ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	Skokie Hospital		
Street Address:	9600 Gross Point Road		
City and Zip Code:	Skokie, IL 60076		
County: Cook	Health Service Area: VII	Health Planning Area: A-08	

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

Exact Legal Name:	NorthShore University HealthSystem d/b/a NorthShore University HealthSystem Skokie Hospital
Street Address:	1301 Central Street
City and Zip Code:	Evanston, IL 60201
Name of Registered Agent:	Kristen Murtos
Registered Agent Street Address:	1301 Central Street
Registered Agent City and Zip Code:	Evanston, IL 60201
Name of Chief Executive Officer:	Gerald P. Gallagher
CEO Street Address:	1301 Central Street
CEO City and Zip Code:	Evanston, IL 60201
CEO Telephone Number:	847/657-5800

Type of Ownership of Applicants

- [X] Non-profit Corporation
- [ ] For-profit Corporation
- [ ] Limited Liability Company
- [ ] Partnership
- [ ] Governmental
- [ ] Sole Proprietorship
- [ ] Other

- Corporations and limited liability companies must provide an **Illinois certificate of good standing.**
- Partnerships must provide the name of the state in which 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:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court, Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7101

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name:	Skokie Hospital Modernization---The Orthopaedic & Spine Institute		
Street Address:	9600 Gross Point Road		
City and Zip Code:	Skokie, IL 60076		
County: Cook	Health Service Area: VII	Health Planning Area: A-06	

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

Exact Legal Name:	NorthShore University HealthSystem
Street Address:	1301 Central Street
City and Zip Code:	Evanston, IL 60201
Name of Registered Agent:	Kristen Murtos
Registered Agent Street Address:	1301 Central Street
Registered Agent City and Zip Code:	Evanston, IL 60201
Name of Chief Executive Officer:	Gerald P. Gallagher
CEO Street Address:	1301 Central Street
CEO City and Zip Code:	Evanston, IL 60201
CEO Telephone Number:	847/657-5800

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.

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Name:	Jacob M. Axel
Title:	President
Company Name:	Axel & Associates, Inc.
Address:	675 North Court Suite 210 Palatine, IL 60067
Telephone Number:	847/776-7101
E-mail Address:	jacobmaxel@msn.com
Fax Number:	847/776-7004

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

Name:	none
Title:	
Company Name:	
Address:	
Telephone Number:	
E-mail Address:	
Fax Number:	

Fax Number:

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:	David Rahija
Title:	President
Company Name:	Skokie Hospital
Address:	9600 Gross Point Road Skokie, IL 60076
Telephone Number:	847/677-9600
E-mail Address:	drahija@northshore.org
Fax Number:	

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	NorthShore University HealthSystem
Address of Site Owner:	1301 Central Street Evanston, IL 60201
Street Address or Legal Description of the Site:	9600 Gross Point Road Skokie, IL 60076

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:	NorthShore University HealthSystem d/b/a NorthShore University HealthSystem Skokie Hospital
Address:	9600 Gross Point Road Skokie, IL 60076

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.

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.

The applicants propose a modernization project, the primary purpose of which is to expand the number of operating rooms at Skokie Hospital from twelve to twenty. The project will involve both new construction as well as the renovation of existing space.

This is a "non-substantive" project because it does not address the establishment of a new health care facility, the replacement of a health care facility, or the establishment or discontinuation of a category of service.

PROJECT COST AND SOURCES OF FUNDS

	Reviewable	Non-Reviewable	Total
Project Cost:			
Preplanning Costs	$ 363,600	$ 236,400	$ 600,000
Site Survey and Soil Investigation	$ 75,750	$ 49,250	$ 125,000
Site Preparation	$ 181,800	$ 118,200.00	$ 300,000
Off Site Work	$ 242,400	$ 157,600	$ 400,000
New Construction Contracts	$ 9,045,520	$ 2,398,750	$ 11,444,270
Modernization Contracts	$ 4,081,460	$ 10,245,200	$ 14,326,660
Contingencies	$ 880,060	$ 985,006	$ 1,865,066
Architectural/Engineering Fees	$ 1,423,191	$ 925,309	$ 2,348,500
Consulting and Other Fees	$ 796,890	$ 518,110	$ 1,315,000
Movable and Other Equipment (not in construction contracts)	$ 15,000,000	$ 5,200,000	$ 20,200,000
Bond Issuance Expense (Project Related)	$ 341,966	$ 222,334	$ 564,300
Net Interest Expense During Construction Period	$ 2,731,927	$ 1,776,203	$ 4,508,130
Fair Market Value of Leased Space or Equipment			
Other Costs to be Capitalized	$ 6,999,300	$ 4,550,700	$ 11,550,000
Acquisition of Building or Other Property			
TOTAL USES OF FUNDS	**$ 42,163,864**	**$ 27,383,062**	**$ 69,546,926**
Sources of Funds:			
Cash and Securities	$ 5,803,864	$ 3,743,062	$ 9,546,926
Pledges			
Gifts and Bequests			
Bond Issues (project related)	$ 36,360,000	$ 23,640,000	$ 60,000,000
Mortgages			
Leases (fair market value)			
Fair Mkt Value of Relocated Equipment			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	**$ 42,163,864**	**$ 27,383,062**	**$ 69,546,926**

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: $_____

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 $ _____.

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): __December 15, 2023_____

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: Skokie Hospital		**CITY:** Skokie			
REPORTING PERIOD DATES: From: January 1, 2018 to: December 31, 2018					
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days**	**Bed Changes**	**Proposed Beds**
Medical/Surgical	111	7,465	27,833	none	111
Obstetrics					
Pediatrics					
Intensive Care	12	923	2,849	none	12
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:	123	8,388	30,682	none	123

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 _NorthShore University HealthSystem __* 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

GERALD P. GALLAGHER
PRINTED NAME

CHIEF EXECUTIVE OFFICER
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 16th day of January 2020

Barbara M. Holland
Signature of Notary

Seal

OFFICIAL SEAL
BARBARA M HOLLAND
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:09/04/23

SIGNATURE

SEAN O'GRADY
PRINTED NAME

CHIEF CLINICAL OPERATIONS OFFICER
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 15th day of January 2020

Barbara M. Holland
Signature of Notary

Seal

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NOTARY PUBLIC - STATE OF ILLINOIS
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*Insert the EXACT legal name of the applicant

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;
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- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of _NorthShore University HealthSystem d/b/a NorthShore University HealthSystem Skokie Hospital_*
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.

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NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:09/04/23

*Insert the ~~EXACT legal name of the~~ applicant

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

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

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:

1. Total gross square footage (GSF) of the proposed shell space.

2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.

3. Evidence that the shell space is being constructed due to:
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.

4. Provide:
   a. Historical utilization for the area for the latest five-year period for which data is available; and
   b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

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

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.

2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and

3. The anticipated date when the shell space will be completed and placed into operation.

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

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

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

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

Service	# Existing Key Rooms	# Proposed Key Rooms
☐ surgery	12	20
☐ surgical recovery	46	80
☐		

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

not applicable, adequate bond rating provided

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

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

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

APPEND DOCUMENTATION AS ATTACHMENT 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.

NOT APPLICABLE

	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

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

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

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

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

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

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

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

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

A table in the following format must be provided as part of Attachment 37.

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

Skokie Hospital

CHARITY CARE			
	2016	2017	2018
Net Patient Revenue	**$212,229,891**	**$213,731,078**	**$218,533,290**
Amount of Charity Care (charges)	$10,359,405	$12,102,094	$13,433,251
Cost of Charity Care	$2,635,857	$2,628,896	$3,287,976

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

File Number 0567-540-5

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

NORTHSHORE UNIVERSITY HEALTHSYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 04, 1891, ADOPTED THE ASSUMED NAME NORTHSHORE UNIVERSITY HEALTHSYSTEM SKOKIE HOSPITAL ON JANUARY 03, 2014, 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* 6TH *day of* NOVEMBER *A.D.* 2019 .

Authentication #: 1931002898 verifiable until 11/06/2020
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

File Number 0567-540-5

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

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Authentication #: 1931002898 verifiable until 11/06/2020
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 1

NorthShore
University HealthSystem

Illinois Health Facilities and
Services Review Board
Springfield, IL

To Whom It May Concern:

Please be advised that the Skokie Hospital site, located at 9600 Gross Point Road in Skokie, Illinois, is owned by NorthShore University HealthSystem.

Sincerely,

Sean O'Grady
Chief Clinical Operations Officer
NorthShore University HealthSystem

Date: January 15, 2020

Subscribed and sworn to before me this
15th day of January 2020.

Barbara M. Holland
Notary

OFFICIAL SEAL
BARBARA M HOLLAND
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:09/04/23

ATTACHMENT 2

File Number 0567-540-5

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

NORTHSHORE UNIVERSITY HEALTHSYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 04, 1891, ADOPTED THE ASSUMED NAME NORTHSHORE UNIVERSITY HEALTHSYSTEM SKOKIE HOSPITAL ON JANUARY 03, 2014, 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.

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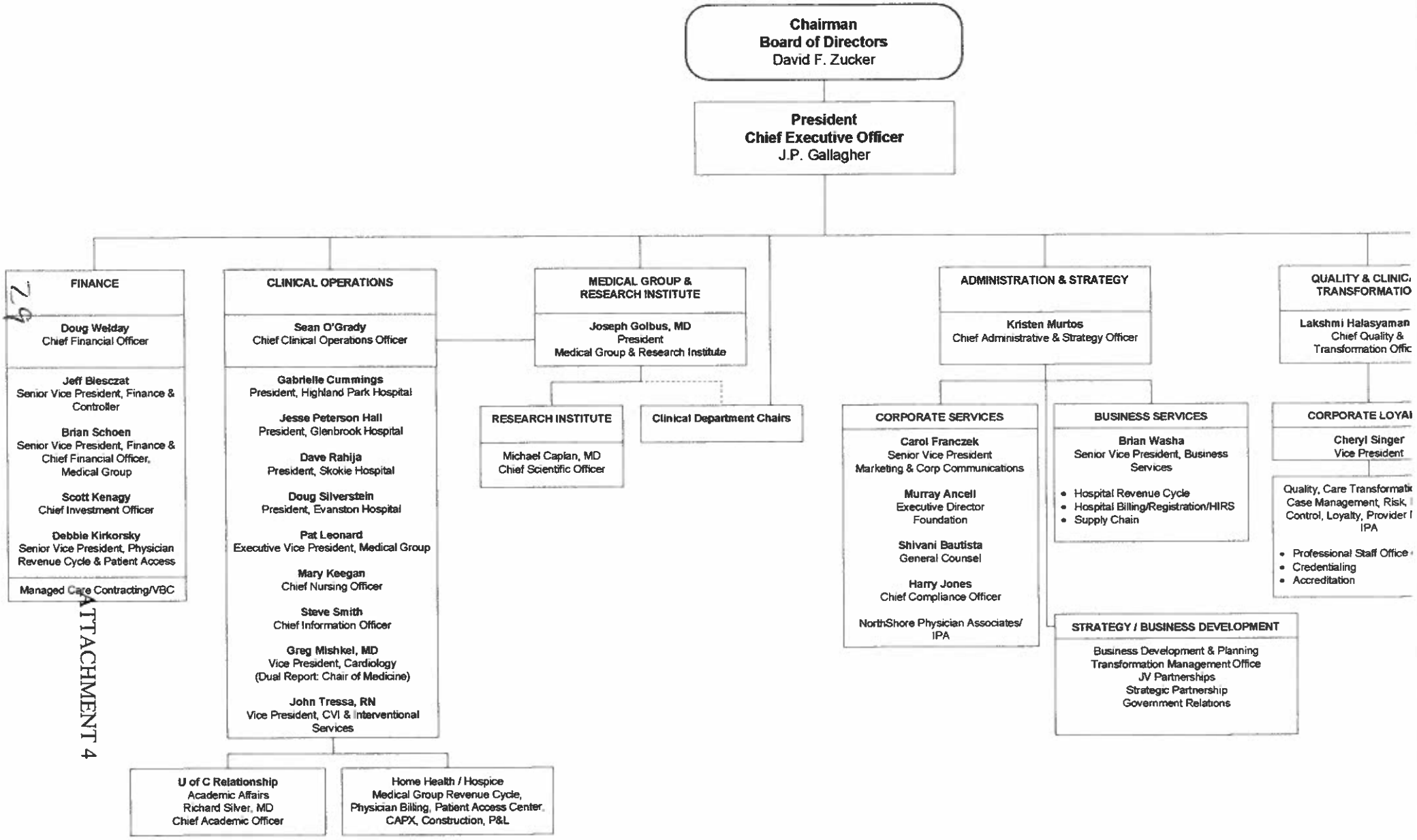
Authentication #: 1931002898 verifiable until 11/06/2020
Authenticate at: http://www.cyberdriveillinois.com

Jesse White
SECRETARY OF STATE

ATTACHMENT 3

NorthShore University HealthSystem
Organization Chart
2019-2020



ATTACHMENT 4

#20-008

NorthShore
University HealthSystem

Illinois Health Facilities
and Services Review Board
Springfield, IL

To Whom It May Concern:

I hereby certify that the Skokie Hospital campus is not located in a special flood hazard area.

Sincerely,

Sean O'Grady
Chief Clinical Operations Officer
NorthShore University HealthSystem

Date: January 15, 2020

Subscribed and sworn to before me this
15th day of January, 2020.

Barbara M. Holland
Notary

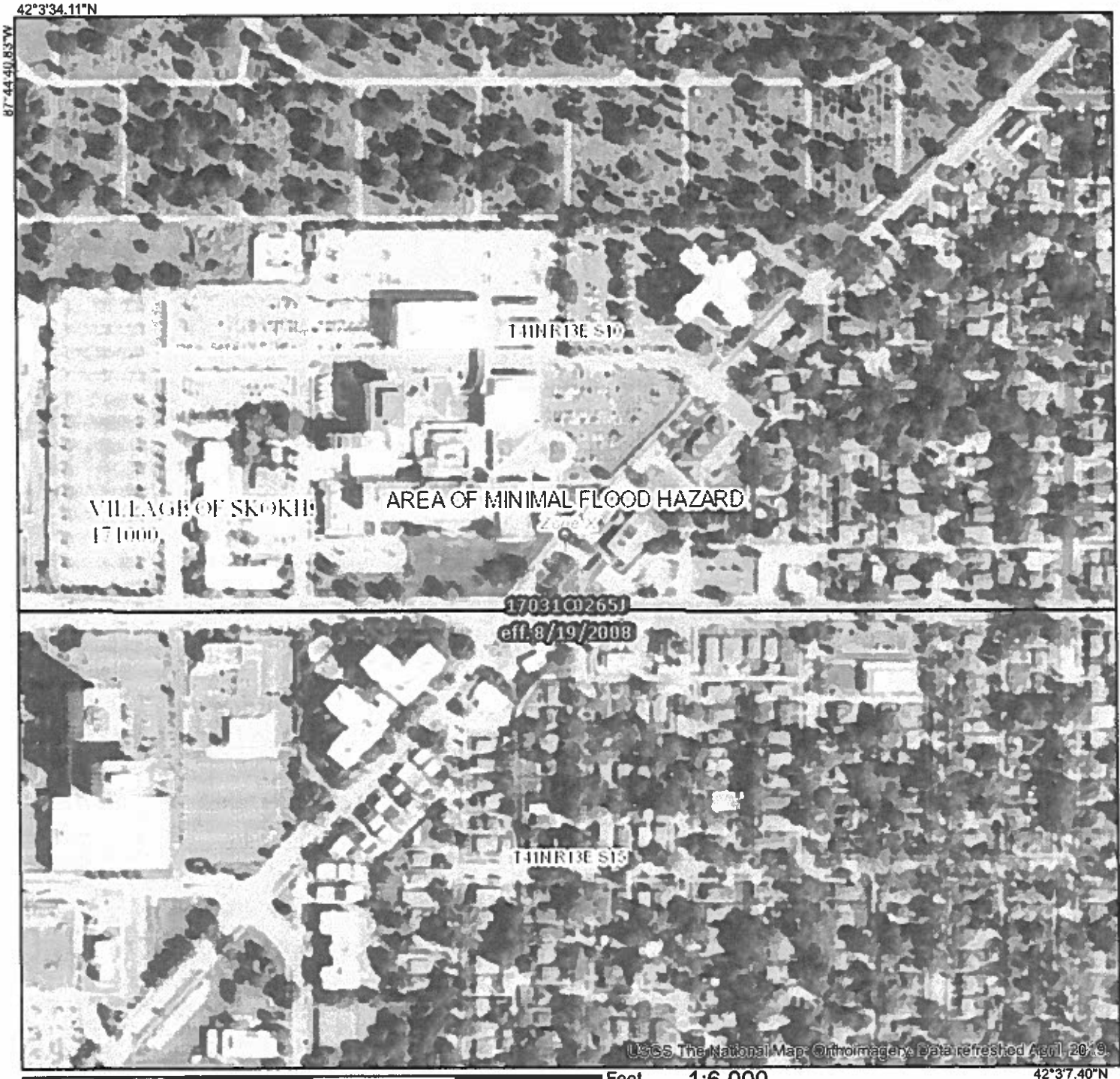
OFFICIAL SEAL
BARBARA M HOLLAND
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:09/04/23

ATTACHMENT 5

#20-008

National Flood Hazard Layer FIRMette

FEMA



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, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile Zone X
- 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 D

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

OTHER FEATURES
- 20.2 Cross Sections with 1% Annual Chance
- 17.5 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 represen 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 10/10/2019 at 2:55:09 PM 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.

ATTACHMENT A

3/1

ILLINOIS DEPARTMENT OF NATURAL RESOURCES

Illinois Department of Natural Resources

One Natural Resources Way Springfield, Illinois 62702-1271
www.dnr.illinois.gov Mailing Address: 1 Old State Capitol Plaza, Springfield, IL 62701

JB Pritzker, Governor
Colleen Callahan, Director

FAX (217) 524-7525

Cook County
Skokie
CON - New Construction of a 2nd Floor Addition and Rehabilitation, Skokie Hospital
9600 Gross Point Road
SHPO Log #011090919

December 6, 2019

Jacob Axel
Axel & Associates, Inc.
675 North Court, Suite 210
Palatine, IL 60067

Dear Mr. Axel:

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

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

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

If you have any further questions, please call 217/782-4836.

Sincerely,

Robert F. Appleman
Deputy State Historic
Preservation Officer

ATTACHMENT 6

PROJECT COST AND SOURCES OF FUNDS

PROJECT COSTS			
Preplanning Costs			
Eval. Of Alternatives	$	500,000	
Misc./Other	$	100,000	
			$ 600,000
Site Survey & Soil Invest.			
Loading Anayses	$	100,000	
Misc./Other	$	25,000	
			$ 125,000
Site Preparation			
Walkways	$	200,000	
Exterior Signage	$	50,000	
Misc./Other	$	50,000	
			$ 300,000
Off Site Work			
Utility Lines	$	400,000	
			$ 400,000
New Construction Contracts			
Per ATTACHMENT 36C	$	11,444,270	
			$ 11,444,270
Moderization Contracts			
Per ATTACHMENT 36C	$	14,326,660	
			$ 14,326,660
Contingencies			
New Construction	$	866,646	
Modernization	$	998,420	
			$ 1,865,066
Architectual & Engineering			
Design	$	2,138,500	
Document Prep.	$	40,000	
Interface with Agencies	$	35,000	
Project Monitoring	$	55,000	
Misc./Other	$	80,000	
			$ 2,348,500
Consulting & Other Fees			
Legal	$	100,000	
Zoning/Regulatory Approval:	$	100,000	
CON-Related	$	90,000	
Reg. Approvals, other	$	75,000	
Project Management	$	450,000	
Interior Design	$	85,000	
Insurance	$	25,000	
IT-related	$	40,000	
Commissioning	$	200,000	
Equipment Planning	$	50,000	
Misc./Other	$	100,000	
			$ 1,315,000

PROJECT COST AND SOURCES OF FUNDS

Movable Equipment			
Surgery and Recovery	$	14,280,000	
Sterile Processing	$	4,200,000	
Laboratory	$	720,000	
Other/Misc.	$	1,000,000	
			$ 20,200,000
Bond Issuance Expense			$ 564,300
Construction Period Interest			$ 4,508,130
Other Costs to be Capitalized			
Surgery Air Handlers	$	5,000,000	
Elevated Construction	$	2,000,000	
Foundation Supplement	$	3,000,000	
Sterile Processing Phasing	$	900,000	
Utility Shafts	$	650,000	
			$ 11,550,000
TOTAL USES OF FUNDS			**$ 69,546,926**

SOURCES OF FUNDS

Cash and Securities	$	9,546,926	
Bond Issue*	$	60,000,000	
TOTAL SOURCES OF FUNDS			$ 69,546,926

*anticipates a 4.0% term over 30 years

Cost Space Requirements

Dept./Area	Cost	Gross Square Feet		Amount of Proposed Total Square Feet			
				That is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
Reviewable							
Surgery	$ 22,726,323	21,985	37,938	15,953		21,985	
Recovery	$ 13,365,945	25,790	37,459	4,605	7,064		
Laboratory	$ 6,071,596	7,690	6,102		6,102		7,690
	$ 42,163,864			20,558	13,166		
							7,690
Non-Reviewable							
Sterile Processing	$ 17,443,010	7,245	19,643	744	18,899		7,245
Environmental Services	$ 985,790	3,525	3,687		3,687		3,525
Transport Services	$ 109,532	1,180	1,569		389		
Staff Areas	$ 3,778,863				2,182		
Public Areas	$ 958,407	14,598			11,598		
Mechanical	$ 2,683,540		4,960	4,960			
DGSF>>BGSF	$ 1,423,919			2,626			
	$ 27,383,062			8,330	36,755		
PROJECT TOTAL;	$ 69,546,926			28,888	49,921		

35

ATTACHMENT 9

#20-008

BACKGROUND OF THE APPLICANT

Applicant NorthShore University HealthSystem owns and operates five hospitals:

- Evanston Hospital, Evanston
- Skokie Hospital, Skokie
- Glenbrook Hospital, Glenview
- Highland Park Hospital, Highland Park
- Swedish Hospital, Chicago

ATTACHMENT 11

HF116955

Illinois Department of PUBLIC HEALTH

DISPLAY THIS PART IN A CONSPICUOUS PLACE

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
12/31/2019		0005587

General Hospital

Effective: 01/01/2019

NorthShore University HealthSystem
dba NorthShore University HealthSystem Skokie Hospital
9600 Gross Point Rd

Skokie, IL 60076

The face of this license has a colored background. Printed by Authority of the State of Illinois • [illegible]

Exp. Date 12/31/2019

Lic Number 0005587

Date Printed 11/14/2018

NorthShore University HealthSystem
dba NorthShore University HealthSyst
9600 Gross Point Rd
Skokie, IL 60076

FEE RECEIPT NO.

ATTACHMENT 11

The Joint Commission

February 26, 2018

J.P. Gallagher
COO
NorthShore University HealthSystem
1301 Central Street, Suite 300
Evanston, IL 60201

Joint Commission ID #: 7343
Program: Hospital Accreditation
Accreditation Activity: 60-day Evidence of Standards Compliance
Accreditation Activity Completed: 02/16/2018

Dear Mr. Gallagher:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Hospitals**

This accreditation cycle is effective beginning October 07, 2017 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark Pelletier

Mark G.Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

ATTACHMENT 11

NorthShore
University HealthSystem

Illinois Health Facilities and
Services Review Board
Springfield, Illinois

To Whom It May Concern:

I hereby certify that no adverse action has been taken against NorthShore University HealthSystem, or any of its IDPH-Licensed health care facilities, directly or indirectly, within three (3) years prior to the filing of this Application. For the purposes 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 HFSRB and IDPH to access any documents which it finds necessary to verify any information submitted, including, but not limited to: official records of IDPH or other State agencies and the records of nationally recognized accreditation organizations.

Sean T. O'Grady

Sean O'Grady
Chief Clinical Operations Officer
NorthShore University HealthSystem

Subscribed and sworn to before me this
15th day of January, 2020.

Barbara M. Holland

Notary Public

OFFICIAL SEAL
BARBARA M HOLLAND
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:09/04/23

ATTACHMENT 11

PURPOSE OF THE PROJECT

The proposed project will improve the health care and well-being of patients and communities that have traditionally looked to NorthShore University HealthSystem ("NorthShore") for orthopaedic and spine care.

NorthShore operates five hospitals in northeastern Cook County and southeastern Lake County, all within twelve miles of Skokie Hospital. In order to minimize the traditional duplication of services that have existed among the hospitals for years, NorthShore is centralizing selected clinical services at specific hospitals. The proposed project is a result of NorthShore's decision to focus Skokie Hospital on the provision of orthopaedic and spine care, including the directing of the vast majority of NorthShore's orthopaedic and spine care patients to Skokie Hospital. Because of the nature of these specialties, additional operating room capacity at Skokie Hospital is necessitated, with that being the sole focus of the proposed project.

The goals of the proposed project are to have the needed operating room capacity available on the Skokie Hospital campus by the project's completion date identified in Section I of this Certificate of Need application, and to perform a minimum of 90% of NorthShore's orthopedic surgery and spine surgery procedures at Skokie Hospital within two years of the project's completion.

ALTERNATIVES

The purpose of the proposed project is to address the need for additional operating room capacity to support NorthShore University HealthSystem's plan to consolidate orthopaedic and spine care on the Skokie Hospital campus. The consolidation is a direct response to NorthShore's intent to reduce duplication of services and to centralize orthopaedic and spine care-related expertise on a single campus, in order to improve efficiency. Given that intent, the absence of suitable vacant space in the hospital that could be re-purposed for surgical services, and the anticipation that a high percentage of the surgical cases will involve an inpatient stay, (negating an ASTC-focused alternative), no reasonable alternatives are available to the applicants.

SIZE OF PROJECT

The proposed project involves new construction as well as the modernization/renovation of existing space; and the planned space is necessary, not excessive, and consistent with applicable HFSRB standards.

There are two clinical areas included in the proposed project for which the HFSRB has space standards, those being surgery and surgical recovery. The proposed project will add eight Class C surgical suites in 15,953 DGSF of new construction (1,994 DGSF per OR), eight Stage 1 recovery stations in 1,400 DGSF of renovated space (175 DGSF per station), and 26 Stage 2 recovery stations in 4,605 DGSF of new construction and 5,664 DGSF of renovated space (395 DGSF per station).

DEPARTMENT/SERVICE	PROPOSED DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Class C ORs (8)	15,953	22,000	(6,047)	YES
Stage I Recovery (8)	1,400	1,440	(40)	YES
Stage 2 Recovery (26)	10,269	10,400	(131)	YES

ATTACHMENT 14

PROJECT SERVICES UTILIZATION

On April 1, 2019 NorthShore University Health System announced the transformation of Skokie Hospital from a hospital providing a broad spectrum of outpatient and inpatient medical and surgical services to one providing specialty inpatient services, as well as a continuum of outpatient services, similar to that provided prior to the transformation. Effective that date, the hospital transitioned into NorthShore Orthopaedic & Spine Institute, therein radically altering the composition of the hospital's surgical caseload. Surgical cases of specialties other than orthopaedic and spine surgery have been transitioned to NorthShore's other legacy hospitals (Evanston Hospital, Highland Park Hospital and Glenbrook Hospital), and orthopaedic and spine surgery cases have begun to be transitioned from those hospitals to Northshore Orthopaedic & Spine Institute, as operating room capacity permits.

The specialties that have been transitioned out of Skokie Hospital to NorthShore's other hospitals since April 1, 2019 include: Cardiovascular Surgery, General Surgery, Gynecological Surgery, Oral Surgery, Ophthalmology, Otolaryngology, Plastic Surgery, Podiatry, Thoracic Surgery and Urology. During 2018, these surgical specialties accounted for 5,310 hours of operating room usage at Skokie Hospital.

Upon the completion of the proposed project, virtually all of NorthShore's orthopaedic and spine surgery cases will be performed at Skokie Hospital. During 2018, approximately 6,500 such cases were performed at the three other NorthShore legacy hospitals (Evanston Hospital, Glenbrook Hospital and Highland Park Hospital).

ATTACHMENT 15

Surgery	PROJECTED UTILIZATION (hrs) YEAR 1	YEAR 2	STATE STANDARD	MET STANDARD?
2017				
2018	28,512	28,797	28,501	YES

The proposed project increases the hospital's complement of operating rooms from twelve to twenty, and the applicants are confident that, within two years of the project's completion, utilization of the twenty operating rooms will meet the HFSRB's standard. NorthShore's Medical Staff includes approximately sixty orthopaedic surgeons, practicing at its four legacy hospitals, and utilization, in terms of OR hours, increased from 21,574 hours in 2015 to 23,335 hours in 2018. 2019 year-to-date orthopaedic surgery utilization, through September, and due in part to the announcement of the establishment of NorthShore Orthopaedic & Spine Institute, has increased by 7%. Year-to-year utilization is conservatively projected to increase by 3% in 2020, by 2% in 2021, by 3% in 2022 (with the availability of the additional OR capacity) and by 1% in 2023, the second year following the project's completion. The post-project projections, in terms of hours of OR utilization, are identified in the table on the following page, and are believed by the applicants to be conservative, because they do not account for the transitioning of cases from Swedish Hospital. (Swedish Hospital became part of NorthShore in January, 2020.)

2018 Skokie Hospital OR hours	15,321			
less hours transitioned out	(5,310)			
Skokie Hospital adjusted OR hours			10,011	
2018 Evanston Hospital orthopedic hours	4,616			
% to be transitioned to Skokie Hospital		0.9		
hours to be transitioned to Skokie Hospital			4,154	
2018 Glenbrook Hospital orthopedic hours	7,924			
% to be transitioned to Skokie Hospital		0.95		
hours to be transitioned to Skokie Hospital			7,528	
2018 Highland Park Hospital orthopedic hours	2,340			
% to be transitioned to Skokie Hospital		0.95		
hours to be transitioned to Skokie Hospital			2,223	
2018 Evanston Hospital neurosurgery hours	3,135			
% to be transitioned to Skokie Hospital		0.3		
hours to be transitioned to Skokie Hospital			941	
				24,857
growth through 2nd year following				
project completion	2019		1.06	26,348
	2020		1.03	27,139
	2021		1.02	27,681
	2022		1.03	28,512
	2023		1.01	28,797

ATTACHMENT 15

CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE

The proposed project involves two clinical areas: surgery (including pre-operative and recovery areas), and the clinical laboratory. While the surgical suite and associated areas are the focus of the proposed project, the clinical laboratory is included in the project only because it needs to be relocated to provide necessary space for other functions.

The modernization/expansion of the surgical suite and associated areas is necessary to provide sufficient space and capacity for the incremental orthopedic and neurological/spine cases to be addressed in the hospital, as a result of NorthShore University Health System's consolidating of orthopedic surgery and spine surgery cases at Skokie Hospital, and as outlined in ATTACHMENT 15.

Because of the transformation of Skokie Hospital from a "general" hospital to that of a specialty hospital in 2019, historical utilization of the hospital's surgical suite is not germane. However, the applicants project that the twenty proposed operating rooms will meet the utilization standards identified in APPENDIX B to Section 1110, by the second year following the project's completion. Please refer to ATTACHMENT 15 for a discussion and calculation of projected utilization.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms NorthShore University HealthSystem's (IL) Aa2 & Aa2/VMIG 1; stable outlook

07 Sep 2017

New York, September 07, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the Aa2 and Aa2/VMIG 1 ratings for NorthShore University HealthSystem (NorthShore), IL, affecting $271 million of outstanding debt. The outlook is stable. The Aa2 is based on NorthShore's good geographic coverage in an attractive service area, strong investment position that supports low debt, and manageable capital needs. Very strong debt metrics compensate for weakening margins, while the system addresses pricing pressures. The system is facing revenue challenges from both governmental and commercial payers and increasing competition and consolidation. The VMIG 1 is based on the provision of standby bond purchase agreements with several banks to support unremarketed tenders of variable rate bonds.

Rating Outlook

The stable rating outlook reflects expectations that NorthShore will effectively execute cost reduction strategies to offset revenue pressures and stabilize operating cashflow margins. Despite lower margins, we expect debt and balance sheet metrics to remain strong given manageable capital plans and no plans for incremental leverage. Further decline in margins or worsening of payer or competitive pressures could drive a negative outlook.

Factors that Could Lead to an Upgrade

Material enterprise growth and diversification in multiple markets

Growth in market share to provide distinct leading position

Significant and sustained improvement in operating cashflow margin and absolute cashflow

Factors that Could Lead to a Downgrade

Further decline in margins

Large decline in liquidity or meaningful increase in leverage

Dilutive acquisition or merger

Worsening of payer or competitive pressures

Legal Security

The bonds are unsecured obligations of the Corporation, which includes Evanston Hospital, Glenbrook Hospital, Highland Park Hospital, and Skokie Hospital.

Use of Proceeds

Not applicable.

Obligor Profile

NorthShore University HealthSystem operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital. The service area is the greater Chicago "North Shore" and northern Illinois communities. NorthShore has over 2,100 affiliated physicians, of which over 900 are multi-specialty physicians within the Medical Group.

Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. The additional methodology used for the short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE

The proposed project is limited to the expanding of the surgical capacity of Skokie Hospital, and is necessary to address the purpose of the project—that being the ability of NorthShore University HealthSystem ("NorthShore") to centralized the vast majority of its orthopedic and spinal surgery at Skokie Hospital. As documented in ATTACHMENT 15, based on NorthShore's intent to direct cases from its other three hospitals to Skokie Hospital (coupled with the intent to direct cases of certain other surgical specialties from Skokie Hospital to other NorthShore hospitals) sufficient demand exists to "justify" the twenty operating rooms proposed to be provided at Skokie Hospital.

To lend conservatism to the project, the projected 28,647 hours of operating room time needed upon the completion of the proposed project does not incorporate any increase in surgical cases/hours above those experienced by NorthShore in 2018. As such, and as documented in ATTACHMENT 15, the proposed complement of twenty operating rooms does not exceed the number justified by historical utilization, but rather is necessary to accommodate cases being moved from the other NorthShore hospitals and those remaining at Skokie Hospital..

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
8 November 2018

Rate this Research

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NorthShore University HealthSystem, IL

Update to credit analysis following outlook revision to negative

Summary

NorthShore University HealthSystem (Aa2 negative) will maintain a strong market position in an attractive service area. This favorable position will be supported by advanced IT capabilities, the strength of its broad-based physician alignment, and strategic investments, particularly in outpatient services. The system will maintain very strong liquidity and low leverage as capital investments will be manageable. Very good liquidity and leverage metrics will help to offset some margin compression. While favorable demographics will mean exposure to Medicaid will remain moderate, further growth in Medicare will constrain margin improvement. The system will continue to be challenged by market dynamics, including volume declines, increasing competition heightened by consolidation, and the presence of a dominant commercial payer.

The VMIG 1 is based on the provision of standby bond purchase agreements with several banks to support unremarketed tenders of variable rate bonds.

On November 8, 2018 Moody's revised the outlook to negative.

Credit strengths

» Growth strategies and advanced IT platform will support continuation of leading position in an attractive service area

» Low debt will drive very good leverage metrics, despite cash flow decline

» Liquidity will remain strong given manageable capital spending and provide adequate support for relatively high variable rate debt

» Favorable demographics will enable system to maintain below average exposure to Medicaid

» Pension plan will be largely funded

Credit challenges

» Competition will increase from further consolidation of large financially strong systems

» System will face challenges in improving margins and cash flow that have been below historical highs due to growth in governmental payers and strategic investments

» Recent volume declines, in part due to regional trends, will contribute to continued low revenue growth

» Cash and investments will be comparatively less liquid with 57% available monthly

Rating outlook

The negative outlook reflects Moody's belief that NorthShore will likely find it difficult to reverse and sustain margins closer to pre-2017 levels, following two years of notably lower margins and absolute operating cashflow as well as low revenue growth. Failure to demonstrate meaningful operating improvement in fiscal 2019 as well as a credible plan for further sustained improvement would likely result in a downgrade.

Factors that could lead to an upgrade

» Material enterprise growth and diversification in multiple markets

» Growth in market share to provide distinct leading position

» Significant and sustained improvement in operating cashflow margin and absolute cashflow

Factors that could lead to a downgrade

» Inability to materially improve operating cashflow margin in fiscal 2019

» Further negative market developments

» Material decline in liquidity or increase in leverage

» Dilutive acquisition or merger

Key indicators

Exhibit 1

NorthShore University HealthSystem, IL

	2014	2015	2016	2017	2018
Operating Revenue ($'000)	1,892,473	1,924,214	2,008,701	2,035,989	2,075,712
3 Year Operating Revenue CAGR (%)	5.4	3.9	4.1	2.5	2.5
Operating Cash Flow Margin (%)	11.6	12.2	10.7	7.7	6.2
PM: Medicare (%)	39.0	38.0	43.0	43.0	43.0
PM: Medicaid (%)	8.0	9.0	9.0	9.0	9.0
Days Cash on Hand	292	294	297	316	334
Unrestricted Cash and Investments to Total Debt (%)	367.8	384.6	423.6	486.9	551.3
Total Debt to Cash Flow (x)	1.2	1.1	1.2	1.4	1.4

Based on audits for NorthShore University HealthSystem, fiscal years ended September 30; FY 2018 unaudited
Investment returns normalized at 6% prior to FY 2015 and 5% in FY 2015 and beyond
Source: Moody's Investors Service

Profile

NorthShore University HealthSystem operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital. The service area is the greater Chicago "North Shore" and northern Illinois communities. NorthShore has approximately 2,100 affiliated physicians, of which about 970 are multi-specialty physicians employed by the Medical Group.

ATTACHMENT 34

Detailed credit considerations

Market position: good market position in attractive service area, but competition will increase

NorthShore will maintain a solid market position and good geographic coverage in an attractive service area, but consolidation and competition in the region will increase competitive pressures. The system maintains a leading and generally stable market share of about 22% around Evanston, IL and the area north and west of Evanston. The broader region will continue to consolidate among hospitals and physicians, which will increase competition as larger systems invest in inpatient and outpatient services. Competition will stem from Lake Forest Hospital (part of Northwestern Medicine), which opened a replacement hospital in 2018. NorthShore will also continue to compete with several hospitals that are part of Advocate Aurora Health (Aa3 stable).

NorthShore will invest in strategies to grow and increase access points, which will be enabled by a large physician network and advanced IT capabilities. NorthShore will benefit from a tightly integrated clinical model comprised of four hospitals, a large medical group with about 970 employed physicians, and an independent practice association (IPA) that includes the medical group and affiliated physicians. NorthShore's long-standing electronic medical records platform for both physicians and hospitals will allow for further development of standardized clinical protocols, centralized scheduling, electronic scheduling, and data analytics capabilities. The system will rapidly expand immediate care sites at existing and new locations to increase access and lower costs. The system's organization around five primary clinical institutes will provide a platform for growth and quality initiatives. For example, the migration of the Skokie Hospital campus to an orthopedic specialty hospital is expected to strengthen an already strong market position in that service line. Finally, NorthShore will place more focus on developing partnerships, including a recent one with Advocate Aurora Health for pediatrics.

Operating performance, balance sheet and capital plans: margins will be challenging to improve; balance sheet will remain strong

We anticipate that NorthShore will face difficulties in improving a two-year trend of notably lower margins because of volume and payer mix pressures and strategic investments. Excluding investment income, based on unaudited fiscal 2018 figures, the system had a 6.2% operating cash flow margin, following 7.7% in fiscal 2017 compared to 11% to 12% previously. The decline in fiscal 2018, which represented an 18% reduction in absolute operating cash flow, was primarily driven by a modest 2% revenue increase and higher expense growth. NorthShore's fiscal 2019 budget anticipates only modest improvement from fiscal 2018. We believe revenue will continue to be constrained by growth in Medicare due to demographics as well as volume declines, which will be affected by regional trends and competition. In fiscal 2018, total system admissions and observations declined 1%; outpatient surgeries declined 2%. Going forward, performance will also be affected by ongoing strategic investments, including staffing for new outpatient sites. While growth strategies will require investments, the system will focus on cost efficiencies to offset revenue pressures.

LIQUIDITY

NorthShore's strong liquidity will likely be maintained, given manageable capital spending. At fiscal year end 2018, the system had 334 days of cash on hand. Capital spending is expected to approximate $150 million annually.

Debt structure and legal covenants: low debt will drive strong leverage metrics

NorthShore's low debt position, including direct debt and debt equivalent defined benefit pension and operating leases, will drive strong leverage metrics. No material incremental leverage is expected in the near term. Cash-to-direct debt based on unaudited fiscal year end 2018 is 551%. Even based on lower operating performance, leverage metrics are very strong with a favorably low 1.4 debt-to-cashflow and 9.4 times maximum annual debt service coverage for the same period.

DEBT STRUCTURE

The system's debt structure risk will be mitigated by its strong liquidity. Over 60% of debt is variable rate, primarily supported by bank standby bond purchase agreements. The system extended the SBPAs, which are now all provided by JPMorgan and expire in October 2020; this will increase liquidity risk. However, monthly cash-to-demand debt is over 500%. Bank agreements include a 75 days cash on hand covenant, measured semi-annually.

LEGAL SECURITY

The bonds are unsecured obligations of the Corporation, which includes Evanston Hospital, Glenbrook Hospital, Highland Park Hospital, and Skokie Hospital.

ATTACHMENT 34

DEBT-RELATED DERIVATIVES

There are no debt-related derivatives.

PENSIONS AND OPEB

NorthShore's pension liability will remain modest over the coming year as the system has taken multiple steps to reduce this risk. The defined benefit pension plan was frozen to all employees in December 2013 and deferred vested cash-outs were offered in the last several years. NorthShore spun off and subsequently terminated a sizable portion of the frozen DB pension plan. At fiscal year end 2017, the unfunded obligation was modest at $29 million (89% funded).

Management and governance

A relatively new senior management team will potentially bring some additional opportunity to improve operating performance. Within the past year, the system named a new CEO, who was previously the COO. The CEO has extensive experience at NorthShore, including serving as hospital presidents, as well as at other large health systems. A new CFO was very recently appointed and brings experience from other large healthcare systems.

ATTACHMENT 34

REPORT NUMBER 1148705

Consolidated Financial Statements and Supplementary Information

NorthShore University HealthSystem
Years Ended September 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

ATTACHMENT 35

NorthShore University HealthSystem

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2018 and 2017

Contents

ATTACHMENT 35

Building a better
working world

Report of Independent Auditors

The Board of Directors
NorthShore University HealthSystem

We have audited the accompanying consolidated financial statements of NorthShore University HealthSystem and its affiliates (collectively, the Corporation), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Building a better working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthShore University HealthSystem and its affiliates at September 30, 2018 and 2017, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

February 4, 2019

NorthShore University HealthSystem

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ **52,699**	$ 59,460
Other short-term investments	**1,240**	1,150
Internally designated investments, current portion	**52,605**	50,705
Patient accounts receivable, less allowances for uncollectible and charity accounts (2018 – $107,253; 2017 – $113,937)	**261,570**	330,838
Inventories, prepaid expenses, and other	**87,942**	75,275
Total current assets	**456,056**	517,428
Investments available for general use	**1,875,690**	1,695,893
Investments limited as to use	**222,758**	206,691
Property and equipment:		
Land and improvements	**107,331**	107,473
Buildings	**1,600,879**	1,490,024
Equipment and furniture	**426,920**	442,733
Construction-in-progress	**68,280**	165,255
	2,203,410	2,205,485
Less accumulated depreciation	**1,075,189**	1,113,888
Total property and equipment, net	**1,128,221**	1,091,597
Other noncurrent assets	**254,587**	239,240
Total assets	$ **3,937,312**	$ 3,750,849

NorthShore University HealthSystem

Consolidated Balance Sheets (continued)
(Dollars in Thousands)

	September 30 2018	2017
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ **88,651**	$ 79,632
Accrued expenses	**201,006**	184,528
Current portion of self-insurance	**41,500**	40,000
Due to third-party payors	**119,829**	106,992
Current maturities of long-term debt	**11,193**	10,793
Total current liabilities	**462,179**	421,945
Noncurrent liabilities:		
Long-term debt, less current maturities	**312,917**	323,979
Employee retirement and deferred compensation plans	**124,034**	126,630
Accrued self-insurance and other	**195,647**	233,518
Total noncurrent liabilities	**632,598**	684,127
Net assets:		
Unrestricted	**2,625,580**	2,442,811
Temporarily restricted	**139,561**	124,873
Permanently restricted	**77,394**	77,093
Total net assets	**2,842,535**	2,644,777
Total liabilities and net assets	$ **3,937,312**	$ 3,750,849

See accompanying notes.

NorthShore University HealthSystem

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

	Year Ended September 30 2018	2017
Unrestricted revenues and other support		
Net patient service and premium revenue	**$ 2,063,902**	$ 2,022,627
Provision for uncollectible accounts	**(51,642)**	(48,807)
Net patient service and premium revenue	**2,012,260**	1,973,820
Investment earnings supporting current activities	**78,000**	45,000
Net assets released from restrictions used for operations	**14,836**	12,850
Other revenue	**48,616**	49,319
Total unrestricted revenues and other support	**2,153,712**	2,080,989
Expenses		
Salaries and benefits	**1,156,576**	1,103,517
Supplies, services, and other	**723,675**	699,289
Depreciation and amortization	**67,075**	109,673
Insurance	**21,850**	32,457
Medicaid assessment	**45,362**	43,636
Interest	**8,722**	7,452
Total expenses	**2,023,260**	1,996,024
Income from operations	**130,452**	84,965
Nonoperating income		
Dividend and interest income	**36,556**	32,350
Net realized gains on investments	**116,861**	54,463
Net unrealized gains on investments	**11,418**	126,512
Transfer of investment earnings supporting current activities	**(78,000)**	(45,000)
Other, net	**(52,370)**	(46,245)
Total nonoperating income	**34,465**	122,080
Revenues, gains, and other support in excess of expenses	**164,917**	207,045

Continued on next page.

NorthShore University HealthSystem

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

	Year Ended September 30	
	2018	**2017**
Unrestricted net assets		
Revenue, gains, and other support in excess of expenses	**$ 164,917**	$ 207,045
Pension-related changes other than net periodic costs	**17,832**	10,898
Net assets released from restrictions used for capital	**274**	100
Other transfers, net	**(254)**	(1,096)
Increase in unrestricted net assets	**182,769**	216,947
Temporarily restricted net assets		
Contributions and other	**8,473**	8,035
Net realized gains on investments	**6,918**	2,059
Net unrealized gains on investments	**14,407**	15,572
Net assets released from restrictions	**(15,110)**	(12,950)
Increase in temporarily restricted net assets	**14,688**	12,716
Permanently restricted net assets		
Contributions	**301**	236
Increase in permanently restricted net assets	**301**	236
Increase in net assets	**197,758**	229,899
Net assets at beginning of year	**2,644,777**	2,414,878
Net assets at end of year	**$ 2,842,535**	$ 2,644,777

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30 2018	2017
Operating activities		
Increase in net assets	**$ 197,758**	$ 229,899
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized gains on investments	**(25,825)**	(142,084)
Change in trading portfolio investments, net	**(170,039)**	(6,773)
Restricted contributions	**(8,774)**	(8,271)
Depreciation and amortization	**67,075**	109,673
Bond premium amortization	**(88)**	(88)
Pension-related changes other than net periodic cost	**(17,832)**	(10,898)
Provision for uncollectible accounts	**51,642**	48,807
Changes in operating assets and liabilities:		
Patient accounts receivable	**15,998**	(63,447)
Other current assets	**(14,657)**	1,444
Noncurrent assets and liabilities	**(37,872)**	(21,726)
Accounts payable and accrued expenses	**26,997**	21,656
Due from (to) third-party payors	**14,465**	(6,344)
Net cash provided by operating activities	**98,848**	151,848
Investing activities		
Investments in property and equipment, net	**(103,678)**	(147,863)
Net cash used in investing activities	**(103,678)**	(147,863)
Financing activities		
Restricted contributions	**8,774**	8,271
Payments of long-term debt	**(10,705)**	(10,295)
Net cash used in financing activities	**(1,931)**	(2,024)
(Decrease) increase in cash and cash equivalents	**(6,761)**	1,961
Cash and cash equivalents at beginning of year	**59,460**	57,499
Cash and cash equivalents at end of year	**$ 52,699**	$ 59,460

See accompanying notes.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements
(Dollars in Thousands)

September 30, 2018

1. Organization and Basis of Presentation

NorthShore University HealthSystem (NorthShore) is an integrated health care system dedicated to providing health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services. NorthShore operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital, that serve the greater Chicago "North Shore" and northern Illinois communities. NorthShore also includes research activities, home health and hospice care, and foundation operations.

NorthShore is the sole corporate member of NorthShore University HealthSystem Faculty Practice Associates (FPA), Radiation Medicine Institute (RMI), and NorthShore University HealthSystem Insurance International (Insurance International). FPA is the sole shareholder of NorthShore Physician Associates (NPA). NPA is the sole shareholder of Community Care Partners (CCP) and NorthShore Physician Associates Value Based Care (VBC). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

NorthShore, FPA, and RMI are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). NPA, CCP, and VBC are for-profit corporations. Insurance International is a foreign corporation organized in the Cayman Islands, which does not tax the activities of this organization.

The Corporation is the primary teaching affiliate of the University of Chicago Pritzker School of Medicine, under which the Corporation sponsors graduate medical education programs for physicians and other health-care-related personnel.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Estimates affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments, which are not limited as to use, with a remaining maturity of three months or less from the date of purchase.

Patient Accounts Receivable

The Corporation evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, the payor class, and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are stated at the lower of cost or market, based on the first-in, first-out (FIFO) method.

Investments

Investments in equity securities and mutual funds are carried at fair value based on quoted market prices. Commingled funds are carried at fair value based on other observable inputs. Debt securities are valued using institutional bids or pricing services. Alternative investments, primarily limited partnerships and hedge funds, are accounted for using the cost or equity method, depending on the extent of the Corporation's ownership within the fund, which is evaluated quarterly.

The Corporation classifies substantially all of its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenues, gains, and other support in excess of expenses, unless the income or loss is restricted by donor. Realized and unrealized gains and losses on donor restricted investments are reported as a change in temporarily restricted net assets.

2. Summary of Significant Accounting Policies (continued)

Pursuant to Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, the Corporation has no nonfinancial assets or liabilities that are required to be measured at fair value on a recurring basis as of September 30, 2018 or 2017.

Investments Limited as to Use

Investments limited as to use include investments internally designated by the Board of Directors (the Board) for property and equipment replacement and expansion that the Board, at its discretion, may subsequently use for other purposes and investments externally designated under indenture or donor restriction.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Typical useful lives are 5 to 40 years for buildings and improvements and 3 to 20 years for equipment and furniture. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Total depreciation was $67,025 and $109,489 for the years ended September 30, 2018 and 2017, respectively.

The Corporation performed an analysis of the remaining useful lives of certain fixed assets and as a result, the estimated useful lives of some assets have been modified. This resulted in a reduction of depreciation expense of approximately $40,750 for the year ended September 30, 2018.

Goodwill and Other Intangible Assets

Goodwill has been recorded at the excess of the purchase price over the fair value of the assets purchased in acquisitions. For 2018 and 2017, the Corporation performed a quantitative assessment which determined that the Corporation's fair value exceeds its carrying value, and no goodwill was impaired. The assessment included a review of several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. The Corporation has goodwill of $116,388 included in other noncurrent assets as of September 30, 2018 and 2017.

2. Summary of Significant Accounting Policies (continued)

Other intangible assets with definite lives, such as noncompete clauses or trade names, are amortized over the estimated useful life of the asset. The Corporation has $219 and $268 included in other noncurrent assets at September 30, 2018 and 2017, respectively. Amortization expense related to these other intangible assets for the years ended September 30, 2018 and 2017, was $50 and $184, respectively.

Impairments

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Asset impairments are recognized in operating expenses at the time the impairment is identified. There was no impairment of long-lived assets in fiscal years 2018 or 2017. Impairments of alternative investments are recognized in nonoperating income or changes in temporarily restricted net assets at the time the impairment is identified. Alternative investment impairments for fiscal years 2018 and 2017 are described in Note 4.

Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*. The asset retirement obligation, which primarily relates to future asbestos remediation, is recorded in accrued self-insurance and other liabilities and was accreted to its present fair value at September 30, 2018 and 2017, of $5,959 and $6,443, respectively.

General and Professional Liability

The provision for self-insured general and professional liability claims, per actuarial calculations, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimated receivable from the excess insurance carrier is reported in other noncurrent assets.

2. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets whose use has been limited by donors or grantors to a specific period of time or a specific purpose. Temporarily restricted gifts, grants, and bequests are reported as an increase in temporarily restricted net assets in the period received. When specific purposes are satisfied, net assets used for capital purposes are reported in the consolidated statements of operations and changes in net assets as additions to unrestricted net assets; net assets used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues and other support. Contributions received with donor-imposed restrictions are reported as unrestricted if the restrictions are met in the same reporting period.

Permanently restricted net assets have been restricted by donors to be invested by the Corporation in perpetuity. Certain income from such investments may be temporarily restricted as to use. Associated income that is without donor restrictions is recorded in nonoperating income.

Contributions

Unconditional pledges of others to give cash and other assets to the Corporation are reported at fair value at the date the pledge is received, to the extent estimated to be collectible. Pledges received with donor restrictions that limit the use of the donated assets are reported as increases in temporarily restricted net assets. When donor restrictions are satisfied or met as a result of meeting the specified requirement or the time frame indicated, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for operations. Contributions of long-lived fixed assets are recorded at fair value as an increase to property and equipment and an increase to unrestricted net assets.

Net Patient Service Revenue

Net patient service revenue is revenue generated from services provided by the Corporation to patients. The Corporation receives payments for these services either directly from patients or on behalf of patients from third-party payors. Net patient service revenue is reported at the estimated net realizable amounts in the period the related services are provided and is adjusted in future periods as final settlements and payments are made.

2. Summary of Significant Accounting Policies (continued)

Community Service and Care to the Indigent

The Corporation provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than the Corporation's established rates. Community service and care to the indigent provided by the Corporation are deducted to arrive at net patient service revenue. The estimated costs incurred by the Corporation to provide these services were $20,505 and $18,794 for the years ended September 30, 2018 and 2017, respectively. These estimates were determined using a ratio of cost-to-gross charges calculated from the Corporation's most recently filed Medicare cost reports and applying that ratio to the gross charges of charity care provided in the period.

Premium Revenue

The Corporation has agreements with health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly payments based on the number of participants, regardless of actual medical services provided to participants. For the years ended September 30, 2018 and 2017, $74,811 and $69,300, respectively, of premium revenue was recorded.

Revenues, Gains, and Other Support in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenues, gains, and other support in excess of expenses. The Board has approved a policy to include certain investment earnings in support of academic initiatives, as well as to provide funding for other activities, such as research. Changes in unrestricted net assets that are excluded from revenues, gains, and other support in excess of expenses include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were used for the purposes of acquiring such assets) and pension-related changes other than net periodic costs.

Other Revenue and Other Nonoperating Income

Other revenue includes all other miscellaneous activities, such as rental income, cafeteria sales, unrestricted donations, and other miscellaneous revenue. Other, net, within nonoperating income, consists primarily of the expenses of the Foundation, investment management expenses, pension settlement charges, and transfer of professional liability asset earnings to operating income.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Adopted

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The amendments in this update eliminate the requirement to retroactively adjust an investment when it becomes qualified for use under the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Corporation adopted the new guidance in the fiscal year 2018, and there was no significant impact on its consolidated financial statements.

Prospective

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The amendments in this update require not-for-profit entities that are conduit bond obligors 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. In March 2016, the FASB issued ASU 2016-08, clarifying the implementation guidance on principal vs. agent considerations. During the third quarter of 2016, the FASB issued ASU 2016-10 and 2016-12. The amendments in these updates further clarify key guidance related to revenue recognition. The Corporation is required to adopt the new guidance in conjunction with ASU 2014-09. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption not permitted. The requirements of the guidance will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the Corporation's provision for uncollectible accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under the new guidance, the uncollectible amounts due from patients will generally be reported as a direct reduction to net patient service revenue and will eliminate, or significantly reduce, the amounts presented separately as provision for uncollectible accounts. Although the adoption of the new guidance will have a significant impact on the amounts presented in certain categories of the Corporation's consolidated statements of operations and changes in net assets, it is not expected to materially impact the Corporation's overall consolidated financial position, results of operations, or cash flows. The Corporation will adopt the guidance using the full retrospective method as of October 1, 2018, and there will be no material cumulative adjustment recorded.

2. Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Investments, except for those accounted for under the equity method of accounting, or those that result in consolidating the investment, will be measured at fair value with changes in fair value recognized in nonoperating income. This new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees are required to capitalize leases with greater than 12-month terms on the balance sheet. Leases will be classified as operating or financing. Both types of leases will be recorded on the balance sheet. Operating leases will reflect lease expense on a straight-line basis whereas financing leases will accelerate lease expense in the early period of the lease term and decline with passage of time similar to current accounting for capital leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB proposed a single, principles-based model for all entities to account for credit losses on loans, debt securities, trade, lease, and other receivables. The allowance for expected credit losses at each reporting date would represent the current estimate of contractual cash flows not expected to be collected. ASU 2016-13 applies to financial assets subjected to credit losses that are not already classified as fair value through net income. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2021, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this update replace the three classes of net assets (unrestricted, temporary, and permanent) with two classes (with and without donor restrictions). ASU 2016-14 also requires additional disclosures relating to net assets and

2. Summary of Significant Accounting Policies (continued)

expenses. The Corporation is required to adopt the new guidance for annual reporting periods beginning on October 1, 2018, and subsequent interim periods. The Corporation is currently evaluating the impact this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update clarify the classification of eight types of transactions in the statement of cash flows to reduce diversity in practices. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018; however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The guidance requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer be required to present transfers between these categories. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018; however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this update are intended to simplify the accounting for goodwill impairments. Goodwill impairment will be determined by using the difference in fair value and carrying value rather than the original two-step approach. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2022; however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require an employer to separate the service cost component from the other components of net benefit cost. The service cost component will be reported as part of compensation while the remaining components will be reflected in nonoperating income. The amendments in this update should be applied retrospectively for the presentation of the service cost component and other components of net period pension costs and net periodic postretirement benefit costs in the income statement. Since the Corporation's pension plan is currently frozen, it

2. Summary of Significant Accounting Policies (continued)

does not have service costs. All other components will be presented as a part of nonoperating income. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019; however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In June of 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment in this update improves consistency in how entities determine whether a transfer of assets is an exchange transaction or a contribution and whether a contribution is conditional. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

3. Contractual Arrangements With Third-Party Payors

The Corporation has entered into contractual arrangements with various managed care organizations, including Blue Cross Blue Shield (BCBS), the terms of which call for the Corporation to be paid for covered services at predetermined rates. Certain services provided to BCBS program inpatients are paid at interim rates with annual settlements based on allowable reimbursable costs. Outpatient services for this BCBS population are covered by an indemnity fee-for-service policy and, therefore, are not covered under the cost settlement program. The Corporation also provides care to certain patients with government insurance programs, such as Medicare and Medicaid, at predetermined rates. Reported costs and/or services provided, under certain of the arrangements, are subject to audit by the administering agencies. Changes in the various programs, including Medicare and Medicaid, could have an adverse effect on the Corporation.

A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the charges for services provided and estimated reimbursement from the various third-party payors. Net patient service revenue increased by $846 and $78 for the years ended September 30, 2018 and 2017, respectively, to reflect changes in the estimated Medicare and Medicaid settlements for prior years.

(Dollars in Thousands)

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

The percentages of total gross patient service revenue applicable to specific payors' contractual arrangements for the years ended September 30 are as follows:

	2018	2017
Medicare	**44%**	44%
BCBS	**21**	22
Managed care	**19**	19
Medicaid	**8**	9
Other	**8**	6
Total	**100%**	100%

The percentages of gross patient accounts receivable applicable to specific payors' contractual arrangements as of September 30 are as follows:

	2018	2017
Medicare	**37%**	31%
Managed care	**20**	20
Medicaid	**20**	27
BCBS	**14**	13
Other	**9**	9
Total	**100%**	100%

The Corporation's estimation of the allowance for doubtful accounts is based primarily upon the type and age of patient accounts receivable and the effectiveness of the Corporation's collection efforts.

The Corporation's policy is to establish reserves for a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The allowance for uncollectible accounts as a percentage of all accounts receivable was 29% and 26% as of September 30, 2018 and 2017, respectively.

The Corporation's methodology for both years ended September 30, 2018 and 2017, was to reserve for all commercial claims over 360 days.

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

The Corporation's total reserve for self-pay accounts receivable, including the allowance for uncollectible accounts and charity care, was 85% and 86% of self-pay accounts receivable at September 30, 2018 and 2017, respectively.

On a monthly basis, the Corporation reviews its patient accounts receivable balances and employs various analytics to support the determination of its estimates. These efforts primarily consist of reviewing the following: historical write-off and collection experience, revenue and volume trends by payor (particularly self-pay components), changes in the aging and payor mix of patient accounts receivable (including accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients), trending of days revenue in accounts receivable, and various allowance coverage statistics.

Total net patient service revenue was $1,989,091 and $1,953,327 for the years ended September 30, 2018 and 2017, respectively. Included in this amount is third-party payor revenue of $1,896,845 and $1,865,072 and self-pay revenue of $92,245 and $88,255 for the years ended September 30, 2018 and 2017, respectively.

The Corporation is subject to routine audits and reviews by various governmental and commercial agencies related to payments received for services provided. In fiscal year 2016, the Office of the Inspector General completed a compliance review for Medicare services provided in 2013 and 2014. As a result of this review, the Corporation refunded $3,900 to the Centers for Medicare & Medicaid Services in March 2017. The Corporation has appealed the results of this review.

The Corporation believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations or allegations of potential wrongdoing.

Current liabilities include $119,829 and $106,992 for September 30, 2018 and 2017, respectively, related to various estimated settlements due to third-party payors, including Medicare, Medicaid, and BCBS. Laws and regulations governing Medicare and Medicaid change frequently, are complex, and are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude the final settlement until the related cost reports have been audited by the sponsoring agency and settled. As a result, there is a reasonable possibility that these recorded estimates will change as new information becomes available, and the amount of the change may be material.

(Dollars in Thousands)

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

Under the state of Illinois' Hospital Assessment program, the Corporation recognized $57,095 and $56,699 of net patient revenue for the years ended September 30, 2018 and 2017, respectively. Additionally, $45,362 and $43,636 of program assessment expense was recognized for the years ended September 30, 2018 and 2017, respectively.

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2018	2017
Other short-term investments	$ 1,240	$ 1,150
Investments available for general use	1,875,690	1,695,893
Investments limited as to use:		
Current portion	52,605	50,705
All other (noncurrent)	222,758	206,691
Other noncurrent assets	99,671	84,458
Total investments	$ 2,251,964	$ 2,038,897

Total investment return for the years ended September 30 is summarized as follows:

	2018	2017
Nonoperating:		
Dividend and interest income	$ 36,556	$ 32,350
Net realized gains on investments	116,861	54,463
Net unrealized gains on investments	11,418	126,512
Total nonoperating investment return	164,835	213,325
Temporarily restricted:		
Net realized gains	6,918	2,059
Net unrealized gains	14,407	15,572
Total temporarily restricted investment return	21,325	17,631
Total investment return	$ 186,160	$ 230,956

Investment fees for the years ended September 30, 2018 and 2017, were $28,768 and $28,549, respectively, and are included in other, net, within nonoperating income.

4. Financial Instruments (continued)

The Corporation continually reviews its alternative investment portfolio recorded at cost and evaluates whether declines in the fair value of such securities should be considered other than temporary. Factored into this evaluation are general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, and the length of time and extent to which the fair value has been less than cost. For the year ended September 30, 2018 one investment held at cost was determined to be impaired, resulting in the corporation recording a loss of $3,323. No related investments were impaired for the year ended September 30, 2017.

5. Fair Value Measurements

The Corporation holds certain debt securities, equity securities, and investments in funds that are measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the highest and best use of an asset is used for valuation. Highest and best use is determined by the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 – Quoted market prices for identical instruments in active markets. Active markets are defined by daily trading and investor ability to exit holdings at the daily pricing. Redemption frequency is daily.

Level 2 – Quoted market prices for similar or identical instruments and model-derived valuations in which all significant inputs are observable in the market. The separately managed accounts are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is daily or monthly.

(Dollars in Thousands)

5. Fair Value Measurements (continued)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. These prices are based on the net asset value reported from the investee and reviewed by an independent third party as its best estimate of fair market value on the reporting date for its investments in limited partnerships and hedge funds. Because there are no observable market transactions for interests in investments in limited partnerships and hedge funds, any investments of this nature would be classified in Level 3 of the fair value hierarchy. Redemption frequency varies from monthly to longer than one year for hedge funds. Limited partnerships are expected to be held for the life of the fund.

The Corporation's financial assets that are carried at fair value at September 30, 2018, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Common stock	$ 192,335	$ –	$ –	$ 192,335
Mutual funds	308,266	–	–	308,266
Bond funds	105,666	–	–	105,666
Fixed income accounts	–	215,669	–	215,669
Total assets at fair value	$ 606,267	$ 215,669	$ –	$ 821,936

Total investments at September 30, 2018, are $2,251,964. This amount includes $821,936 in investments recorded at fair value and $878,750 in investments measured at net asset value. In addition, this amount includes $465,835 in limited partnerships and hedge funds recorded at cost, $13,882 in limited partnerships recorded using the equity method, cash in transit of $40,467 and other assets of $31,094 recorded at cost.

The Corporation's financial assets that are carried at fair value at September 30, 2017, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Common stock	$ 188,870	$ –	$ –	$ 188,870
Mutual funds	223,850	–	–	223,850
Bond funds	183,010	–	–	183,010
Real asset funds	15,610	–	–	15,610
Fixed-income accounts	–	124,508	–	124,508
Total assets at fair value	$ 611,340	$ 124,508	$ –	$ 735,848

5. Fair Value Measurements (continued)

Total investments at September 30, 2017, are $2,038,897. This amount includes $735,848 in investments recorded at fair value and $804,226 in investments measured at net asset value. In addition, this amount includes $480,066 in limited partnerships and hedge funds recorded at cost, $10,278 in limited partnerships recorded using the equity method, and other assets of $8,479 recorded at cost.

ASC 825, *Financial Instruments*, permits entities to elect to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument and is irrevocable. The Corporation has made no such elections to date.

There were no transfers between Level 1, Level 2, or Level 3 assets during the years ended September 30, 2018 or 2017.

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

The estimated fair value of total debt was $329,160 and $344,257 at September 30, 2018 and 2017, respectively. Under the guidance set forth in ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, the Corporation's debt is classified as a Level 2 liability. The estimated fair value of the fixed rate debt is determined by recalculating the dollar prices of each of the Corporation's outstanding fixed rate bonds using current market yields. The variable rate debt is remarketed daily or weekly, and par value is considered to be fair value. The fair value included a consideration of third-party credit enhancements, which had no impact on the estimated fair value of the debt.

6. Long-Term Debt and Debt With Self-Liquidity

All bonds issued by the Corporation were used to pay or reimburse the Corporation for certain capital projects, to provide for a portion of the interest on the bonds, and to pay certain expenses incurred in connection with the issuance of the bonds. The variable rate bonds are subject to periodic remarketing and can be converted to a fixed rate subject to certain terms of the loan agreements.

6. Long-Term Debt and Debt With Self-Liquidity (continued)

The Series 2001B, 2001C, 1995, and 1996 bonds have standby bond purchase agreements issued by a financial institution that expire on October 15, 2020. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement liquidity facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity facility provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2019. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

Under the terms of the long-term debt arrangements, various amounts are on deposit with trustees, and certain specified payments are required for bond redemption, interest payments, and asset replacement. The terms of certain long-term debt agreements require, among other things, the maintenance of various financial ratios and place limitations on additional indebtedness and pledging of assets. The Corporation remained in compliance with these agreements during the reporting periods.

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to $500 at September 30, 2018 and 2017. No amounts have been drawn against these LOCs.

(Dollars in Thousands)

6. Long-Term Debt and Debt With Self-Liquidity (continued)

For the years ending September 30, maturities of long-term debt, including an $88 bond premium, are as follows:

Fiscal Year	Maturities of Long-Term Debt
2019	$ 11,193
2020	$ 11,638
2021	$ 12,133
2022	$ 12,623
2023	$ 13,158

Interest paid for the years ended September 30, 2018 and 2017, was $8,322 and $7,705, respectively. Interest of $1,208 and $1,300 was capitalized for the same periods, respectively. In addition, bond premium amortization was $88 for the years ended September 30, 2018 and 2017.

Total long-term debt at September 30 is summarized as follows:

		Amortization		Outstanding Principal		Interest Rate	
		Amount	Years	September 30		September 30	
Type/Issuer	Series	Range	From–To	2018	2017	2018	2017
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	$1,800–$5,000	2019–2031	$ 32,500	$ 34,300	1.18%	0.68%
	2001C	1,800– 5,000	2019–2031	32,500	34,300	1.18%	0.68%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	$1,490–$8,605	2019–2035	$ 38,575	$ 40,020	1.29%	0.78%
	1996	1,475– 8,560	2019–2035	38,635	40,070	1.30%	0.77%
Illinois Educational Facilities Authority Commercial Paper Revenue Note							
	2008	$995–$13,305	2032–2038	$ 75,000	$ 75,000	1.38%	0.79%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	$825–$9,685	2019–2037	$ 107,540	$ 111,765	4.6%–5.25%	4.00%–5.25%
Total long-term debt				$ 324,750	$ 335,455		
Less: current maturities of debt				11,193	10,793		
Less: debt issuance costs				2,278	2,409		
Plus: 2010 bond premium (current and long-term)				1,638	1,726		
Total long-term debt, less current maturities				$ 312,917	$ 323,979		

For all variable rate securities, the interest rate is a weighted average.

(Dollars in Thousands)

7. Employee Benefit Programs

The Corporation sponsors a funded, noncontributory, defined benefit pension plan (the NorthShore Plan), which was frozen to all participants on December 31, 2013. Assets held by the NorthShore Plan consist primarily of fixed-income securities, domestic/international stocks, limited partnership interests, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

For the year ended September 30, 2018, the Corporation did not make contributions to the plan. The Corporation recognized $9,838 in settlement charges, in nonoperating income, for the year ended September 30, 2018.

The summary of the changes in the projected benefit obligation and plan assets for the years ended September 30 is as follows:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 259,313	$ 269,633
Interest cost	10,307	10,372
Actuarial losses	(9,521)	(5,648)
Benefits paid	(8,006)	(15,044)
Settlements	(28,470)	–
Projected benefit obligation at end of year	$ 223,623	$ 259,313

The accumulated benefit obligation is equal to the projected benefit obligation for the years ended September 30 as the Plan was frozen of December 31, 2013.

	2018	2017
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 230,187	$ 197,479
Actual return on plan assets	10,970	17,752
Employer contributions	–	30,000
Benefits paid	(8,006)	(15,044)
Settlements	(28,470)	–
Fair value of plan assets at end of year	$ 204,681	$ 230,187

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

A summary of changes in the funded status and net periodic pension cost as of and for the years ended September 30 is as follows:

	2018	2017
Funded status of the plan	$ (18,942)	$ (29,126)
Unrecognized net actuarial loss	77,080	94,024
Prepaid pension cost	58,138	64,898
Accumulated adjustments to unrestricted net assets	(77,080)	(94,024)
Amounts recognized in consolidated balance sheets	$ (18,942)	$ (29,126)

Changes in the plan's assets and benefit obligation recognized in unrestricted net assets for the years ended September 30 include the following:

	2018	2017
Current year actuarial loss	$ (5,132)	$ (9,186)
Recognized loss	(11,812)	(2,074)
	$ (16,944)	$ (11,260)

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

Asset Category	Strategic Target	2018	2017
Equity securities	37%	40%	39%
Debt securities	33	25	34
Other	30	35	27
Total	100%	100%	100%

The Corporation holds certain debt securities, equity securities, and investments in funds that must be measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the "highest and best use" of an asset is used for valuation. Highest and best use is determined by the "use of the asset by market participants, even if the intended use of the asset by the reporting entity is different."

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The following table presents total financial instruments for the NorthShore Plan as of September 30, 2018, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Money market funds	$ 5,711	$ –	$ –	$ 5,711
Mutual funds	17,173	–	–	17,173
Fixed-income accounts	–	40,638	–	40,638
Total assets at fair value	$ 22,884	$ 40,638	$ –	63,522
Investments measured at net asset value				141,159
Total pension plan assets				$ 204,681

The following table presents total financial instruments for the NorthShore Plan as of September 30, 2017, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Money market funds	$ 3,295	$ –	$ –	$ 3,295
Mutual funds	41,583	–	–	41,583
Fixed-income accounts	–	48,476	–	48,476
Total assets at fair value	$ 44,878	$ 48,476	$ –	93,354
Investments measured at net asset value				136,833
Total pension plan assets				$ 230,187

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The components of net periodic benefit cost included in the consolidated statements of operations and changes in net assets for the years ended September 30 are as follows:

	2018	2017
Interest cost	**$ 10,308**	$ 10,372
Expected return on plan assets	**(15,359)**	(14,215)
Actuarial loss	**2,010**	2,074
Net periodic benefit cost	**$ (3,041)**	$ (1,769)

Expected employee benefit payments for the NorthShore Plan are $14,906 in 2019, $14,508 in 2020, $14,955 in 2021, $15,315 in 2022, $16,057 in 2023, and $77,904 during the period from 2024 through 2028.

Assumptions used to determine benefit obligations at the measurement date of September 30 are in the table below. To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

	2018	2017
Discount rate	**4.48%**	4.09%
Expected return on plan assets	**6.75**	6.75

Assumptions used to determine net pension expense for the years ended September 30 are as follows:

	2018	2017
Discount rate	**4.09%**	3.95%
Expected return on plan assets	**6.75**	7.00

During fiscal year 2017, the Corporation switched from the Adjusted RP-2014 Mortality Table with generational mortality improvement using Scale MP-2016 to using Scale MP-2017, which increased the projected benefit obligation by $(7,915).

7. Employee Benefit Programs (continued)

The Corporation also sponsors a 403(b) plan that matches employee contributions at an annual discretionary percentage. Matching cash contributions to the defined contribution plan totaled $20,164 and $23,758 in 2018 and 2017, respectively. The related liability at September 30, 2018 and 2017, is $21,800 and $16,310, respectively, which was included in accrued expenses.

In addition, the Corporation sponsors a defined contribution retirement plan (the RCP Plan), in which it enrolled new employees hired after January 1, 2013, and all employees as of January 1, 2014. Cash contributions to the RCP Plan totaled $25,831 and $24,663 in 2018 and 2017, respectively. The Corporation recorded a liability of $20,325 and $18,825 related to the RCP Plan as of September 30, 2018 and 2017, respectively, which was included in accrued expenses.

The Corporation also sponsors various supplemental executive retirement plans. The total liability for these plans is $16,908 and $16,585 for the years ended September 30, 2018 and 2017, respectively, and is included in accrued expenses and employee retirement plans based on the expected payout dates. The Corporation funded $3,458 and $2,540 of the liabilities for these plans as of September 30, 2018 and 2017, respectively, and recorded these amounts in other noncurrent assets.

The Corporation also offers an Executive and Physician Income Deferral Plan (457B), which is 100% employee-funded. The plan assets and liabilities for September 30, 2018 and 2017, are $96,326 and $82,021, respectively. These amounts are included in other noncurrent assets and employee retirement and deferred compensation plans for the years ended September 30, 2018 and 2017.

8. Professional Liability Insurance

The Corporation has claims-made basis policies in excess of the amounts retained by the Corporation for professional and general liability claims. As of September 30, 2015 (beginning with policy year March 26, 2009), claims are subject to deductibles of $10,000 with a $15,000/$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries, and an accrual has been made for potential claims to be paid. The discounted reserve balance was $215,301 and $251,645 as of September 30, 2018 and 2017, respectively, using a 3.0% and 2.5% discount rate, respectively. Included in these amounts is a receivable for anticipated insurance recoveries of $14,201 and $13,115 as of September 30, 2018 and 2017, respectively. The undiscounted reserve balance would have been higher by

8. Professional Liability Insurance (continued)

approximately $21,704 and $24,183 as of September 30, 2018 and 2017, respectively. The Corporation is not aware of any factors that would cause insurance expense to vary materially from the amounts provided. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently may not be insured.

9. Litigation and Contingencies

In February 2004, the Federal Trade Commission (FTC) issued a complaint against the Corporation challenging its January 2000 merger with Highland Park Hospital (HPH). On April 28, 2008, the FTC issued a Final Order that requires the Corporation to conduct separate negotiations with private third-party payors for health care services of HPH unless a payor specifically elects to opt out and negotiate jointly for all of the Corporation's hospitals. The Final Order also requires the Corporation to give prior notification to the FTC for any future acquisitions of hospitals within the Chicago Metropolitan Statistical Area through April 2018. The Final Order terminates in April 2028.

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation's January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs' motion for class certification. The plaintiffs appealed the District Court's denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court's decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District Court granted plaintiffs' renewed motion for class certification. On September 4, 2015, the District Court granted in part the Corporation's motions to compel arbitration against the largest managed care organizations that are alleged to be part of the class. In particular, the District Court found that Aetna, Blue Cross (PPO product), Cigna, United, and Unicare must resolve their dispute with the Corporation (if any) through arbitration, and cannot participate in the class.

(Dollars in Thousands)

9. Litigation and Contingencies (continued)

Several other managed care organizations, including Blue Cross (HMO product) and Humana, remain within the class. Fact discovery closed in November 2015. The parties completed expert discovery in April 2017. The parties filed competing motions for summary judgment, motions to decertify the class, and motions to exclude experts during the spring and summer of 2017. On March 31, 2018, the District Court issued a partial ruling on the various pending motions. The court granted the Corporation's motion to decertify the class finding that named the plaintiffs were "inadequate" to represent the proposed class. The Court further limited the class to "direct" purchasers of only "inpatient" services, and found the current Plaintiffs were "indirect" purchasers of only "outpatient" services. On July 2, 2018, the District Court granted plaintiffs' counsels' request to substitute two new patients who claim to meet the amended class definition. During discovery into the two new patients' claims, Plaintiffs' counsel elected to voluntarily dismiss one patient, leaving only one individual patient as the sole proposed class representative. On October 3, 2018, the Corporation filed a renewed and supplemental Motion for Summary Judgment and Motion for Decertification seeking to disqualify the lone remaining Plaintiff as an inadequate class member, as well as obtain judgment against the one remaining patient for failure to establish any injury or harm. A decision on the pending motions is expected in early 2019. The Corporation has denied all allegations within the plaintiffs' complaints and intends to pursue its rights in defense of the claims. The Corporation is unable to predict the ultimate outcomes, including liability, if any, in this litigation; however, such liabilities could be material.

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or operations.

10. Commitments

Future minimum lease payments for property and equipment for all noncancelable operating leases for the next five years are as follows:

2019	$	24,217
2020	$	22,869
2021	$	22,437
2022	$	21,730
2023	$	20,498

(Dollars in Thousands)

10. Commitments (continued)

Lease expense for the years ended September 30, 2018 and 2017, was $25,841 and $25,249, respectively, and is recorded within supplies, services, and other.

At September 30, 2018, the Corporation is committed to $98,971 in construction-related contracts.

At September 30, 2018, the Corporation is committed to fund $128,261 to limited partnerships, which is expected to occur over the next decade. At September 30, 2018, the pension plan is committed to fund $5,390 to limited partnerships, which is expected to occur over the next decade.

Future minimum intangible asset amortization for the next five years is as follows:

2019	$	35
2020	$	35
2021	$	35
2022	$	35
2023	$	35

11. General, Administrative, and Fund-Raising Expenses

General and administrative expenses incurred in connection with providing inpatient, outpatient, professional, and emergency care services amounted to $319,276 and $317,839 in 2018 and 2017, respectively. Fund-raising expenses for the years ended September 30, 2018 and 2017, were $3,555 and $3,040, respectively.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2018	2017
Restricted for:		
Research	$ **21,154**	$ 20,270
Special purpose	**118,407**	104,603
Total temporarily restricted net assets	$ **139,561**	$ 124,873

(Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets totaled $77,394 and $77,093 for the years ended September 30, 2018 and 2017, respectively. Earnings from permanently restricted net assets are used toward research, special purpose, and general operations and to fund department chairs, as well as uncompensated care offered to patients who meet certain criteria established under the Corporation's charity care policy.

Activity in the endowment funds was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2016	$ 7,916	$ 55,089	$ 76,857	$ 139,862
Contributions	–	–	236	236
Investment return	565	3,681	–	4,246
Change of value in trust	2,383	15,573	–	17,956
Distributions	(565)	(6,454)	–	(7,019)
Endowment net assets at September 30, 2017	10,299	67,889	77,093	155,281
Contributions	–	–	**301**	**301**
Investment return	**1,318**	**8,501**	–	**9,819**
Change of value in trust	**2,209**	**14,407**	–	**16,616**
Distributions	**(1,318)**	**(6,823)**	–	**(8,141)**
Endowment net assets at September 30, 2018	**$ 12,508**	**$ 83,974**	**$ 77,394**	**$ 173,876**

The state of Illinois passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. The Corporation has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. In compliance with this interpretation of UPMIFA, the Corporation classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated in a manner considered with the standard of prudence prescribed by UPMIFA.

12. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation has adopted a policy of requiring a minimum donation of $1,500 to establish an endowed chair and $1,000 to establish an endowed research project or endowed clinical program.

The Corporation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Currently, the Corporation expects its endowment funds over time to provide an average rate of return of approximately 5% annually. To achieve this long-term rate of return objective, the Corporation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

An endowment fund is considered to be underwater when the market value of the endowment is less than the original (and any subsequent) donations received by the Corporation. The Corporation has adopted a policy that such shortfall amounts will be funded by the Corporation from its unrestricted investment funds. There were no underwater endowments as of September 30, 2018 or 2017.

13. Income Taxes

The Corporation and its related affiliates, except for NPA and CCP, known as NorthShore Exempt Group, have been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the IRC. Most of the income received by NorthShore Exempt Group is exempt from taxation under Section 501(a) of the IRC as income related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. Some of the income received by exempt entities is subject to taxation as unrelated business income. NorthShore and its subsidiaries file federal income tax returns and returns for various states in the U.S.

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended September 30, 2018 or 2017.

13. Income Taxes (continued)

For the year ended September 30, 2018, the Corporation has a net operating loss carryforward of $8,643, which generated assets of $2,464. These assets are offset by a valuation allowance of $1,020.

For the year ended September 30, 2017, the Corporation has a net operating loss carryforward of $9,494, which generated assets of $3,823. These assets are offset by a valuation allowance of $2,380.

14. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2018 through February 4, 2019, the date of issuance of the accompanying consolidated financial statements.

Supplementary Information

ATTACHMENT 35

EY
Building a better working world

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Report of Independent Auditors on Supplementary Information

The Board of Directors
NorthShore University HealthSystem

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

Ernst & Young LLP

February 4, 2019

NorthShore University HealthSystem

Details of Consolidated Balance Sheet
(Dollars in Thousands)

September 30, 2018

	Hospitals and Clinics	Insurance International	FPA	RMI	NPA	CCP	VBC	(Eliminations)	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 49,313	$ 417	$ 3,551	$ –	$ (582)	$ –	$ –	$ –	$ 52,699
Other short-term investments	1,240	–	–	–	–	–	–	–	1,240
Internally designated investments, current portion	52,605	–	–	–	–	–	–	–	52,605
Patient accounts receivable, less allowances for uncollectible and charity accounts of $107,253	215,642	–	45,746	182	–	–	–	–	261,570
Inventories, prepaid expenses, and other	59,668	1,104	500	–	26,670	–	–	–	87,942
Total current assets	378,468	1,521	49,797	182	26,088	–		–	456,056
Investments available for general use	1,875,690	–	–	–	–	–	–	–	1,875,690
Investments limited as to use	222,758	–	–	–	–	–	–	–	222,758
Property and equipment:									
Land and improvements	107,331	–	–	–	–	–	–	–	107,331
Buildings	1,584,943	–	15,936	–	–	–	–	–	1,600,879
Equipment and furniture	413,853	–	13,067	–	–	–	–	–	426,920
Construction-in-progress	68,280	–	–	–	–	–	–	–	68,280
	2,174,407	–	29,003	–	–	–		–	2,203,410
Less accumulated depreciation	1,061,312	–	13,877	–	–	–	–	–	1,075,189
Total property and equipment, net	1,113,095	–	15,126	–	–	–		–	1,128,221
Other noncurrent assets	240,167	14,201	(812)	–	219	–	–	812	254,587
Total assets	$ 3,830,178	$ 15,722	$ 64,111	$ 182	$ 26,307	$ –	$ –	$ 812	$ 3,937,312

ATTACHMENT 35

#20-008

NorthShore University HealthSystem

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

September 30, 2018

	Hospitals and Clinics	Insurance International	FPA	RMI	NPA	CCP	VBC	(Eliminations)	Consolidated
Liabilities and net assets									
Current liabilities:									
Accounts payable	$ 87,259	$ 17	$ 893	$ –	$ 482	$ –	$ –	$ –	$ 88,651
Accrued expenses	482,481	1,215	(312,030)	182	26,637	2,496	25	–	201,006
Current portion of self-insurance	41,500	–	–	–	–	–	–	–	41,500
Due to third-party payors	119,829	–	–	–	–	–	–	–	119,829
Current maturities of long-term debt	11,193	–	–	–	–	–	–	–	11,193
Total current liabilities	742,262	1,232	(311,137)	182	27,119	2,496	25	–	462,179
Noncurrent liabilities:									
Long-term debt, less current maturities	312,917	–	–	–	–	–	–	–	312,917
Employee retirement and deferred compensation plans	124,034	–	–	–	–	–	–	–	124,034
Accrued self-insurance and other	181,446	14,201	–	–	–	–	–	–	195,647
Total noncurrent liabilities	618,397	14,201	–	–	–	–	–	–	632,598
Net assets:									
Unrestricted	2,252,564	289	375,248	–	(812)	(2,496)	(25)	812	2,625,580
Temporarily restricted	139,561	–	–	–	–	–	–	–	139,561
Permanently restricted	77,394	–	–	–	–	–	–	–	77,394
Total net assets	2,469,519	289	375,248	–	(812)	(2,496)	(25)	812	2,842,535
Total liabilities and net assets	$ 3,830,178	$ 15,722	$ 64,111	$ 182	$ 26,307	$ –	$ –	$ 812	$ 3,937,312

ATTACHMENT 35

#20-008

NorthShore University HealthSystem

Details of Consolidated Statement of Operations
(Dollars in Thousands)

Year Ended September 30, 2018

	Hospitals and Clinics	Insurance International	FPA	RMI	NPA	CCP	VBC	(Eliminations)	Consolidated
Unrestricted revenues and other support									
Net patient service and premium revenue	$ 1,476,576	$ 2,631	$ 559,577	$ 3,193	$ 84,171	$ –	$ –	$ (62,246)	$ 2,063,902
Provision for uncollectible accounts	(35,794)	–	(15,636)	(212)	–	–	–	–	(51,642)
Net patient service and premium revenue	1,440,782	2,631	543,941	2,981	84,171	–	–	(62,246)	2,012,260
Investment earnings supporting current activities	78,000	–	–	–	–	–	–	–	78,000
Net assets released from restrictions used for operations	14,836	–	–	–	–	–	–	–	14,836
Other revenue	73,399	–	774	(24)	–	–	–	(25,533)	48,616
Total unrestricted revenues and other support	1,607,017	2,631	544,715	2,957	84,171	–	–	(87,779)	2,153,712
Expenses									
Salaries and benefits	717,043	–	436,792	2,662	437	(137)	–	(221)	1,156,576
Supplies, services, and other	645,159	89	79,287	204	83,698	140	25	(84,927)	723,675
Depreciation and amortization	64,827	–	2,213	–	35	–	–	–	67,075
Insurance	(4,430)	2,500	26,320	91	–	–	–	(2,631)	21,850
Medicaid assessment	45,362	–	–	–	–	–	–	–	45,362
Interest	8,722	–	–	–	–	–	–	–	8,722
Total expenses	1,476,683	2,589	544,612	2,957	84,170	3	25	(87,779)	2,023,260
Income (loss) from operations	130,334	42	103	–	1	(3)	(25)	–	130,452

ATTACHMENT 35

#20-008

NorthShore University HealthSystem

Details of Consolidated Statement of Operations (continued)

(Dollars in Thousands)

	Hospitals and Clinics	Insurance International	FPA	RMI	NPA	CCP	VBC	(Eliminations)	Consolidated
Nonoperating income									
Dividend and interest income	$ 36,556	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 36,556
Net realized gains on investments	116,861	–	–	–	–	–	–	–	116,861
Net unrealized gains on investments	11,418	–	–	–	–	–	–	–	11,418
Transfer of investment earnings supporting current activities	(78,000)	–	–	–	–	–	–	–	(78,000)
Other, net	(52,370)	–	–	–	–	–	–	–	(52,370)
Total nonoperating income	34,465	–	–	–	–	–	–	–	34,465
Revenues, gains, and other support in excess of (less than) expenses	$ 164,799	$ 42	$ 103	$ –	$ 1	$ (3)	$ (25)	$ –	$ 164,917

ATTACHMENT 35

#20-008

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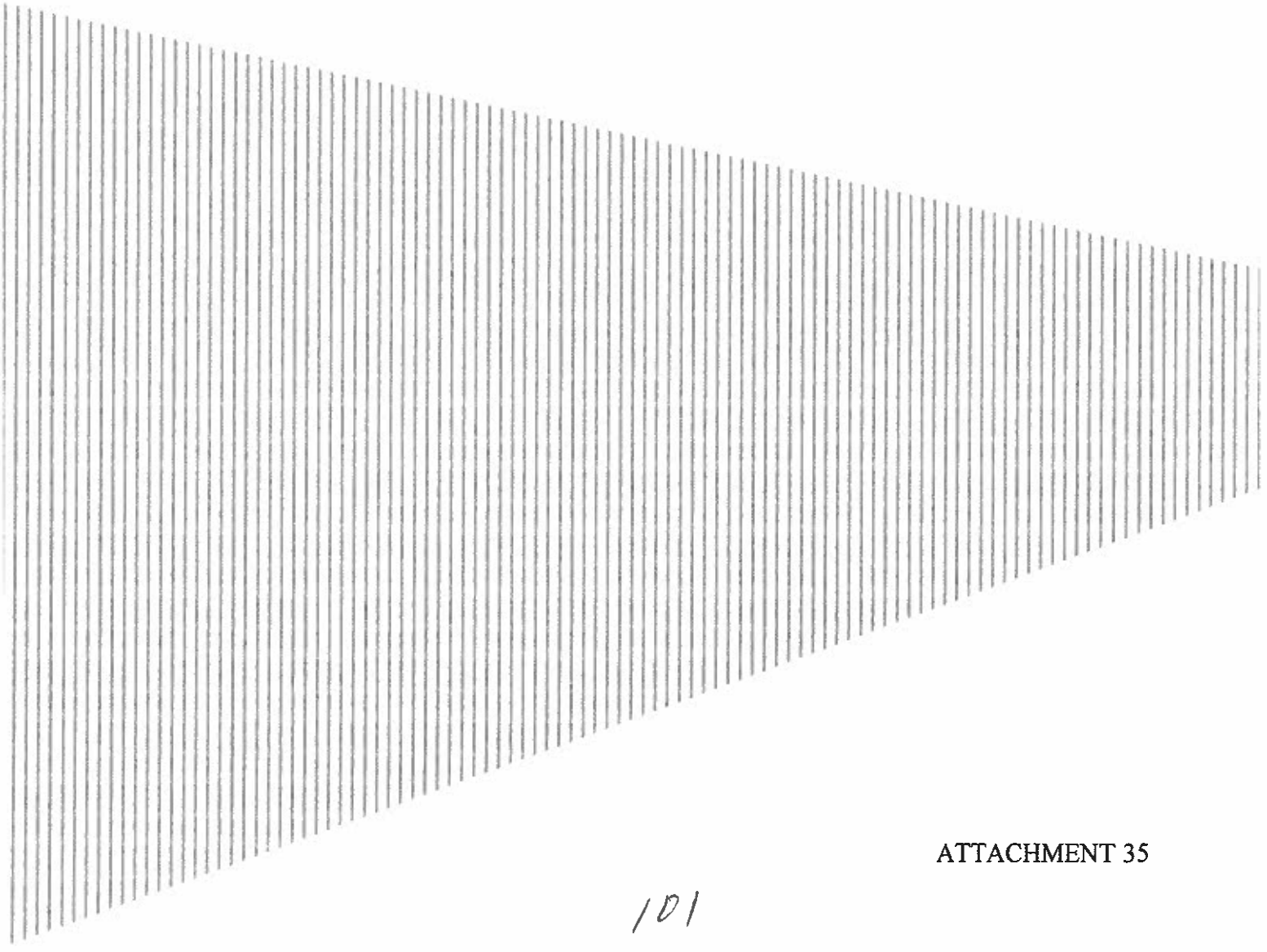

ATTACHMENT 35

NOTE ON CONSTRUCTION COSTS

The applicants acknowledge that the construction cost associated with the proposed project exceeds that identified as the "standard" cost by the HFSRB staff, using RS Means as an estimating tool. That "standard" is intended to address the average cost for an entire hospital, which consists of areas with construction costs per square foot much higher than the average, such as surgery, imaging, sterile processing and dietary, as well as areas with much lower construction costs, such as physical therapy, lobbies, storage areas and offices. The projected cost exceeds the standard because in excess of 55% of the square footage to be constructed is for surgery, which commands a much higher construction cost than that of a hospital, in its totality. By comparison, 5-7% of a hospital's total square footage is allocated to surgery.

The construction cost estimate included in this CON application has been developed by Integrated Facilities Solutions and Pepper Construction, both of which are highly experienced in the management of hospital construction projects in the metropolitan Chicago market.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. $	Modernization $	Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Reviewable									
Surgery	$ 440.00		15,953				$ 7,019,320		$ 7,019,320
Recovery-Stage 1		$ 310.00			1,400			$ 434,000	$ 434,000
Recovery-Stage 2	$ 440.00	$ 310.00	4,605		5,664		$ 2,026,200	$ 1,755,840	$ 3,782,040
Laboratory		$ 310.00			6,102			$ 1,891,620	$ 1,891,620
			20,558		13,166				
Contingency	$ 30.00	$ 20.00					$ 616,740	$ 263,320	$ 880,060
	$ 470.00	$ 330.00					$ 9,662,260	$ 4,344,780	$ 14,007,040
Non-Reviewable									
Sterile Processing	$ 675.00	$ 400.00	744		18,899		$ 502,200	$ 7,559,600	$ 8,061,800
Environmental Services		$ 125.00			3,687			$ 460,875	$ 460,875
Transport Services		$ 125.00			389			$ 48,625	$ 48,625
Public Areas	$ 400.00	$ 150.00			11,598		$ -	$ 1,739,700	$ 1,739,700
Staff Areas		$ 200.00			2,182			$ 436,400	$ 436,400
Mechanical	$ 250.00		4,960				$ 1,240,000		$ 1,240,000
DGSF>>BGSF	$ 250.00		2,626				$ 656,550		$ 656,550
			8,330		36,755				
Contingency	$ 30.00	$ 20.00					$ 249,906	$ 735,100	$ 985,006
	$ 317.96	$ 298.74					$ 2,648,656	$ 10,980,300	$ 13,628,956
PROJECT TOTAL	$ 426.16	$ 306.99	28,888		49,921		$ 12,310,916	$ 15,325,080	$ 27,635,996

ATTACHMENT 36c

#20-008

PROJECTED OPERATING COSTS
and
TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS

Skokie Hospital

Projected Adj. Pt. Days:	157,980,000	
	5,244	30,127

Year 2 OPERATING COST per ADJUSTED PATIENT DAY

Salaries & Benefits		$78,852,000
Medical Supplies		$96,192,000
		$175,044,000
per Adjusted Patient Day:	$	5,810.12

YEAR 2 CAPITAL COST per ADJUSTED PATIENT DAY

Interest, Dep. & Amort	$	11,856,000
per Patient Day:	$	393.53

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

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#20-008

Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

RECEIVED
JAN 22 2020
HEALTH FACILITIES & SERVICES REVIEW BOARD

by FedEX

January 20, 2020

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

Dear Ms. Avery:

Enclosed please find two copies of a Certificate of Need ("CON") application addressing a modernization project proposed for Skokie Hospital

The application is accompanied by a check, in the amount of $2,500.00, as a filing fee.

Should any additional information be required, please do not hesitate to contact me.

Sincerely,

Jacob M. Axel
President

enclosures

675 North Court, Suite 210
Palatine, Illinois 60067

Phone (847) 776-7101
Fax (847) 776-7004