANHP Foundation") for charitable gifts made thereafter to any of the Advocate Corporations or the NorthShore Corporations, but only if and to the extent consistent with Applicable Law and donor-imposed terms and conditions. All funds received by the ANHP Foundation, the Advocate Charitable Foundation or the NorthShore Foundation shall be held and utilized in accordance with all Applicable Laws and subject to donor-imposed restrictions and conditions. If such restrictions or conditions cannot be complied with, such funds may be redirected with the permission of the donor(s) or modified as permitted by Applicable Law to permit the use by the ANHP Foundation, the Advocate Charitable Foundation or the NorthShore Foundation, as applicable, of the applicable funds. In the event that the applicable foundation cannot use such funds as provided above, then consistent with Applicable Law, the applicable foundation shall return such funds to donors or otherwise dispose of such funds consistent with the terms of such gifts.

4.10 Further Assurances. Each Party shall execute and deliver after the Closing such further certificates, agreements and other documents and take such other actions as the other parties may reasonably request to consummate, implement or evidence the Transactions.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES

As of the date hereof and the Closing Date (except, in each case, for representations and warranties that address matters as of a particular date, in which case as of such date) and except as set forth in such Party's Disclosure Schedule, each of NorthShore and Advocate hereby represents and warrants, on its behalf and on behalf of such Party's System Corporations (it being understood that neither Party is making any representations and warranties with respect to the other Party or the other Party's System Corporations):

5.1 Authority. Such Party and each of its System Corporation has the full capacity, right, power, and authority, without the need for any additional corporate authorization, to execute and deliver, to the extent applicable, this Agreement and each of the other Transaction Documents and to carry out the Transactions. All corporate and other acts or proceedings required to be taken by such Party and each of its System Corporations to authorize the execution, delivery, and performance of this Agreement and each of the other Transaction Documents to which it is a party and the Transactions have been duly and properly taken.

5.2 Validity. Assuming that this Agreement and each other Transaction Document is a valid and binding obligation of each of the other parties hereto and thereto, this Agreement has been, and the other Transaction Documents are or shall be at the time of execution, duly executed and delivered and constitute lawful, valid, and legally binding obligations of such Party and each of its System Corporations, enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, moratorium, insolvency or other similar laws affecting the enforcement of creditors' rights generally and except that the availability of equitable remedies is subject to the discretion of the court before which any Proceeding therefor may be brought.

5.3 No Conflict. Except as set forth in Section 5.3 of such Party's Disclosure Schedule and for compliance with the 2007 Decision and Order issued by the Federal Trade Commission with respect to Advocate, the 2008 Decision and Order issued by the Federal Trade Commission with respect to NorthShore, the HSR Act and the HFSRB, neither the execution of this Agreement or any Transaction Document nor the performance of the Transactions contemplated hereby by such Party or any of its System Corporations:

(a) shall result in the creation of any Encumbrance, other than a Permitted Encumbrance, upon such Party or any of its System Corporations or any of their respective assets or properties or the termination or acceleration of any Indebtedness of such Party or its System Corporations;

(b) is prohibited by, violates or conflicts with any provision of, gives rise to a right of termination or acceleration under, nor constitutes a default under or a breach of (with or without the giving of notice or consent) (i) the Organizational Documents of such Party or any of its System Corporations; (ii) any Material Contract by which such Party, or any of such Party's System Corporations or any of their respective assets are bound; (iii) any material Applicable Law or any Governmental Order applicable to such Party, its System Corporations or any of their respective assets, or (iv) the terms of any Permits held by such Party or such Party's System Corporations necessary to own, lease or operate their properties and assets and carry on their business and operations as now conducted; or

(c) requires such Party or any of its System Corporations to obtain any authorization, consent, exemption, approval or other action of or requires such Party or any of its System Corporations to provide any notice to, or make any filing with, any Governmental Entity under the provisions of any Applicable Law or Governmental Order to which such Party or any of its System Corporations is subject;

except in the case of clauses (a), (b)(ii) and (b)(iv), as would not have a Material Adverse Effect on such Party or such Party's System Corporations.

5.4 Organization; Standing; Power; Capitalization; Governance.

(a) Each of such Party and such Party's System Corporations and the jurisdiction in which it was organized, incorporated or otherwise formed, as applicable, is set forth in Section 5.4(a) of such Party's Disclosure Schedule. Each of such Party and such Party's System Corporations is duly organized, incorporated or otherwise formed, as applicable,

validly existing and in good standing under the laws of its state of organization or incorporation, as applicable. Such Party and each of such Party's System Corporations has all requisite power to own and operate its properties and to carry on its business as now conducted. Such Party and each of such Party's System Corporations is, where applicable, duly qualified to do business and is, where applicable, in good standing in every jurisdiction in which its ownership of property or the conduct or nature of its business as now conducted requires it to qualify, except, in each case, where the failure to be so qualified or in good standing would not reasonably be expected to have a Material Adverse Effect on such Party and its System Corporations.

(b) Such Party has made available to the other Party true, correct and complete copies of the Organizational Documents as currently in effect, of each of such Party's System Corporations set forth on Schedule 5.4(b). Neither such Party nor any of such Party's System Corporations is in material default under or in material violation of any provision of its Organizational Documents.

(c) Except as set forth in Section 5.4(c) of such Party's Disclosure Schedule, (i) all of the issued and outstanding equity, if any, of each of such Party's System Corporations is owned or otherwise held by another of such Party's System Corporations and (ii) no other Person has a right pursuant to Organizational Documents, contract or otherwise to vote equity held by, designate a member of the board of directors or similar governing body of or approve or block a corporate action to be taken by such Party or any of such Party's System Corporations. Except as set forth in Section 5.4(c) of such Party's Disclosure Schedule, neither such Party nor any of its System Corporations owns or otherwise holds any capital stock or other securities of any other Person other than the equity interests of such Party's System Corporations and capital stock or other securities held for the primary purpose of investment. There are no outstanding options, warrants or other similar rights to acquire from such Party or any of such Party's System Corporations, or any other obligations of such Party or any of such Party's System Corporations to issue, any shares of capital stock or other equity ownership interests or securities convertible into or exchangeable for shares of capital stock or other equity ownership interests of such Party or any of such Party's System Corporations. There are no outstanding stock appreciation rights, phantom stock rights or other similar rights with respect to such Party or any of such Party's System Corporations. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock or other equity ownership interests of such Party or such Party's System Corporations.

5.5 Non-Exclusion. Such Party, directly or through its System Corporations, has a program in place to determine prior to employment or engagement (as applicable) and thereafter on a regular basis whether any of its clinical staff is (a) excluded from participating in any Federal Health Care Program; (b) to such Party's Knowledge, subject to sanction or been indicted or convicted of a crime, or pled nolo contendere or to sufficient facts, in connection with any allegation of violation of any Federal Health Care Program requirement or any Applicable Law related to the provision of health care; (c) debarred or suspended from any federal or state procurement or non-procurement program by any Governmental Entity; or (d) designated a "Specially Designated National" or a "Blocked Person" by the Office of Foreign Asset Control of the U.S. Department of Treasury.

5.6 Financial Statements.

(a) NorthShore hereby represents and warrants that it has separately disclosed to Advocate true, correct and complete copies of its audited consolidated financial statements as of and for the years ended September 30, 2012 and 2013, and Advocate hereby represents and warrants that it has separately disclosed to NorthShore true, correct and complete copies of its audited consolidated financial statements as of and for the years ended December 31, 2012 and 2013 (collectively, the “**Audited Financial Statements**”). NorthShore hereby represents and warrants that it has separately disclosed to Advocate true, correct and complete copies of its unaudited financial statements as of and for the calendar quarter ending June 30, 2014, and Advocate hereby represents and warrants that it has separately disclosed to NorthShore true, correct and complete copies of its unaudited financial statements as of and for the calendar quarter ending June 30, 2014 (collectively, the “**Unaudited Financial Statements**” and, together with the Audited Financial Statements, the “**Financial Statements**”).

(b) Such Party’s Financial Statements: (i) have been prepared based upon the information contained in books and records of such Party and such Party’s System Corporations, (ii) present fairly in all material respects the financial position, assets and liabilities and results of operation of such Party and its System Corporations (taken as a whole) as of the date and for the periods referred to therein; and (iii) have been prepared in accordance with GAAP on a basis consistent with past practice of such Party (subject, in the case of the Unaudited Financial Statements, to any normal year-end adjustments, which are not, in the aggregate, material).

(c) To such Party’s Knowledge, there are currently no, and there have not been any, disputes with such Party’s auditors over the reporting or presentation of information in the Financial Statements of such Party or a material item noted in a letter to management with respect to such Financial Statements.

5.7 Accounting Records; Internal Controls. Each of such Party and such Party’s System Corporations maintains and complies in all material respects with a system of internal accounting controls sufficient to provide assurances that (a) transactions are executed with management’s general or specific authorization; (b) transactions are recorded as necessary to permit preparation of such Party’s financial statements and to maintain accountability for items therein; (c) access to assets is permitted and liabilities incurred only in accordance with management’s general or specific authorization; and (d) the reporting of such items is compared with actual levels at regular intervals. To such Party’s Knowledge, the data processing equipment, data transmission equipment, related peripheral equipment and software used by such Party and its System Corporations (including any disaster recovery facility) to generate and receive accounting and patient records are adequate to operate in all material respects the System Corporations after the Closing as historically operated.

5.8 Interim Changes. Except as contemplated by this Agreement and except as separately disclosed to the other Party, since the date of the balance sheet contained in such Party’s Unaudited Financial Statements, there has not been, occurred or arisen, other than in the ordinary course of business and consistent with past practice, any of the following:

(a) any Material Adverse Effect in, relating to, or affecting the condition, assets, personnel, properties, liabilities or business of such Party or such Party's System Corporations;

(b) any loan, advance, agreement, arrangement or transaction between such Party or any of its System Corporations, on the one hand, and any employee thereof or any Person in which such Party, its Affiliates, or an employee of either has any direct or indirect interest, on the other hand;

(c) any grant, incurrence, discharge or satisfaction of any Encumbrance affecting or relating to any material asset of such Party or such Party's System Corporations;

(d) any material change by such Party or any of its System Corporations in accounting methods, principles, or practices or any change in depreciation or amortization policies or rates therefore adopted by it;

(e) any payment or commitment by such Party or any of its System Corporations to pay any bonus, severance, pension, profit sharing, incentive, retention, termination or special compensation of any kind to any of its officers, directors, consultants, agents, or employees in excess of five percent (5%) per annum for any individual;

(f) any purchase, sale, transfer, abandonment or other disposition of material assets by such Party or any of its System Corporations;

(g) any merger or consolidation of or by such Party or any of its System Corporations with any other Person, or any acquisition by it of all or any part of the stock, membership or partnership interests or the business or assets, of any other Person;

(h) any material change in the annual reports or actuarial reports of any of such Party's or any of such Party's System Corporation's Employee Benefit Plans; or

(i) any understanding with respect to any commitment (contingent or otherwise) to do any of the foregoing.

5.9 Tax Exempt Matters.

Except as separately disclosed to the other Party:

(a) Other than such Party's NFPs, none of such Party's System Corporations are exempt from federal income taxation under Section 501(a) of the Code or public charities or private foundations as defined in Section 509(a) of the Code.

(b) Each of such Party's NFPs is exempt from federal income taxation under Section 501(c)(3) of the Code (or Section 501(c)(2) or 501(c)(25) of the Code) and from Taxes imposed by the State of Illinois and its political subdivisions under the Applicable Laws of Illinois. Each of such Party's NFPs (i) has received a determination letter from the IRS that it is an organization described in Section 501(c)(3) of the Code which is a public charity and

not a private foundation or (ii) is included in a group exemption letter from the IRS recognizing on a group basis exemption under Section 501(c) of the Code.

(c) None of such Party's NFPs has had its federal, state or local tax-exempt status revoked, or, to such Party's Knowledge, proposed to be revoked by any Governmental Entity. To such Party's Knowledge, none of such Party's NFPs is under investigation by any Governmental Entity regarding its exemption from federal income taxation under Section 501(c)(3) of the Code or its exemption from Taxes imposed by the State of Illinois under the Applicable Laws of Illinois. No NFP of such Party has taken or omitted to take any action which could reasonably be expected to jeopardize its tax exempt status.

(d) Each partnership or other joint venture arrangement between any of such Party's NFPs, on the one hand, and any Person other than a tax-exempt organization described in Section 501(c)(3) of the Code, on the other hand, complies in all material respects with applicable guidelines and interpretive authorities of the IRS.

(e) The contract review, conflict of interest and similar policies of each of such Party's NFPs are established and followed so as to be reasonably expected to fully comply with the applicable guidelines and interpretative authorities of the IRS or other applicable Governmental Entity and the conflict of interest policies of each of such Party's NFPs are substantially in compliance with the form prescribed by the IRS.

(f) Each of such Party's NFPs has satisfied the applicable requirements to be entitled to a full exemption from property tax and sales tax in the State of Illinois.

(g) Such Party and each of such Party's System Corporations have complied in all material respects with all tax covenants and representations set forth in any agreement, certificate or other document related to the outstanding tax-exempt debt of such Party or such Party's System Corporation. Without limiting the generality of the foregoing, each lease, management contract or other agreement for private use of bond-finance property to which such Party or any of such Party's System Corporations is party complies with such bond documents and the applicable guidelines and IRS Revenue Procedure 97-13, 1997-1 C.B. 632.

5.10 Insurance. Each Party's System Corporations maintain Insurance sufficient in all material respects to insure them against risks, losses and liabilities that similarly-situated health care companies customarily insure against. To such Party's Knowledge, (a) all Insurance of such Party and its System Corporations has been issued under legal, valid and enforceable policies or binders, (b) all such policies or binders are in full force and effect, (c) neither such Party nor any of such Party's System Corporations is in default with respect to its payment obligations under any such policies or binders and (d) no notice of cancellation or termination has been received with respect to any such policy or binder.

5.11 Properties.

(a) Such Party has separately disclosed to the other Party an accurate, correct and complete list of all real party owned by such Party or one or more of such Party's System

Corporations ("**Owned Real Property**"), including a street address, total square feet and current use of any and all buildings located thereon.

(b) Such Party or one of such Party's System Corporation is the sole legal and equitable owner of all right, title, and interest in and has good, marketable, and insurable title in fee simple absolute to, and, other than any leasehold interest therein, is in possession of, all Owned Real Property including the buildings, structures, sidetracks, and improvements situated thereon and appurtenances thereto, in each case free and clear of all Encumbrances except for Permitted Encumbrances.

(c) To such Party's Knowledge, the Owned Real Property is in compliance with all applicable zoning, building, health, fire, water, use, and similar statutes, codes, ordinances, laws, rules and regulations, except as would not prohibit such Party and such Party's System Corporation's from using such property for its intended purpose. To such Party's Knowledge, the zoning of each parcel of Owned Real Property permits the existing improvements. To such Party's Knowledge, the members of its System Corporation have all material licenses, certificates of occupancy, permits, and authorizations required to utilize the Owned Real Property. To such Party's Knowledge, the members of its System Corporation have all necessary easements and rights including easements for all utilities, services, roadway, railway, and other means of ingress and egress.

(d) To such Party's Knowledge, all buildings, structures, improvements, fixtures, facilities, equipment, and all components of all buildings, structures, and other improvements included within the Owned Real Property, including the roofs and structural elements thereof and the heating, ventilation, air conditioning, plumbing, electrical, mechanical, sewer, waste water, storm water, paving and parking equipment, systems and facilities included therein, are in good operating condition and repair, subject to normal wear and maintenance and other immaterial issues and are usable in the regular and ordinary course of business, and no material maintenance, repair, or replacement thereof has been deferred the cost of which would exceed One Hundred Million Dollars (\$100,000,000) for any single occurrence for NorthShore and Two Hundred Fifty Million Dollars (\$250,000,000) for any single occurrence for Advocate.

(e) Except as would not have a Material Adverse Effect on such Party or such Party's System Corporation, (i) such Party and such Party's System Corporations have good and valid title to all of the tangible personal property shown to be owned by them on the balance sheet contained in such Party's Unaudited Financial Statements (except for such personal property sold or disposed of subsequent to the date thereof in the ordinary course of business and not in violation of this Agreement), free and clear of all Encumbrances, except for Permitted Encumbrances and (ii) such Party and such Party's System Corporation have title to, or a leasehold interest in, all material assets necessary to conduct the business of such Party and such Party's System Corporations substantially as currently conducted.

5.12 Permits. Each hospital operated by such Party or any of its System Corporations holds a valid and unrestricted hospital license issued by the Illinois Department of Health. Such Party and each of such Party's System Corporations holds all other Permits, the nonpossession of or noncompliance with which could reasonably be expected to result in a Material Adverse

Effect, and, to such Party's Knowledge, all other Permits as are necessary or appropriate to operate in all material respects its business as currently operated, each of such Permits is valid and in full force and effect, such Party and each of such Party's System Corporations is in compliance in all material respects with each such Permit owned or possessed by such System Corporation, and there is no pending or threatened Proceeding that is reasonably likely to result in the termination, revocation, limitation, or impairment of any such Permit.

5.13 Material Contracts.

(a) Section 5.13(a) of such Party's Disclosure Schedule lists all of those Material Contracts with an asterisk (*) next to them in the definition of Material Contracts (such Material Contracts so disclosed or required to be so disclosed, the "**Disclosed Material Contracts**") to which such Party or any of such Party's System Corporations is a party or by which it is bound as of the Agreement Date. Such Party has made available to the other Party (or an advisor designated by the other Party) a complete copy of each Disclosed Material Contract.

(b) Neither such Party nor any of such Party's System Corporations is in breach, violation or default of or under any term or provision of any Material Contract to which it is party or by which it is bound that has had, or could reasonably be expected to result in a Material Adverse Effect to such Party or such Party's System Corporations. All Material Contracts to which such Party or any of such Party's System Corporations is a party or by which it is bound are legally valid and binding in accordance with their terms and in full force and effect against such Party and such Party's System Corporations, as applicable, and, to the Knowledge of such Party, the other parties thereto, except, in each case, as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws and equitable principles relating to or limiting creditor's rights generally. Such Party and such Party's System Corporations, as applicable, have duly performed all obligations under each Material Contract to the extent that such obligations to perform have accrued and no breach or default, or alleged breach or default, or event which would (with notice, the passage of time, or both) constitute a breach or default of any Material Contract by such System Corporation, or, to the knowledge of such Party, any other party or obligor with respect thereto, has occurred, except, in each case, for such breaches that would not reasonably be expected to result in a Material Adverse Effect to such Party or such Party's System Corporations.

5.14 Taxes.

(a) Such Party and each of such Party's System Corporations have filed with the appropriate taxing authorities all returns (including information returns and other material information) in respect of Taxes required to be filed through the Agreement Date. All such returns were true, correct and complete in all material respects. All Taxes due prior to the Agreement Date have been timely paid or reserved for on such Party's financial statements. To such Party's Knowledge, its System Corporations do not have any material liability for Taxes in excess of the amounts so paid, or to be so paid. There are no Encumbrances for Taxes (other than for current Taxes not yet due and payable) on the assets of such Party or any of such Party's System Corporations.

(b) Such Party and each of such Party's System Corporations have timely and properly withheld (i) all required amounts from payments to its employees, agents, contractors, nonresidents, shareholders, lenders, and other Persons and (ii) all sales, use, ad valorem, and value added Taxes. Such Party and each of such Party's System Corporations timely remitted all withheld Taxes to the proper Governmental Entity in accordance with all Applicable Laws.

(c) Except as separately disclosed to the other Party, no Tax return (including information reporting returns) filed by such Party or any of such Party's System Corporations has been audited by the IRS or other applicable Governmental Entity in the past six (6) years. No audits or other Proceedings are in progress, pending, or, to such Party's Knowledge, threatened with regard to any Taxes or Tax returns of such Party or any of such Party's System Corporations. Neither such Party nor any of such Party's System Corporations has received in the past six (6) years a notice from any Governmental Entity that such Party or any of such Party's System Corporation is required to pay Taxes or file returns in a jurisdiction in which such Party or such Party's System Corporation, as applicable, does not file returns or pay Taxes.

(d) Neither such Party nor any of such Party's System Corporations has a request for a private letter ruling, a request for administrative relief, a request for technical advice, a request for a change of any method of accounting, or any other request that is pending with the IRS or any other Governmental Entity that relates to the Taxes or Tax returns of such Party or such Party's System Corporation, as applicable.

(e) Neither such Party nor any of such Party's System Corporations has engaged in any transaction that could affect the income Tax liability for any taxable year not closed by the applicable statute of limitations (i) which is a "reportable transaction" (ii) which is a "listed transaction" or (iii) a "significant purpose of which is the avoidance or evasion of United States federal income tax" within the meanings of Code Sections 6662, 6662A, 6011, 6012, 6111, or 6707A or Treasury Regulations promulgated thereunder or pursuant to notices or other guidance published by the IRS (irrespective of the effective dates).

5.15 Litigation. Except as separately disclosed to the other Party, (a) there is no Proceeding pending or, to such Party's Knowledge, threatened against any of such Party's System Corporations by or before any Governmental Entity that could reasonably be expected to, if resolved adversely to such Party or any of its System Corporations, result in aggregate Liabilities of such Party and such Party's System Corporations equal to or greater than One Hundred Million Dollars (\$100,000,000) with respect to NorthShore or Two Hundred Fifty Million Dollars (\$250,000,000) with respect to Advocate, otherwise result in a Material Adverse Effect with respect to such Party and its System Corporations or adversely affect such Party's ability to perform in any material respect its obligations under this Agreement and (b) neither such Party nor any of its System Corporations is subject to any outstanding Governmental Order with respect to which such Party or any of its System Corporations has any future obligations and, a default or breach thereof, could reasonably be expected to result in aggregate Liabilities of such Party and such Party's System Corporations equal to or greater than One Hundred Million Dollars (\$100,000,000) with respect to NorthShore or Two Hundred Fifty Million Dollars (\$250,000,000) with respect to Advocate, otherwise result in a Material Adverse Effect with

respect to such Party and its System Corporations or adversely affect such Party's ability to perform in any material respect its obligations under this Agreement.

5.16 Compliance with Law. Except as separately disclosed to the other Party, such Party and each of such Party's System Corporations is and, has been during the past six (6) years, in compliance with all Applicable Laws, including all applicable Healthcare Laws, and Governmental Orders applicable to such Party and each such Party's System Corporations, as applicable, except for such instances of noncompliance which have not resulted, or could not reasonably be expected to result, in aggregate Liabilities of such Party and such Party's System Corporations equal to or greater than One Hundred Million Dollars (\$100,000,000) with respect to NorthShore or Two Hundred Fifty Million Dollars (\$250,000,000) with respect to Advocate or a Material Adverse Effect with respect to such Party and its System Corporations. Except as set forth in Section 5.16 of such Party's Disclosure Schedule, to the Knowledge of such Party, neither such Party nor any of such Party's System Corporations has received any written notice that such Party or its System Corporations are not in compliance with any Applicable Law, except for such instances of noncompliance which have not resulted, or could not reasonably be expected to result, in aggregate Liabilities of such Party and such Party's System Corporations equal to or greater than One Hundred Million Dollars (\$100,000,000) with respect to NorthShore or Two Hundred Fifty Million Dollars (\$250,000,000) with respect to Advocate or a Material Adverse Effect with respect to such Party and its System Corporations.

5.17 Payers

(a) As necessary, such Party and each of its System Corporations (i) is qualified for participation in the Medicare and Medicaid programs, (ii) has current and valid provider and supplier agreements with the Medicare and Medicaid programs for the services and items that it provides, (iii) is in compliance with the conditions of participation in such programs in all material respects, and (iv) has received all approvals or qualifications necessary for it to participate in such programs. There is no pending or, to such Party's Knowledge, threatened Proceeding under any Federal Health Care Program involving such Party or any of its System Corporations. Neither such Party nor any of its System Corporations has received any written notice or notices of any dispute with any Governmental Entity, any Medicare Administrative Contractor ("MAC"), Durable Medical Equipment Medicare Administrative Contractor ("DME MAC"), Recovery Audit Contractor ("RAC"), Zone Program Integrity Contractor ("ZPIC"), or any other Person regarding any payments for services or items provided to beneficiaries of Federal Health Care Programs that involve amounts in excess of Twenty-five Million Dollars (\$25,000,000) in the aggregate, other than with respect to adjustments thereto made in the ordinary course of business or in regard to disputes that are being contested by such Party or one of its System Corporations in good faith and by appropriate proceedings. To such Party's Knowledge, neither such Party nor any of its System Corporations is currently subject to any outstanding reimbursement or billing audit by any Governmental Entity, MAC, DME MAC, RAC, or ZPIC other than routine reimbursement or billing audits in the ordinary course.

(b) (i) All billing practices of such Party and each of its System Corporations with respect to all third party payors, including Federal Health Care Programs and private insurance companies, have been in compliance in all material respects with all Applicable

Laws, including all Healthcare Laws, and conditions of participation, contracts, policies, manuals, policies, rules, standards, procedures and requirements of such Federal Health Care Programs and other third party payors, and (ii) neither such Party nor any of its System Corporations has billed or received any payment or reimbursement in excess of amounts allowed by Applicable Law, including Healthcare Laws or received an overpayment that has not been returned within sixty (60) days of such System Corporation becoming aware of such excess or overpayment. Such Party and each of its System Corporations providing health care services or items has used and uses its commercially reasonable efforts to collect all copayments, deductibles, and coinsurance amounts as required to be paid by and collected from beneficiaries of any Federal Health Care Program or other third party payor, except where such Party or its applicable System Corporation's policies in accordance with Applicable Law permit the waiver of such collection, or where explicit permission to waive such collection has been obtained in writing from the applicable Federal Health Care Program or other third party payor.

(c) All (i) claims for reimbursement for services rendered or items sold or supplied by such Party and each of its System Corporations have been prepared and filed with the applicable Governmental Entity or other third party payor in accordance, in all material respects, with all Applicable Laws, rules, regulations policies and procedures pertaining to the applicable Federal Healthcare Program or other third party payor, and (ii) such claims have been prepared in an accurate and complete manner and have been timely submitted to the appropriate Federal Healthcare Program or other third party payor. Such Party and each of its System Corporations has paid or made provision to re-pay through proper recordation of any net liability any identified overpayments received from any Federal Healthcare Program or other third party payor, and, neither such Party nor any of its System Corporations has received reimbursement in excess of amounts provided or permitted by Applicable Law, including Healthcare Law, or third party payor contract that has not been returned to such payor in accordance with Applicable Law or such Party's or such System Corporation's contract with the third party payor. To such Party's Knowledge, there are no material irregularities nor are there any reasonable grounds to anticipate the commencement of any investigation or inquiry or other Proceeding, or the assertion of any claim or demand by any Governmental Entity, Federal Healthcare Program or other third party payor related to any activity, practice or policy of such Party or any of its System Corporations, any claim for payment or reimbursement made by such Party or such Party or any of its System Corporations, or any practice or reimbursement received by such Party or any of its System Corporations.

5.18 Accreditation. With respect to such Party's and each of its System Corporation's current accreditations by various organizations (the "Accreditations"): (a) each hospital operated by such Party or one of its System Corporations is accredited by The Joint Commission or DNV Healthcare, Inc.; (b) such Party's and each of its System Corporation's Accreditations have been duly obtained, are held by the respective System Corporations, are current and valid, and are in full force and effect; (c) to the Knowledge of such Party, no event has occurred or other fact exists with respect to such Party's or any of its System Corporation's Accreditations that allows, or after notice or lapse of time or both would allow, revocation, suspension, restriction, limitation or termination of any of such Party's or any of its System Corporation's Accreditations or would result in any other impairment of the rights of the holder of any such

Party's or any of its System Corporation's Accreditations that, individually or in the aggregate, could reasonably be likely to result in a Material Adverse Effect, and (d) no notice or threatened notice from any accreditation organization with respect to the revocation, suspension, restriction, limitation or termination of any of such Party's or any of its System Corporation's Accreditations has been issued, received, or, to the Knowledge of such Party, proposed or threatened.

5.19 Employee Benefit Plans.

(a) Such Party has separately disclosed to the other Party a complete and accurate list of all Employee Benefit Plans that such Party, any of such Party's System Corporations or any of their respective ERISA Affiliate maintains, sponsors, is a party to, participates in, has a commitment to create or to which such Party, any of such Party's System Corporations or any of their respective ERISA Affiliates contributes or has or has had any obligation to contribute.

(b) Except as set forth in Section 5.19(b) of such Party's Disclosure Schedule, none of the Employee Benefit Plans of such Party or any of such Party's System Corporations is a "multiemployer plan," as defined in Section 4001(a)(3) of ERISA, and none of such Party, any of its System Corporations nor any of their respective ERISA Affiliates presently contributes to, has contributed to, or has any Liability with respect to a multiemployer plan.

(c) Each of such Party's and each of such Party's System Corporation's Employee Benefit Plans that is intended to be qualified under Section 401(a) of the Code is the subject of a favorable letter of determination or opinion letter from the IRS regarding the qualified status of such plan and the tax-exempt status of any trust which forms a part of such plan under Section 501(a) of the Code, and no event has occurred which will or could result in the revocation of such determination letter or the tax qualified status of such plan. All required reports (including Form 5500 Annual Reports) have been timely filed and summary plan descriptions, summaries of material modifications and summary annual reports have been distributed to participants with respect to each of such Party's and each of such Party's System Corporation's applicable Employee Benefit Plan in accordance with Applicable Law. All contributions or other payments (including all employer contributions and employee salary reduction contributions) have been timely paid to each such Employee Benefit Plan.

(d) All of the Employee Benefit Plans of such Party and each of such Party's System Corporations comply with and have been administered in form and in operation in all material respects in accordance with their terms and all Applicable Laws, including ERISA and the Code, and to such Party's Knowledge, no event has occurred which will or could cause any of such Employee Benefit Plans to fail to comply with such requirements and no notice has been issued by any Governmental Entity questioning or challenging such compliance.

(e) There have been no "prohibited transactions" as defined in Section 4975 of the Code or Section 406 of ERISA with respect to any Employee Benefit Plans of such Party or any of such Party's System Corporations. Neither such Party nor any of such Party's System Corporations has received any notice that any Employee Benefit Plan of such Party or any of such Party's System Corporations is currently under governmental investigation or audit,

and, to such Party's Knowledge, no such investigation or audit is threatened. To such Party's Knowledge, no fiduciary of any Employee Benefit Plans of such Party or any of such Party's System Corporations has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such Employee Benefit Plan.

(f) Except as set forth in Section 5.19(f) of such Party's Disclosure Schedule, no Employee Benefit Plans of such Party or any of such Party's System Corporations is subject to Title IV of ERISA and neither such Party nor any of such Party's System Corporations contributes to a plan that is subject to Title IV of ERISA or has been obligated to contribute to such a plan within the last six (6) years.

(g) Except as separately disclosed to the other Party, none of such Party, any of such Party's System Corporation or any of their respective ERISA Affiliates has any liability or contingent liability for providing, under any Employee Benefit Plans of such Party or any of such Party's System Corporations or otherwise, any post-retirement continuing medical or life insurance benefits, other than statutory liability for providing group health plan continuation coverage under Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code or applicable state law.

(h) Except as set forth in Section 5.19(h) of such Party's Disclosure Schedule, there are no actions, suits or claims (other than routine claims for benefits) pending or, to such Party's Knowledge, threatened involving any Employee Benefit Plans of such Party or any of such Party's System Corporations or the assets thereof and no facts exist that could give rise to any such actions, suits or claims (other than routine claims for benefits). Except as set forth in Section 5.19(h) of such Party's Disclosure Schedule, there have been no acts or, to such Party's Knowledge omissions that would impair the ability of such Party or such Party's System Corporation (or any successor thereto) to unilaterally amend or terminate any of their Employee Benefit Plans.

5.20 Employees and Employee Relations. With respect to such Party and each of such Party's System Corporations, (a) there is no pending or, to the Knowledge of such Party, threatened in writing employee strike, work stoppage, material slowdown or other collective bargaining dispute; (b) to such Party's Knowledge, no demand has been made for recognition by a labor organization by or with respect to any employees of such Party or such Party's System Corporations and no union organizing activities by or with respect to any employees of such Party or such Party's System Corporations is taking place; (c) except as set forth in Section 5.20(c) of such Party's Disclosure Schedule, none of the employees of such Party or such Party's System Corporations is represented by any labor union or organization; (d) except as set forth in Section 5.20(d) of such Party's Disclosure Schedule, neither such Party nor any of its System Corporations is party to or currently negotiating any collective bargaining agreement and there are not otherwise any labor unions or labor organizations that such Party or any of such Party's System Corporations bargains with as of the Agreement Date; (e) to such Party's Knowledge, such Party and each of its System Corporations are in compliance in all material respects with all Applicable Law respecting employment and employment practices ("**Employment Laws**"), including provisions thereof relating to wages, hours, equal opportunity, fair labor standards, nondiscrimination, workers compensation, collective bargaining and the payment of social

security and other Taxes; and (f) except as separately disclosed to the other Party, there are no pending or, to such Party's Knowledge, threatened Proceedings alleging a breach by such Party or any of such Party's System Corporations of any applicable Employment Laws.

5.21 Intellectual Property; Information Technology; Privacy.

(a) Such Party and each of such Party's System Corporations owns or has the right to use all Intellectual Property used in the conduct of its business (the "**System Intellectual Property**"). All System Intellectual Property owned by such Party or any of such Party's System Corporations is exclusively owned by such Person free and clear of all Encumbrances and, to such Party's Knowledge, is valid and enforceable. Such Party and such Party's System Corporations have each taken commercially reasonable efforts to protect their System Intellectual Property. Such Party and each of such Party's System Corporations is in material compliance with its obligations under the terms of any agreement pursuant to which such Person has rights in any System Intellectual Property, and none of such Party, any of such Party's System Corporations nor, to such Party's Knowledge, any third party is in default under any such agreement. Other than in the ordinary course of business or as set forth in Section 5.21(a) of such Party's Disclosure Schedule and to the Knowledge of such Party, neither such Party nor any of its System Corporations has granted to any third party any exclusive license or right to the commercial use of any of the System Intellectual Property. To such Party's Knowledge, no third party has interfered with, infringed upon, misappropriated, or otherwise violated any System Intellectual Property owned by such Party or any of such Party's System Corporations.

(b) The business of such Party and each of such Party's System Corporations as previously and as presently conducted and prior and current products and services of such Party and each of such Party's System Corporations have not and do not infringe or otherwise violate any Intellectual Property, privacy, or publicity rights of any third party. To such Party's Knowledge, neither such Party nor any of such Party's System Corporations has been named in any pending suit, action or proceeding which involves a claim of infringement or other violation of any Intellectual Property, privacy or publicity rights of any third party.

(c) The Transactions will not have an adverse effect on any material right, title or interest of such Party or any of such Party's System Corporations in and to any System Intellectual Property, and all such System Intellectual Property shall be owned or available for use by such Party or such Party's System Corporation, as applicable, on identical or substantially similar terms and conditions immediately following the Closing, without payment of additional fees.

(d) The IT Assets of such Party and such Party's System Corporations (the "**System IT Assets**") are adequate for the operation of the business of such Party and such Party's System Corporations as currently conducted. To such Party's Knowledge, the System IT Assets are free from viruses and malware, and have not malfunctioned or failed, in each case, except as would not reasonably be expected to result in a Material Adverse Effect to such Party or such Party's System Corporations. Except as separately disclosed to the other Party, such Party's System IT Assets have not suffered a material security breach. Such Party and such Party's System Corporations have implemented backup, security and disaster recovery

measures and technology consistent with reasonable industry practices and reasonably necessary to protect Personal Information against accidental, unauthorized or unlawful destruction, loss, alteration, disclosure and access, and against all other unlawful activities, in compliance with applicable Information Privacy and Security Laws.

(e) The collection, monitoring, maintenance, creation, transmission, use, disclosure, storage, disposal and security of Personal Information by such Party and such Party's System Corporations complies in all material respects with (i) all agreements that address the provisions for business associate contracts required by 45 C.F.R. § 164.504(e) or 164.314(a), as amended (each, a "**Business Associate Agreement**"), to which such Party or such Party's System Corporation, as applicable, is a party and (ii) applicable Information Privacy and Security Laws. Such Party and each of such Party's System Corporations has all necessary authority, consents and authorizations to receive, use and disclose the Personal Information in such Party's or its System Corporation's, as applicable, possession or under its control in connection with the operation of its business, except as would not reasonably be expected to be material to the business of such Party and such Party's System Corporation, taken as a whole. Such Party and each of such Party's System Corporations has posted, in accordance with applicable Information Privacy and Security Laws, privacy policies governing its use of Personal Information on its websites.

(f) Such Party and each of such Party's System Corporations has entered into a Business Associate Agreement in each case in which such Party or its System Corporation, as applicable, provides protected health information (as defined in 45 C.F.R. § 160.103) to a third party acting as a business associate of such Party or its System Corporation, as applicable, as required by, and in conformity with, applicable Information Privacy and Security Laws and any Business Agreements, except as would not reasonably be expected to be material to the business of such Party and such Party's System Corporation, taken as a whole.

(g) Except as set forth in Section 5.21(g) of such Party's Disclosure Schedule, neither such Party nor any of such Party's System Corporations (i) is, to such Party's Knowledge, under investigation by any Governmental Entity for a violation of any Information Privacy and Security Laws, (ii) has received any notices or audit requests from the United States Department of Health and Human Services Office for Civil Rights, Department of Justice, Federal Trade Commission, or the Attorney General of any state relating to any such violations, or (iii) to such Party's Knowledge, has otherwise been accused of violating any Information Privacy or Security Law.

(h) Except as set forth in Section 5.21(h) of such Party's Disclosure Schedule, there has been no breach of Personal Information for which notification by such Party or any of such Party's System Corporations to individuals, customers and/or Governmental Entities is required under any applicable Information Privacy and Security Laws or agreements to which such Party or any of such Party's System Corporation is a party and which were, or would reasonably be expected to be, material to the business of such Party and such Party's System Corporation, taken as a whole.

(i) Such Party and each of such Party's System Corporations has in place for its employees who have access to Personal Information held by such Party or such Party's System Corporations training (in accordance with applicable industry standards) with respect to compliance with all applicable Information Privacy and Security Laws, except for such instances of non-receipt as would not reasonably be expected to be material to the business of such Party and such Party's System Corporation, taken as a whole.

5.22 Environmental

(a) Such Party and each of such Party's System Corporations are, and at all times within the past five (5) years have been, in material compliance with all applicable Environmental Laws.

(b) To the Knowledge of such Party, neither such Party nor any of such Party's System Corporations has, within the past five (5) years, received any written notice or report from any Person or Governmental Entity that alleges that such Party or any of such Party's System Corporations is in material violation of any Environmental Law or has any material Liability arising under applicable Environmental Laws relating to such Party, any of such Party's System Corporations or their facilities, except with respect to matters that have been fully resolved without material future obligations related to any injunctive relief, or contribution, cost recovery or penalty payment arising out of or relating to such matters.

(c) Neither such Party nor any of such Party's System Corporations has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, released, or exposed any Person to any Hazardous Material, or owned or operated any property or facility contaminated by any Hazardous Material, so as to have given rise to material liabilities, contingent or otherwise, pursuant to Environmental Law.

(d) Neither such Party nor any of such Party's System Corporations, (i) to such Party's Knowledge and except in accordance with all Applicable Laws, has manufactured, sold, marketed, installed, distributed or repaired products containing asbestos or silica, or (ii) has had any material liability arise, contingent or otherwise, with respect to the presence or alleged presence of asbestos or asbestos-containing materials in any such product or at or upon any property or facility.

(e) Except as set forth in Section 5.22(e) of such Party's Disclosure Schedule, neither such Party nor any of such Party's System Corporations has provided a written indemnity with respect to, or otherwise become subject to by operation of law, any liabilities of any other Person with respect to Environmental Laws or Hazardous Materials.

(f) For purposes of this Section 5.22, material compliance or material liability shall only include such matters as have resulted, or could reasonably be expected to result in, aggregate Liabilities of such Party and such Party's System Corporations equal to or greater than One Hundred Million Dollars (\$100,000,000) with respect to NorthShore or Two Hundred Fifty Million Dollars (\$250,000,000) with respect to Advocate or a Material Adverse Effect with respect to such Party and its System Corporations

5.23 Charitable Foundation Matters. Such Party and each of such Party's System Corporations has complied in all material respects with all Applicable Laws regarding charitable solicitations.

5.24 Brokers. Neither such Party nor any of such Party's System Corporations has any Liability to pay any brokerage commissions, finders' fees or similar compensation in connection with the Transactions based on any arrangement or agreement made by such Party or by any of such Party's System Corporations prior to the Closing Date.

ARTICLE 6

PRE-CLOSING COVENANTS

6.1 Interim Conduct of Business.

(a) During the Pre-Closing Period, except (i) as otherwise permitted or contemplated by this Agreement, (ii) as set forth on Schedule 6.1(a) or (iii) with the prior written consent of Advocate (with respect to NorthShore and the NorthShore Corporations) or NorthShore (with respect to Advocate and the Advocate Corporations), each of Advocate and NorthShore shall, and shall cause their respective System Corporations to,

- (i) operate their respective businesses in the ordinary course of business and in the same manner, in all material respects, as previously conducted; and
- (ii) use reasonable efforts to preserve their respective business organizations intact and maintain, in all material respects, their existing relations with patients, physicians, suppliers, regulators, payors, lessees, creditors, lessors, employees and business associates.

(b) During the Pre-Closing Period, except (i) as otherwise permitted or contemplated by this Agreement, (ii) as set forth on Schedule 6.1(a) or (iii) with the prior written consent of Advocate (with respect to NorthShore and the NorthShore Corporations) or NorthShore (with respect to Advocate and the Advocate Corporations), neither Advocate nor NorthShore shall, and each of Advocate and NorthShore shall cause their respective System Corporations to not,

- (i) make any changes, or permit any changes to be made, in their respective Organizational Documents;
- (ii) if applicable, take any action that would jeopardize its tax-exempt status;
- (iii) except as required by GAAP, make any material changes in its accounting methods or practices;
- (iv) fail to comply in all material respects with all Applicable Laws;
- (v) fail to keep, hold, and maintain all material certificates of need, certificates of exemption, accreditations, surety bonds, licenses and other Permits necessary for the

conduct and operation of its business, consistent with prior practices in the ordinary course of business; and

(vi) enter into any agreement to do any of the foregoing.

6.2 Information and Notification; Pre-Closing Transition Activities. During the Pre-Closing Period:

(a) each of NorthShore and Advocate shall promptly notify the other of any material Proceedings credibly asserted or actually commenced against any of its System Corporations, or any of their respective officers, directors, shareholders or members;

(b) by the fifteenth (15th) business day of each month, each of NorthShore and Advocate shall provide the other with the Interim Financial Statements for such Party's System for the immediately preceding month; and

(c) each Party shall, and shall cause each of its System Corporations to, give to the other Party and to its representatives, access to books, records, systems and personnel pertaining to the businesses, properties and assets of such Party's System, as may be reasonably requested by the other Party in order to perform confirmatory due diligence, as well as training and integration planning related tasks; provided, that such access (i) shall be during normal business hours on reasonable advance notice; (ii) shall be subject to and in accordance with guidelines approved by the Parties' antitrust counsel; and (iii) shall not be required to the extent it would result in the disclosure of competitively sensitive information or unduly interfere with the operations of such Party's System Corporations or the work of such Party's System Corporations' personnel or the activities of such Party's System Corporations' patients or guests.

6.3 Conditions; Third Party Authorizations.

(a) During the Pre-Closing Period, on and subject to the terms and conditions of this Agreement, each of NorthShore and Advocate shall, and shall cause their respective System Corporations to, use commercially reasonable efforts to cause the conditions set forth in Article 7 to be satisfied and to consummate the Transactions as promptly as practicable after the Agreement Date. Further, during the Pre-Closing Period, each of NorthShore and Advocate shall use, and shall cause each of its System Corporations to use, commercially reasonable efforts to obtain all consents, approvals, exemptions and authorizations of third parties, whether governmental or private, make all filings, and give all notices that may be necessary or desirable to effect the Affiliation, including those consents, approvals, exemptions, and authorizations disclosed on the Disclosure Schedules corresponding to Section 5.3.

(b) In addition to, and not limitation of, the foregoing, the Parties shall work together in good faith to (i) notify of and obtain approval for the Affiliation from (A) applicable United States federal government regulators, including the Federal Trade Commission and (B) applicable state government regulators and (ii) obtain a certificate of exemption from the HFSRB and any approval by the Illinois Department of Health to consummate the Affiliation (the notifications, approvals and certificates referenced in clauses (i) and (ii), the "**Required**

Filings”). NorthShore and Advocate acknowledge that they have each retained independent antitrust counsel. Subject to Applicable Laws, the Parties shall (A) cooperate in all respects with each other in connection with any investigation or other inquiry by or before a Governmental Entity relating to the Required Filings; (B) respond promptly to any request for information from a Governmental Entity in relation to the Required Filings; (C) keep the other Parties informed in all material respects and on a reasonably timely basis of any material communication received by such Party from, or given by such Party to, any Governmental Entity in connection with the Required Filings; and (D) provide the other Parties with an opportunity to participate in any material meetings with any Governmental Entity and provide the other Parties with an opportunity to review and provide comments on any material draft submissions, filings or other communications to be provided to any Governmental Entity (any information contained in such draft submissions, filing or other communications that is competitively sensitive may be redacted from the version provided to the receiving Party, subject to a non-redacted version being provided to the receiving Party’s external counsel), and such providing Party shall give due consideration to the comments received.

(c) In furtherance and not in limitation of the covenants of the Parties contained in this Section 6.3, each of the Parties shall use its commercially reasonable best efforts to resolve such objections, if any, as may be asserted by a Governmental Entity or other Person with respect to the Transaction; provided, however, that nothing in this Section 6.3 shall require any Party or any of its Affiliates to agree to dispose or divest of any of such Party’s (or its Affiliates) material assets or businesses or to enter into a hold separate arrangement. “”

6.4 Exclusivity. During the Pre-Closing Period, NorthShore shall not, nor shall it cause its directors, officers, employees or agents to, directly or indirectly, solicit, encourage or initiate, provide information or otherwise participate in discussions concerning, a material acquisition, divestiture or combination with, any healthcare system, hospital, or other health care facility within the Chicago-Gary-Kenosha Metropolitan Statistical Area as defined by the US Census Bureau, and Advocate shall not, nor shall it cause its directors, officers, employees or agents to, directly or indirectly solicit, encourage or initiate, provide information or otherwise participate in discussions concerning a material acquisition, divestiture, or combination with any healthcare system, hospital, or other health care facility that could reasonably be expected to interfere with its ability to consummate the Transactions; provided, further, that notwithstanding anything herein to the contrary, Advocate shall obtain the written approval of NorthShore prior to entering into any letter of intent and/or definitive agreement with regards to the acquisition, divestiture, or combination with any healthcare system or hospital. The Parties acknowledge and agree that a breach or threatened breach of this Section 6.4 by a Party would cause the non-breaching Party to suffer immediate and irreparable harm that could not be fully remedied with the payment of monetary damages. As such, in addition to any other remedies available, a non-breaching Party shall be entitled to specific performance, preliminary and permanent injunctive relief, and other available equitable remedies to restrain a breach or threatened breach of this Section 6.4, either pending or following a trial on the merits, and without the need to post bond or other security.

6.5 Non-Solicit; No Hire. During the Pre-Closing Period and for the two (2) year period following the termination of this Agreement pursuant to Article 10, neither Advocate nor

NorthShore shall, and shall each of its Controlled Subsidiaries not to, directly or indirectly, induce or attempt to induce any member of either Advocate or NorthShore's executive team, including the CEO, COO, CFO, Medical Group President, Hospital President, or other key executive level officer, to leave his or her employment with the other party or hire any such person.

ARTICLE 7

CONDITIONS PRECEDENT TO OBLIGATIONS OF PARTIES

7.1 Conditions of Each Party's Obligation. The obligation of each Party to consummate the Transactions is subject to the satisfaction (or waiver by such Party) on or before the Closing of the following conditions:

(a) a certificate of exemption from the HFSRB, as required by the Health Facilities Planning Act, shall have been obtained with respect to the Affiliation (and such certificate of exemption shall be in full force and effect as of the Closing);

(b) all applicable waiting periods (and any extensions thereof) under the HSR Act shall have expired or otherwise been terminated without the Federal Trade Commission or the Antitrust Division of the Department of Justice, as applicable, taking any action which has not been terminated or resolved; and

(c) no later than September 30, 2014, Advocate shall have delivered to NorthShore evidence, in form and substance reasonably satisfactory to NorthShore, demonstrating that the Illinois Conference Council of the United Church of Christ has agreed to permit the amendment of the articles of incorporation and bylaws of Advocate (and each other Advocate Corporation) as contemplated by Section 3.1 and has otherwise approved the Affiliation.

7.2 Conditions of NorthShore's Obligation. The obligation of NorthShore to consummate the Transactions is subject to the satisfaction (or waiver by NorthShore) on or before the Closing of the following conditions:

(a) Advocate and AHHC shall each have performed in all material respects all of the obligations and complied in all material with each of the covenants, agreements and conditions required to be performed by or complied with by it on or before the Closing;

(b) the representations and warranties of Advocate set forth in Article 5 shall be true and correct (disregarding, for purposes of this Section 7.2(b), any exception or qualification in such representations and warranties relating to materiality or Material Adverse Effect) at and as of the Closing Date as though then made (other than those representations and warranties that address matters as of a particular date, in which case such representations and warranties shall be true and correct as of such particular dates), except where the failure of such representations and warranties to be so true and correct has not had and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to Advocate and its System Corporations.

(c) no Applicable Law shall exist, no Governmental Order (preliminary or otherwise) shall be in effect, and no Proceeding shall be pending, in each case, wherein an unfavorable judgment, decree, or order would prevent the carrying out of this Agreement by any Party or the Affiliation or declare unlawful the Affiliation or result in a Material Adverse Effect with respect to Advocate and its System Corporations;

(d) neither Advocate nor any of its System Corporations shall: (i) be in receivership or, with respect to the Advocate's material System Corporations only, dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against Advocate or any of its System Corporations;

(e) no Material Adverse Effect with respect to Advocate and its System Corporations shall have occurred; and

(f) Advocate shall have delivered, or caused to be delivered, on or before the Closing Date, the Advocate Closing Documents.

7.3 Conditions of the Obligations of Advocate and AHHC. The obligations of Advocate and AHHC to consummate the Transactions is subject to the satisfaction (or waiver by Advocate) on or before the Closing of the following conditions:

(a) NorthShore shall have performed in all material respects all of the obligations and complied in all material with each of the covenants, agreements and conditions required to be performed by or complied with by it on or before the Closing;

(b) the representations and warranties of NorthShore set forth in Article 5 shall be true and correct (disregarding, for purposes of this Section 7.3(b), any exception or qualification in such representations and warranties relating to materiality or Material Adverse Effect) at and as of the Closing Date as though then made (other than those representations and warranties that address matters as of a particular date, in which case such representations and warranties shall be true and correct as of such particular dates), except where the failure of such representations and warranties to be so true and correct has not had and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to NorthShore and its System Corporations.

(c) no Applicable Law shall exist, no Governmental Order (preliminary or otherwise) shall be in effect, and no Proceeding shall be pending, in each case, wherein an unfavorable judgment, decree, or order would prevent the carrying out of this Agreement by any Party or the Affiliation or declare unlawful the Affiliation or result in a Material Adverse Effect with respect to NorthShore and its System Corporations;

(d) neither NorthShore nor any of its System Corporations shall: (i) be in receivership or, with respect to the NorthShore's material System Corporations only, dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to

pay its debts as they mature; (iv) have been adjudicated bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against NorthShore or any of its System Corporations;

(e) no Material Adverse Effect with respect to NorthShore and its System Corporations shall have occurred; and

(f) NorthShore shall have delivered, or caused to be delivered, on or before the Closing Date, the NorthShore Closing Documents.

ARTICLE 8

CLOSING

8.1 Closing Date; Closing. Subject to the satisfaction or waiver by the appropriate Party of all the conditions precedent set forth in Article 7 and upon the terms and subject to the conditions set forth in this Agreement, the consummation (the "**Closing**") of the Transactions shall take place at the offices of Winston & Strawn LLP located at 35 West Wacker Drive, Chicago, Illinois, 60601 at 11:00 am (Chicago time) on the fifth (5th) business day following the satisfaction or due waiver of all of the closing conditions set forth in Article 7 (other than those to be satisfied at the Closing but subject to the satisfaction or due waiver of such conditions at the Closing) or at such other place or on such other date and/or time as agreed upon by the Parties; provided, however, in no event shall the Closing take place prior to January 1, 2015 unless otherwise agreed in writing by the Parties. The date on which the Closing occurs is referred to herein as the "**Closing Date**." The Closing shall be effective as of 12:01 a.m. (Chicago time) on the Closing Date.

8.2 Deliverables of Advocate. At or before the Closing, Advocate shall deliver to NorthShore the following (each of the following referred herein as the "**Advocate Closing Documents**"):

(a) the Amended Advocate Articles of Incorporation, the Amended AHHC Articles of Incorporation and the Amended APP Articles of Incorporation, in each case, certified by the Secretary of State of the Illinois;

(b) a certificate of the Secretary of Advocate certifying as to (i) the Amended Advocate Articles of Incorporation and the Amended Advocate Bylaws, (ii) the resolutions of the Advocate Board of Directors approving the execution of this Agreement and the consummation of the Transactions, and (iii) the incumbency and signatures of its officers;

(c) a certificate of the Secretary of AHHC certifying as to the Amended AHHC Articles of Incorporation and the Amended AHHC Bylaws;

(d) a certificate of the Secretary of APP certifying as to the Amended APP Articles of Incorporation and the Amended APP Bylaws;

(e) evidence, in form and substance reasonably satisfactory to NorthShore, of the appointment of the Initial Advocate Directors, the Initial NorthShore Directors and the Co-CEOs to the ANHP Board;

(f) evidence, in form and substance reasonably satisfactory to NorthShore, of the amendment of the organizational documents of the Advocate Corporations as required by Section 3.1(g);

(g) resignations of those members of the Advocate Board who are not serving as Initial Advocate Directors;

(h) evidence, in form and substance reasonably satisfactory to NorthShore, of the appointment of Mark Neaman as Co-Chief Executive Officer of ANHP and assumption of NorthShore's compensation and benefit obligations with respect to Mr. Neaman; and

(i) a certificate executed by Advocate's President and Chief Executive Officer, certifying as to the satisfaction by Advocate of the conditions to closing set forth in Sections 7.2 and 7.3 as applicable to Advocate.

8.3 Deliverables of NorthShore. At or before the Closing, NorthShore shall deliver to Advocate the following (the "NorthShore Closing Documents"):

(a) the Amended NorthShore Articles of Incorporation and the Amended NPA Articles of Incorporation, in each case, certified by the Secretary of State of the Illinois;

(b) a certificate of the Secretary of NorthShore certifying as to (i) the Amended NorthShore Articles of Incorporation and the Amended NorthShore Bylaws, (ii) the resolutions of the NorthShore Board approving the execution of this Agreement and the consummation of the Transactions, and (iii) the incumbency and signatures of its officers;

(c) a certificate of the Secretary of NPA certifying as to Amended NPA Articles of Incorporation and the Amended NPA Bylaws; and

(d) a certificate executed by NorthShore's President and Chief Executive Officer, certifying as to the satisfaction by NorthShore of the conditions to closing set forth in Sections 7.2 and 7.3 as applicable to NorthShore.

ARTICLE 9

ENFORCEMENT OF OBLIGATIONS

The Parties expressly agree that, after the Closing, the NorthShore Directors (acting by a majority vote) have standing to enforce the covenants, obligations and other agreements of Advocate under or pursuant to this Agreement and the other Transaction Documents and shall have the right to select and retain legal counsel, consultants and advisors and to initiate legal proceedings for a breach by Advocate of this Agreement or any other Transaction Documents and to otherwise enforce the rights of NorthShore and the other NorthShore Corporations under this Agreement and the other Transaction Documents. The Parties

expressly agree that, after the Closing, the Advocate Directors (acting by a majority vote) have standing to enforce the covenants, obligations and other agreements of NorthShore under or pursuant to this Agreement and the other Transaction Documents and shall have the right to select and retain legal counsel, consultants and advisors and to initiate legal proceedings for a breach by NorthShore of this Agreement or any other Transaction Document and to otherwise enforce the rights of Advocate and the other Advocate Corporations under this Agreement and the other Transaction Documents.

ARTICLE 10

TERMINATION

10.1 Termination. Notwithstanding anything herein to the contrary, this Agreement may be terminated at any time before Closing only as follows:

(a) by mutual written consent of the Parties, acting through their respective boards of directors;

(b) by any Party if any Applicable Law that makes consummation of the Affiliation illegal or otherwise prohibited is enacted, adopted, promulgated or enforced, or any final, nonappealable Governmental Order is entered making illegal or otherwise enjoining the consummation of the Affiliation substantially on the terms contemplated by this Agreement, and, prior to that termination, the Parties shall have used commercially reasonable efforts to resist, resolve or lift, as applicable, any such Applicable Law or Governmental Order; provided, however, that the right to terminate this Agreement pursuant to this Section 10.1(b) shall not be available to any Party whose breach of any provision of this Agreement causes or results in the imposition of such Governmental Order or the failure of such Governmental Order to be resisted, resolved or lifted, as applicable;

(c) by Advocate or NorthShore if NorthShore or Advocate, as the case may be, has breached any of its representations, warranties, covenants or agreements contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Article 7, and (ii) is not curable, or if curable, is not cured within thirty (30) days of when written notice of such breach is given by the terminating Party;

(d) by any Party if it is reasonably apparent that a condition set forth in Article VII cannot be satisfied prior to the End Date (as defined below); provided, however, that the right to terminate this Agreement pursuant to this Section 10.1(d) shall not be available to any Party whose failure to fulfill any obligation under this Agreement shall have been the cause of the failure of such condition to be satisfied on or prior to the End Date; or

(e) by Advocate or NorthShore if the Closing has not occurred on or before December 31, 2015 (the "End Date"); provided that a Party shall not be entitled to terminate this Agreement pursuant to this Section 10.1(e) if such Party's breach of this Agreement has prevented the consummation of the Transaction.

10.2 Effect of Termination.

(a) A termination of this Agreement pursuant to Section 10.1 shall:

(i) terminate all further obligations of the Parties hereunder (other than Section 6.5, this Section 10.2 and Article 11, the provisions of which shall survive the Termination in accordance with their terms); and

(ii) be the sole and exclusive remedy for breach of any representation, warranty or covenant made by another Party under this Agreement and there shall otherwise be no Liability on the part of any Party to the other (except for willful breaches of this Agreement prior to the time of termination).

(b) In the event of termination of this Agreement pursuant to Section 10.1, each Party shall be responsible for its own fees and/or costs related to the negotiation, due diligence, and execution of this Agreement and attempted consummation of the Transactions.

ARTICLE 11

GENERAL PROVISIONS

11.1 Amendment. Except as otherwise provided herein, any provision of this Agreement may be modified or amended prior to the Closing only by mutual written consent of the Parties and after the Closing only by the written consent of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand.

11.2 Assignment. Neither this Agreement nor any of the rights or obligations under this Agreement may be assigned by NorthShore without the prior written consent of Advocate or by Advocate or AHHC without the prior written consent of NorthShore. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, and no other Person shall have any right, benefit or obligation under this Agreement.

11.3 Equitable Relief. The Parties acknowledge and agree that a breach or threatened breach of this Agreement by a Party would cause the non-breaching Party to suffer immediate and irreparable harm that could not be fully remedied with the payment of monetary damages. As such, in addition to any other remedies available, a non-breaching Party shall be entitled to specific performance, preliminary and permanent injunctive relief, and other available equitable remedies to restrain a breach or threatened breach of this Agreement, either pending or following a trial on the merits, and without the need to post bond or other security.

11.4 Attorneys' Fees. If any Party brings an action for any relief or collection against the other Party, declaratory or otherwise, arising out of this Agreement, the losing Party shall pay to the prevailing Party a reasonable sum for attorneys' fees and costs actually incurred in enforcing (but not otherwise bringing) such action, all of which shall be deemed to have accrued upon the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Any judgment or order entered in such action shall contain a specific provision providing for the recovery of attorneys' fees and costs incurred in enforcing such

judgment. For the purpose of this Section 11.4, attorneys' fees shall include fees incurred in connection with discovery, post judgment motions, contempt proceedings, garnishment and levy.

11.5 Choice of Law; WAIVER OF JURY TRIAL.

(a) This Agreement, the legal relations among the Parties and any action, whether contractual or non-contractual, instituted by any Party with respect to matters arising under or growing out of or in connection with or in respect of this Agreement, including the negotiation, execution, interpretation, coverage, scope, performance, breach, termination, validity or enforceability of this Agreement, shall be governed by and construed and interpreted in accordance with the laws of the State of Illinois applicable to contracts made and performed in such State and without regard to conflicts of law doctrines, except to the extent that certain matters are preempted by federal law or are governed as a matter of controlling law by the law of the jurisdiction of incorporation of the respective Parties. Each Party hereby irrevocably submits to and accepts for itself and its System Corporations and properties, generally and unconditionally, the exclusive jurisdiction of and service of process pursuant to the laws of the State of Illinois and the rules of its courts, waives any defense of forum non conveniens and agrees to be bound by any judgment rendered thereby arising under or out of, in connection with or in respect of this Agreement or any related document or obligation.

(b) EACH OF THE PARTIES IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS.

11.6 Confidentiality. The Parties understand and agree that they remain bound by that certain Confidentiality Agreement, dated April 14, 2014, by and between NorthShore and AHHC (the "Confidentiality Agreement") and that no Party may disclose the terms of this Agreement or any of the Transactions, including by issuance of any press release or public announcement relating to the subject matter of this Agreement, without the prior written consent of the other Party; provided, however, that notwithstanding anything herein or in the Confidentiality Agreement to the contrary, a Party may make any public disclosure it believes in good faith is required by Applicable Law (including any disclosure required pursuant to any securities regulation or contractual undertaking applicable to the outstanding debt securities of any Party or binding on any Party), in which case the disclosing Party shall use its commercially reasonable efforts to advise and consult with the other Party prior to making such disclosure.

11.7 Dispute Resolution. In the event of any controversy or dispute related to or arising out of this Agreement or the Transactions, the Parties agree to meet and confer in good faith to attempt to resolve the controversy or dispute without an adversary proceeding. If the controversy or dispute is not resolved to the mutual satisfaction of the Parties within thirty (30) business days of notice of the controversy or dispute, subject to Section 11.5, any Party may bring whatever action or proceeding it believes to be appropriate.

11.8 Entire Agreement. Subject to Section 11.6, this Agreement is the entire understanding and agreement of the Parties to this Agreement regarding its subject matter, and supersedes any other prior oral or written agreements, representations, understandings or

discussions among the Parties to this Agreement with respect to such subject matter, including that certain Letter Agreement, dated July 15, 2014, between Advocate and NorthShore. In the event of any inconsistency or conflict between the terms and conditions set forth in this Agreement and the terms and conditions set forth in the attachments or exhibits to this Agreement or in the Confidentiality Agreement, the terms and conditions of this Agreement shall govern.

11.9 Expenses. Except as otherwise specified in this Agreement, each Party shall pay its own respective expenses (including legal, due diligence, accounting, broker, consulting, out-of-pocket and other expenses incident to this Agreement) in connection with this Agreement and the Transactions; provided, that the Parties shall equally share the filing fee costs of all Required Filings, and provided, further, that the Parties will share equally in the costs and expenses of all outside parties jointly retained by the Parties, including consultants, accountants, experts, or other such parties reasonably necessary to complete the Affiliation.

11.10 Notices. All communications hereunder shall be in writing and mailed by certified mail, return receipt requested, postage prepaid, or transmitted by hand delivery, national overnight express, or facsimile transmission, addressed as follows:

if sent to NorthShore, shall be mailed, delivered or sent by facsimile transmission at:

NorthShore University HealthSystem
1301 Central Street
Evanston, IL 60201
Attn: President and Chief Executive Officer
(F) 847-859-8952

with respect to any such communications, with copies thereof (which shall not constitute notice) to:

NorthShore University HealthSystem
1301 Central Street
Evanston, IL 60201
Attn: Chief Operating Officer
(F) 847-859-8952

and to:

Winston & Strawn
35 W. Wacker Drive
Chicago, IL
Attention: David Dahlquist, Esq.
(F) 312-558-5700

if to Advocate or AHHC, shall be mailed, delivered or sent by facsimile transmission at:

c/o Advocate Health Care
 3075 Highland Parkway
 Downers Grove, IL 60515
 Attention: President and Chief Executive
 Officer
 (F) 630-929-9920

with respect to any such communications, with a copy thereof (which shall not constitute notice) to:

Advocate Health Care
 3075 Highland Parkway
 Downers Grove, IL 60515
 Attention: Senior Vice President and
 General Counsel
 (F) 630-929-9920

The address information in this Section 11.10 shall be used until such time as any Party notifies the other of a change of address pursuant to this Section 11.10. Each notice or other communication which shall be mailed, delivered or transmitted in the manner described above shall be deemed sufficiently effective (a) if given by mail, three (3) days after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, (b) if given by facsimile transmission, when transmitted to the applicable number so specified in (or pursuant to) this Section 11.10, or (c) if given by any other means, when actually delivered at such address.

11.11 Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the Parties to the greatest extent possible. All other provisions of this Agreement shall remain in full force and effect.

11.12 Waiver. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of the performance of such provision or any other instance. Any waiver granted by a Person must be in writing, and shall apply solely to the specific instance expressly stated. The failure of any Party to insist, in any one or more instances, on performance of any of the terms, covenants, and conditions of this Agreement shall not be construed as a waiver or relinquishment of any rights granted hereunder or of the future performance of any such term, covenant, or condition, and the obligations of the Parties with respect thereto shall continue in full force and effect.

11.13 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, but all of which together shall be considered but one in the same agreement. This Agreement may be executed and delivered by facsimile or electronic transmission of a file in ".pdf" or similar format and upon such delivery, each signature shall be deemed to have the same effect as if the original signature had been delivered to the other Parties.

11.14 Drafting of Agreement. Each Party has been represented by counsel selected by such Party in connection with the negotiation and drafting of this Agreement, and this Agreement has been jointly drafted by such counsel, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

11.15 Schedules and Other Documents. The Schedules and all Exhibits and documents referred to herein or attached to this Agreement are integral parts of this Agreement and are incorporated herein as if fully set forth herein, and all statements appearing therein shall be deemed to be part of, or limitations on, this Agreement, and the representations and warranties contained herein. If there is a conflict between this Agreement and a Schedule, the Schedule shall control. If there is a conflict between this Agreement and any Exhibit, this Agreement shall control.

11.16 Legal Representation; Related Matters. It is acknowledged by each of the Parties that the NorthShore Corporations have retained Winston & Strawn LLP ("W&S") to act as their counsel in connection with the Transactions and that W&S has not acted as counsel for any other Party in connection with the Transactions and that none of the other Parties has the status of a client of W&S for conflict of interest or any other purposes as a result thereof. Advocate hereby agrees, on behalf of itself and the other Advocate Corporations, that, in the event that a dispute arises after the Closing between ANHP and/or one or more of the Advocate Corporations, on the one hand, and one or more of the NorthShore Corporations, on the other hand, W&S may represent such NorthShore Corporation(s) in such dispute even though the interests of such NorthShore Corporation(s) may be directly adverse to ANHP and/or one or more Advocate Corporations, and even though W&S may have represented ANHP and/or such Advocate Corporation(s) in a matter substantially related to such dispute, or may be handling ongoing matters for ANHP and/or such Advocate Corporation(s). Advocate further agrees, on behalf of itself and the other Advocate Corporations, that, as to all communications among W&S and one or more NorthShore Corporations that relate in any way to the Transactions, the attorney-client privilege and the expectation of client confidence belongs to the NorthShore Corporations and may be controlled by the NorthShore Corporations and shall not pass to or be claimed by ANHP or any Advocate Corporation.

[signatures on next page]

IN WITNESS WHEREOF, the Parties have executed this Affiliation Agreement as of the Agreement Date.

NORTHSHORE UNIVERSITY
HEALTHSYSTEM

By: Mark Neaman
Name: Mark R. Neaman
Its: President and Chief Executive Officer

ADVOCATE HEALTH CARE NETWORK

By: _____
Name: James H. Skogsbergh
Its: President and Chief Executive Officer

ADVOCATE HEALTH AND HOSPITALS
CORPORATION

By: _____
Name: James H. Skogsbergh
Its: President and Chief Executive Officer

[Signature Page to Affiliation Agreement]

IN WITNESS WHEREOF, the Parties have executed this Affiliation Agreement as of the Agreement Date.

NORTHSHORE UNIVERSITY
HEALTHSYSTEM

By: _____
Name: Mark R. Neaman
Its: President and Chief Executive Officer

ADVOCATE HEALTH CARE NETWORK

By: James H. Skogsbergh
Name: James H. Skogsbergh
Its: President and Chief Executive Officer

ADVOCATE HEALTH AND HOSPITALS
CORPORATION

By: James H. Skogsbergh
Name: James H. Skogsbergh
Its: President and Chief Executive Officer

Exhibit A-1**Amended Advocate Articles of Incorporation**

See attached.

FORM NFP 110.30R (rev. Dec. 2003)
ARTICLES OF AMENDMENT
RESTATED ARTICLES
OF INCORPORATION
 General Not For Profit Corporation Act

Jesse White, Secretary of State
 Department of Business Services
 Springfield, IL 62756
 Telephone (217) 782-1832
 www.cyberdriveillinois.com

Remit payment in the form of a
 check or money order payable
 to the Secretary of State.

File # _____ Filing Fee: \$100.00 Approved: _____
 Submit in duplicate _____ Type or Print clearly in black ink _____ Do not write above this line _____

1. Corporate name (Note 1): ADVOCATE HEALTH CARE NETWORK
2. Manner of adoption of amendment:
 The following amendment to the Articles of Incorporation was adopted on _____ in the manner
 indicated below (Check one only): (Month, Day & Year)
 - ☒ By affirmative vote of a majority of the directors in office, at a meeting of the board of directors, in accordance with Section 110.15. (Note 2)
 - ☐ By written consent, signed by all the directors in office, in compliance with Sections 110.15 and 108.45 (Note 3)
 - ☐ By members at a meeting of members entitled to vote by the affirmative vote of the members having not less than the minimum number of votes necessary to adopt such amendment, as provided by this Act, the articles of incorporation or the bylaws, in accordance with Section 110.20. (Note 4)
 - ☐ By written consent signed by members entitled to vote having not less than the minimum number of votes necessary to adopt such amendment, as provided by this Act, the articles of incorporation, or the bylaws, in compliance with Sections 107.10 and 110.20. (Note 5)
- 3(a). List all provisions of the restated articles of incorporation that amend the existing articles of incorporation. (Attach additional pages if extra space is needed.)
 See attached document.
- 3(b). Text of the Restated Articles of Incorporation (Note 6)
 (Attach additional pages if extra space is needed.)
 See attached document

4. The undersigned corporation has caused these articles to be signed by a duly authorized officer, who affirms, under penalties of perjury, that the facts stated herein are true. (All signatures must be in **BLACK INK**.)

Dated _____ 2014 _____ ADVOCATE HEALTH CARE NETWORK

 (Month & Day) (Year) (Exact Name of Corporation)

 (Any Authorized Officer's Signature)

 (Print Name and Title)

5. If there are no duly authorized officers, then the persons designated under Section 101.10(b)(2) must sign below and print name and title.
 The undersigned affirms, under penalties of perjury, that the facts stated herein are true.

Dated _____ (Month, Day & Year)

Signature

Print Name and Title

_____	_____
_____	_____
_____	_____
_____	_____

NOTES

- Note 1:** State the true and exact corporate name as it appears on the records of the Secretary of State, BEFORE any amendment herein reported.
- Note 2:** Directors may adopt amendments without member approval only when the corporation has no members, or no members entitled to vote pursuant to §110.15
- Note 3:** Director approval may be (1) by vote at a director's meeting (*either annual or special*) or (2) by consent, in writing, without a meeting.
- Note 4:** All amendments not adopted under Sec. 110.15 require (1) that the board of directors adopt a resolution setting forth the proposed amendment and (2) that the members approve the amendment.
- Member approval may be (1) by vote at a members meeting (*either annual or special*) or (2) by consent, in writing, without a meeting.
- To be adopted, the amendment must receive the affirmative vote or consent of the holders of at least 2/3 of the outstanding members entitled to vote on the amendment, (*but if class voting applies, then also at least a 2/3 vote within each class is required*).
- The articles of incorporation may supersede the 2/3 vote requirement by specifying any smaller or larger vote requirement not less than a majority of the outstanding votes of such members entitled to vote and not less than a majority within each when class voting applies. (Sec. 110.20)
- Note 5:** When member approval is by written consent, all members must be given notice of the proposed amendment at least 5 days before the consent is signed. If the amendment is adopted, members who have not signed the consent must be promptly notified of the passage of the amendment. (Sec. 107.10 & 110.20)
- Note 6:** The text of the restated articles of incorporation must set forth the following:
- (i) The date of incorporation, the name under which the corporation was incorporated, subsequent names, if any, that the corporation adopted pursuant to amendment of its articles of incorporation, and the effective date of any such amendments;
 - (ii) the address of the registered office and the name of the registered agent on the date of filing the restated articles of incorporation.

If the registered agent and/or registered office have changed, it will be necessary to accompany this document with form NFP 105.10.

**ATTACHMENT TO ARTICLES OF AMENDMENT and
RESTATED ARTICLES OF INCORPORATION OF
ADVOCATE HEALTH CARE NETWORK**

Pursuant to Section 110.30 of the General Not For Profit Corporation Act of 1986 of the State of Illinois, the Articles of Incorporation of Advocate Health Care Network, an Illinois not-for-profit corporation (the "Corporation"), are hereby amended and restated to read in their entirety as follows:

Article 1 (amended and restated). **Name.** Advocate Health Care Network was incorporated on June 14, 1923, as the Lutheran Deaconess Home and Hospital of Chicago. The Articles of Incorporation were amended to change the name to Lutheran General and Deaconess Hospitals on June 30, 1958; to Lutheran Institute of Human Ecology on May 4, 1977; to Lutheran General Health Care System on March 31, 1986; to Lutheran General HealthSystem on July 20, 1992; and to Advocate Health Care Network on January 1, 1997. Effective upon the filing of these Articles of Amendment and Restated Articles of Incorporation, the name of the Corporation is changed to ADVOCATE NORTHSORE HEALTH PARTNERS.

Article 2 (restated). **Registered Agent and Registered Office.** The Registered Agent and Registered office are:

Gail D. Hasbrouck
Advocate NorthShore Health Partners
3075 Highland Parkway, Suite 600
Downers Grove, Illinois 60515

Article 3 (amended and restated). **Purposes.** The Corporation is organized exclusively for charitable, educational and scientific purposes, including:

(a) to promote, support, benefit, develop and perform the functions of Advocate Health and Hospitals Corporation ("AHHC"), NorthShore University Health System ("NorthShore") and their respective successor(s) and other organizations described in sections 509(a)(1) or 509(a)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (such corporations, their successors and other organizations are collectively referred to herein as the "Organizations"), by operating and providing leadership, control and support in the development and provision of a comprehensive, clinically integrated, high quality, cost-effective health delivery system focused on population health management for the benefit of such Organizations and the patients they serve;

(b) to operate and provide leadership, control and support of the provision of services to the public through programs for the charitable, educational and scientific needs of the community which accomplish the purposes of the Organizations;

(c) to support and benefit the Organizations through community development and other activities for the general benefit of the community and through financial and other resource control coordination consistent with the purposes of the Organizations; and

(d) to sponsor, develop, promote and encourage public participation in public services and programs that are charitable, educational or scientific.

The Corporation shall not engage in the practice of medicine.

Article 4 (amended and restated). **Restrictions on Corporate Activities.**

Notwithstanding any other provisions of the Articles of Incorporation or the bylaws of the Corporation (the "Bylaws"):

(a) No part of the net earnings of the Corporation shall inure to the benefit of, or be distributable to, its members (except for a member that qualifies as an exempt organization under Section 501(c)(3) of the Code), directors, officers, or other private persons, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered, to make indemnity payments as specifically authorized in the Bylaws, and to make payments and distributions in furtherance of the purpose set forth above;

(b) No substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation (except to the extent permitted pursuant to an election made under Section 501(h) of the Code), and the Corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of or in opposition to any candidate for public office; and

(c) The Corporation shall not carry on any activities not permitted to be carried on by a corporation exempt from federal income tax under Section 501(c)(3) of the Code (or the corresponding provision of a future United States Internal Revenue Law) or by a corporation, the contributions to which are deductible under Section 170(c)(2) of the Code (or the corresponding provision of a future United States Internal Revenue Law).

Article 5 (amended and restated). **Dissolution.** Upon any dissolution or liquidation of the Corporation during the period from the [Insert: Effective Date] to [Insert: the date that is six (6) years following the actual Effective Date], the assets of the Corporation shall be distributed to

61379 v6 9/11/2014 8:39 AM

one or more entities, each of which shall qualify as an exempt organization under section 501(c)(3) of the Code (or the corresponding provision of any future United States Internal Revenue Law), as determined by the affirmative vote of at least three-fourths of the members of the Board of Directors and otherwise in accordance with and pursuant to the Bylaws.

Upon any dissolution or liquidation of the Corporation at any time subsequent to **[Insert: the date that is six (6) years following the actual Effective Date]**, the assets of the Corporation shall be distributed to one or more entities, each of which shall qualify as an exempt organization under section 501(c)(3) of the Code (or the corresponding provision of any future United States Internal Revenue Law), as determined by the affirmative vote of at least a majority of the members of the Board of Directors and otherwise in accordance with and pursuant to the Bylaws.

Any such assets not so distributed shall be disposed of by the court of general jurisdiction in Cook County, Illinois, exclusively to such organization or organizations qualifying under section 501(c)(3) of the Code, in such manner as said court shall determine.

Article 6 (amended and restated). **Effective Date.** These Amended and Restated Articles of Incorporation shall become effective as of their date of filing.

Exhibit A-2**Amended Advocate Bylaws**

See attached.

**AMENDED AND RESTATED
BYLAWS OF ADVOCATE NORTHSORE HEALTH PARTNERS,
*a Not for Profit Corporation***

as amended and restated [] [], 201[]

**ARTICLE I.
Name, Purposes and Powers**

1.1 Name. The name of this not for profit corporation is Advocate NorthShore Health Partners (the or this "**Corporation**").

1.2 Purposes. The Corporation is organized exclusively for charitable, educational and scientific purposes, including:

(a) to promote, support, benefit, develop and perform the functions of Advocate Health and Hospitals Corporation ("**AHHC**"), NorthShore University Health System ("**NorthShore**") and their respective successor(s) and other organizations described in sections 509(a)(1) or 509(a)(2) of the Internal Revenue Code of 1986, as amended (the "**Code**") (such corporations, their successors and other organizations are collectively referred to herein as the "**Organizations**"), by operating and providing leadership, control and support in the development and provision of a comprehensive, clinically integrated, high quality, cost-effective health delivery system focused on population health management for the benefit of such Organizations and the patients they serve;

(b) to operate and provide leadership, control and support of the provision of services to the public through programs for the charitable, educational and scientific needs of the community which accomplish the purposes of the Organizations;

(c) to support and benefit the Organizations through community development and other activities for the general benefit of the community and through financial and other resource control coordination consistent with the purposes of the Organizations; and

(d) to sponsor, develop, promote and encourage public participation in public services and programs that are charitable, educational or scientific.

The Corporation shall not engage in the practice of medicine.

1.3 Powers. The Corporation shall have such powers as are now or may hereafter be granted by the General Not for Profit Corporation Act of the State of Illinois.

1.4 Effective Date. Pursuant to that certain Affiliation Agreement, dated September 11, 2014, (the “**Agreement Date**”) among the Corporation (then known as Advocate Health Care Network), AHHC and NorthShore (the “**Affiliation Agreement**”), the Corporation became the sole corporate member of NorthShore as of [____], 201[] (the “**Effective Date**”). These bylaws are effective as of the Effective Date and, as more specifically set forth herein, the duration of certain rights and obligations hereunder is measured from the Effective Date. Capitalized terms used in these Bylaws and not otherwise defined herein shall have the respective meanings ascribed in the Affiliation Agreement.

ARTICLE II. Membership

The Corporation shall have no members.

ARTICLE III. Board of Directors

3.1 Classes. The Corporation shall be managed by its Board of Directors (the “**Board of Directors**”). The Board of Directors shall consist of two classes: Directors and Ex-Officio Directors. Each Ex-Officio Director shall have all of the powers and duties of a Director, including voting power.

3.2 Eligibility for Election. Each nominee for appointment or re-appointment to the Board of Directors shall have an interest in quality healthcare for all segments of society and shall have a good reputation for dependability, integrity and judgment in professional, business, civic or community activities.

3.3 Powers. The Board of Directors shall have full power to take such actions as it may deem advisable in the governance, management and control of the business and affairs of the Corporation.

3.4 Board of Directors. The Board of Directors shall consist of not less than ten (10) nor more than fifteen (15) Directors and Ex-Officio Directors as established from time to time by the Board of Directors. As of the Effective Date, the Board of Directors shall consist of a total of (12) Directors and Ex-Officio Directors.

3.5 Designation of Directors and Ex-Officio Directors

As of the Effective Date, the Board of Directors consists of ten (10) Directors and two (2) Ex-Officio Directors as follows:

- (a) five (5) Directors who were designated by the Board of Directors of NorthShore (the “**Initial NorthShore Directors**”);
- (b) five (5) Directors who were designated by the Board of Directors of the Corporation immediately prior to the Effective Date (the “**Initial Advocate Directors**”) (provided that the Initial Advocate Directors shall include one (1) representative from each of the Evangelical Lutheran Church in America and the United Church of Christ);
- (c) one (1) Ex-Officio Director who is a Co-Chief Executive Officer of the Corporation and the President and Chief Executive Officer of NorthShore as of the Effective Date (the “**Initial NorthShore Co-CEO**”); and
- (d) one (1) Ex-Officio Director who is a Co-Chief Executive Officer of the Corporation as of the Effective Date and was the sole Chief Executive Officer of the Corporation immediately prior to the Effective Date (the “**Initial Advocate Co-CEO**”).

During the period from the Effective Date to the date that is two (2) years following the Effective Date, the Board of Directors shall be designated and appointed as follows:

- (a) five (5) Directors, including the successors to the Initial NorthShore Directors (all successors, together with the Initial NorthShore Directors and the Ex-Officio Director designated pursuant to clause (c) below, the “**NorthShore Directors**”), shall be designated by the other NorthShore Directors then serving on the Board of Directors;
- (b) five (5) Directors, including the successors to the Initial Advocate Directors (all successors, together with the Initial Advocate Directors and the Ex-Officio Director designated pursuant to clause (d) below, the “**Advocate Directors**”), shall be designated by the other Advocate Directors then serving on the Board of Directors (provided that the Advocate Directors shall include one representative from each of the

Evangelical Lutheran Church in America and the United Church of Christ);

(c) one (1) Ex-Officio Director who is the Initial NorthShore Co-CEO or his successor as a Co-Chief Executive Officer of the Corporation; and

(d) one (1) Ex-Officio Director who is the Initial Advocate Co-CEO or his successor as a Co-Chief Executive Officer of the Corporation.

During the period from the date that is two (2) years following the Effective Date to the date that is six (6) years following the Effective Date, the Board of Directors shall be designated and appointed as follows:

(a) six (6) Directors as designated by the NorthShore Directors then serving on the Board of Directors (all of whom shall constitute "NorthShore Directors" for purposes hereof);

(b) five (5) Directors as designated by the Advocate Directors then serving on the Board of Directors; and

(c) one (1) Ex-Officio Director who is the Initial Advocate Co-CEO or his successor as a Co-Chief Executive Officer or Chief Executive Officer, as applicable.

Beginning on the date that is six (6) years following the Effective Date, (a) Directors shall be appointed by the Board of Directors from among the individuals nominated by members of the Board of Directors pursuant to the nominating process implemented and approved by the Board of Directors from time to time and (b) the Chief Executive Officer of the Corporation shall serve on the Board of Directors as an Ex-Officio Director. The appointment of Directors shall be effective as of the annual meeting of the Board of Directors. Beginning on the date that is six (6) years following the Effective Date, all Directors will be divided into three (3) classes. The number of Directors in each class will be fixed as determined by the Board of Directors, but shall be as nearly equal in number as is practicable in order to stagger the terms of Directors and achieve continuity of governance of the Corporation as follows: Class A Directors, whose initial terms shall expire at the end of the Annual Meeting of the Board of Directors the first year after their election; Class B Directors, whose initial terms shall expire at the end of the Annual

Meeting of the Board of Directors the second year after their election; and the Class C Directors whose initial terms shall expire at the end of the Annual Meeting of the Board of Directors the third year after their election. Thereafter, all Directors regardless of class designation shall be elected to serve three (3) year terms and shall serve until their respective successors shall have been appointed. Any action of the Board of Directors which increases or decreases the number of Directors within the prescribed range shall include a description of the means for implementing such change so that approximately one-third of the Directors are eligible for re-appointment each year. Decreases in the number of Directors shall not shorten an incumbent Director's term.

3.6 Terms. A Director who has served for three (3) successive full three-year terms shall not be eligible for re-appointment until one (1) year after the expiration of such Director's third term. A Director must be seventy (70) years of age or younger at the time such Director's term (including any subsequent term) commences in order to be eligible for appointment or re-appointment, provided, however, the age restriction shall not apply to members of the NorthShore Board as of the Agreement Date or any members of the Advocate Board as of the Agreement Date. For the avoidance of doubt, the provisions of this Section 3.6 do not apply to Ex-Officio Directors.

3.7 Resignation. Any Director or Ex-Officio Director may resign at any time by giving written notice to the Chairperson of the Board of Directors. Such resignation shall take effect on the date of receipt or at any later time specified in it.

3.8 Removal. During the period from the Effective Date to the date that is six (6) years following the Effective Date, any Director may be removed by those Directors who have the right to designate such Director's successor pursuant to Section 3.5. On and after the date that is six (6) years following the Effective Date, any Director may be removed by the affirmative vote of two-thirds of the Directors who were present and voted, at any meeting of the Board of Directors following appropriate notice. In each case, a Director may be removed for any reason and taking into account all relevant information, including, but not limited to, the following criteria:

- failure of a Director to meet the attendance requirements provided for in Section 4.8 of the Bylaws;
- inappropriate disclosure of confidential information;
- conviction of a felony;

- conduct, either within or outside the Corporation, which is or reasonably appears to be potentially harmful or potentially exposes the Corporation to significant risk or which violates established principles associated with a Director position;
- fraudulent, disruptive or dishonest conduct, gross abuse of the Director position to the detriment of the Corporation, or any other circumstances in which action must be taken immediately in the best interest of the Corporation.

3.9 Vacancies. During the period from the Effective Date to the date that is six (6) years following the Effective Date, any vacancy created by the resignation or removal of a NorthShore Director shall be filled by a majority vote of the remaining NorthShore Directors and any vacancy created by the resignation or removal of an Advocate Director shall be filled by a majority vote of the Advocate Directors. On and after the date that is six (6) years following the Effective Date, any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase in the number of Directors may be filled by the Board of Directors. A Director elected to fill a vacancy shall serve during the unexpired term of such Director's predecessor in office.

3.10 Compensation. Directors, Ex-Officio Directors and members of committees, if any, (other than salaried employees of the Corporation) shall receive no compensation for their services. The Corporation, subject to the provisions of Article VII, may enter into contracts or transact business with one or more of its Directors or Ex-Officio Directors, or with any firm of which one or more of its Directors or Ex-Officio Directors is a member, or with any corporation in which any one or more of its Directors or Ex-Officio Directors is a stockholder, director or officer, and no such Director or Ex-Officio Director shall be liable to the Corporation or to any person for any loss incurred by the Corporation by reason of any such contract or transaction, nor shall any such Director or Ex-Officio Director be accountable for any gains or profits realized thereon, always provided that such contract or transaction shall, at the time it was entered into, have been a reasonable one and upon terms that at that time were fair and in the best interests of the Corporation.

3.11 Giving. Personal giving is a critical element in the success of the Corporation. The Board must provide visible leadership in giving.

ARTICLE IV.
Meetings of the Board

4.1 Regular Meetings. An annual meeting and all regular meetings of the Board of Directors shall be held on such date and at such hour and place as shall be fixed by the Chairperson of the Board or the Board of Directors. Written notice stating the place, day and hour of each such meeting shall be delivered in person or by mail¹ to each Director and Ex-Officio Director not less than five (5) days before the date of the meeting.

4.2 Special Meetings. Special meetings of the Board of Directors may be called by the Chairperson, either of the Co-Chief Executive Officers or the Chief Executive Officer, as applicable, or the Secretary. Written notice of the time, place and purpose of any special meeting of the Board of Directors shall be given to each Director and each Ex-Officio Director at least five (5) days prior to such meeting.

4.3 Waiver of Notice. Any Director or Ex-Officio Director may waive notice of any meeting of the Board of Directors. The attendance of a Director or Ex-Officio Director at any such meeting shall constitute a waiver of notice of such meeting, except where a Director or Ex-Officio Director attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

4.4 Quorum. During the period from the Effective Date to the date that is six (6) years following the Effective Date, a majority of the NorthShore Directors and a majority of the Advocate Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. On and after the date that is six (6) years from the Effective Date, a majority of the members of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. In each case, if less than a quorum is present, a majority of the members of the Board of Directors present and entitled to vote may adjourn the meeting from time to time without further notice.

4.5 Manner of Acting. Each Director and Ex-Officio Director is entitled to one (1) vote on any matter before the Board of Directors. Voting by proxy is not permitted. The act of a majority of the Directors and Ex-Officio Directors present

¹ Throughout these Bylaws the term "mail" shall include US Postal Services, electronic mail or delivery services.

and entitled to vote at any meeting at which a quorum is present shall be the act of the Board of Directors, except where otherwise provided by law or by these Bylaws. Members of the Board of Directors, subject to the Chairperson's approval, may participate in and act at any meeting of the Board of Directors through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can communicate with each other, and participation in such meeting shall constitute attendance and presence in person at the meeting of the members so participating. No action of the Board of Directors shall be valid unless taken at a meeting at which a quorum is present, except that any action which may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing (setting forth the action so taken) shall be signed by all Directors and Ex-Officio Directors. The Board may adopt its own rules of procedure which shall not be inconsistent with these Bylaws and in the absence of such rules of procedure, Robert's Rules of Order shall apply.

4.6 Actions Requiring Supermajority Vote.

Notwithstanding anything else to the contrary contained herein, during the period from the Effective Date to the date that is six (6) years following the Effective Date,

- (a) the following matters or actions shall require the approval by at least three-fourths (3/4) of the members of the Board of Directors; provided, however, if at any time there are more than twelve (12) members of the Board of Directors, then each of the following matters and actions also shall require the approval of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand:
 - (i) amendment or restatement of the Corporation's Articles of Incorporation or these bylaws;
 - (ii) the granting of a blocking, approval or other right to any person with respect to any direct or indirect subsidiary of the Corporation;
 - (iii) except as contemplated in the Amended NorthShore Articles of Incorporation, the Amended NorthShore Bylaws, the Amended AHHC Articles, the Amended AHHC Bylaws or in this Agreement, the delegation to or reservation for the board of directors, committee of the board of directors or similar governing body of any direct or indirect subsidiary of the Corporation of any power or authority;

- (iv) amendment or restatement of the Amended APP Articles of Incorporation or the Amended APP Bylaws; and
 - (v) any dissolution or liquidation of the Corporation or any direct or indirect subsidiary of the Corporation and the distribution of the assets thereof upon such dissolution or liquidation;
- (b) any change in the number of members of the Board of Directors shall require the approval of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand;
- (c) the following matters or actions shall require the approval by at least three-fourths (3/4) of the members of the Board of Directors; provided, however, if at any time there are more than twelve (12) members of the Board of Directors, then each of the following matters and actions also shall require the approval of at least a majority of the NorthShore Directors:
- (i) amendment or restatement of any of the following:
 - (1) the Amended NorthShore Articles;
 - (2) the Amended NorthShore Bylaws;
 - (3) the Amended NPA Articles of Incorporation;
 - (4) the Amended NPA Bylaws; and
 - (5) the Organizational Documents of any of the other NorthShore Corporations;
 - (ii) any amendment, restatement or termination of, or other material alteration in the relationship with the counterparty to, any of the following agreements:
 - (1) that certain Standard License and Support Agreement, dated August 8, 2001, as amended or modified from time to time, between NorthShore and Epic System Corporation;
 - (2) that certain Master Affiliation Agreement, dated July 16, 2008, as amended or modified from time to time, among NorthShore, the University of Chicago and the University of Chicago Medical Center,
 - (3) that certain Sub-Agreement, dated April 14, 2009, as amended or modified from time to time, among

NorthShore, the University of Chicago and the University of Chicago Medical Center; and

- (4) that certain Member Provider Group Agreement, dated July 27, 2012, as amended or modified from time to time, between NorthShore and Mayo Foundation for Medical Education and Research;
- (iii) any NorthShore Corporation being required to participate in any faith-based initiative of any Advocate Corporation or otherwise;
- (iv) the discontinuance of the "NorthShore" name with respect to the businesses, facilities and services of the Corporation;
- (v) any acquisition by a NorthShore Corporation that requires the granting of a seat on the board of directors (or similar governing body) of a NorthShore Corporation to a person(s) designated by the target of such acquisition; and
- (vi) any material reduction or other modification to any capital expenditure approved by the board of directors of NorthShore prior to the date of the Affiliation Agreement, including reasonable reductions or modifications intended to support the goal of creating efficiencies and synergies; and
- (d) the following matters or actions shall require the approval by at least three-fourths (3/4) of the members of the Board of Directors; provided, however, if at any time there are more than twelve (12) members of the Board of Directors, then each of the following matters and actions also shall require the approval of at least a majority of the Advocate Directors:
 - (i) amendment or restatement of any of the following:
 - (1) the Amended AHHC Articles;
 - (2) the Amended AHHC Bylaws; and
 - (3) the Organizational Documents of any of the other Advocate Corporations;
 - (ii) any amendment, restatement or termination of, or other material alteration in the relationship with the counterparty to, any of the following agreements:
 - (1) that certain Master Educational Affiliation Agreement, dated July 1, 2012, between the Advocate Obligated Group and the Board of Trustees for the University of Illinois for

Undergraduate Medical Education and Graduate Medical Education;

- (2) that certain Master Affiliation Agreement, dated May 8, 2011, between the Advocate Obligated Group and Rosalind Franklin University of Medicine and Science, through its Chicago Medical School; and
- (3) that certain Master Affiliation Agreement, dated June 20, 2012, between the Advocate Obligated Group and Midwestern University;
- (iii) any material change to or termination of the Advocate Corporations' relationship with United Church of Christ or the Evangelical Lutheran Church in America;
- (iv) the discontinuance of the "Advocate" name with respect to the businesses, facilities and services of the Corporation;
- (v) any material reduction or other modification to any capital expenditure approved by the Advocate Board of Directors prior to the date of the Affiliation Agreement, including reasonable reductions or modifications intended to support the goal of creating efficiencies and synergies; and
- (vi) any acquisition by an Advocate Corporation that requires the granting of a seat on the board of directors (or similar governing body) of an Advocate Corporation to a person(s) designated by the target of such acquisition.

4.7 Action Requiring Approval of NorthShore Directors. During the period from the Effective Date to the date that is two (2) years from the Effective Date, the discontinuance of the "NorthShore" name with respect to the businesses, facilities and services of any of the NorthShore Corporations (as defined in the Affiliation Agreement) shall require the approval of at least a majority of the NorthShore Directors.

4.8 Attendance of Meetings. Inasmuch as attendance at meetings of the Board of Directors is important to the discharge of a Director's responsibilities, if a Director (in the absence of extenuating circumstances appropriately indicated to the Secretary of the Corporation) is absent from three (3) consecutive Board meetings, then such Director shall be presumed to have resigned as a Director.

ARTICLE V. Officers

5.1 Officers. The officers of the Corporation shall consist of: (a) a Chairperson;

(b) a Vice Chairperson; (c) for the period from the Effective Date to the date that is two (2) years from the Effective Date, two (2) Co-Chief Executive Officers and, on and after the date that is two (2) years from the Closing Date, one (1) Chief Executive Officer; (d) a Secretary; (e) a Treasurer; and (f) such other assistant secretaries and assistant treasurers or such officers as deemed necessary. Any two or more offices (other than Chairperson and Vice-Chairperson) may be held by the same person. The Chairperson and the Vice-Chairperson shall be Directors or Ex-Officio Directors. No other officer need be a Director or Ex-Officio Director. The duties of certain of these officers are prescribed below.

5.2 Election/Selection and Term of Office. Except as otherwise set forth in Sections 5.7, 5.8 and 5.9, the Chairperson, Vice Chairperson, Co-Chief Executive Officers and Chief Executive Officer shall be elected by the Board of Directors. All officers, other than the Chairperson and Vice Chairperson, shall be appointed by the Chief Executive Officer (or jointly appointed by the Co-Chief Executive Officers). Except as otherwise set forth in Sections 5.7, 5.8 and 5.9, each officer shall hold office until his or her successor shall have been duly elected and qualified or until his or her death, resignation or removal as provided herein.

The appointment or election of an officer shall not of itself create contract rights of the officer.

5.3 Resignation. Any officer may resign at any time by giving written notice to the Chairperson, to the Chief Executive Officer or to the Secretary. Such resignation shall take effect on the date of receipt or at any later time specified in it.

5.4 Removal. Except as set forth in Sections 5.7, 5.8 and 5.9 and as set forth in this Section 5.4, any appointed officer may be removed at any time, with or without cause, by the person or body entitled to appoint such officer pursuant to Section 5.1, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. During the period from Effective Date to the date that is six (6) years from the Effective Date, either of the Co-Chief Executive Officer(s) or the Chief Executive Officer may be removed from their office at any time, with or without cause, by affirmative votes of at least a three-fourths (3/4) of the members of the Board of Directors. Thereafter, the Chief Executive Officer may be removed from office at any time, with or without cause, by affirmative vote of at least a majority of the Board of Directors.

5.5 Vacancies. Vacancies may be filled for the unexpired portion of the term or new offices created and filled at any meeting of the Board of Directors.

5.6 Compensation. The officers of the Corporation who are Directors and not actively engaged in the operations of any facilities owned or operated by the Corporation shall serve without compensation for their services as such officers. The compensation of all other officers shall be fixed from time to time by the Board of Directors.

5.7 Chairperson of the Board.

(a) General Responsibilities. The Chairperson shall be the chief policy officer of the Corporation and shall preside at all meetings of the Board of Directors. The Chairperson (or a designee) shall be an ex-officio member of all Committees of the Board of Directors that may exist from time to time. The Chairperson may sign, with the Secretary or other proper officer of the Corporation authorized by the Board of Directors, any deeds, bonds, contracts or other instruments which the Board of Directors has authorized to be executed. The Chairperson shall also perform such other duties as may be prescribed by the Board of Directors from time to time.

(b) Selection. During the period from the Effective Date to the date that is three (3) years from the Effective Date, the Chairperson shall be selected by the majority vote of the Advocate Directors. During the period from the date that is three (3) years from the Effective Date to the date that is six (6) years from the Effective Date, the Chairperson shall be selected by the majority vote of the NorthShore Directors. Thereafter, the Chairperson shall be selected by the Board of Directors at the annual meeting of the Corporation to serve a two (2) year term. Should the Director term of the Chairperson end while he or she is serving in office, the Director term will be extended to allow completion of the officer term and subsequent terms will be adjusted to maintain class integrity.

5.8 Vice-Chairperson.

(a) General Responsibilities. In the absence of the Chairperson, the Vice-Chairperson shall perform the duties of the Chairperson, and when so acting, have all the powers of and be subject to all the restrictions on the Chairperson. The Vice-Chairperson shall perform such other duties as may be assigned from time to time by the Chairperson or by the Board of Directors.

(b) Selection. During the period from the Effective Date to the date that is three (3) years from the Effective Date, the Vice-Chairperson shall be selected by the majority vote of the NorthShore Directors. During the period from the date that is three (3) years from the Effective Date to the date that is six (6) years from the Effective Date, the Vice-Chairperson shall be selected by the majority vote of the Advocate Directors. Thereafter, the Vice-Chairperson shall be selected by the Board of Directors at the annual meeting of the Corporation to serve a two (2) year term. Should the Director term of the Vice-Chairperson end while he or she is serving in office, the Director term will be extended to allow completion of the officer term and subsequent terms will be adjusted to maintain class integrity.

5.9 Chief Executive Officer and Co-Chief Executive Officer(s).

(a) General Responsibilities/Deadlock. The Co-Chief Executive Officers and the Chief Executive Officer, as applicable, shall be responsible for the overall management of the Corporation subject to the direction and control of the Board of Directors. The Co-Chief Executive Officers and Chief Executive Officers, as applicable, shall:

- (i) be in charge of the business and affairs of the Corporation;
- (ii) see that the resolutions and directives of the Board of Directors are carried into effect except in those instances in which that responsibility is assigned to some other person by the Board of Directors; and
- (iii) in general, discharge all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors.

The Co-Chief Executive Officers and the Chief Executive Officer, as applicable, may also sign, with the Secretary or other officer of the Corporation authorized by the Board of Directors any deeds, bonds, contracts or other instruments which the Board of Directors has authorized to be executed. The Co-Chief Executive Officers and Chief Executive Officer, as applicable, shall also be authorized to act on behalf of the Corporation in exercising its rights as the member or shareholder of any corporation which is controlled by the Corporation, subject to such orders as may be issued by the Board of Directors.

The Co-Chief Executive Officers shall create mutually acceptable job descriptions which allocate the responsibilities of the office among themselves. In the event that the Co-Chief Executive Officers cannot agree on a proposed action for which they

have agreed to share joint responsibility and either of the Co-Chief Executive Officers believes that the action requires a definitive affirmative or negative vote, then the matter shall be referred to the Board of Directors for further discussion and resolution. If after a reasonable period of time, the Board of Directors is unable to reach any result, then it shall discontinue its efforts and the deadlock shall stand. During such time as the Co-Chief Executive Officers are serving and whether or not expressly stated, any reference in these Bylaws to the Chief Executive Officer shall mean both Co-Chief Executive Officers unless otherwise expressly agreed by both Co-Chief Executive Officers.

(b) Selection/Transition to Sole Chief Executive Officer. As of the Effective Date, the Co-Chief Executive Officers are Mr. James Skogsbergh and Mr. Mark Neaman. During the period from the Effective Date to the date that is two (2) years following the Closing Date, each of Mr. Skogsbergh's successors as Co-Chief Executive Officer, as necessary, shall be selected by a majority of the Advocate Directors and each of Mr. Neaman's successors as Co-Chief Executive Officer, as necessary, shall be designated in writing by Mr. Neaman, provided, however, that any successor (other than Gerald P. Gallagher) so selected shall be subject to the reasonable approval of a collective majority of (a) a majority of the NorthShore Directors (other than Mr. Neaman if he is then a NorthShore Director) and (b) the other Co-Chief Executive Officer.

5.10 Treasurer. The Treasurer shall be responsible for all funds and securities of the Corporation; shall receive and receipt for all monies due and payable to the Corporation; shall cause all such monies to be deposited in the name of the Corporation in such depositaries as may be selected by the Board of Directors; shall from time to time (but not less often than annually) review with the Board of Directors the identities of the depositaries and the respective deposits therein and make recommendations to the Board of Directors with respect thereto; shall keep or cause to be kept complete and accurate accounts of the properties and financial transactions of the Corporation; shall submit annually to the Board of Directors a statement fully disclosing the financial condition of the Corporation; and in general shall perform all the duties customarily incident to the office of a corporate treasurer and such other duties as from time to time may be assigned by the Chairperson of the Board, the Chief Executive Officer or the Board of Directors.

5.11 Secretary. The Secretary shall cause to be kept minutes of the meetings of the Board of Directors; shall cause notices to be duly given in accordance with the provisions of these Bylaws or as required by law; shall be responsible for the safe custody of the corporate records and of the seal of the Corporation and shall cause

the seal to be affixed to all documents the execution of which under seal is authorized in accordance with these Bylaws; shall cause to be kept a register of the post office address of each Director and Ex-Officio Director which shall be furnished to the Secretary by such Director or Ex-Officio Director, as applicable; and in general shall perform all duties customarily incident to the office of a corporate secretary and such other duties as from time to time may be assigned by the Chairperson, the Chief Executive Officer or the Board of Directors.

5.12 Assistant Treasurers and Assistant Secretaries. If elected, Assistant Treasurers and the Assistant Secretaries shall perform such duties as shall be assigned to them respectively by the Treasurer, Secretary, Chairperson, the Chief Executive Officer or the Board of Directors.

5.13 Chief Operating Officer(s). If elected or appointed, the Chief Operating Officer(s) shall, subject to the direction of the Chief Executive Officer, have the authority and responsibility for and perform the duties associated with the day-to-day administration of the Corporation. In the absence of the Chief Executive Officer, a Chief Operating Officer shall perform the duties of the Chief Executive Officer.

ARTICLE VI.

Committees of the Board

6.1 Committee of the Whole. The Board of Directors shall function as a committee of the whole until such time as the Board of Directors has established one or more committees (each, a "Committee").

6.2 Establishment or Discontinuation of Committees. The Board of Directors may establish or discontinue Committees as it shall consider in the best interests of the Corporation. The Board of Directors shall approve a charter for each Committee outlining the scope of its responsibility. However, no such Committee shall have the authority of the Board of Directors in reference to (i) amending, altering or repealing these Bylaws; (ii) electing, appointing or removing any member of any such Committee or any Director or officer of the Corporation; (iii) amending the Articles of Incorporation of the Corporation; (iv) adopting a plan of merger or adopting a plan of consolidation with another corporation; (v) authorizing the sale, lease, exchange or mortgage of all or substantially all of the property and assets of the Corporation; (vi) authorizing the voluntary dissolution of the Corporation or revoking proceedings therefor; (vii) adopting a plan for the distribution of the assets of the Corporation; (viii)

amending, altering or repealing any resolution of the Board of Directors which by its terms provides that it shall not be amended, altered or repealed by such Committee; or (ix) or otherwise taking any action or approving any matter which requires special approval pursuant to Section 4.6 or 4.7. In addition, the Board of Directors may assign to any Committee additional powers and functions as may be deemed appropriate.

6.3 Meetings. Once established, meetings of a Board Committee may be called by, or at the direction of, the Chairperson, either of the Co-Chief Executive Officers or the Chief Executive Officer, as applicable, the Secretary, the Chairperson of the Committee or a majority of the members of the Committee, to be held at such time and place as shall be designated in the notice of the meeting. Written notice of the time, place and purpose of any meeting of a Committee shall be given to each member of such Committee at least five (5) days prior to such meeting.

6.4 Waiver of Notice. Any member of a Committee may waive notice of any meeting of a Committee. The attendance of a member at any such meeting shall constitute a waiver of notice of such meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

6.5 Quorum. During the period from the Effective Date to the date that is six (6) years following the Effective Date, a majority of the NorthShore Directors serving as members of a Committee and a majority of the Advocate Directors serving as members of a Committee shall constitute a quorum for the transaction of business at any meeting of such Committee. On and after the date that is six (6) years from the Effective Date, a majority of the members of a Committee shall constitute a quorum for the transaction of business at any meeting of such Committee. In each case, if less than a quorum is present, a majority of the members of the Committee present and entitled to vote may adjourn the meeting from time to time without further notice.

6.6 Manner of Acting. Each member of a Committee is entitled to one (1) vote on any matter before such Committee. Voting by proxy is not permitted. The act of a majority of the Directors present and entitled to vote at any meeting at which a quorum is present shall be the act of the Committee, except where otherwise provided by law, the Affiliation Agreement or by these Bylaws. Members of a Committee, subject to the Chairperson's approval, may participate in and act at any

meeting of a Committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can communicate with each other, and participation in such meeting shall constitute attendance and presence in person at the meeting of the members so participating. No action of any Committee shall be valid unless taken at a meeting at which a quorum is present, except that any action which may be taken at a meeting of a Committee may be taken without a meeting if a consent in writing (setting forth the action so taken) shall be signed by all members of such Committee. The Committees may adopt their own rules of procedure which shall not be inconsistent with these Bylaws and in the absence of such rules of procedure, Robert's Rules of Order shall apply.

6.7 Composition of Committees. Each Committee shall be composed of a number of NorthShore Directors and a number of Advocate Directors proportionate to the number of NorthShore Directors and the number of Advocate Directors sitting on the Board of Directors at any given time. By way of example, if sixty percent (60%) of the members of the Board of Directors are Advocate Directors and forty percent (40%) of the members of the Board of Directors are NorthShore Directors, then sixty percent (60%) of the members of the relevant Committee must be Advocate Directors and forty percent (40%) of the members of the relevant Committee must be NorthShore directors.

6.8 Advisory Members. The Board of Directors may from time to time appoint one or more members of the professional staff of the Corporation, any of its subsidiaries or other persons, who may or may not be members of the Board of Directors, as advisory members of a Committee. Advisory members of a Committee shall be afforded the privileges of members of the Committee but may be excluded from any meeting or from receiving any materials distributed to the members of the Board of Directors by the Chairperson or the Chairperson of such Committee and shall not have any vote.

ARTICLE VII.

Conflicts of Interest

7.1 Key Individual. For purposes of this Article, all Directors, officers, and management employees of this Corporation shall be "Key Individuals."

7.2 Prohibition. There shall be no conflict between the personal interests (direct or indirect) of an officer or management employee of the Corporation and the

interests of the Corporation except in instances where both the Chairperson and the Chief Executive Officer (or the other Co-Chief Executive Officer if a Co-Chief Executive Officer is the Chairperson or the Vice-Chairperson if the Chief Executive is the Chairperson) conclude that it is in the best interests of the Corporation to authorize the transaction or activity which would give rise to such a conflict.

7.3 Conflict of Interest of Director. If a transaction is fair to the Corporation at the time it is authorized, approved, or ratified, the fact that a Director or Ex-Officio Director is directly or indirectly a party to the transaction is not grounds for invalidating the transaction. For purposes of this Section 7.3, a Director or Ex-Officio Director is “indirectly” a party to a transaction if the other party to the transaction is an entity in which the Director or Ex-Officio Director, as applicable, has a material financial interest or of which the Director is an officer, director or general partner.

7.4 Disclosure Requirement. Any conflict of interest of a Key Individual which becomes relevant to any matter requiring action by the Board of Directors or any of its committees shall be disclosed to the Board of Directors or committee and such Key Individual, if a Director or Ex-Officio Director, shall not vote on such matter, shall not use personal influence in connection therewith, and shall not be counted in determining the quorum for the meeting. The minutes of the meeting shall reflect that a disclosure was made, that the Key Individual, if a member of the Board of Directors or committee, abstained from voting and was not counted in determining the quorum for the meeting.

ARTICLE VIII.

Indemnification

8.1. General. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a Director, Ex-Officio Director or officer of the Corporation, or is or was serving at the request of the Corporation as a member, manager, director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal

action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

8.2. Derivative Claims. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a Director, Ex-Officio Director or officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a member, manager, director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the Corporation unless and only to the extent that the Chancery Division, Circuit Court of Cook County, State of Illinois, or the court in which such action or suit was brought, shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper.

8.3. Expenses. To the extent that any person referred to in Section 8.1 or 8.2 has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to therein or in the defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

8.4. Authorization for Indemnification. Any indemnification under Sections 8.1 or 8.2 (unless ordered by a court) shall be made by the Corporation only as authorized in a specific case upon a determination that indemnification of the person to be so indemnified is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Sections 8.1 or 8.2. Such determination shall be made

(a) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding; or

(b) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested members of the Board of Directors so directs, by independent legal counsel in a written opinion.

8.5. Advancement of Funds for Expenses. Expenses incurred in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the person to be so indemnified to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the Corporation as provided in this Article VIII.

8.6. Non-Exclusive. The indemnification provided by this Article VIII shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, bylaw, agreement, vote of disinterested members of the Board of Directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a member, director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

8.7. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director, Ex-Officio Director officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a member, Director, Ex-Officio Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against the person and incurred by the person in any such capacity, or arising out of the person's status as such, whether or not the Corporation would have the power to indemnify the person against such liability under the provisions of this Article VIII.

ARTICLE IX.

Miscellaneous

9.1 Notice. Any notice required or permitted to be given pursuant to the provision of these Bylaws shall be in writing and shall be sufficient and effective as of the date personally delivered or, if sent by mail, on the date deposited with the United States Postal Service, postage prepaid and addressed to the intended receiver at its last known address as shown in the records of the Corporation.

9.2 Contracts. The Board of Directors may authorize any officer or officers, agent or agents of the Corporation in addition to the officers so authorized by these Bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances.

9.3 Checks. All checks, drafts and other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors. In the absence of such determination by the Board of Directors, such instrument shall be signed by the Treasurer and countersigned by the Chief Executive Officer or the Chief Operating Officer.

9.4 Deposits. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositaries as the Board of Directors may select.

9.5 Bonds. All officers and agents of the Corporation responsible for the receipt, custody or disbursement of funds shall give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine.

9.6 Office. The Corporation shall have and continuously maintain in the State of Illinois a registered office and a registered agent whose office is identical with such registered office.

9.7 Seal. The Board of Directors shall provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and the words "Seal-Illinois."

9.8 Fiscal Year. The fiscal year of the Corporation shall be the calendar year or as otherwise determined by the Board of Directors.

9.9 Review of Bylaws. When appropriate, these Bylaws shall be reviewed and revised in accordance with Article X.

ARTICLE X.

Amendments

During the period from the Effective Date to the date that is six (6) years following the Effective Date, these Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the affirmative vote of at least three-fourths of the members of the Board of Directors (provided, however, if there are more than twelve (12) members of the Board of Directors, then the affirmative vote of at least a majority of the NorthShore Directors, on the one hand, and at least a majority of the Advocate Directors, on the other hand, shall also be required) at any regular or special meeting, if the proposed alteration, amendment, action for repeal or form of new Bylaws is submitted in writing to each Director at least five (5) days prior

to the meeting at which the same is to be considered. On and after the date that is six (6) years following the Effective Date, these Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the affirmative vote of at least three-fourths of the members of the Board of Directors at any regular or special meeting, if the proposed alteration, amendment, action for repeal or form of new Bylaws is submitted in writing to each Director at least five (5) days prior to the meeting at which the same is to be considered.

ARTICLE XI.

Dissolution

Upon any dissolution or liquidation of the Corporation during the period from the Effective Date to the date that is six (6) years following the Effective Date, the assets shall be distributed to one or more entities, each of which shall qualify as an exempt organization under section 501(c)(3) of the Code (or the corresponding provision of any future United States Internal Revenue Law), as determined by the affirmative vote of (i) at least three-fourths of the members of the Board of Directors and (ii) if there are more than twelve (12) members of the Board of Directors, then the affirmative vote of at least a majority of the NorthShore Directors and at least a majority of the Advocate Directors; provided, however, it is the intent as of the Effective Date of the parties to the Affiliation Agreement that the final distribution of the assets of the NorthShore Corporations, on the one hand, and the assets of the Advocate Corporations, on the other hand, be made as closely as is reasonably practicable to the distribution that would have occurred pursuant to the organizational documents of each entity as in effect immediately prior to the Effective Date.

Upon any dissolution or liquidation of the Corporation at any time subsequent to the date that is six (6) years following the Effective Date, the assets shall be distributed to one or more entities, each of which shall qualify as an exempt organization under section 501(c)(3) of the Code (or the corresponding provision of any future United States Internal Revenue Law), as determined by the affirmative vote of at least a majority of the members of the Board of Directors; provided, however, it is the intent as of the Effective Date of the parties to the Affiliation Agreement that the final distribution of the assets of the NorthShore Corporations, on the one hand, and the assets of the Advocate Corporations, on the other hand, be made as closely as is reasonably practicable to the distribution that would have occurred pursuant to the organizational documents of each entity as in effect immediately prior to the Effective Date.

Any such assets not so distributed shall be disposed of by the court of general jurisdiction in Cook County, Illinois, exclusively to such organization or

organizations qualifying under section 501(c)(3) of the Code, in such manner as said court shall determine.

SCHEDULES
to
AFFILIATION AGREEMENT
dated September 11, 2014
among
NORTHSHORE UNIVERSITY HEALTHSYSTEM,
ADVOCATE HEALTH CARE NETWORK,
and
ADVOCATE HEALTH AND HOSPITALS CORPORATION

Organizational Documents
Schedule 5.4(b)

1. NorthShore
2. NorthShore University HealthSystem Faculty Practice Associates
3. The Radiation Medicine Institute
4. NorthShore Physician Associates, Inc.
5. NorthShore University HealthSystem Insurance International
6. HPMOB Limited Partnership
7. Advocate Health Care Network
8. Advocate Condell Medical Center
9. Advocate North Side Health Network
10. Advocate Sherman Hospital
11. Evangelical Services Corporation

Interim Conduct of Business
Schedule 6.1(a)

1. Actions related to that certain Asset Purchase Agreement between NorthShore and Fresenius Medical Care of Illinois, LLC, dated July 25, 2014.
2. Advocate Health and Hospitals Corporation withdrew as a Corporate Member of Rainbow Hospice and Palliative Care, effective as of August 1, 2014.

NORTHSHORE DISCLOSURE SCHEDULE
to
AFFILIATION AGREEMENT
dated September 11, 2014
among
NORTHSHORE UNIVERSITY HEALTHSYSTEM,
ADVOCATE HEALTH CARE NETWORK,
and
ADVOCATE HEALTH AND HOSPITALS CORPORATION

This (this "Disclosure Schedule") is the NorthShore Disclosure Schedule referred to in that certain Affiliation Agreement, dated as of September 11, 2014 (the "Agreement"), among NorthShore University HealthSystem, an Illinois not-for-profit corporation ("NorthShore"), Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate" or, when referring to it herein with respect to events or circumstances following the closing, "ANHP"), and Advocate Health and Hospitals Corporation, an Illinois not-for-profit corporation ("AHHC"). Capitalized terms used but not defined in this Disclosure Schedule shall have the meanings ascribed to such terms in the Agreement. This Disclosure Schedule is qualified in its entirety by reference to specific provisions of the Agreement. The mere inclusion of information in this Disclosure Schedule as an exception to a representation, warranty or covenant shall not (a) be deemed an admission by NorthShore that such information represents a material exception or a material fact, event or circumstance or that such information has had or would reasonably be expected to have a Material Adverse Effect or (b) constitute, or be deemed to be, an admission to any third party concerning such information. Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected in this Disclosure Schedule. Such additional matters are set forth for informational purposes only, and this Disclosure Schedule does not necessarily include other matters of a similar nature. Similarly, the inclusion of information herein as to matters in the ordinary course of business does not mean that other such information is also included.

Matters disclosed in any section of this Disclosure Schedule shall be deemed to be disclosed in other sections of this Disclosure Schedule, as well, to the extent the relevance of such matters to such other sections of this Disclosure Schedule is reasonably apparent based on the content of the disclosure for purposes of qualifying the representations and warranties of NorthShore set forth in the Agreement. Headings and introductory language have been included in this Disclosure Schedule for convenience only, and such headings and introductory language shall not have the effect of amending, and shall not be used to construe, the representations and warranties of NorthShore set forth in the Agreement.

No Conflict
Section 5.3

(b)(ii)

1. Blue Cross Participating Provider Option (PPO) Hospital Contract, dated June 24, 1987, between Health Care Service Corporation, a Mutual Legal Reserve Company (Blue Cross and Blue Shield of Illinois) and NorthShore, as amended, restated or modified from time to time.
2. Hospital Services Agreement, dated August 5, 2005 and effective September 1, 2005, between Aetna Health Inc. and NorthShore, as amended by that certain Amendment dated July 1, 2014 and as otherwise amended, restated or modified from time to time.
3. Facility Participation Agreement, effective June 16, 2006, between UnitedHealthcare Insurance Company and NorthShore, as amended, restated or modified from time to time (notice only).
4. Member Provider Group Agreement, dated July 27, 2012, between NorthShore and Mayo Foundation for Medical Education and Research, as amended, restated or modified from time to time.
5. Master Affiliation Agreement, dated July 16, 2008, among NorthShore, the University of Chicago and the University of Chicago Medical Center, along with that certain Sub-Agreement, dated April 14, 2009, both as amended, restated or modified from time to time.
6. State of Illinois Contract between the Department of Healthcare and Family Services and Community Care Partners, LLC, dated February 24, 2014.

(b)(iv)

Consent or notice may be required with respect to, but not limited to, the following: an Illinois Hospital License, Medicare Provider Agreements, Medicaid Provider Agreements, Drug Enforcement Agency Registration, Joint Commission, Illinois Pharmacy Licenses, Illinois Radiology License, Illinois State Controlled Substances License, Illinois CON Board.

System Corporation Names and Jurisdictions of Formation
Section 5.4(a)

1. NorthShore University HealthSystem, an Illinois not for profit corporation
2. NorthShore University HealthSystem Faculty Practice Associates, an Illinois not for profit corporation
3. The Radiation Medicine Institute, an Illinois not for profit corporation
4. NorthShore Physician Associates, Inc., an Illinois corporation
5. HPMOB Limited Partnership, an Illinois limited partnership
6. NorthShore University HealthSystem Insurance International, an entity incorporated in the Cayman Islands
7. Community Care Partners LLC, an Illinois limited liability company

System Corporation Names and Jurisdictions of Formation
Section 5.4(c)

1. Certain equity interests in the HPMOB Limited Partnership are owned by the current limited partners of HPMOB Limited Partnership, and such limited partners are physicians affiliated with NorthShore.
2. NorthShore (as successor-in-interest to ENH) owns approximately 30% of Ravine Way Partners, LLC.
3. NorthShore (as successor-in-interest to ENH) owns approximately 49% of ENH/USP Surgery Centers II, LLC.

Material Contracts
Section 5.13(a)

(ii)

1. Master Trust Indenture, dated as of October 1, 1985, between NorthShore (formerly, Evanston Hospital Corporation) and First Trust of Illinois, National Association, as successor to Bank of America Illinois (formerly, Continental Illinois National Bank and Trust Company of Chicago), as master trustee, as supplemented and amended from time to time.

(iv)

None.

(v)

2. Operating Agreement of Ravine Way Surgery Center, LLC, dated March 2005, between Ravine Way Partners, LLC and Evanston Northwestern Healthcare ("ENH").
3. Operating Agreement of ENH/USP Surgery Centers II, LLC ("ENH/USP") between ENH and USP Chicago, Inc. ("USP") and together with ENH, the "Member" or "Members", dated April 2005.
4. Contribution Agreement between ENH/USP and the Members, dated April 2005

(vii)

5. Hospital Participation Agreement, dated January 1, 1993, between Humana HealthPlan, Inc., Humana HealthChicago Inc., Humana Insurance Company and Humana HealthChicago Insurance Company and NorthShore, as amended, restated or modified from time to time.
6. Hospital Managed Care Agreement, dated December 1, 2000, between CIGNA Healthcare of Illinois, Inc. and NorthShore, as amended, restated or modified from time to time.
7. Blue Cross Participating Provider Option (PPO) Hospital Contract, dated June 24, 1987, between Health Care Service Corporation, a Mutual Legal Reserve Company (Blue Cross and Blue Shield of Illinois) and NorthShore, as amended, restated or modified from time to time.
8. Hospital Services Agreement, dated August 5, 2005 and effective September 1, 2005, between Aetna Health Inc. and NorthShore, as amended, restated or modified from time to time.
9. Facility Participation Agreement, effective June 16, 2006, between UnitedHealthcare Insurance Company and NorthShore, as amended, restated or modified from time to time.

10. Hospital Service Agreement, undated, between HMO Illinois, a product of Health Care Service Corporation, a Mutual Legal Reserve Company and Independent Licensee of the Blue Cross and Blue Shield Association, and NorthShore.

(ix)

None.

(x)

11. Asset Purchase Agreement between NorthShore and Fresenius Medical Care of Illinois, LLC, dated July 25, 2014.
12. Asset Purchase agreement between NorthShore and Walgreen Co., dated December, 2013.
13. Operating Agreement of ENH/USP between the Members, dated April 2005.
14. Operating Agreement of Ravine Way Surgery Center, LLC, dated March 2005, between Ravine Way Partners, LLC and ENH.

(xi)

None.

(xii)

None.

(xiii)

15. Master Affiliation Agreement, dated July 16, 2008, among NorthShore, the University of Chicago and the University of Chicago Medical Center, along with that certain Sub-Agreement, dated April 14, 2009, both as amended, restated or modified from time to time.

(xiv)

16. Management Services Agreement, dated January 1, 2012, between Valence Health, Inc. ("Valence") and NorthShore Physician Associates, Inc.
17. Management Services Agreement, undated, between Valence and CCP (this agreement is still being negotiated).
18. Vendor Distribution and ValueLink Agreement, effective November 25, 2013, between the Company and Cardinal Health 200, LLC.
19. Corporate Program Agreement, dated February 1, 2009, between Medline Industries, Inc. ("Medline") and NorthShore.

20. "Patient Specific" Supply Management Program Agreement, dated August 18, 2011, between Medline, MedCal Sales LLC, Medline Industries Holdings, L.P. and NorthShore.

(xv)

None.

(xvi)(a)

None.

(xvi)(b)

None.

(xvi)(c)

21. State of Illinois Contract between the Department and Community Care Partners, LLC ("CCP") dated February 24, 2014 .
22. Management Services Agreement, dated January 1, 2012, between Valence Health, Inc. ("Valence") and NorthShore Physician Associates, Inc.
23. Management Services Agreement, undated, between Valence and CCP (this agreement is still being negotiated).
24. Illinois Health Information Exchange Data Sharing Agreement, dated July 28, 2014, between NorthShore and the Illinois Health Information Exchange Authority.
25. Member Provider Group Agreement, dated July 27, 2012, between NorthShore and Mayo Foundation for Medical Education and Research, as amended, restated or modified from time to time.
26. Standard License and Support Agreement, dated August 8, 2001, between Epic Systems Corporation and Evanston Northwestern Healthcare, as amended, restated or modified from time to time.
27. IT Outsourcing Agreement, dated August 1, 2002, between McKesson Technologies Inc. and ENH, as amended, restated or modified from time to time.
28. Management Services Agreement between NorthShore and Aramark Management Services Limited Partnership, dated January 31, 2014, as amended, restated or modified from time to time.
29. Master Outsourcing Services Agreement between ENH and Springfield Service Corporation, effective February 1, 2005

30. Information Exchange Data Sharing Agreement, dated July 2014, between the Illinois Health Information Exchange Agency and NorthShore.
31. Engagement Letter Agreement, dated August 3, 2009, setting forth the terms under which Mercer's operating companies, Mercer (US) Inc., Mercer Investment Consulting, Inc. and/or Mercer Health & Benefits LLC, will provide services to NorthShore.
32. Administrative Services Agreement, dated July 15, 2009, between Mercer (US) Inc. and NorthShore.
33. Administrative Services Agreement, dated January 1, 2006, between Aetna Life Insurance Company, on behalf of itself and its affiliated health maintenance organizations, and ENH, as the Plan Sponsor and the ENH Welfare Committee.
34. Client Services Agreement, dated January 1, 2014, between Catamaran PBM of Illinois II, Inc. and NorthShore, on behalf of the NorthShore Welfare Plan.
35. Lease Agreement, dated November 23, 2008, between Northwestern University and NorthShore.
36. Trust Agreement, dated March 1, 2013, between NorthShore in its corporate capacity and the Plan Sponsor of the NorthShore Retirement Contribution Plan (the "Plan"), NorthShore as the named fiduciary of the Plan and ING National Trust.
37. Plan Information and Services Agreement, dated March 1, 2013, among ING Life Insurance and Annuity Company ("ILIAC"), ING Financial Advisers, LLC and NorthShore, on behalf of the NorthShore Retirement Contribution Plan.
38. Plan Sponsor Investment Advisory Services Agreement, dated April 1, 2009, between Morningstar Associates, LLC and NorthShore.
39. ILIAC Plan Sponsor Investment Advisory Access Agreement, dated April 1, 2009, between ILIAC and NorthShore.
40. ILIAC Plan Sponsor Investment Advisory Access Agreement, dated January 1, 2009, between ILIAC and NorthShore.
41. Rabbi Trust Agreement Under ENH Executive & Physician Income Deferral Plan Top Hat 457(b) Plan, dated April 1, 2002, between ENH and ING National Trust.
42. ILIAC Plan Sponsor Investment Advisory Access Agreement, dated April 1, 2009, between ILIAC and NorthShore.
43. Plan Services Agreement, dated February 1, 2002, between ILIAC (formerly known as Aetna Life Insurance and Annuity Company) and ENH, in conjunction with ENH Tax deferred

Annuity Plan, Plan Numbers VFZ068/666/068 & VFZ075/666075, as modified, amended or restated from time to time.

Multiemployer Plans
Section 5.19(b)

None.

Employee Benefit Plans Subject to Title IV of ERISA
Section 5.19(f)

NorthShore University HealthSystem Pension Plan, frozen to new hires and rehires effective as of January 1, 2013, and frozen with respect to all participants after December 31, 2013.

Claims Related to Employee Benefit Plans
Section 5.19(h)

None.

Union Associates
Section 5.20(c)

None.

Collective Bargaining Agreements
Section 5.20(d)

None.

Intellectual Property Licenses
Section 5.21(a)

None.

Information Privacy and Security Law Violations
Section 5.21(g)

None.

Breach of Personal Information
Section 5.21(h)

None.

Environmental Indemnities
Section 5.22(e)

1. Asset Purchase Agreement between NorthShore and Fresenius Medical Care of Illinois, LLC, dated July 25, 2014.

ADVOCATE DISCLOSURE SCHEDULE
to
AFFILIATION AGREEMENT
dated September 11, 2014
among
NORTHSHORE UNIVERSITY HEALTHSYSTEM,
ADVOCATE HEALTH CARE NETWORK,
and
ADVOCATE HEALTH AND HOSPITALS CORPORATION

This (this "Disclosure Schedule") is the Advocate Disclosure Schedule referred to in that certain Affiliation Agreement, dated as of September 11, 2014 (the "Agreement"), among NorthShore University Health System, an Illinois not-for-profit corporation ("NorthShore"), Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate" or, when referring to it herein with respect to events or circumstances following the closing, "ANHP"), and Advocate Health and Hospitals Corporation, an Illinois not-for-profit corporation ("AHHC"). Capitalized terms used but not defined in this Disclosure Schedule shall have the meanings ascribed to such terms in the Agreement. This Disclosure Schedule is qualified in its entirety by reference to specific provisions of the Agreement. The mere inclusion of information in this Disclosure Schedule as an exception to a representation, warranty or covenant shall not (a) be deemed an admission by Advocate that such information represents a material exception or a material fact, event or circumstance or that such information has had or would reasonably be expected to have a Material Adverse Effect or (b) constitute, or be deemed to be, an admission to any third party concerning such information. Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected in this Disclosure Schedule. Such additional matters are set forth for informational purposes only, and this Disclosure Schedule does not necessarily include other matters of a similar nature. Similarly, the inclusion of information herein as to matters in the ordinary course of business does not mean that other such information is also included.

Matters disclosed in any section of this Disclosure Schedule shall be deemed to be disclosed in other sections of this Disclosure Schedule, as well, to the extent the relevance of such matters to such other sections of this Disclosure Schedule is reasonably apparent based on the content of the disclosure for purposes of qualifying the representations and warranties of Advocate set forth in the Agreement. Headings and introductory language have been included in this Disclosure Schedule for convenience only, and such headings and introductory language shall not have the effect of amending, and shall not be used to construe, the representations and warranties of Advocate set forth in the Agreement.

Section 5.3**No Conflict**

(b)

Under the Organizational Documents of Advocate and certain of its System Corporations, the UCC and the ELCA must consent to the Agreement and the Transactions contemplated by the Agreement.

No other material contracts require the consent of a third party to undergo a change of control.

Section 5.4(a)

Advocate Entities

Wholly Owned Entities	State of Incorporation
Advocate Health Care Network	Illinois
Advocate Charitable Foundation	Illinois
Advocate Condell Medical Center	Illinois
Advocate Health and Hospitals Corporation	Illinois
Advocate Health Centers, Inc.	Illinois
Advocate Home Care Products, Incorporated	Illinois
Advocate Insurance SPC	Illinois
Advocate North Side Health Network	Illinois
Advocate Physician Partners Accountable Care, Inc.	Illinois
Advocate Physician Partners Risk Purchasing Group	Illinois
Advocate Sherman Hospital	Illinois
BroMenn Physicians Management Corporation	Illinois
Dreyer Clinic, Inc.	Illinois
EHS Home Health Care Service, Inc.	Illinois
Evangelical Services Corporation	Illinois
Health Visions, Inc.	Illinois
High Technology, Inc.	Illinois
Hispano Care, Inc.	Illinois
Meridian Hospice	Illinois
Midwest Heart Specialists, Ltd.	Illinois
ShermanChoice, Inc.	Illinois
Sherman Group Practice, Inc.	Illinois

Sherman Health Foundation	Illinois
Sherman Health Insurance Company	Illinois
Sherman Home Health Care Corporation	Illinois
Sherman Physician Group, Inc.	Illinois
Sherman Ventures, Inc.	Illinois
Sherman West Court	Illinois

With regard to Advocate and AHHC, the United Church of Christ and the Evangelical Lutheran Synod retain certain approval and voting rights.

Cooperative Ventures	Jurisdiction	% of Advocate Ownership	Other Owners
A2CL Services, LLC	Wisconsin	50%	Aurora Health Care Ventures, Inc. -50%
Advocate BroMenn Physician Partners	Illinois	50%	Medical Staff of Advocate BroMenn Hospital - 50%
Advocate Christ Hospital Health Partners	Illinois	50%	Medical Staff of Christ Hospital - 50%
Advocate Condell Physician Partners	Illinois	50%	Medical Staff of Advocate Condell Hospital - 50%
Advocate Good Samaritan Health Partners, Ltd.	Illinois	50%	Good Samaritan Physician Association - 50%
Advocate Good Shepherd Health Partners, Ltd.	Illinois	50%	Medical Staff of Good Shepherd Hospital - 50%
Advocate Health Partners	Illinois	50%	Advocate Hospitals PHO's
Advocate Illinois Masonic Health Partners	Illinois	50%	Medical Staff of Illinois Masonic Hospital - 50%
Advocate Lutheran General Health Partners, Inc.	Illinois	50%	Medical Staff of Advocate Lutheran General Hospital - 50%
Advocate Sherman Physician Partners	Illinois	50%	Medical Staff of Advocate Sherman Hospital - 50%
Advocate-South Suburban Health Partners	Illinois	50%	Medical Staff of Advocate South-Suburban Hospital - 50%
Advocate Trinity Health Partners	Illinois	50%	Medical Staff of Advocate Trinity Hospital - 50%
BroMenn Physician Hospital Organization	Illinois	50%	Physicians - 50%

Chicago Northside MRI	Cooperative Venture	50%	Not available
Community Cancer Center, L.L.C.	Illinois	50%	OSF HealthCare System – 50%
Dreyer Medical Group, Ltd.	Illinois	Managed by Advocate	Owned entirely by physician shareholders.
Dreyer Ambulatory Surgery Center Partnership	Cooperative Venture	60%	Mercy Hospital Chicago – 40%
Main Street Child Care Center, LLC	Illinois	50%	Illinois Wesleyan University – 50%
Midwest Center for Sleep Medicine, LLC	Illinois	50%	IHLA, LLC -33.33% IHLA, LLC, Midwest Center for Sleep - 33.33%
Orthopedic and Sports Enhancement Center, LLC	LLC	50%	Physicians – 50%
RIC & AIMMC Rehabilitation Services Joint Venture	Cooperative Venture	50%	Rehabilitation Institute of Chicago – 50%
River West Radiation Center, LLC	Delaware	50%	Rush-Copley Medical Center – 50%
The Delphi Group IV, Inc.	Illinois	83%	Not available

Section 5.4(c)

Cooperative Ventures with fewer than 50% Ownership

Corporation	State of Organization	% of Ownership	Other Owners
Advanced MRI, LLC	Illinois	43%	Global Medical Imaging Develop, Neurad Development, , Carle Clinic Foundation and Physicians
Advocate Southwest Ambulatory Surgery Center, L.L.C.	Illinois	45.57%	Physicians – 54.43%
Algonquin Road Surgery Center, LLC	Delaware	25.5%	Not available
ARSC Real Estate Holdings, LLC	Delaware	25.5%	NIMED (an affiliate of Centegra) – 25.5% Physician Group – 49%
Evergreen Villas, LLC	Illinois	50% interest in McLean County Assisted Living, which has a 50% membership interest in Evergreen Villas, LLC	Not available
Illinois CyberKnife, LLC	Delaware	20 %	U. S. Radiosurgery of Illinois, LLC – 40% ROC Cyberknife Investment – 40%
LGH-A/Golf ASTC, L.L.C.	Illinois	35%	ASTC Services, Ltd -65%
McLean County Assisted Living, L.L.C.	Illinois	40%	Heritage Enterprises – 40%;Seniors/Bloomington – 20%
Midwest Center for Day Surgery, LLC	Illinois	49%	Physicians – 61%
Midwest Surgical Management Group, LLC	Illinois	49%	Physicians – 61%
Naperville Surgical Centre, LLC	Illinois	49.20%	Physicians -50.80%
Parkside Center Condominium Association	Illinois	Owns 85% of condo units	Physicians – 15%
Prairieland Outpatient Diagnostic Center, LLC	Illinois	25%	Physicians – 42% Digestive Disease Consultants – 33%
RML Health Providers Limited Partnership	Illinois	49.5%	Loyola University Medical Center – 49.5% RMLHP Corporation – 1%
The Center for Orthopedic Medicine, L.L.C.	Illinois	32.6% ownership of Surgery Center Series Units 80% ownership of Recovery Care Center	Physicians

		Series Units which operates the TCOM Recovery Care Center	
Vantage Mokena Radiation Oncology, LLC	Illinois	24%	Vantage Oncology Treatment Centers, LLC – 51%, Affiliated Oncologists, LLC – 25%
Vantage South Suburban Radiation Oncology, LLC	Delaware	24%	Vantage Oncology Treatment Centers – 51%, Physicians – 25%.
SharedClarity LLC	Delaware	12%	Dignity Health -32%, United HealCare Services, Inc.-32%, Baylor Health Enterprises, L.P.-12%, McLarent Health Care Corporation – 12%

Section 5.13(a)

Material Contracts

(ii)

1. Master Trust Indenture, dated as of December 1, 1996, between Advocate Health Care Network ("AHCN"), Advocate Health and Hospitals Corporation ("AHC"), Advocate Northside Health Network ("ANHN") and Advocate Condell Medical Center ("ACMC" and, together with AHCN, AHC and ANHN, the "Current Obligated Group Members") and U.S. Bank National Association, as master trustee, as supplemented and amended by the Amended and Restated Master Trust Indenture, dated as of September 1, 2011 (as so supplemented and amended, the "Master Indenture").

(iv)

1. Agreement and Plan of Merger by and among BroMenn Healthcare System, BroMenn Healthcare Hospitals, BroMenn Foundation, Advocate Health and Hospitals Corporation ("AHC") and Advocate Charitable Foundation, dated October 23, 2009.
2. Affiliation Agreement by and among Sherman Health Systems, Sherman Hospital and Advocate Health Care Network ("AHCN"), dated April 15, 2013.

(v)

1. Operating Agreement of A²CL Services, LLC, dated January 1, 2007, by and among Aurora Health Care Ventures, Inc., Evangelical Services Corporation and A²CL Services, LLC.
2. Limited Partnership Affiliation Agreement, dated December 31, 2009, by and among Rush University Medical Center, Loyola University Medical Center, Advocate Health and Hospitals Corporation and RML Health Providers.

(vii)

1. Blue Cross Participating Provider Option (PPO) Hospital Contract, dated January 1, 2003, between Health Care Service Corporation, a Mutual Legal Reserve Company (Blue Cross and Blue Shield of Illinois) and Advocate, as amended, restated or modified from time to time.

2. Blue Cross HMO Hospital Contract, dated December 1, 2003, between Health Care Service Corporation, a Mutual Legal Reserve Company (Blue Cross and Blue Shield of Illinois) and Advocate, as amended, restated or modified from time to time.
3. Facility Participation Agreement, effective December 1, 2007, between UnitedHealthcare Insurance Company and Advocate, as amended, restated or modified from time to time.
4. Hospital Services Agreement, dated February 6, 2001 and effective September 1, 2005, between Aetna Health Inc. and Advocate, as amended, restated or modified from time to time.
5. Hospital Managed Care Agreement, dated January 1, 2001, between CIGNA Healthcare of Illinois, Inc. and Advocate, as amended, restated or modified from time to time.
6. Hospital Participation Agreements, dated February 1, 1992, January 1, 1993, July 1, 1993, September 1, 1993, February 1, 1997, , between Humana HealthPlan, Inc., Humana HealthChicago Inc., Humana Insurance Company and Humana HealthChicago Insurance Company and Advocate, as amended, restated or modified from time to time.
7. Physician Services Agreement ("Agreement") dated June 1, 2004, between and HealthSpring Inc. d/b/a HealthSpring of Illinois, a Tennessee corporation licensed in Illinois as a health maintenance organization, and Advocate, as amended, restated or modified from time to time.
8. Global Capitation Provider Agreement dated March, 1, 2005, between Harmony Health Plan of Illinois, Inc. and Advocate, as amended, restated or modified from time to time.

(ix)

None.

(x)

1. Illinois Cyberknife, LLC Operating Agreement among US Radiosurgery of Illinois, LLC, Evangelical Services Corporation and ROC Cyberknife Investment, LLC, dated May 24, 2011.

(xi)

None.

(xii)

1. Advocate Illinois Masonic Medical Center and Local Union No134 International Brotherhood of Electrical Workers Agreement, dated August 27, 1993.
2. Advocate Illinois Masonic Medical Center and Chicago and Northeast Illinois District Council of Carpenters Agreement, dated January 2, 2002.
3. Advocate Illinois Masonic Medical Center and Plumbing Contractors Association of Chicago and Cook County Agreement, dated June 1, 2014.

(xiii)

None.

(xiv)

1. Non-Clinical Service Agreement, dated January 1, 2014, between Advocate Health and Hospitals Corporation and Affiliates and MedAssets Supply Chain Systems, LLC.

(xv)

None.

(xvi)

1. Patient Tower and Garage Agreement, dated July 9, 2013, as amended between Advocate Christ Medical Center and Power Construction.
2. Campus Modernization Agreement, dated May 19, 2013, as amended between Advocate Good Shepherd Hospital and MA Mortenson Construction.
3. Service Agreement, dated November 1, 2012, between Aramark Healthcare Support Services, LLC and Advocate Health and Hospitals Corporation, Advocate Condell Medical Center and Advocate Illinois Masonic Medical Center

Section 5.19(b)**Multiemployer Plans****Advocate and its ERISA Affiliates**

1. The One Jobsite Agreement dated January 2, 2002, states that Advocate Illinois Masonic Medical Center ("IMMC") recognizes the Chicago and Northeast Illinois District Council of Carpenters as the collective bargaining representative of carpenters working at IMMC, and that IMMC agrees to be bound by (i) the Area Agreement (a collective bargaining agreement) negotiated between the above union and the Mid-America Regional Bargaining Association and applicable addendums, and (ii) the terms of the Trust Agreements of the Fringe Benefit Trust Funds to which contributions are required to be made under the terms of the above referenced agreements.
2. The Agreement dated August 27, 1993, between Local No. 134, International Brotherhood of Electrical Workers, AFL-CIO ("IBEW") and Illinois Masonic Medical Center ("Medical Center") states that the Medical Center will participate in the IBEW employee benefit funds specified in the Collective Bargaining Agreement between the IBEW and the Electrical Contractors' Association of the City of Chicago then in effect, and shall contribute to the funds in the amounts specified in such Collective Bargaining Agreement.
3. The Building Maintenance Addendum Agreement dated August 19, 2014, between Advocate Illinois Masonic Medical Center ("IMMC") and Chicago Journeyman Plumbers' Local Union 130, U.A. ("Local 130") states that that IMMC is bound by Local 130's June 3, 2014 – May 31, 2017 Collective Bargaining Agreement between various Plumbing Contractor Associations and Chicago Journeyman Plumbers' Local Union 130, U.A. (the "Agreement"). The Agreement requires IMMC to contribute to the Local 130 employee benefit funds specified in the Agreement, in the amounts required by the Agreement.

Section 5.19(f)**Employee Benefit Plans Subject to Title IV of ERISA****Advocate and its ERISA Affiliates**

1. Condell Health Network Retirement Plan, as amended and restated as of January 1, 2014 (frozen effective December 31, 2007)

Section 5.19(h)**Claims Related to Employee Benefit Plans****Advocate and its ERISA Affiliates**

1. Maria Stapleton, et al., v. Advocate Health Care Network & Subsidiaries, et al., No. 1:14-cv-01873 (N.D. Ill.) filed March 17, 2014. The complaint alleges that Advocate is violating various provisions of ERISA while wrongfully claiming that the Advocate Health Care Network Pension Plan is exempt from ERISA because it is a "church plan."

Section 5.20(c)**Union Associates**

Three carpenters employed by Advocate Illinois Masonic Medical Center are members of the Chicago & Northeast Illinois District Council of Carpenters.

Two electricians employed by Advocate Illinois Masonic Medical Center are members of the IBEW Local 134.

*One plumber employed by Advocate Illinois Masonic Medical Center is a member of the Chicago Journeymen Plumbers Local 130 U.A.

*Note, this individual has just been hired/assigned to Advocate Illinois Masonic and will start 10/6/14.

Section 5.20(d)**Collective Bargaining Agreements**

1. Advocate Illinois Masonic Medical Center and Local Union No134 International Brotherhood of Electrical Workers Agreement, dated August 27, 1993.
2. Advocate Illinois Masonic Medical Center and Chicago and Northeast Illinois District Council of Carpenters Agreement, dated January 2, 2002.
3. Advocate Illinois Masonic Medical Center and Plumbing Contractors Association of Chicago and Cook County Agreement, dated June 1, 2014.

Section 5.21(a)**IP Licenses**

Advocate has licensed certain intellectual property related to development of a disease registry to Cerner. In 2011, Advocate contributed intellectual property designed to care for acute care patients in their homes to an entity called Clinically Home, LLC. That entity has dissolved, and Advocate no longer holds an interest in it.

Section 5.21(g)**Information Privacy and Security Law Violations**

Advocate is cooperating with government officials in their review and investigation of certain privacy and security incidents as listed below.

July 2013 - Burglary and theft of four unencrypted but password protected desktops resulting in notification to approximately 4 million individuals;

August 2013 – AMG e-statement website had been compromised affecting patients' debit cards shortly after submission of payment information resulting in notification to approximately 2,000 individuals;

September 2013 - Theft of an associate's laptop resulting in notification to approximately 2,000 individuals.

Advocate may not be in compliance with certain guidelines or interpretations provided by certain governmental entities including United States Department of Health and Human Services Office for Civil Right, the White House and Attorney General's Offices.

Section 5.21(h)**Breach of Personal Information**

There are ongoing investigations on three matters as disclosed in Schedule 5.21(g).

Section 5.22(e)**Environmental Liabilities**

None.

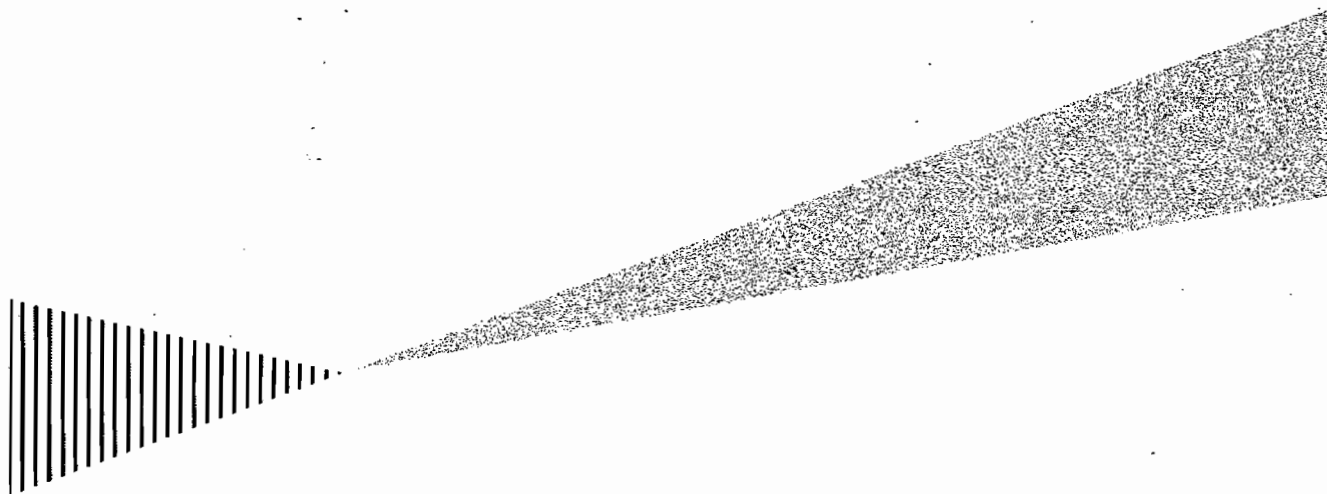
FINANCIAL STATEMENTS**ATTACHMENT #6**

See following pages for audited financials from Advocate Health Care Network and NorthShore University HealthSystem.

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Advocate Health Care Network and Subsidiaries
Years Ended December 31, 2013 and 2012
With Reports of Independent Auditors

Ernst & Young LLP



Building a better
working world

Advocate Health Care Network and Subsidiaries
Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2013 and 2012

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information	48
Advocate Health Care Network and Subsidiaries:	
Details of Consolidated Balance Sheet	49
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity	51
Advocate Health and Hospitals Corporation and Subsidiaries:	
Details of Consolidated Balance Sheet	53
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity	55
Advocate Sherman Hospital and Subsidiaries:	
Details of Consolidated Balance Sheet	57
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity	59
Advocate Northside Health System and Subsidiaries:	
Details of Consolidated Balance Sheet	60
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity	62
Evangelical Services Corporation and Subsidiaries	
d/b/a Advocate Network Services, Inc. and Subsidiaries:	
Details of Consolidated Balance Sheet	63
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity	65



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Board of Directors
Advocate Health Care Network

We have audited the accompanying consolidated financial statements of Advocate Health Care Network and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 7, 2014

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets (Dollars in Thousands)

	December 31	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 563,229	\$ 397,945
Short-term investments	19,401	21,528
Assets limited as to use	89,660	76,841
Patient accounts receivable, less allowances for uncollectible accounts of \$181,254 in 2013 and \$153,943 in 2012	567,033	530,719
Amounts due from primary third-party payors	10,107	11,294
Prepaid expenses, inventories, and other current assets	256,322	233,653
Collateral proceeds received under securities lending program	19,165	20,794
Total current assets	1,524,917	1,292,774
Assets limited as to use:		
Internally and externally designated investments limited as to use	4,715,519	4,224,383
Investments under securities lending program	19,013	21,014
	4,734,532	4,245,397
Prepaid pension expense and other noncurrent assets	132,382	116,305
Interest in health care and related entities	152,103	135,676
Reinsurance receivable	172,318	175,975
Deferred costs and intangible assets, less allowances for amortization	51,231	47,378
	5,242,566	4,720,731
Property and equipment – at cost:		
Land and land improvements	251,296	189,226
Buildings	2,514,922	2,209,485
Movable equipment	1,358,608	1,262,737
Construction-in-progress	313,065	136,740
	4,437,891	3,798,188
Less allowances for depreciation	2,155,428	2,034,494
	2,282,463	1,763,694
	<u>\$ 9,049,946</u>	<u>\$ 7,777,199</u>

	December 31	
	2013	2012
Liabilities and net assets/shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 17,810	\$ 19,103
Long-term debt subject to short-term remarketing arrangements	135,130	187,795
Accounts payable	291,306	227,882
Accrued salaries and employee benefits	423,897	347,617
Accrued expenses	120,526	117,962
Amounts due to primary third-party payors	274,780	240,192
Current portion of accrued insurance and claims costs	112,412	95,093
Obligations to return collateral under securities lending program	19,440	21,069
Total current liabilities	1,395,301	1,256,713
Noncurrent liabilities:		
Long-term debt, less current portion	1,452,109	1,142,458
Pension plan liability	23,737	66,716
Accrued insurance and claims cost, less current portion	678,470	661,395
Accrued losses subject to reinsurance recovery	172,318	175,975
Obligations under swap agreements, net of collateral posted	47,908	84,814
Other noncurrent liabilities	151,668	124,215
	2,526,210	2,255,573
Total liabilities	3,921,511	3,512,286
Net assets/shareholders' equity:		
Unrestricted	4,968,578	4,128,166
Temporarily restricted	111,335	90,351
Permanently restricted	47,566	45,414
	5,127,479	4,263,931
Non-controlling interest	956	982
Total net assets/shareholders' equity	5,128,435	4,264,913
	<u>\$ 9,049,946</u>	<u>\$ 7,777,199</u>

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2013	2012
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 4,468,468	\$ 4,105,671
Provision for uncollectible accounts	(253,989)	(212,305)
	<u>4,214,479</u>	<u>3,893,366</u>
Capitation revenue	389,516	390,985
Other revenue	334,007	311,347
	<u>4,938,002</u>	<u>4,595,698</u>
Expenses		
Salaries, wages, and employee benefits	2,510,470	2,349,690
Purchased services and operating supplies	1,211,483	1,127,788
Contracted medical services	135,570	149,009
Insurance and claims costs	108,349	99,892
Other	404,988	337,349
Depreciation and amortization	211,648	187,742
Interest	55,299	45,953
	<u>4,637,807</u>	<u>4,297,423</u>
Operating income	<u>300,195</u>	<u>298,275</u>
Nonoperating income (loss)		
Investment income	287,727	380,749
Change in fair value of interest rate swaps	41,236	(52)
Fair value of net assets acquired	151,663	-
Loss on refinancing of debt	(46)	(24)
Other nonoperating items, net	(15,455)	(7,292)
	<u>465,125</u>	<u>373,381</u>
Revenues in excess of expenses	<u>765,320</u>	<u>671,656</u>

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2013	2012
Unrestricted net assets		
Revenues in excess of expenses	\$ 765,320	\$ 671,656
Net assets released from restrictions and used for capital purchases	4,201	7,378
Postretirement benefit plan adjustments	70,912	4,444
Other	(21)	(57)
Increase in unrestricted net assets	<u>840,412</u>	<u>683,421</u>
Temporarily restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	27,778	21,869
Contribution of net assets of Sherman Hospital	719	—
Realized gains on investments	2,959	2,580
Unrealized gains on investments	3,768	6,304
Net assets released from restrictions and used for operations, medical education programs, capital purchases, and other purposes	<u>(14,240)</u>	<u>(15,733)</u>
Increase in temporarily restricted net assets	<u>20,984</u>	<u>15,020</u>
Permanently restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	1,889	6,951
Contribution of net assets of Sherman Hospital	263	—
Increase in permanently restricted net assets	<u>2,152</u>	<u>6,951</u>
Increase in net assets	863,548	705,392
Change in non-controlling interest	(26)	16
Net assets/shareholders' equity at beginning of year	<u>4,264,913</u>	<u>3,559,505</u>
Net assets/shareholders' equity at end of year	<u><u>\$ 5,128,435</u></u>	<u><u>\$ 4,264,913</u></u>

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31	
	2013	2012
Operating activities		
Increase in net assets	\$ 863,522	\$ 705,408
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization, and accretion	208,828	187,956
Provision for uncollectible accounts	253,989	212,305
Change in deferred income taxes	(5,893)	(1,044)
Losses on disposal of property and equipment	5,909	1,088
Loss on refinancing of debt	46	24
Change in fair value of interest rate swaps	(41,236)	52
Postretirement benefit plan adjustments	(70,912)	(4,444)
Contribution of certain net assets of Sherman Hospital, net of \$12,280 cash received	(152,645)	—
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	(10,039)	(8,355)
Changes in operating assets and liabilities:		
Trading securities	(476,014)	(538,587)
Patient accounts receivable	(243,799)	(233,392)
Amounts due to/from primary third-party payors	5,035	20,618
Accounts payable, accrued salaries and employee benefits, accrued expenses, and other noncurrent liabilities	160,561	(65,307)
Other assets	409	24,398
Accrued insurance and claims cost	9,393	9,451
Net cash provided by operating activities	507,154	310,171
Investing activities		
Purchases of property and equipment	(385,695)	(280,863)
Proceeds from sale of property and equipment	2,590	7,431
Cash acquired in the acquisition of Sherman Hospital	12,280	—
Purchases of investments designated as non-trading	(352,931)	(970,653)
Sales of investments designated as non-trading	431,263	887,970
Other	(66,043)	(21,925)
Net cash used in investing activities	(358,536)	(378,040)
Financing activities		
Proceeds from issuance of debt	119,956	162,881
Payments of long-term debt	(144,014)	(33,237)
Collateral received (posted) under swap agreements	4,330	(4,330)
Proceeds from restricted contributions and gains on investments	36,394	37,704
Net cash provided by financing activities	16,666	163,018
Increase in cash and cash equivalents	165,284	95,149
Cash and cash equivalents at beginning of year	397,945	302,796
Cash and cash equivalents at end of year	\$ 563,229	\$ 397,945

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2013

1. Organization and Summary of Significant Accounting Policies

Organization

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

On June 1, 2013, the System and Sherman Hospital completed an affiliation agreement pursuant to which the System became the sole corporate member of Sherman Hospital. Additionally, on June 1, 2013, the name of Sherman Hospital was changed to Advocate Sherman Hospital (Sherman). Sherman is the sole member of various not-for-profit corporations or the shareholder of various business corporations engaged in the delivery of health care services or the provision of goods and services ancillary thereto, which include a rehabilitation and skilled nursing facility (Sherman West Court), a home health care company, and an employed physician medical group. The affiliation has been accounted for as an acquisition in accordance with the authoritative guidance on not-for-profit mergers and acquisitions and is described in Note 13. The operations of Sherman have been included in the System's consolidated financial statements since the affiliation date.

Mission and Community Benefit

As a faith-based health care organization, the mission, values, and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families, and communities through a holistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. The System's core values of compassion, equality, excellence, partnership, and stewardship guide its actions to provide health care services to its communities. Consistent with the values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. This care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for consideration can earn up to 600% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. In 2013 and 2012, \$475,849 and \$396,815, respectively, of patient

Advocate Health Care Network and Subsidiaries

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

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

charges were forgone under this policy. The System's cost of providing charity care in 2013 and 2012, as determined using the 2012 Medicare cost-to-charge ratio, was \$126,502 and \$103,636, respectively.

The System is also involved in other numerous wide-ranging community benefit activities that include providing health education, immunizations for children, support groups, health screenings, health fairs, pastoral care, home-delivered meals, transportation services, seminars and speakers, crisis lines, publication of health magazines, medical residency and internships, research and language assistance, and other subsidized health services. These activities are provided free of charge or at a fee that is below the cost of providing them. The cost of these activities and the costs of uncompensated care for 2013 will be included in a community benefit report that will be filed with the Office of the Attorney General for the State of Illinois in June 2014.

Principles of Consolidation

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

Use of Estimates

The preparation of 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 and 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 to be cash equivalents.

Advocate Health Care Network and Subsidiaries

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

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

Investments

The System has designated substantially all of its investments as trading. Certain debt-related investments are designated as non-trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or other observable inputs. The non-trading portfolio consists mainly of cash equivalents, money market, and commercial paper. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships with ownership percentages of 5% or greater are recorded on the equity method of accounting, while those with ownership percentages of 5% or less are recorded on the cost method of accounting. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity of limited partnerships, and unrealized gains and losses) is included in investment income unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue. Unrealized gains and losses that are restricted by donor or law are reported as a change in temporarily restricted net assets.

Assets Limited as to Use

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

Patient Service Revenue and Accounts Receivable

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

responsibilities under such contracts that are deemed not realizable. For receivables associated with self-pay patients, the System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients do not pay the portion of their bill for which they are financially responsible. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

The allowance for uncollectible accounts as a percentage of accounts receivable increased from 23% in 2012 to 24% in 2013 primarily due to an increase in self-pay accounts receivables compounded by decreases in Medicaid accounts receivables, net of contractual allowances. The decrease in Medicaid receivables was primarily due to the increased cash collections received from the State of Illinois during 2013. The System's combined allowance for uncollectible accounts receivable, uninsured discounts, and charity care covered 100% of self-pay accounts receivable at December 31, 2013 and 2012.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the System recognizes revenue at the time of service on the basis of its standard rates less the self-pay discount. Patient service revenue, net of contractual allowances, the provision for charity care, and other discounts (but before the provision for uncollectible accounts), is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

Patient service revenue, net of the provision for charity care, contractual allowances, and other discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources is as follows for the years ended December 31:

Patient Service Revenue (Net of Contractual Allowances and Discounts)

	2013	2012
Third-party payors	\$ 4,040,300	\$ 3,708,644
Self-pay	428,168	397,027
Total all payors	<u>\$ 4,468,468</u>	<u>\$ 4,105,671</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

Inventories

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

Reinsurance Receivables

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

Deferred Costs

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

Asset Impairment

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

Property and Equipment

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

Asset Retirement Obligations

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is

Advocate Health Care Network and Subsidiaries

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

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

depreciated over the life of the related asset. The obligations at December 31, 2013 and 2012, were \$19,197 and \$19,249, respectively.

Derivative Financial Instruments

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

General and Professional Liability Risks

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

Temporarily and Permanently Restricted Net Assets

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

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

Capitation Revenue

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

Advocate Health Care Network and Subsidiaries

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

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

Other Nonoperating Items, Net

Other nonoperating items, net primarily consist of provisions for environmental remediation, contributions to charitable organizations, valuation adjustments for investments on the equity method of accounting, and income taxes.

Revenues in Excess of Expenses and Changes in Net Assets

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

Grants

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

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

New Accounting Pronouncement

In December 2011, the Financial Accounting Standards Board issued guidance that enhances disclosures about financial and derivative instruments that are either offset on the consolidated balance sheet or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the consolidated balance sheet. Adoption of this new guidance on January 1, 2013, did not have a material effect on the System's consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2012 consolidated financial statements to conform to the classifications used in 2013. There was no impact on previously reported 2012 net assets or revenues in excess of expenses.

2. Contractual Arrangements With Third-Party Payors

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

Amounts earned from the above payment arrangements accounted for 94% and 92% of the System's net patient service revenue in 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the System earned 30% of net patient service revenue from Blue Cross; 11% and 10%, respectively, from the Medicaid program; and 25% and 26%, respectively, from the Medicare program. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in net patient service revenue of \$20,899 and \$1,510 for the years ended December 31, 2013 and 2012, respectively.

Also, in 2013 the Centers for Medicare and Medicaid Services approved the enhanced Medicaid assessment system retroactive to June 10, 2012. In 2013 the System recognized \$26,601 in net patient service revenue and \$15,871 in other operating expenses for the first 18 months covered by this system.

Advocate Health Care Network and Subsidiaries

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

2. Contractual Arrangements With Third-Party Payors (continued)

In connection with the State of Illinois' Hospital Assessment Program, including the enhanced Medicaid assessment system, the System recognized \$224,082 and \$145,198 of net patient service revenue and \$154,873 and \$106,219 of program assessment expense in other expense in 2013 and 2012, respectively.

In 2012, as part of the Medicare Rural Floor Budget Neutrality Act settlement, the System recognized \$29,302 in net patient service revenue and \$2,930 in operating expenses as part of purchased services and operating supplies. The System's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Amounts due to/from primary third-party payors in the consolidated balance sheets primarily relate to the Blue Cross, Medicare, or Medicaid programs. At December 31, 2013 and 2012, 16% and 17%, respectively, of net patient accounts receivable were due under contracts with Blue Cross and 14% were due from the Medicaid program. Net patient accounts receivable due from the Medicare program were 11% and 10% at December 31, 2013 and 2012, respectively.

The System has entered into various capitated physician provider agreements, including Humana Health Plan, Inc. and Humana Insurance Company and their affiliates (collectively, Humana); Cigna-HealthSpring; and WellCare Health Plans, Inc. Capitation revenues received under the agreements with Humana amounted to 38% of the System's capitation revenue for the years ended December 31, 2013 and 2012. Capitation revenues received under Cigna-HealthSpring and WellCare Health Plans, Inc. agreements amounted to 26% of the System's capitation revenue for the years ended December 31, 2013 and 2012.

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under the aforementioned capitated arrangements. The System accrues a liability for reported, as well as an estimate for incurred but not recorded (IBNR), contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. The System uses the services of a consulting actuary to determine the estimated cost of the IBNR claims. Adjustments to the estimates are

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Contractual Arrangements With Third-Party Payors (continued)

reflected in current year operations. At December 31, 2013 and 2012, the liabilities for unpaid medical claims amounted to \$21,107 and \$20,621, respectively, and are included in accrued expenses in the consolidated balance sheets.

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

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

	2013	2012
Assets limited as to use:		
Designated for self-insurance programs	\$ 807,145	\$ 839,810
Internally and externally designated for capital improvements, medical education, and health care programs	3,836,378	3,243,800
Externally designated under debt agreements	161,656	217,614
Investments under securities lending program	19,013	21,014
	<u>4,824,192</u>	<u>4,322,238</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	582,630	419,473
	<u>\$ 5,406,822</u>	<u>\$ 4,741,711</u>

The composition and carrying value of assets limited as to use, short-term investments, and cash and cash equivalents at December 31 are set forth in the following table:

	2013	2012
Cash and short-term investments	\$ 956,883	\$ 648,201
Corporate bonds and other debt securities	326,163	426,203
United States government obligations	199,689	151,743
Government mutual funds	502,072	643,506
Bond and other debt security mutual funds	479,855	513,124
Commodity mutual funds	4,631	4,666
Hedge funds	895,222	695,862
Private equity limited partnership funds	336,536	289,820
Equity securities	1,083,000	1,028,242
Equity mutual funds	605,553	340,344
Guaranteed investment contract	17,218	—
	<u>\$ 5,406,822</u>	<u>\$ 4,741,711</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

The System regularly compares the net asset value (NAV), which is a proxy for the fair value of its private equity investments, to the recorded cost for potential other-than-temporary impairment. The NAV of these investments based on estimates determined by the investments' management was \$378,429 and \$310,837 at December 31, 2013 and 2012, respectively. In 2013 and 2012, the System identified and recorded \$5,381 and \$6,100, respectively, of impairment losses that are included in investment income in the consolidated statements of operations and changes in net assets.

At December 31, 2013 and 2012, the System has commitments to fund private equity investments an additional \$364,934 and \$442,301, respectively. The unfunded commitments at December 31, 2013, are expected to be funded over the next seven years.

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 151,877	\$ 160,350
Net realized gains	121,330	93,763
Net unrealized gains	69,520	184,525
	<u>\$ 342,727</u>	<u>\$ 438,638</u>

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

	<u>2013</u>	<u>2012</u>
Other revenue	\$ 48,273	\$ 49,005
Investment income	287,727	380,749
Realized and unrealized gains on investments – temporarily restricted net assets	6,727	8,884
	<u>\$ 342,727</u>	<u>\$ 438,638</u>

Advocate Health Care Network and Subsidiaries

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

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

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral in the form of highly rated government securities for securities borrowed equal to approximately 102% and 100% in 2013 and 2012, respectively, 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, 2013 and 2012, the System loaned \$19,013 and \$21,014, respectively, in securities and accepted collateral for these loans in the amount of \$19,440 and \$21,069, respectively, of which \$19,165 and \$20,794, respectively, represent cash collateral and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

4. Fair Value Measurements

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

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

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

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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

The guaranteed investment contract (GIC) is included as a Level 2 investment. As described in Note 6, the Sherman Series 2007A Bonds require a debt service reserve fund that is invested in a GIC. This investment represents a privately negotiated agreement between Sherman and various banks. Although the investment is not traded on any market and is nontransferable for the duration of the bonds, the underlying assets are traded in active markets.

The System's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose the System to market risk, performance risk, and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is 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.

Advocate Health Care Network and Subsidiaries

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

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2013:

Description	2013	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	\$ 956,883	\$ 952,558	\$ 4,325	\$ -
Corporate bonds and other debt securities	326,163	-	326,163	-
United States government obligations	199,689	-	199,689	-
Government mutual funds	502,072	410,712	91,360	-
Bond and other debt security mutual funds	479,855	290,815	189,040	-
Commodity mutual funds	4,631	-	4,631	-
Equity securities	1,083,000	1,083,000	-	-
Equity mutual funds	605,553	463,931	141,622	-
Guaranteed investment contract	17,218	-	17,218	-
Investments at fair value	4,175,064	\$ 3,201,016	\$ 974,048	\$ -
Investments not at fair value	1,231,758			
Total investments	<u>\$ 5,406,822</u>			
Collateral proceeds received under securities lending program	<u>\$ 19,165</u>		<u>\$ 19,165</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (47,908)</u>		<u>\$ (47,908)</u>	
Net liability under swap agreements	<u>\$ (47,908)</u>		<u>\$ (47,908)</u>	
Obligations to return collateral under securities lending program	<u>\$ (19,440)</u>		<u>\$ (19,440)</u>	

Advocate Health Care Network and Subsidiaries

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

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2012:

Description	2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	\$ 648,201	\$ 646,169	\$ 2,032	\$ —
Corporate bonds and other debt securities	426,203	—	426,203	—
United States government obligations	151,743	—	151,743	—
Government mutual funds	643,506	535,188	108,318	—
Bond and other debt security mutual funds	513,124	289,388	223,736	—
Commodity mutual funds	4,666	—	4,666	—
Equity securities	1,028,242	1,028,242	—	—
Equity mutual funds	340,344	248,234	92,110	—
Investments at fair value	3,756,029	\$ 2,747,221	\$ 1,008,808	\$ —
Investments not at fair value	985,682			
Total investments	<u>\$ 4,741,711</u>			
Collateral proceeds received under securities lending program	<u>\$ 20,794</u>		<u>\$ 20,794</u>	
Liabilities				
Obligations under swap agreements	\$ (89,144)		\$ (89,144)	
Collateral under swap agreements	4,330		4,330	
Net liability under swap agreements	<u>\$ (84,814)</u>		<u>\$ (84,814)</u>	
Obligations to return collateral under securities lending program	<u>\$ (21,069)</u>		<u>\$ (21,069)</u>	

Advocate Health Care Network and Subsidiaries

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

4. Fair Value Measurements (continued)

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

Investments not at fair value include hedge funds and private equity limited partnerships (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. Based on the inputs in determining the estimated fair value of these investments, these assets would be considered Level 3.

The valuation for the estimated fair value of long-term debt is completed by a third-party service and takes into account a number of factors including, but not limited to, any one or more of the following: (i) general interest rate and market conditions; (ii) macroeconomic and/or deal-specific credit fundamentals; (iii) valuations of other financial instruments that may be comparable in terms of rating, structure, maturity, and/or covenant protection; (iv) investor opinions about the respective deal parties; (v) size of the transaction; (vi) cash flow projections, which in turn are based on assumptions about certain parameters that include, but are not limited to, default, recovery, prepayment, and reinvestment rates; (vii) administrator reports, asset manager estimates, broker quotations, and/or trustee reports, and (viii) comparable trades, where observable. Based on the inputs in determining the estimated fair value of debt, this liability would be considered Level 2. The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was \$1,573,401 and \$1,385,228 at December 31, 2013 and 2012, respectively, which included consideration of third-party credit enhancements, of which there was no effect.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Interest in Health Care and Related Entities

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

The interest in the net assets of this organization amounted to \$91,400 and \$82,700 as of December 31, 2013 and 2012, respectively, which is reflected in interest in health care and related entities in the consolidated balance sheets. The System's interest in the investment yield is reflected in the consolidated statements of operations and changes in net assets and amounted to \$13,348 and \$8,959 for the years ended December 31, 2013 and 2012, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to \$4,531 and \$3,998 during the years ended December 31, 2013 and 2012, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed \$931 and \$445 to the System for program support of one of its medical facilities during the years ended December 31, 2013 and 2012, respectively.

The System has a 50% membership and governance interest in Advocate Health Partners (d/b/a Advocate Physician Partners) (APP), which has been accounted for on an equity basis. The System's carrying value in this interest was \$0 at December 31, 2013 and 2012. Financial information relating to this interest as of and for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Assets	\$ 144,491	\$ 162,604
Liabilities	145,085	158,888
Revenues in excess of expenses	—	—

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The System contracts with APP for certain operational and administrative services. Total expenses incurred for these services were \$25,291 and \$22,271 in 2013 and 2012, respectively, which is included in purchased services and operating supplies and other in the consolidated statements of operations and changes in net assets. At December 31, 2013 and 2012, the System had an accrued liability to APP for those services for \$1,226 and \$1,703, respectively, which is included in accrued expenses in the consolidated balance sheets.

APP purchased claims processing and certain management services from the System in the amounts of \$8,810 and \$7,773 in 2013 and 2012, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Under terms of an agreement with the System, APP reimburses the System for salaries, benefits, and other expenses that are incurred by the System on APP's behalf. The amount billed for these services in 2013 and 2012 was \$23,018 and \$20,775, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The System had a receivable from APP at December 31, 2013 and 2012, for claims processing and management services of \$5,155 and \$4,557, respectively, which is included in prepaid expenses, inventories, and other current assets in the consolidated balance sheets.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt

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

	2013	2012
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series:		
1993C, 6.00% to 7.00%, principal payable in varying annual installments through April 2018	\$ 19,857	\$ 22,298
2003A (weighted-average rate of 4.38% during 2013 and 2012), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	21,930	24,130
2003C (weighted-average rate of 0.22% and 0.30% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	21,225	23,430
2007A Sherman, 5.50%, principal payable in varying annual installments through August 2037	176,970	—
2008A (weighted-average rate of 4.76% and 2.03% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	141,306	144,712
2008C (weighted-average rate of 0.37% and 0.45% during 2013 and 2012, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	343,270	343,270
2008D, 5.00% to 6.50%, principal payable in varying annual installments through November 2038	156,125	160,107
2010A, 5.50%, principal payable in varying annual installments through April 2044	37,277	37,287
2010B, 5.38%, principal payable in varying annual installments through April 2044	52,192	52,186
2010C, 5.38%, principal payable in varying annual installments through April 2044	25,536	25,533

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

6. Long-Term Debt (continued)

	2013	2012
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2010D, 4.00% to 5.25%, principal payable in varying annual installments through April 2038	\$ 110,289	\$ 116,464
2011A, 3.00% to 5.00%, principal payable in varying annual installments through April 2041	38,511	41,366
2011B (weighted-average rate of 0.21% and 0.28% during 2013 and 2012, 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	70,000	70,000
2011C (weighted-average rate of 0.83% and 0.87% during 2013 and 2012, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial seven-year period; interest tied to a market index plus a spread	50,000	50,000
2011D (weighted-average rate of 0.93% and 0.97% during 2013 and 2012, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial 10-year period; interest tied to a market index plus a spread	50,000	50,000
2012, 4.00% to 5.00%, principal payable in varying annual installments through June 2047	149,852	149,991
2013A, 3.00% to 5.00%, principal payable in varying annual installments through June 2031	102,946	—
Capital lease obligations	30,711	31,113
Other	7,052	7,469
	<u>1,605,049</u>	<u>1,349,356</u>
Less current portion of long-term debt	17,810	19,103
Less long-term debt subject to short-term remarketing arrangements	135,130	187,795
	<u>\$ 1,452,109</u>	<u>\$ 1,142,458</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, 2018, are as follows: 2014 – \$17,810; 2015 – \$20,074; 2016 – \$19,722; 2017 – \$20,933; and 2018 – \$23,082.

The System's unsecured variable rate revenue bonds, Series 2003A of \$21,930, Series 2003C of \$21,225, Series 2008C-3B of \$21,975, and Series 2011B of \$70,000, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt (continued)

connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within a maximum of 12 months after December 31, 2013, the principal amount of such bonds has been classified as a current obligation 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 unrestricted assets as a source of self-liquidity.

The System has standby bond purchase agreement 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, 2013 and 2012, there were no bank purchased bonds outstanding. The agreements expire in August 2015, August 2016, and August 2017.

All System outstanding bonds are secured by obligations issued under the Amended and Restated Master Trust Indenture dated as of September 1, 2011, with Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Condell, and Advocate North Side (the Obligated Group or Restricted Affiliates) 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 a bank credit agreement, also place restrictions on the System and require the System to maintain certain financial ratios.

On August 8, 2013, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2013A, in the amount of \$96,905. The proceeds of the Series 2013A Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects and to pay certain costs of issuing the Series 2013A Bonds.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt (continued)

On November 29, 2012, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2012, in the amount of \$145,620. The proceeds of the Series 2012 Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects and to pay certain costs of issuing the Series 2012 Bonds.

In 2013, the Series 2008A-1 Bonds and Series 2008A-2 Bonds, which currently bear interest at a fixed interest rate set for a specified period, were remarketed at a premium for an approximate seven-year period, and a portion of the outstanding par was redeemed in the amount of \$9,095 and \$7,735, respectively.

The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 7.

Neither Sherman, Sherman West Court, nor any other of the subsidiaries of Sherman are members of the Obligated Group or Restricted Affiliates under the System Master Indenture. Sherman and Sherman West Court are the members of an obligated group (Sherman Obligated Group) created pursuant to a master trust indenture dated as of August 1, 1991, as supplemented and amended (Sherman Master Indenture) with The Bank of New York Mellon Trust Company, N.A., as master trustee. As part of the affiliation with the System on June 1, 2013, the System did not assume the liability for or otherwise guarantee any bonds (Sherman Bonds) previously issued for the benefit of the Sherman Obligated Group.

On July 5, 2013, Sherman retired \$105,700 of the Sherman Bonds (Series 1997 bonds) with proceeds of an intercompany loan from the System. Sherman remains obligated for the repayment of \$170,000 Illinois Finance Authority Revenue Bonds, Series 2007A issued for its benefit and evidenced by and secured as provided under the Sherman Master Indenture.

The Sherman Series 2007A Bonds are secured by a direct note obligation issued by Sherman under the Sherman Master Indenture, a mortgage and security agreement on certain of Sherman's real and personal property, as well as a security interest in unrestricted receivables of Sherman. The related bond indenture requires a debt service reserve fund, which is held by the bond trustee for the benefit of the Sherman Series 2007A Bonds. The debt service reserve fund had a balance of \$17,218 at December 31, 2013, and is presented as assets limited as to use on the consolidated balance sheet.

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

6. Long-Term Debt (continued)

Interest paid, net of capitalized interest, amounted to \$56,038 and \$42,726 in 2013 and 2012, respectively. The System capitalized interest of \$5,065 and \$2,621 in 2013 and 2012, respectively.

At December 31, 2013, the System had lines of credit with banks aggregating to \$200,000. These lines of credit provide for various interest rates and payment terms and expire as follows: \$25,000 in February 2014, \$50,000 in December 2014, \$75,000 in March 2015, and \$50,000 in November 2016. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures, or for general working capital purposes. At December 31, 2013, no amounts were outstanding on these lines of credit.

In February 2014, a \$25,000 line of credit was extended to February 2015.

7. Derivatives

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Derivatives (continued)

At December 31, 2013, 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 following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2013 and 2012:

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

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Derivatives (continued)

The fair value of derivative instruments is as follows:

	December 31	
	2013	2012
Consolidated balance sheet location		
Obligations under swap agreements	\$ (47,908)	\$ (89,144)
Collateral posted under swap agreements	-	4,330
Obligations under swap agreements, net	<u>\$ (47,908)</u>	<u>\$ (84,814)</u>

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

	Year Ended December 31	
	2013	2012
Consolidated statement of operations and changes in net assets location		
Net cash payments on interest rate swap agreements (interest expense)	<u>\$ 10,518</u>	<u>\$ 10,359</u>
Change in the fair value of interest rate swaps (nonoperating)	<u>\$ 41,236</u>	<u>\$ (52)</u>

The aggregate fair value of all swap instruments with credit risk-related contingent features that are in a liability position was \$47,908 and \$89,144 at December 31, 2013 and 2012, respectively, for which the System has posted collateral of \$0 and \$4,330 at December 31, 2013 and 2012, respectively. The swap instruments contain provisions that require the System's debt to maintain an investment grade credit rating from certain major credit rating agencies. If the System's debt were to fall below investment grade on the valuation date, it would be in violation of these provisions and the counterparty to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. If the credit risk-related contingent features underlying these swap agreements were triggered on December 31, 2013, the System would be required to post \$47,908 in collateral with the counterparties.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Restricted Net Assets

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

	<u>2013</u>	<u>2012</u>
Net assets currently available for:		
Purchases of property and equipment	\$ 10,617	\$ 6,120
Medical education and other health care programs	70,757	67,111
Net assets available for future periods:		
Purchases of property and equipment	17,598	5,723
Medical education and other health care programs	12,363	11,397
	<u>\$ 111,335</u>	<u>\$ 90,351</u>

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

	<u>2013</u>	<u>2012</u>
Net assets currently producing investment income:		
Purchases of property and equipment	\$ 1,000	\$ 1,000
Medical education and other health care programs	36,558	35,166
Net assets available to produce investment income in future periods:		
Medical education and other health care programs	10,008	9,248
	<u>\$ 47,566</u>	<u>\$ 45,414</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans

The System maintains defined benefit pension plans, the Advocate Health Care Network Pension Plan and Condell Health Network Retirement Plan (the Plans), which cover a majority of its employees (associates). The Condell Health Network Retirement Plan was frozen effective January 1, 2008, to new participants, and participants ceased to accrue additional pension benefits. The System may elect to terminate the Condell Health Network Retirement Plan in the future subject to the provisions set forth in Employee Retirement Income Security Act of 1974.

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Advocate Health Care Network Pension Plan is as follows:

	2013	2012
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 727,394	\$ 609,722
Actual return on plan assets	77,242	84,756
Employer contributions	31,680	63,550
Benefits paid	(35,847)	(30,634)
Plan assets at fair value at end of year	<u>\$ 800,469</u>	<u>\$ 727,394</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 761,361	\$ 687,118
Service cost	43,989	38,541
Interest cost	30,183	33,401
Actuarial (loss) gain	(24,999)	32,935
Benefits paid	(35,847)	(30,634)
Projected benefit obligation at end of year	<u>\$ 774,688</u>	<u>\$ 761,361</u>
Plan assets greater (less) than projected benefit obligation	<u>\$ 25,781</u>	<u>\$ (33,967)</u>
Accumulated benefit obligation at end of year	<u>\$ 702,689</u>	<u>\$ 685,791</u>

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

9. Retirement Plans (continued)

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Condell Health Network Retirement Plan is as follows:

	2013	2012
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 40,720	\$ 43,796
Actual return on plan assets	3,909	5,383
Employer contributions	270	5,465
Benefits paid	(5,231)	(13,924)
Plan assets at fair value at end of year	<u>\$ 39,668</u>	<u>\$ 40,720</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 73,469	\$ 74,772
Interest cost	2,726	3,417
Actuarial (loss) gain	(7,559)	9,203
Benefits paid	(5,231)	(13,923)
Projected benefit obligation at end of year	<u>\$ 63,405</u>	<u>\$ 73,469</u>
Plan assets less than projected benefit obligation	<u>\$ (23,737)</u>	<u>\$ (32,749)</u>
Accumulated benefit obligation at end of year	<u>\$ 63,405</u>	<u>\$ 73,469</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

The Condell Health Network Retirement Plan paid lump sums totaling \$3,864 and \$12,421 in 2013 and 2012, respectively. These amounts are greater than the sum of the plan's service cost and interest cost for 2013 and 2012. As a result, the System recognized a settlement charge in the amount of \$771 and \$4,101 in 2013 and 2012, respectively.

	<u>2013</u>	<u>2012</u>
Net Plans' pension expense consists of the following for the years ended December 31:		
Service cost	\$ 43,989	\$ 38,541
Interest cost	32,909	36,818
Expected return on plan assets	(55,734)	(54,706)
Amortization of:		
Prior service credit	(4,823)	(4,823)
Recognized actuarial loss	17,412	12,496
Settlement/curtailment	771	4,101
Net Plans' pension expense	<u>\$ 34,524</u>	<u>\$ 32,427</u>

The amount of actuarial loss and prior service cost (credit) included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the fiscal year ending December 31, 2014, is \$10,284 and \$4,823, respectively.

For the defined benefit plans previously described, changes in plans assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 include an actuarial loss of \$76,159 and \$9,891, respectively, and net prior service credit of \$4,823 in both years.

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net pension expense:

	<u>2013</u>	<u>2012</u>
Unrecognized prior credit	\$ (23,417)	\$ (28,240)
Unrecognized actuarial loss	161,366	237,525
	<u>\$ 137,949</u>	<u>\$ 209,285</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Plans were paid from the Plans' assets. The System anticipates making \$18,650 in contributions to the Plans' assets during 2014. Expected associate benefit payments are 2014 – \$50,330; 2015 – \$53,920; 2016 – \$60,910; 2017 – \$62,440; 2018 – \$67,770; and 2019 through 2023 – \$378,900.

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

The System's target and actual pension asset allocations for the Advocate Health Care Network Pension Plan are as follows:

Asset Category	Target	Actual Asset Allocation	
		2013	2012
Domestic and international equity securities	42.5%	47.5%	44.6%
Private equity limited partnerships and hedge funds	17.5	17.2	16.5
Fixed income securities	30.0	25.6	29.3
Real estate	10.0	8.7	8.5
Cash and cash equivalents	—	1.0	1.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Within the domestic and international equity portfolio, investments are diversified among large and mid-capitalizations (15%), non-large capitalizations (2.5%), and international and emerging markets (25%).

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. Real estate commingled funds for which an active market exists are included in Level 2. Fair value for Level 3 represents the Plans' ownership interests in the NAVs of the respective private equity partnerships, hedge funds, and real estate commingled funds for which active markets do not exist. The System opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plans' interest in hedge funds and private equity funds. The alternative investment assets consist of marketable securities as well as securities and other assets that do not have readily determinable fair values. The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity partnerships and real estate commingled funds typically have finite lives ranging from 5 to 10 years, at the end of which all invested capital is returned. For hedge funds the typical 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 4.

At December 31, 2013 and 2012, the System, on behalf of the Plans, has commitments to fund private equity investments an additional \$56,196 and \$48,974, respectively. The unfunded commitments at December 31, 2013, are expected to be funded over the next seven years.

Advocate Health Care Network and Subsidiaries

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

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2013, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 10,133	\$ 8,119	\$ 2,014	\$ —
Equity securities:				
Small cap	2,442	—	2,442	—
Large cap	66,677	57,074	9,603	—
Value equity	43,439	43,261	178	—
Growth equity	58,214	58,214	—	—
U.S. equity	14,655	13,683	972	—
International equity	154,819	53,793	101,026	—
International equity — emerging	64,609	61,005	3,604	—
Fixed income securities:				
Core plus bonds	157,704	144,985	12,719	—
Long duration bonds	57,534	—	57,534	—
High-yield bonds	1,823	—	1,823	—
Emerging market bonds	990	—	990	—
Other types of investments:				
Hedge funds	69,639	—	—	69,639
Private equity funds	67,541	—	—	67,541
Real estate	69,918	—	52,405	17,513
Total	\$ 840,137	\$ 440,134	\$ 245,310	\$ 154,693

Advocate Health Care Network and Subsidiaries

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

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for 2013:

	<u>Hedge Funds</u>	<u>Private Equity</u>	<u>Real Estate</u>
Fair value at January 1, 2013	\$ 50,201	\$ 68,868	\$ 17,207
Net purchases and sales	12,604	(9,558)	(8)
Realized gains and losses	—	6,213	891
Unrealized gains and losses	6,834	2,018	(577)
Fair value at December 31, 2013	<u>\$ 69,639</u>	<u>\$ 67,541</u>	<u>\$ 17,513</u>

The following are the Plans' financial instruments at December 31, 2012, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 13,053	\$ 8,403	\$ 4,650	\$ —
Equity securities:				
Small cap	2,450	—	2,450	—
Large cap	52,555	42,842	9,713	—
Value equity	39,673	37,887	1,786	—
Growth equity	54,226	52,176	2,050	—
U.S. equity	17,613	16,862	751	—
International equity	117,811	39,984	77,827	—
International equity – emerging	64,885	60,983	3,902	—
Fixed income securities:				
Core plus bonds	159,168	145,930	13,238	—
Long duration bonds	62,987	—	62,987	—
High-yield bonds	1,831	—	1,831	—
Emerging market bonds	1,018	—	1,018	—
Other types of investments:				
Hedge funds	50,201	—	—	50,201
Private equity funds	68,868	—	—	68,868
Real estate	61,775	—	44,568	17,207
Total	\$ 768,114	\$ 405,067	\$ 226,771	\$ 136,276

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

9. Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for 2012:

	<u>Hedge Funds</u>	<u>Private Equity</u>	<u>Real Estate</u>
Fair value at January 1, 2012	\$ 43,083	\$ 53,737	\$ 16,130
Net purchases and sales	4,256	8,269	(370)
Realized gains and losses	—	3,017	275
Unrealized gains and losses	2,862	3,845	1,172
Fair value at December 31, 2012	<u>\$ 50,201</u>	<u>\$ 68,868</u>	<u>\$ 17,207</u>

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

	<u>2013</u>	<u>2012</u>
Discount rate	4.70%	3.85%
Assumed rate of return on assets	7.25	7.50
Weighted-average rate of increase in future compensation (age-based table)	4.15	4.15

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

	<u>2013</u>	<u>2012</u>
Discount rate	3.85%	4.75%
Assumed rate of return on assets	7.50	7.75
Weighted-average rate of increase in future compensation (age-based table)	4.15	4.80

The assumed rate of return on plan assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. The expected return for each asset class was then weighted based on the target asset allocation to develop the overall expected rate of return on assets for the portfolio. This resulted in the selection of the 7.25% and 7.50% assumption for 2013 and 2012, respectively.

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

In addition to the defined benefit pension plans, the System sponsors various defined contribution plans. The System contributed \$40,641 and \$34,797 in 2013 and 2012, respectively, which are included in salaries, wages, and employee benefits expense in the consolidated statements of operations and changes in net assets.

10. General and Professional Liability Risks

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

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the revocable trust were determined using a discount rate of 3.50% for 2013 and 2012. Accrued insurance liabilities for the System's captive insurance company were determined using a discount rate of 3.00% for 2013 and 2012. Total accrued insurance liabilities would have been \$60,048 and \$53,308 greater at December 31, 2013 and 2012, respectively, had these liabilities not been discounted.

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Legal, Regulatory, and Other Contingencies and Commitments

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

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

In 2013 four desktop computers were stolen during a burglary at one of the System's administrative support locations. The computers did not contain patient medical records but did contain certain patient information, including names, addresses, Social Security numbers, and limited billing and clinical information. Affected patients were notified and offered free credit monitoring and identity theft protection. This matter is under investigation by various government agencies, and the System has received notice that it has been named in certain lawsuits regarding this matter. The System continues to monitor and investigate these matters. Although the outcome of these investigations and litigation cannot be determined with certainty, management is not in possession of any information to suggest that the costs relating to the resolution of this incident will have a material adverse effect on the System's operations or financial condition.

The System is committed to constructing additions and renovations to its medical facilities and implementing information technology projects, which are expected to be completed in future years. The estimated cost of these commitments is \$638,828, of which \$378,391 has been incurred as of December 31, 2013.

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Legal, Regulatory, and Other Contingencies and Commitments (continued)

Future minimum rental commitments at December 31, 2013, for all noncancelable leases with original terms of more than one year are \$40,374, \$35,837, \$29,987, \$26,380, and \$19,804 for the years ending December 31, 2014 through 2018, respectively, and \$75,650 thereafter.

Rent expense, which is included in other expenses, amounted to \$69,340 and \$70,077 in 2013 and 2012, respectively.

12. Income Taxes and Tax Status

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

	2013	2012
Deferred tax assets		
Allowance for uncollectible accounts	\$ 6,654	\$ 4,346
Other accrued expenses	39	39
Reserves for incurred but not reported claims	76	255
Accrued insurance	6,028	7,699
Accrued compensation and employee benefits	2,862	4,745
Third-party settlements	848	848
Prepaid and other assets	380	380
Net operating losses	27,602	15,078
Total deferred tax assets	44,489	33,390
Less valuation allowance	26,074	12,354
Net deferred tax assets, included in deferred costs and intangible assets and prepaid expenses, inventories, and other assets	18,415	21,036
Deferred tax liabilities		
Property and equipment	(6,316)	(7,165)
Other accrued expenses	(7,208)	(3,647)
Deferred gain on acquisition	(5,736)	(4,827)
Total deferred tax liabilities, included in other noncurrent liabilities	(19,260)	(15,639)
Net deferred tax (liability) asset	\$ (845)	\$ 5,397

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Income Taxes and Tax Status (continued)

As of December 31, 2013, the for-profit corporations had \$63,314 of federal and \$77,020 of state net operating loss carryforwards with unutilized amounts expiring between 2019 and 2033.

During 2013 the valuation allowance increased by \$13,720. This change is due to additional net operating loss carryforwards from the acquisition of a for-profit entity. The valuation allowance as of the end of 2013 primarily consists of net operating losses that are unlikely to be realized.

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

	2013	2012
Current:		
Federal	\$ 784	\$ (1,012)
State	240	(309)
Deferred	6,242	(1,144)
	<u>\$ 7,266</u>	<u>\$ (2,465)</u>

Federal and state income taxes paid relating to the System's for-profit corporations were \$2,392 and \$7,284 in 2013 and 2012, respectively.

The System and all other controlled or wholly owned subsidiaries are exempt from income taxes under Internal Revenue Code Section 501(c)(3). They do, however, operate certain programs that generate unrelated business income. The current tax (credit) provision recorded on this income was \$(3,030) and \$1,378 for the years ended December 31, 2013 and 2012, respectively. Federal, state, and local governments are increasingly scrutinizing the tax status of not-for-profit hospitals and health care systems.

13. Sherman Affiliation

Sherman owns and operates a 255-bed acute care hospital located in Elgin, Illinois. Sherman is the sole member of various not-for-profit corporations or the shareholder of various business corporations engaged in the delivery of health care services or the provision of goods and services ancillary thereto, which include a rehabilitation and skilled nursing facility (Sherman West Court), a home health care company, and an employed physician medical group with approximately 35 physicians.

Advocate Health Care Network and Subsidiaries

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

13. Sherman Affiliation (continued)

The Sherman affiliation was accounted for under the purchase accounting guidance and a contribution of \$151,663 was recorded in the consolidated statement of operations and changes in net assets for the year ended December 31, 2013. This contribution reflected the fair value of the unrestricted net assets of Sherman on the date of the affiliation. The total increase in net assets attributable to the affiliation, which included the fair value of temporarily and permanently restricted net assets contributed, was \$152,645. No goodwill was recorded as a result of this transaction. In valuing these assets and liabilities, fair values were based on, but not limited to professional appraisals, discounted cash flows, replacement costs, and actuarially determined values.

The fair value of assets and liabilities of Sherman contributed at June 1, 2013, consists of the following:

Cash and cash equivalents	\$ 12,280
Investments	123,355
Other current assets	65,949
Property and equipment	318,398
Other long-term assets	<u>29,601</u>
Total assets	549,583
Current liabilities, excluding the current portion of long-term debt	69,412
Long-term debt	284,217
Other long-term liabilities	<u>43,309</u>
Total liabilities	396,938
Increase in net assets	<u>\$ 152,645</u>

Total operating revenue and operating income from the date of affiliation for Sherman of \$170,246 and \$5,033, respectively, have been included in the consolidated statements of operations and changes in net assets.

Advocate Health Care Network and Subsidiaries

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

13. Sherman Affiliation (continued)

Following are the unaudited pro forma results for the year ended December 31, 2013 and 2012. These results reflect the addition of Sherman's unaudited results for the period January 1 to May 31, 2013, and the year ended December 31, 2012, to the System's results for the years ended December 31, 2013 and 2012, respectively. These results do not include the addition to revenues in excess of expenses that would have occurred on January 1, 2012, for the contribution of Sherman's unrestricted net assets.

	December 31	
	2013	2012
Total operating revenue	\$ 5,062,920	\$ 4,886,189
Operating income	301,479	298,380
Revenues in excess of expenses	771,600	677,360

The pro forma information provided is a compilation of results only and should not be construed to accurately reflect what the actual results would have been had the affiliation been consummated on January 1, 2012, and is not intended to project the System's results of operations for any future periods.

14. Subsequent Events

The System evaluated events occurring between January 1, 2014 and March 7, 2014, which is the date when the consolidated financial statements were issued.

Supplementary Information



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
Advocate Health Care Network

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The accompanying details of consolidated balance sheet and details of consolidated statement of operations and changes in net assets and shareholders' equity are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 7, 2014

Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Assets									
Current assets:									
Cash and cash equivalents	\$ 563,229	\$ --	\$ 30,949	\$ 478,172	\$ 37,527	\$ 1	\$ 69	\$ 395	\$ 16,116
Short-term investments	19,401	--	--	--	--	19,401	--	--	--
Assets limited as to use	89,660	--	--	76,933	139	--	12,588	--	--
Patient accounts receivable, less allowances for uncollectible accounts	569,033	(3647)	--	506,802	23,875	--	--	--	36,020
Accounts due from primary third-party payors	10,107	--	--	10,107	--	--	--	--	--
Intercompany accounts receivable	--	(88,198)	7,126	45,005	8,532	638	237	21,101	5,539
Prepaid expenses, inventories, and other current assets	236,322	--	--	158,422	29,566	37,334	13,676	11	17,313
Collateral proceeds received under securities lending program	19,165	--	--	19,165	--	--	--	--	--
Total current assets	1,324,917	(88,762)	38,075	1,294,606	99,639	57,374	26,590	21,507	75,881
Assets limited as to use:									
Internally and externally designated investments limited as to use	4,715,519	--	309,470	3,995,215	72,523	122,629	89,669	--	126,013
Investments under securities lending program	19,013	--	--	19,013	--	--	--	--	--
Investment in subsidiaries	--	(184,316)	184,316	--	--	--	--	--	--
Accounts receivable from Advocate Health Care Network and subsidiaries	--	(91,380)	91,380	--	--	--	--	--	--
Prepaid pension expense and other noncurrent assets	132,382	(943)	--	128,818	--	4,507	--	--	--
Interest in health care and related entities	152,103	--	--	124,833	24,624	--	--	--	2,646
Reinsurance receivable	172,318	--	--	8,064	--	--	151,805	--	12,449
Deferred costs and intangible assets, less allowances for amortization	51,231	(5,414)	--	41,056	11,598	--	--	--	4,011
	5,242,566	(282,053)	585,166	4,316,979	108,745	127,136	241,474	--	145,119
Property and equipment -- at cost:									
Land and land improvements	251,296	--	--	203,561	13,117	--	--	--	34,618
Buildings	2,514,922	--	--	2,207,731	60,990	335	--	--	243,846
Movable equipment	1,358,608	--	--	1,236,761	62,891	1,444	--	--	37,512
Construction-in-progress	313,065	--	--	309,790	516	--	--	--	2,759
	4,437,891	--	--	3,977,843	137,514	1,799	--	--	320,735
Less allowances for depreciation	2,135,478	--	--	2,056,201	85,634	1,637	--	--	11,786
	2,282,463	--	--	1,921,512	51,840	162	--	--	308,949
	\$ 9,049,946	\$ (370,815)	\$ 623,241	\$ 7,533,697	\$ 290,234	\$ 184,672	\$ 268,064	\$ 21,507	\$ 329,956

Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospital Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Liabilities and net assets and shareholders' equity									
Current liabilities:									
Current portion of long-term debt	\$ 17,810	\$ -	\$ -	\$ 17,285	\$ 399	\$ -	\$ -	\$ -	\$ 166
Long-term debt subject to short-term rematuring arrangements	133,130	-	-	133,130	-	-	-	-	-
Accounts payable	291,306	-	-	277,272	6,189	142	35	-	7,348
Accrued salaries and employee benefits	473,897	-	-	394,146	12,962	1,089	-	-	15,100
Accrued expenses	120,526	(564)	-	94,599	4,769	286	11,822	1	9,213
Amounts due to primary third-party payors	274,780	-	-	242,138	2,612	-	-	-	30,030
Current portion of accrued insurance and claims costs and subsidiaries	112,412	-	-	78,614	1,881	-	26,068	-	5,849
Notes and accounts payable to Advocate Health Care Network and subsidiaries	-	(88,198)	21,009	14,204	10,455	2,961	1,213	13,864	24,390
Obligations to return collateral under securities lending program	19,440	-	-	19,440	-	-	-	-	-
Total current liabilities	1,391,201	(88,762)	21,009	1,275,428	39,227	5,078	39,160	13,865	92,296
Noncurrent liabilities:									
Long-term debt, less current portion	1,432,109	-	-	1,268,612	3,438	-	-	-	178,039
Notes and accounts payable to Advocate Health Care Network and subsidiaries	-	(91,380)	-	-	-	-	-	-	91,380
Pension plan liability	21,737	-	-	23,737	-	-	-	-	-
Accrued insurance and claims cost, less current portion	678,470	-	-	630,425	8,775	-	35,716	-	554
Accrued losses subject to reinsurance recovery	172,318	-	-	8,064	-	-	151,803	-	12,449
Obligations under swap agreements, net of collateral posted	47,908	-	-	47,908	-	-	-	-	-
Other noncurrent liabilities	131,668	(943)	124	105,225	44,156	2,697	-	-	409
Total liabilities	2,328,210	(92,323)	124	2,086,571	58,389	2,697	187,521	-	282,831
Net assets/sharholders' equity:									
Unrestricted	4,968,578	13,425	602,108	4,171,618	-	19,281	-	7,522	154,624
Temporarily restricted	111,333	-	-	1,030	-	110,050	-	-	203
Permanently restricted	47,566	-	-	-	-	47,566	-	-	-
Common stock	-	(13)	-	-	1	-	-	12	-
Additional paid-in capital	-	(177,271)	-	-	177,163	-	-	108	-
Non-controlling interest	956	-	-	-	956	-	-	-	-
Retained (deficit) earnings/partnership losses	-	(25,871)	-	-	(15,512)	-	41,283	-	-
Total net assets/sharholders' equity	5,128,433	(189,730)	602,108	4,172,698	162,688	178,897	41,283	7,642	154,827
	\$ 9,039,946	\$ (370,815)	\$ 673,241	\$ 7,333,697	\$ 260,224	\$ 184,672	\$ 268,061	\$ 21,507	\$ 529,016

Advocate Health Care Network and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Unrestricted revenues, gifts, and other support	\$ 4,468,468	\$ (8,041)	\$ —	\$ 4,092,747	\$ 203,705	\$ —	\$ —	\$ —	\$ 178,057
Net patient service revenue	(253,959)	—	—	(225,401)	(11,296)	—	—	—	(15,253)
Provision for uncollectible accounts	4,214,479	(8,041)	—	3,867,346	192,409	—	—	—	162,763
Capitalization revenue	389,516	—	—	325,415	64,101	—	—	—	—
Other revenue	734,007	(68,345)	1,582	207,777	52,342	1,561	31,292	649	7,481
	4,538,002	(76,385)	1,582	4,306,138	308,832	1,561	31,292	649	170,246
Expenses									
Salaries, wages, and employee benefits	2,510,470	—	6	2,298,349	126,121	7,882	—	—	78,112
Purchased services and operating supplies	1,211,483	(42,735)	—	1,057,398	145,344	1,133	191	31	50,121
Contracted medical services	133,570	(8,027)	—	131,636	11,711	—	—	—	—
Insurance and claims costs	108,349	(21,974)	(2)	119,135	(418)	6	9,482	—	2,120
Other	404,988	(2,077)	—	345,616	19,886	2,736	3,309	14	15,304
Depreciation and amortization	211,618	(1,299)	—	193,190	7,414	60	—	—	12,183
Interest	55,299	(1,562)	—	49,258	230	—	—	—	7,173
	4,637,807	(77,474)	4	4,214,932	310,278	11,817	12,992	45	165,213
Operating income (loss)	300,195	1,089	1,578	283,206	(1,446)	(10,256)	18,307	604	5,033
Nonoperating income (loss)									
Investment income (loss)	287,727	(1,806)	17,297	252,832	12,098	—	(2,019)	(400)	5,217
Change in fair value of interest rate swaps	41,235	—	—	41,236	—	—	—	—	—
Fair value of net assets acquired	151,663	(1,701)	—	2,167	—	—	—	7,348	143,849
Loss on refinancing of debt	(45)	—	—	(46)	—	—	—	—	—
Other nonoperating items, net	(15,455)	(3,496)	1,500	(7,970)	(5,418)	(38)	—	—	(33)
Revenues in excess of (loss than) expenses	765,320	(5,414)	20,375	573,425	5,254	(10,294)	20,386	7,372	154,066
Unrestricted net assets									
Net assets released from restrictions and used for capital purchases	3,054	—	—	2,809	—	—	—	—	245
Net assets released from grants used for capital purposes	1,147	—	—	834	—	—	—	—	313
Contribution of net assets of Sherman Hospital	—	(120)	—	—	—	—	—	120	—
Transfers to/from Advocate Health Care Network and subsidiaries	—	—	191,200	(170,800)	—	10,800	(35,000)	—	—
Postretirement benefit plan adjustments	70,912	—	—	70,912	—	—	—	—	—
Other	(21)	—	—	(22)	1	(29)	—	—	—
Increase (decrease) in unrestricted net assets	840,412	(5,534)	214,575	477,978	5,255	486	(14,614)	7,642	154,634

1312-117920

51

Advocate Health Care Network and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Sherman Health Insurance Co.	Advocate Sherman Hospital and Subsidiaries
Temporarily restricted net assets									
Contributions for medical education programs, capital purchases, and other purposes	\$ 27,778	\$ -	\$ -	\$ (13)	\$ -	\$ 27,791	\$ -	\$ -	\$ -
Contribution of net assets of Sherman Hospital	719	-	-	-	-	514	-	-	205
Realized gains on investments	2,939	-	-	15	-	2,944	-	-	-
Unrealized gains on investments	3,764	-	-	3	-	3,763	-	-	-
Net assets released from restriction and used for operations, medical education programs, capital purchases, and other purposes	(14,249)	-	-	-	-	(14,249)	-	-	-
Increase in temporarily restricted net assets	20,984	-	-	7	-	20,772	-	-	205
Permanently restricted net assets									
Contributions for medical education programs, capital purchases, and other purposes	1,889	-	-	-	-	1,889	-	-	-
Contribution of net assets of Sherman Hospital	263	-	-	-	-	263	-	-	-
Increase in permanently restricted net assets	2,152	-	-	-	-	2,152	-	-	-
Increase (decrease) in net assets	863,548	(5,334)	214,373	477,985	5,255	23,410	(14,614)	7,642	154,829
Change in non-controlling interest	(26)	-	-	-	(26)	-	-	-	-
Net assets/shareholders' equity at beginning of year	4,364,913	(164,196)	387,533	3,694,713	157,379	133,487	55,997	-	-
Net assets/shareholders' equity at end of year	\$ 5,128,432	\$ (169,730)	\$ 602,108	\$ 4,172,698	\$ 162,608	\$ 126,897	\$ 41,383	\$ 7,642	\$ 154,829

Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northlake Health System	Advocate Condell Medical Center	Midwest Heart Specialists	PHS Home Health Care Services, Inc. and Subsidiary	Eliminations	PHS Home Health Care Services, Inc.	Advocate Hospice
Assets										
Current assets:										
Cash and cash equivalents	\$ 478,172	\$ —	\$ 384,503	\$ 32,983	\$ 44,230	\$ 3,053	\$ 13,423	\$ —	\$ 10,904	\$ 2,519
Assets limited as to use	76,933	—	76,933	—	—	—	—	—	—	—
Patient accounts receivable, less allowances for uncollectible accounts	506,802	(105)	411,649	68,017	29,409	—	5,832	—	3,422	2,410
Amounts due from primary third-party payors	16,107	—	7,111	1,920	1,066	—	—	—	—	—
Accounts receivable from Advocate Health Care Network and subsidiaries	41,005	—	41,745	2,046	167	—	1,047	—	1,041	6
Intercompany accounts receivable	—	(63,421)	38,095	20,019	4,793	52	462	(330)	676	116
Prepaid expenses, inventories, and other current assets	158,422	—	151,025	20,271	6,403	484	239	—	219	20
Collateral proceeds received under securities lending program	19,165	—	19,165	—	—	—	—	—	—	—
Total current assets	1,294,606	(63,526)	1,110,226	137,265	86,068	3,569	21,003	(330)	16,262	5,071
Assets limited as to use:										
Internally and externally designated investments limited as to use	3,999,215	—	3,885,355	51,990	41,658	6,163	10,049	—	7,349	2,700
Investments under securities lending program	19,013	—	19,013	—	—	—	—	—	—	—
Prepaid pension expense and other noncurrent assets	128,818	—	128,818	—	—	—	—	—	—	—
Interest in health care and related entities	124,833	(15,869)	48,170	92,435	—	77	—	—	—	—
Reinsurance receivable	8,064	—	7,602	—	462	—	—	—	—	—
Deferred costs and intangible assets, less allowances for amortization	41,036	—	39,580	104	—	1,352	—	—	—	—
	4,316,979	(15,869)	4,128,538	144,549	42,120	7,592	10,049	—	7,349	2,700
Property and equipment – at cost:										
Land and land improvements	201,561	—	107,227	41,430	54,904	—	—	—	—	—
Buildings	2,207,731	—	1,833,786	136,202	236,899	—	844	—	844	—
Movable equipment	1,236,761	—	1,135,113	64,322	52,965	—	4,361	—	4,296	65
Construction-in-progress	309,790	—	238,094	49,138	2,358	—	—	—	—	—
	3,977,843	—	3,234,220	291,092	347,326	—	5,205	—	5,140	65
Less allowances for depreciation	2,056,331	—	1,865,835	112,654	73,296	—	4,316	—	4,510	36
	1,921,512	—	1,468,385	178,438	274,030	—	889	—	630	29
	\$ 7,533,997	\$ (79,395)	\$ 6,707,149	\$ 469,253	\$ 402,218	\$ 11,161	\$ 31,711	\$ (330)	\$ 24,241	\$ 7,899

Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northlake Health System	Advocate Condell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Service, Inc.	Advocate Hospice
Liabilities and net assets										
Current liabilities:										
Current portion of long-term debt	\$ 17,285	\$ -	\$ 16,785	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt subject to short-term rematching arrangements	135,130	-	135,130	-	-	-	-	-	-	-
Accounts payable	277,372	-	231,202	27,725	13,297	455	4,693	-	3,247	1,446
Accrued salaries and employee benefits	394,146	-	330,533	22,934	14,080	-	3,979	-	5,120	839
Accrued expenses	94,999	(105)	84,377	7,270	12,359	292	806	-	701	105
Amounts due to primary third-party payors	242,138	-	163,604	33,491	36,428	-	6,613	-	6,580	35
Current portion of accrued insurance and claims costs	78,614	-	78,614	-	-	-	-	-	-	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	14,304	-	10,724	2,112	390	-	1,078	-	1,002	76
Intercompany payables	-	(63,421)	25,236	28,435	8,278	103	1,347	(330)	977	700
Obligations to return collateral under securities lending program	19,440	-	19,440	-	-	-	-	-	-	-
Total current liabilities	1,273,428	(63,526)	1,117,683	121,967	75,932	852	20,518	(330)	17,627	3,221
Noncurrent liabilities:										
Long-term debt, less current portion	1,268,612	-	1,238,432	-	30,180	-	-	-	-	-
Pension plan liability	23,737	-	-	-	23,737	-	-	-	-	-
Accrued insurance and claims cost, less current portion	633,425	-	633,425	-	-	-	-	-	-	-
Accrued losses subject to reinsurance recovery	5,064	-	7,502	-	462	-	-	-	-	-
Obligations under swap agreements, net of collateral posted	47,908	-	47,908	-	-	-	-	-	-	-
Other noncurrent liabilities	105,215	-	100,038	4,748	108	331	-	-	-	-
Total liabilities	2,086,971	(63,526)	2,027,465	126,715	130,419	1,183	20,518	(330)	17,627	3,221
Net assets:										
Unrestricted	4,171,618	-	3,566,979	333,538	271,799	(3,891)	11,193	-	6,614	4,579
Temporarily restricted	1,080	-	1,080	-	-	-	-	-	-	-
Additional paid-in capital	-	(15,869)	-	-	-	15,869	-	-	-	-
Total net assets	4,172,698	(15,869)	3,568,059	333,538	271,799	9,978	11,193	-	6,614	4,579
	\$ 7,533,027	\$ (79,395)	\$ 6,267,149	\$ 460,253	\$ 402,218	\$ 11,161	\$ 31,711	\$ (330)	\$ 24,241	\$ 7,800

Advocate Health and Hospitals Corporation and Subsidiaries
 Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity
 (Dollars in Thousands)

December 31, 2013

	Consolidated	Elmhurst	Advocate Health and Hospitals Corporation	Advocate Northlake Health System	Advocate Ochsner Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Elmhurst	EHS Home Health Care Services, Inc.	Advocate Hospice
Unrestricted revenues, gains, and other support										
Net patient service revenue	\$ 4,092,747	\$ (1,133)	\$ 3,218,111	\$ 465,980	\$ 326,385	\$ --	\$ 83,604	\$ --	\$ 64,503	\$ 19,101
Provision for uncollectible accounts	(213,401)	--	(773,912)	(20,585)	(19,896)	--	(1,655)	--	(1,024)	16
	3,879,346	(1,133)	3,044,199	445,395	306,489	--	81,949	--	63,479	19,117
Captions revenue	323,413	--	333,136	1,830	--	--	369	--	369	--
Other revenue	307,377	(61,632)	319,240	29,301	13,232	837	4,379	(1,097)	6,379	97
	4,500,138	(62,765)	3,696,595	466,386	321,721	837	87,344	(1,097)	70,227	19,214
Expenses										
Salaries, wages, and employee benefits	2,228,349	--	1,893,953	214,169	128,778	--	61,449	--	52,083	8,367
Purchased services and operating supplies	1,037,398	(56,941)	860,161	113,078	116,320	390	14,490	(2,097)	8,925	7,662
Contracted medical services	131,286	(1,333)	133,119	--	--	--	--	--	--	--
Insurance and claims costs	119,135	(31)	99,759	14,720	4,879	8	200	--	134	66
Other	263,216	(4,260)	308,919	38,880	17,110	24	4,913	--	4,093	820
Depreciation and amortization	193,290	--	160,658	14,079	16,513	1,632	418	--	410	8
Interest	49,238	--	46,267	--	2,891	--	--	--	--	--
	4,214,913	(62,565)	3,903,465	401,926	255,991	2,044	81,470	(2,097)	65,241	13,313
Operating income (loss)	285,206	--	183,129	61,660	35,730	(1,187)	5,874	--	4,583	1,291
Nonoperating income (loss)										
Investment income	252,832	--	231,928	13,198	3,876	1,013	817	--	572	245
Change in fair value of interest rate swaps	41,216	--	41,226	--	--	--	--	--	--	--
Fair value of net assets acquired	2,167	--	1,701	--	--	--	466	--	466	--
Loss on refinancing of debt	(46)	--	(46)	--	--	--	--	--	--	--
Other nonoperating items, net	(7,970)	--	(7,215)	130	(938)	91	--	--	--	--
Revenues in excess of (less than) expenses	573,225	--	450,723	76,978	36,646	(81)	7,157	--	5,621	1,386
Unrestricted net assets										
Net assets released from restrictions not used for capital purposes	3,809	--	3,077	460	302	--	--	--	--	--
Net assets released from grants used for capital purposes	834	--	648	--	186	--	--	--	--	--
Transfers within Advocate Health Care Network and subsidiaries	(170,000)	--	(47,000)	(25,000)	(40,000)	--	(8,000)	--	(5,000)	(2,000)
Postretirement benefit plan adjustments	70,912	--	39,317	--	11,593	--	--	--	--	--
Other	(7)	--	(2)	--	--	--	--	--	--	--
Increase (decrease) in unrestricted net assets	477,919	--	465,733	2,438	10,731	(81)	(843)	--	621	(1,660)

Advocate Health and Hospitals Corporation and Subsidiaries
Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Rushville Health System	Advocate Cordell Medical Center	Midwest Heart Specialists	EHS Home Health Care Services, Inc. and Subsidiary	Eliminations	EHS Home Health Care Services, Inc.	Advocate Hospice
Temporarily restricted net assets										
Contributions for medical education programs, capital purchases, and other purposes	\$ (13)	\$ -	\$ (13)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Realized gains on investments	15	-	15	-	-	-	-	-	-	-
Unrealized gains on investments	5	-	5	-	-	-	-	-	-	-
Increase in temporarily restricted net assets	7	-	7	-	-	-	-	-	-	-
Losses (decreases) in net assets	477,985	-	465,740	2,438	10,731	(81)	(843)	-	631	(1,464)
Net assets at beginning of year	3,694,713	(15,869)	2,096,319	331,100	261,068	10,059	72,036	-	5,993	6,043
Net assets at end of year	\$ 4,172,698	\$ (15,869)	\$ 2,562,059	\$ 333,538	\$ 271,799	\$ 9,978	\$ 71,193	\$ -	\$ 6,624	\$ 4,579

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Choice
Assets						
Current assets:						
Cash and cash equivalents	\$ 16,116	\$ —	\$ 10,196	\$ 2,021	\$ 650	\$ 3,249
Patient accounts receivable, less allowances for uncollectible accounts	36,920	—	35,939	981	—	—
Accounts receivable from Advocate Health Care Network and subsidiaries	5,539	—	2,289	13	3,237	—
Intercompany accounts receivable	—	(9,339)	9,299	40	—	—
Prepaid expenses, inventories, and other current assets	17,313	—	17,088	14	—	211
Total current assets	75,888	(9,339)	74,811	3,069	3,887	3,460
Assets limited as to use:						
Internally and externally designated investments limited as to use	126,013	—	125,953	60	—	—
Intercompany accounts receivable	—	(4,150)	4,150	—	—	—
Interest in health care and related entities	2,646	(2,130)	4,776	—	—	—
Reinsurance receivable	12,449	—	12,449	—	—	—
Deferred costs and intangible assets, less allowances for amortization	4,011	—	4,011	—	—	—
	145,119	(6,280)	151,339	60	—	—
Property and equipment – at cost:						
Land and land improvements	34,618	—	33,504	1,114	—	—
Buildings	245,846	—	243,330	2,516	—	—
Movable equipment	37,512	—	37,442	70	—	—
Construction-in-progress	2,759	—	2,759	—	—	—
	320,735	—	317,035	3,700	—	—
Less allowances for depreciation	11,786	—	11,675	111	—	—
	308,949	—	305,360	3,589	—	—
	\$ 529,956	\$ (15,619)	\$ 531,510	\$ 6,718	\$ 3,887	\$ 3,460

Advocate Sherman Hospital and Subsidiaries
Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Choice
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 166	\$ -	\$ 166	\$ -	\$ -	\$ -
Current portion of intercompany long-term debt	-	(277)	-	277	-	-
Accounts payable	7,548	-	7,211	291	46	-
Accrued salaries and employee benefits	15,100	-	14,666	434	-	-
Accrued expenses	9,213	-	5,592	154	7	3,460
Amounts due to primary third-party payors	30,030	-	30,030	-	-	-
Current portion of accrued insurance and claims costs	5,849	-	5,849	-	-	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	24,390	-	22,723	2	1,663	2
Intercompany payables	-	(9,062)	40	510	8,496	16
Total current liabilities	92,296	(9,339)	86,277	1,668	10,212	3,478
Noncurrent liabilities:						
Long-term debt, less current portion	178,039	-	178,039	-	-	-
Long-term intercompany debt, less current portion	-	(4,150)	-	4,150	-	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	91,380	-	91,380	-	-	-
Accrued insurance and claims cost, less current portion	554	-	554	-	-	-
Accrued losses subject to reinsurance recovery	12,449	-	12,449	-	-	-
Other noncurrent liabilities	409	-	409	-	-	-
	282,831	(4,150)	282,831	4,150	-	-
Total liabilities	375,127	(13,489)	369,108	5,818	10,212	3,478
Net assets:						
Unrestricted	154,624	-	162,257	840	(8,455)	(18)
Temporarily restricted	205	-	145	60	-	-
Common stock	-	(1)	-	-	1	-
Additional paid-in capital	-	(2,129)	-	-	2,129	-
Total net assets	154,829	(2,130)	162,402	900	(6,325)	(18)
	\$ 529,956	\$ (15,619)	\$ 531,510	\$ 6,718	\$ 3,887	\$ 3,460

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity (Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Health Visions, Inc.	Sherman Cholce
Unrestricted revenues, gains, and other support						
Net patient service revenue	\$ 178,057	\$ -	\$ 171,879	\$ 5,744	\$ 434	\$ -
Provision for uncollectible accounts	(15,292)	-	(15,213)	(103)	24	-
	162,765	-	156,666	5,641	458	-
Other revenue	7,481	(156)	7,600	37	-	-
	170,246	(156)	164,266	5,678	458	-
Expenses						
Salaries, wages, and employee benefits	78,112	-	73,898	3,525	689	-
Purchased services and operating supplies	50,121	(156)	48,909	1,110	240	18
Insurance and claims costs	2,120	-	1,856	201	63	-
Other	15,504	-	15,005	497	302	-
Depreciation and amortization	12,183	-	12,072	111	-	-
Interest	7,173	(37)	7,151	59	-	-
	165,213	(193)	158,891	5,203	1,294	18
Operating income (loss)	5,033	37	5,375	475	(836)	(18)
Nonoperating income (loss)						
Investment income (loss)	5,217	(37)	5,254	-	-	-
Fair value of net assets acquired	143,849	(2,130)	151,103	365	(5,489)	-
Other nonoperating items, net	(33)	-	(33)	-	-	-
Revenues in excess of (less than) expenses	154,066	(2,130)	161,699	840	(6,325)	(18)
Net assets released from restrictions and used for capital purposes	245	-	245	-	-	-
Net assets released from grants used for capital purposes	313	-	313	-	-	-
Increase (decrease) in unrestricted net assets	154,624	(2,130)	162,257	840	(6,325)	(18)
Temporarily restricted net assets						
Contribution of net assets of Sherman Hospital	205	-	145	60	-	-
Increase in temporarily restricted net assets	205	-	145	60	-	-
Increase (decrease) in net assets	154,829	(2,130)	162,402	900	(6,325)	(18)
Net assets at end of year	\$ 154,829	\$ (2,130)	\$ 162,402	\$ 900	\$ (6,325)	\$ (18)

Advocate Northside Health System and Subsidiaries

Details of Consolidated Balance Sheet (Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Assets				
Current assets:				
Cash and cash equivalents	\$ 32,983	\$ —	\$ 32,459	\$ 524
Patient accounts receivable, less allowances for uncollectible accounts	60,017	—	60,017	—
Amounts due from primary third-party payors	1,930	—	1,930	—
Accounts receivable from Advocate Health Care Network and subsidiaries	2,046	—	573	1,473
Intercompany accounts receivable	20,019	(1,455)	21,474	—
Prepaid expenses, inventories, and other current assets	20,271	—	20,271	—
Total current assets	137,266	(1,455)	136,724	1,997
Assets limited as to use:				
Internally and externally designated investments limited as to use	51,990	—	51,990	—
Interest in health care and related entities	92,455	—	92,455	—
Deferred costs and intangible assets, less allowances for amortization	104	—	104	—
	144,549	—	144,549	—
Property and equipment – at cost:				
Land and land improvements	41,430	—	41,430	—
Buildings	136,202	—	136,202	—
Movable equipment	64,322	—	64,315	7
Construction-in-progress	49,138	—	49,138	—
	291,092	—	291,085	7
Less allowances for depreciation	112,654	—	112,649	5
	178,438	—	178,436	2
	<u>\$ 460,253</u>	<u>\$ (1,455)</u>	<u>\$ 459,709</u>	<u>\$ 1,999</u>

Advocate Northside Health System and Subsidiaries

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 27,725	\$ —	\$ 27,715	\$ 10
Accrued salaries and employee benefits	22,934	—	22,913	21
Accrued expenses	7,270	—	7,270	—
Amounts due to primary third-party payors	33,491	—	33,491	—
Notes and accounts payable to Advocate Health Care Network and subsidiaries	2,112	—	2,033	79
Intercompany payables	28,435	(1,455)	28,435	1,455
Total current liabilities	121,967	(1,455)	121,857	1,565
Noncurrent liabilities:				
Other noncurrent liabilities	4,748	—	4,748	—
Total liabilities	126,715	(1,455)	126,605	1,565
Net assets:				
Unrestricted	333,538	—	333,104	434
Total net assets	333,538	—	333,104	434
	\$ 460,253	\$ (1,455)	\$ 459,709	\$ 1,999

Advocate Northside Health System and Subsidiaries

**Details of Consolidated Statement of Operations and
Changes in Net Assets and Shareholders' Equity**
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
Unrestricted revenues, gains, and other support				
Net patient service revenue	\$ 465,980	\$ —	\$ 465,980	\$ —
Provision for uncollectible accounts	(30,585)	—	(30,585)	—
	435,395	—	435,395	—
Capitation revenue	1,890	—	1,890	—
Other revenue	29,301	—	29,144	157
	466,586	—	466,429	157
Expenses				
Salaries, wages, and employee benefits	214,169	—	213,985	184
Purchased services and operating supplies	123,078	—	123,062	16
Insurance and claims costs	14,720	—	14,720	—
Other	38,880	—	38,741	139
Depreciation and amortization	14,079	—	14,078	1
	404,926	—	404,586	340
Operating income (loss)	61,660	—	61,843	(183)
Nonoperating income (loss)				
Investment income	15,198	—	15,197	1
Other nonoperating items, net	120	—	76	44
Revenues in excess of (less than) expenses	76,978	—	77,116	(138)
Unrestricted net assets				
Net assets released from restrictions and used for capital purposes	460	—	460	—
Transfers to/from Advocate Health Care Network and subsidiaries	(75,000)	—	(75,175)	175
Increase in unrestricted net assets	2,438	—	2,401	37
Unrestricted net assets at beginning of year	331,100	—	330,703	397
Unrestricted net assets at end of year	\$ 333,538	\$ —	\$ 333,104	\$ 434

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Balance Sheet
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMem Medical Group
Assets								
Current assets:								
Cash and cash equivalents	\$ 37,527	\$ --	\$ 15,664	\$ 3,054	\$ 4,384	\$ 9,312	\$ 1,094	\$ 4,019
Assets limited as to use	139	--	--	--	--	--	--	139
Patient accounts receivable, less allowances for uncollectible accounts	23,875	--	--	1,963	2,683	15,814	--	3,415
Accounts receivable from Advocate Health Care Network and subsidiaries	8,532	--	6,360	335	1,136	59	403	239
Intercompany accounts and notes receivable	--	(29,803)	20,842	536	7	6,595	1,763	60
Prepaid expenses, inventories, and other current assets	29,566	--	21,933	99	1,142	5,534	141	714
Total current assets	99,639	(29,803)	64,799	5,987	9,352	37,314	3,404	8,586
Assets limited as to use:								
Internally and externally designated investments limited as to use	72,523	--	16,564	24,709	18,765	--	10,048	2,437
Intercompany notes receivable	--	(48,965)	--	48,965	--	--	--	--
Investments and other noncurrent assets	--	(166,758)	166,758	--	--	--	--	--
Interest in health care and related entities	24,624	--	7,310	--	--	1,569	--	15,743
Deferred costs and intangible assets, less allowances for amortization	11,598	--	5,801	--	--	5,797	--	--
	108,745	(215,723)	196,433	73,674	18,765	7,366	10,048	18,182
Property and equipment -- at cost:								
Land and land improvements	13,117	--	6,138	1,004	--	5,488	--	487
Buildings	60,990	--	2,382	9,717	428	46,219	--	2,244
Movable equipment	62,891	--	8,184	19,053	7,911	23,701	--	4,042
Construction-in-progress	516	--	--	196	--	309	--	11
	137,514	--	16,704	29,970	8,339	75,717	--	6,784
Less allowances for depreciation	85,674	--	11,089	22,789	6,002	43,643	--	2,151
	51,840	--	5,615	7,181	2,337	32,074	--	4,633
	\$ 260,224	\$ (245,526)	\$ 266,847	\$ 86,842	\$ 30,454	\$ 76,754	\$ 13,452	\$ 31,401

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	Brother Medical Group
Liabilities and shareholder's equity								
Current liabilities:								
Current portion of long-term debt	\$ 359	\$ -	\$ -	\$ -	\$ -	\$ 359	\$ -	\$ -
Current portion of intercompany long-term debt	-	(818)	-	-	-	283	-	535
Accounts payable	6,189	-	2,444	283	1,080	1,757	47	578
Accrued salaries and employee benefits	12,962	-	3,908	855	710	6,737	1	751
Accrued expenses	4,769	-	385	876	37	1,922	910	639
Amounts due to primary third-party payors	2,612	-	-	-	919	1,693	-	-
Current portion of accrued insurance and claims costs	1,881	-	-	-	-	-	1,742	139
Notes and accounts payable to Advocate Health Care Network and subsidiaries	10,455	-	6,140	601	1,228	1,029	32	1,425
Intercompany payables	-	(28,985)	8,424	671	792	19,006	42	50
Total current liabilities	39,227	(29,803)	21,301	20,286	4,766	32,786	2,774	4,117
Noncurrent liabilities:								
Long-term debt, less current portion	5,458	-	-	-	-	5,458	-	-
Long-term intercompany debt, less current portion	-	(48,965)	-	-	-	-	-	48,965
Accrued insurance and claims cost, less current portion	8,775	-	-	-	-	-	7,425	1,350
Other noncurrent liabilities	44,156	-	38,123	114	102	5,509	-	308
	<u>58,389</u>	<u>(48,965)</u>	<u>38,123</u>	<u>114</u>	<u>102</u>	<u>10,967</u>	<u>7,425</u>	<u>50,623</u>
Total liabilities	97,616	(78,768)	59,424	3,400	4,868	43,753	10,199	54,740
Shareholders' equity:								
Common stock	1	(5,163)	1	3,250	50	1,862	-	1
Additional paid-in capital	177,163	(193,581)	177,163	22,294	9,098	34,017	87,081	41,091
Non-controlling interest	956	-	-	-	-	956	-	-
Retained (deficit) earnings	(15,512)	31,986	30,259	57,898	16,438	(3,834)	(83,828)	(64,431)
	<u>162,608</u>	<u>(166,758)</u>	<u>207,423</u>	<u>83,442</u>	<u>25,586</u>	<u>33,001</u>	<u>3,253</u>	<u>(23,339)</u>
Total shareholders' equity	\$ 260,224	\$ (245,526)	\$ 266,847	\$ 86,842	\$ 30,454	\$ 76,754	\$ 13,452	\$ 31,401

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity
(Dollars in Thousands)

December 31, 2013

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Child, Inc.	Advocate Health Centers, Inc.	Brothman Medical Group
Unrestricted revenues, gains, and other support								
Net patient service revenue	\$ 205,705	\$ -	\$ -	\$ 22,944	\$ 23,955	\$ 130,864	\$ (432)	\$ 28,374
Provision for uncollectible accounts	(13,296)	-	-	(1,388)	(3,331)	(7,494)	1,783	(2,866)
	192,409	-	-	21,556	20,624	123,370	1,351	25,508
Capitation revenue	64,101	-	-	-	1,539	60,990	1,549	3
Other revenue	52,342	(4,008)	35,330	116	4,205	8,268	277	8,154
	308,852	(4,008)	35,330	21,672	26,388	192,628	3,177	33,665
Expenses								
Salaries, wages, and employee benefits	126,121	-	26,253	7,486	6,210	71,997	(660)	14,835
Purchased services and operating supplies	145,344	(4,008)	5,629	9,333	15,012	92,105	202	27,071
Contracted medical services	11,711	-	-	-	-	11,926	(215)	-
Insurance and claims costs	(428)	-	29	332	138	880	(2,868)	1,061
Other	19,886	-	2,656	1,181	1,899	11,084	77	2,989
Depreciation and amortization	7,414	-	518	1,587	704	3,923	-	682
Interest	230	(3,909)	2	-	-	260	377	3,500
	310,278	(7,917)	35,087	19,919	23,963	192,175	(3,087)	50,138
Operating (loss) income	(1,426)	3,909	243	1,753	2,425	453	6,264	(16,473)

Evangelical Services Corporation and Subsidiaries
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets and Shareholders' Equity (continued)
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	Brother Medical Group
Nonoperating income (loss)	\$ 12,098	\$ (3,909)	\$ 4,459	\$ 7,080	\$ 3,488	\$ 6	\$ 45	\$ 929
Investment income (loss)	(5,418)	—	(9,493)	(2,839)	(2,069)	(459)	4,577	4,865
Other nonoperating items, net	—	—	—	—	—	—	—	—
Revenues in excess of (less than) expenses	5,234	—	(4,791)	5,994	3,844	—	10,886	(10,679)
Unrestricted net assets	—	—	—	—	—	—	—	—
Transfers to/from Advocate Health Care Network and subsidiaries	—	(67,989)	30,000	—	(30,000)	6,489	55,000	6,500
Other	1	—	—	—	—	—	—	1
Increase (decrease) in unrestricted net assets	5,235	(67,989)	25,209	5,994	(26,156)	6,489	65,886	(4,178)
Change in non-controlling interest	(26)	—	—	—	—	(26)	—	—
Decrease in non-controlling interest	(26)	—	—	—	—	(26)	—	—
Total change in shareholders' equity	5,229	(67,989)	25,209	5,994	(26,156)	6,463	65,886	(4,178)
Shareholders' equity at beginning of year	157,379	(98,769)	182,214	77,448	51,742	26,538	(62,633)	(19,161)
Shareholders' equity at end of year	\$ 162,608	\$ (166,758)	\$ 207,423	\$ 83,442	\$ 25,586	\$ 33,001	\$ 3,253	\$ (23,339)

EY | Assurance | Tax | Transactions | Advisory

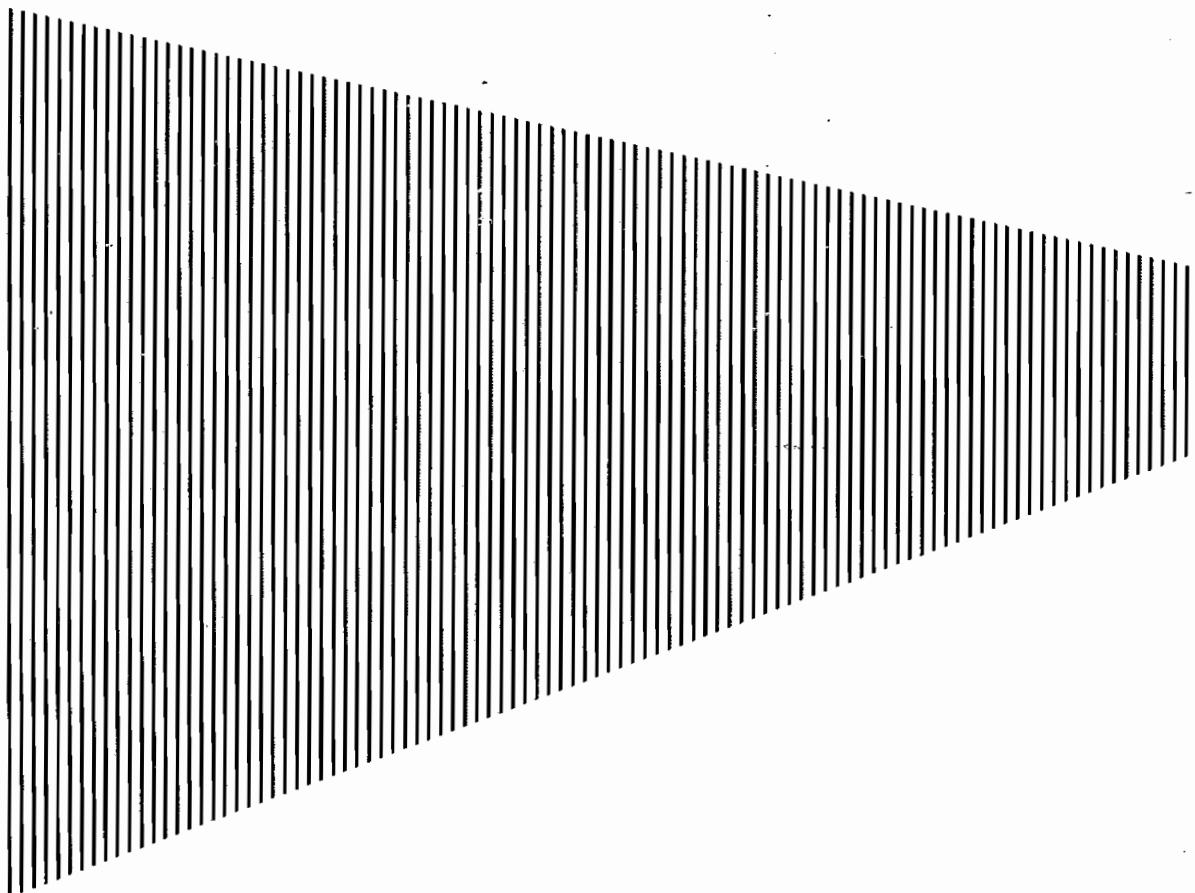
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2013 Ernst & Young LLP.
All Rights Reserved.

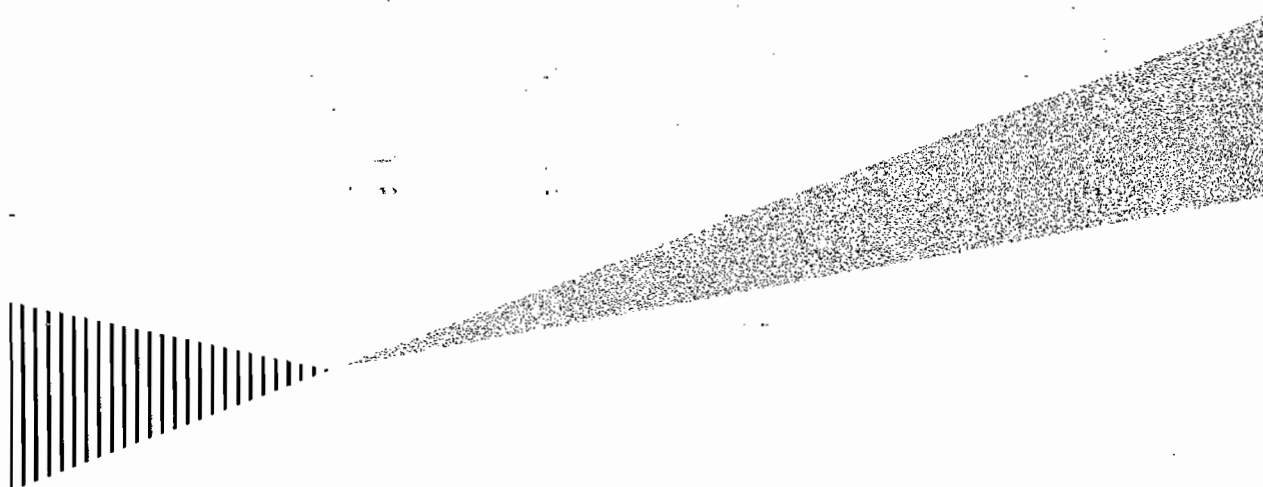
ey.com



CONSOLIDATED FINANCIAL STATEMENTS

NorthShore University HealthSystem
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP



NorthShore University HealthSystem**Consolidated Financial Statements****Years Ended September 30, 2013 and 2012****Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Board of Directors
NorthShore University HealthSystem

We have audited the accompanying consolidated financial statements of NorthShore University HealthSystem and its affiliates (collectively, the Corporation), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Building a better
working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthShore University HealthSystem and its affiliates at September 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2011-07, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities

As discussed in Note 2 to the consolidated financial statements, NorthShore University HealthSystem changed the presentation of the provision for uncollectible accounts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities*, effective October 1, 2012. Our opinion is not modified with respect to this matter.

February 3, 2014

Ernst & Young LLP

NorthShore University HealthSystem

Consolidated Balance Sheets

(Dollars in Thousands)

	September 30	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,295	\$ 21,856
Other short-term investments	36,565	17,016
Internally designated investments, current portion	49,575	44,960
Patient accounts receivable, less allowances for uncollectible and charity accounts (2013 – \$55,507; 2012 – \$53,472)	246,113	269,933
Inventories, prepaid expenses, and other	66,221	65,489
Total current assets	439,769	419,254
Investments available for general use	1,313,198	1,211,716
Internally designated investments for capital replacement and other	171,602	164,185
Property and equipment:		
Land and improvements	96,199	89,396
Buildings	1,351,161	1,221,467
Equipment and furniture	517,492	495,051
Construction-in-progress	26,548	77,332
	1,991,400	1,883,246
Less accumulated depreciation	1,023,604	918,696
Total property and equipment, net	967,796	964,550
Other noncurrent assets	213,001	203,462
Total assets	\$ 3,105,366	\$ 2,963,167

NorthShore University HealthSystem
Consolidated Balance Sheets (continued)
(Dollars in Thousands)

	September 30	
	2013	2012
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 55,124	\$ 81,296
Accrued expenses and current portion of self-insurance	198,718	178,494
Due to third-party payors	81,612	88,067
Current maturities of long-term debt	9,263	8,948
Total current liabilities	344,717	356,805
Noncurrent liabilities:		
Long-term debt, less current maturities	367,200	376,463
Employee retirement plans	79,565	171,036
Accrued self-insurance and other	308,061	291,277
Total noncurrent liabilities	754,826	838,776
Net assets:		
Unrestricted	1,830,622	1,596,857
Temporarily restricted	100,951	98,205
Permanently restricted	74,250	72,524
Total net assets	2,005,823	1,767,586
 Total liabilities and net assets	 <u>\$ 3,105,366</u>	 <u>\$ 2,963,167</u>

See accompanying notes.

NorthShore University HealthSystem

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

	Year Ended September 30	
	2013	2012
Unrestricted revenues and other support		
Net patient service and premium revenue	\$ 1,765,898	\$ 1,677,385
Provision for uncollectible accounts	(62,965)	(46,960)
Net patient service and premium revenue after provision	1,702,933	1,630,425
Investment earnings supporting current activities	33,000	30,000
Net assets released from restrictions used for operations	11,661	13,256
Other revenue	68,348	82,552
Total unrestricted revenues and other support	1,815,942	1,756,233
Expenses		
Salaries and benefits	980,869	912,089
Supplies, services, and other	577,582	573,611
Depreciation and amortization	118,817	115,262
Insurance	45,699	39,960
Medicaid assessment	24,828	24,828
Interest	7,668	7,469
Total expenses	1,755,463	1,673,219
Income from operations	60,479	83,014
Nonoperating income		
Dividend and interest income	27,735	33,046
Net realized gains on investments	52,764	20,664
Net unrealized gains on investments	59,117	121,898
Transfer of investment earnings supporting current activities	(33,000)	(30,000)
Other, net	(41,055)	(36,403)
Total nonoperating income	65,561	109,205
Revenue, gains, and other support in excess of expenses	126,040	192,219

Continued on next page.

NorthShore University HealthSystem

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

	Year Ended September 30	
	2013	2012
Unrestricted net assets		
Revenue, gains, and other support in excess of expenses	\$ 126,040	\$ 192,219
Pension-related changes other than net periodic costs	105,412	(20,162)
Net assets released from restrictions used for capital	986	1,344
Other transfers, net	1,327	1,149
Increase in unrestricted net assets	<u>233,765</u>	<u>174,550</u>
Temporarily restricted net assets		
Contributions and other	7,702	15,802
Net realized gains on investments	5,559	2,138
Net unrealized gains on investments	2,132	11,010
Net assets released from restrictions	(12,647)	(14,600)
Increase in temporarily restricted net assets	<u>2,746</u>	<u>14,350</u>
Permanently restricted net assets		
Contributions	1,726	1,405
Increase in permanently restricted net assets	<u>1,726</u>	<u>1,405</u>
Increase in net assets	238,237	190,305
Net assets at beginning of year	1,767,586	1,577,281
Net assets at end of year	<u>\$ 2,005,823</u>	<u>\$ 1,767,586</u>

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30	
	2013	2012
Operating activities		
Increase in net assets	\$ 238,237	\$ 190,305
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized gain on investments	(61,249)	(132,909)
Change in trading portfolio investments, net	(47,651)	80,737
Restricted contributions	(9,428)	(17,207)
Depreciation and amortization	118,817	115,262
Bond premium amortization	(88)	(88)
Pension-related changes other than net periodic cost	(105,412)	20,162
Provision for uncollectible accounts	62,965	46,960
Changes in operating assets and liabilities:		
Patient accounts receivable	(39,145)	(116,443)
Other current assets	(24,478)	(3,513)
Noncurrent assets and liabilities	21,650	(16,714)
Accounts payable and accrued expenses	(5,948)	9,019
Due to third-party payors	(6,455)	28,057
Net cash provided by operating activities	141,815	203,628
Investing activities		
Investments in property and equipment, net	(118,771)	(178,216)
Acquisition of other long-term assets, net	(4,173)	(36,836)
Net cash used in investing activities	(122,944)	(215,052)
Financing activities		
Restricted contributions	9,428	17,207
Payments of long-term debt	(8,860)	(8,555)
Net cash provided by financing activities	568	8,652
Increase (decrease) in cash and cash equivalents	19,439	(2,772)
Cash and cash equivalents at beginning of year	21,856	24,628
Cash and cash equivalents at end of year	\$ 41,295	\$ 21,856

See accompanying notes.

NorthShore University HealthSystem
Notes to Consolidated Financial Statements
(Dollars in Thousands)

September 30, 2013

1. Organization and Basis of Presentation

NorthShore University HealthSystem (NorthShore) is an integrated health care system dedicated to providing health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services. NorthShore operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital, that service the greater Chicago "North Shore" and northern Illinois communities. NorthShore also includes research activities, home health and hospice care, and foundation operations.

NorthShore is the sole corporate member of NorthShore University HealthSystem Faculty Practice Associates (FPA), Radiation Medicine Institute (RMI), and NorthShore University HealthSystem Insurance International (Insurance International). Effective January 1, 2012, NorthShore University HealthSystem Medical Group, Inc. (MG) changed its name to NorthShore Physician Associates, Inc. (NPA). FPA is the sole shareholder of NPA. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

NorthShore, FPA, and RMI are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). NPA is a for-profit corporation. Insurance International is a foreign corporation organized in the Cayman Islands, which does not tax the activities of this organization.

The Corporation is the primary teaching affiliate of the University of Chicago Pritzker School of Medicine (Pritzker), under which the Corporation sponsors graduate medical education programs for physicians and other health care-related personnel.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements.

NorthShore University HealthSystem

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

2. Summary of Significant Accounting Policies (continued)

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 that the estimates are made, actual results could differ.

Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments, which are not limited as to use, with a remaining maturity of three months or less from the date of purchase.

Accounts Receivable

The Corporation evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are stated at the lower of cost or market, based on the first-in, first-out method.

Investments

Investments in equity securities and mutual funds are carried at fair value based on quoted market prices. Debt securities are valued using institutional bids or pricing services. Alternative investments, primarily limited partnerships and hedge funds, are accounted for using the cost or equity method, depending on the extent of the Corporation's ownership within the fund, which is evaluated quarterly.

The Corporation classifies substantially all of its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenues, gains, and other support in excess of expenses.

Pursuant to Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, the Corporation has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of September 30, 2013 and 2012.

NorthShore University HealthSystem

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

2. Summary of Significant Accounting Policies (continued)

Investments Limited as to Use

Investments limited as to use include investments internally designated by the Board of Directors (the Board) for property and equipment replacement and expansion that the Board, at its discretion, may subsequently use for other purposes and investments externally designated under indenture or donor restriction.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Typical useful lives are 5 to 40 years for buildings and improvements and 3 to 20 years for equipment and furniture. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Goodwill and Other Intangible Assets

Goodwill has been recorded at the excess of the purchase price over the fair value of the assets purchased in acquisitions. In fiscal year 2012, the Corporation adopted Accounting Standards Update (ASU) 2011-08, *Testing Goodwill Impairment*. Under the guidance, a qualitative assessment of the Corporation's base year impairment analysis, fiscal year 2011, is required. The base year analysis included the market and income valuation approaches. In 2013 and 2012, both valuation approaches were qualitatively reviewed against several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. The assessment determined that it is more likely than not (>50%) the Corporation's fair value exceeds its carrying amount, and therefore, as of September 30, 2013, no goodwill has been impaired. The Corporation has goodwill of \$116,300 and \$113,502 included in other noncurrent assets at September 30, 2013 and 2012, respectively. Other intangible assets with definite lives, such as noncompete clauses or trade names, are amortized over the estimated useful life of the asset. The Corporation has \$4,369 and \$6,361 included in other noncurrent assets at September 30, 2013 and 2012, respectively. Amortization expense related to these other intangible assets for the years ended September 30, 2013 and 2012, was \$2,444 and \$3,169, respectively.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**2. Summary of Significant Accounting Policies (continued)****Asset Impairment**

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified, except for alternative investment impairments, which are recognized in nonoperating income (loss) or changes in temporarily restricted net assets at the time the impairment is identified. There was no impairment of long-lived assets in fiscal years 2013 and 2012, except for the alternative investment impairment described in Note 4.

Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations*. The asset retirement obligation, which primarily relates to future asbestos remediation, is recorded in accrued self-insurance and other liabilities and was accreted to its present fair value at September 30, 2013 and 2012, of \$9,112 and \$9,320, respectively.

Derivative Instruments

Derivative instruments are recorded on the consolidated balance sheets at their respective fair values. The change in the fair value of those derivative instruments is recognized in nonoperating income (loss) unless specific hedge accounting criteria are met. The Corporation had no derivative instruments outstanding as of September 30, 2013 and 2012.

General and Professional Liability

The provision for self-insured general and professional liability claims, per actuarial calculations, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimated receivable from the excess insurance carrier is reported in other noncurrent assets.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets whose use has been limited by donors or grantors to a specific period of time or a specific purpose. Temporarily restricted gifts, grants, and bequests are reported as an increase in temporarily restricted net assets in the period received. When specific purposes are satisfied, net assets used for capital purposes are reported in the consolidated statements of operations and changes in net assets as additions to unrestricted net assets; net assets used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues and other support. Contributions received with donor-imposed restrictions are reported as unrestricted if the restrictions are met in the same reporting period.

Permanently restricted net assets have been restricted by donors to be invested by the Corporation in perpetuity. Certain income from such investments may be temporarily restricted as to use. Associated income that is without donor restrictions is recorded in nonoperating income (loss).

Contributions

Unconditional pledges of others to give cash and other assets to the Corporation are reported at fair value at the date the pledge is received, to the extent estimated to be collectible. Pledges received with donor restrictions that limit the use of the donated assets are reported as increases in temporarily restricted net assets. When donor restrictions are satisfied or met as a result of meeting the specified requirement or the time frame indicated, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for operations. Contributions of long-lived fixed assets are recorded at fair value as an increase to property and equipment and an increase to unrestricted net assets.

Net Patient Service Revenue

Net patient service revenue is revenue generated from services provided by the Corporation to patients. The Corporation receives payments for these services either directly from patients or on behalf of patients from third-party payors. Net patient service revenue is reported at the estimated net realizable amounts in the period the related services are provided and is adjusted in future periods as final settlements and payments are made.

NorthShore University HealthSystem

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

2. Summary of Significant Accounting Policies (continued)

Community Service and Care to the Indigent

The Corporation provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than the Corporation's established rates. Community service and care to the indigent provided by the Corporation are deducted to arrive at net patient service revenue. The estimated costs incurred by the Corporation to provide these services were \$30,357 and \$29,854 for the years ended September 30, 2013 and 2012, respectively. These estimates were determined using a ratio of cost-to-gross charges calculated from the Corporation's most recently filed Medicare cost reports and applying that ratio to the gross charges of charity care provided in the period.

Premium Revenue

The Corporation has agreements with health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly payments based primarily on the number of participants, regardless of actual medical services provided to participants.

Revenues, Gains, and Other Support in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenues, gains, and other support in excess of expenses. The Board has approved a policy to include certain investment earnings in support of academic initiatives, as well as to provide funding to support research. Changes in unrestricted net assets that are excluded from revenues, gains, and other support in excess of expenses include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were used for the purposes of acquiring such assets) and pension-related changes other than net periodic costs.

Other Revenue and Other Nonoperating Income (Loss)

Other revenue includes all other miscellaneous activities, such as retail pharmacy, rental income, cafeteria sales, unrestricted donations, and other miscellaneous revenue. Other, net, within nonoperating income (loss), consists primarily of the expenses of the Foundation, investment management expenses, and transfer of professional liability earnings to operating income.

NorthShore University HealthSystem

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

2. Summary of Significant Accounting Policies (continued)

Revenue from the government as part of the American Recovery and Reinvestment Act of 2009, such as adopting electronic health record (EHR) technology or becoming “meaningful users” of EHRs, is recorded on a grant accounting basis as part of other revenue.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs*. ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This update was issued to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 includes amendments that clarify the FASB’s intent about the application of existing measurement and disclosure and change certain principles and requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance was effective for interim and annual periods beginning after December 15, 2011. Early adoption was not permitted. The Corporation adopted the new guidance on October 1, 2012, and there was no significant impact on the consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (a consensus of the FASB Emerging Issues Task Force). The amendments in this update require certain health care entities to change the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue by major payor source (net of contractual allowances and discounts), as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The amendments in ASU 2011-07 were effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in ASU 2011-07

NorthShore University HealthSystem

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

2. Summary of Significant Accounting Policies (continued)

should be provided for the period of adoption and subsequent reporting periods. The Corporation adopted the new guidance on October 1, 2012. As a result of adoption, the prior year provision for uncollectible accounts on the consolidated statement of operations and changes in net assets has been reclassified to be consistent with the current year presentation.

Reclassifications

Certain reclassifications were made to the 2012 consolidated financial statements to conform with classifications made in 2013. The reclassifications had no effect on the changes in net assets or on net assets as previously reported.

3. Contractual Arrangements with Third-Party Payors

The Corporation has entered into contractual arrangements with various managed care organizations, including Blue Cross Blue Shield (BCBS), the terms of which call for the Corporation to be paid for covered services at predetermined rates. Certain services provided to BCBS program inpatients are paid at interim rates with annual settlements based on allowable reimbursable costs. Outpatient services for this BCBS population are covered by an indemnity fee-for-service policy and, therefore, are not covered under the cost settlement program. The Corporation also provides care to certain patients with government insurance programs, such as Medicare and Medicaid, at predetermined rates. Reported costs and/or services provided, under certain of the arrangements, are subject to audit by the administering agencies. Changes in the various programs, including Medicare and Medicaid, could have an adverse effect on the Corporation.

A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the charges for services provided and estimated reimbursement from the various third-party payors. Net patient service revenue increased by \$5,854 and \$9,476 for the years ended September 30, 2013 and 2012, respectively, to reflect changes in the estimated Medicare and Medicaid settlements for prior years. The amount recorded in 2012 includes \$9,900 from a nationwide settlement with the Centers for Medicare & Medicaid Services (CMS) resulting from an error in the Rural Budget Neutrality adjustment factor used in 1998.

NorthShore University HealthSystem

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

3. Contractual Arrangements with Third-Party Payors (continued)

The percentages of gross patient service revenue applicable to specific payors' contractual arrangements for the years ended September 30 are as follows:

	2013	2012
Medicare	40%	40%
Medicaid	7	7
BCBS	23	23
Managed care	18	18
Other	12	12
Total	100%	100%

The Corporation's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors.

The percentages of gross patient accounts receivable applicable to specific payors' contractual arrangements as of September 30 are as follows:

	2013	2012
Medicare	29%	26%
Medicaid	16	27
BCBS	13	13
Managed care	24	20
Other	18	14
Total	100%	100%

The Corporation's estimation of the allowance for doubtful accounts is based primarily upon the type and age of patient accounts receivable and the effectiveness of the Corporation's collection efforts.

The Corporation's policy is to establish reserves for a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The allowance for uncollectible accounts as a percentage of all accounts receivable was 12.2% as of September 30, 2013. The Corporation's total reserve for self-pay accounts receivable, including allowance for uncollectible accounts and charity care, was 91% of self-pay accounts receivable at September 30, 2013.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Contractual Arrangements with Third-Party Payors (continued)

On a monthly basis, the Corporation reviews its patient accounts receivable balances and employs various analytics to support the determination of its estimates. These efforts primarily consist of reviewing the following: historical write-off and collection experience, revenue and volume trends by payor (particularly self-pay components), changes in the aging and payor mix of patient accounts receivable (including accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients), trending of days revenue in accounts receivable, and various allowance coverage statistics.

Total net patient service revenue was \$1,697,952 for the year ended September 30, 2013. Included in this amount is third-party payor revenue of \$1,568,955 and self-pay revenue of \$128,997.

The Corporation believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations or allegations of potential wrongdoing. While no such Medicare or Medicaid regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Current liabilities include \$81,612 and \$88,067 for September 30, 2013 and 2012 respectively, related to various estimated settlements due to third-party payors including Medicare, Medicaid and BCBS. Laws and regulations governing Medicare and Medicaid change frequently, are complex, and are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude the final settlement until the related cost reports have been audited by the sponsoring agency and settled. As a result, there is a reasonable possibility that these recorded estimates will change as new information becomes available, and the amount of the change may be material.

For the years ended September 30, 2013 and 2012, \$67,946 and \$62,496, respectively, of premium revenue was generated through agreements with HMO Illinois.

In December 2008, the CMS approved continuing the State of Illinois' Hospital Assessment Program (the Program), with an effective date beginning on July 1, 2008 (the beginning of the State's fiscal year), through the State's fiscal year 2013. Legislation has been approved to

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Contractual Arrangements with Third-Party Payors (continued)

enhance this program and extend it to December 31, 2014. Under this program, the Corporation recognized \$27,596 and \$28,347 of net patient service revenue for the years ended September 30, 2013 and 2012, respectively. Additionally, \$24,828 of program assessment expense was recognized for both of the years ended September 30, 2013 and 2012. There were no accelerated payments or receipts in fiscal 2013 and 2012.

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2013	2012
Other short-term investments	\$ 36,565	\$ 17,016
Investments available for general use	1,313,198	1,211,716
Investments limited as to use:		
Internally designated investments, current portion	49,575	44,960
Internally designated for capital replacement and other	171,602	164,185
Other noncurrent assets	45,677	35,346
Total investments	<u>\$ 1,616,617</u>	<u>\$ 1,473,223</u>

Total investment return for the years ended September 30 is summarized as follows:

	2013	2012
Nonoperating:		
Dividend and interest income	\$ 27,735	\$ 33,046
Net realized gains on investments	52,764	20,664
Net unrealized gains on investments	59,117	121,898
Total nonoperating investment return	<u>139,616</u>	<u>175,608</u>
Temporarily restricted:		
Net realized gains	5,559	2,138
Net unrealized gains	2,132	11,010
Total temporarily restricted investment return	<u>7,691</u>	<u>13,148</u>
Total investment return	<u>\$ 147,307</u>	<u>\$ 188,756</u>

NorthShore University HealthSystem

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

4. Financial Instruments (continued)

Investment fees for the years ended September 30, 2013 and 2012, were \$21,391 and \$16,793, respectively, included in other, net, within nonoperating income (loss).

The Corporation continually reviews its alternative investment portfolio recorded at cost and evaluates whether declines in the fair value of such securities should be considered other than temporary. Factored into this evaluation are general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, and the length of time and extent to which the fair value has been less than cost. Based on this evaluation, one investment in the current year and one investment in the prior year held at cost were determined to be impaired. As a result of this impairment, the Corporation recorded a loss reserve of \$5,237 and \$1,102 for the years ended September 30, 2013 and 2012, respectively.

5. Fair Value Measurements

The Corporation holds certain debt securities, equity securities, and investments in funds, which must be measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the "highest and best use" of an asset is used for valuation.

Highest and best use is determined by the "use of the asset by market participants, even if the intended use of the asset by the reporting entity is different." ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 – Quoted market prices for identical instruments in active markets. Active markets are defined by daily trading and investor ability to exit holdings at the daily pricing. Redemption frequency is daily.

Level 2 – Quoted market prices for similar or identical instruments and model-derived valuations in which all significant inputs are observable in the market. The separately managed accounts are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is daily or monthly.

NorthShore University HealthSystem

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

5. Fair Value Measurements (continued)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. These prices are based on the net asset value reported from the investee and reviewed by an independent third party as its best estimate of fair market value of the reporting date for its investments in limited partnerships and hedge funds. Because there are no observable market transactions for interests in investments in limited partnerships and hedge funds, any investments of this nature would be classified in Level 3 of the fair value hierarchy. Redemption frequency varies from monthly to longer than one year for hedge funds. Limited partnerships are expected to be held for the life of the fund.

The Corporation's financial assets that are carried at fair value at September 30, 2013, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	\$ 48,022	\$ —	\$ —	\$ 48,022
Domestic equity funds	91,665	177,270	—	268,935
International equity funds	18,221	319,939	—	338,160
Domestic equities	148,687	—	—	148,687
Real asset funds	—	21,474	—	21,474
Bond funds	169,570	—	—	169,570
Fixed income accounts	—	162,380	—	162,380
Treasury inflation protected securities	—	21,746	—	21,746
Total assets at fair value	\$ 476,165	\$ 702,809	\$ —	\$ 1,178,974

The Corporation's financial assets that are carried at fair value at September 30, 2012, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	\$ 37,417	\$ —	\$ —	\$ 37,417
Domestic equity funds	91,905	155,237	—	247,142
International equity funds	18,358	255,660	—	274,018
Domestic equities	127,145	—	—	127,145
Real asset funds	—	23,466	—	23,466
Bond funds	226,723	—	—	226,723
Fixed income accounts	—	92,220	—	92,220
Treasury inflation protected securities	—	22,347	—	22,347
Total assets at fair value	\$ 501,548	\$ 548,930	\$ —	\$ 1,050,478

NorthShore University HealthSystem

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

5. Fair Value Measurements (continued)

ASC 825 permits entities to elect to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument and is irrevocable. The Corporation has made no such elections to date.

There were no transfers between Level 1, Level 2, and Level 3 assets during the years ended September 30, 2013 and 2012.

Total investments at September 30, 2013, are \$1,616,617. In addition to total investments recorded at fair value, this amount includes \$428,216 in limited partnerships and funds recorded at cost, \$6,805 in limited partnerships recorded using the equity method, and other assets of \$2,622 recorded at cost.

Total investments at September 30, 2012, are \$1,473,223. In addition to total investments recorded at fair value, this amount includes \$412,239 in limited partnerships and funds recorded at cost, \$8,438 in limited partnerships recorded using the equity method, and other assets of \$2,068 recorded at cost.

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

The estimated fair value of total debt was \$379,555 and \$401,188 at September 30, 2013 and 2012, respectively. Under the guidance set forth in ASU 2011-04, the Corporation's debt is classified as a Level 2 liability. The estimated fair value of the fixed rate debt is determined by recalculating the dollar prices of each of the Corporation's outstanding fixed rate bonds using current market yields. The variable rate debt is remarketed daily or weekly, and par value is considered as fair value. The fair value included a consideration of third-party credit enhancements, which had no impact on the estimated fair value of the debt.

NorthShore University HealthSystem

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

6. Long-Term Debt and Debt with Self-Liquidity

All bonds issued by the Corporation were used to pay or reimburse the Corporation for certain capital projects, to provide for a portion of the interest on the bonds, and to pay certain expenses incurred in connection with the issuance of the bonds. The variable rate bonds are subject to periodic remarketing and can be converted to a fixed rate subject to certain terms of the loan agreements. The Series 2001B, 2001C, 1995, and 1996 bonds have standby bond purchase agreements (SBPAs), and the 2008 commercial paper has a letter of credit (LOC) to provide liquidity support in the event of a failed remarketing.

In November 2009, the Corporation remarketed the Series 1995 and 1996 bonds (\$100,000) in a weekly demand mode to external investors. The Series 1995 bonds are backed by an SBPA issued by a financial institution that expires on September 22, 2016. The Series 1996 bonds are backed by an SBPA issued by a financial institution that expires on September 22, 2015. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement liquidity facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity facility provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has two SBPAs in conjunction with the Series 2001B and 2001C bonds with financial institutions. The Series 2001B bonds have an expiration of November 15, 2017. The Series 2001C bonds have an expiration of November 15, 2016. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2014. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning

NorthShore University HealthSystem

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

6. Long-Term Debt and Debt with Self-Liquidity (continued)

on the first subsequent quarter-end date, no less than 30 days after the commercial paper rollover date.

The Corporation's obligation to purchase the Series 1998, 1992, and 1990A debt issues with self-liquidity upon optional or mandatory tender is not supported by a third-party liquidity facility; however, when outstanding, the Corporation maintains liquid assets to redeem their maturing obligations. During the year ended September 30, 2013, the Corporation retired the 1985B and 1987A-E debt issues. As of September 30, 2013 and 2012, there were no bonds with self-liquidity outstanding with third parties.

The self-liquidity bonds held by the Corporation at September 30 are as follows:

	Final Maturity	2013	2012
1998	2032	\$ 50,000	\$ 50,000
1992	2026	50,000	50,000
1990A	2025	50,000	50,000
1987A-1987E	2020	—	50,000
1985B	2015	—	30,000
		<u>\$ 150,000</u>	<u>\$ 230,000</u>

For the self-liquidity bonds being held by the Corporation, the Corporation records related interest income and expense within nonoperating income (loss).

Under the terms of the long-term debt arrangements, various amounts are on deposit with trustees, and certain specified payments are required for bond redemption, interest payments, and asset replacement. The terms of certain long-term debt agreements require, among other things, the maintenance of various financial ratios and place limitations on additional indebtedness and pledging of assets. The Corporation remained in compliance with these agreements during the reporting periods.

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to \$2,013 and \$3,287 for the years ended September 30, 2013 and 2012, respectively. No amounts have been drawn against these letters.

NorthShore University HealthSystem

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

6. Long-Term Debt and Debt with Self-Liquidity (continued)

For the years ending September 30, 2014, 2015, 2016, 2017, and 2018, maturities of long-term debt, assuming remarketing of variable rate demand bonds (including an \$88 bond premium), are \$9,263, \$9,638, \$9,998, \$10,383, and \$10,793, respectively.

Interest paid for the years ended September 30, 2013 and 2012, was \$6,924 and \$7,125, respectively. Interest of \$638 and \$1,110 was capitalized for the same periods, respectively. In addition, bond premium amortization was \$88 for the years ended September 30, 2013 and 2012.

Total long-term debt at September 30 is summarized as follows:

Type/Issuer	Series	Amortization		Outstanding Principal		Interest Rate	
		Amount Range	Years From – To	September 30 2013	September 30 2012	September 30 2013	September 30 2012
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	\$1,500 – \$5,000	2014 – 2031	\$ 40,700	\$ 42,200	0.07%	0.19%
	2001C	1,500 – 5,000	2014 – 2031	40,700	42,200	0.03%	0.19%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	\$1,420 – \$8,605	2014 – 2035	45,900	47,265	0.06%	0.17%
	1996	1,415 – 8,560	2014 – 2035	45,930	47,285	0.07%	0.18%
Illinois Educational Facilities Authority Commercial Paper Revenue Notes							
	2008	\$995 – \$13,305	2032 – 2038	75,000	75,000	0.13%	0.14%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	\$825 – \$9,685	2014 – 2037	126,155	129,295	3.00% – 5.25%	3.00% – 5.25%
Total long-term debt				374,385	383,245		
Less current maturities of debt				9,263	8,948		
Plus 2010 Series bond premium (current and long-term)				2,078	2,166		
Total long-term debt, less current maturities				\$ 367,200	\$ 376,463		

NorthShore University HealthSystem

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

7. Employee Benefit Programs

The Corporation sponsors a funded, noncontributory, defined benefit pension plan (the NorthShore Plan), which covers substantially all employees with at least one year of employment. The funding policy is to contribute amounts to meet or exceed the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA).

In June 2013, the Corporation announced that it would freeze the NorthShore Plan on December 31, 2013, and enroll all employees in a new defined contribution plan. As a result of this change, a charge of \$2,730 was recorded as a prior service cost and a \$44,405 reduction to the benefit obligation was recorded as a curtailment. Additionally, the Corporation recorded a charge of \$4,219 related to an early retirement program.

Assets held by the NorthShore Plan consist primarily of fixed income securities, domestic/international stocks, limited partnerships, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

For the year ended September 30, 2013, the Corporation made contributions of \$25,000 for plan year 2012.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**7. Employee Benefit Programs (continued)**

The summary of the changes in the benefit obligation and plan assets of the NorthShore Plan for the years ended September 30 is as follows:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 502,594	\$ 430,324
Service cost	25,519	21,401
Interest cost	20,395	19,623
Special termination benefits	4,219	—
Curtailments	(44,405)	—
Actuarial (gains) losses	(37,606)	44,946
Benefits paid	(50,897)	(13,700)
Benefit obligation at end of year	<u>\$ 419,819</u>	<u>\$ 502,594</u>
Accumulated benefit obligation	<u>\$ 418,751</u>	<u>\$ 456,330</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 341,529	\$ 286,297
Actual return on plan assets	33,940	35,152
Employer contributions	25,000	33,780
Benefits paid	(50,897)	(13,700)
Fair value of plan assets at end of year	<u>\$ 349,572</u>	<u>\$ 341,529</u>

A summary of changes in the funded status of the NorthShore Plan and net periodic pension cost as of and for the years ended September 30 is as follows:

	2013	2012
Funded status of the plan	\$ (70,247)	\$ (161,065)
Unrecognized net actuarial loss	92,471	192,899
Unamortized prior service benefit	—	3,156
Prepaid pension cost	22,224	34,990
Accumulated adjustments to unrestricted net assets	(92,471)	(196,055)
Amounts recognized in consolidated balance sheets	<u>\$ (70,247)</u>	<u>\$ (161,065)</u>

NorthShore University HealthSystem

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

7. Employee Benefit Programs (continued)

Changes in the NorthShore Plan's assets and benefit obligation recognized in unrestricted net assets for the years ended September 30 include the following:

	2013	2012
Current year actuarial (gain) loss	\$ (89,711)	\$ 33,825
Current year amortization of prior service cost	(3,156)	(568)
Recognized loss	(10,717)	(12,522)
	<u>\$ (103,584)</u>	<u>\$ 20,735</u>

The estimated prior service cost and net loss that will be amortized over the next fiscal year are \$0 and \$1,696, respectively.

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

Asset Category	Strategic Target	Actual Asset Allocation at September 30	
		2013	2012
Equity securities	39.0%	34.8%	34.8%
Debt securities	23.0	26.8	28.3
Other	38.0	38.4	36.9
Total	100.0%	100.0%	100.0%

The Corporation holds certain debt securities, equity securities, and investments in funds, which must be measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the "highest and best use" of an asset is used for valuation.

Highest and best use is determined by the "use of the asset by market participants, even if the intended use of the asset by the reporting entity is different." ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)**7. Employee Benefit Programs (continued)**

The following table presents the NorthShore Plan's financial instruments as of September 30, 2013, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Domestic equity funds	\$ 18,066	\$ 39,748	\$ —	\$ 57,814
International equity funds	—	73,493	—	73,493
Domestic equities	28,536	—	—	28,536
Real asset funds	—	5,103	—	5,103
Bond funds	49,308	—	—	49,308
Fixed income accounts	—	27,236	—	27,236
Treasury inflation protected securities	—	11,652	—	11,652
Limited partnership and hedge funds	—	—	94,902	94,902
Cash equivalents	1,528	—	—	1,528
Total assets at fair value	\$ 97,438	\$ 157,232	\$ 94,902	\$ 349,572

The following table presents the NorthShore Plan's financial instruments as of September 30, 2012, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Domestic equity funds	\$ 18,806	\$ 31,429	\$ —	\$ 50,235
International equity funds	—	66,244	—	66,244
Domestic equities	34,102	—	—	34,102
Real asset funds	—	5,577	—	5,577
Bond funds	58,730	—	—	58,730
Fixed income accounts	—	21,642	—	21,642
Treasury inflation protected securities	—	11,995	—	11,995
Limited partnership and hedge funds	—	—	91,073	91,073
Cash equivalents	1,931	—	—	1,931
Total assets at fair value	\$ 113,569	\$ 136,887	\$ 91,073	\$ 341,529

NorthShore University HealthSystem

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

7. Employee Benefit Programs (continued)

The table below sets forth a summary of changes in the fair value of the NorthShore Plan's Level 3 assets for the years ended September 30:

	2013	2012
Balance, beginning of year	\$ 91,073	\$ 74,114
Dividends and interest income	338	533
Unrealized gains	7,735	40
Realized gains	24	650
Purchases	8,289	18,766
Sales	(12,557)	(3,030)
Balance, end of year	<u>\$ 94,902</u>	<u>\$ 91,073</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ 7,735</u>	<u>\$ 40</u>

The components of net periodic benefit costs included in the consolidated statements of operations and changes in net assets for the years ended September 30 are as follows:

	2013	2012
Service cost	\$ 25,519	\$ 21,401
Interest cost	20,395	19,623
Expected return on plan assets	(26,240)	(24,032)
Prior service cost recognized	3,156	568
Actuarial loss	10,718	12,522
Special termination benefit	4,219	—
Net periodic pension cost	<u>\$ 37,767</u>	<u>\$ 30,082</u>

The Corporation anticipates that contributions to the NorthShore Plan's assets will be made during 2014 from employer assets of \$20,000. Expected employee benefit payments are \$35,092 in 2014, \$23,416 in 2015, \$24,031 in 2016, \$25,353 in 2017, \$26,003 in 2018, and \$139,820 during the period from 2019 through 2023.

NorthShore University HealthSystem

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

7. Employee Benefit Programs (continued)

Assumptions used to determine benefit obligations at the measurement date for the years ended September 30 are as follows:

	2013	2012
Discount rate	4.99%	4.16%
Expected return on plan assets	7.75	7.75
Rate of compensation increase	3.60	3.60

Assumptions used to determine net pension expense for the years ended September 30 are as follows:

	2013	2012
Discount rate	4.16%	4.70%
Expected return on plan assets	7.75	7.75
Rate of compensation increase	3.60	3.78

To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.75% long-term rate of return on assets assumption for 2013 and 2012.

The Corporation also sponsors a defined contribution plan that matches employee contributions at an annual discretionary percentage. Matching contributions to the defined contribution plan totaled \$18,305 and \$18,607 in 2013 and 2012, respectively, and are included in salaries and benefits expense. The related liability at September 30, 2013 and 2012, is \$14,079 and \$13,771, respectively, included in accrued expenses.

The Corporation also sponsors a supplemental executive retirement plan. The total plan liability is \$12,456 and \$14,305 for the years ended September 30, 2013 and 2012, respectively, and are included in accrued expenses and current portion of self-insurance and employee retirement plans based on the expected payout dates.

NorthShore University HealthSystem

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

7. Employee Benefit Programs (continued)

The Corporation also offers an Executive and Physician Income Deferral Plan (457B), which is 100% employee-funded. The plan assets and liabilities for September 30, 2013, are \$45,959 and for September 30, 2012, are \$35,415. These amounts are included in other noncurrent assets and accrued self-insurance expense and other for the years ended September 30, 2013 and 2012, respectively.

8. Professional Liability Insurance

The Corporation has claims-made basis policies in excess of the amounts retained by the Corporation for professional and general liability claims. As of September 30, 2013 (beginning with policy year March 26, 2009), claims are subject to deductibles of \$10,000 with a \$15,000/\$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries, and an accrual has been made for potential claims to be paid. The discounted reserve balance (using a discount rate of 4%) was \$290,340 as of September 30, 2013, and \$281,116 as of September 30, 2012. Included in these amounts is a receivable for anticipated insurance recoveries of \$17,360 as of September 30, 2013, and \$15,116 as of September 30, 2012. The undiscounted reserve balance would have been higher by approximately \$45,380 as of September 30, 2013, and \$46,027 as of September 30, 2012. The Corporation is not aware of any factors that would cause insurance expense to vary materially from the amounts provided. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently may not be insured.

9. Litigation and Contingencies

In February 2004, the Federal Trade Commission (FTC) issued a complaint against the Corporation challenging its January 2000 merger with Highland Park Hospital (HPH). On April 28, 2008, the FTC issued a Final Order that requires the Corporation to conduct separate negotiations with private third-party payors for health care services of HPH unless a payor specifically elects to opt out and negotiate jointly for all of the Corporation's hospitals. The Final Order also requires the Corporation to give prior notification to the FTC for any future acquisitions of hospitals within the Chicago Metropolitan Statistical Area through April 2018. The Final Order terminates in April 2028.

NorthShore University HealthSystem

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

9. Litigation and Contingencies (continued)

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation's January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs' motion for class certification. The plaintiffs appealed the District Court's denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court's decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District Court granted plaintiffs renewed motion for class certification. Fact and expert discovery is ongoing and a final resolution of the matter is not expected until 2015-2016.

The Corporation has denied all allegations within the plaintiffs' complaints and intends to pursue its rights in defense of the claims. The Corporation is unable to predict the ultimate outcomes, including liability, if any, in this litigation; however, such liabilities could be material.

On June 14, 2012, the State of Illinois enacted Illinois Public Act 97-0688, which includes provisions governing property and sales tax exemptions for Illinois non-profit hospitals. Based on initial interpretations and estimates, the Corporation believes that community benefits provided by each of the hospitals will exceed their respective tax assessments and, therefore, no property or sales tax will be due for the calendar year 2012 or 2013.

Prior to the new legislation, the Corporation filed required applications seeking real estate tax-exempt status for certain of the Corporation's Skokie Hospital and related facilities, which were certified as tax-exempt as part of Rush NorthShore Medical Center prior to the merger with the Corporation on January 1, 2009. These applications are now subject to the provisions of Illinois Public Act 97-0688 enacted on June 14, 2012. The Illinois Department of Revenue has recently issued real estate tax exemption certificates, which have approved the Corporation's tax exemption filing for either full or partial exemption of the Skokie Hospital and related facilities for tax years 2009, 2010, 2011, and 2012. A local taxing district has intervened in each of the tax years and has requested a formal hearing before the Department of Revenue asserting that Public Act 97-0688 is unconstitutional. The Corporation is reviewing this request and is in discussion with the taxing district to resolve this matter.

NorthShore University HealthSystem

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

9. Litigation and Contingencies (continued)

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's financial condition or operations.

10. Commitments

Future minimum lease payments for property and equipment for all noncancelable operating leases for the next five years are as follows:

2014	\$	15,144
2015		14,632
2016		13,566
2017		12,930
2018		11,370

Lease expense for the years ended September 30, 2013 and 2012, was \$22,001 and \$24,553, respectively.

At September 30, 2013, the Corporation is committed to \$51,817 in construction-related contracts.

At September 30, 2013, the Corporation is committed to fund \$91,855 to limited partnerships, which is expected to occur over the next decade. At September 30, 2013, the pension plan is committed to fund \$24,909 to limited partnerships, which is expected to occur over the next decade.

Future minimum intangible asset amortization for the next five years is as follows:

2014	\$	2,382
2015		1,034
2016		501
2017		184
2018		49

NorthShore University HealthSystem

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

11. General, Administrative, and Fund-Raising Expenses

General and administrative expenses incurred in connection with providing inpatient, outpatient, professional, and emergency care services amounted to \$273,148 in 2013 and \$266,753 in 2012. Fund-raising expenses for the years ended September 30, 2013 and 2012, were \$2,396 and \$2,728, respectively.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2013	2012
Restricted for:		
Research	\$ 18,089	\$ 16,875
Special purpose	82,862	81,330
Total temporarily restricted net assets	<u>\$ 100,951</u>	<u>\$ 98,205</u>

Permanently restricted net assets totaled \$74,250 and \$72,524 for the years ended September 30, 2013 and 2012, respectively. Earnings from permanently restricted net assets are used toward research, special purpose, and general operations and to fund department chairs, as well as uncompensated care offered to patients who meet certain criteria established under the Corporation's charity care policy.

NorthShore University HealthSystem

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

12. Temporarily and Permanently Restricted Net Assets (continued)

Activity in the endowment funds was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2011	\$ 5,385	\$ 27,258	\$ 71,119	\$ 103,762
Contributions	—	—	1,405	1,405
Investment return	796	4,544	—	5,340
Change of value in trust	1,926	11,010	—	12,936
Distributions	(796)	(5,374)	—	(6,170)
Net asset reclassification from unrestricted investment	(114)	(2,045)	—	(2,159)
Endowment net assets at September 30, 2012	7,197	35,393	72,524	115,114
Contributions	—	—	1,726	1,726
Investment return	1,307	7,573	—	8,880
Change of value in trust	263	2,131	—	2,394
Distributions	(1,307)	(4,882)	—	(6,190)
Net asset reclassification from unrestricted investment	(13)	(924)	—	(937)
Endowment net assets at September 30, 2013	\$ 7,447	\$ 39,290	\$ 74,250	\$ 120,987

The State of Illinois passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. The Corporation has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. In compliance with this interpretation of UPMIFA, the Corporation classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated in a manner considered with the standard of prudence prescribed by UPMIFA.

The Corporation has adopted a policy of requiring a minimum donation of \$1,500 to establish an endowed chair and \$1,000 to establish an endowed research project or endowed clinical program.

NorthShore University HealthSystem

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

12. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Currently, the Corporation expects its endowment funds over time to provide an average rate of return of approximately 5% annually. To achieve this long-term rate of return objective, the Corporation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

An endowment fund is considered to be underwater when the market value of the endowment is less than the original (and any subsequent) donations received by the Corporation. The Corporation has adopted a policy that such shortfall amounts will be funded by the Corporation from the Corporation's unrestricted investment funds. The funded amount was \$108 and \$1,046 as of September 30, 2013 and 2012, respectively.

13. Income Taxes

The Corporation and its related affiliates, except for NPA, known as NorthShore Exempt Group, have been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the IRC. Most of the income received by NorthShore Exempt Group is exempt from taxation under Section 501(a) of the IRC, as income related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. Some of the income received by exempt entities is subject to taxation as unrelated business income. NorthShore and its subsidiaries file federal income tax returns and returns for various states in the U.S.

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Furthermore, this interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended September 30, 2013 or 2012.

NorthShore University HealthSystem

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

13. Income Taxes (continued)

The Corporation currently has a net operating loss carryforward of \$11,671, which generated assets of \$4,706. NPA currently has a net operating loss carryforward of \$642, which generated assets of \$259. These assets are 100% offset by valuation allowances.

14. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2013 through February 3, 2014, the date of issuance of the consolidated financial statements. During this period, there were no items requiring disclosure or recognition in the consolidated financial statements.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2013 Ernst & Young LLP.
All Rights Reserved.

ey.com

