19-012



ORIGINAL

# ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
# APPLICATION FOR PERMIT

## SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED
MAR 08 2019
HEALTH FACILITIES & SERVICES REVIEW BOARD

**This Section must be completed for all projects.**

### Facility/Project Identification

| |
|---|
| Facility Name: Lurie Children's Primary Care and Outpatient Services |
| Street Address: 3722 West Touhy Avenue |
| City and Zip Code: Skokie, IL 60076 |
| County: Cook Health Service Area: 7 Health Planning Area: A-08 |

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

| |
|---|
| Exact Legal Name: Ann & Robert H. Lurie Children's Hospital of Chicago |
| Street Address: 225 E. Chicago Avenue |
| City and Zip Code: Chicago, IL 60611 |
| Name of Registered Agent: Nancy M. Borders |
| Registered Agent Street Address: 225 E. Chicago Avenue, Box 261 |
| Registered Agent City and Zip Code: Chicago, IL 60611 |
| Name of Chief Executive Officer: Patrick M. Magoon |
| CEO Street Address: 225 E. Chicago Avenue |
| CEO City and Zip Code: Chicago, IL 60611 |
| CEO Telephone Number: 312-227-4327 |

### Type of Ownership of Applicants

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

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

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

### Primary Contact [Person to receive ALL correspondence or inquiries]

| |
|---|
| Name: Reagen Atwood |
| Title: Associate General Counsel |
| Company Name: Ann & Robert H. Lurie Children's Hospital of Chicago |
| Address: 225 E. Chicago Avenue, Box 261, Chicago, IL 60611 |
| Telephone Number: 312-227-7470 |
| E-mail Address: ratwood@luriechildrens.org |
| Fax Number: 312-227-9532 |

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

| |
|---|
| Name: Ralph Weber |
| Title: Consultant |
| Company Name: Weber Alliance |
| Address: 900 Hoffman Lane, Riverwoods, IL 60015 |
| Telephone Number: 847-791-0830 |
| E-mail Address: rmweber90@gmail.com |
| Fax Number: None |

# ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
# APPLICATION FOR PERMIT

## SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

**This Section must be completed for all projects.**

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| Name of Registered Agent: Nancy M. Borders |
| Registered Agent Street Address: 225 E. Chicago Avenue, Box 261 |
| Registered Agent City and Zip Code: Chicago, IL 60611 |
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☐ For-profit Corporation ☐ Governmental
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| Telephone Number: 847-791-0830 |
| E-mail Address: rmweber90@gmail.com |
| Fax Number: None |

## Post Permit Contact

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

| |
|---|
| Name: Reagen Atwood |
| Title: Associate General Counsel |
| Company Name: Ann & Robert H. Lurie Children's Hospital of Chicago |
| Address: 225 E. Chicago Avenue, Box 261, Chicago, IL 60611 |
| Telephone Number: 312-227-7470 |
| E-mail Address: ratwood@luriechildrens.org |
| Fax Number: 312-227-9532 |

## Site Ownership

[Provide this information for each applicable site]

| |
|---|
| Exact Legal Name of Site Owner: 3721, Property Owner, LLC. Controlled by R2 Companies. |
| Address of Site Owner: 1200 North Branch Street, Chicago, IL 60642 |
| Street Address or Legal Description of the Site: 3722 West Touhy Avenue, Skokie, IL<br>**Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.** |
| **APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.** |

## Operating Identity/Licensee

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

| |
|---|
| Exact Legal Name: Ann & Robert H. Lurie Children's Hospital of Chicago |
| Address: 225 E. Chicago Avenue, Chicago, IL 60611 |

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

- Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

**APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

***Certificate of Good Standing already provided as part of ATTACHMENT 1***

## Organizational Relationships

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

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

## Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at **www.FEMA.gov** or **www.illinoisfloodmaps.org**. **This map must be in a readable format**. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 **(http://www.hfsrb.illinois.gov)**.

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

## Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

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

## DESCRIPTION OF PROJECT

### 1. Project Classification

[Check those applicable - refer to Part 1110.20 and Part 1120.20(b)]

Part 1110 Classification:

☐ Substantive

X Non-substantive

## 2. Narrative Description

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

Ann & Robert H. Lurie Children's Hospital of Chicago and Children's Hospital of Chicago Medical Center, as co-applicants, propose to construct an outpatient care center at 3722 W. Touhy Avenue in Skokie.

The outpatient care center will include medical offices for primary care pediatricians and pediatric specialty physicians, clinic space with 23 exam rooms, and a limited array of diagnostic testing and support services – x-ray, ultrasound, cardiac rehab, audiology, and ECG/ECHO.

The project involves the renovation of an existing one story building that has been in use as light-industrial. The building will total 31,860 departmental gross sq ft, of which 3,509 sq ft will be clinical space and 28,351 sq ft non-clinical. All space is new construction, since the existing building is not a health care facility. Total capital costs associated with the project are $27,499,460, of which $12,425,400 constitutes the fair market value of space leased by Lurie Children's. The facility will be leased by Lurie Children's with an option to purchase.

Construction on the project will start in September, 2019. The project will be completed by July 1, 2021.

The project is Non-Substantive because it does not propose to establish a new category of service and there are no services provided to inpatients.

## Project Costs and Sources of Funds

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

| Project Costs and Sources of Funds | | | |
|---|---|---|---|
| **USE OF FUNDS** | **CLINICAL** | **NONCLINICAL** | **TOTAL** |
| Preplanning Costs | | | |
| Site Survey and Soil Investigation | | | |
| Site Preparation | | | |
| Off Site Work | | | |
| New Construction Contracts | | | |
| Modernization Contracts | | | |
| Contingencies | | | |
| Architectural/Engineering Fees | | | |
| Consulting and Other Fees | | | |
| Movable or Other Equipment (not in construction contracts) | | | |
| Bond Issuance Expense (project related) | | | |
| Net Interest Expense During Construction (project related) | | | |
| Fair Market Value of Leased Space or Equipment | | | |
| Other Costs To Be Capitalized | | | |
| Acquisition of Building or Other Property (excluding land) | | | |
| **TOTAL USES OF FUNDS** | | | |
| **SOURCE OF FUNDS** | **CLINICAL** | **NONCLINICAL** | **TOTAL** |
| Cash and Securities | | | |
| Pledges | | | |
| Gifts and Bequests | | | |
| Bond Issues (project related) | | | |
| Mortgages | | | |
| Leases (fair market value) | | | |
| Governmental Appropriations | | | |
| Grants | | | |
| Other Funds and Sources | | | |
| **TOTAL SOURCES OF FUNDS** | | | |

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

## Related Project Costs

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

Land acquisition is related to project ☐ Yes X No
Purchase Price: $_____
Fair Market Value: $ 12,425,400

The project involves the establishment of a new facility or a new category of service
☐ Yes X No

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

Estimated start-up costs and operating deficit cost is $ N/A .

## Project Status and Completion Schedules

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

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary

X Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): July 1, 2021

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

☐ Purchase orders, leases or contracts pertaining to the project have been executed.
☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies
X Financial Commitment will occur after permit issuance.

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

## State Agency Submittals [Section 1130.620(c)]

Are the following submittals up to date as applicable:

X Cancer Registry
X APORS
X All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
X All reports regarding outstanding permits

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

## Cost Space Requirements

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

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

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

## Facility Bed Capacity and Utilization

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

| **FACILITY NAME: Ann & Robert H. Lurie Children's Hospital of Chicago** | | **CITY: Chicago** | | | |
|---|---|---|---|---|---|
| **REPORTING PERIOD DATES:** | | **From: January 1, 2017** | | | **to: December 31, 2017** |
| **Category of Service** | **Authorized Beds** | **Admissions** | **Patient Days** | **Bed Changes** | **Proposed Beds** |
| Medical/Surgical | 0 | 0 | 0 | 0 | 0 |
| Obstetrics | 0 | 0 | 0 | 0 | 0 |
| Pediatrics | 124 | 5696 | 33,436 | 0 | 124 |
| Intensive Care | 136 | 3,719* | 29,156 | 0 | 136 |
| Comprehensive Physical Rehabilitation | 0 | 0 | 0 | 0 | 0 |
| Acute/Chronic Mental Illness | 12 | 562 | 3,539 | 0 | 12 |
| Neonatal Intensive Care | 64 | 817 | 20,021 | 0 | 64 |
| General Long Term Care | 0 | 0 | 0 | 0 | 0 |
| Specialized Long Term Care | 0 | 0 | 0 | 0 | 0 |
| Long Term Acute Care | 0 | 0 | 0 | 0 | 0 |
| Other ((identify) | (10) | 0 | 2,353 | 0 | 10 |
| TOTALS: | 336 | 10,794 | 88,505 | 0 | 336 |

*Includes ICU Direct Admissions Only

## CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

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

**This Application is filed on the behalf of Ann & Robert H. Lurie Children's Hospital of Chicago* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.**

| | |
|---|---|
| SIGNATURE | SIGNATURE |
| Patrick M. Magoon<br>PRINTED NAME | Ron Blaustein<br>PRINTED NAME |
| Chief Executive Officer<br>PRINTED TITLE | Chief Financial Officer<br>PRINTED TITLE |
| Notarization:<br>Subscribed and sworn to before me<br>this 5th day of March, 2019 | Notarization:<br>Subscribed and sworn to before me<br>this _____ day of _____ |
| Signature of Notary | Signature of Notary |
| Seal | Seal |

ANNEL HILGEN
Official Seal
Notary Public - State of Illinois
My Commission Expires Feb 19, 2022

*Insert the EXACT legal name of the applicant

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| Signature of Notary | Signature of Notary |
| Seal | Seal |

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| Seal<br>ANNEL HILGEN<br>Official Seal<br>Notary Public – State of Illinois<br>My Commission Expires Feb 19, 2022 | Seal |

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| Chief Executive Officer<br>PRINTED TITLE | Chief Financial Officer<br>PRINTED TITLE |
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| Signature of Notary | Signature of Notary |
| Seal | Seal |

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*Insert the EXACT legal name of the applicant

## SECTION II. DISCONTINUATION NOT RELEVANT TO THIS PROJECT.

This Section is applicable to the discontinuation of a health care facility maintained by a State agency.
**NOTE:** If the project is solely for discontinuation and if there is no project cost, the remaining Sections of the application are not applicable.

### Criterion 1110.290 – Discontinuation (State-Owned Facilities and All Relocations)

READ THE REVIEW CRITERION and provide the following information:

**GENERAL INFORMATION REQUIREMENTS**

1. Identify the categories of service and the number of beds, if any that is to be discontinued.
2. Identify all of the other clinical services that are to be discontinued.
3. Provide the anticipated date of discontinuation for each identified service or for the entire facility.
4. Provide the anticipated use of the physical plant and equipment after the discontinuation occurs.
5. Provide the anticipated disposition and location of all medical records pertaining to the services being discontinued and the length of time the records will be maintained.
6. For applications involving the discontinuation of an entire facility, certification by an authorized representative that all questionnaires and data required by HFSRB or DPH (e.g., annual questionnaires, capital expenditures surveys, etc.) will be provided through the date of discontinuation, and that the required information will be submitted no later than 90 days following the date of discontinuation.

**REASONS FOR DISCONTINUATION**

The applicant shall state the reasons for the discontinuation and provide data that verifies the need for the proposed action. See criterion 1110.290(b) for examples.

**IMPACT ON ACCESS**

1. Document whether or not the discontinuation of each service or of the entire facility will have an adverse effect upon access to care for residents of the facility's market area.
2. Document that a written request for an impact statement was received by all existing or approved health care facilities (that provide the same services as those being discontinued) located within 45 minutes travel time of the applicant facility.

**APPEND DOCUMENTATION AS ATTACHMENT 10, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

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

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

### 1110.110(a) – Background of the Applicant

READ THE REVIEW CRITERION and provide the following required information:

**BACKGROUND OF APPLICANT**

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

2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.

3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.

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

    b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction and submit any police or court records regarding any matters disclosed.

    c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.

    d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.

    e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.

4. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**

5. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

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

## Criterion 1110.110(b) & (d)

**PURPOSE OF PROJECT**

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

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

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

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

**ALTERNATIVES**

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

Alternative options **must** include:

A) Proposing a project of greater or lesser scope and cost;

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

D) Provide the reasons why the chosen alternative was selected.

2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**

3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

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

## SECTION IV. PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

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

READ THE REVIEW CRITERION and provide the following information:

**SIZE OF PROJECT:**

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**

2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:

    a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.

    b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.

    c. The project involves the conversion of existing space that results in excess square footage.

    d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

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

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

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

**PROJECT SERVICES UTILIZATION:**

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

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

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

| UTILIZATION | | | | | |
|---|---|---|---|---|---|
| | **DEPT./ SERVICE** | **HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.** | **PROJECTED UTILIZATION** | **STATE STANDARD** | **MEET STANDARD?** |
| **YEAR 1** | | | | | |
| **YEAR 2** | | | | | |

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

**UNFINISHED OR SHELL SPACE:**

Provide the following information: **NOT APPLICABLE. THERE IS NO SHELLED SPACE IN THIS PROJECT.**

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

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

**ASSURANCES:**

Submit the following: **NOT APPLICABLE BECAUSE THERE IS NO SHELLED SPACE.**

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

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

## M. Criterion 1110.270 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: Indicate # of key room changes by action(s):

| Service | # Existing Key Rooms | # Proposed Key Rooms |
|---|---|---|
| X X-RAY | 0 | 1 |
| X ULTRASOUND | 0 | 1 |
| ☐ | | |

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

| Project Type | Required Review Criteria |
|---|---|
| New Services or Facility or Equipment | (b) – Need Determination – Establishment |
| Service Modernization | (c)(1) – Deteriorated Facilities |
| | AND/OR |
| | (c)(2) – Necessary Expansion |
| | PLUS |
| | (c)(3)(A) – Utilization – Major Medical Equipment |
| | OR |
| | (c)(3)(B) – Utilization – Service or Facility |

**APPEND DOCUMENTATION AS ATTACHMENT 30, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

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

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

## VI. 1120.120 - AVAILABILITY OF FUNDS

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

| | | |
|---|---|---|
| $15,074,061 | a) | Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:<br>1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and<br>2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion; |
| _____ | b) | Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience. |
| _____ | c) | Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts; |
| $12,425,400 | d) | Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:<br>1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;<br>2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;<br>3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;<br>4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;<br>5) For any option to lease, a copy of the option, including all |

| | |
|---|---|
| | terms and conditions.<br><br>e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;<br><br>f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;<br><br>g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project. |
| **$27,499,460** | **TOTAL FUNDS AVAILABLE** |

**APPEND DOCUMENTATION AS ATTACHMENT 33, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## SECTION VII. 1120.130 - FINANCIAL VIABILITY

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

**Financial Viability Waiver**

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

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

See Section 1120.130 Financial Waiver for information to be provided

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

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

| | Historical 3 Years | | | Projected |
|---|---|---|---|---|
| **Enter Historical and/or Projected Years:** | | | | |
| Current Ratio | | | | |
| Net Margin Percentage | | | | |
| Percent Debt to Total Capitalization | | | | |
| Projected Debt Service Coverage | | | | |
| Days Cash on Hand | | | | |
| Cushion Ratio | | | | |

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

Variance

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

**APPEND DOCUMENTATION AS ATTACHMENT 35, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## SECTION VIII.1120.140 - ECONOMIC FEASIBILITY

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

### A. Reasonableness of Financing Arrangements

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

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

   A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

   B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

### B. Conditions of Debt Financing

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

1) That the selected form of debt financing for the project will be at the lowest net cost available;

2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

### C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

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

**COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE**

| Department (list below) | A | B | C | D | E | F | G | H | Total Cost (G + H) |
|---|---|---|---|---|---|---|---|---|---|
| | Cost/Square Foot New | Cost/Square Foot Mod. | Gross Sq. Ft. New | Gross Sq. Ft. Circ.* | Gross Sq. Ft. Mod. | Gross Sq. Ft. Circ.* | Const. $ (A x C) | Mod. $ (B x E) | |
| | | | | | | | | | |
| Contingency | | | | | | | | | |
| TOTALS | | | | | | | | | |

* Include the percentage (%) of space for circulation

**D. Projected Operating Costs**

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

**E. Total Effect of the Project on Capital Costs**

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

**APPEND DOCUMENTATION AS ATTACHMENT 36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## SECTION IX. SAFETY NET IMPACT STATEMENT [NOT APPLICABLE FOR NON-SUBSTANTIVE PROJECTS]

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

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.

2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

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

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.

2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

**A table in the following format must be provided as part of Attachment 38.**

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

| | | | |
|---|---|---|---|
| Outpatient | | | |
| **Total** | | | |

**APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

## SECTION X. CHARITY CARE INFORMATION

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

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

**A table in the following format must be provided for all facilities as part of Attachment 39.**

| CHARITY CARE | | | |
|---|---|---|---|
| | **FY16** | **FY17** | **FY18** |
| **Net Patient Revenue** | **679,403,160** | **739,394,793** | **817,011,710** |
| Amount of Charity Care (charges) | 3,545,301 | 5,834,547 | 6,233,424 |
| Cost of Charity Care | 1,044,091 | 1,653,230 | 1,740,074 |

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

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

## INDEX OF ATTACHMENTS

**Illinois Certificates of Good Standing**

**ATTACHMENT 1**

*File Number* 0666-373-7

# STATE OF ILLINOIS

## OFFICE OF THE SECRETARY OF STATE

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

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

ANN & ROBERT H. LURIE CHILDREN'S HOSPITAL OF CHICAGO, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 27, 1894, 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.

***In Testimony Whereof,*** *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 7TH *day of* FEBRUARY *A.D.* 2019 .

Authentication #: 1903801580 verifiable until 02/07/2020
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE



**Attachment 1**

*File Number* 5367-793-2

# STATE OF ILLINOIS

## OFFICE OF THE SECRETARY OF STATE

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

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

CHILDREN'S HOSPITAL OF CHICAGO MEDICAL CENTER, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 13, 1984, 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.

***In Testimony Whereof,*** *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 4TH *day of* DECEMBER *A.D.* 2018 .

Authentication #: 1833801994 verifiable until 12/04/2019
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

**Attachment 1**

**Summary of Letter of Intent to Lease**

**Site Control**

**ATTACHMENT 2**

## LETTER OF INTENT TO LEASE – SUMMARY OF BASIC TERMS

| | |
|---|---|
| **Landlord:** | 3721 Property Owner, LLC. Controlled by R2 Companies. |
| **Tenant:** | Ann & Robert H. Lurie Children's Hospital of Chicago |
| **Building:** | 3722 West Touhy Avenue<br>Skokie, IL 60076 |
| **Delivery Date:** | Landlord shall deliver the Premises to Tenant with CrossFit Factory having vacated the Building, and with all of Landlord's Base Building Work and Site Work complete (including modifying the size of the building) no later than 107 days after the later of Lease Execution and the date Tenant receives its Certificate Of Need ("CON"), subject to Tenant and Landlord mutually agreeing upon door locations, storefront glass locations, and rooftop HVAC unit locations no later than May 1, 2019 ("Delivery Date"). |
| **Commencement Date:** | 5 months following the Delivery Date ("Commencement Date"). |
| **Lease Term:** | 12 years and 6 months, beginning on the Commencement Date. |
| **Premises (Also referred to as "The Building"):** | An approximately 31,860 rentable square foot ("RSF") single story building. |
| **Base Rent:** | $32.50/RSF/Year net, escalating 2.0% annually. |
| **Real Estate Taxes and Operating Expenses:** | Tenant shall pay its proportionate share of the real estate taxes and operating expenses/CAM for the Building and the Site. Tenant's proportionate share of real estate taxes and operating expenses/CAM for the Site shall be 20% throughout the Lease Term and any renewals. Tenant's proportionate share of real estate taxes and operating expenses/CAM for the Building shall be 100%. |
| **CON Contingency:** | This Lease is contingent upon and shall become effective only upon Tenant's receipt of any required regulatory approvals for the establishment of an Ambulatory/Outpatient Center (the "Project"), including being granted a CON permit for the Project to be constructed and operated in this facility. |

**AGREED AND APPROVED**

**LANDLORD:**

3721 PROPERTY OWNER, LLC

By: _____

Its: Authorized Signatory

Date: March 3, 2019

**AGREED AND APPROVED**

**TENANT:**

ANN & ROBERT H. LURIE CHILDREN'S HOSPITAL OF CHICAGO

By: _____

Its: Exec VP/COO

Date: March 4, 2019

**Operating Entity/Licensee**

**Certificate of Good Standing**
**Ann & Robert H. Lurie Children's Hospital of Chicago**

**ATTACHMENT 3**

*File Number* 0666-373-7

# STATE OF ILLINOIS

## OFFICE OF THE SECRETARY OF STATE

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

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

ANN & ROBERT H. LURIE CHILDREN'S HOSPITAL OF CHICAGO, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 27, 1894, 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.

***In Testimony Whereof,*** *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 7TH *day of* FEBRUARY *A.D.* 2019 .

Jesse White

SECRETARY OF STATE

Authentication #: 1903801580 verifiable until 02/07/2020
Authenticate at: http://www.cyberdriveillinois.com

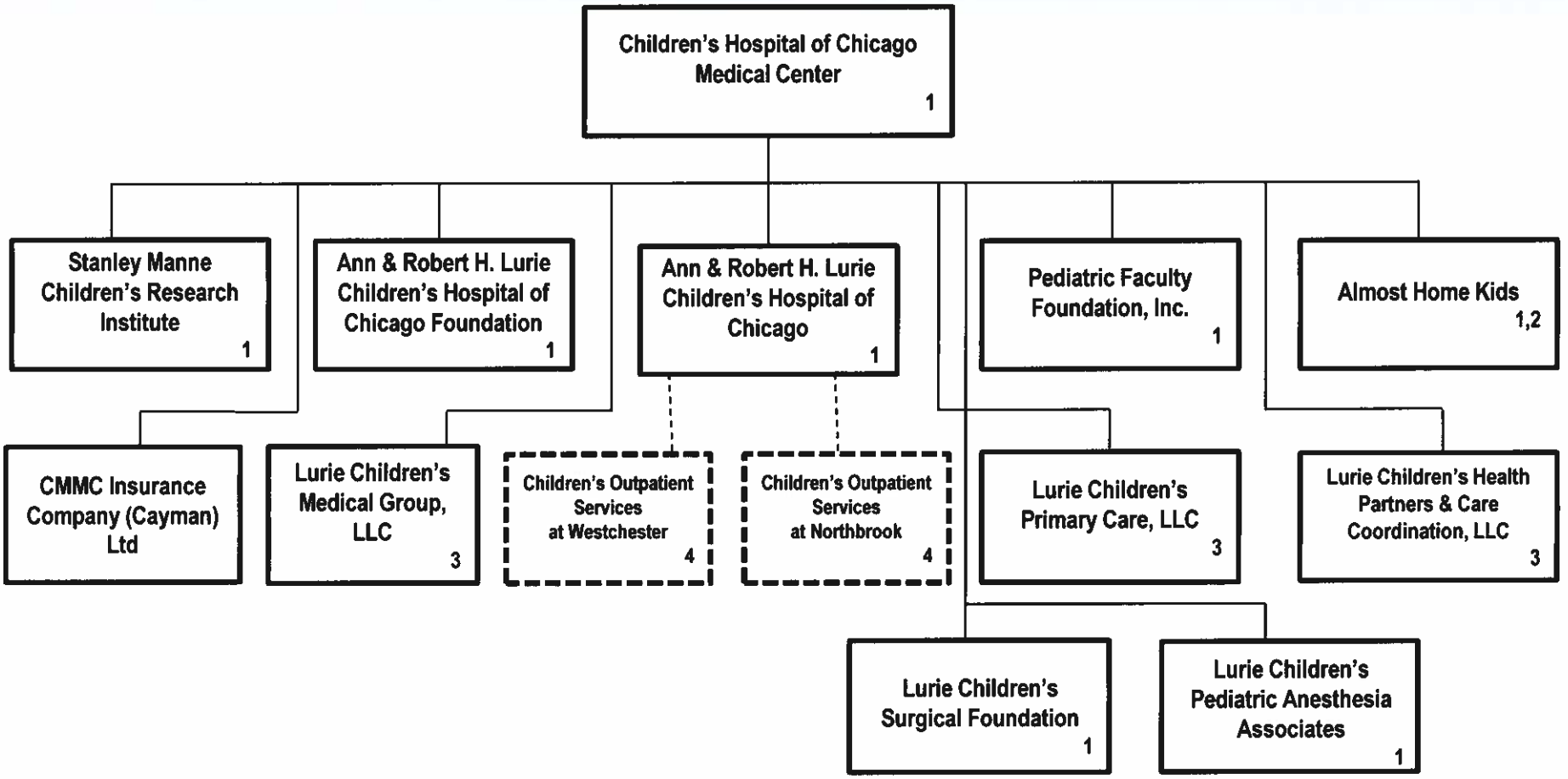


**Attachment 3**

**Organization Chart**

**ATTACHMENT 4**

Ann & Robert H. Lurie
Children's Hospital of Chicago™




1 Illinois not for profit corporation and IRC § 501(c)(3)
2 Licensed under the Illinois Alternative Healthcare Delivery Act as a Children's Community Based Health Care Center
3 Controlled affiliate; Medical Center is sole member and entity is tax exempt
4 Lurie Children's is the license holder of Children's Outpatient Services at Westchester, and Children's Outpatient Services at Northbrook, Illinois licensed ASTCs

ATTACHMENT 4

**Flood Plain Requirements**

**ATTACHMENT 5**

Flood Plain Requirements

Evidence that the site is not located in a floodplain is shown on the map on the following page. The map shows the area of the proposed project at 3722 W Touhy Avenue. The existing building is set back from the marker on the north side of Touhy Avenue. The area is designated as an Area of Minimal Flood Hazard.

The map is obtained from FloodPartners utilizing FEMA Flood Maps. The FEMA Flood Map Service Center is the official public service for flood hazard information produced in support of the National Flood Insurance Program (NFIP). The information is shown in FEMA Panel 17031C0265.

As a result, the project complies with the requirements of Illinois Executive Order #2006-5.



**ATTACHMENT 5**

# National Flood Hazard Layer FIRMette


## Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT

**SPECIAL FLOOD HAZARD AREAS**
- Without Base Flood Elevation (BFE) *Zone A, V, A99*
- With BFE or Depth *Zone AE, AO, AH, VE, AR*
- Regulatory Floodway

**OTHER AREAS OF FLOOD HAZARD**
- 0.2% Annual Chance Flood Hazard, Area of 1% annual chance flood with average depth less than one foot or with drainag areas of less than one square mile *Zone*
- Future Conditions 1% Annual Chance Flood Hazard *Zone X*
- Area with Reduced Flood Risk due to Levee. See Notes. *Zone X*
- Area with Flood Risk due to Levee *Zone D*

**OTHER AREAS**
- NO SCREEN Area of Minimal Flood Hazard *Zone X*
- Effective LOMRs
- Area of Undetermined Flood Hazard *Zone*

**GENERAL STRUCTURES**
- Channel, Culvert, or Storm Sewer
- Levee, Dike, or Floodwall

**OTHER FEATURES**
- 20.2 / 17.5 Cross Sections with 1% Annual Chance / Water Surface Elevation
- Coastal Transect
- 513 Base Flood Elevation Line (BFE)
- Limit of Study
- Jurisdiction Boundary
- Coastal Transect Baseline
- Profile Baseline
- Hydrographic Feature

**MAP PANELS**
- Digital Data Available
- No Digital Data Available
- Unmapped

N

The pin displayed on the map is an approximate point selected by the user and does not represe an authoritative property location.

This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards

The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 3/1/2019 at 11:37:31 AM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unmodernized areas cannot be used for regulatory purposes.

**Historic Resources Preservation Act**

**ATTACHMENT 6**

January 31, 2019

Illinois Department of Natural Resources
Illinois State Historic Preservation Office
One Natural Resources Way
Springfield, IL 62702

Attn: Review and Compliance / Old State Capitol

Re: CON – Ambulatory Care Center Development
Ann & Robert H. Lurie Children's Hospital of Chicago
3722 W. Touhy Avenue
Skokie, IL 60076
Cook County

Dear Sir or Madam:

Ann & Robert H. Lurie Children's Hospital of Chicago is preparing a Certificate of Need permit application to construct an Ambulatory Care Center Development at 3722 W. Touhy Avenue, Skokie, IL. The property is currently occupied by a light-industrial building. If approved by the Illinois Health Facilities and Services Review Board, the project will involve renovation of the existing building to house an immediate care center, physician offices, diagnostic imaging and other clinical services, with on-site parking.

Attached are two area maps and an aerial photograph of the close-in area showing the current building. Also attached are photos of the existing building on the property.

I represent the hospital as its Certificate of Need consultant. Please provide me with a letter concerning the applicability of the Preservation Act to the proposed project. I will include your letter in the Certificate of Need permit application.

Thank you for your attention to this request.

Sincerely,

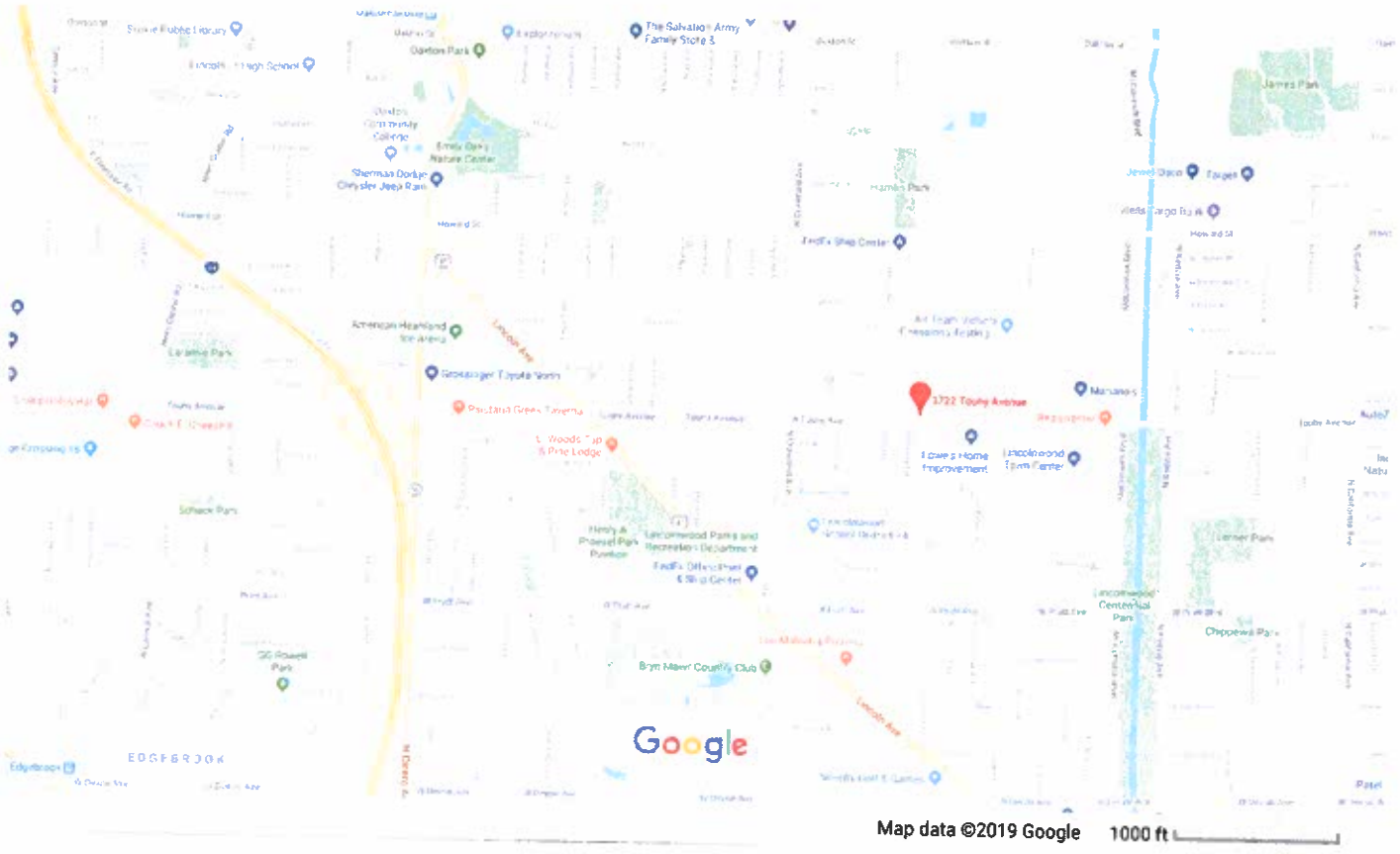
Ralph M Weber

Ralph M. Weber
Weber Alliance
920 Hoffman Lane
Riverwoods, IL 60015
rmweber90@gmail.com
847-791-0830

Attachments:
maps (2)
photograph of the existing building
aerial photograph

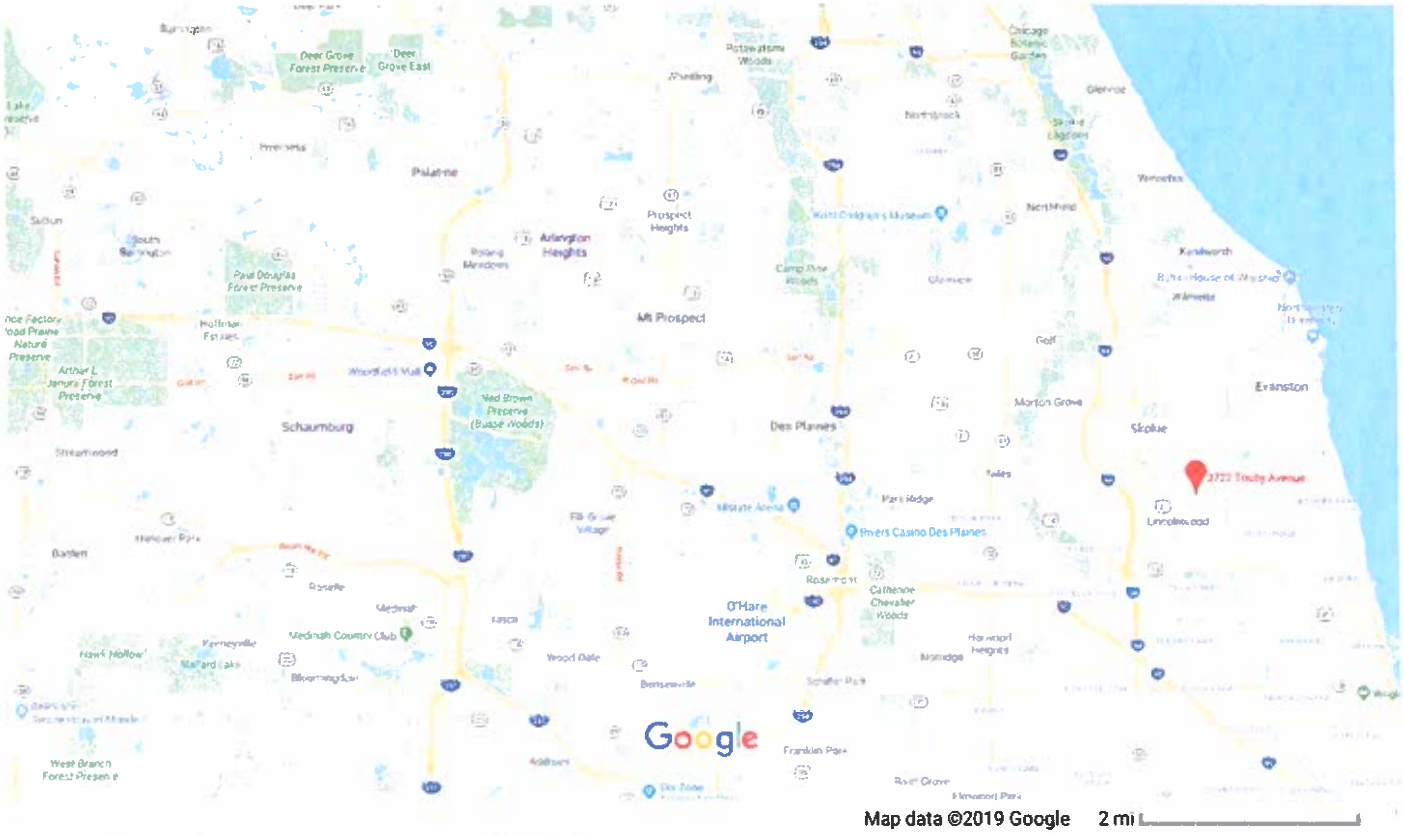
**ATTACHMENT 6**

Google Maps 3722 W Touhy Ave



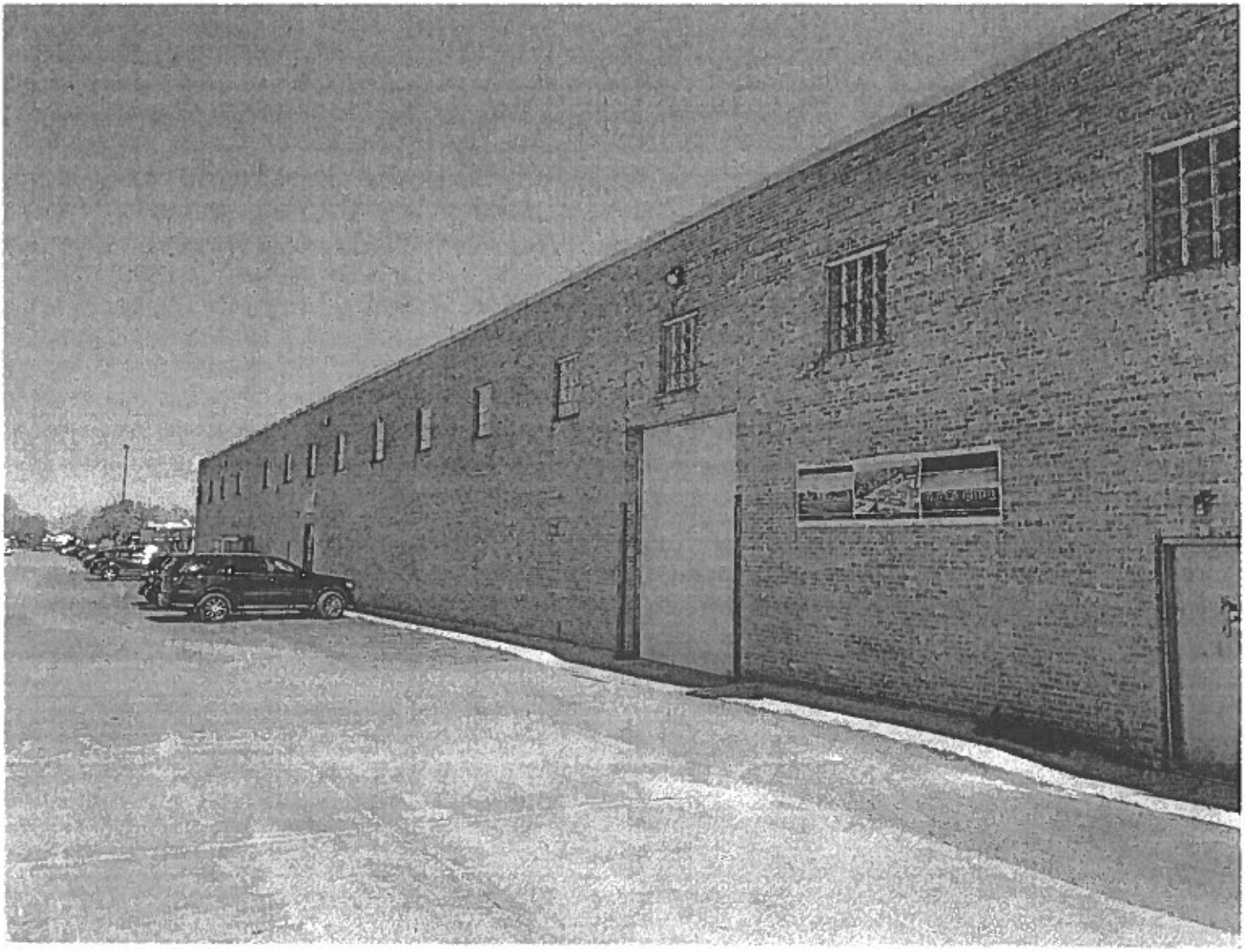

ATTACHMENT 6

Google Maps 3722 Touhy Avenue






ATTACHMENT 6





**ATTACHMENT 6**



**ATTACHMENT 6**

**Projected Costs and Sources of Funds**



**ATTACHMENT 7**

| Project Costs and Sources of Funds | | | |
|---|---|---|---|
| **USE OF FUNDS** | **CLINICAL** | **NON-CLINICAL** | **TOTAL** |
| Pre-planning Costs | $0 | $0 | $0 |
| Site Survey and Soil Investigation | $0 | $0 | $0 |
| Site Preparation | $0 | $0 | $0 |
| Off Site Work | $0 | $0 | $0 |
| Modernization Contracts | $0 | $0 | $0 |
| New Construction Contracts | $919,218 | $7,426,828 | $8,346,046 |
| Contingencies | $87,216 | $705,658 | $792,874 |
| A/E Fees | $68,200 | $551,800 | $620,000 |
| Consultant Fees | $97,454 | $788,489 | $885,943 |
| Movable Equipment | $1,965,720 | $806,960 | $2,772,680 |
| Bond Issuance Expense | $0 | $0 | $0 |
| Net Interest Expense During Construction | $0 | $0 | $0 |
| FMV Leased Space | $1,366,794 | $11,058,606 | $12,425,400 |
| Other Capital Costs | $182,217 | $1,474,300 | $1,656,517 |
| Acquisition of Building | $0 | $0 | $0 |
| **TOTAL USES OF FUNDS** | **$4,686,819** | **$22,812,642** | **$27,499,460** |
| **SOURCE OF FUNDS** | **CLINICAL** | **NON-CLINICAL** | **TOTAL** |
| Cash and Securities | $2,569,119 | $12,504,941 | $15,074,061 |
| Pledges | $0 | $0 | $0 |
| Gifts and Bequests | $0 | $0 | $0 |
| Mortgages/Bonds | $0 | $0 | $0 |
| Leases | $2,117,700 | $10,307,700 | $12,425,400 |
| Governmental Appropriations | $0 | $0 | $0 |
| Grants | $0 | $0 | $0 |
| Other | $0 | $0 | $0 |
| **TOTAL SOURCES OF FUNDS** | **$4,686,819** | **$22,812,642** | **$27,499,460** |

**LIST OF ITEMS AND COST**

**New Construction Contracts - $8,346,046**

The new construction contracts include the cost of the construction contract to complete the project including the general contractor's overhead and profit.

Of the total new construction cost, $919,218 is the clinical new construction cost. The total clinical DGSF of the project is 3,509. The clinical cost/SF is $262.

**Contingencies - $792,874**

Allowance for unforeseen conditions.

Of the total amount, $87,216 is the clinical contingency cost. This amounts to 9.5% of the clinical new construction cost.

Together, the clinical new construction cost and the clinical contingency cost are $1,006,434. The total clinical DGSF of the project is 3,509. The clinical new construction cost + contingency cost/SF is $287.

**A/E Fees - $620,000**

The architectural and engineering fees include the design services for schematic design and design development, the execution of construction documents, and construction administration services. The architectural fees represent $530,500 of the total A/E cost and include design services for the architecture, interior design, engineering coordination and architectural project management.
The engineering fees represent $89,500 of the total A/E cost and include design of all building systems including electrical, mechanical, plumbing, fire protection, telecommunications and security.

Of the total amount, $68,200 is the clinical architectural and engineering fee. This amount represents 6.8% of the clinical new construction cost plus contingencies.

**Consultant Fees – $885,943**

The consulting and other fees include services for various types of consulting and professional expertise plus the application costs associated with the required regulatory reviews.

The consulting fees include:

- Project Management Services
- CON Advisory Services
- HVAC Commissioning Services
- Medical Equipment Planning Services

- Life Safety Advisor
- Institutional Master Files Management

The application costs include the cost associated with the following reviews and permits:

- CON Filing Fee
- Village of Skokie Building Permit Application Fee

Of the total amount, $97,454 is the clinical consultant fee cost. This amount represents 11% of the clinical new construction cost.

**Movable Equipment - $2,772,680**

The movable equipment cost includes all medical equipment and fixtures to equip the primary care, specialty care and ancillary services. The clinical movable equipment represents $1,965,720 of the total movable equipment. The breakdown between clinical and non-clinical moveable equipment is below. Non-medical equipment has been captured in "Other Capital Costs."

Clinical Moveable Equipment

- Cardiac Diagnostics (ECG, Echo) = $494,060
    - Echocardiography ultrasound
    - Echo bed
    - Gel warmer
    - Electrocardiograph
    - Miscellaneous associated equipment
- Cardiac Rehab = $115,400

- Orthopedics Diagnostics (X-Ray) = $468,133
    - GE Discovery Digital Radiographic System with Wall Bucky
    - Chest chair
    - Spine chair
    - Octostop board
    - Apron rack and lead aprons
    - Demi apron set with rack
    - Thyroid shields
    - Transfer board
- Ultrasound = $260,030
    - Ultrasound
    - Stretcher
    - Probe rack
    - Gel warmer
- Probe cleaner

- Urology Imaging = $209,000
    - Video procedure cart
    - Urology scopes
- Miscellaneous associated equipment
- Audiology = $419,097
    - (2) Sound booths
    - (2) Audiostar audiometers
    - (2) Tympstars
    - (2) AuDxPro II
    - (2) VRA System
    - (2) Video VRA System
    - (2) Otoscopes
    - (2) Phonak Roger Pens
    - (2) Phonak Roger Focus
    - (2) MP3 systems
    - (3) Verifit 2
    - (3) Hi Pro Box
    - (3) I Cube III
    - (3) Airlink II
    - (3) Fitting Link
    - (2) NavPro
    - (2) ALGO 5

Non-Clinical Moveable Medical Equipment

- Public Areas = $9,350
- Intake & Exam Areas = $678,770
- Provider Work Areas = $13,690
- Support Areas = $105,150

**FMV Leased Space - $12,425,400**

The Fair Market Value (FMV) of the Leased Space cost includes the value of the lease over the full term with escalation. The calculated FMV is based on 31,860 square feet, at a rate of $32.50, for 150 months (12 ½ years) at an 8% discount rate.
Of the total amount, $1,366,794 is the clinical FMV leased space cost and the non-clinical cost is $11,058,606.

**Other Capital Costs - $1,656,517**

Other Capital Costs include all IT and low voltage equipment, furniture, artwork, signage and associated moving/storage costs.

Of the total amount, $182,217 is the clinical other capital costs.

**Cost Space Requirements**

| | | Gross Square Feet | | Amount of Proposed Total Gross Square Feet That Is: | | | |
|---|---|---|---|---|---|---|---|
| Dept. / Area | Cost | Existing | Proposed | New Const. | Modernized | As Is | Vacated Space |
| **CLINICAL** | | | | | | | |
| Imaging | | | | | | | |
| X-ray | $ 151,937 | | 580 | 580 | | | |
| Ultrasound | $ 45,581 | | 174 | 174 | | | |
| Audiology | $ 334,261 | | 1276 | 1276 | | | |
| Cardiac Rehab | $ 113,953 | | 435 | 435 | | | |
| ECG / ECHO | $ 273,486 | | 1044 | 1044 | | | |
| **Total Clinical** | **$ 919,218** | | **3509** | **3509** | | | |
| | | | | | | | |
| **NON CLINICAL** | | | | | | | |
| Exam/treatment rooms | **$ 4,519,007** | | 17251 | 17251 | | | |
| Building services | **$ 254,194** | | 972 | 972 | | | |
| Common circulation | **$ 497,724** | | 1900 | 1900 | | | |
| Wait, reg, restrooms | **$ 1,205,998** | | 4604 | 4604 | | | |
| Admin, staff areas | **$ 949,605** | | 3625 | 3625 | | | |
| **Total Non-clinical** | **$ 7,426,828** | | 28351 | 28351 | | | |
| | | | | | | | |
| **Total Construction** | **$ 8,346,046** | | **31860** | **31860** | | | |
| | | | | | | | |
| **Other Project Costs** | | | | | | | |
| Preplanning | $ - | | | | | | |
| Site survey and soil investigation | $ - | | | | | | |
| Site Preparation | $ - | | | | | | |
| Off-site work | $ - | | | | | | |
| Contingencies | $ 792,874 | | | | | | |
| A/E fees | $ 620,000 | | | | | | |
| Consulting and other fees | $ 885,943 | | | | | | |
| Movable or other equipment | $ 2,772,680 | | | | | | |
| Net interest expense during construction | $ - | | | | | | |
| FMV leased space | $ 12,425,400 | | | | | | |
| Other capitalized | | | | | | | |
| IT/low voltage | $ 842,000 | | | | | | |
| furnishings | $ 574,517 | | | | | | |
| Artwork | $ 65,000 | | | | | | |
| Signage | $ 150,000 | | | | | | |
| Other | $ 25,000 | | | | | | |
| Acquisition of building or other | $ - | | | | | | |
| | | | | | | | |
| **Total Other Project Costs** | **$ 19,153,414** | | | | | | |
| | | | | | | | |
| **Total Project Costs** | **$ 27,499,460** | | | | | | |

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

**Criterion 1110.110(a)**

**Background of Applicant**

**List of Health Care Facilities**
**Licenses and Certifications**
**Letter on Adverse Action and Access to Information**

**CRITERION 1110.110 – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES**

**BACKGROUND OF APPLICANT**

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

Ann & Robert H. Lurie Children's Hospital of Chicago
225 East Chicago Avenue
Chicago, Illinois 60611
Licensure: Pediatric Hospital

Children's Outpatient Services at Westchester
2301 Enterprise Drive
Westchester, Illinois 60154
Licensure: Ambulatory Surgical Treatment Center

Children's Outpatient Services at Northbrook*
1121 Techny Road
Northbrook, Illinois 60062
Anticipated Licensure: Ambulatory Surgical Treatment Center

Almost Home Kids
211 East Grand Avenue
Chicago, Illinois 60611
Licensure: Children's Community Based Health Care Center

Almost Home Kids
7S. 721 Route 53
Naperville, Illinois 60540
Chicago, Illinois 60611
Licensure: Children's Community Based Health Care Center

ATTACHMENT 11

# Illinois Department of PUBLIC HEALTH

HF115904

## LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

Nirav D. Shah, M.D., J.D.
Director

Issued under the authority of the Illinois Department of Public Health

| EXPIRATION DATE | CATEGORY | I.D. NUMBER |
|---|---|---|
| 6/8/2019 | | 0005843 |

**Pediatric Hospital**

Effective: 06/09/2018

Ann & Robert H Lurie Children's Hospital of Chicago
225 East Chicago Avenue Box 140
Chicago, IL 60611

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 6/8/2019

Lic Number 0005843

57

Date Printed 5/15/2018

Ann & Robert H Lurie Children's Hospit

225 East Chicago Avenue Box 140
Chicago, IL 60611

FEE RECEIPT NO.

# Illinois Department of PUBLIC HEALTH

HF116690

## LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

Nirav D. Shah, M.D.,J.D.
Director

Issued under the authority of the Illinois Department of Public Health

| EXPIRATION DATE | CATEGORY | LIC NUMBER |
|---|---|---|
| 9/24/2019 | | 7003221 |

**Ambulatory Surgery Treatment Center**

Effective: 09/25/2018

COPY

Lurie Children's Surgery Center In Northbrook
1121 Techny Road
Northbrook, IL 60062

The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16

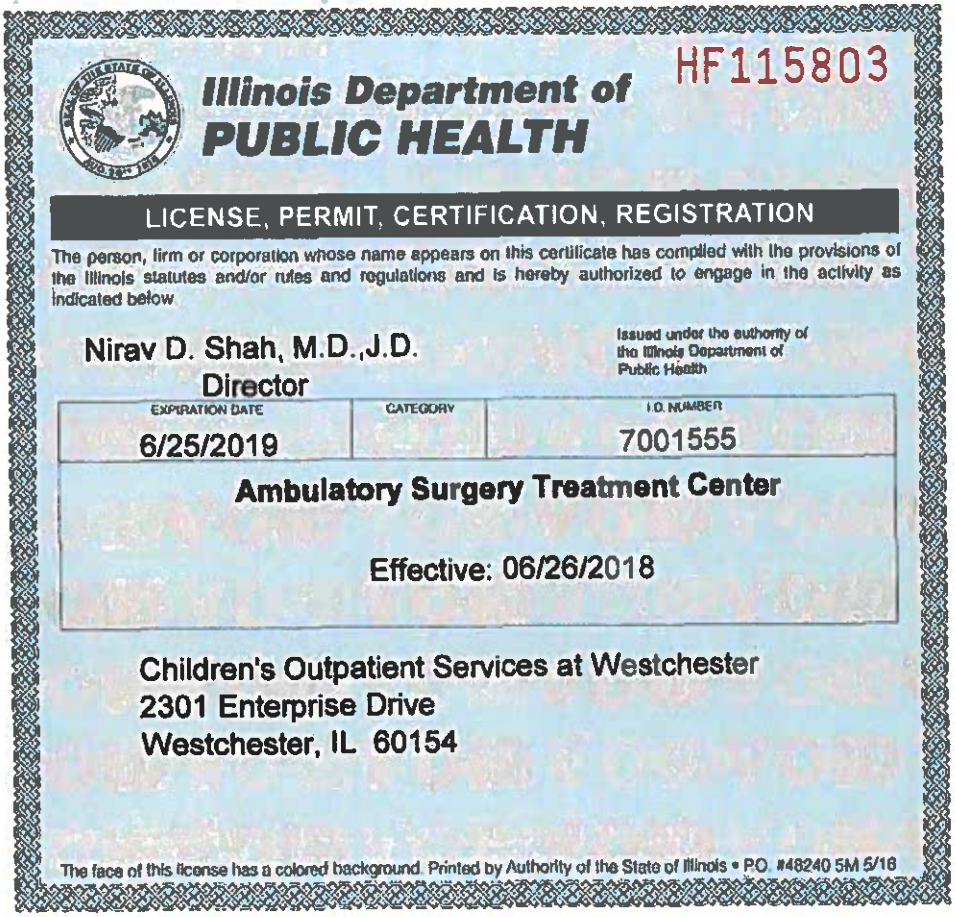
← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 9/24/2019
Lic Number 7003221
Date Printed 10/9/2018
Validation Num 1541

Lurie Children's Surgery Center In Nort

1121 Techny Road
Northbrook, IL 60062-5503

FEE RECEIPT NO.



**Illinois Department of PUBLIC HEALTH**

HF115803

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below

Nirav D. Shah, M.D.,J.D.
Director

Issued under the authority of the Illinois Department of Public Health

| EXPIRATION DATE | CATEGORY | I.D. NUMBER |
|---|---|---|
| 6/25/2019 | | 7001555 |

**Ambulatory Surgery Treatment Center**

Effective: 06/26/2018

Children's Outpatient Services at Westchester
2301 Enterprise Drive
Westchester, IL 60154

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← DISPLAY THIS PART IN A CONSPICUOUS PLACE

Exp. Date 6/25/2019

Lic Number 7001555

Date Printed 5/9/2018

Children's Outpatient Services at West

2301 Enterprise Drive
Westchester, IL 60154

FEE RECEIPT NO.



ATTACHMENT 11

Ann & Robert H. Lurie
Children's Hospital of Chicago

March 5, 2019

Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 W. Jefferson Street, 2nd floor
Springfield, IL 62761

**Re: Criterion 1110.110: Background – No Adverse Action Certification and Access to Information**

Dear Ms. Avery:

I hereby certify that no adverse action has been taken against Children's Hospital of Chicago Medical Center (the "Medical Center") or Ann & Robert H. Lurie Children's Hospital of Chicago ("Lurie Children's"), or any facility owned or operated by the Medical Center or Lurie Children's, directly or indirectly, within three (3) years prior to the filing of this application. For the purpose of this letter, the term "adverse action" has the meaning given to it in the Illinois Administrative Code, Title 77, Section 1130.

I hereby authorize the Health Facilities and Services Review Board ("Board") and the Illinois Department of Public Health ("IDPH") to access any information they find necessary to verify any documentation or information submitted, including, but not limited to, official records of IDPH or other State agencies and records of nationally recognized accreditation organizations. I further authorize the Board and IDPH to obtain any additional documentation or information the Board or IDPH deems necessary to process the application.

If you have any questions, please contact Reagen Atwood, Associate General Counsel, Ann & Robert H. Lurie Children's Hospital of Chicago at 312-227-7470 or ratwood@luriechildrens.org.

Sincerely,

Patrick M. Magoon
President and Chief Executive Officer
Ann & Robert H. Lurie Children's Hospital of Chicago
225 E. Chicago Avenue, Box 261
Chicago, IL 60611

Subscribed and sworn to before me
this 5th day of March, 2019.

Signature of Notary Public

Seal

ANNEL HILGEN
Official Seal
Notary Public - State of Illinois
My Commission Expires Feb 19, 2022

**ATTACHMENT 11**

**Criterion 1110.110(b)**

**Purpose of the Project**



**ATTACHMENT 12**

PURPOSE OF THE PROJECT

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

The project at 3722 W Touhy on the border between Skokie, Lincolnwood and Chicago will provide an outpatient care center with physician offices for primary care pediatrics and specialty pediatricians. It will replace an undersized medical office facility in need of major renovation and modernization at 6374 N. Lincoln Avenue in the North Park community area of Chicago. That facility currently houses Lurie Children's Primary Care. This pediatric practice group has recently become affiliated with Ann & Robert H. Lurie Children's Hospital of Chicago. Physicians in the group are all primary care pediatricians.

In addition to providing a replacement site for primary care visits, the proposed facility at 3722 W Touhy will incorporate offices for specialty physicians from Lurie Children's. At present, Lurie Children's has limited specialty office locations in the area between the Clark and Deming outpatient center near the former Children's Memorial Hospital location in Lincoln Park, and the Lurie Children's outpatient center in Northbrook.

The project will serve residents of the northern part of the city of Chicago, as well as the suburbs of Evanston, Skokie, Lincolnwood, Morton Grove and Niles.

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

The table on the next page shows the volume of patient visits for outpatient services provided at Lurie Children's facilities to residents of several community areas in the north part of Chicago and nearby northern suburbs. 14 zip codes comprise the primary service area, with a pediatric population of 101,022. The total population of these zip codes is approximately 500,000. Four additional zip codes constitute the secondary service area, with a pediatric population of about 26,000 and a total population of 134,000. Combined, the total service area of the project has a pediatric population of approximately 127,000, and a total population of approximately 630,000.

Lurie Children's provided 51,120 outpatient visits to children who resides in these 18 zip codes in year 2018. 79% of these visits are from the primary service area. The remaining 21% of anticipated patients reside in the 4 zip code secondary service area. Together, these 18 zip codes comprise the Planning Area for the project.

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

The project primarily addresses two significant problems: a) the outpatient pediatric primary care office Lincoln facility at 6374 N. Lincoln Avenue, Chicago is in need of modernization and does not have sufficient capacity to meet increasing visit volumes; and b) Lurie Children's pediatric specialists are not conveniently located and available to residents of the planning area.

The Lincoln facility, occupied by Lurie Children's Primary Care, is an old building, constructed in 1984 and converted to physician offices. Many of the rooms are undersized, and unable to accommodate family members, multiple staff and equipment. Waiting areas are undersized and mix ill and well patients. There is no play room for kids, a feature that is expected in state of the art pediatric outpatient facilities.

While the facility meets handicap requirements, accessibility and patient flow improvements are necessary. The facility does not have the capacity to address additional growth from the current 12,000 visits per year. Patient privacy is limited; for example, there is no separate mental health room or private area for weighing patients (a special problem for pre-teens and teens). Furniture is dated and in need of repair. Building system improvements are needed, especially heating and cooling. On-site parking is at capacity.

As to the availability of pediatric specialists, there are no specialty office practices with Lurie Children's physicians in the area. The closest specialists are located at the main Lurie Children's campus downtown, at Clark and Deming Streets in Lincoln Park, and in suburban Northbrook 10 miles to the north. The density of pediatric population in this area is among the highest in the City. Patients have asked for greater access to specialty services in the immediate area, without having to go downtown or to other Lurie Children's locations.

4. Cite the sources of the documentation.

- Population data: Illinois Health and Hospital Association's COMPdata
- Lurie Children's EPIC medical records system (historic patient volumes including primary and specialty care)
- Lurie Children's Primary Care medical records
- Planning study: Lurie Children's Primary Care, Lincoln Replacement And Expansion
- Hospital profiles, Health Facilities and Services Review Board, year 2017

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

The proposed facility will increase space for patient visits and testing, including exam rooms and waiting areas. The project proposes 12 rooms for primary care visits and 13 rooms for specialty services. Room size will be increased from the Lincoln facility, for family comfort and equipment mobilization. Physicians in 14 specialties will do weekly rotations at the new outpatient care center. Interaction and communication between primary care pediatricians and specialists is improved by the project. Support services will include x-ray and ultrasound, audiology, cardiac rehab, and ECG/ECHO.

Patients and families will benefit by receiving care in a modern facility with state of the art equipment and systems support. The facility will be integrated on the Lurie Children's EPIC medical records system. The amenities of the facility will include children's play space and interactive areas, improved access for parents with strollers and patients with disabilities, and separation of sick and well patient waiting areas. Dedicated space will be planned for vaccine preparation. The facility will feature child-friendly check-in and check-out areas that enhance patient privacy for discussing insurance and demographic information.

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

Accommodate 23,440 primary care office visits in year 2023
Accommodate 20,400 specialty visits in year 2023

Table: Patient Origin, based on visits to Lurie Children's outpatient centers from community areas of northern Chicago and adjacent north suburban areas

| Zip Code | Community | Year 2018 Population | | Volume of Visits - 2018 | % distribution | Cumulative distribution |
|---|---|---|---|---|---|---|
| | | Total | Pediatric | | | |
| | | | | | | |
| **Primary Service Area** | | | | | | |
| 60625 | Ravenswood (Chi) | 76,899 | 17,574 | 7,068 | 14% | 14% |
| 60645 | West Ridge (Chi) | 45,533 | 12,084 | 4,860 | 10% | 23% |
| 60640 | Andersonville (Chi) | 66,660 | 10,297 | 4,141 | 8% | 31% |
| 60626 | Rogers Park (Chi) | 51,167 | 10,140 | 4,078 | 8% | 39% |
| 60659 | North Park (Chi) | 37,152 | 8,957 | 3,602 | 7% | 46% |
| 60201 | Evanston | 40,570 | 7,740 | 3,113 | 6% | 53% |
| 60202 | Evanston | 31,477 | 6,824 | 2,744 | 5% | 58% |
| 60076 | Skokie | 32,745 | 6,676 | 2,685 | 5% | 63% |
| 60660 | Edgewater (Chi) | 43,411 | 6,345 | 2,552 | 5% | 68% |
| 60646 | Edgebrook (Chi) | 25,877 | 5,703 | 2,294 | 4% | 73% |
| 60077 | Skokie | 27,549 | 5,036 | 2,025 | 4% | 77% |
| 60712 | Lincolnwood | 12,637 | 2,368 | 952 | 2% | 78% |
| 60203 | Evanston | 4,518 | 1,113 | 448 | 1% | 79% |
| 60208 | Evanston | 3,543 | 165 | 66 | 0% | 79% |
| Subtotal, Primary Service Area | | 499,738 | 101,022 | 40,628 | 79% | 79% |
| | | | | | | |
| **Secondary Service Area** | | | | | | |
| 60630 | Mayfair (Chi) | 52,826 | 11,411 | 4,589 | 9% | 88% |
| 60631 | Edison Park (Chi) | 28,467 | 5,672 | 2,281 | 4% | 93% |
| 60714 | Niles | 30,222 | 4,771 | 1,919 | 4% | 97% |
| 60053 | Morton Grove | 22,943 | 4,233 | 1,702 | 3% | 100% |
| Subtotal, Secondary Service Area | | 134,458 | 26,087 | 10,491 | 21% | 100% |
| | | | | | | |
| Total Service Area | | 634,196 | 127,109 | 51,120 | 100% | 100% |
| Population Data Source: Data from Illinois Health and Hospital Association's COMPdata. | | | | | | |

**Criterion 1110.110(d)**

**Alternatives**

ALTERNATIVES

The project proposes to convert and modernize an existing light-industrial building at 3722 W. Touhy Avenue in Skokie to house an outpatient pediatric care center. Repurposing the facility will allow for the relocation of Lurie Children's Primary Care from its current location at 6374 N. Lincoln Avenue in Chicago. Co-located in the project will be specialty physicians who will rotate from Lurie Children's to the center. Patients will visit the center for outpatient appointments and selected medical testing and non-surgical procedures.

There were several alternatives considered in the planning of the outpatient center:

1. Modernize the current facility at 6374 N. Lincoln Avenue.
2. Construct a new building in the area of the proposed project.
3. Expand the current pediatric specialty facility at Clark and Deming 5treets in Chicago.
4. Expand outpatient office capacity at or near Lurie Children's in Streeterville.
5. Relocate Lurie Children's Primary Care to a different building in the area of the proposed location on Touhy Avenue.
6. Relocate Lurie Children's Primary Care to the proposed building, but limit the project to primary care; do not build out space for specialty physician office visits.

1. Modernize the current facility at 6374 N. Lincoln Avenue

This alternative would not allow for expanding capacity to accommodate the growth of the practice. Patient volumes for the past three years have been capped out due to facility limitations. There is no ability to expand the current building due to site limitations. Moreover, parking on site is inadequate. If an expansion option were feasible, construction while the facility is in operation would be disruptive to patient care. Modernization of the current building, while in operation, would be very disruptive to service, if it were feasible at all.

Estimated capital cost: $10 – 20 million.

The alternative was rejected because it does not meet the objectives of providing additional capacity needed at the facility, nor introduce specialty pediatric care at a convenient location in the planning area of the project.

2. Construct a new building in the area of the proposed project.

Designing and constructing a new building would allow Lurie Children's to meet the program requirements of the project without constraints imposed by modernizing an existing structure. There were only a few possible sites in the area, but the prices to purchase the land and construct the facility exceeded the hospital's budget for the project. Costs associated with new construction are about 20% higher than the proposed modernization project.

Estimated cost $35 – 40 million

The alternative was rejected because new construction is more expensive than the preferred project, and the sites brought no advantage from a location/access perspective.

3. Expand the current pediatric specialty facility at Clark and Deming Streets in Chicago

Lurie Children's maintains a presence at the former Lincoln Park campus of Children's Memorial Hospital, where it operates an outpatient center/ research building. Last year, there were over 150,000 patient visits at this center; the facility is at full capacity with no opportunity for expansion due to site limitations.

Expansion at the Clark/Deming location to accommodate the relocation of Lurie Children's Primary Care from 6374 N. Lincoln, if feasible, would dislocate the primary care practice from its patient base in

the northern communities of the city and adjacent suburbs. The preferred project on Touhy Avenue is intended to enhance accessibility to primary care and specialty pediatrics for residents of the planning area. The Clark / Deming site is not located in the planning area for the project.

Estimated cost: An estimated capital cost was not determined, due to the fact that the alternative did not meet the objectives of servicing residents of the planning area.

The alternative was rejected because it does not meet the objectives of the project.

4. Expand outpatient office capacity at or near the Lurie Children's in Streeterville.

This alternative was not seriously considered. Lurie Children's is now converting space in its new hospital that opened in 2012 to add ICU bed capacity for inpatient activity. There no space available in the new building for new services, unless existing functions would be relocated. Moreover, direct and indirect costs at the Ann & Robert H. Lurie Children's Hospital of Chicago dictate against operating outpatient services that can be located in less expensive settings. Similarly, rents in the area of the preferred project are much less than in the Streeterville area surrounding the downtown campus.

Estimated cost: The cost to implement the proposed outpatient care center in or near the Ann & Robert H. Lurie Hospital of Chicago would be between $12 and $20 million more than the proposed project.

For reasons of cost, the alternative was not seriously considered. And similar to Alternative 3, a location in downtown Chicago would not serve the residents of the planning area as well as the location selected for the preferred project.

5. Relocate Lurie Children's Primary Care to a different building in the area of the proposed location on Touhy.

This alternative is similar to Alternative 2, constructing a new facility in the area of the proposed project. Other buildings were considered, but did not have the advantages of the proposed building at 3277 W. Touhy in terms of accessibility, central location in the planning area, rental arrangement, on-site parking, and adaptability from the previous building use to a health care purpose.

Estimated cost: The cost of leasing and modernizing other buildings ranged from $5 million less to $5 million more than the proposed project total capital cost. Those buildings with lesser cost did not have the location, on-site parking or other advantages that the preferred project has.

The alternative was rejected because it did not have the package of advantages associated with the preferred project.

6. Relocate Lurie Children's Primary Care to the proposed building, but limit the project to primary care; do not build out space for specialty physician office visits.

Such a more limited scale project would be easier to implement, with a lower capital cost. However, it would not achieve the purpose of locating pediatric specialists and sub-specialists in the planning area. Accessibility to specialty services would not be improved for residents of north Chicago communities and adjacent suburbs. The proposed project is not driven by just the need to provide better and larger facilities for Lurie Children's Primary Care, but by the opportunity for increased access for residents to specialty pediatric services, and the synergies of co-locating primary care and specialty care in the same building.

Estimated cost: Approximately half of the proposed project capital cost.

While significantly less expensive, this alternative was rejected because it does not provide the improvement in access to specialty care for residents of the planning area.

**Criterion 1110.120**

**Size of Project**

1110.234 Project Size, Utilization and Unfinished / Shelled Space

SIZE OF THE PROJECT

The project is the renovation of a single story light industrial building. It will be converted to an outpatient care center with 31,860 square feet. The distribution of space is shown on the table below. All services for which there are space standards meet those standards.

There is no shelled space in the proposed project.

| Department/Service | Proposed DGSF | State Standard (dgsf) | Difference | Met Standard? |
|---|---|---|---|---|
| | | | | |
| Imaging | | | | |
| X-ray | 580 | 1300 | 720 | Yes |
| Ultrasound | 174 | 900 | 726 | Yes |
| Audiology | 1,276 | NA | | NA |
| Cardiac rehab | 435 | NA | | NA |
| ECG/ECHO | 1,044 | NA | | NA |
| Total Clinical | 3,509 | | | |
| | | | | |
| Exam/treatment rooms | 17,251 | 25 x 800 = 20,000 | 2,749 | Yes |
| Other space | | | | |
| Building services | 972 | | | NA |
| Common circulation | 1,900 | | | NA |
| Waiting, reg, restrms | 4,604 | | | NA |
| Admin, staff areas | 3,625 | | | NA |
| Total non-clinical | 28,351 | | | |
| | | | | |
| Total dgsf | 31,860 | | | |

**Criterion 1110.120**

**Project Services Utilization**



**ATTACHMENT 15**

PROJECT SERVICES UTILIZATION

The Outpatient Care Center will house exam rooms in support of primary care and specialty physician practices, a small imaging service with x-ray and ultrasound, cardiac rehab, ECG / ECHO and audiology. The primary care office practices and the support services are being relocated from the current Lurie Children's Primary Care facility at 6374 N. Lincoln Avenue.

Additional primary care visits will be drawn from the Lurie Children's Primary Care outpatient center at 1460 N. Halsted. That facility is at capacity, with 50,575 visits last year. The proposed new facility at 3722 West Touhy Avenue will be appealing to a proportion of those patients because it is closer to several community areas in the Planning Area than the office on Halsted.

Pediatric specialty services will be located at the proposed center to complement the primary care practice. Most of the specialty patients will be drawn from the Lurie Children's specialty clinics at Clark/Deming in Lincoln Park. Last year, there were over 154,000 office visits at this center, which is operating at capacity. Historic utilization figures shown on the table below include a portion of the specialty visits at Clark/Deming associated with residents of the planning area. Those visits are prime for relocation to the proposed outpatient center on Touhy Avenue.

For those services for which there are utilization standards, the table shows those standards. CON minimum standards apply only when more than one unit is proposed. There is one x-ray and one ultrasound machine planned at the proposed location.

The nature of pediatric outpatient care requires more time for specialty visits than for primary care visits. The significant volume at the Clark/ Deming specialty clinic is relevant. 91 exam rooms accommodated 154,000 visits last year, approximately 1700 visits per room. Applying this same utilization rate at Touhy Avenue to the planned 20,400 visits for pediatric specialties supports a need for 11 rooms. There are 13 rooms planned at the new facility for specialty visits. Two of the rooms are dedicated to non-surgical procedures such as immunotherapy treatment, minor dermatology procedures, pulmonary testing changes, and other low volume services totaling 600 visits. The remaining 11 rooms accommodate the other 19,800 projected visits in 2023, two years after project completion. These 11 rooms are utilized at an average of 1850 visits per year, slightly more than the Clark/Deming specialty facility.

| Department/ Service | # units | Historic Utilization | | | Projected Utilization | | | State standard | Meet standard? |
|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | 2017 | 2018 | 2021* | 2022 | 2023 | | |
| | | | | | | | | | |
| Imaging | | | | | | | | | |
| X-ray | 1 | 7,772 | 7,620 | 7,845 | 7,923 | 8,002 | 8,082 | 8,000 proced | yes |
| Ultrasound | 1 | 2,060 | 2,245 | 2,257 | 2,324 | 2,394 | 2,466 | 3,100 visits | yes |
| Audiology | 2 | 1,200 | 1,395 | 1,422 | 2,944 | 3,091 | 3,246 | --- | NA |
| Cardiac rehab | 1 | NA | NA | NA | 832 | 874 | 917 | --- | NA |
| ECG / ECHO | 4 | 4,196 | 4,071 | 1,299 | 5,005 | 5,255 | 5,518 | --- | NA |
| Clinic exam rooms | | | | | | | | | |
| primary care | 12 | 16,105 | 16,953 | 17,801 | 20,861 | 22,113 | 23,440 | 2,000 visits | yes |
| specialty care | 13 | 15,871 | 16,924 | 17,496 | 16,597 | 18,100 | 20,400 | 2,000 visits | yes |

Note: * indicates annualized volume

**Criterion 1120.270**

**Clinical Service Areas**
**Other than Categories of Service**



**ATTACHMENT 30**

1110.270 Clinical Service Areas other than Categories of Service

| Service | # Existing Key Rooms | # Proposed Key Rooms |
|---|---|---|
| | | |
| X-Ray | 0 | 1 |
| Ultrasound | 0 | 1 |

The Outpatient Care Center contains two clinical programs that are not categories of service:

Diagnostic Imaging – x ray
Diagnostic Imaging - utrasound

Other services to be offered in the Outpatient Care Center (OCC) are not considered "clinical services," consistent with previously reviewed permit applications. These include exam and treatment rooms for physicians with offices at the OCC, audiology, cardiac rehab, ECG and ECHO.

1. Service to Planning Area Residents

For the OCC, the Primary Service Area is defined (Purpose of the Project section) as 14 zip codes, with a pediatric population of 101,022. The total resident population of these zip codes is about 500,000. The 14 zip codes are the source of 79% of visits to the OCC. The majority of these patients are already patients of Lurie Children's. Four additional zip codes constitute the secondary service area, and contribute the remaining 21% of patients. These four zip codes increase the total pediatric population for the combined primary and secondary areas to 127,109, and a total resident population of 634,196.

The distribution of imaging and ancillary tests will be assumed to be the same as the patient origin information.

For purposes of this permit application, the 18 zip codes constitute the Planning Area. As a result, it can be stated that more than 50% of OCC patients reside in the Planning Area.

2. Service Demand

Many of the projected utilization volumes for clinical services are driven by the projected number of visits to physicians officed at the OCC. The model for primary care and specialty physicians to be located at the OCC is based on the Lurie Children's Primary Care practice at 6374 Lincoln Avenue, which will be relocated to the new facility. In addition, physicians in 14 specialties will be officed at the new center, on rotations from their current locations at Clark/Deming Streets in Lincoln Park, and in Northbrook.

Projected utilization of the individual clinical services and equipment modalities are based on the actual utilization of those services at the existing Lurie Children's Primary Care facility, 6374 N. Lincoln Avenue, Chicago, and various other Lurie Children's outpatient centers.

3. Impact of the project on other area providers

The majority of projected patients that will receive service at the OCC are currently patients at Ann & Robert H. Lurie Children's Hospital of Chicago or at Lurie Children's outpatient centers. The proposed OCC brings these services closer to these patients' homes in the 18 zip code Planning Area. As a result it is not expected that there will be disruption of other physician existing office practices or other provider's immediate care center volumes.

4. Utilization

The following volumes are anticipated in year 2023, two years after project completion, at the Outpatient Care Center for clinical service areas other than categories of service. The project includes one x-ray machine and one ultrasound. These modalities are consistent with State utilization standards, as shown in the table in the Project Services Utilization section, Attachment 15.

| Imaging | | |
|---|---|---|
| X-ray | 8,082 procedures | (1 unit) |
| Ultrasound | 2,466 visits | (1 unit) |

| Other non-clinical services | | |
|---|---|---|
| Clinic exam and treatment visits – primary | 23,440 visits | (12 rooms) |
| Clinic exam and treatment visits – specialty | 20,400 visits | (13 rooms) |
| Audiology | 3,246 visits | |
| Cardiac rehab | 917 visits | |
| ECG / ECHO | 5,518 visits | |

Criterion 1120.120

**Availability of Funds**

**Financial Statements**

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

**Consolidated Financial Statements**
**August 31, 2018 and 2017**

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Index
## August 31, 2018 and 2017

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**Report of Independent Auditors**

To the Board of Directors of Children's Hospital of Chicago Medical Center and Affiliated Corporations

We have audited the accompanying consolidated financial statements of Children's Hospital of Chicago Medical Center and Affiliated Corporations ('the Medical Center'), which comprise the consolidated balance sheets as of August 31, 2018 and 2017, and the related consolidated statements of operation and change in net assets and of cash flows for the years then ended.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 our 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, we consider internal controls relevant to the Medical Center'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 Medical Center's internal controls. 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.

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pwc

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Hospital of Chicago Medical Center and Affiliated Corporations as of August 31, 2018 and 2017, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating 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 of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

Chicago, Illinois
December 5, 2018

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidated Balance Sheets
## August 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 36,481,145 | $ 35,642,889 |
| Current portion of self-insurance trust | 15,000,000 | 15,000,000 |
| Accounts receivable, net of allowance for uncollectible accounts of $28,060,000 and $25,991,000 in 2018 and 2017, respectively | 141,182,354 | 167,445,978 |
| Other current assets | 81,484,306 | 81,053,300 |
| Total current assets | 274,147,805 | 299,142,167 |
| Investments | 1,417,896,871 | 1,318,325,752 |
| Property and equipment, at cost | | |
| Land | 38,234,151 | 38,234,151 |
| Buildings and improvements | 1,016,010,062 | 958,262,026 |
| Equipment | 366,193,404 | 334,938,725 |
| Construction in progress | 190,429,096 | 95,565,737 |
| Total property and equipment, at cost | 1,610,866,713 | 1,427,000,639 |
| Less: Accumulated depreciation | 549,706,176 | 482,965,833 |
| Property and equipment, net | 1,061,160,537 | 944,034,806 |
| Other assets | | |
| Pledges receivable restricted by donors, net | 58,694,494 | 27,014,628 |
| Goodwill | 1,417,706 | 1,417,706 |
| Other | 17,555,781 | 17,996,711 |
| Total other assets | 77,667,981 | 46,429,045 |
| Total assets | $ 2,830,873,194 | $ 2,607,931,770 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 195,206,575 | $ 180,588,644 |
| Current portion of self-insurance liability | 15,000,000 | 15,000,000 |
| Due to third-party payors | 42,805,957 | 45,108,320 |
| Current portion of long-term debt | 5,115,000 | 5,150,000 |
| Total current liabilities | 258,127,532 | 245,846,964 |
| Other liabilities | | |
| Self-insurance liability | 98,954,218 | 89,622,319 |
| Other noncurrent liabilities | 41,016,871 | 35,316,713 |
| Total other liabilities | 139,971,089 | 124,939,032 |
| Long-term debt | 362,205,678 | 352,933,396 |
| Total liabilities | 760,304,299 | 723,719,392 |
| Net assets | | |
| Unrestricted | 1,590,053,473 | 1,475,569,066 |
| Temporarily restricted | 289,623,344 | 233,762,028 |
| Permanently restricted | 190,892,078 | 174,881,284 |
| Total net assets | 2,070,568,895 | 1,884,212,378 |
| Total liabilities and net assets | $ 2,830,873,194 | $ 2,607,931,770 |

The accompanying notes are an integral part of these consolidated financial statements.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidated Statements of Operation and Change in Net Assets

## Years Ended August 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Operating revenue** | | |
| Patient service revenue, net of contractual allowance and discounts | $ 968,258,040 | $ 883,178,632 |
| Provision for doubtful accounts | 15,052,483 | 15,997,874 |
| Net patient service revenue | 953,205,557 | 867,180,758 |
| Net assets released from restriction | | |
| Contributions and philanthropy used for program purposes | 32,725,755 | 25,508,171 |
| Grants and other restricted income used for program purposes | 42,224,268 | 41,156,293 |
| Board-designated endowment income | 11,244,665 | 9,377,423 |
| Other operating revenue | 58,764,281 | 56,666,109 |
| Total operating revenue | 1,098,164,526 | 999,888,754 |
| **Operating expenses** | | |
| Salaries, wages, and employee benefits | 585,825,039 | 528,395,013 |
| Supplies and services | 358,753,271 | 328,587,843 |
| Depreciation | 67,110,354 | 68,907,720 |
| Total operating expenses | 1,011,688,664 | 925,890,576 |
| Income from operations before interest and amortization | 86,475,862 | 73,998,178 |
| Interest and amortization of financing costs | 18,256,510 | 21,692,569 |
| Income from operations | 68,219,352 | 52,305,609 |
| **Nonoperating income (expense)** | | |
| Investment return gains | 60,697,701 | 86,682,029 |
| Unrestricted contributions and bequests | 20,542,263 | 18,192,623 |
| Fundraising expense | (17,502,176) | (16,361,679) |
| Loss on disposal of fixed assets | (70,065) | (252,049) |
| Loss on debt refinancing | (10,400,807) | (9,328,997) |
| Other | (11,490,105) | (13,687,026) |
| Total nonoperating income | 41,776,811 | 65,244,901 |
| Excess of revenue over expenses | $ 109,996,163 | $ 117,550,510 |

Continued

The accompanying notes are an integral part of these consolidated financial statements.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations

## Consolidated Statements of Operation and Change in Net Assets

## Years Ended August 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Unrestricted net assets** | | |
| Excess of revenue over expenses | $ 109,996,163 | $ 117,550,510 |
| Net assets released from restriction used for purchase and construction of property and equipment | 829,787 | 942,978 |
| Retirement plan related change other than net periodic retirement plan expense | 3,518,639 | 16,424,784 |
| Other | 139,818 | 125,659 |
| Increase in unrestricted net assets | 114,484,407 | 135,043,931 |
| **Temporarily restricted net assets** | | |
| Contributions | 76,007,224 | 38,401,249 |
| Grants and other restricted income | 46,167,223 | 40,486,115 |
| Investment return | 10,832,770 | 15,172,436 |
| Pledge receivable write-offs, net of change in allowance | 739,688 | (59,321) |
| Net assets released from restriction | | |
| Contributions and philanthropy used for program purposes | (32,725,755) | (25,508,171) |
| Grants and other restricted income used for program purposes | (42,224,268) | (41,156,293) |
| Purchase of property and equipment | (829,787) | (942,978) |
| Transfers and other | (2,105,779) | (259,034) |
| Increase in temporarily restricted net assets | 55,861,316 | 26,134,003 |
| **Permanently restricted net assets** | | |
| Contributions | 13,158,995 | 5,659,377 |
| Change in fair value of perpetual trusts | 746,020 | 1,310,213 |
| Transfers and other | 2,105,779 | 259,034 |
| Increase in permanently restricted net assets | 16,010,794 | 7,228,624 |
| Increase in net assets | 186,356,517 | 168,406,558 |
| **Net assets** | | |
| Beginning of year | 1,884,212,378 | 1,715,805,820 |
| End of year | $ 2,070,568,895 | $ 1,884,212,378 |

The accompanying notes are an integral part of these consolidated financial statements.

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidated Statements of Cash Flow
## Years Ended August 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Increase in net assets | $ 186,356,517 | $ 168,406,558 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized and unrealized gains on investments | (60,697,701) | (86,682,029) |
| Restricted contributions and restricted investment return | (28,653,265) | (25,289,376) |
| Loss on disposal of fixed assets | 70,065 | 252,049 |
| Receipt of contributed securities | (8,182,418) | (8,962,652) |
| Loss on debt refinancing | 10,400,807 | 9,328,997 |
| Investment loss - CIN and MCC | 3,185,320 | 6,300,186 |
| Retirement plan related change other than net periodic retirement plan expense | (3,518,639) | (16,424,784) |
| Depreciation and amortization | 66,433,307 | 69,105,714 |
| Provision for doubtful accounts | 15,052,483 | 15,997,874 |
| Net changes in assets and liabilities | | |
| Accounts receivable, net | 11,211,141 | (39,406,241) |
| Accounts payable and accrued expenses | (5,946,751) | 42,793,630 |
| Premium on new debt issue | - | 13,415,591 |
| Due to third-party payors | (2,302,363) | 2,946,205 |
| Self-insurance liability | 9,331,899 | 4,618,823 |
| Other assets and liabilities | (22,454,239) | 6,271,455 |
| Net cash provided by operating activities | 170,286,163 | 162,672,000 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (159,083,326) | (100,434,952) |
| Sale of investments | 4,999,771,334 | 3,327,422,506 |
| Purchases of investments | (5,024,196,494) | (3,370,490,272) |
| Net cash used in investing activities | (183,508,486) | (143,502,718) |
| **Cash flows from financing activities** | | |
| Principal payments under long-term debt obligations | (5,150,000) | (4,890,000) |
| Proceeds from long-term refinancing | 223,550,000 | 135,480,000 |
| Advance refunding of debt | (220,997,413) | (158,717,859) |
| Debt issuance costs | (2,552,587) | (1,588,823) |
| Proceeds from restricted contributions and restricted investment income | 19,210,579 | 10,725,301 |
| Net cash provided by/(used in) financing activities | 14,060,579 | (18,991,381) |
| Increase in cash and cash equivalents | 838,256 | 177,901 |
| **Cash and cash equivalents** | | |
| Beginning of year | 35,642,889 | 35,464,988 |
| End of year | $ 36,481,145 | $ 35,642,889 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for interest | $ 16,153,000 | $ 20,976,000 |
| Noncash additions to property and equipment | 34,188,000 | 8,965,000 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Organization and Nature of Operations

Children's Hospital of Chicago Medical Center (the 'Medical Center'), an Illinois not-for-profit corporation, is the sole member of Ann & Robert H. Lurie Children's Hospital of Chicago (the 'Hospital'), an Illinois not-for-profit corporation. The Hospital was founded in 1882 by Julia Foster Porter to provide medical care for all children. Today, the Medical Center and its affiliates comprise an independent, freestanding academic institution dedicated to the health and well-being of all children. The Medical Center is also the sole member of Ann & Robert H. Lurie Children's Hospital of Chicago Foundation (the 'Foundation'), Stanley Manne Children's Research Institute (the 'Research Center'), Pediatric Faculty Foundation, Inc. ('PFF') and Almost Home Kids ('AHK'), all Illinois not for-profit corporations. Each of the following entities: Lurie Children's Medical Group, LLC ('LCMG'), Lurie Children's Health Partners Care Coordination, LLC (the 'CCE') and Lurie Children's Primary Care, LLC ('LCPC') are Illinois limited liability companies whose sole member is the Medical Center. The Medical Center is also the parent of CMMC Insurance Co. Ltd. ('CMMC Insurance'), a captive, offshore insurance entity organized under the laws of the Cayman Islands.

As of August 31, 2018, the Hospital owns and operates a pediatric hospital with 296 licensed beds in Chicago, Illinois, an increase from 288 licensed beds as of August 31, 2017. Newly built intensive care unit beds made up 100% of the increase. The Hospital provides a complete range of pediatric health care services, including pediatric inpatient medical and surgical care, tertiary and quaternary care services, and emergency services. The Hospital operates more than 50 specialty and primary care outpatient clinics at its main campus in the Streeterville neighborhood and throughout the Chicago area, as well as two ambulatory care facilities and thirteen outpatient specialty centers in the surrounding metro Chicago areas.

The Foundation carries out fundraising and other related development activities in support of the Medical Center and its affiliates. The Foundation supports comprehensive capital campaigns aligned with the Medical Center's strategic plans. Restricted contributions support specific programs, recruitments, and research, in addition to unrestricted contributions which, not only offset fundraising expense, but also contribute to the Hospital's greatest areas of need.

The Research Center was established to improve pediatric health and health care services through research and education. Its role is to build a scientific community in support of treatments and cures within pediatric medicine which span the laboratory bench to the patient's bedside. During fiscal 2016, the Medical Center entered into a multi-year commitment in conjunction with Northwestern University for a new research tower.

PFF provides physician services to a broad pediatric population in Chicago and surrounding counties and across the State of Illinois, employing more than 480 pediatric primary care and subspecialty physicians. A portion of research activity also flows through PFF.

LCMG, with more than 50 employed physicians, provides pathology, medical imaging, psychiatry, and dentistry services to the Hospital and its patients.

AHK is a unique organization providing transitional and respite care for medically complex children outside the acute care setting.

CMMC Insurance is a captive, offshore insurance entity whose sole function is to purchase reinsurance for the purpose of reducing risk and cost. It currently does not retain risk. CMMC Insurance has no employees and is managed on behalf of the Hospital by an independent Cayman Islands-based management company.

LCPC provides primary care services to Chicago residents and surrounding areas with more than 20 primary care pediatricians.

The CCE exists for the provision and coordination of medical care of medically complex children, contracting with Managed Care Organizations ('MCO's') and commercial health plans to provide care coordination services to children within their plans that have complex medical needs.

In April 2014, the Medical Center became one of eleven partners of Accountable Care Chicago, LLC, doing business as MyCare Chicago ('MCC'). As of October 2016, MCC began dissolving, after transitioning all members and network management to a third party and upon dissolution, care coordination was terminated. The Medical Center's investment in MCC is $75,000 and $92,000 as of August 31, 2018 and 2017, respectively, subsequent to cash distributions.

In June 2014, the Medical Center, Children's Community Physicians Association ('CCPA'), and Children's Faculty Practice Plan ('FPP') formed Lurie Children's Health Partners Clinically Integrated Network, LLC (the 'CIN'). The CIN is an integrated healthcare network focused on creating value-based reimbursement programs with payors that support improving the health and well-being of children and their families. The CIN has a twelve member board of which CCPA appoints six, FPP appoints four, and the Medical Center appoints two. CCPA and FPP are committed to an 8% capital position, and the Medical Center is committed to a 92% capital position, of which $3,198,000 was contributed during fiscal year 2018. As the Medical Center does not have governance control, the CIN is not a consolidating entity but rather accounted for under the equity method. The Medical Center corrected a prior period error with a write-down adjustment of $3,700,000 related to its investment in CIN as of August 31, 2017.

**Consolidation**
The accompanying consolidated financial statements of the Medical Center include the accounts of the Hospital, the Foundation, the Research Center, PFF, LCMG, AHK, the Medical Center, CMMC Insurance, CCE and LCPC. Intercompany transactions and accounts have been eliminated.

The accompanying consolidating balance sheets and consolidating statements of operation and change in unrestricted net assets by entity as of August 31, 2018 and 2017 are provided for purposes of additional analysis and are not required as part of the consolidated financial statements. They have been prepared in a manner consistent with generally accepted accounting principles ('GAAP') and are presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental consolidating financial information was derived from the accounting records used to prepare the consolidated financial statements. All intercompany eliminations have been recorded.

## 2. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Medical Center, the Hospital, the Research Center, the Foundation, PFF, and AHK are all not-for-profit organizations exempt from federal income taxes. Certain activities of the Hospital are taxable as unrelated business income. Such activities include earnings from alternative investments, reference laboratory, and parking benefits. As of August 31, 2018 and 2017, $2,469,000 and $534,000 were recorded, respectively, as provision for unrelated business income tax and included in the consolidated statements of operation and change in net assets. Of the current year provision for unrelated business income tax, $1,500,000 is an estimate related to employee parking and transportation fringe benefits under the Tax Cuts and Jobs Act enacted by the U.S. Congress in 2017.

LCMG, CCE and LCPC are disregarded entities treated as divisions of the Medical Center for Internal Revenue Service ('IRS') reporting.

## 3. Summary of Significant Accounting Policies

**Accounting Pronouncements**
In May 2014, the Financial Accounting Standards Board ('FASB') issued Accounting Standards Update ('ASU') No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 creates Accounting Standards Codification ('ASC') 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer and indicates an entity should disclose sufficient information to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. FASB also issued ASU 2016-08, 10, 12 and 20 as various amendments to ASU 2014-09. ASU 2015-14 deferred the effective date of ASU 2014-09. ASU 2014-09 is effective for the Medical Center for the year ending August 31, 2019. The Medical Center is in the process of assessing the potential financial statement impact of this new revenue standard and did not early adopt this standard as of August 31, 2018.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which is intended to provide users of financial statements with information on the recognition, measurement, presentation, and disclosure of financial instruments. The new guidance targets improvements to a number of existing GAAP disclosures. The ASU is effective for the Medical Center for the fiscal year beginning after December 15, 2018. The Medical Center did not early adopt this standard as of August 31, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The standard requires entities to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Lessees will recognize a right-of-use asset and a lease liability for most leases, and classify as either an operating or a financing lease. The guidance significantly changes lessee accounting for leases and impacts financial statement presentation and may impact financial metrics, including those related to debt covenants and key performance indicators. This standard is effective for annual periods beginning after December 15, 2018. Early adoption is permitted and the new guidance is applicable on a retroactive basis. The Medical Center is in the process of assessing the potential financial statement impact of this new lease standard and did not early adopt this standard as of August 31, 2018.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires Not-for-Profits ('NFPs') to present on the face of the statement of financial position two classes of net assets at the end of the period, rather than the currently required three classes. That is, NFPs will report amounts for net assets with donor restrictions and net assets without donor restrictions as well as currently required amounts for total net assets and other provisions. This standard is effective for annual periods beginning after December 15, 2017. Early adoption is permitted and the new guidance is applicable on a retroactive basis. The Medical Center did not early adopt this standard as of August 31, 2018.

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Medical Center to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Medical Center considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, third-party payor settlements, and provisions for doubtful accounts; reserves for losses and expenses related to health care professional and general liabilities; valuation of alternative investments; and risks and assumptions in the measurement of pension liabilities. Management relies on historical experience, other assumptions believed to be reasonable under the circumstances, and recommendations made by the Medical Center external advisors and actuaries in making its judgments and estimates. Actual results could differ from these estimates.

**Cash and Cash Equivalents**
Cash and cash equivalents include unrestricted, undesignated marketable securities with original maturities of three months or less that are held for short-term cash management. Cash and cash equivalents are reported at their approximate fair value.

**Current Portion of Self-Insurance Revocable Trust**
Current portion of self-insurance trust represents investment assets earmarked for self-insurance trust payments due within a year.

**Accounts Receivable, Net of Allowance for Uncollectible Accounts**
Accounts receivable represents patient related receivables net of contractual allowances and net of an allowance for uncollectible accounts. See Note 8.

**Other Current Assets**
Other current assets for fiscal year 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Outreach Hospitals and Practice Plan Receivables | $ 19,187,179 | $ 17,010,284 |
| Prepaid expenses | 19,811,365 | 16,823,447 |
| Inventory | 11,336,622 | 6,874,503 |
| Insurance receivables (Note 12) | 24,619,382 | 32,667,006 |
| Other | 6,529,758 | 7,678,060 |
| Total other current assets | $ 81,484,306 | $ 81,053,300 |

**Inventory**
Inventories, which primarily consist of medical supplies and pharmaceuticals used for patient care, are stated at the lower of cost (first-in, first-out) or market value.

**Investments**
The Medical Center pools its donor restricted, self-insurance, undesignated and board-designated investments. Investment returns are allocated among unrestricted, temporarily restricted, and permanently restricted net assets based on the pro-rata share of the balance in each fund to the total investment pool as of the end of each accounting period.

Investment income earned, at a fixed rate, on certain funds that are board-designated for patient care, education and the self-insurance trust are reported as other operating revenue. All other investment income and losses (including interest and dividends, realized gains and losses, and unrealized gains and losses) are reported as nonoperating income (loss) unless the income or loss is restricted by donor or law. Investment returns on permanently restricted net assets are allocated to the purposes specified by the donor or law, either as temporarily restricted or unrestricted, as applicable.

**Fair Value of Financial Instruments**
Financial instruments consist primarily of cash and cash equivalents, investments, accounts receivable, pledges receivable, insurance receivable, accounts payable, accrued expenses, estimated third party payor settlements, and long-term debt. Except as otherwise disclosed, the fair value of financial instruments approximates the financial statement carrying amount.

**Property and Equipment**
Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. One-half year's depreciation is taken in the year of acquisition, except for significant asset additions such as the Lurie Children's facility, which is depreciated based on the actual date placed into service. The useful lives of the major asset classifications are as follows:

| | |
|---|---|
| Buildings | 40-80 years |
| Building improvements | 15-20 years |
| Equipment | 5-20 years |
| Computer hardware and software | 3-5 years |

In 2018 and 2017, the Medical Center disposed of fully depreciated assets of $491,000 and $716,000, respectively, of property, equipment and software that were no longer in use. The Medical Center continually evaluates whether circumstances have occurred that would indicate the

remaining estimated useful life of long-lived assets warrants revision. When factors indicate that such assets should be evaluated for possible impairment, the Medical Center uses an estimate of the undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable.

In connection with the selection of the new research tower site, the existing assets were evaluated for impairment. While no impairment adjustment was deemed necessary, the Medical Center has recognized accelerated depreciation compared to original estimates over reduced estimated useful lives to depreciate the buildings, leasehold improvements and equipment of the Research Center's Halsted location to the date of expected vacancy. During the years ended August 31, 2018 and 2017, the Medical Center recognized $1,729,000 and $2,738,000, respectively, of accelerated depreciation on these assets. See Note 16 for further information on the sale of the Research Center's Halsted building.

**Pledges Receivable Restricted by Donors**
As of August 31, 2018, approximately 15% of pledges restricted by donors are receivable within one year, 49% between two and five years, and 36% receivable beyond five years. Pledges are recorded at the present value of estimated future cash flow, net of allowances for uncollectible pledges of $2,498,000 and $2,255,000 at August 31, 2018 and 2017, respectively, and present value discounts of $18,340,000 and $11,771,000 at August 31, 2018 and 2017, respectively. Estimated future cash flows due after one year are discounted using interest rates of 3.5% to 8% commensurate with estimated collection risks.

**Unamortized Bond Issuance Costs**
Bond issuance costs are deferred and amortized using the effective interest method over the life of the related debt as an increase to interest expense. The amount of bond issuance costs and unamortized underwriter fees were $3,880,000 and $5,746,000 at August 31, 2018 and August 31, 2017, respectively.

**Goodwill**
Goodwill represents the excess of the purchase price over the fair value of the net identified tangible and intangible assets acquired in a business combination. The Medical Center incurred goodwill of approximately $1,400,000 in the purchase of a physician practice in January 2016.

**Accounts Payable and Accrued Expenses**
Accounts payable and accrued expenses represent payables owed in the ordinary course of business and expenses incurred but not yet paid by the Medical Center, including payroll incurred by the Medical Center and its affiliates, and insurance payables incurred but not yet paid.

**Due to Third-Party Payors**
Due to third-party payors represents accruals for settlements with third-party payors, any agency that contracts with the Medical Center or its affiliates and patients to pay for the care of covered patients. Accruals are made based on estimates of amounts to be received or paid under the terms of the respective contracts and related settlement principles and regulations of the State Medicaid program, the Blue Cross Plan of Illinois and the Federal Medicare program.

**Current and Noncurrent Portions of Self-Insurance Liability**
The self-insurance trust and corresponding liability are reviewed annually by an independent actuary. The Medical Center contributes to the self-insurance trust estimated amounts determined by the actuary to be sufficient to pay for expected future losses. Provisions for the professional

liability are based on an actuarial estimate of losses using the Medical Center's actual loss data adjusted for industry trends and current conditions. The provision includes estimates of costs for both reported claims and claims incurred but not reported. See Note 12.

**Other Noncurrent Liabilities**
Other noncurrent liabilities for fiscal year 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Accrued pension liabilities | $ 16,688,485 | $ 21,732,790 |
| Lease obligations | 24,031,616 | 13,267,293 |
| Other | 296,770 | 316,630 |
| Total other noncurrent liabilities | $ 41,016,871 | $ 35,316,713 |

See Note 9 for pension disclosures and Note 11 for a detailed lease payment schedule.

**Net Assets**
Net assets are classified based upon donor restrictions, if any, as follows: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets represent net assets which are free of donor-imposed restrictions, including all revenue, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. Temporarily restricted net assets represent net assets whose use is limited by donor-imposed restrictions, time restrictions and those stipulations that can be fulfilled or otherwise removed by actions of the Medical Center. Temporarily restricted net assets held outside the endowment fund primarily relate to pledges receivable, grants and program support. Permanently restricted net assets represent net assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Medical Center. Refer to Note 7 for further disclosure on endowments and related investment and spending policies.

**Consolidated Statement of Operations and Change in Net Assets**
All activities of the Medical Center deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenues and expenses. Other activities deemed to be nonoperating include, unrestricted gifts, fundraising expenses and certain investment income (including realized gains and losses).

The consolidated statements of operation and change in net assets include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, pension benefit changes other than net periodic expense, and the release of restriction for property, plant and equipment.

**Net Patient Service Revenue**
Substantially all of the Medical Center's net patient service revenue in fiscal 2018 and 2017 was derived from third-party payors that provide for payments to the Medical Center at various contracted rates. Payment arrangements include reimbursed costs (as contractually defined), discounted charges, all patient refined diagnosis related group's (APR-DRG's) and per diem payments. Reimbursement from certain programs is subject to third party audit. Settlements under these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in subsequent periods as final settlements are determined. Provision is made on a current basis for the difference between charges for services rendered and the expected payments under these agreements and programs and is adjusted in future periods as

final settlements are determined. As a result of the complex laws and regulations governing third-party payor programs, recorded estimates are subject to change in the future.

The Medical Center recognizes changes in accounting estimates related to net patient service revenue reserves and third-party payor settlements in the year such changes are known. Adjustments to prior year estimates for these items resulted in an increase in net patient service revenue of approximately $3,413,000 and $755,000, respectively, in fiscal year 2018 and 2017.

Approximately 34% and 33% respectively, of the Medical Center's net patient service revenue in fiscal 2018 and 2017 was derived from the Illinois Medicaid program, including Medicaid MCO's.

In December 2008, the Centers for Medicare and Medicaid Services ('CMS') approved the Assessment Program to improve Medicaid reimbursement for Illinois hospitals. This original program included the Illinois Hospital Provider Assessment and subsequent enhancements. Due to the tax assessment provisions contained in the legislation, implementation of the program affected both operating revenues and expenses in the consolidated statements of operation and change in net assets.

In January 2015, the CMS approved Affordable Care Act ('ACA') access payments and expanded this program in June 2016. Both the Provider Assessment and enhancements as well as the ACA payments and expansion expired on June 30, 2018. The CMS approved the redesigned Hospital Assessment Program effective July 1, 2018. The redesigned program shifts some of the fixed Assessment payments to claims based payments.

The Medicaid Assessment Program and ACA payments described above are shown in the following table.

| | 2018 | 2017 |
|---|---|---|
| For fiscal year ended August 31 | | |
| Tax assessment, included in net patient service revenue | $ 63,841,860 | $ 61,658,587 |
| Tax expense, included in supplies and service expense | (20,179,685) | (19,218,966) |
| Net statement of operation impact | $ 43,662,175 | $ 42,439,621 |
| Related to State fiscal year ended June 30, 2017 | $ - | $ 35,233,474 |
| Related to State fiscal year ended June 30, 2018 | 38,720,374 | 7,206,147 |
| Related to State fiscal year ended June 30, 2019 | 4,941,801 | - |
| | $ 43,662,175 | $ 42,439,621 |

The Medical Center also received federal and state disproportionate share and add-on payments. The amount of disproportionate share and other special payments from Medicaid, if any, that will be made to hospitals in the future, is uncertain.

In fiscal 2018 and 2017, the Medical Center received approximately $9,986,000 and $9,711,000, respectively, in graduate medical education reimbursement. The Children's Hospital Graduate Medical Education ('CHGME') program provides federal funds to freestanding children's hospitals to aid in maintaining graduate medical programs that train resident physicians. The program is administered by the Health Care Resource Service Administration, a branch of the U.S.

Department of Health and Human Services. The amount of future graduate medical education reimbursement funding is uncertain.

**Grants and Contributions**
Unrestricted contributions are included in nonoperating income when received. Unrestricted pledges of amounts to be received in future periods are recorded as temporarily restricted net assets and reflected as changes in unrestricted net assets when received. Grants and contributions restricted for a specific operating purpose are recorded as temporarily restricted net assets and reflected in unrestricted revenue when the funds are expended in accordance with the specifications of the grantor or donor. Contributions for capital expenditures, recorded as temporarily restricted net assets when received, are recorded as net assets released from restrictions when expended and placed into service.

**Interest in Trustee-Held Funds**
The Medical Center recognizes an interest in trustee-held funds held at various financial institutions in which the Medical Center has a beneficial interest. Annually, the financial institutions distribute a portion of the income earned on these funds to the Medical Center to be used in support of operations. At August 31, 2018 and 2017, the Medical Center's interests in these trustee-held funds at fair value totaled approximately $31,229,000 and $30,483,000, respectively, and are included in permanently restricted net assets.

**Changes in Net Assets**
Unrestricted net asset changes include the net activity of the statement of operation as well as the release from restriction for property, plant and equipment purchases and the other than net periodic retirement plan expense changes.

Temporarily restricted net asset changes include receipts of contributions restricted by time or purpose, grants, investment return and pledge receivable write-offs. Also included are releases of philanthropies or grant funds for use in program services to cover expenses on the statement of operation.

Permanently restricted net asset changes include contributions of permanently restricted funds and the change in the fair value of perpetual trusts.

**Excess of Revenue Over Expenses**
Excess of revenue over expenses performance indicators include income from operations in addition to investment return gains (loss), unrestricted contributions and bequests, fund-raising expense, gain (loss) on disposal of fixed assets and other miscellaneous nonoperating income and expenses.

**Reclassification**
Certain 2017 amounts have been reclassified to conform to the 2018 consolidated financial statement presentation.

## 4. Community Benefit

Consistent with its mission, the Medical Center maintains a policy that sets forth the criteria pursuant to which health care services are provided free of charge or at a reduced rate to children whose families are unable to pay for the charges associated with their medical care. These

services represent charity care. Charges are shown as revenue however they are netted with a charity care discount.

The Medical Center also provides a broad range of services and activities to support its charitable mission. These services include the following:

- Participation in the Medicaid program at a loss (net reimbursement less allocated cost incurred);
- Support of community medical needs through a variety of outreach programs and educational programs;
- Comprehensive research programs specifically targeted toward pediatric health to advance knowledge about the causes, treatment and prevention of childhood diseases; and
- Training of medical students, pediatric residents, fellows and subspecialists.

Funding for the services above comes from Hospital operating income, Foundation philanthropy, CHGME, and Federal awards and grants. The Medical Center has an established charity care policy and maintains records to identify and monitor the level of charity provided. These records include the estimated cost of unreimbursed services provided under its charity care policy and the excess of cost over reimbursement for Medicaid patients. The Medical Center also monitors the unreimbursed cost of patient bad debts. Because the Illinois All Kids program provides coverage for most Illinois uninsured children, the Medical Center has a relatively low number of requests for charity care.

The Medical Center determines the costs associated with providing charity care by aggregating the overall cost to charge ratio, including salaries, wages, benefits, supplies, and other operating expenses. The cost to charge ratio is then applied to the charity care charges to calculate the charity care cost amount reported below.

Costs of unreimbursed charity care and community benefit programs for fiscal 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Excess of allocated cost over reimbursement for services provided to Medicaid patients | $ 149,344,444 | $ 144,783,126 |
| Net benefit under the Illinois Hospital Assessment Program | (43,662,175) | (42,439,621) |
| Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients, net of benefit under the Illinois Hospital Assessment Program | 105,682,269 | 102,343,505 |
| Estimated costs and expenses incurred to provide charity care | 2,978,252 | 2,023,981 |
| Unreimbursed cost of charity care | 108,660,521 | 104,367,486 |
| Cost of patient bad debts | 4,704,937 | 4,971,302 |
| Funds allocated to research from unrestricted funds | 11,602,455 | 10,672,582 |

| | | |
|---|---|---|
| Resident and fellows expense | 22,411,432 | 20,199,416 |
| Community clinic support | 3,283,023 | 3,334,635 |
| Child advocacy programs | 4,890,711 | 2,623,267 |
| Family support and interpretation services | 8,683,507 | 8,781,287 |
| Total cost of unreimbursed charity care and community benefit programs | $ 164,236,586 | $ 154,949,975 |

The Medical Center also reports community benefits on the IRS Form 990 and the beneficial activities for the property affidavit. As a result of differences in definitions and criteria between these reports the amounts calculated per report will vary.

## 5. Investments

The Medical Center maintains a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

As of August 31, 2018 and 2017, investments consisted of the following, which includes the current portion of the self-insurance trust of $15,000,000, respectively for both years:

| | 2018 | 2017 |
|---|---|---|
| Short-term investments | $ 69,990,009 | $ 143,024,139 |
| Common stock/mutual funds and common collective trusts | 552,862,336 | 464,824,856 |
| Alternative investments | 516,521,881 | 393,942,108 |
| U.S. Government and agency securities | 109,984,471 | 119,586,186 |
| Corporate and municipal bonds | 183,538,174 | 211,948,463 |
| Total investments | $ 1,432,896,871 | $ 1,333,325,752 |

Short-term investments include cash and cash equivalents, certificates of deposit, money market funds, and securities with maturities due within one year.

Common stock and mutual funds include public equities traded in both domestic and international markets. U.S. Government and agency securities include debt obligations issued by the U.S. government or U.S. government agencies. Corporate and municipal bonds include investment grade debt obligations issued by U.S or foreign Corporations, U.S. State and local governments or U.S. territories. Common collective trusts include investment products that pool fiduciary client assets into a portfolio of stocks, bonds, or other securities and real assets.

Alternative investments include hedge funds and private equity investments. These include credit-oriented strategies, multi-strategy funds where the manager has a broad mandate to invest opportunistically, and event driven funds where managers seek opportunity in various forms of arbitrage strategies as well as in corporate activities such as mergers and acquisitions. The Medical Center's investment in private equity is committed under contract to periodically advance additional funding as capital calls are exercised. See Note 15.

All Medical Center investments are invested with external managers.

The Medical Center pools its unrestricted, board-designated and donor-restricted investments. As of August 31, 2018 and 2017, donor-restricted and unrestricted investments are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Donor-restricted investments and other assets limited as to use** | | |
| Endowments | $ 156,549,272 | $ 141,136,641 |
| Specific purpose | 239,311,602 | 210,108,339 |
| Self-insurance trust | 91,790,669 | 85,654,227 |
| Interest in trustee-held funds | 31,229,405 | 30,483,385 |
| Interest in MCC and CIN | 433,530 | 432,690 |
| Total restricted investments | 519,314,478 | 467,815,282 |
| **Unrestricted investments** | | |
| Undesignated and board-designated investments | 913,582,393 | 865,510,470 |
| Total unrestricted investments | 913,582,393 | 865,510,470 |
| Total investments | $ 1,432,896,871 | $ 1,333,325,752 |

The composition and presentation of investment return as reflected in the accompanying consolidated statements of operation and change in net assets for the years ended August 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Unrestricted investment return** | | |
| Interest and dividend income | $ 14,961,665 | $ 13,094,423 |
| Realized gains on sales of investments | 39,280,763 | 68,225,794 |
| Unrealized gains on investments | 21,416,938 | 18,456,235 |
| Total unrestricted investment return | $ 75,659,366 | $ 99,776,452 |
| **Reported as** | | |
| Board-designated endowment income | $ 11,244,665 | $ 9,377,423 |
| Other operating investment return | 3,717,000 | 3,717,000 |
| Nonoperating investment return gains | 60,697,701 | 86,682,029 |
| Total unrestricted investment return | 75,659,366 | 99,776,452 |
| **Temporarily and permanently restricted investment return** | | |
| Interest and dividend income | 2,136,104 | 1,918,574 |
| Net realized and unrealized gains on investments | 9,442,686 | 14,564,075 |
| Total restricted investment return | 11,578,790 | 16,482,649 |
| Total investment return | $ 87,238,156 | $ 116,259,101 |

Typical redemption terms by asset class and type of investments include: short-term investments; common stock and mutual funds; alternative investments; and U.S. Government and agency securities; corporate and municipal bonds and common collective trust. Short-term investments and U.S. Government and agency securities; corporate and municipal bonds; and common collective trust have daily redemption terms and no restrictions. Common stock and mutual funds have daily to monthly redemption terms with notice periods of one to 10 days with no redemption restrictions. Alternative investments have monthly to annual redemption terms with varying notice periods, lock-up provisions ranging up to three years, and include private equity investments. A portion of hedge funds (alternative investments) are in side pockets with no redemptions permitted. Approximately $787,000 and $925,000 of this type of investment are in liquidating funds for fiscal 2018 and 2017, respectively.

## 6. Fair Value Measurements

The Medical Center follows the provisions of the FASB pronouncement on fair value measurements for financial instruments. The pronouncement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Medical Center for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the investments carried at fair value as of August 31, 2018, by caption, including the current portion of the self-insurance trust of $15,000,000, by the valuation hierarchy defined above:

| | Level 1 | Level 2 | Level 3 | Investments Measured at NAV or Equivalent | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | | | | | |
| Short-term investments | $ 51,002,207 | $ 10,459 | $ - | $ 18,977,343 | $ 69,990,009 |
| Common stock/collective trust and mutual funds | 481,229,238 | 419,825 | - | 70,779,943 | 552,428,806 |
| Alternative investments | - | - | 1,335,136 | 515,186,744 | 516,521,880 |
| U.S. Government and agency securities | - | 109,984,471 | - | - | 109,984,471 |
| Corporate and municipal bonds | 40,678,174 | 142,860,001 | - | - | 183,538,175 |
| Total assets at fair value | $ 572,909,619 | $ 253,274,556 | $ 1,335,136 | $ 604,944,030 | $ 1,432,463,341 |

The following table presents the investments carried at fair value as of August 31, 2017, by caption, including the current portion of the self-insurance trust of $15,000,000, by the valuation hierarchy defined above:

| | Level 1 | Level 2 | Level 3 | Investments Measured at NAV or Equivalent | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | | | | | |
| Short-term investments | $ 109,957,836 | $ 26,027 | $ - | $ 33,040,276 | $ 143,024,139 |
| Common stock/collective trust and mutual funds | 410,993,380 | - | - | 53,398,786 | 464,392,166 |
| Alternative investments | - | - | 632,083 | 393,310,026 | 393,942,109 |
| U.S. Government and agency securities | - | 119,586,186 | - | - | 119,586,186 |
| Corporate and municipal bonds | 19,688,819 | 192,259,844 | - | - | 211,948,463 |
| Total assets at fair value | $ 540,640,035 | $ 311,871,857 | $ 632,083 | $ 479,749,088 | $ 1,332,893,063 |

The tables above do not include the Medical Center's interest in MCC and CIN of $434,000 and $433,000 as of August 31, 2018 and 2017 respectively.

Investments measured at fair value using net assets value per share (or equivalent) as a practical expedient were not classified in the fair value hierarchy, rather the amounts are presented to enable reconciliation of the fair value tables to the investments fair value line items presented in the consolidated balance sheets.

The following table is a rollforward of the August 31, 2018 and 2017 balance sheet amounts for financial instruments classified by the Medical Center within Level 3 of the fair value hierarchy.

| | Level 3 Assets Alternative Investments | |
|---|---|---|
| | 2018 | 2017 |
| **Balance at beginning of year** | $ 632,083 | $ 533,548 |
| Total net unrealized gain | 19,595 | 16,540 |
| Purchases | 683,458 | 81,995 |
| **Balance at end of year** | $ 1,335,136 | $ 632,083 |

The following is a description of the Medical Center's valuation methodologies for investments measured at fair value.

Fair value for short term investments, corporate stocks, international stocks, and mutual funds, is measured using quoted market prices or NAV per share at the reporting date multiplied by the quantity held.

U.S. Government bonds and agency securities, corporate bonds, municipal bonds and mortgage and asset backed securities are measured using recent bid prices or average of bid/ask prices. Common collective trusts are measured using NAV.

The Medical Center has certain investments, principally limited liability corporations, partnerships, and absolute return strategy funds for which a portion of quoted market prices are not available. These investments are classified as alternative investments. The value of these alternative investments represents the ownership interest in the net asset value of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value nor reflective of future fair values. While the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date. The significant unobservable inputs used in the fair value measurement of the Medical Center's partnership investments include a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Significant increases or decreases in any inputs used by investment managers in determining net asset values in isolation would result in a significantly lower or higher fair value measurement. Management has not developed quantitative inputs nor adjusted the fair values obtained from general partners for the alternative investments.

## 7. Endowments

The Medical Center's endowment fund consists of individual donor-restricted endowment funds and funds designated by its Board to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Illinois passed the 'Uniform Prudent Management of Institutional Funds Act' ("UPMIFA"). The Medical Center has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets, (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 a temporarily restricted net asset until amounts are appropriated for expenditure by the Medical Center in a manner consistent with the donor intent and standard of prudence prescribed by UPMIFA. Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets.

The Medical Center had the following board-designated and donor-restricted endowment balances during the year ended August 31, 2018 delineated by net asset class:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets at beginning of year** | $ 180,458,629 | $ 76,794,570 | $ 174,881,284 | $ 432,134,483 |
| Investment return | | | | |
| Investment income | - | 2,136,104 | - | 2,136,104 |
| Realized and unrealized gain | - | 7,660,146 | 746,020 | 8,406,166 |
| Total investment return | - | 9,796,250 | 746,020 | 10,542,270 |
| Contributions | - | - | 14,831,358 | 14,831,358 |
| Spend rate allocation | 5,347,039 | - | - | 5,347,039 |
| Appropriation of endowment assets for expenditure | (4,980,518) | (6,265,853) | - | (11,246,371) |
| Other | (831,153) | - | 433,416 | (397,737) |
| **Endowment net assets at end of year** | $ 179,993,997 | $80,324,967 | $ 190,892,078 | $ 451,211,042 |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only):

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Restricted for Research | $ 26,377,660 | $ 45,876,275 | $ 72,253,935 |
| Restricted for Pediatric Programs | 53,947,307 | 145,015,803 | 198,963,110 |
| | $ 80,324,967 | $ 190,892,078 | $ 271,217,045 |

The Medical Center had the following board-designated and donor-restricted endowment balances during the year ended August 31, 2017 delineated by net asset class:

| | Board Designated Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets at beginning of year** | $ 179,269,000 | $ 69,597,106 | $ 167,652,660 | $ 416,518,766 |
| Investment return | | | | |
| Investment income | - | 1,918,574 | - | 1,918,574 |
| Realized and unrealized gain | - | 13,350,807 | 1,310,213 | 14,661,020 |
| Total investment return | - | 15,269,381 | 1,310,213 | 16,579,594 |
| Contributions | - | - | 5,659,378 | 5,659,378 |
| Spend rate allocation | 5,354,340 | - | - | 5,354,340 |
| Appropriation of endowment assets for expenditure | (4,220,634) | (6,290,569) | - | (10,511,203) |
| Other | 55,923 | (1,781,348) | 259,033 | (1,466,392) |
| **Endowment net assets at end of year** | $ 180,458,629 | $ 76,794,570 | $ 174,881,284 | $ 432,134,483 |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only):

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Restricted for Research | $ 20,520,292 | $ 31,142,990 | $ 51,663,282 |
| Restricted for Pediatric Programs | 56,274,278 | 143,738,294 | 200,012,572 |
| | $ 76,794,570 | $ 174,881,284 | $ 251,675,854 |

**Investment and Spend Rate Policies**
The Medical Center has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the Medical Center relies on strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). An endowment spend rate is established by management and approved annually by the Investment Committee of the Board of the Medical Center, which considers the following factors, specified by UPMIFA:

- The duration and preservation of the endowment
- The Medical Center's institutional mission and purpose of its endowed funds
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other available resources of the Medical Center
- The investment policy of the Medical Center

The spend rate for endowment funds in fiscal 2018 and 2017 was 4%. Management and the Board have determined that excess investment return may be spent, consistent with the donor's intention, to support Hospital and Faculty Practice Plan growth and operations. Any spending of the excess reserve outside the normal annual spend rate must be approved by the Executive Committee of the Medical Center. For new endowed funds (not more than five years old), the Investment Committee may in one or more particular years apply a lower spend rate and/or appreciation allocation, if the Investment Committee deems it prudent to do so.

Substantially all temporarily and permanently restricted net assets are restricted for research and programs. Substantially all net assets released from restrictions in fiscal 2018 and 2017 are related to expenses incurred for research and programs.

## 8. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents. The mix of net receivables from patients and third-party payors at August 31, 2018 and 2017, was as follows:

| | 2018 | 2017 |
|---|---|---|
| Managed Care | 52% | 41% |
| Illinois Medicaid | 20 | 26 |
| Medicaid Managed Care | 18 | 27 |
| Patient Self-Pay | 4 | 3 |
| Other (Medicare, Tri-Care, out-of-state) | 6 | 3 |
| | 100% | 100% |

Medicaid and Medicaid Managed Care has decreased from 53% at August 31, 2017 to 38% at August 31, 2018. The decrease is primarily due to payments received in fiscal 2018 on old outstanding receivables from Medicaid and Medicaid Managed Care payors. In fiscal 2018 the state passed a budget, which it had not done for the prior year, and resumed making payments to providers. The state also provided funding to Medicaid Managed Care payors which in turn resumed payments to providers.

A summary of utilization based upon gross patient service revenue for the years ended August 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Managed Care | 47% | 49% |
| Illinois Medicaid | 20 | 17 |
| Medicaid Managed Care | 30 | 32 |
| Patient Self Pay | 1 | 1 |
| Other (Medicare, Tri-Care, out-of-state) | 2 | 1 |
| | 100% | 100% |

## 9. Retirement Plans

The Medical Center has retirement plans covering substantially all full-time employees, including employees of affiliated corporations. The Medical Center has two defined contribution plans available to eligible employees and a frozen noncontributory defined benefit plan, the Value Growth Plan ('VGP').

There are two 403(b) defined contribution plans available only to eligible pediatric faculty within PFF, a mandatory plan and a voluntary plan, and the Hospital's plan available to all other eligible employees of the Medical Center. Participants of the PFF plan are required to make mandatory contributions of 5 percent of compensation. Each year that a mandatory contribution is made by a participant, PFF will make a matching contribution up to 10 percent of compensation. PFF faculty who are not eligible for the mandatory plan or who have not reached the IRS limits may participate in the voluntary plan with no match.

All non-PFF employees, who elect to contribute are considered participants of the Hospital's plan. Participants of the Hospital plan may participate in a 403(b) defined contribution plan by entering into a salary reduction agreement to contribute a percentage of their compensation to the plan. New employees are automatically enrolled 60 days after hire at 2 percent if they have not already made an election. The Hospital matches 100 percent of the employee's contribution up to 5 percent of compensation. Employees must be employed 3 years to be vested in the Hospital match.

The Medical Center's matching expense under both defined contribution plans totaled $24,312,000 and $21,798,000 in fiscal 2018 and 2017, respectively.

The VGP defined benefit plan is a cash balance plan and was frozen effective January 1, 2014. Previously accrued balances will continue to accrue interest; however, no further credits to these balances will be made. The interest, or earnings credit rate, is generally 4.5 percent annually.

The Medical Center also sponsors two nonqualified supplemental defined benefit retirement plans (SERP); a defined benefit plan (DB SERP) and a defined contribution plan (DC SERP) plan for certain key executives. The DB SERP plan is not funded and, therefore, has no plan assets. Benefits under the DB SERP are paid when incurred from the Medical Center's unrestricted net assets.

Further, write downs in the DB SERP of $645,000 and $549,000 were recognized which represented a portion of the previously unrecognized losses of the plan as of August 31, 2018 and 2017, respectively.

Effective as of January 1, 2017, the Medical Center sponsors a nonqualified DC SERP for certain key executives. Under this plan, the accrued obligations are determined as of December 31 of each year using 14 percent of participants' gross pay reduced by an employer match on the qualified plan. The plan has a vesting service period of 5 years or attainment of age 62. The Medical Center recorded $1,001,000 as expense and liability for the plan as of August 31, 2018.

Pension expense for the VGP and nonqualified DB SERP plan as determined by an independent actuary, includes the following components:

| | DB SERP | | VGP | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost, benefits earned during the year | $ 184,230 | $ 93,018 | $ - | $ - |
| Interest on projected benefit obligation | 154,486 | 155,709 | 6,731,630 | 6,524,323 |
| Expected return on assets | - | - | (11,982,442) | (11,637,234) |
| Amortization of actuarial loss | 976,911 | 364,255 | 857,655 | 1,287,330 |
| Amortization of prior service cost | 88,333 | 177,565 | 109,660 | 109,660 |
| Pension Settlement | 644,675 | 548,719 | - | - |
| Total pension related expense | $ 2,048,635 | $ 1,339,266 | $ (4,283,497) | $ (3,715,921) |

The funded status of the VGP and nonqualified SERP plans at the end of the year was as follows:

| | DB SERP | | DC SERP | VGP | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2018 | 2017 |
| **Funded status at end of year** | | | | | |
| Projected benefit obligation | $ (6,666,062) | $ (7,488,343) | $(1,000,586) | $ (179,024,088) | $ (187,306,430) |
| Plan assets at fair market value | - | - | - | 174,673,684 | 176,505,795 |
| Deficiency of plan assets over projected benefit obligation | $ (6,666,062) | $ (7,488,343) | $(1,000,586) | $ (4,350,404) | $ (10,800,635) |
| **Amounts recognized in the consolidated balance sheet consist of** | | | | | |
| Current liability | $ (493,644) | $ (1,308,059) | $ - | $ - | $ - |
| Noncurrent liability | (6,172,418) | (6,180,284) | (1,000,586) | (4,350,404) | (10,800,635) |
| | $ (6,666,062) | $ (7,488,343) | $ (1,000,586) | $ (4,350,404) | $ (10,800,635) |

All previously unrecognized actuarial gains and losses and prior service costs are reflected in the consolidated balance sheets. An estimate of $2,033,000 and $1,939,000 of this amount is included as a component of pension expense in fiscal 2018 and 2017, respectively.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs in fiscal 2019 are as follows:

| | DB SERP | VGP |
|---|---|---|
| Actuarial loss | $ 654,845 | $ 846,021 |
| Prior service cost | 33,790 | 109,660 |
| Transition (asset) or obligation | - | - |
| Total | $ 688,635 | $ 955,681 |

The change in the projected benefit obligation during fiscal 2018 and 2017 is summarized as follows:

| | DB SERP | | VGP | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Projected benefit obligation at beginning of measurement year** | $ 7,488,343 | $ 4,660,983 | $ 187,306,430 | $ 196,184,002 |
| Service cost | 184,230 | 93,018 | - | - |
| Interest cost | 154,486 | 155,709 | 6,731,630 | 6,524,323 |
| Actuarial loss (gain) | 151,171 | 3,670,870 | (9,177,486) | (8,203,306) |
| Benefits paid | (1,312,168) | (1,092,237) | (5,836,486) | (7,198,589) |
| **Projected benefit obligation at end of measurement year** | $ 6,666,062 | $ 7,488,343 | $ 179,024,088 | $ 187,306,430 |

The projected benefit obligation for the VGP was $179,024,000 and $187,306,000 at August 31, 2018 and 2017, respectively. The accumulated benefit obligation for the DB SERP plan was $5,604,000 and $6,194,000 at August 31, 2018 and 2017, respectively.

The change in plan assets during fiscal 2018 and 2017 is summarized as follows:

| | VGP | |
|---|---|---|
| | **2018** | **2017** |
| **Plan assets, at fair value at beginning of measurement year** | $ 176,505,795 | $ 162,167,838 |
| Actual return on plan assets | 4,004,375 | 21,536,546 |
| Employer contributions | - | - |
| Benefits paid | (5,836,486) | (7,198,589) |
| **Plan assets, at fair value at end of measurement year** | $ 174,673,684 | $ 176,505,795 |

The following table presents the plan investments carried at fair value as of August 31, 2018, by caption, by the valuation hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Investments Measured at NAV or Equivalent | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | | | | | |
| Short-term investments | $ - | $ - | $ - | $ 3,013,290 | $ 3,013,290 |
| Common stock | 83,232 | - | - | 40,315,989 | 40,399,221 |
| Alternative investments | - | - | - | - | - |
| Other fixed income | - | - | - | 131,261,173 | 131,261,173 |
| Total assets at fair value | $ 83,232 | $ - | $ - | $ 174,590,452 | $ 174,673,684 |

The following table presents the plan investments carried at fair value as of August 31, 2017, by caption, by the valuation hierarchy defined in Note 6:

| | Level 1 | Level 2 | Level 3 | Investments Measured at NAV or Equivalent | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | | | | | |
| Short-term investments | $ - | $ - | $ - | $ 533,101 | $ 533,101 |
| Common stock | 49,645,041 | 12,482,890 | - | - | 62,127,931 |
| Alternative investments | - | - | - | 31,802 | 31,802 |
| Other fixed income | - | - | - | 113,812,961 | 113,812,961 |
| Total assets at fair value | $ 49,645,041 | $12,482,890 | $ - | $ 114,377,864 | $ 176,505,795 |

Investments measured at fair value using net assets value per share (or equivalent) as a practical expedient were not classified in the fair value hierarchy, rather the amounts are presented to enable reconciliation of the fair value tables to the investments fair value line items presented in the plan assets.

The Medical Center's pension plan weighted-average asset allocation at August 31, 2018 and 2017, by asset category is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Asset category** | | |
| Return-seeking assets | 23 % | 35 % |
| Liability-hedging assets | 77 | 65 |
| | 100 % | 100 % |

The Medical Center's pension plan assets are invested with external managers and asset allocation is determined using a liability-hedging approach. Pension plan assets are invested in two pools: return-seeking assets and liability-hedging assets. The target allocation between return-seeking assets and liability-hedging assets changes based on a predetermined glide path policy as the plan's funded status changes.

The objective of the return-seeking assets is to generate long-term asset growth for the pension plan. Return-seeking assets generally consist of equity securities including public equities traded in both domestic and international markets, invested in accordance with the target allocations listed below:

The objective of holding liability-hedging assets is to dampen the plan's surplus volatility. High-quality investment grade bonds with durations that approximate the durations of the liabilities are most commonly used for liability-hedging assets.

Estimated future pension benefit payments for the next ten years are as follows:

| | DB SERP | DC SERP | VGP | Total |
|---|---|---|---|---|
| **Years Ending August 31,** | | | | |
| 2019 | $ 493,644 | $ - | $ 11,697,492 | $ 12,191,136 |
| 2020 | 1,463,843 | 100,000 | 10,339,126 | 11,902,969 |
| 2021 | 3,736,114 | 100,000 | 10,888,683 | 14,724,797 |
| 2022 | 889,359 | 900,000 | 10,693,506 | 12,482,865 |
| 2023 | 1,153,774 | 200,000 | 10,712,011 | 12,065,785 |
| 2024-2027 | 912,336 | 1,400,000 | 49,112,049 | 50,824,385 |
| | $ 8,649,070 | $ 2,700,000 | $ 103,442,867 | $ 114,191,937 |

Weighted-average assumptions used to determine benefit obligations at August 31, 2018 and 2017 are as follows:

| | DB SERP | | DC SERP | | VGP | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Discount rate | 3.2% | 2.2% | - | - | 4.2% | 3.7% |
| Rate of compensation increase | 4.0 | 4.0 | 4.0 | - | - | - |

Weighted-average assumptions used to determine net periodic pension benefit cost in fiscal 2018 and 2017 are as follows:

| | DB SERP | | DC SERP | | VGP | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Discount rate | 2.2% | 3.5% | - | - | 3.7% | 3.5% |
| Expected return on plan assets | - | - | 6% | - | 7.0 | 7.5 |
| Rate of compensation increase | 4.0 | 4.0 | 4.0 | - | - | - |

The discount rate was determined by constructing hypothetical yield curves based on yields of corporate bonds rated AA quality. The expected rate of return on plan assets was determined by using the historical return on the various asset classes in which the plan invests.

## 10. Long-Term Debt

In May 2008, the Illinois Finance Authority issued $553,490,000 of Series 2008 Bonds on behalf of the Hospital. The issue included $212,000,000 of Insured Revenue Bonds Series 2008A ('Series 2008A'), $168,000,000 of Revenue Bonds Series 2008B ('Series 2008B'), $86,745,000 of Variable Rate Demand Revenue Bonds Series 2008C ('Series 2008C'), and $86,745,000 of Variable Rate Demand Revenue Bonds Series 2008D ('Series 2008D'), (collectively, the 'Series 2008 Bonds'). The proceeds of the Series 2008A and Series 2008B bonds were primarily for the construction of the hospital in Streeterville. The proceeds of the Series 2008C and 2008D bonds were used to refund previously outstanding bonds and pay certain expenses in connection with the issuance of the Series 2008C/D Bonds. Series 2008C and 2008D were redeemed prior to maturity and are no longer outstanding.

In May 2017, the Illinois Finance Authority issued $135,480,000 of Revenue Refunding Bonds, ('Series 2017') at a premium totaling $13,416,000 with an equity contribution of $11,411,000 on behalf of the Hospital. The proceeds of the Series 2017 bonds were used to refund the $148,900,000 par amount of the Series 2008B bonds.

In January 2018, the Illinois Finance Authority issued $223,550,000 of Taxable Revenue Refunding Bonds ('Series 2018') at par value on behalf of the Hospital. The proceeds of the Series 2018 bonds were used to refund the $212,000,000 par amount of the Series 2008A bonds. The Medical Center recorded a debt refinancing loss of $10,401,000 and $9,329,000 in extinguishment of the Series 2008A and 2008B Bonds as a nonoperating item in the consolidated statements of operation and change in net asset as of August 31, 2018 and 2017, respectively. The loss on the debt refinancing was a result of the Medical Center writing off the 2008A series unamortized discount, unamortized issuance costs and accrued interest. The Medical Center's long-term bonds are issued under a Master Trust Indenture ('Indenture') dated May 1, 2008, as amended and restated. There are no significant changes to the underlying covenants in the Indenture, including inclusion of the calculations of debt service and days cash on hand ratios. Obligations under the Indenture are collateralized by a pledge of the unrestricted receivables of the Obligated Group, which consists of the Hospital and the Foundation (the 'Obligated Group'). Series 2017 and 2018 are the only outstanding bonds of the Medical Center. The chart below outlines debt as of August 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Illinois Finance Authority insured revenue bonds, Series 2008A, fixed interest rate ranging from 5.00% to 5.25% (discount based on imputed interest rate of 5.27%), maturing annually in principal amounts ranging from $3,235,000 in August 2028 to $23,340,000 in August 2047. | $ - | $ 212,000,000 |
| Illinois Finance Authority revenue bonds, Series 2008B, fixed interest rate ranging from 5.25% to 5.50%. | - | 5,150,000 |
| Illinois Finance Authority revenue bonds, Series 2017, fixed interest rate ranging from 4.00% to 5.00% (premium based on imputed interest rate of 3.62%), maturing annually in principal amounts ranging from $5,115,000 in August 2019 to $12,665,000 in August 2037. | 135,480,000 | 135,480,000 |
| Illinois Finance Authority taxable revenue bonds, Series 2018, fixed interest rate ranging from 3.49% to 3.94%, maturing annually in principal amounts ranging from $4,840,000 in August 2028 to $160,275,000 in August 2047. | 223,550,000 | - |
| Total debt outstanding | 359,030,000 | 352,630,000 |
| Unamortized premium | 12,170,459 | 11,199,422 |
| Less: Debt issuance costs | (3,879,781) | (5,746,026) |
| Long-term debt | $ 367,320,678 | $ 358,083,396 |

| | 2018 | 2017 |
|---|---|---|
| Current portion | $ 5,115,000 | $ 5,150,000 |
| Long-term portion | 353,915,000 | 347,480,000 |
| Total principal outstanding at par value | $359,030,000 | $ 352,630,000 |

The estimated fair value of the Medical Center's total debt outstanding was approximately $364,658,000 as of August 31, 2018. This estimate is based on market interest rates and other relevant information and input from financial advisors classified as Level 2 in the fair market value hierarchy.

Future maturities of total outstanding debt at August 31, 2018, are as follows:

| Years Ending August 31, | |
|---|---|
| 2019 | $ 5,115,000 |
| 2020 | 5,375,000 |
| 2021 | 5,640,000 |
| 2022 | 5,920,000 |
| 2023 | 6,220,000 |
| Thereafter | 330,760,000 |
| | $ 359,030,000 |

The Obligated Group is subject to various nonfinancial and financial covenants. The Obligated Group was in compliance with its debt covenants as of August 31, 2018 and 2017.

As of August 31, 2018, the Medical Center had line of credit agreements with three commercial banks for $45,000,000, $30,000,000 and $25,000,000. There were no amounts outstanding or borrowings made under the lines of credit during 2018 or 2017. One outstanding letter of credit supporting the construction of the hospital in Streeterville of $597,000 reduces the available lines of credit.

## 11. Operating Leases

The Medical Center leases certain buildings, office space, parking, and equipment under noncancelable operating leases. Rental expenses associated with these leases were approximately $19,866,000 and $14,056,000 in 2018 and 2017, respectively, including minimum monthly payments and additional usage charges under equipment leases. The schedule below does not include the impact of any tenant allowances and any rent abatement on payments.

Approximate minimum future payments under noncancelable lease obligations at August 31, 2018, are as follows:

| Years Ending August 31, | |
|---|---|
| 2019 | $ 13,929,000 |
| 2020 | 15,259,000 |
| 2021 | 15,592,000 |
| 2022 | 14,964,000 |
| 2023 | 12,460,000 |
| Thereafter | 87,564,000 |
| | $ 159,768,000 |

## 12. Professional and General Liability Insurance

The Medical Center maintains a program of self-insurance for professional and general liability risks. This program is maintained on behalf of all Medical Center affiliates and employees including the employed physicians of PFF, LCMG and LCPC and the nonemployed affiliated physicians in the Children's Hospital of Chicago Faculty Practice Plan who are members of Children's Surgical Foundation and Pediatric Anesthesia Associates. More than 600 hospital-based physicians are covered by this program.

The Medical Center self-insures the first losses for both professional and general liability claims. The estimated liability for self-insured claims and the required funding for the trust are determined annually by an independent actuary and are based upon case reserves and actuarial estimates for claims that have been incurred but not yet reported. The self-insured portion of the program is administered by an independent trustee.

The Medical Center incurred approximately $32,000,000 and $28,000,000 in expense for fiscal 2018 and 2017, respectively, for self-insured professional and general liability risk. The Medical Center's self-insurance liability has been discounted at 5% in fiscal 2018 and 2017. The effect of discounting the value of estimated liabilities was approximately $24,980,000 and $24,200,000 at August 31, 2018 and 2017, respectively. Further, the Medical Center recorded an estimated liability of $113,954,000 and $104,622,000 at August 31, 2018 and 2017, respectively, for self-insured professional and general liability risk.

In addition to the self-insured portion, the Medical Center purchases commercial insurance for claims in excess of the self-insurance limits. These excess insurance policies, which are claims-made, are purchased through CMMC Insurance.

CMMC Insurance writes the professional and general liability insurance for the Hospital and its affiliates. CMMC Insurance, in turn, purchases reinsurance equal to 100 percent of its exposure and, therefore, holds no risk on its own books. For the years ended August 31, 2018 and 2017, premiums ceded to reinsurers were $1,984,000 and $1,932,000, respectively, and reinsurance recoveries on unpaid losses on an undiscounted basis, were $27,149,000 and $32,667,000, respectively. CMMC Insurance is operated to break even after all expenses.

## 13. Transactions With Related Parties

Certain of the Medical Center's affiliated physicians participate in independent physician faculty practice plan corporations. At August 31, 2018 and 2017, amounts due from the physician practice groups totaled approximately $5,502,000 and $2,011,000, respectively, a portion of which is included in other current assets.

The Medical Center paid approximately $4,711,000 and $5,100,000 in fiscal 2018 and 2017, respectively, for administration, supervision, teaching, and patient care services provided by these independent physicians, which is included in supplies and services expense.

The Medical Center billed such independent physician group practice corporations $11,784,000 and $9,751,000 in fiscal 2018 and 2017, respectively, for certain expenses, such as personnel expenses, supplies and services, and professional liability insurance, incurred on their behalf, which is included in other operating revenue.

## 14. Functional Expenses

The Medical Center provides health care services to children and conducts research and programs within its geographic region. Expenses, excluding interest and including fundraising (which are reported as nonoperating activities), related to providing these services, research, and programs were as follows:

| | 2018 | 2017 |
|---|---|---|
| Patient care services | $ 780,983,753 | $ 709,620,016 |
| General and administrative | 146,160,101 | 140,274,473 |
| Research and programs | 64,365,125 | 56,777,121 |
| Fundraising | 17,502,176 | 16,361,679 |
| Medicaid Assessment Program Tax (Note 3) | 20,179,685 | 19,218,966 |
| | $1,029,190,840 | $ 942,252,255 |

## 15. Commitments and Contingencies

**Health Care Regulation**
The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations create a possibility of repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Management believes that the Medical Center is in compliance, in all material respects, with fraud and abuse statutes, as well as with other applicable government laws and regulations. While no regulatory inquiries have been made, that are expected to have a material effect on the consolidated financial statements, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Litigation**
There are several lawsuits, pending claims, and incidents that occurred in the past whereby claims have been made and may be asserted against the Medical Center for which the ultimate liability, if any, cannot be reasonably estimated. Management believes that the ultimate settlement of these claims will not have a material adverse effect upon the Medical Center's consolidated financial position or results of operations.

**Property and Equipment**
During fiscal 2016, the Medical Center entered into a $160,000,000 commitment to contribute to the total cost of a new research tower being built in conjunction with Northwestern University. The Medical Center will have title to four floors and a proration of the public space. The building is under construction and as of August 31, 2018, $133,707,000 has been spent life to date and is included in construction in progress on the consolidated balance sheets.

The Medical Center obtained a certificate of need for the buildout of an ambulatory surgery treatment center ('ASTC') and additional beds within the hospital during fiscal 2018. The buildout was completed on the 22nd floor while the ASTC is near completion. In addition, construction in progress of an additional 24 beds for hematology/oncology is ongoing.

**Investments**
The Medical Center has contractual commitments totaling $132,500,000 with its private equity investment funds. As of August 31, 2018, the Medical Center's remaining capital commitments are $81,035,000. Future capital calls are expected to occur over the next several years and will be initiated by the general partner of the investment as investments are made by the funds.

**Asset Retirement Obligation**
An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

The Medical Center has evaluated its leased and owned properties for potential asset retirement obligations. Based on this review, the Medical Center identified obligations primarily related to the removal of certain materials previously utilized in the construction process. The total retirement obligation recognized as of August 31, 2018 and 2017, was $416,000 and $406,000, respectively, which is recorded as accrued expenses in the consolidated balance sheets.

## 16. Subsequent Event

The Medical Center has evaluated all events and transactions that occurred after the balance sheet date and through the date that the consolidated financial statements were issued.

On October 30, 2018, the Research Center sold its Halsted building and entered into a leaseback of the property through June 2019.

## Supplemental Information

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidating Balance Sheet
## August 31, 2018

| | Ann & Robert H. Lurie Children's Hospital of Chicago | Ann & Robert H. Lurie Children's Hospital of Chicago Foundation | Eliminating Entries | Obligated Group | Stanley Manne Children's Research Institute | Pediatric Faculty Foundation | Lurie Children's Medical Group LLC | Almost Home Kids | Children's Hospital of Chicago Medical Center | CMMC Insurance Co. Ltd | Lurie Children's Health Partners Care Coordination | Lurie Children's Primary Care | Eliminating Entries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | | |
| Cash and cash equivalents | $ 30,653,178 | $ - | $ - | $ 30,653,178 | $ - | $ - | $ 5,800,955 | $ 5,000 | $ - | $ 214,012 | $ - | $ - | $ - | $ 36,481,145 |
| Current portion of self-insurance trust | 15,000,000 | - | - | 15,000,000 | - | - | - | - | - | - | - | - | - | 15,000,000 |
| Accounts receivable, net of allowance for uncollectible accounts of $28,080,000 | 124,104,027 | - | - | 124,104,027 | - | 13,068,338 | 3,013,047 | 428,187 | - | | 9,300 | 565,454 | - | 141,182,354 |
| Other current assets | 45,505,294 | 883,535 | - | 46,188,829 | 288,018 | 6,737,365 | 596,844 | 32,504 | 76,025 | 26,611,484 | 534,174 | 437,133 | - | 81,584,306 |
| Total current assets | 215,262,499 | 883,535 | - | 215,925,944 | 288,018 | 19,803,724 | 9,218,846 | 465,691 | 76,025 | 26,825,496 | 543,474 | 1,002,587 | - | 274,147,805 |
| Investments | 1,417,896,871 | - | - | 1,417,896,871 | - | - | - | - | 120,000 | - | - | - | (120,000) | 1,417,896,871 |
| Property and equipment, at cost | 1,412,825,016 | 1,814,953 | - | 1,414,739,971 | 190,766,636 | - | - | 2,329,490 | - | - | - | 3,531,607 | - | 1,810,868,713 |
| Less: Accumulated depreciation | 511,124,909 | 1,814,953 | - | 512,738,862 | 35,009,202 | - | - | 526,904 | - | - | - | 431,198 | - | 548,704,176 |
| Total property and equipment, net | 901,700,109 | - | - | 901,500,109 | 155,757,434 | - | - | 1,802,586 | - | - | - | 2,100,409 | - | 1,061,160,537 |
| Other assets | | | | | | | | | | | | | | |
| Pledges receivable restricted by donors net | 58,684,494 | - | - | 58,684,494 | - | - | - | - | - | - | - | - | - | 58,684,494 |
| Goodwill | - | - | - | - | - | - | - | - | - | - | - | 1,417,706 | - | 1,417,706 |
| Other assets | 17,565,781 | - | - | 17,565,781 | - | - | - | - | - | - | - | - | - | 17,565,781 |
| Total other assets | 76,250,275 | - | - | 76,250,276 | - | - | - | - | - | - | - | 1,417,706 | - | 77,667,981 |
| Total assets | $ 2,610,909,684 | $ 883,535 | $ - | $ 2,611,573,199 | $ 156,043,452 | $ 19,803,724 | $ 9,218,846 | $ 2,268,276 | $ 196,025 | $ 26,825,496 | $ 543,474 | $ 4,520,702 | $ (120,000) | $ 2,830,873,194 |
| Liabilities and Net Assets | | | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | $ 148,302,215 | $ 3,155,527 | $ - | $ 151,457,742 | $ 2,314,221 | $ 9,307,862 | $ 4,062,948 | $ 531,413 | $ - | $ 24,675,819 | $ 8,539 | $ 848,231 | $ - | $ 195,208,975 |
| Current portion of self-insurance liability | 15,000,000 | - | - | 15,000,000 | - | - | - | - | - | - | - | - | - | 15,000,000 |
| Due to third-party payors | 39,889,406 | - | - | 39,889,406 | - | 2,561,006 | 545,543 | - | - | - | - | - | - | 42,995,957 |
| Current portion of long-term debt | 5,115,000 | - | - | 5,115,000 | - | - | - | - | - | - | - | - | - | 5,115,000 |
| Total current liabilities | 208,116,621 | 3,155,527 | - | 211,272,148 | 2,314,221 | 11,868,870 | 4,608,491 | 531,413 | - | 24,675,819 | 8,539 | 848,231 | - | 258,127,532 |
| Other liabilities | | | | | | | | | | | | | | |
| Self-insurance liability | 98,954,218 | - | - | 98,954,218 | - | - | - | - | - | - | - | - | - | 98,954,218 |
| Other noncurrent liabilities | 40,832,109 | - | - | 40,832,109 | - | - | - | 296,788 | - | - | - | 87,993 | - | 41,016,871 |
| Total other liabilities | 139,586,327 | - | - | 139,586,327 | - | - | - | 296,788 | - | - | - | 87,993 | - | 139,971,089 |
| Long-term debt | 362,205,678 | - | - | 362,205,678 | - | - | - | - | - | - | - | - | - | 362,205,678 |
| Total liabilities | 709,908,626 | 3,155,527 | - | 713,064,153 | 2,314,221 | 11,868,870 | 4,608,491 | 828,182 | - | 24,675,819 | 8,539 | 936,224 | - | 760,304,295 |
| Stockholder's equity | | | | | | | | | | | | | | |
| Common stock | - | - | - | - | - | - | - | - | - | 120,000 | - | - | (120,000) | - |
| Additional paid-in capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Retained earnings | - | - | - | - | - | - | - | - | - | 29,677 | - | - | (29,677) | - |
| Total stockholder's equity | - | - | - | - | - | - | - | - | - | 149,677 | - | - | (149,677) | - |
| Net assets | | | | | | | | | | | | | | |
| Unrestricted | 1,420,485,618 | (2,491,992) | - | 1,417,993,624 | 153,729,231 | 7,934,854 | 4,610,355 | 1,440,094 | 196,025 | - | 534,935 | 3,584,478 | 29,677 | 1,690,053,473 |
| Temporarily restricted | 288,823,344 | - | - | 288,823,344 | - | - | - | - | - | - | - | - | - | 288,823,344 |
| Permanently restricted | 190,892,076 | - | - | 190,892,076 | - | - | - | - | - | - | - | - | - | 190,892,076 |
| Total net assets | 1,901,001,038 | (2,491,992) | - | 1,899,509,046 | 153,729,231 | 7,934,854 | 4,610,355 | 1,440,094 | 196,025 | - | 534,935 | 3,584,478 | 29,677 | 2,070,568,895 |
| Total liabilities and net assets | $ 2,610,909,664 | $ 663,535 | $ - | $ 2,611,573,199 | $ 156,043,452 | $ 19,803,724 | $ 9,218,846 | $ 2,268,276 | $ 196,025 | $ 26,825,496 | $ 543,474 | $ 4,520,702 | $ (120,000) | $ 2,830,873,194 |

ATTACHMENT 33

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidating Balance Sheet
## August 31, 2017

| | Ann & Robert H. Lurie Children's Hospital of Chicago | Ann & Robert H. Lurie Children's Hospital of Chicago Foundation | Eliminating Entries | Obligated Group | Stanley Manne Children's Research Institute | Pediatric Faculty Foundation | Lurie Children's Medical Group LLC | Almost Home Kids | Children's Hospital of Chicago Medical Center | CMMC Insurance Co. Ltd | Lurie Children's Health Partners Care Coordination | Lurie Children's Primary Care | Eliminating Entries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | | |
| Cash and cash equivalents | $ 30,170,875 | $ - | $ - | $ 30,170,875 | $ - | $ - | $ 5,264,225 | $ 6,200 | $ - | $ 207,560 | $ - | $ - | $ - | $ 35,642,888 |
| Current portion of self-insurance trust | 15,000,000 | - | - | 15,000,000 | - | - | - | - | - | - | - | - | - | 15,000,000 |
| Accounts receivable, net of allowance for uncollectible accounts of $25,991,000 | 148,711,818 | - | - | 148,711,818 | - | 13,814,628 | 2,701,196 | 1,813,796 | - | - | 485 | 402,952 | - | 167,445,875 |
| Other current assets | 38,693,883 | 745,200 | - | 39,439,083 | 278,459 | 5,160,900 | 496,213 | 50,172 | 78,025 | 34,607,080 | 299,571 | 655,797 | - | 81,053,300 |
| Total current assets | 232,566,576 | 745,200 | - | 233,311,776 | 278,459 | 18,975,728 | 8,455,547 | 1,870,168 | 78,025 | 34,814,640 | 300,036 | 1,058,750 | - | 299,142,167 |
| Investments | 1,318,325,752 | - | - | 1,318,325,752 | - | - | - | - | 120,000 | - | - | - | (120,000) | 1,318,325,752 |
| Property and equipment, at cost | 1,285,631,578 | 1,614,853 | - | 1,287,246,531 | 134,029,143 | - | - | 2,294,368 | - | - | - | 3,504,599 | - | 1,427,000,639 |
| Less: Accumulated depreciation | 447,673,761 | 1,614,853 | - | 449,288,714 | 32,431,114 | - | - | 441,745 | - | - | - | 804,260 | - | 482,965,833 |
| Total property and equipment, net | 837,977,817 | - | - | 837,977,817 | 101,584,029 | - | - | 1,762,621 | - | - | - | 2,700,339 | - | 944,034,806 |
| Other assets | | | | | | | | | | | | | | |
| Pledges receivable restricted by donors, net | 27,014,628 | - | - | 27,014,628 | - | - | - | - | - | - | - | - | - | 27,014,628 |
| Goodwill | - | - | - | - | - | - | - | - | - | - | - | 1,417,706 | - | 1,417,706 |
| Other assets | 17,996,711 | - | - | 17,996,711 | - | - | - | - | - | - | - | - | - | 17,996,711 |
| Total other assets | 45,011,339 | - | - | 45,011,339 | - | - | - | - | - | - | - | 1,417,706 | - | 46,429,045 |
| Total assets | $ 2,433,881,484 | $ 745,200 | $ - | $ 2,434,626,684 | $ 101,872,488 | $ 18,975,728 | $ 8,455,547 | $ 3,632,789 | $ 196,025 | $ 34,814,640 | $ 300,036 | $ 5,177,804 | $ (120,000) | $ 2,807,931,770 |
| Liabilities and Net Assets | | | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | $ 121,542,617 | $ 3,130,100 | $ - | $ 125,072,717 | $ 5,459,680 | $ 5,002,640 | $ 4,444,686 | $ 473,159 | $ - | $ 34,671,140 | $ 807 | $ 1,464,405 | $ - | $ 180,588,844 |
| Current portion of self-insurance liability | 15,000,000 | - | - | 15,000,000 | - | - | - | - | - | - | - | - | - | 15,000,000 |
| Due to third-party payors | 41,740,718 | - | - | 41,740,718 | - | 2,561,008 | 806,594 | - | - | - | - | - | - | 45,108,320 |
| Current portion of long-term debt | 5,150,000 | - | - | 5,150,000 | - | - | - | - | - | - | - | - | - | 5,150,000 |
| Total current liabilities | 183,433,335 | 3,130,100 | - | 186,963,435 | 5,459,680 | 11,563,648 | 5,250,880 | 473,159 | - | 34,671,140 | 807 | 1,464,405 | - | 245,846,964 |
| Other liabilities | | | | | | | | | | | | | | |
| Self-insurance liability | 88,622,319 | - | - | 88,622,319 | - | - | - | - | - | - | - | - | - | 88,622,319 |
| Other noncurrent liabilities | 35,000,083 | - | - | 35,000,083 | - | - | - | 316,630 | - | - | - | - | - | 35,316,713 |
| Total other liabilities | 124,622,402 | - | - | 124,622,402 | - | - | - | 316,630 | - | - | - | - | - | 124,939,032 |
| Long-term debt | 352,933,396 | - | - | 352,933,396 | - | - | - | - | - | - | - | - | - | 352,933,396 |
| Total liabilities | 661,389,133 | 3,130,100 | - | 664,519,233 | 5,459,680 | 11,563,648 | 5,250,880 | 789,788 | - | 34,671,140 | 807 | 1,464,405 | - | 723,719,392 |
| Stockholder's equity | | | | | | | | | | | | | | |
| Common stock | - | - | - | - | - | - | - | - | - | 120,000 | - | - | (120,000) | - |
| Additional paid-in capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Retained earnings | - | - | - | - | - | - | - | - | - | 23,529 | - | - | (23,529) | - |
| Total stockholder's equity | - | - | - | - | - | - | - | - | - | 143,529 | - | - | (143,529) | - |
| Net assets | | | | | | | | | | | | | | |
| Unrestricted | 1,383,849,039 | (2,384,900) | - | 1,381,464,139 | 96,412,808 | 7,412,080 | 3,204,667 | 2,843,001 | 196,025 | - | 299,229 | 3,713,399 | 23,529 | 1,476,569,086 |
| Temporarily restricted | 233,762,028 | - | - | 233,762,028 | - | - | - | - | - | - | - | - | - | 233,762,028 |
| Permanently restricted | 174,881,284 | - | - | 174,881,284 | - | - | - | - | - | - | - | - | - | 174,881,284 |
| Total net assets | 1,772,492,351 | (2,384,900) | - | 1,770,107,451 | 96,412,808 | 7,412,080 | 3,204,667 | 2,843,001 | 196,025 | - | 299,229 | 3,713,399 | 23,529 | 1,884,212,398 |
| Total liabilities and net assets | $ 2,433,881,484 | $ 745,200 | $ - | $ 2,434,626,684 | $ 101,872,488 | $ 18,975,728 | $ 8,455,547 | $ 3,632,789 | $ 196,025 | $ 34,814,640 | $ 300,036 | $ 5,177,804 | $ (120,000) | $ 2,807,931,770 |

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidating Statement of Operation and Change in Unrestricted Net Assets
## Year Ended August 31, 2018

| | Ann & Robert H. Lurie Children's Hospital of Chicago | Ann & Robert H. Lurie Children's Hospital of Chicago Foundation | Eliminating Entries | Obligated Group | Stanley Manne Children's Research Institute | Pediatric Faculty Foundation | Lurie Children's Medical Group LLC | Almost None Obli. | Children's Hospital of Chicago Medical Center | CBMC Insurance Co. Ltd | Lurie Children's Health Partners Care Coordination | Lurie Children's Primary Care | Eliminating Entries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Operating revenue** | | | | | | | | | | | | | | |
| Patient service revenue, net of contractual allowances and discounts | $ 827,624,019 | $ - | $ - | $ 827,624,019 | $ - | $ 101,604,483 | $ 16,872,587 | $ 4,196,137 | $ - | $ - | $ - | $ 17,873,951 | $ (313,147) | $968,258,040 |
| Provision for doubtful accounts | 10,812,309 | - | - | 10,812,309 | - | 3,754,667 | 417,120 | 9,907 | - | - | - | 58,330 | - | 15,052,483 |
| Net patient service revenue | 817,011,710 | - | - | 817,011,710 | - | 97,849,676 | 16,555,467 | 4,186,230 | - | - | - | 17,815,621 | (313,147) | 953,205,557 |
| Net assets released from restrictions | | | | | | | | | | | | | | |
| Contributions and philanthropy used for program purposes | 32,725,755 | - | - | 32,725,755 | 9,276,490 | 2,351,914 | - | 65,050 | - | - | - | - | (11,693,254) | 32,725,755 |
| Grants and other restricted income used for program purposes | 42,224,268 | - | - | 42,224,268 | 9,794,363 | 4,807,877 | 471,260 | - | - | - | - | - | (13,573,560) | 42,224,268 |
| Board-designated endowment income | 11,244,665 | - | - | 11,244,665 | 1,172,013 | 1,014,784 | 231,540 | - | - | - | - | - | (2,418,317) | 11,244,665 |
| Other operating revenue | 37,056,897 | - | - | 37,056,897 | 119,223 | 38,342,155 | 5,397,682 | 1,033,881 | - | 84,790 | 324,182 | 72,091 | (23,865,710) | 58,764,281 |
| Total operating revenue | 940,262,295 | - | - | 940,262,295 | 10,361,179 | 144,168,486 | 22,655,949 | 5,285,171 | - | 84,790 | 324,182 | 17,887,712 | (51,864,018) | 1,098,184,526 |
| **Operating expenses** | | | | | | | | | | | | | | |
| Salaries, wages, and employee benefits | 422,700,550 | 10,223,732 | (10,223,732) | 422,700,550 | 19,155,856 | 142,236,389 | 21,337,661 | 6,252,185 | 494,144 | - | 1,482,329 | 11,576,218 | (39,412,173) | 585,625,039 |
| Supplies and services | 322,257,355 | 7,081,732 | (7,081,732) | 322,257,355 | 9,308,153 | 28,461,567 | 4,446,189 | 877,982 | 165,292 | 79,646 | 214,328 | 7,008,924 | (14,086,168) | 358,753,271 |
| Depreciation | 62,385,279 | - | - | 62,385,279 | 2,499,625 | - | - | 84,168 | - | - | - | 826,938 | 1,534,340 | 67,110,354 |
| Total operating expenses (income (loss) from operations before interest and amortization | 807,323,184 | 17,305,464 | (17,305,464) | 807,323,184 | 30,963,634 | 170,698,956 | 25,783,750 | 7,214,295 | 659,436 | 79,646 | 1,696,657 | 19,412,080 | (51,964,018) | 1,011,488,664 |
| | 132,939,111 | (17,305,464) | 17,305,464 | 132,939,111 | (11,602,455) | (26,533,470) | (3,127,801) | (1,928,325) | (679,436) | 5,101 | (1,372,495) | (1,524,368) | - | 86,475,862 |
| Interest and amortization of financing costs | 18,256,510 | - | - | 18,256,510 | - | - | - | - | - | - | - | - | - | 18,256,510 |
| Income (loss) from operations | 114,682,601 | (17,305,464) | 17,305,464 | 114,682,601 | (11,602,455) | (26,533,470) | (3,127,801) | (1,928,325) | (679,436) | 5,101 | (1,372,495) | (1,524,368) | - | 68,219,352 |
| Nonoperating income (expense), net | | | | | | | | | | | | | | |
| Investment return | 60,696,454 | - | - | 60,696,454 | - | - | - | - | - | 1,247 | - | - | - | 60,697,701 |
| Unrestricted Contributions and bequests | - | 19,551,523 | - | 19,551,523 | - | - | - | 990,740 | - | - | - | - | - | 20,542,263 |
| Fund-raising expense | - | - | (17,305,464) | (17,305,464) | - | - | - | (196,712) | - | - | - | - | - | (17,502,176) |
| Gain (loss) on disposal of fixed assets | (70,065) | - | - | (70,065) | - | - | - | - | - | - | - | - | - | (70,065) |
| Loss on debt refinancing | (10,400,807) | - | - | (10,400,807) | - | - | - | - | - | - | - | - | - | (10,400,807) |
| Other | (11,509,866) | - | - | (11,509,866) | - | - | - | 18,861 | - | - | - | - | - | (11,490,105) |
| Total nonoperating income(loss) | 38,715,616 | 19,551,523 | (17,305,464) | 40,961,675 | - | - | - | 813,889 | - | 1,247 | - | - | - | 41,776,811 |
| Excess (deficiency) of revenue over expenses | 153,398,217 | 2,246,059 | - | 155,644,276 | (11,602,455) | (26,533,470) | (3,127,801) | (1,114,436) | (679,436) | 6,348 | (1,372,495) | (1,524,368) | - | 109,996,163 |
| Net assets released from restriction used for purchase of property and equipment | 629,787 | - | - | 629,787 | - | - | - | - | - | - | - | - | - | 629,787 |
| Retirement plan-related charge other than net periodic retirement plan expense | 3,518,639 | - | - | 3,518,639 | - | - | - | - | - | - | - | - | - | 3,518,639 |
| Net assets transferred from newly affiliated organization | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | 139,818 | - | - | 139,818 | - | - | - | - | - | - | - | - | - | 139,818 |
| Transfers (to) from affiliates | (101,248,884) | (2,353,151) | - | (103,602,035) | 68,916,888 | 27,068,244 | 4,533,289 | (268,470) | 679,436 | - | 1,668,201 | 1,085,447 | - | - |
| Increase (decrease) in unrestricted net assets | $ 56,636,577 | $ (107,092) | $ - | $ 56,529,485 | $ 57,316,433 | $ 522,774 | $ 1,405,488 | $ (1,402,905) | $ - | $ 6,348 | $ 295,706 | $ (126,921) | $ - | $ 114,884,407 |

# Children's Hospital of Chicago Medical Center and Affiliated Corporations
## Consolidating Statement of Operation and Change in Unrestricted Net Assets
## Year Ended August 31, 2017

| | Ann & Robert H. Lurie Children's Hospital of Chicago | Ann & Robert H. Lurie Children's Hospital of Chicago Foundation | Eliminating Entries | Obligated Group | Stanley Manne Children's Research Institute | Pediatric Faculty Foundation | Lurie Children's Medical Group LLC | Almost Home Kids | Children's Hospital of Chicago Medical Center | CHMC Insurance Co. Ltd | Lurie Children's Health Partners Care Coordination | Lurie Children's Primary Care | [illegible] Entries | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | | | | | | | | | | | | | | |
| Patient service revenue, net of contractual allowances and discounts | $ 760,765,689 | $ - | $ - | $ 760,765,689 | $ - | $ 94,384,541 | $ 16,098,989 | $ 4,240,112 | $ - | $ - | $ - | $ 17,396,946 | $ (306,865) | $ 893,178,622 |
| Provision for doubtful accounts | 11,371,098 | - | - | 11,371,098 | - | 3,927,980 | 500,077 | 65,000 | - | - | - | 133,209 | - | 15,997,374 |
| Net patient service revenue | 739,394,791 | - | - | 739,394,791 | - | 90,456,561 | 15,598,912 | 4,175,112 | - | - | - | 17,263,737 | (306,865) | 877,181,248 |
| Net assets released from restrictions: | | | | | | | | | | | | | | |
| Contributions and philanthropy used for program purposes | 29,506,171 | - | - | 29,506,171 | 8,600,567 | 3,026,641 | - | 163,007 | - | - | - | - | (9,733,205) | 25,568,171 |
| Grants and other restricted income used for program purposes | 41,156,293 | - | - | 41,156,293 | 6,842,862 | 4,829,858 | 447,639 | - | - | - | - | - | (11,920,360) | 41,156,293 |
| Board-designated endowment income | 9,377,423 | - | - | 9,377,423 | 1,553,225 | 777,310 | 217,748 | - | - | - | - | - | (2,548,283) | 9,377,423 |
| Other operating revenue | 35,663,926 | - | - | 35,663,926 | 100,000 | 32,739,131 | 5,244,532 | 992,743 | - | 94,695 | 213,569 | 88,949 | (19,466,450) | 56,666,109 |
| Total operating revenue | 851,100,604 | - | - | 851,100,604 | 14,096,644 | 132,832,792 | 22,108,831 | 5,270,862 | - | 94,695 | 213,569 | 17,350,706 | (43,979,969) | 899,868,754 |
| Operating expenses | | | | | | | | | | | | | | |
| Salaries, wages, and employee benefits | 377,448,152 | 9,752,721 | (9,752,721) | 377,448,152 | 12,725,634 | 132,831,051 | 18,277,092 | 5,665,161 | 603,441 | - | 965,757 | 11,281,650 | (32,402,905) | 526,395,013 |
| Supplies and services | 289,883,227 | 6,400,983 | (6,400,983) | 289,883,227 | 9,826,607 | 29,783,780 | 4,435,200 | 716,940 | 98,628 | 90,638 | 706,449 | 6,894,047 | (13,735,673) | 329,587,843 |
| Depreciation | 63,050,926 | - | - | 63,050,926 | 3,028,987 | - | - | 110,508 | - | - | - | 538,890 | 2,158,809 | 68,907,720 |
| Total operating expenses | 730,482,305 | 16,153,704 | (16,153,704) | 730,482,305 | 25,581,228 | 162,594,831 | 22,712,292 | 6,491,609 | 702,069 | 90,638 | 1,671,206 | 18,534,427 | (43,979,969) | 925,890,576 |
| Income (loss) from operations before interest and amortization | 120,608,299 | (16,153,704) | 16,153,704 | 120,608,299 | (10,684,584) | (29,762,039) | (1,603,461) | (1,220,747) | (702,069) | 4,057 | (1,457,617) | (1,183,721) | - | 73,998,178 |
| Interest and amortization of financing costs | 21,692,969 | - | - | 21,692,969 | - | - | - | - | - | - | - | - | - | 21,692,969 |
| Income (loss) from operations | 98,915,330 | (16,153,704) | 16,153,704 | 98,915,330 | (10,684,584) | (29,762,039) | (1,603,461) | (1,220,747) | (702,069) | 4,057 | (1,457,617) | (1,183,721) | - | 52,305,609 |
| Nonoperating income (expense), net | | | | | | | | | | | | | | |
| Investment return | 86,680,868 | - | - | 86,680,868 | - | - | - | - | - | 1,181 | - | - | - | 86,682,029 |
| Unrestricted Contributions and bequests | - | 17,365,180 | - | 17,365,180 | - | - | - | 827,443 | - | - | - | - | - | 18,192,623 |
| Fund-raising expense | - | - | (16,153,704) | (16,153,704) | - | - | - | (207,675) | - | - | - | - | - | (16,361,379) |
| Gain (loss) on disposal of fixed assets | (264,049) | - | - | (264,049) | 12,000 | - | - | - | - | - | - | - | - | (252,049) |
| Loss on debt refinancing | (9,328,997) | - | - | (9,328,997) | - | - | - | - | - | - | - | - | - | (9,328,997) |
| Other | (13,703,842) | - | - | (13,703,842) | - | - | - | 16,816 | - | - | - | - | - | (13,687,026) |
| Total nonoperating income(loss) | 63,384,180 | 17,365,180 | (16,153,704) | 64,595,656 | 12,000 | - | - | 636,084 | - | 1,181 | - | - | - | 65,244,901 |
| Excess (deficiency) of revenue over expenses | 162,299,510 | 1,211,476 | - | 163,511,386 | (10,672,584) | (29,762,039) | (1,603,461) | (584,663) | (702,069) | 5,238 | (1,457,617) | (1,183,721) | - | 117,550,510 |
| Net assets released from restrictions used for purchase of property and equipment | 942,978 | - | - | 942,978 | - | - | - | - | - | - | - | - | - | 942,978 |
| Retirement plan-related change other than net periodic retirement plan expense | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net assets transferred from newly affiliated organization | 16,424,784 | - | - | 16,424,784 | - | - | - | - | - | - | - | - | - | 16,424,784 |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers (to) from affiliates | 125,859 | - | - | 125,859 | - | - | - | - | - | - | - | - | - | 125,859 |
| Increase (decrease) in unrestricted net assets | (97,164,293) | (1,062,785) | - | (98,227,078) | 82,260,942 | 32,307,837 | 574,186 | 797,567 | 702,069 | - | 1,814,020 | (49,483) | - | - |
| | $ 82,629,036 | $ 148,691 | $ - | $ 82,777,729 | $ 81,608,358 | $ 2,545,798 | $ (1,029,275) | $ 212,904 | $ - | $ 5,238 | $ 156,403 | $ (1,233,204) | $ - | $ 135,843,931 |

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**Criterion 1120.130**

**Financial Viability**

**Rating Agency Reports**

**Fitch Ratings**

**S&P Global**

# FITCH RATES LURIE CHILDREN'S HOSPITAL'S (IL) SERIES 2017 BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-Chicago-02 May 2017: Fitch Ratings has assigned a 'AA' rating to $133 million of series 2017 revenue refunding bonds expected to be issued by the Illinois Finance Authority (the authority) on behalf of Ann & Robert H. Lurie Children's Hospital of Chicago (Lurie Children's, formerly known as Children's Memorial Hospital).

Additionally, Fitch has upgraded the rating on approximately $370.9 million of bonds issued by the authority on behalf of Lurie Children's to 'AA' from 'AA-.'

Proceeds of the series 2017 bonds will be used to refund all or a portion of the series 2008B bonds and to pay costs of issuance. Pro forma maximum annual debt service (MADS) is expected to equal $24.6 million. The bonds are expected to price the week of May 8 via negotiation.

The Rating Outlook is Stable.

SECURITY

Bond payments are secured by a pledge of the gross receipts of the obligated group.

KEY RATING DRIVERS

STRONG OPERATING PROFITABILITY: The upgrade reflects Lurie Children's strengthened operating profitability since opening its new hospital in 2012, its strong national reputation and improved liquidity metrics. Average operating EBITDA margin increased to 14.9% between fiscal years 2014 and 2016 compared to 11.7% between fiscal years 2009 and 2012.

LEADING MARKET POSITION: Lurie Children's is a nationally recognized children's hospital and is the leading provider of pediatric services in the Chicagoland area. The hospital's competitive position is enhanced by its close affiliation with and proximity to Northwestern Memorial Hospital (NMH) and Northwestern University's Feinberg School of Medicine (FSM).

MODERATE DEBT BURDEN: Lurie Children's pro forma debt burden is moderate with MADS equal to 2.7% of fiscal 2016 revenue. Strong cash flows provided for robust debt service coverage by EBITDA of 6.9x in fiscal 2016 and 8.0x in the six month interim period ending Feb. 28, 2017 (interim period).

SOLID LIQUIDITY: Liquidity metrics remain solid with 348 days cash on hand, 32.1x cushion ratio and 213.9% cash to debt. Capital spending is projected to increase but is not expected to materially impact liquidity metrics.

HIGH MEDICAID EXPOSURE: Similar to other children's hospitals, Lurie Children's has high exposure to Medicaid funding with 49.8% of gross revenue in 2016 attributable to Medicaid.

RATING SENSITIVITIES

SUSTAINED CREDIT PROFILE: Fitch expects Lurie Children's to maintain its solid profitability, liquidity and coverage metrics while executing its capital projects.

## CREDIT PROFILE

Lurie Children's operates a 288 bed pediatric hospital in Chicago. Additional operations include 13 outpatient centers, a medical group with over 500 employed physicians, a research center and a philanthropic foundation. Total consolidated operating revenues increased 29.4% since opening the replacement hospital in 2012 to $922 million in fiscal 2016, including a 7.9% year over year increase despite inpatient capacity constraints. Fitch's analysis is based upon Lurie Children's consolidated financial statements. The obligated group accounted for 85.2% of consolidated operating revenue and 95.5% of consolidated total assets in fiscal 2016.

## STRONG OPERATING PROFITABILITY

Operating profitability has been consistently strong since the opening of the new hospital with operating EBITDA margin averaging 14.9% between fiscal years 2014 and 2016 compared to 11.7% between fiscal years 2009 and 2012. Operating EBITDA margin increased to 15.2% in fiscal 2016 from 14.5% in fiscal 2015, exceeding Fitch's 'AA' category median of 11.7%. Operating EBITDA margin further improved to 16.5% in the interim period.

The strong operating profitability in fiscal 2016 and the interim period reflects a combination of continued expense management initiatives, improved payor mix and strong volume growth in inpatient admissions, surgery and outpatient visits. Fitch notes that the increased inpatient volumes occurred despite existing capacity constraints. The continued volume growth reflects Lurie Children's strong reputation, investments in satellite ambulatory facilities and partnerships with Chicago area hospitals. Management is budgeting for operating EBITDA margin to equal 14.4% in fiscal 2017.

## LEADING MARKET POSITION

Lurie Children's is a nationally recognized children's hospital and the leading provider of complex tertiary and quaternary pediatric services in the seven-county Chicago metropolitan area. The hospital is ranked as the sixth best children's hospital by U.S. News and World Report and is nationally ranked in the top 20 in nine pediatric specialties. The leading market position was further bolstered by the opening of its new replacement hospital in 2012 on the campus of NMH and adjacent to FSM in Chicago's affluent Streeterville neighborhood. Lurie Children's has an increasing international presence, having treated 247 children from 47 different countries in 2016.

Reflecting its strong reputation, Lurie Children's market share more than doubled from 12% in 2003 to 28.1% in 2015. No other hospital in the service area holds a market share greater than 11.8% in pediatric discharges. Additionally, the hospital maintains a leading inpatient market share in nearly every pediatric specialty and sub-specialty.

Lurie Children's market position is enhanced by its affiliations with and proximity to NMH, FSM and the Shirley Ryan AbilityLabs (fka Rehabilitation Institute of Chicago). The affiliations strengthen Lurie Children's transitional care capabilities, physician recruiting and alignment initiatives and research operations. As FSM's primary pediatric teaching hospital, virtually all of Lurie Children's hospital-based physicians hold faculty appointments at the medical school. In addition to its affiliation with Northwestern, Lurie Children's has extended its geographic reach through strategic partnerships with 15 hospitals and Lurie Children's 13 outpatient centers located throughout the Chicago metropolitan area.

## MODERATE DEBT BURDEN

Lurie Children's leverage and debt burden metrics have moderated significantly since issuing its series 2008 bonds to finance construction of the new hospital. Debt to capitalization decreased

from 51% at Aug. 31, 2009 to 20.7% at Feb. 28, 2017. MADS as a percent of revenue is moderate at 2.7% in fiscal 2016 relative to Fitch's 'AA' category median of 2.2%. Reflecting the strong cash flows, MADS coverage by EBITDA equaled a robust 6.9x in fiscal 2016 and 8.0x in the interim period, easily exceeding Fitch's 'AA' category median of 6.0x. Lurie Children's doesn't anticipate issuing any additional debt in the foreseeable future.

## SOLID LIQUIDITY METRICS

Unrestricted cash and investments increased 8.7% since fiscal 2015 to $789 million at Feb. 28, 2017. The increase was primarily due to strong operating cash flows and investment returns. Moreover, unrestricted liquidity has increased 39.7% since the opening of the replacement hospital in 2012. Liquidity metrics are solid with 348 days cash on hand, 32.1x cushion ratio and 213.9% cash to debt and compare favorably with Fitch's 'AA' category medians of 277.4 days, 29.9x and 197.9%.

After a period of decreased capital spending following the completion of the new hospital, capital spending is expected to increase over the next five years, totaling $450 million, with the majority expended in the next two to three years. Capital spending had averaged $34.5 million between fiscal years 2013 and 2016. However, projected capital spending is manageable relative to Lurie Children's historical cash flows. Significant capital projects include a new research facility, a new ambulatory surgery center in Chicago's north suburbs and expanded inpatient capacity to accommodate volume growth (pending certificate of need approval expected in May 2017).

Lurie Children's has operated at capacity since November 2015, limiting inpatient volume growth. Fitch views the projects favorably as they will further strengthen Lurie Children's market position and credit profile while expanding its revenue base to accommodate existing demand for its services. The projects are expected to be funded by cash flows and both restricted and unrestricted funds, without having a material impact on liquidity metrics.

## DEBT PROFILE

The series 2017 bond issuance is a refunding and will not materially impact the hospital's total debt outstanding. Lurie Children's had $368.9 million of total debt outstanding at Feb. 28, 2017. The debt portfolio consists of 100% underlying fixed-rate bonds. The hospital is not counterparty to any swap agreements.

## DISCLOSURE

Lurie Children's covenants to provide annual disclosure within 150 days of fiscal year end and quarterly disclosure within 60 days of each of the first three fiscal quarter-ends. Disclosure is provided through the Municipal Securities Rule Making Board's EMMA website.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/site/re/750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/site/re/866807

S&P Global
Ratings

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# Illinois Finance Authority Ann & Robert H. Lurie Children's Hospital of Chicago; Hospital

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# Illinois Finance Authority
# Ann & Robert H. Lurie Children's Hospital of Chicago; Hospital

| Credit Profile | | |
|---|---|---|
| US$133.13 mil rev rfdg bnds (Ann & Robert H. Lurie Children's Hosp of Chicago) ser 2017 due 08/31/2039 | | |
| *Long Term Rating* | AA-/Stable | New |
| **Illinois Finance Authority, Illinois** | | |
| Ann & Robert H. Lurie Children's Hosp of Chicago, Illinois | | |
| Illinois Finance Authority (Ann & Robert H. Lurie Children's Hospital of Chicago) (AMBAC) (SEC MKT) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| **Series 2008A** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |
| **Series 2008B** | | |
| *Long Term Rating* | AA-/Stable | Upgraded |
| Many issues are enhanced by bond insurance. | | |

## Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on the Illinois Finance Authority's series 2008A and 2008B fixed-rate bonds, issued for Ann & Robert H. Lurie Children's Hospital of Chicago (Lurie Children's Hospital, formerly Children's Memorial Hospital). At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the Authority's $133.13 million series 2017 fixed-rate bonds issued for Lurie Children's Hospital. Assured Guaranty Ltd. insures the series 2008A bonds. Children's Hospital of Chicago Medical Center is the parent organization for the overall system and we refer to the combined system in this report as Lurie Children's. The outlook is stable.

The rating action reflects our view of Lurie Children's strengthening financial profile and improving business position. We expect some increased capital spending over the next couple of years, but we note that Lurie Children's has further increased its unrestricted reserves in the past year to provide additional cushion as it completes these projects.

Proceeds from the series 2017 fixed-rate revenue bonds, along with an $11 million equity contribution by Lurie Children's, will go toward the advance refunding of the majority of Lurie Children's series 2008B revenue bonds. All debt outstanding will remain fixed rate; there is no direct purchase debt and there are no swaps outstanding.

More specifically, we assessed Lurie Children's enterprise profile as very strong, reflecting increasing market share in a very broad service area that incorporates Chicago and the surrounding counties, albeit with ongoing competition from other academic medical centers and larger systems, coupled with a large medical staff. We assessed the financial profile as very strong, which reflects a conservative debt structure, ongoing improvement in balance sheet metrics, and






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healthy cash flow leading to solid pro forma debt service coverage. We think these combined credit factors lead to an indicative rating of 'aa-' and final rating of 'AA-'. We understand that the upcoming capital spending will focus on enhancing Lurie Children's research enterprise as well as adding clinical space for critical care beds. We believe both of these investments will further enhance Lurie Children's position in the region, especially given the competitive nature of the overall pediatrics market in the broader service area, and, over time, possibly enhance its national reputation. Despite financial risks related to research, including the large capital investment, we believe Lurie Children's is taking a measured and controlled approach from an operating investment perspective.

Specifically, the 'AA-' ratings further reflect our view of Lurie Children's:

- Healthy balance sheet, as reflected by pro forma cash on hand of 341 days at Feb. 28, 2017 and unrestricted reserves to pro forma long-term debt of 219%;
- Pro forma maximum annual debt service (MADS) coverage, which has been over 6x for the past several fiscal years as a result of good cash flow (and a focus on revenue and expense management) as well as a reduction in debt in fiscal 2014;
- Continued good business position as the only free-standing pediatric acute care facility in the state, with a strong relationship with Northwestern University's (AAA/Stable) Feinberg School of Medicine and Northwestern Memorial Hospital (AA+/Stable), and with historically increasing market share of 28% because of physician growth, growing outpatient satellite facilities, and expanding clinical affiliations with general acute care hospitals in the seven-county service area; and
- Very conservative debt structure profile.

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

- Higher capital spending during the next few years related to research and clinical expansion (although the system's historically strong cash flow and project management lead us to expect that the balance sheet should remain consistent with medians);
- Operating income that is dependent on supplemental funds through the Illinois provider fee program coupled with moderate Medicaid exposure in a state with fiscal challenges (partly offset by Lurie Children's status as a safety net hospital, which has allowed it to minimize Medicaid rate cuts historically); and
- Ongoing competition in the broader service area from other systems and academic medical centers that are continuing to invest in their pediatric services.

The bonds are secured by gross receipts of the obligated group, which consists of Lurie Children's Hospital and the Ann & Robert H. Lurie Children's Hospital of Chicago Foundation (the foundation). The obligated group accounts for 95% of Lurie Children's total assets, 85% of its operating revenue, and all of its operating income. Consequently, our rating is based on our view of Lurie Children's group credit profile and the obligated group's core status. Accordingly, the long-term rating is at the level of the group credit profile. This analysis is based on the consolidated system. The financial results used in this report are for Lurie Children's, and fiscal 2016 results are for the audited fiscal year ended Aug. 31, 2016.

Entities outside of the obligated group include Stanley Manne Children's Research Institute (renamed from Ann & Robert H. Lurie Children's Hospital of Chicago Research Center as a result of a philanthropic commitment); Pediatric Faculty Foundation Inc., an employed medical group of mostly pediatric and pediatric subspecialty physicians, Lurie Children's Medical Group LLC (formerly Children's Memorial Medical Group), an employed group of physicians for





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dentistry, pathology, psychiatry, and medical imaging; Lurie Children's Primary Care LLC, a newer organization that employs community primary care physicians in three locations; Almost Home Kids, an entity that provides transitional and respite care for children with medical complexity outside of the acute care setting; Children's Hospital of Chicago Medical Center (parent); Lurie Children's Health Partners Care Coordination, an organization to coordinate and provide health care for medically complex children; and CMMC Insurance Co. Ltd., an offshore insurance captive.

## Outlook

The stable outlook reflects our view of Lurie Children's continued sound business position, improved balance sheet, solid cash flow margins, and good pro forma coverage. We anticipate that Lurie Children's will continue to garner volumes and maintain its sound business position as its affiliate and partner strategy continues and that the growing research investment will be managed without significant margin and cash flow compression. We also anticipate that Lurie Children's will manage its capital spending within forecast guidelines.

### Upside scenario

Given the ongoing competition in the service area and capital spending as well as the recent positive rating action, a higher rating is unlikely over the next two years. However, we could consider a higher rating if unrestricted reserves further strengthen, debt levels further decrease, and Lurie Children's continues to expand its business position in the current competitive environment.

### Downside scenario

We don't anticipate pressure on the rating during the next one to two years, but could consider a lower rating if MADS coverage drops to less than 4.5x on a sustained basis, operating margins weaken, or unrestricted reserves decline as a result of capital investments such that they are no longer commensurate with the rating. In addition, and although not anticipated, weakening in Lurie Children's business position could pressure the rating.

## Enterprise Profile

### Industry risk

Industry risk addresses our view of the health care sector's overall cyclicality and competitive risk and growth through application of various stress scenarios and evaluation of barriers to entry; the level and trend of industry profit margins; risk from secular change and substitution of products, services, and technologies; and risk in growth trends. We believe the health care services industry represents an intermediate credit risk when compared with other industries and sectors.

### Economic fundamentals

Lurie Children's is located in downtown Chicago, but Lurie Children's draws patients from Cook County as well as the surrounding six counties. Consequently, management views its market as broadly serving a population of about 2 million children, with the overall seven-county population closer to 8.5 million. We view the economic fundamentals of the area as healthy, given the broad service area and diverse economic base. While we note that Cook County has experienced population declines, several of the surrounding counties are experiencing growth and above-average

economics. We expect no significant changes to the overall service area from a population or economic perspective during the next few years, although we recognize some possible pressure that state issues are causing for the overall economic environment.

### Market position and strategy

Overall pediatric services in the greater Chicago market continue to consolidate, specifically those services oriented toward tertiary and quaternary services. However, we believe Lurie Children's, with a leading market share and with depth of services, continues to hold a solid position, albeit in a competitive market with several academic medical centers and hospitals and systems increasing their pediatric presence. Lurie Children's remains the only stand-alone acute care pediatric facility in the state; its market share increased to 28.8% in 2014 and dipped to 28.1% in 2015 but was still up from 23% prior to the opening of the new hospital. Outpatient market share is also increasing as Lurie Children's overall network of care continues to expand. As mentioned, several other academic medical centers in the service area, including University of Chicago's Comer Children's Hospital and Rush University Health System, maintain a pediatric presence, but Advocate Children's Hospital (ACH, part of Advocate Health Care) has the next-largest pediatric market share after Lurie Children's, at just under 20%. (Advocate is marketing its two main pediatric facilities, at Lutheran General in Park Ridge and Christ Hospital in Oaklawn, together.) Lurie Children's large active physician base of almost 1,300, including approximately 500 employed pediatric care and pediatric subspecialty physicians, helps support the hospital with its breadth and depth of specialties and Lurie Children's larger research and educational mission. Lurie Children's has also increased the number of its nonfaculty employed primary care physicians with the purchase of a large primary care group in fiscal 2016. Lurie Children's relationship with Northwestern University (where approximately almost all of the employed physicians are pediatric faculty on the Feinberg School of Medicine) and growing affiliation strategy with general acute care hospitals continue to enhance and broaden its position as an academic medical center with access points in the broader service area. The main hospital facility in Chicago consists entirely of private rooms that are more than 50% intensive care beds, reflecting the complex services it provides.

As mentioned, management and the board have specific research strategies as areas of focus for the organization, and we believe that, if executed well, this could eventually contribute to strengthening specific clinical services as well as Lurie Children's regional and national reputation. The organization has a total research investment of just around $60 million annually, funded from a variety of sources, including outside grants, fundraising, and operating cash flow (the last of which funds about 36% of the budget). With the capital investment in additional research space over the next couple of years, we anticipate that investment in research will grow, largely from contributions as well as ongoing fundraising and use of temporarily restricted funds (around $200 million at the most recent interim financial statements). The new research space brings research near the main hospital campus and is part of a larger research tower being built by Northwestern University. At the start, Lurie Children's portion will have two floors built out for research while the remaining two floors will be shelled, thus increasing the total potential capacity of research space to 165,000 square feet (from 125,000 square feet currently).

Management and the board are taking actions to best position the organization for potential state Medicaid changes as well as for potential insurance-driven changes to hospital payments. To that end, Lurie Children's established a clinically integrated network that is working with the abovementioned care coordination entity. With its breadth and

depth of services as well as its incorporation of some risk-based contracts (still with low dollar amounts, but with some upside and limited downside), management believes that it is taking the appropriate steps to gain experience and succeed under a reimbursement methodology that is likely to evolve toward payments based on quality care at lower costs. We view this as especially important given the larger competitive market where a nonacademic medical center, such as Advocate, is making inroads into pediatric care.

With the continued expansion of various hospital affiliations and partners in the surrounding service areas, Lurie Children's has experienced generally increasing volumes (over the longer trend). With occupancy above 70% consistently, management expects that the volumes related to tertiary/quaternary levels of care will increase and thus that the upcoming clinical expansion of intensive care beds will aid in managing patients.

**Table 1**

Ann & Robert H. Lurie Children's Hospital of Chicago Utilization

| | --Six-month interim ended Feb. 28-- | --Fiscal year ended Aug. 31-- | | |
|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 |
| PSA population | N.A. | 2,016,153 | N.A. | N.A. |
| PSA market share % | N.A. | 28.1 | 28.8 | 26.9 |
| Inpatient admissions* | 6,571 | 12,428 | 12,139 | 13,035 |
| Equivalent inpatient admissions | 11,022 | 20,381 | 20,109 | 20,693 |
| Emergency visits | 33,128 | 62,228 | 63,173 | 55,908 |
| Inpatient surgeries | 2,338 | 5,046 | 4,865 | 5,344 |
| Outpatient surgeries | 6,952 | 14,129 | 13,071 | 11,981 |
| Medicare case mix index | 1.5800 | 1.6000 | 1.6400 | 1.5700 |
| FTE employees | 4,363 | 4,178 | 4,067 | 3,898 |
| Active physicians | 1,307 | 1,295 | 1,147 | 1,095 |
| Top 10 physicians admissions % | N/A | N/A | N/A | N/A |
| Medicare %¶ | 0.3 | 0.3 | 0.8 | 1.5 |
| Medicaid %¶ | 28.8 | 30.3 | 30.7 | 29.3 |
| Commercial/blues %¶ | 67.0 | 65.5 | 66.5 | 66.6 |

*Exclude newborns, psychiatric, and rehabiliation admissions. ¶Based on net revenue. FTE--Full-time equivalent. N.A.--Not available. N/A--Not applicable. PSA--Primary service area.

## Management

Most of Lurie Children's senior management team has been stable during the past several years although we note some key additions, including a new development officer, Dr. Grant Stirling (who came from the SickKids Foundation, which raised funds for the Hospital for Sick Children in Toronto), and new chief research officer, Dr. Thomas Shanley, who is also the chairman of the Department of Medicine. Most recently, Dr. Shanley was at the University of Michigan Health System. We believe that Dr. Shanley will help support some of Lurie Children's key strategies around research growth. We view the overall management team and governance as very capable with a strong track record in challenging times (including weathering the changing economic environment as Lurie Children's began building its replacement hospital several years ago). In addition, management has surpassed or met its budget for the past 20 years, which we also view as representative of good planning and good management of risk. Management also has a history of surpassing many of its long-range financial ratios. In addition to research and fundraising, Management has

focused on growth of the larger network and is working to ensure appropriate capacity at the main hospital. Management continues its focus on positioning the organization for a potentially lower reimbursement environment and in managing some risk for its different patient populations, as that shift is likely to come about over the next several years from payers and potentially the state. We also view this as an important area of focus given the competition in the market and if, over time, competitors are able to show they can manage certain pediatric care at lower costs. Finally, we believe that management and the board have done an excellent job of advocating for the organization both in the state and nationally, and we view this ongoing focus as important in maintaining reimbursement levels for the hospital. As mentioned in prior reports, Lurie Children's is still governed by a large 110-member board, with approximately 20 members forming the executive committee.

## Financial Profile

### Financial policies

The financial policies assessment of neutral reflects our opinion that financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure are appropriate for an organization of this type and size and are not likely to hamper the organization's ability to pay debt service.

### Financial performance

Lurie Children's continues to perform at a very solid level and ahead of budget despite state challenges (although state budgetary challenges could cause ongoing pressure to Medicaid over time). Lurie Children's has experienced a fairly stable payer mix, although incremental improvement in the shift away from Medicaid has helped Lurie Children's financial results in interim 2017. In addition, continued growth of services in the outpatient and clinic areas has helped strengthen demand for the higher-end care that Lurie Children's is well positioned to provide given its depth of specialists and programs. Management has also focused on improving operations by reducing expenses or improving revenue opportunities for the past couple of years. While management plans to increase research investment (in conjunction with a larger capital project to expand research space), we don't anticipate that operating income will be pressured, as most of the increased funding will come from fundraised dollars as well as receipt of outside funding from the National Institutes of Health or other grant sources. Lurie Children's expects operating and operating cash flow margins to perhaps decline from recent levels but to remain healthy at around 4.0% and 13.5%, respectively, relatively consistent with past years' projections.

Investment income and unrestricted contributions have historically supported nonoperating income, and both have been fairly steady over recent years. Along with good cash flow and nonoperating income, pro forma MADS coverage remains healthy at over 6x in recent years. We note that fiscal 2016 nonoperating income excludes the one-time sale of Lurie Children's prior hospital in Lincoln Park ($50.8 million) given that we consider it extraordinary/nonrecurring income. Debt burden continues to decrease and was at 2.6% fiscal 2016. We anticipate good MADS coverage hereafter given the projected good cash flow and lack of debt plans.

### Liquidity and financial flexibility

Lurie Children's unrestricted reserves continued to grow as a result of good cash flow, even with capital spending starting to pick up after much reduced spending since the opening of the new hospital in 2012. Unrestricted reserves

grew 10% in fiscal 2016 to $768 million and a further 2% as of Feb. 28, 2017 to $786 million, totaling close to 350 days compared with 340 days at the end of fiscal 2015. (While management has set aside reserves to account for most of the self-insurance professional liability, S&P Global Ratings has made some additional adjustments to unrestricted reserves to ensure that the full self-insurance professional liability was accounted for.) Unrestricted reserves to long-term debt also has improved to more than 215% at Feb. 28, 2017, and we expect it to continue to strengthen given that management has no plans to issue debt over the next couple of years. We also note that the state, with its ongoing fiscal pressures, is behind with Medicaid payments to all hospital providers and thus that a slightly higher-than-normal receivable affects unrestricted reserves.

Lurie Children's actual capital spending has remained relatively low, but has started to pick up in fiscal 2016 and through 2017 compared with the much lighter years after the hospital opening. However, as discussed in our report last year, we expect capital spending to be higher through 2018 mostly as a result of capacity buildout for clinical services (specifically 44 additional critical care beds and four neonatal intensive care services) as well as plans (also discussed last year) to build out additional research space in a new building that will be shared with Northwestern University and Northwestern Medicine. In addition, Lurie Children's will build a smaller ambulatory surgery center in the north suburban Northbrook area. Costs for each of the above projects (and related enabling projects) are $67.3 million, $160.0 million, and $17.8 million, respectively. All of the abovementioned projects will be funded from cash flow, fundraised dollars, or temporarily restricted funds. Specifically, the capital budget (including routine and project spending) for fiscal 2017 ramps up to about $130 million (around 2x annual depreciation expense) with capital expenditures remaining relatively high at about $170 million through fiscal 2018 as a result of the completion of the research project and clinical space (and related projects). While unrestricted reserves may take a slight dip over the next year or so as a result of the higher capital spending, we anticipate that they will grow over time as a result of continued healthy operating cash flow per management's long-range financial plan, and we expect cash on hand to remain within rating medians. And while there could be a couple smaller projects on the horizon, management has the necessary pause points to reflect on cash flow actual results versus expectations and balance sheet metrics before moving forward. Overall, we believe that the $450 million of capital spending over the next five years is manageable, but will require continued strong cash flow.

Lurie Children's has had a strong history of successful fundraising ("Heroes for Life," for the new hospital and related programs, raised $675 million in an eight-year campaign), and with the recently hired new development officer fundraising will be an area of increased focus. Despite taking a break from a larger formal capital campaign following the opening of the new tower, total annual fundraising in recent years has been $20 million to $30 million net of expenses. Management is reviewing its fundraising plans as it prepares for its next campaign, but management is still working through the details.

### Debt and contingent liabilities

Overall, Lurie Children's debt levels are decreasing incrementally as debt amortizes, albeit with a more modest principal amortization schedule through the next five years, and unrestricted net assets continue to grow. We also continue to view the overall structure as quite conservative, with no debt-related contingent liquidity risks (including no direct placement debt and no swaps). As of Feb. 29, 2017, Lurie Children's had $364 million of long-term debt outstanding with leverage improving to 20%. Lurie Children's has a frozen cash balance pension plan and funding has

remained relatively stable at 83% at fiscal year-end 2016 (down slightly from the prior year). The overall liability is around $34 million, which is meaningful but not overly burdensome. We also believe that as the defined benefit plan is frozen (and is a cash balance plan), the plan should gradually yield expense savings.

While management has outlined some additional capital spending during the next few years (see the "Liquidity and financial flexibility" section above), Lurie Children's anticipates no additional new-money debt during the next couple of years to fund those plans.

**Table 2**

Ann & Robert H. Lurie Children's Hospital of Chicago Financial Summary

| | --Six-month interim ended Feb. 28-- | --Fiscal year ended Aug. 31-- | | | 'AA-' rated stand-alone hospital medians |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2015 |
| **Financial performance** | | | | | |
| Net patient revenue ($000s) | 418,122 | 793,934 | 725,752 | 706,173 | 865,171 |
| Total operating revenue ($000s) | 473,597 | 911,233 | 844,317 | 817,193 | MNR |
| Total operating expenses ($000s) | 448,957 | 872,093 | 816,994 | 788,263 | MNR |
| Operating income ($000s) | 24,640 | 39,140 | 27,323 | 28,930 | MNR |
| Operating margin (%) | 5.20 | 4.30 | 3.24 | 3.54 | 5.80 |
| Net nonoperating income ($000s) | 27,821 | 39,220 | 44,177 | 35,660 | MNR |
| Excess income ($000s) | 52,461 | 78,360 | 71,500 | 64,590 | MNR |
| Excess margin (%) | 10.46 | 8.24 | 8.05 | 7.57 | 8.80 |
| Operating EBIDA margin (%) | 14.90 | 14.21 | 13.46 | 14.17 | 12.30 |
| EBIDA margin (%) | 19.62 | 17.75 | 17.76 | 17.76 | 15.30 |
| Net available for debt service ($000s) | 98,369 | 168,665 | 157,833 | 151,465 | 129,972 |
| Maximum annual debt service (MADS, $000s) | 24,566 | 24,566 | 24,566 | 24,566 | MNR |
| MADS coverage (x) | 8.01 | 6.87 | 6.42 | 6.17 | 6.40 |
| Operating-lease-adjusted coverage (x) | 6.68 | 5.43 | 5.20 | 5.06 | 4.70 |
| **Liquidity and financial flexibility** | | | | | |
| Unrestricted reserves ($000s) | 785,982 | 767,735 | 700,403 | 667,917 | 662,366 |
| Unrestricted days' cash on hand | 346.7 | 348.5 | 339.5 | 336.3 | 350.6 |
| Unrestricted reserves/total long-term debt (%) | 215.9 | 210.9 | 189.9 | 178.9 | 268.2 |
| Unrestricted reserves/contingent liabilities (%) | N/A | N/A | N/A | N/A | 516.1 |
| Average age of plant (years) | 6.4 | 6.1 | 8.5 | 7.5 | 10.5 |
| Capital expenditures/depreciation and amortization (%) | 89.7 | 75.6 | 36.8 | 30.7 | 129.8 |
| **Debt and liabilities** | | | | | |
| Total long-term debt ($000s) | 364,028 | 363,975 | 368,758 | 373,297 | MNR |
| Long-term debt/capitalization (%) | 20.5 | 21.4 | 22.9 | 23.2 | 23.6 |
| Contingent liabilities ($000s) | 0 | 0 | 0 | 0 | MNR |
| Contingent liabilities/total long-term debt (%) | 0 | 0 | 0 | 0 | 38 |

**Table 2**

Ann & Robert H. Lurie Children's Hospital of Chicago Financial Summary (cont.)

| | --Six-month interim ended Feb. 28-- | --Fiscal year ended Aug. 31-- | | | 'AA-' rated stand-alone hospital medians |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2015 |
| Debt burden (%) | 2.45 | 2.58 | 2.70 | 2.82 | 2.30 |
| Defined benefit plan funded status (%) | N.A. | 82.66 | 84.58 | 88.11 | 74.50 |
| **Pro forma ratios** | | | | | |
| Unrestricted reserves ($000s) | 774,126 | N/A | N/A | N/A | MNR |
| Total long-term debt ($000s) | 353,835 | N/A | N/A | N/A | MNR |
| Unrestricted days' cash on hand | 341.44 | N/A | N/A | N/A | MNR |
| Unrestricted cash/total long-term debt (%) | 218.78 | N/A | N/A | N/A | MNR |
| Long-term debt/capitalization (%) | 20.07 | N/A | N/A | N/A | MNR |

MNR--Median not reported. N/A--Not applicable.

**Criterion 1120.140**

**Economic Feasibility**

**ATTACHMENT 36**

| Project Costs and Sources of Funds | | | |
|---|---|---|---|
| **USE OF FUNDS** | **CLINICAL** | **NON-CLINICAL** | **TOTAL** |
| Pre-planning Costs | $0 | $0 | $0 |
| Site Survey and Soil Investigation | $0 | $0 | $0 |
| Site Preparation | $0 | $0 | $0 |
| Off Site Work | $0 | $0 | $0 |
| Modernization Contracts | $0 | $0 | $0 |
| New Construction Contracts | $919,218 | $7,426,828 | $8,346,046 |
| Contingencies | $87,216 | $705,658 | $792,874 |
| A/E Fees | $68,200 | $551,800 | $620,000 |
| Consultant Fees | $97,454 | $788,489 | $885,943 |
| Movable Equipment | $1,965,720 | $806,960 | $2,772,680 |
| Bond Issuance Expense | $0 | $0 | $0 |
| Net Interest Expense During Construction | $0 | $0 | $0 |
| FMV Leased Space | $1,366,794 | $11,058,606 | $12,425,400 |
| Other Capital Costs | $182,217 | $1,474,300 | $1,656,517 |
| Acquisition of Building | $0 | $0 | $0 |
| **TOTAL USES OF FUNDS** | **$4,686,819** | **$22,812,642** | **$27,499,460** |
| **SOURCE OF FUNDS** | **CLINICAL** | **NON-CLINICAL** | **TOTAL** |
| Cash and Securities | $2,569,119 | $12,504,941 | $15,074,061 |
| Pledges | $0 | $0 | $0 |
| Gifts and Bequests | $0 | $0 | $0 |
| Mortgages/Bonds | $0 | $0 | $0 |
| Leases | $2,117,700 | $10,307,700 | $12,425,400 |
| Governmental Appropriations | $0 | $0 | $0 |
| Grants | $0 | $0 | $0 |
| Other | $0 | $0 | $0 |
| **TOTAL SOURCES OF FUNDS** | **$4,686,819** | **$22,812,642** | **$27,499,460** |

**LIST OF ITEMS AND COST**

**New Construction Contracts - $8,346,046**

The new construction contracts include the cost of the construction contract to complete the project including the general contractor's overhead and profit.

Of the total new construction cost, $919,218 is the clinical new construction cost. The total clinical DGSF of the project is 3,509. The clinical cost/SF is $262.

**Contingencies - $792,874**

Allowance for unforeseen conditions.

Of the total amount, $87,216 is the clinical contingency cost. This amounts to 9.5% of the clinical new construction cost.

Together, the clinical new construction cost and the clinical contingency cost are $1,006,434. The total clinical DGSF of the project is 3,509. The clinical new construction cost + contingency cost/SF is $287.

**A/E Fees - $620,000**

The architectural and engineering fees include the design services for schematic design and design development, the execution of construction documents, and construction administration services. The architectural fees represent $530,500 of the total A/E cost and include design services for the architecture, interior design, engineering coordination and architectural project management.
The engineering fees represent $89,500 of the total A/E cost and include design of all building systems including electrical, mechanical, plumbing, fire protection, telecommunications and security.

Of the total amount, $68,200 is the clinical architectural and engineering fee. This amount represents 6.8% of the clinical new construction cost plus contingencies.

**Consultant Fees – $885,943**

The consulting and other fees include services for various types of consulting and professional expertise plus the application costs associated with the required regulatory reviews.

The consulting fees include:

- Project Management Services
- CON Advisory Services
- HVAC Commissioning Services
- Medical Equipment Planning Services

- Life Safety Advisor
- Institutional Master Files Management

The application costs include the cost associated with the following reviews and permits:

- CON Filing Fee
- Village of Skokie Building Permit Application Fee

Of the total amount, $97,454 is the clinical consultant fee cost. This amount represents 11% of the clinical new construction cost.

**Movable Equipment - $2,772,680**

The movable equipment cost includes all medical equipment and fixtures to equip the primary care, specialty care and ancillary services. The clinical movable equipment represents $1,965,720 of the total movable equipment. The breakdown between clinical and non-clinical moveable equipment is below. Non-medical equipment has been captured in "Other Capital Costs."

Clinical Moveable Equipment

- Cardiac Diagnostics (ECG, Echo) = $494,060
    - Echocardiography ultrasound
    - Echo bed
    - Gel warmer
    - Electrocardiograph
    - Miscellaneous associated equipment
- Cardiac Rehab = $115,400
- Orthopedics Diagnostics (X-Ray) = $468,133
    - GE Discovery Digital Radiographic System with Wall Bucky
    - Chest chair
    - Spine chair
    - Octostop board
    - Apron rack and lead aprons
    - Demi apron set with rack
    - Thyroid shields
    - Transfer board
- Ultrasound = $260,030
    - Ultrasound
    - Stretcher
    - Probe rack
    - Gel warmer
- Probe cleaner

- Urology Imaging = $209,000
    - Video procedure cart
    - Urology scopes
- Miscellaneous associated equipment
- Audiology = $419,097
    - (2) Sound booths
    - (2) Audiostar audiometers
    - (2) Tympstars
    - (2) AuDxPro II
    - (2) VRA System
    - (2) Video VRA System
    - (2) Otoscopes
    - (2) Phonak Roger Pens
    - (2) Phonak Roger Focus
    - (2) MP3 systems
    - (3) Verifit 2
    - (3) Hi Pro Box
    - (3) I Cube III
    - (3) Airlink II
    - (3) Fitting Link
    - (2) NavPro
    - (2) ALGO 5

Non-Clinical Moveable Medical Equipment

- Public Areas = $9,350
- Intake & Exam Areas = $678,770
- Provider Work Areas = $13,690
- Support Areas = $105,150

**FMV Leased Space - $12,425,400**

The Fair Market Value (FMV) of the Leased Space cost includes the value of the lease over the full term with escalation. The calculated FMV is based on 31,860 square feet, at a rate of $32.50, for 150 months (12 ½ years) at an 8% discount rate.
Of the total amount, $1,366,794 is the clinical FMV leased space cost and the non-clinical cost is $11,058,606.

**Other Capital Costs - $1,656,517**

Other Capital Costs include all IT and low voltage equipment, furniture, artwork, signage and associated moving/storage costs.

Of the total amount, $182,217 is the clinical other capital costs.

C. Reasonableness of Project and Related Costs

COST AND SQUARE FOOT BY DEPARTMENT

| | A | B | C | D | E | F | G | H | |
|---|---|---|---|---|---|---|---|---|---|
| Department | Cost / Sq Ft | | DGSF | | DGSF | | Const $ | Mod $ | Total Cost |
| | New | Mod | New | Circ % | Mod | Circ % | (A x C) | (B x E) | (G + H) |
| REVIEWABLE | | | | | | | | | |
| Imaging | $286.83 | | 754 | | | | 216,270 | | 216,270 |
| Audiology | $286.84 | | 1,276 | | | | 366,008 | | 366,008 |
| Cardiac rehab | $286.82 | | 435 | | | | 124,768 | | 124,768 |
| ECG / ECHO | $286.77 | | 1,044 | | | | 299,388 | | 299,388 |
| Total clinical services | $286.82 | | 3,509 | | | | 1,006,434 | | 1,006,434 |
| | | | | | | | | | |
| NON-REVIEWABLE | | | | | | | | | |
| Exam/treatment rooms | $286.87 | | 17,251 | | | | 4,948,753 | | 4,948,753 |
| Building services | $286.51 | | 972 | | | | 278,486 | | 278,486 |
| Common circulation | $286.84 | | 1,900 | | | | 545,003 | | 545,003 |
| Waiting/reg/restrooms | $286.77 | | 4,604 | | | | 1,320,315 | | 1,320,315 |
| Admin/staff areas | $286.87 | | 3,625 | | | | 1,039,929 | | 1,039,929 |
| Total non-clinical areas | $286.85 | | 28,351 | | | | 8,132,486 | | 8,132,486 |
| | | | | | | | | | |
| TOTAL PROJECT | $286.85 | | 31,860 | | | | 9,138,920 | | 9,138,920 |

Note: Cost figures are construction and contingency.

Construction: $ 8,346,046 Contingency: $ 792,874 Total: $9,138,920

**Charity Care Information**



**ATTACHMENT 39**

## CHARITY CARE INFORMATION

Since 1882, Ann & Robert H. Lurie Children's Hospital of Chicago's (Lurie Children's) mission has been to improve the health and well-being of all children. Lurie Children's is the State of Illinois' primary partner in bringing high-quality and accessible health care to the most vulnerable children. As the State's only freestanding, acute care children's hospital, Lurie Children's treats more children insured by Medicaid than any other Illinois hospital.

Lurie Children's is steadfast in its commitment to care for all children and families, despite reimbursment the Medicaid program provides the hospital and its physicians. In FY 2018, Lurie Children's was reimbursed $105.7 million less than the actual cost of providing Medicaid services to children.

Lurie Children's has a robust financial assistance program that is widely publicized and available to patients at any time. In FY 2017, 1,402 individuals applied for financial assistance. More than 95 percent of these applicants received financial assistance. Eligibility for financial assistance from Lurie Children's is based upon a family's income as compared to national poverty levels. In general, the few applicants who were not approved for such assistance failed to provide documentation of income and financial resources to demonstrate eligibility.

The primary reason Lurie Children's does not receive more requests for financial assistance is that the State of Illinois has established nearly universal health coverage for all children who reside in the State through its Medicaid/All Kids programs. Lurie Children's assists the Illinois Department of Healthcare and Family Services by enrolling children who require inpatient services and who qualify for Medicaid/All Kids.

In FY 2018, Lurie Children's provided $1,740,074 in charity care.

| CHARITY CARE | | | |
|---|---|---|---|
| | **FY16** | **FY17** | **FY18** |
| **Net Patient Revenue** | 679,403,160 | 739,394,793 | 817,011,710 |
| Amount of Charity Care (charges) | 3,545,301 | 5,834,547 | 6,233,424 |
| Cost of Charity Care | 1,044,091 | 1,653,230 | 1,740,074 |

Ann & Robert H. Lurie
Children's Hospital of Chicago



March 6, 2019

**VIA FEDEX DELIVERY**
Mr. Michael Constantino
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

Re: Permit Application
Lurie Children's Primary Care and Outpatient Services
Ann & Robert H. Lurie Children's Hospital of Chicago/Children's Hospital of Chicago Medical Center

Dear Mr. Constantino:

On behalf of Ann & Robert H. Lurie Children's Hospital of Chicago, attached please find an application for permit for Lurie Children's Primary Care and Outpatient Services to be located in Skokie. Enclosed please find an original and one copy.

Also enclosed is check #682050 in the amount of $2,500 as payment of the initial application fee.

We look forward to the upcoming review of the project by the Illinois Health Facilities and Services Review Board.

Sincerely,

Reagen Atwood

Reagen Atwood
Associate General Counsel
Ann & Robert H. Lurie Children's Hospital of Chicago
225 E. Chicago Avenue, Box 261
Chicago, IL 60611

Enclosures

cc: Ralph Weber, Consultant