

\$1500  
fee



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CLIENT/MATTER NUMBER  
039822-0101

February 27, 2024

**VIA FEDERAL EXPRESS AND EMAIL**

Mr. John Kniery  
Administrator  
Illinois Health Facilities & Services Review Board  
535 West Jefferson Street  
Springfield, Illinois 62701-0001

Mr. Michael Constantino  
Project Review Supervisor  
Illinois Health Facilities & Services Review Board  
535 West Jefferson Street  
Springfield, Illinois 62701-0001

Re: First Permit Alteration Request for Project No. 22-022 (the "Project")  
Silver Cross Orland Park Medical Office Building

Dear Mr. Constantino:

Silver Cross Health System and Silver Cross Hospital & Medical Centers (collectively, the "Permit Holders"), pursuant to 77 Ill. Admin. Code §§ 1130.750, hereby submit this alteration request (the "Alteration Request") for the above referenced Project. Specifically, the Permit Holders seek to increase the total costs for the Project by seven percent (7%). This is the Permit Holders first alteration request for this Project.

**Background Facts**

On August 29, 2022, the Chairwoman of the Illinois Health Facilities & Services Review Board (the "Review Board") approved the Permit Holders' Certificate of Need Application ("Application") to lease approximately 42,000 rentable square feet in a medical office building (the "Medical Office Building") to be developed, constructed and owned by Remedy Medical Properties, Inc. (the "Owner" or the "Landlord") and located at the northeast corner of LaGrange Road and 171<sup>st</sup> Street in Orland Park, Illinois, at a total Project cost of \$25,543,836.

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FEB 29 2024

**HEALTH FACILITIES &  
SERVICES REVIEW BOARD**

Mr. John Knierly  
Mr. Michael Constantino  
First Permit Alteration Request for Project No. 22-022  
Silver Cross Orland Park Medical Office Building  
February 27, 2024  
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As set forth in the CON Application, the Permit Holders and the Landlord entered into a space lease on November 22, 2022 (the "Space Lease"). Simultaneously with the execution of the Space Lease, the Permit Holders executed a ground lease with the Landlord, whereby the Landlord agreed to lease the land upon which the Medical Office Building sits from the Permit Holders.

As also set forth in the CON Application, the Medical Office Building will house: (1) primary care and specialty care physicians who are currently employed by Premiere Suburban Medical Group ("PSMG"), an Illinois professional limited liability company, which is currently managed by an affiliate of the Permit Holders; and (2) non-hospital based ambulatory care (i.e., infusion services, diagnostic imaging, GI services, and a well-patient/blood draw laboratory). The Permit Holders will ultimately sublet the space assigned to PSMG or charge the space back to PSMG as the various PSMG doctors and offices are relocated to the Medical Office Building.

Based on the construction progress reports submitted to the Permit Holders by the Landlord, the Project remains on track. The Project will also meet the approved rentable square footage of 42,000.

That said, because the Permit Holders are only leasing the Medical Office Building from the Landlord, the Permit Holders are not directly managing the construction project and are somewhat of a third party to a large portion of the actual, final costs associated with the Project. The Permit Holders also need the Landlord's assistance in gathering up the construction costs.

Out of abundance of caution, the Permit Holders are submitting this Alteration Request to account for possible cost overruns due to the significant inflation that has been present in the economy for the past few years. The Permit Holders are requesting the full seven percent (7%) permitted under 77 Ill. Admin. Code § 1130.750(b)(5), which would increase the total Project costs from \$25,543,836 to \$27,331,904 (i.e., an increase of \$1,788,068).

This Alteration Request sets forth the sections of the CON Application that are impacted by this Alteration Request. Importantly, this Alteration Request does not negatively impact any section of the CON Application that previously contained a positive finding by the Review Board. Indeed, this Alteration Request only impacts a single line item from the CON Application (i.e., modernization contracts/tenant improvement allowances), which was more than \$12.7 million dollars **below** the Section 1120 norm/metric.

Mr. John Kniery  
Mr. Michael Constantino  
First Permit Alteration Request for Project No. 22-022  
Silver Cross Orland Park Medical Office Building  
February 27, 2024  
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**Section I, Attachment 7**  
**Project Costs and Sources of Funds**

Exhibit 1 (attached) shows the budgeted costs and sources of funds for the Project as originally approved by the Review Board, the additional funds sought by the Permit Holders in this Alteration Request, and the sources of funds for the amounts sought by this Alteration Request.

The Permit Holders allocated the increased modernization contracts/tenant improvement allowances across the clinical and non-clinical space in the same manner that they allocated the modernization contracts/tenant improvement allowances in the CON Application. Thus, the total increase of \$1,788,068 in modernization contracts/tenant improvement allowances was allocated as follows: \$875,536 to clinical space and \$911,532 to non-clinical space. The Permit Holders will use cash to pay for the additional modernization contracts/tenant improvement allowances as set forth in the Affidavit from Vincent Pryor, attached hereto as Exhibit 2.

**Section VI**  
**Attachment 34**  
**Availability of Funds**  
**Criterion 1120.120**

The Permit Holders will use cash to pay for the additional modernization contracts/tenant improvement allowances contemplated by this Alteration Request as set forth in the Affidavit from Vincent Pryor, attached hereto as Exhibit 2.

Silver Cross Hospital's most recent audited financial statements (September 30, 2023) are attached at Exhibit 3 and show that the Permit Holders are holding more than enough cash and cash equivalents to fund the additional modernization contracts/tenant improvement allowances requested in this Alteration Request. The Space Lease and Ground Lease also remain in place with the Landlord, as does the Permit Holders' original commitment to fund the other portions of the Project with cash and cash equivalents.

Mr. John Kniery  
Mr. Michael Constantino  
First Permit Alteration Request for Project No. 22-022  
Silver Cross Orland Park Medical Office Building  
February 27, 2024  
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**Section VII**  
**Attachment 35**  
**Financial Feasibility**  
**Financial Viability**  
**Criterion 1120.130**

The Permit Holders will use cash to pay for the additional modernization contracts/tenant improvement allowances contemplated by this Alteration Request. The Space Lease and Ground Lease also remain in place with the Landlord, as does the Permit Holders' original commitment to fund the other portions of the Project with cash and cash equivalents.

Silver Cross Hospital currently has an "A-" rating from Fitch Ratings. See Exhibit 4.

Thus, the Permit Holders remain entitled to a financial viability waiver pursuant to Criterion 1120.130(a)(1). Mr. Pryor's Financial Viability Waiver Certification is attached at Exhibit 5.

**Section VIII**  
**Attachment 37**  
**Economic Feasibility**  
**Criterion 1120.140**  
**Criterion 1120.140(c), Reasonableness of Project and Related Costs**

1. The original construction cost (i.e., tenant buildout costs) per gross square foot for the clinical portions of the Project was listed at \$56.40 in the CON Application. There are no contingency costs associated with this Project. The clinical portions of the Project encompass 20,589 building gross square feet. The original construction and contingency costs for the clinical portions of the Project total \$1,176,514. The square footage of the Project remains unchanged by this Alteration Request.

Mr. John Kniery  
Mr. Michael Constantino  
First Permit Alteration Request for Project No. 22-022  
Silver Cross Orland Park Medical Office Building  
February 27, 2024  
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**ORIGINAL COST AND BULDING GROSS SQUARE FEET  
(CLINICAL PORTIONS OF PROJECT)**

Department (list below)	A	B	C	D	E	F	G	H	Total
	Cost/Building Gross Square Foot		Building Gross Sq. Ft. (Clinical Portions Only)		Building Gross Sq. Ft.		Const. \$ (Clinical Portions Only)	Mod. \$	Cost (Clinical Portions Only)
	NEW	MOD	NEW	CIRC	MOD	CIRC	(A x C)	(B x E)	(G + H)
Medical Office Building (Clinical Portions)	\$56.40	---	20,589		---	---	\$1,176,514	---	\$1,176,514
Construction Total	\$56.40	---	20,589		---	---	\$1,176,514	---	\$1,176,514
Contingencies	\$0.00	---	20,589		---	---	\$0.00	---	\$0.00
<b>Construction &amp; Contingencies Total</b>	<b>\$56.40</b>	<b>---</b>	<b>20,589</b>		<b>---</b>	<b>---</b>	<b>\$1,176,514</b>	<b>---</b>	<b>\$1,176,514</b>

2. The revised construction cost (i.e., tenant buildout costs) per gross square foot for the clinical portions of the Project will increase from \$56.40 to \$99.72 if this Alteration Request is approved by the Review Board. The revised construction and contingency costs for the clinical portions of the Project will increase from \$1,176,514 to \$2,053,051 if this Alteration Request is approved by the Review Board. These numbers are far below the Section 1120 norm/metric.

**REVISED COST AND BULDING GROSS SQUARE FEET  
(CLINICAL PORTIONS OF PROJECT)**

Department (list below)	A	B	C	D	E	F	G	H	Total
	Cost/Building Gross Square Foot		Building Gross Sq. Ft. (Clinical Portions Only)		Building Gross Sq. Ft.		Const. \$ (Clinical Portions Only)	Mod. \$	Cost (Clinical Portions Only)
	NEW	MOD	NEW	CIRC	MOD	CIRC	(A x C)	(B x E)	(G + H)
Medical Office Building (Clinical Portions)	\$99.72	---	20,589		---	---	\$2,053,051	---	\$2,053,051
Construction Total	\$99.72	---	20,589		---	---	\$2,053,051	---	\$2,053,051
Contingencies	\$0.00	---	20,589		---	---	\$0.00	---	\$0.00
<b>Construction &amp; Contingencies Total</b>	<b>\$99.72</b>	<b>---</b>	<b>20,589</b>		<b>---</b>	<b>---</b>	<b>\$2,053,051</b>	<b>---</b>	<b>\$2,053,051</b>

No other sections of the CON Application are impacted by this Alteration Request.

Mr. John Knierly  
Mr. Michael Constantino  
First Permit Alteration Request for Project No. 22-022  
Silver Cross Orland Park Medical Office Building  
February 27, 2024  
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I am enclosing a check in the sum of \$1,500 to cover the processing fee associated with this Alteration Request. See 77 Ill. Admin. Code § 1130.750(j). To the extent the increase in total costs increases the total fee for the Project, the Permit Holders will immediately remit funds to pay for the increased fee.

If you have any questions about this Alteration Request, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Green". The signature is stylized with a large, sweeping "E" and a long, horizontal stroke at the end.

Edward J. Green

# Exhibit 1

Exhibit 1 Original Project Costs and Sources of Funds & Additional Project Costs and Sources of Funds Sought by this Alteration Request								
	Original Permit Amount (Clinical)	Original Permit Amount (Non-Clinical)	Original Permit Total	Amount Sought in this Alteration Request (Clinical)	Amount Sought in this Alteration Request (Non-Clinical)	Amount Sought in this Alteration Request (Total)	Difference (Total)	Percent Change (Total)
Preplanning Costs								
Site Survey and Soil Investigation								
Site Preparation								
Off Site Work								
New Construction Contracts								
Modernization Contracts (Tenant Buildout Costs)	\$1,176,514	\$1,223,486	\$2,400,000	\$876,536	\$911,532	\$1,788,068	\$1,788,068	74.5%
Contingencies								
Architectural/Engineering Fees								
Consulting and Other Fees	\$49,021	\$50,979	\$100,000	\$0	\$0	\$0	\$0	0%
Movable or Other Equipment (not in construction contracts)	\$7,221,344	\$2,020,968	\$9,242,312	\$0	\$0	\$0	\$0	0%
Bond Issuance Expense (project related)								
Net Interest Expense During Construction (project related)								
Fair Market Value of Space Lease	\$6,765,704	\$7,035,820	\$13,801,524	\$0	\$0	\$0	\$0	0%
Other Costs To Be Capitalized								
Acquisition of Building or Other Property (excluding land)								
<b>TOTAL USES OF FUNDS</b>	<b>\$15,212,584</b>	<b>\$10,331,252</b>	<b>\$25,543,836</b>	<b>\$876,536</b>	<b>\$911,532</b>	<b>\$1,788,068</b>	<b>\$1,788,068</b>	<b>7%</b>
<b>SOURCE OF FUNDS</b>		<b>NON CLINICAL</b>	<b>TOTAL</b>					
Cash and Securities	\$7,561,171	\$2,374,363	\$9,935,534	\$876,536	\$911,532	\$1,788,068	\$1,788,068	18%
Fair Market Value of Space Lease	\$885,708	\$921,070	\$1,806,778	\$0	\$0	\$0	\$0	0%
Fair Market Value of Ground Lease	\$6,765,704	\$7,035,820	\$13,801,524	\$0	\$0	\$0	\$0	0%
Other Funds and Sources								
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$15,212,584</b>	<b>\$10,331,252</b>	<b>\$25,543,836</b>	<b>\$876,536</b>	<b>\$911,532</b>	<b>\$1,788,068</b>	<b>\$1,788,068</b>	<b>7%</b>

## Exhibit 2



1900 Silver Cross Blvd. • New Lenox, IL 60451  
(815) 300-1100 • [www.silvercross.org](http://www.silvercross.org)

February 26, 2024

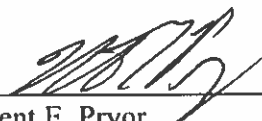
Mr. Michael Constantino  
Project Review Supervisor  
Illinois Health Facilities & Services Review Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Criterion 1120.120(a) Available Funds Certification  
Alteration Request, Project No. 22-022  
Silver Cross Orland Park Medical Office Building


Dear Mr. Constantino:

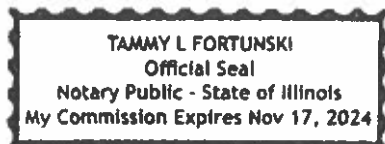
I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1120.120(a), that the Permit Holders have sufficient and readily accessible cash and cash equivalents to fund the additional modernization contracts/tenant improvement allowances set forth in the Alteration Request filed by the Permit Holders for the Silver Cross Orland Park Medical Office Building, Project No. 22-022.

Sincerely,

  
\_\_\_\_\_  
Vincent E. Pryor  
Executive Vice President & CFO  
Silver Cross Hospital & Medical Centers

SUBSCRIBED AND SWORN  
to before me this 27<sup>th</sup> day  
of February, 2024.

  
\_\_\_\_\_  
Notary Public



## **Exhibit 3**



**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

Consolidated Financial Statements and Schedules

September 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

## **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

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KPMG LLP  
Aon Center  
Suite 5500  
200 E. Randolph Street  
Chicago, IL 60601-6436

## **Independent Auditors' Report**

The Board of Trustees  
Silver Cross Health System and Affiliates:

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of Silver Cross Health System and Affiliates (the Company), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Consolidated Financial Statements*

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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



substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

#### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Chicago, Illinois  
January 29, 2024

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

Consolidated Balance Sheets

September 30, 2023 and 2022

(Amounts in thousands)

<b>Assets</b>	<b>2023</b>	<b>2022</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 33,119	30,060
Short-term investments	5,795	4,708
Assets whose use is limited or restricted, required for current liabilities	11	4
Patient accounts receivable	62,872	60,069
Other receivables	49,666	40,338
Inventory	9,587	10,326
Prepaid expenses and other	7,263	5,349
<b>Total current assets</b>	<b>168,313</b>	<b>150,854</b>
<b>Assets whose use is limited or restricted, excluding assets required for current liabilities:</b>		
By board for capital improvements and other	276,824	270,317
By board for self-insurance	31,684	29,970
Under bond indenture agreements – held by trustee	71	211
Pledges receivable	374	294
Donor-restricted investments	1,830	1,452
Beneficial interest in perpetual trusts	7,395	6,808
<b>Total assets whose use is limited or restricted, excluding assets required for current liabilities</b>	<b>318,178</b>	<b>309,152</b>
<b>Land, buildings, and equipment, net</b>	<b>425,841</b>	<b>432,416</b>
<b>Other assets:</b>		
Land held for sale	23,035	23,035
Estimated excess insurance recovery receivables	6,396	5,911
Operating lease right of use assets	25,097	30,227
Other long-term assets	20,129	16,784
<b>Total assets</b>	<b>\$ 986,989</b>	<b>968,379</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Current installments of long-term debt	\$ 8,405	9,095
Current portion of operating lease liability	5,171	4,894
Accounts payable	64,047	46,649
Accrued salaries and wages	30,964	32,188
Accrued expenses	22,322	20,242
Estimated payables under third-party reimbursement programs	31,758	37,482
<b>Total current liabilities</b>	<b>162,667</b>	<b>150,550</b>
Estimated self-insured professional and general liability claims	44,497	47,659
Long-term debt, excluding current installments	339,041	347,881
Long-term operating lease liability, net of current portion	21,528	26,631
Capital lease and other long-term liabilities, net of current portion	931	1,222
<b>Total liabilities</b>	<b>568,664</b>	<b>573,943</b>
<b>Net assets:</b>		
Net assets without donor restrictions	397,936	374,431
Noncontrolling interests in consolidated joint ventures	10,796	11,351
<b>Total net assets without donor restrictions</b>	<b>408,732</b>	<b>385,782</b>
<b>Net assets with donor restrictions</b>	<b>9,593</b>	<b>8,654</b>
<b>Total net assets</b>	<b>418,325</b>	<b>394,436</b>
<b>Total liabilities and net assets</b>	<b>\$ 986,989</b>	<b>968,379</b>

See accompanying notes to consolidated financial statements.

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

**Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions**

**Years ended September 30, 2023 and 2022**

(Amounts in thousands)

	<u>2023</u>	<u>2022</u>
Revenue:		
Net patient service revenue	\$ 523,089	486,943
Other revenue	<u>55,021</u>	<u>35,299</u>
Total revenue	<u>578,110</u>	<u>522,242</u>
Expenses:		
Salaries and wages	202,397	184,672
Payroll taxes and fringe benefits	46,153	42,945
General and administrative	168,025	154,884
Supplies	110,922	103,432
Depreciation and amortization	31,809	33,270
Interest	<u>15,840</u>	<u>14,305</u>
Total expenses	<u>575,146</u>	<u>533,508</u>
Income (loss) from operations	2,964	(11,266)
Nonoperating gains (losses):		
Investment return, net	18,710	(47,339)
Other, net	<u>920</u>	<u>(177)</u>
Total nonoperating gains (losses), net	<u>19,630</u>	<u>(47,516)</u>
Revenue and gains in excess (deficient) of expenses and losses	22,594	(58,782)
Changes in net assets without donor restrictions:		
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	880	2,013
Contributed capital from (returned to) minority partners in consolidated joint ventures	<u>(524)</u>	<u>2,024</u>
Increase (decrease) in net assets without donor restrictions	\$ <u>22,950</u>	<u>(54,745)</u>

See accompanying notes to consolidated financial statements.

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

**Consolidated Statements of Changes in Net Assets**

**Years ended September 30, 2023 and 2022**

(Amounts in thousands)

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Revenue and gains in excess (deficient) of expenses	\$ 22,594	(58,782)
Other changes in net assets without donor restriction:		
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	880	2,013
Contributed capital from (returned to) minority partners in consolidated joint ventures	<u>(524)</u>	<u>2,024</u>
Increase (decrease) in net assets without donor restrictions	<u>22,950</u>	<u>(54,745)</u>
Net assets with donor restrictions:		
Contributions for specific purposes	1,471	1,539
Net realized and unrealized gains and losses on net assets with donor restrictions	486	(2,370)
Net assets released from restriction for operating purposes	(138)	(105)
Net assets released from restriction for land, building, and equipment acquisitions	<u>(880)</u>	<u>(2,013)</u>
Increase (decrease) in net assets with donor restrictions	<u>939</u>	<u>(2,949)</u>
Change in net assets	23,889	(57,694)
Net assets at beginning of year	<u>394,436</u>	<u>452,130</u>
Net assets at end of year	\$ <u><u>418,325</u></u>	<u><u>394,436</u></u>

See accompanying notes to consolidated financial statements.

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

**Consolidated Statements of Cash Flows**

Years ended September 30, 2023 and 2022

(Amounts in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 23,889	(57,694)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,809	33,270
Amortization of bond issue costs, discounts, and premiums included in interest expense	(410)	(411)
Contributed capital from (returned to) minority partners in consolidated joint ventures	524	(2,024)
Income from equity method investments	(3,775)	(4,022)
Distributions received from equity method investments	875	4,758
Net (gain) loss on sale of land, building, and equipment	(114)	106
Change in the carrying amount of right of use asset	5,130	(5,119)
Net long-term contributions	(1,333)	(1,434)
Net realized and unrealized gains and losses on investments	(17,965)	51,694
Changes in assets and liabilities:		
Patient accounts receivable	(2,803)	6,302
Estimated excess insurance recovery receivables	(485)	(1,053)
Other assets	(10,948)	(16,118)
Estimated payables under third-party reimbursement programs	(5,724)	(39,851)
Change in operating lease liability	(4,826)	6,107
Accounts payable, accrued expenses, and other liabilities	<u>15,092</u>	<u>(7,792)</u>
Net cash provided by (used in) operating activities	<u>28,936</u>	<u>(33,281)</u>
Cash flows from investing activities:		
Acquisition of land, buildings, and equipment	(25,234)	(26,856)
Proceeds from sale of land, buildings, and equipment	114	157
Cash received from consolidation of previous equity investment	—	12,299
Net change in assets whose use is limited or restricted	8,932	73,640
Net change in short-term investments	<u>(1,087)</u>	<u>(45)</u>
Net cash (used in) provided by investing activities	<u>(17,275)</u>	<u>59,195</u>
Cash flows from financing activities:		
Repayment of capital leases	(291)	(4,916)
Repayments of long-term debt	(9,120)	(8,695)
Contributed capital from (returned to) minority partners in consolidated joint ventures	(524)	2,024
Net long-term contributions	<u>1,333</u>	<u>1,434</u>
Net cash used in financing activities	<u>(8,602)</u>	<u>(10,153)</u>
Net change in cash and cash equivalents	3,059	15,761
Cash and cash equivalents at beginning of year	<u>30,060</u>	<u>14,299</u>
Cash and cash equivalents at end of year	\$ <u>33,119</u>	\$ <u>30,060</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 16,126	14,305
Noncash transactions associated with the consolidated joint venture entity acquisitions:		
Prepaid expenses and other	\$ —	22
Other receivables	—	10,762
Accounts payable	—	(441)
Accrued expenses	—	(18,894)

See accompanying notes to consolidated financial statements.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

#### (1) Organization and Purposes

Silver Cross Health System (the Health System) was incorporated during 1981 for charitable, educational, and scientific purposes to support health and human services by providing management assistance and in all other relevant ways. The accompanying consolidated financial statements include the accounts of the Health System and the following affiliates, which it controls (collectively referred to as the Corporations):

- Silver Cross Hospital and Medical Centers (the Hospital), a not-for-profit acute care hospital of which the Health System is the sole member; the Hospital facility is located in New Lenox, Illinois and has 348 licensed beds.
- Silver Cross Foundation (the Foundation), a not-for-profit corporation of which the Health System is the sole member, which is dedicated to the advancement of healthcare in Will, Grundy, South Cook, and DuPage counties in Illinois.
- Health Service Systems, Inc. (HSSI), a wholly owned subsidiary of the Health System, which was incorporated to provide administrative and management services to its affiliates and other businesses.
- Midwest Community Real Estate Corporation (MCREC), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to establish and maintain healthcare centers and other facilities for the benefit of the Health System and its affiliates.
- Prime Medical Imaging LLC (Prime Medical), a for-profit joint venture providing radiological healthcare services; the Health System owns 51% and controls the joint venture, resulting in consolidation with noncontrolling interest. Outside capital of \$1,225 was received in formation of the joint venture in 2019. Ownership percentages remained consistent with the prior year.
- Silver Cross MSO, LLC (MSO), a for profit joint venture providing professional management services for physician healthcare practices; the Health System owns 86.7% and controls the joint venture, resulting in consolidation with noncontrolling interest. Outside capital of \$8,000 was received in formation of the joint venture in 2021. The Health System invested an additional \$20,000 in 2022 and in 2023, thus increasing their ownership percentage from 60% to 80% in 2022, and 80% to 86.7% on September 30, 2023.
- On February 19, 2019, the Hospital, along with Innovista, LLC, became the founding members of Essential Health Partners, LLC (EHP), whose purpose was to develop and operate a clinically and financially integrated healthcare provider network. The Hospital had an initial 60% ownership at inception of EHP. In 2020, an additional partner was added, reallocating the Hospital's ownership to 33.33%. In 2021, that new partner had to exit EHP due to a merger and parent company affiliations. In late fiscal year 2021, the Hospital added an additional healthcare provider, reallocating the Hospital's ownership percentage to 27.5%. In 2022, due to the exit of certain healthcare provider partners, the Hospital had an ownership percentage of 60% of EHP, and determined it had a controlling financial interest in EHP. Prior to 2022, the Hospital accounted for its investment in EHP using the equity method of accounting, but now consolidates them based upon control.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

#### (2) Summary of Significant Accounting Policies

Significant accounting policies of the Corporations that conform to general practice within the healthcare industry are as follows:

- The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as nonoperating gains and losses.
- The consolidated statements of operations and changes in net assets without donor restrictions include revenue and gains in excess (deficient) of expenses and losses. Changes in net assets without donor restrictions, which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and contributed capital from (returned to) minority partners for consolidated joint ventures.
- The Corporations consider demand deposits with banks, cash on hand, and all highly liquid debt instruments (including repurchase agreements) purchased with original maturity dates of three months or less to be cash and cash equivalents, excluding those instruments classified as assets whose use is limited or restricted. Short-term investments consist of money market funds or mutual funds that are held and managed by an external broker. These funds have not had a specific limitation placed on them to classify them as assets whose use is limited or restricted. Cash equivalents held by investment managers are treated as an investing activity in the consolidated statement of cash flows.
- Assets limited as to use include amounts held by the bond trustee for payment of principal and interest donor restricted investments and beneficial interests in perpetual trusts, and designated assets set aside for self-insurance, capital improvements, and other. Assets whose use is limited required for current liabilities are reported as current assets and are also used at the Corporations' boards of directors' discretion. Assets whose use is limited required for current liabilities are required as approved by the Corporations' board of directors to cover all outstanding current liabilities at least annually.
- Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of expenses and losses as all investments are considered to be trading securities unless the income or loss is restricted by donors, in which case the investment return is recorded directly to net assets with donor restrictions. Investment return of unrestricted investments is reported as nonoperating gains and losses. Unrealized gains and losses of permanently and investments with donor restrictions are recorded directly to net assets with donor restrictions. Management considers all investments to be trading securities and maintains cash equivalents as part of the investment strategy and overall investing policy.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

- The Corporations apply the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Except as otherwise disclosed, the carrying value of all financial instruments of the Corporations approximates fair value. Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.
- Land, buildings, and equipment are stated at cost or fair value at date of donation. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method.
- The Corporations evaluate long-lived assets, such as buildings and equipment, for impairment on an annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairments have been recognized for the years ended September 30, 2023 or 2022.
- Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restriction. Net assets with donor restriction used for operating purposes are included in other operating revenue to the extent expended during the period. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported directly within the consolidated statements of operations and changes in net assets without donor restrictions.
- Net assets with donor restrictions include the Hospital's interest in a charitable remainder trust, beneficial interest in perpetual trusts, and donor-restricted contributions, the principal amount of which may not be expended. Investment income of the perpetual trust is distributable within specified limits to an unrelated party. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. All other net assets with donor restrictions are restricted primarily for land, building, and equipment acquisitions at both September 30, 2023 and 2022.
- Provisions for estimated self-insured professional, general liability, workers' compensation, and employee healthcare risks include estimates of the ultimate cost of both reported losses and losses

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

incurred but not reported as of the respective consolidated balance sheet dates. All liabilities are presented as long term.

- Net patient service revenue is reported at the amounts that reflect the consideration to which the Hospital, Prime Medical, HSSI (collectively referred to as the Providers) expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. The Providers have agreements with third-party payors, which provide for reimbursement at amounts different from their established rates. Explicit price concessions under third-party reimbursement programs represent the difference between billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other third-party payors; the difference between billings at list price and the allocated cost of services provided to Medicaid patients; and any differences between estimated retroactive third-party reimbursement settlements for prior years and subsequent final settlements. The Hospital had \$2,808 and \$2,000 of changes in prior year settlement accruals, resulting in an increase in net patient service revenue in 2023 and 2022, respectively.

Performance obligations are determined based on the nature of the services provided by the Providers. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Providers believe that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients and receiving outpatient services. The Providers measure the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (e.g., pharmaceuticals and medical equipment), and the Providers do not believe it is required to provide additional goods or services related to that sale.

The Providers determine the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients. The Providers determine their estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Providers determine their estimate of implicit price concessions based on its historical collection experience with this class of patients.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

adjustments become known (i.e., new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Providers also provide services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Providers estimate the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. In evaluating the collectability of patients' accounts receivable, the Providers analyze their past history and identify trends for each of their major payor sources of revenue to estimate the variable consideration. Management regularly reviews data about these major payor sources of revenue in evaluating the variable consideration. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

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

The Providers provided for an allowance against patient accounts receivable for amounts that could become uncollectible. The Providers estimate this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. These various factors can impact collection and trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of copayments to be made by patients with insurance coverage, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends the estimation process used by the Providers. The Providers records implicit price concessions in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible.

- Other operating revenue includes rental income, joint venture activity, and other miscellaneous revenue.
- The Health System, the Hospital, MCREC, and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. A provision for income taxes has not been recorded for HSSI, as there are net operating losses of approximately \$31,931 available for carryforward, which expire at various future dates through 2039. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

become deductible. Deferred tax assets have been offset in their entirety by valuation allowances at both September 30, 2023 and 2022 based upon management's assessment that those deferred tax assets may not be utilized.

- The Corporations account for tax positions in accordance with ASC Topic 740, *Income Taxes*. ASC Topic 740 clarifies the accounting for uncertainty in tax positions and also provides guidance on when the tax positions are recognized in an entity's consolidated financial statements and how the values of these positions are determined. The Corporations do not have any liabilities recognized for uncertain tax positions.
- The Corporations account for derivatives and hedging activities in accordance with ASC Subtopic 815-10, *Derivatives and Hedging – Overall*, as amended, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair values. The fair values of the interest rate swap programs are included as a component of the assets whose use is limited under bond indenture agreements – held by trustee in the accompanying consolidated balance sheets. The derivatives are not designated as hedge instruments, and therefore, the change in fair value of the interest rate swap is recorded as a component of nonoperating gains (losses) – other, net in the period of change as well as net settlement of derivative instruments.
- The Corporations follow the provisions of Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASC Topic 842). ASU No. 2016-02, which requires lessees to recognize leases on the balance sheet and to disclose key information about leasing arrangements. The standard establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. The Corporations are a lessee in several noncancellable operating leases, primarily for office space, transportation, medical, and office equipment.

The Corporations recognize an ROU asset and a lease liability at the lease commencement date. For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid payments at the lease commencement date.

Key estimates and judgments include how the Corporations determine the following: (1) the discount rate it uses to discount the unpaid lease payments to present value; (2) lease term; and (3) lease payments.

- ASC Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Corporations cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Corporations generally uses a risk-free rate as the discount rate for the lease. The Corporations' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Corporations do not generally borrow on a collateralized basis, it uses the interest rate it pays on its noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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term, and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.

- The lease term for all of the Corporations' leases includes the noncancelable period of the lease plus any additional periods covered by either one of the Corporations' options to extend (or not to terminate) the lease that the Corporations are reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise the following:
  - o Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties the Corporations would owe if the lease term assumes the Corporations' exercise of a termination option).
  - o Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date.
  - o Amounts expected to be payable under the Corporations' provided residual value guarantee; and
  - o The exercise price of the Corporations' option to purchase the underlying asset if the Corporations' are reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Variable lease payments associated with the Corporations' leases are recognized when the event, activity, or circumstances in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the Corporations' consolidated statements of operations and changes in net assets without donor restrictions in the same line item as expense arising from fixed lease payments (operating leases).

ROU assets for operating are periodically reduced by impairment losses. The Corporations use the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. No impairment losses were recognized during the fiscal year ended September 30, 2023.

The Corporations monitor for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance in profit or loss.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

Operating lease ROU assets are presented as operating lease ROU assets on the consolidated balance sheet. The current portion of operating lease liabilities is included in other current liabilities and the long-term portion is presented separately as operating lease liabilities on the consolidated balance sheet.

The Corporations have elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Corporations have elected not to apply the short-term lease recognition and measurement exemption for other classes of leased assets. The Corporations recognizes the lease payments associated with its short-term leases as an expense on the straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other of the Corporations' leases.

- Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 presentation.

Other significant accounting policies are set forth in the following notes.

### (3) Financial Assets and Liquidity Resources

As of September 30, 2023, and 2022, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 33,119	30,060
Short-term investments	5,795	4,708
Assets whose use is limited	276,824	270,317
Patient accounts receivable and other receivables	<u>112,538</u>	<u>100,407</u>
Total financial assets and liquidity resources available within one year	<u>428,276</u>	<u>405,492</u>
Current liabilities:		
Current installment of long-term debt	8,405	9,095
Current portion of operating lease liability	5,171	4,894
Accounts payable	64,047	46,649
Accrued salaries and wages	30,964	32,188
Accrued expense	22,322	20,242
Estimated payable under third-party reimbursement programs	<u>31,758</u>	<u>37,482</u>
Total current liabilities	<u>162,667</u>	<u>150,550</u>
Net resources available	<u>\$ 265,609</u>	<u>254,942</u>

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

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(In thousands)

Assets whose use is limited or restricted exclude assets restricted for self-insurance liabilities and those restricted under bond indenture agreements. All other noncurrent investments, although intended to satisfy long-term obligations, could be utilized within the next year, if necessary.

#### (4) Net Patient Service Revenue

A summary of the reimbursement methodologies with major third-party payors is as follows:

##### (a) *Medicare*

The Hospital is paid for inpatient acute care, outpatient, rehabilitative, and home health services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of patient admissions are subject to validation reviews.

For certain services rendered to Medicare beneficiaries, the Providers' reimbursement is based upon cost or other reimbursement methodologies. The Providers are reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement reports through September 30, 2018 have been audited and final settled by the Medicare fiscal intermediary.

##### (b) *Medicaid*

The Hospital is paid for inpatient acute care services rendered to Medicaid program beneficiaries under prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based on fee schedules. Medicaid reimbursement methodologies may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the State of Illinois (the State) Medicaid program, and any such changes could have a significant effect on the Hospital's revenue.

The Hospital continues to participate in the State of Illinois (State) provider assessment program that assists in the financing of its Medicaid program. Under the current Hospital Assessment Program pursuant to Public Act 100-581, the Illinois hospital community has increased revenue related to Medicaid patient claims and lesser revenue related to the supplemental payments through the assessment program. Pursuant to this program, hospitals within the State are required to remit payment to the State of Illinois Medicaid program under an assessment formula approved by the Centers for Medicare and Medicaid Services (CMS). The Hospital has included its assessment of \$21,485 and \$17,280 for the years ended September 30, 2023 and 2022, respectively, within general and administrative expense. The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. The Hospital has included its additional reimbursement of \$31,739 and \$27,362 for the years ended September 30, 2023 and 2022, respectively, within net patient service revenue.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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(In thousands)

#### (c) *Blue Cross*

The Providers also participate as a provider of healthcare services under a reimbursement agreement with Blue Cross. The basis for payment under this agreement is negotiated by the Providers and includes prospectively determined rate per discharge, discounts from established charges, capitation, CPT fee schedules, and prospectively determined per diem rates.

#### (d) *Other*

The Providers have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the Providers and includes prospectively determined rate per discharge, discounts from established charges, capitation, and prospectively determined per diem rates.

A summary of the Providers' utilization percentages based upon net patient service revenue is as follows:

	2023	2022
Medicare	40.7 %	41.4 %
Medicaid	11.8	10.5
Managed care/commercial	45.6	46.2
Self-pay and other	1.9	1.9
	<u>100.0 %</u>	<u>100.0 %</u>

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Providers have determined they have provided an implicit price concession. The Providers record this in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Providers expect to collect based on their collection history with those patients.

The Providers recognize net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Providers recognize revenue on the basis of their standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Providers' uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Providers record a significant provision for implicit price concessions related to uninsured patients in the period the

# **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

**(In thousands)**

services are provided. Net patient service revenue, net of implicit and explicit price concessions, recognized in the period from these major payor sources, is as follows:

	<b>2023</b>	<b>2022</b>
Medicare	\$ 212,840	201,814
Medicaid	61,912	51,339
Managed care/commercial	238,581	224,701
Self-pay and other	9,756	9,089
Net patient service revenue	<u>\$ 523,089</u>	<u>486,943</u>

### **(5) Concentration of Credit Risk**

The Providers grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
Medicare	46.0 %	46.5 %
Medicaid	11.4	6.4
Managed care/contract payors/Blue Cross	28.8	28.5
Self-pay	8.4	10.1
Commercial and other	5.4	8.5
	<u>100.0 %</u>	<u>100.0 %</u>

### **(6) Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, reimbursement for services provided to Medicaid program beneficiaries is substantially less than the cost to the Hospital for providing these services.

The Hospital maintains records of the amount of charges forgone and related cost for services and supplies furnished under its charity care policy, as well as the estimated differences between the cost of services provided to Medicaid patients and the reimbursement under that program estimated based on an overall

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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(In thousands)

cost-to-charge ratio. The following information measures the estimated level of charity care provided and unreimbursed cost under the Medicaid program during 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Estimated charity care costs for non-Medicaid patients	\$ 2,506	4,120
Excess of cost over reimbursement for services provided to Medicaid patients (1)	12,867	15,444

(1) The net impact of Medicaid assessment program has been allocated to each year based upon the State's fiscal year.

### (7) Investments

A summary of the composition of the Corporations' investment portfolio at September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 28,918	18,191
Money market funds	11,303	2,770
Common stock	36,045	22,305
U.S. Treasury securities	17,832	13,013
Mutual funds	212,142	236,858
Corporate bonds and notes	8,805	10,698
U.S. agency securities	1,170	2,827
Beneficial interest in perpetual trusts	7,395	6,908
	<u>\$ 323,610</u>	<u>313,570</u>

Investments are reported in the accompanying consolidated balance sheets at September 30 as follows:

	<u>2023</u>	<u>2022</u>
Short-term investments	\$ 5,795	4,708
Assets whose use is limited or restricted, excluding pledges receivable:		
Required for current liabilities	11	4
By board for capital improvements and other	276,824	270,317
By board for self-insurance	31,684	29,970
Under bond indenture agreements – held by trustee	71	211
Donor-restricted investments	1,830	1,452
Beneficial interest in perpetual trusts	7,395	6,908
	<u>\$ 323,610</u>	<u>313,570</u>

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

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The composition of investment return on the Corporations' investment portfolio for 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Interest and dividend income, net of fees, and expenses	\$ 1,231	2,832
Net realized gains on sale of investments	11,922	38,407
Net change in unrealized gains and losses during the holding period	<u>6,043</u>	<u>(90,948)</u>
	<u>\$ 19,196</u>	<u>(49,709)</u>

The Corporations have designated all unrestricted investments to be trading securities and maintains cash equivalents as part of the investment strategy and overall investing policy. Investment return is included in the accompanying consolidated financial statements for the years ended September 30, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Nonoperating gains – investment income, net	\$ 18,710	(47,339)
Net realized and unrealized gains and losses on donor-restricted investments	<u>486</u>	<u>(2,370)</u>
	<u>\$ 19,196</u>	<u>(49,709)</u>

### (8) Fair Value Measurements

#### (a) Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporations in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, short-term investments, patient accounts receivable, accounts payable and accrued expenses, and estimated third-party payor settlements.
- Assets whose use is limited or restricted: Fair values are estimated based on prices provided by their investment managers and custodian banks. Common stocks and U.S. Treasury securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Corporate bonds and notes, U.S. agency securities, and asset-backed securities are measured using observable market inputs. Mutual funds are valued using net asset value (NAV). Changes in market conditions and the economic environment may impact the NAV of the funds and consequently the fair value of the Corporations' interest in the funds. The carrying value equals fair value.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

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- Beneficial interest in perpetual trusts: The assets held by third-party trustees comprise common stock, mutual funds, money market funds, corporate bonds and notes, U.S. agency securities, and U.S. Treasury notes. The Trust Administrators use quoted market prices or other observable market inputs to estimate the fair value of its beneficial interests based on the underlying assets of the trusts, as provided by the trust administrators.
- Fair value of interest rate swaps is determined using pricing models developed based on the SOFR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the Corporations.

#### **(b) Fair Value Hierarchy**

ASC Subtopic 820-10, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporations have the ability to access at the measurement date.
- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

# **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

## **Notes to Consolidated Financial Statements**

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The following table presents assets and liabilities that are measured at fair value on a recurring basis at September 30, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 33,119	33,119	—	—
Short-term investments:				
Money market funds	2,863	2,863	—	—
Mutual funds	2,410	2,410	—	—
Common stock	522	522	—	—
Assets whose use is limited or restricted:				
Cash and cash equivalents	37,358	37,358	—	—
Common stock	35,523	35,523	—	—
U.S. Treasury securities	17,832	17,832	—	—
Mutual funds	210,218	210,218	—	—
Corporate bonds and notes	8,319	—	8,319	—
U.S. agency securities	1,170	—	1,170	—
Beneficial interest in perpetual trusts	7,395	—	—	7,395
Subtotal	323,610	306,726	9,489	7,395
Fair value of swap agreements	71	—	71	—
Total financial assets	<u>\$ 356,800</u>	<u>339,845</u>	<u>9,560</u>	<u>7,395</u>

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

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(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at September 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 30,060	30,060	—	—
Short-term investments:				
Money market funds	2,770	2,770	—	—
Mutual funds	1,628	1,628	—	—
Common stock	310	310	—	—
Assets whose use is limited or restricted:				
Cash and cash equivalents	18,193	18,193	—	—
Common stock	21,994	21,994	—	—
U.S. Treasury securities	13,013	13,013	—	—
Mutual funds	235,229	235,229	—	—
Corporate bonds and notes	10,698	—	10,698	—
U.S. agency securities	2,827	—	2,827	—
Beneficial interest in perpetual trusts	6,908	—	—	6,908
Subtotal	313,570	293,137	13,525	6,908
Fair value of swap agreements	211	—	211	—
Total financial assets	\$ 343,841	323,197	13,736	6,908

The Corporations' policy is to recognize transfers between levels of the fair value hierarchy in the year of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or Level 2 for the year ended September 30, 2023 or 2022.

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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(In thousands)

The following table presents the activity for the beneficial interest in perpetual trusts for the years ended September 30, 2023 and 2022 for assets measured at fair value using unobservable inputs classified in Level 3:

	Beneficial interest in trusts	
	2023	2022
Beginning fair value	\$ 6,908	9,278
Current year contributions	—	—
Interest and dividends, net of fees and expenses	167	134
Realized gains (losses), net	(74)	417
Change in unrealized gains and losses, net	549	(1,842)
Distributions	(155)	(1,079)
Ending fair value	<u>\$ 7,395</u>	<u>6,908</u>

### (9) Land, Buildings, and Equipment, Net

A summary of land, buildings, and equipment, net at September 30, 2023 and 2022 is as follows:

	2023		2022	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 37,108	—	37,108	—
Land improvements	20,215	8,879	20,208	7,824
Buildings, building improvements, and fixed equipment	456,074	150,108	453,133	135,375
Major movable equipment	272,941	227,557	263,767	212,636
Construction in progress	26,047	—	14,035	—
	<u>\$ 812,385</u>	<u>386,544</u>	<u>788,251</u>	<u>355,835</u>

Since moving its main facilities to New Lenox, Illinois, in 2018 the Hospital demolished its former Hospital structure in Joliet, Illinois. The Hospital has land held for sale of \$23,035 as of September 30, 2023 and 2022 relating to the former hospital site.

The Corporations are currently engaged in various construction and renovation projects. There were no contractual commitments as of September 30, 2023. Interest cost is capitalized as a component cost of significant capital projects, net of any interest income earned on unexpended project-specific borrowed funds. No interest was capitalized during 2023 or 2022.

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

Notes to Consolidated Financial Statements

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(In thousands)

**(10) Long-Term Debt**

A summary of long-term debt at September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Illinois Finance Authority Revenue Refunding Bonds, Series 2008A, principal is due annually at fixed-interest rates of 5.00% to 5.82%; interest is due semiannually depending upon date of maturity through August 15, 2030	\$ 50,580	56,030
Illinois Finance Authority Revenue Refunding Bonds, Series 2010A, at a variable interest rate (effective rates of 4.13% and 1.11% for September 30, 2023 and 2022, respectively), maturing in fiscal year 2041	8,820	9,335
Illinois Finance Authority Revenue Refunding Bonds, Series 2010B, at a variable interest rate (effective rates of 4.42% and 1.32% for September 30, 2023 and 2022, respectively), maturing in fiscal year 2040	5,920	6,260
Illinois Finance Authority Revenue Refunding Bonds, Series 2015A, at a variable interest rate (effective rates of 4.40% and 2.11% for April 25, 2023 and September 30, 2022, respectively), paid in full on April 25, 2023	—	1,175
Illinois Finance Authority Revenue Refunding Bonds, Series 2015C, principal is due annually at fixed-interest rate of 5.00%; interest is due semiannually depending on date maturity through 2044	<u>271,775</u>	<u>273,415</u>
Total fixed and variable-rate debt	337,095	346,215
Less unamortized net bond premiums	(12,996)	(13,586)
Less unamortized bond issue costs	<u>2,645</u>	<u>2,825</u>
Total debt	347,446	356,976
Less current installments	<u>8,405</u>	<u>9,095</u>
Total long-term debt, excluding current installments	\$ <u>339,041</u>	<u>347,881</u>

The Hospital and the Health System (collectively known as the Obligated Group) entered into an Amended and Restated Master Trust Indenture (Master Trust Indenture) dated as of June 1, 1996, as subsequently supplemented and amended. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Master Trust Indenture requires members of the Obligated Group to make principal and interest payments on notes issued for their benefit

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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as well as other Obligated Group member if the other members are unable to make such payments. The Master Trust Indenture requires the Obligated Group to comply with financial and other covenant requirements, including making deposits with the bond trustees for payment of principal and interest when due on the individual series of bonds. The Obligated Group pledged a security interest in its gross revenue as collateral on borrowings under the Master Trust Indenture.

The Series 2010A and Series 2010B principal is payable annually, with a balloon payment of \$7,275 for 2010A due in fiscal year 2027 and a balloon payment of \$5,580 for 2010B due in fiscal year 2025. Interest on the Series 2010A bonds is variable based on 80% of the sum of one-month Bloomberg ST Bank Yield (BSBY) plus 60 basis points and is payable monthly. Interest on the Series 2010B bonds is variable based on 80% of the sum of one-month Bloomberg ST Bank Yield (BSBY) plus 84 basis points and is payable monthly. If the Obligated Group chooses to extend the debt beyond the date of the balloon payment, the interest rates will be reset by the lenders at a rate not to exceed 12%.

On January 1, 2015, the Illinois Finance Authority issued variable-rate revenue bonds, Series 2015A and Series 2015B, in the aggregate amount of \$26,860 on behalf of the Obligated Group. On April 22, 2015, the Illinois Finance Authority issued fixed-rate revenue refunding bonds, Series 2015C in the amount of \$286,435 on behalf of the Obligated Group. The Obligated Group received a bond premium of \$18,800 and paid bond issue costs of \$3,236 related to these issuances.

Scheduled annual principal payments on long-term debt for the ensuing five years and thereafter are as follows:

Year:	
2024	\$ 8,405
2025	15,270
2026	10,720
2027	18,025
2028	11,335
Thereafter	<u>273,340</u>
	<u>\$ 337,095</u>

#### (11) Derivative Instruments

The Corporations have an interest-rate-related derivative instrument to manage its exposure on debt instruments. By using derivative financial instruments to manage the risk of changes in interest rates, the Corporations are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Corporations, which creates credit risk for the Corporations. When the fair value of a derivative contract is negative, the Corporations owe the counterparty, and therefore, it does not possess credit risk; however, the Corporations are required to post collateral to the counterparty when certain thresholds as defined in the derivative agreements are met. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and

## **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

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degree of market risk that may be undertaken. The Corporations' management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

The fair value of the swap is the estimated amount the Corporations would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Corporations entered into two variable interest rate swap agreements on August 15, 2018 to offset long-term fixed rates set on the Series 2008A debt issuance, with notional amounts of \$50,580 and \$15,425 and maturity dates of August 5, 2023 and May 15, 2021, respectively. The agreements were amended and restated on May 12, 2021. Under the amended agreements, the notional amounts are \$50,580 and \$10,595. The swap agreements have extended maturity dates of March 9, 2026 and May 20, 2022, respectively. The swap agreement that matured May 20, 2022 was not renewed or extended and the swap was terminated, leaving the variable rate interest rate swap maturing March 9, 2026 as the one outstanding at September 30, 2022 and 2023. The Corporations receive, on a monthly basis, 1.57% of one-month SIFMA plus 65 basis points and either receive or pay cash settlements semiannually determined by the swap value at time of settlement. The fair value of the Series 2018 interest rate swap agreement receivable of \$71 and \$211 at September 30, 2023 and 2022, respectively, is included as a component of assets whose use is limited under bond indenture agreements in the accompanying consolidated balance sheet. The change in fair value of the interest rate swap agreements of \$(140) and \$(173) in 2023 and 2022, respectively, has been included as a component of nonoperating gains (losses) other, net in the accompanying consolidated statements of operations and changes in net assets without donor restrictions. The differential to be paid or received under the Series 2018 interest rate swap agreement is recognized monthly and has been included as a component of interest expense in the accompanying consolidated statement of operations and changes in net assets without donor restriction.

#### **(12) Pension Plans**

The Health System, HSSI, MSO, and the Hospital sponsor various voluntary, defined-contribution, and money purchase pension plans for all qualified, full-time employees. Benefits for individual employees are the amounts that can be provided by the sums contributed and accumulated for each individual employee. The Health System, HSSI, MSO, and the Hospital recognized expense under the terms of the plans in the amount of \$8,322 and \$6,532 for 2023 and 2022, respectively. The Health System, HSSI, MSO, and the Hospital fund the plans on a current basis.

The Health System also sponsors several supplemental retirement plans. Eligibility for these plans is limited to specified employees. The supplemental plans are defined-benefit plans and are not qualified plans under Section 401 of the Code. The Health System has recognized expense under the terms of these supplemental retirement plans in the amount of \$195 and \$732 for 2023 and 2022, respectively. Amounts owed to specified employees under the supplemental retirement plans are included in accrued salaries and wages.

## **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

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**(In thousands)**

#### **(13) Self-Insured Risks**

##### ***(a) Professional and General Liability***

The Corporations maintain a self-insurance program for professional and general liability coverage. The self-insurance program includes varying levels of self-insured retention and excess malpractice insurance coverage purchased from commercial insurance carriers. In connection with the self-insurance program, the Corporations have engaged the services of a professional actuarial consultant to assist in the estimation of self-insurance provisions and claim liability reserves.

Provisions for estimated self-insured professional and general liability claims amounted to \$3,170 and \$4,903 in 2023 and 2022, respectively, and are included in general and administrative expenses. It is the opinion of management that the estimated professional and general liabilities accrued at September 30, 2023 and 2022 are adequate to provide for the ultimate cost of potential losses resulting from pending or threatened litigation; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved. The Corporations have also designated attorneys to handle legal matters relating to malpractice and general liability claims. No portion of the accrual for estimated self-insured professional and general liability claims has been reported as a current liability.

##### ***(b) Workers' Compensation***

The Health System, HSSI, MSO, and the Hospital maintain a self-insurance program for workers' compensation coverage. This program limits the self-insured retention to \$650 per occurrence. Coverage from commercial insurance carriers is maintained for claims in excess of the self-insured retention. Provisions for workers' compensation claims amounted to \$2,309 and \$2,308 for 2023 and 2022, respectively, and are included in payroll taxes and fringe benefits expense. Management believes the estimated self-insured workers' compensation claims liability, which is included within accrued salaries and wages, of \$3,245 and \$3,300 at September 30, 2023 and 2022, respectively, is adequate to cover the ultimate liability; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved.

##### ***(c) Healthcare***

The Health System, HSSI, and the Hospital also have a program of self-insurance for employee healthcare coverage. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. Provisions for employee healthcare claims amounted to \$17,927 and \$17,224 for 2023 and 2022, respectively, and are included with payroll taxes and fringe benefits expense. It is the opinion of management that the estimated healthcare costs accrued, which is included within accrued salaries and wages, of \$2,340 and \$2,360 at September 30, 2023 and 2022, respectively, are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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#### (14) Investment in Joint Ventures

##### (a) *Unconsolidated Affiliates*

The Corporations have investments in organizations that are not majority owned or controlled by the Corporations. These investments are accounted for using the cost or equity method of accounting. The largest investments are disclosed in further detail below.

##### (i) *UCMC/SCH Oncology JV, LLC*

On March 22, 2010, the Hospital, along with the University of Chicago Medical Centers (UCMC), became the founding members of UCMC/SCH Oncology JV, LLC (the Cancer Center), whose purpose was to develop and operate a radiation oncology cancer center on the Hospital's campus. The board is governed equally by the two members, who each has a 50% voting share. Pursuant to the operating agreement, profits and losses are allocated approximately 60% to the Hospital and approximately 40% to UCMC.

The Hospital accounts for its investment in the Cancer Center using the equity method of accounting. As of and for the year ended September 30, 2023, the Cancer Center had unaudited total assets of \$32,090, members' equity of \$23,911, revenue of \$12,875, and net income of \$6,279. As of and for the year ended September 30, 2022, the Cancer Center had unaudited total assets of \$19,052, members' equity of \$18,218, revenue of \$11,697, and net income of \$5,239. The Cancer Center made cash distributions to the Hospital of \$3,600 in 2022, and \$0 in 2023. The carrying value of the Hospital's investment in the Cancer Center is \$14,347 and \$10,931 as of September 30, 2023 and 2022, respectively, and is included in other long-term assets in the accompanying consolidated balance sheets.

##### (ii) *Silver Oaks Behavioral, LLC*

On December 2, 2016, the Hospital, along with US HealthVest, LLC, became the founding members of Silver Oaks Behavioral Hospital, whose purpose was to operate a 100-bed Behavioral Health Hospital on the Hospital's campus. Silver Oaks Behavioral Hospital opened for business in January of 2019. The Hospital has an approximate 20% ownership in Silver Oaks Behavioral, LLC. Pursuant to the operating agreement, profits and losses are allocated 20% to the Hospital and 80% to US Health Vest, LLC.

The Hospital accounts for its investment in Silver Oaks Behavioral Hospital, LLC using the equity method of accounting. As of and for the year ended September 30, 2023, Silver Oaks Behavioral Hospital, LLC had unaudited total assets of \$39,634, members' equity of \$22,532, net revenue of \$31,908, and a net income of \$5,372. As of and for the year ended September 30, 2022, Silver Oaks Behavioral Hospital, LLC had unaudited total assets of \$22,995, members' equity of \$17,416, net revenue of \$26,072, and a net income of \$1,724. The carrying value of the Hospital's investment in Silver Oaks Behavioral Hospital, LLC is \$4,488 as of September 30, 2023 and \$3,523 as of September 30, 2022 and is included in other long-term assets in the accompanying consolidated balance sheets.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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**(iii) *Silver Cross/USP Surgery Center, LLC. And Silver Cross Ambulatory Surgery Center, LLC.***

In August of 2017, the Hospital, along with United Surgical Partners International, Inc. became the founding members of Silver Cross/USP Surgery Center, LLC., and along with independent physicians founded the Silver Cross Ambulatory Surgery Center, LLC., whose purpose was to operate an outpatient surgery center on the Hospital's campus. The surgery center opened for business in December of 2017. The Hospital has a 49.9% ownership in Silver Cross/USP Surgery Center, LLC. and Silver Cross/USP Surgery Center, LLC. has a 55.65% ownership in Silver Cross Ambulatory Surgery Center, LLC. Overall, this creates an approximate 27.77% ownership for the Health System in Silver Cross Ambulatory Surgery Center, LLC. Pursuant to the operating agreement, profits and losses are allocated 27.77% to the Hospital, 27.88% to United Surgical Partners Inc, and 44.35% to the individual invested physicians.

The Hospital accounts for its investment in Silver Cross Ambulatory Surgery Center, LLC., using the equity method of accounting. As of and for the year ended September 30, 2023, Silver Cross Ambulatory Surgery Center, LLC., had unaudited total assets of \$6,067, members' equity of \$326, net revenue of \$14,727, and a net income of \$3,052. As of and for the year ended September 30, 2022, Silver Cross Ambulatory Surgery Center, LLC., had unaudited total assets of \$5,681, members' equity of \$174, net revenue of \$13,335, and a net income of \$2,054. The carrying value of the Hospital's investment in Silver Cross Ambulatory Surgery Center, LLC., is \$233 as of September 30, 2023 and \$208 as of September 30, 2022 and is included in other long-term assets in the accompanying consolidated balance sheets. Silver Cross Ambulatory Surgery Center, LLC., made cash distributions to the Hospital of \$875 in 2023 and \$1,158 in 2022.

**(b) *Noncontrolling Interest in Consolidated Joint Ventures***

The Corporations apply the guidance under ASC Topic 810, *Consolidation*, for the presentation of noncontrolling interests, reporting it as a separate component of net assets without donor restrictions and including a schedule reconciling beginning and ending balances of controlling and noncontrolling interests of net assets in the notes to the consolidated financial statements.

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

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Changes in net assets without donor restrictions attributable to the Corporations and to noncontrolling interest in consolidated joint ventures for the year ended September 30, 2023 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance, September 30, 2021	\$ 440,527	431,163	9,364
Revenue and gains deficient of expenses and losses	(58,782)	(58,745)	(37)
Other changes in net assets without donor restrictions:			
Contributed capital from minority partners in consolidated joint ventures	2,024	—	2,024
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	2,013	2,013	—
Balance, September 30, 2022	385,782	374,431	11,351
Revenue and gains in excess of expenses and losses	22,594	22,625	(31)
Other changes in net assets without donor restrictions:			
Contributed capital returned to minority partners in consolidated joint ventures	(524)	—	(524)
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	880	880	—
Balance, September 30, 2023	\$ 408,732	397,936	10,796

### (15) Endowments and Beneficial Interest in Trusts

The Corporations have donor-restricted endowment funds (collectively referred to as the Funds), the principal of which may not be expended. The interest and dividend income from investment of the Funds is to be used for a variety of purposes consistent with the intent of the donor. The interest and dividend income earned on the Funds are transferred to net assets with donor restrictions until appropriated for expenditure by the Corporations. All other changes in the Funds, including unrealized and realized gains and losses, are recorded directly to the Funds, which are classified as net assets with donor restrictions.

The Corporations also have beneficial interests in trusts (collectively referred to as the Trusts). The Corporations have recorded their share of the principal of the Trusts as net assets with donor restrictions. Distributions from the Trusts are recorded within net assets without donor restrictions if unrestricted; otherwise, they are classified as net assets with donor restrictions until appropriated for expenditure.

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The activity of the Funds and Trusts for the year ended September 30, 2023 is as follows:

	<u>Total</u>	<u>Donor-restricted endowment funds</u>	<u>Beneficial interest in trusts</u>
Beginning fair value	\$ 6,979	932	6,047
Current year contributions	20	20	—
Investment return:			
Interest and dividends	177	—	177
Realized gains, net	29	—	29
Change in unrealized gains, net	459	—	459
Disbursements:			
Fees and expenses	(72)	—	(72)
Assets released from restriction	(147)	—	(147)
Ending fair value	\$ <u>7,445</u>	<u>952</u>	<u>6,493</u>

The activity of the Funds and Trusts for the year ended September 30, 2022 is as follows:

	<u>Total</u>	<u>Donor-restricted endowment funds</u>	<u>Beneficial interest in trusts</u>
Beginning fair value	\$ 8,200	912	7,288
Current year contributions	20	20	—
Investment return:			
Interest and dividends	161	—	161
Realized gains, net	130	—	130
Change in unrealized gains, net	(1,326)	—	(1,326)
Disbursements:			
Fees and expenses	(67)	—	(67)
Assets released from restriction	(139)	—	(139)
Ending fair value	\$ <u>6,979</u>	<u>932</u>	<u>6,047</u>

The historical cost basis of the Funds was approximately \$952 and \$932 for September 30, 2023 and 2022, respectively. The fair value of assets associated with individual donor-restricted endowment funds may fall below the amount of the original donation as a result of unfavorable market conditions. There were no such deficiencies as of September 30, 2023 or 2022.

# **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

### **(16) Leases**

Information as of and for the year ended September 30, 2023:

The Corporations have several noncancelable operating leases, primarily for office space, transportation, medical, and office equipment that expire over the next 13 years. The Corporation includes renewal options in the lease term if the options are considered to be reasonably certain of being exercised. Because the Corporations are not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated potential option payments are excluded from lease payments. The Corporations' leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for many of the Corporations' leases, variable payments. For office space leases that include variable payments, those include payments for the Corporations' proportionate share of the building's property taxes, insurance, and common area maintenance.

The components of lease cost for the years ended September 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 6,772	6,749
Variable lease cost	<u>1,312</u>	<u>1,349</u>
Total lease cost	\$ <u>8,084</u>	<u>8,098</u>

Amounts reported in the consolidated balance sheet as of September 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease ROU asset	\$ 28,719	34,435
Operating lease accumulated depreciation	<u>(3,622)</u>	<u>(4,208)</u>
Operating lease ROU assets	<u>25,097</u>	<u>30,227</u>
Current portion of operating lease liability	5,171	4,894
Long-term operating lease liability, net of current portion	<u>21,528</u>	<u>26,631</u>
Total operating lease liabilities	<u>26,699</u>	<u>31,525</u>
Operating lease liabilities, net of ROU liabilities	\$ <u>1,602</u>	<u>1,298</u>

# **SILVER CROSS HEALTH SYSTEM AND AFFILIATES**

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

Other information related to operating leases as of September 30, 2023 was as follows:

	<u>2023</u>	<u>2022</u>
Supplemental information:		
Operating cash flows from capitalized operating leases	\$ 5,281	4,789
Weighted average remaining lease term – capitalized operating leases (in years)	7.29	7.83
Weighted average discount rate – capitalized operating leases	0.98 %	0.94 %

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under noncancelable leases as of September 30, 2023 are as follows:

	<u>Operating leases</u>
2024	\$ 5,360
2025	5,108
2026	5,149
2027	2,384
2028	1,726
Thereafter	<u>7,626</u>
Total undiscounted lease payments	27,353
Less imputed interest	<u>(1,203)</u>
Total lease liabilities	<u>\$ 26,150</u>

Information as of and for the year ended September 30, 2023:

The Corporations occupy space in certain facilities under long-term noncancelable operating lease arrangements. Total equipment rental, asset lease, and facility rental expenses in 2023 was \$11,025.

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

The following table is a schedule by year of future minimum lease payments to be made under operating leases as of September 30, 2023 that have initial or remaining lease terms in excess of one year.

	<u>Amount</u>
2024	\$ 5,360
2025	5,108
2026	5,149
2027	2,384
2028	1,726
Thereafter	<u>7,626</u>
	<u>\$ 27,353</u>

#### (17) Commitments and Contingencies

##### (a) Medicare Reimbursement

The Hospital recognized \$212,840 of net patient service revenue during 2023 from services provided to Medicare beneficiaries. Federal legislation routinely includes provisions to modify Medicare payments to healthcare providers. Changes in Medicare reimbursement as a result of the CMS implementation of the provisions of Medicare legislation and other healthcare reform initiatives may have an adverse effect on the Hospital's net patient service revenue.

##### (b) Litigation

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

##### (c) Regulatory Investigations

Federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material adverse effect on the Corporations' financial position or results of operations.

##### (d) Tax Exemption for Sales Tax and Property Tax

Effective June 14, 2012, the Governor of Illinois signed into law *Public Act 97-0688*, which creates standards for state sales tax and property tax exemptions in Illinois. The law establishes new standards for the issuance of charitable exemptions, including requirements for a nonprofit hospital to certify annually that in the prior year, it provided an amount of qualified services and activities to low-income and underserved individuals with a value at least equal to the Hospital's estimated property tax liability. The Corporations certified in 2023 and 2022 and have not recorded a liability for related property taxes based upon management's current determination of qualified services provided.

# SILVER CROSS HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

### (e) Investment Risk and Uncertainties

The Corporations invest in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

### (18) Functional Expenses

The Health System provides healthcare services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets without donor restrictions as of September 30, 2023 and 2022 corresponding totals are as follows:

	Program activities Healthcare services	Supporting activities		Total
		Administration	Fundraising	
2023:				
Salaries and wages	\$ 190,021	12,144	232	202,397
Payroll taxes and fringe benefits	43,326	2,769	58	46,153
General and administrative	155,055	12,434	536	168,025
Supplies	110,862	—	60	110,922
Depreciation and amortization	31,332	477	—	31,809
Interest	15,840	—	—	15,840
	<u>\$ 546,436</u>	<u>27,824</u>	<u>886</u>	<u>575,146</u>
2022:				
Salaries and wages	\$ 173,338	11,080	254	184,672
Payroll taxes and fringe benefits	40,304	2,577	64	42,945
General and administrative	142,806	11,461	617	154,884
Supplies	103,364	—	68	103,432
Depreciation and amortization	32,771	499	—	33,270
Interest	14,305	—	—	14,305
	<u>\$ 506,888</u>	<u>25,617</u>	<u>1,003</u>	<u>533,508</u>

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

Some categories of natural class expenses are attributable to more than one activity and require allocation, applied on a consistent basis. Property costs, including depreciation, are allocated on the basis of square footage. Indirect salaries and benefits are allocated on the basis of budgeted full-time equivalent employees. Purchased services and supplies are assigned directly to specific activities as expenditures are made.

#### **(19) Related Parties**

Members of the Board of Trustees, officers, and employees are subject to the Health System's conflict of interest policies, under which business and financial relationships must be disclosed annually and are subject to review and approval. From time to time, the Health System may obtain goods and services in the ordinary course of business from entities with which certain of the Health System Trustees may be associated.

#### **(20) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with the recently issued ASC Topic 855, *Subsequent Events*, the Corporations evaluated subsequent events after the consolidated balance sheet date of September 30, 2023 through January 29, 2024, which was the date the consolidated financial statements were available to be issued, and other than those noted above, there were no items to disclose.

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**  
**Consolidating Schedule – Balance Sheet Information**  
**September 30, 2023**  
(Amounts in thousands)

Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross MSO, LLC	Prime Medical	Essential Health Partners	Eliminations	Consolidated
<b>Current assets</b>										
Cash and cash equivalents	\$ 2,246	291	17,389	179	152	(198)	657	12,403	—	33,119
Short-term investments	—	3,511	2,278	6	—	—	—	—	—	5,795
Assets whose use is limited or restricted, required for current liabilities	—	—	11	—	—	—	—	—	—	11
Patient accounts receivable	—	2,598	59,929	—	—	—	345	—	—	62,872
Due from affiliates	60,994	3,918	158,308	2,077	7,808	55,035	—	—	(287,940)	—
Other receivables	206	(47)	1,587	—	78	39,461	—	8,311	—	49,666
Inventory	—	—	9,587	—	—	—	—	—	—	9,587
Prepaid expenses and other	257	128	6,619	15	5	211	28	—	—	7,263
<b>Total current assets</b>	<b>63,793</b>	<b>10,399</b>	<b>255,686</b>	<b>2,277</b>	<b>7,843</b>	<b>94,509</b>	<b>1,030</b>	<b>20,714</b>	<b>(287,940)</b>	<b>168,313</b>
<b>Assets whose use is limited or restricted, excluding assets required for current liabilities</b>										
By board for capital improvements and other	—	—	278,824	—	—	—	—	—	—	278,824
By board for self-insurance	31,684	—	—	—	—	—	—	—	—	31,684
Under bond indenture agreements – held by trustee	—	—	71	—	—	—	—	—	—	71
Pledges receivable	—	—	374	—	—	—	—	—	—	374
Donor-restricted investments	—	—	1,830	—	—	—	—	—	—	1,830
Beneficial interest in perpetual trusts	—	—	7,395	—	—	—	—	—	—	7,395
<b>Total assets whose use is limited or restricted</b>	<b>31,684</b>	<b>—</b>	<b>288,494</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>318,178</b>
<b>Land, buildings, and equipment, net</b>	<b>—</b>	<b>2,778</b>	<b>378,262</b>	<b>—</b>	<b>27,218</b>	<b>14,820</b>	<b>2,763</b>	<b>—</b>	<b>—</b>	<b>425,841</b>
<b>Other assets</b>										
Land held for sale	—	—	23,035	—	—	—	—	—	—	23,035
Investments	22,650	—	—	—	—	—	—	—	(22,650)	—
Estimated excess insurance recovery receivables	6,396	—	—	—	—	—	—	—	—	6,396
Operating lease right of use assets	—	3,949	21,148	—	—	—	—	—	—	25,097
Other long-term assets	—	—	74,206	—	—	1,500	22	—	(55,599)	20,129
<b>Total assets</b>	<b>\$ 124,523</b>	<b>17,126</b>	<b>1,038,833</b>	<b>2,277</b>	<b>35,061</b>	<b>110,829</b>	<b>3,815</b>	<b>20,714</b>	<b>(368,169)</b>	<b>986,989</b>

## SILVER CROSS HEALTH SYSTEM AND AFFILIATES

## Consolidating Schedule – Balance Sheet Information

September 30, 2023

(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross MSO	Prime Medical	Essential Health Partners	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>										
<b>Current liabilities</b>										
Current installments of long-term debt	\$ —	—	8,405	—	—	—	—	—	—	8,405
Current portion of operating lease liability	—	805	4,366	—	—	—	—	—	—	5,171
Accounts payable	119	122	50,779	—	182	12,354	108	383	—	64,047
Accrued salaries and wages	2,993	4,965	22,708	—	—	296	—	—	—	30,964
Accrued expenses	480	75	3,857	33	1,154	—	142	16,581	—	22,322
Estimated payables under third-party reimbursement programs	—	—	31,758	—	—	—	—	—	—	31,758
Due to affiliates	54,933	43,184	106,184	434	45,076	36,139	—	—	(287,940)	—
<b>Total current liabilities</b>	<b>58,525</b>	<b>48,161</b>	<b>228,037</b>	<b>467</b>	<b>46,412</b>	<b>50,791</b>	<b>250</b>	<b>16,964</b>	<b>(287,940)</b>	<b>162,867</b>
Estimated self-insured professional and general liability claims	44,497	—	—	—	—	—	—	—	—	44,497
Long-term debt, excluding current installments	—	—	339,041	—	—	—	—	—	—	339,041
Long-term operating lease liability, net of current portion	—	3,280	18,248	—	—	—	—	—	—	21,528
Capital lease and other long-term liabilities, net of current portion	—	—	—	—	—	—	931	—	—	931
<b>Total liabilities</b>	<b>103,022</b>	<b>52,441</b>	<b>585,326</b>	<b>467</b>	<b>46,412</b>	<b>50,791</b>	<b>1,181</b>	<b>16,964</b>	<b>(287,940)</b>	<b>568,864</b>
<b>Net assets (deficit)</b>										
Net assets (deficit) without donor restrictions	21,501	(35,325)	443,924	1,810	(11,351)	52,033	1,343	2,250	(78,249)	397,936
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—	8,005	1,291	1,500	—	10,796
<b>Total net assets (deficit) without donor restrictions</b>	<b>21,501</b>	<b>(35,325)</b>	<b>443,924</b>	<b>1,810</b>	<b>(11,351)</b>	<b>60,038</b>	<b>2,634</b>	<b>3,750</b>	<b>(78,249)</b>	<b>408,732</b>
Net assets with donor restrictions	—	10	9,583	—	—	—	—	—	—	9,593
<b>Total net assets (deficit)</b>	<b>21,501</b>	<b>(35,315)</b>	<b>453,507</b>	<b>1,810</b>	<b>(11,351)</b>	<b>60,038</b>	<b>2,634</b>	<b>3,750</b>	<b>(78,249)</b>	<b>418,325</b>
<b>Total liabilities and net assets</b>	<b>\$ 124,523</b>	<b>17,126</b>	<b>1,038,833</b>	<b>2,277</b>	<b>35,061</b>	<b>110,829</b>	<b>3,815</b>	<b>20,714</b>	<b>(366,189)</b>	<b>986,989</b>

See accompanying independent auditors' report

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**  
Consolidating Schedule - Statement of Operations and Changes in Net Assets without Donor Restriction Information  
Year ended September 30, 2023  
(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross MSO	Prime Medical	Essential Health Partners	Eliminations	Consolidated
<b>Revenue</b>										
Net patient service revenue	\$ --	18,972	501,804	--	--	--	3,167	--	(654)	523,089
Other revenue	10,224	567	10,534	--	2,579	2,528	--	40,282	(11,893)	55,021
Total revenue	10,224	19,539	512,338	--	2,579	2,528	3,167	40,282	(12,347)	578,110
<b>Expenses</b>										
Salaries and wages	6,064	16,127	176,638	--	--	834	714	--	--	202,367
Payroll taxes and fringe benefits	1,588	2,987	41,177	--	--	180	211	--	--	46,153
General and administrative	2,097	4,139	130,065	--	1,511	613	1,789	40,282	(12,471)	168,025
Supplies	--	1,333	108,445	--	--	--	144	--	--	110,922
Depreciation and amortization	--	698	28,563	--	1,227	1,046	255	--	--	31,809
Interest	--	--	15,192	--	--	--	48	--	--	15,840
Total expenses	9,779	25,284	503,700	--	2,738	2,673	3,181	40,282	(12,471)	575,146
Income (loss) from operations	445	(5,745)	8,438	--	(159)	(145)	6	--	124	2,964
<b>Nonoperating gains (losses)</b>										
Investment income, net	1,812	(108)	17,004	--	--	--	--	--	--	18,710
Other, net	--	--	330	602	--	(12)	--	--	--	920
Total nonoperating gains (losses), net	1,812	(108)	17,334	602	--	(12)	--	--	--	19,630
Revenue and gains in excess (deficient) of expenses and losses	2,257	(5,851)	25,772	602	(159)	(157)	6	--	124	22,594
<b>Other changes in net assets without donor restrictions</b>										
Net assets released from restriction for land, building and equipment acquisitions financed by net assets with donor restrictions	--	--	880	--	--	--	--	--	--	880
Contributed capital from (returned to) minority partners in consolidated joint ventures	--	--	--	--	--	20,000	--	(1,309)	(19,215)	(524)
Increase (decrease) in net assets without donor restrictions	\$ 2,257	(5,851)	26,652	602	(159)	19,843	6	(1,309)	(19,091)	22,950

See accompanying independent auditors' report

**SILVER CROSS HEALTH SYSTEM AND AFFILIATES**  
Consolidating Schedule – Statement of Changes in Net Assets Information  
Year ended September 30, 2023  
(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross MSO	Prime Medical	Essential Health Partners	Eliminations	Consolidated
Net assets without donor restrictions										
Revenue and gains in excess (deficient) of expenses and losses	\$ 2,257	(5,851)	25,772	602	(159)	(157)	6	—	124	22,594
Other changes in net assets without donor restrictions										
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	—	—	880	—	—	—	—	—	—	880
Contributed capital from (returned to) minority partners in consolidated joint ventures	—	—	—	—	—	20,000	—	(1,309)	(19,215)	(524)
Increase (decrease) in net assets without donor restrictions	2,257	(5,851)	26,652	602	(159)	19,843	6	(1,309)	(19,091)	22,850
Net assets with donor restrictions										
Contributions for specific purposes	—	—	1,471	—	—	—	—	—	—	1,471
Net realized and unrealized gains and losses on net assets with donor restrictions	—	—	486	—	—	—	—	—	—	486
Net assets released from restriction for operating purposes	—	—	(138)	—	—	—	—	—	—	(138)
Net assets released from restriction for land, building, and equipment acquisitions	—	—	(880)	—	—	—	—	—	—	(880)
Change in net assets with donor restrictions	—	—	939	—	—	—	—	—	—	939
Change in net assets	2,257	(5,851)	27,591	602	(159)	19,843	6	(1,309)	(19,091)	23,889
Net assets (deficit) at beginning of year	19,244	(29,464)	425,916	1,208	(11,192)	40,195	2,628	5,059	(59,158)	394,436
Net assets (deficit) at end of year	\$ 21,501	(35,315)	453,507	1,810	(11,351)	60,038	2,634	3,750	(78,249)	418,325

See accompanying independent auditors' report

**SILVER CROSS HEALTH SYSTEM AND  
SILVER CROSS HOSPITAL AND MEDICAL CENTERS**

Combining Schedule – Special-Purpose Combined Balance Sheet Information – Obligated Group

September 30, 2023

(Amounts in thousands)

Assets	Silver Cross Health System	Silver Cross Hospital and Medical Centers	Eliminations	Obligated Group Combined
Current assets:				
Cash and cash equivalents	\$ 2,246	17,389	—	19,635
Short-term investments	—	2,278	—	2,278
Assets whose use is limited or restricted, required for current liabilities	—	11	—	11
Patient accounts receivable	—	59,929	—	59,929
Due from affiliates	60,994	158,308	(7,101)	212,201
Other receivables	296	1,567	—	1,863
Inventory	—	9,587	—	9,587
Prepaid expenses and other	257	6,619	—	6,876
Total current assets	<u>63,793</u>	<u>255,688</u>	<u>(7,101)</u>	<u>312,380</u>
Assets whose use is limited or restricted, excluding assets required for current liabilities:				
By board for capital improvements and other	—	276,824	—	276,824
By board for self-insurance	31,684	—	—	31,684
Under bond indenture agreements – held by trustee	—	71	—	71
Pledges receivable	—	374	—	374
Donor-restricted investments	—	1,830	—	1,830
Beneficial interest in perpetual trusts	—	7,395	—	7,395
Total assets whose use is limited or restricted	<u>31,684</u>	<u>286,494</u>	<u>—</u>	<u>318,178</u>
Land, buildings, and equipment, net	—	378,262	—	378,262
Other assets:				
Land held for sale	—	23,035	—	23,035
Investment in unconsolidated subsidiary	22,650	—	(22,650)	—
Estimated excess insurance recovery receivables	6,396	—	—	6,396
Operating lease right of use assets	—	21,148	—	21,148
Other long-term assets	—	74,206	—	74,206
Total assets	<u>\$ 124,523</u>	<u>1,038,833</u>	<u>(29,751)</u>	<u>1,133,605</u>

**SILVER CROSS HEALTH SYSTEM AND  
SILVER CROSS HOSPITAL AND MEDICAL CENTERS**  
Combining Schedule – Special Purpose Combined Balance Sheet Information – Obligated Group  
September 30, 2023  
(Amounts in thousands)

Liabilities and Net Assets	Silver Cross Health System	Silver Cross Hospital and Medical Centers	Eliminations	Obligated Group Combined
Current liabilities:				
Current installments of long-term debt	\$ —	8,405	—	8,405
Current portion of operating lease liability	—	4,366	—	4,366
Accounts payable	119	50,833	—	50,952
Accrued salaries and wages	2,993	22,708	—	25,701
Accrued expenses	480	3,803	—	4,283
Estimated payables under third-party reimbursement	—	31,758	—	31,758
Due to affiliates	90,248	106,164	(7,101)	189,311
Total current liabilities	93,840	228,037	(7,101)	314,776
Estimated self-insured professional and general liability claims	44,497	—	—	44,497
Long-term debt, excluding current installments and unamortized bond discounts and premiums	—	339,041	—	339,041
Long-term operating lease liability, net of current portion	—	18,248	—	18,248
Total liabilities	138,337	585,326	(7,101)	716,562
Net assets (deficit):				
Net assets (deficit) without donor restrictions	(13,824)	443,924	(22,650)	407,450
Net assets with donor restrictions	10	9,583	—	9,593
Total net assets (deficit)	(13,814)	453,507	(22,650)	417,043
Total liabilities and net assets	\$ 124,523	1,038,833	(29,751)	1,133,605

See accompanying independent auditors' report.

**SILVER CROSS HEALTH SYSTEM AND  
SILVER CROSS HOSPITAL AND MEDICAL CENTERS**

Combining Schedule – Special-Purpose Combined Statement of Operations and Changes in Net Assets without Donor Restrictions Information – Obligated Group

Year ended September 30, 2023

(Amounts in thousands)

	Silver Cross Health System	Silver Cross Hospital and Medical Centers	Eliminations	Obligated Group Combined
Revenue:				
Net patient service revenue	\$ —	501,604	—	501,604
Other revenue	10,224	10,534	(9,952)	10,806
Total revenue	10,224	512,138	(9,952)	512,410
Expenses:				
Salaries and wages	6,084	178,638	—	184,722
Payroll taxes and fringe benefits	1,598	41,177	—	42,775
General and administrative	2,097	130,065	(9,952)	122,210
Supplies	—	109,445	—	109,445
Depreciation and amortization	—	28,583	—	28,583
Interest	—	15,792	—	15,792
Total expenses	9,779	503,700	(9,952)	503,527
Income (loss) from operations	445	8,438	—	8,883
Nonoperating gains (losses):				
Investment income, net	1,812	16,902	—	18,714
Loss on investment in unconsolidated subsidiary	(5,851)	—	—	(5,851)
Other, net	—	432	—	432
Total nonoperating gains (losses), net	(4,039)	17,334	—	13,295
Revenue and gains in excess (deficient) of expenses and losses	(3,594)	25,772	—	22,178
Other changes in net assets without donor restrictions				
Net assets released from restriction for land, building, and equipment acquisitions financed by net assets with donor restrictions	—	880	—	880
Increase (decrease) in net assets without donor restrictions	\$ (3,594)	26,652	—	23,058

See accompanying independent auditors' report.

## Exhibit 4

## RATING ACTION COMMENTARY

**Fitch Affirms Silver Cross (IL) Revenue Bonds at 'A-'; Outlook Stable**

Mon 26 Jun, 2023 - 12:29 PM ET

Fitch Ratings - Austin - 26 Jun 2023: Fitch Ratings has affirmed the 'A-' Issuer Default Rating of Silver Cross Health System (IL) and the 'A-' revenue bond rating on the series 2008A and 2015C bonds issued by the Illinois Finance Authority on behalf of Silver Cross.

The Rating Outlook is Stable.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Silver Cross Health System (IL)	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
Silver Cross Health System (IL) /General Revenues/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable

## VIEW ADDITIONAL RATING DETAILS

The affirmation of the 'A-' reflects Silver Cross's historically strong cash flow generation, with operating EBITDA margins averaging over 15% for the past three years, combined with more moderate capital needs that have contributed to improved liquidity. The rating also reflects Silver Cross's leading and growing market position in a stable service area.

Fitch expects fiscal 2023 operating performance to be on par with fiscal 2022, with an operating EBITDA margin of around 8%, related to the economic headwinds that face the industry. Fitch's five-year forward-looking scenario analysis shows operating margins rebounding following the softer 2022 driven by strong demand, and supported by Silver Cross's strategic outpatient growth, improved access, and the strength of their core service lines.

Silver Cross's financial profile is consistent with the lower end of the 'A' rating category when applying revenue stress and a portfolio sensitivity analysis.

## SECURITY

The bonds are secured by a gross revenue pledge and a mortgage on certain property, including the hospital campus.

## KEY RATING DRIVERS

Revenue Defensibility - 'bbb'

Leading Market Share in Stable Service Area

Silver Cross, located about 35 miles southwest of Chicago, maintains a leading market position and a growing market share of just under 44% (primary service area) in a service area with solid population growth and favorable median income levels. Silver Cross has a good payer mix with Medicaid and self-pay accounting for under 13% of gross revenues in fiscal 2022.

Competition stems primarily from Ascension St. Josephs (located about nine miles to the west) with about 22% market share. In addition, there are several academic medical centers located in the broader secondary service area. Silver Cross benefits from a large medical staff that is both independent and employed and several affiliations with leading Chicago area health systems. The hospital has successfully ramped up its open-heart and cardiac surgery program and looks to further expand this service with a new outpatient catheterization lab.

A Level III neo-natal intensive care unit opened in August 2022 and is expected to help Silver Cross's already leading share for obstetrics services. Management continues to focus on growth through increasing access points and enhancing key service lines. The formation of a multispecialty physician group that has grown to 40 practitioners should help to grow market share. Silver Cross continues to look for ways to grow the market share, which included adding two hyperbaric chambers, a co-management agreement for orthopedic services that has yielded over 100 new cases and continued growth in procedural care volume (surgeries).

#### Operating Risk - 'aa'

##### Despite Economic Headwinds Strong Operating Profitability Expected to Return

Silver Cross has demonstrated strong operating cost flexibility with operating EBITDA margins averaging about 14% over the past five years, even those affected by the pandemic. Strong margins reflect the efficiencies of operating in a relatively new facility, completed in February 2012 combined with Silver Cross's labor and productivity practices. While Silver Cross has faced the economic headwinds as others in the industry, it has been able to sustain high single digit operating EBITDA margins in fiscal 2022 and the first half of fiscal 2023, ended March 31.

For fiscal 2023, Silver Cross' inpatient volumes declined in January and again in April. The April decline was driven by vacations and the Easter holiday. Despite the decline in inpatient volumes, which affected operational metrics, Silver Cross improved its vacancy rate to 5% in May 2023 from just over 7% in October 2022 for the system and improved its use of agency staffing. Currently Silver Cross is close to what it budgets monthly for agency staff. Fitch expects that management will continue to implement initiatives to sustain its operational metrics.

Capex requirements are manageable and supported by cash flow with Silver Cross's average age of plant of approximately 11 years. Capex averaged about 95% of depreciation over the past five years. Capital expenditures are expected to average about 80% of depreciation over the next five years with strategic focus on access points, expanding inpatient capacity, and technology. The capital plan is flexible with ability to scale back in stress years, as management is focused on building liquidity.

#### Financial Profile - 'a'

##### Moderating Leverage Supported by Strong Cash Flow

Silver Cross' consistently strong cash flow generation and moderate capital needs given its relatively young facility has allowed for improvement in the financial and leverage profile. Silver Cross reported unrestricted cash and investments of \$315 million for the first half of fiscal 2023, translating to cash to adjusted debt of 81%, up from about 60% in fiscal 2019. Its weak debt metrics are the lingering effect of a large \$260 million replacement hospital project completed in February 2012. Fitch did not make any adjustments to the \$390 million total debt as Silver Cross does not have a defined benefit pension plan and includes operating lease expenses a liability on its balance sheet.

Fitch's base case scenario, which is a reasonable five-year forward look, shows Silver Cross returning to strong operations with an operating EBITDA margin of approximately 10% by 2025, following softer performance in fiscal 2022 and the first half of fiscal 2023, and incorporates planned capital investments that average about 80% of depreciation. The financial profile demonstrates adequate financial flexibility in Fitch's stress case, which applies a revenue and portfolio sensitivity stress (based on asset allocation), with cash to adjusted debt exceeding 75% by year three. This is consistent with the 'A' rating category given Silver Cross's mid-range revenue defensibility and strong operating risk assessment.

#### RATING SENSITIVITIES

##### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A weakening of the financial profile where cash to adjusted debt remains below 75% in Fitch's stressed scenario;

--Compression in operating margins, particularly if the operating EBITDA margin falls below 8% for a sustained period.

**Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Positive rating action over the medium or longer term would require continued strong operating performance with operating EBITDA margins consistently exceeding 12% and a financial profile with cash to adjusted debt improved to over 100% in Fitch's stress scenario.

**BEST/WORST CASE RATING SCENARIO**

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

**PROFILE**

Silver Cross operates a 348-bed acute care hospital located approximately 35 miles southwest of downtown Chicago. The health system successfully transitioned into its replacement hospital in New Lenox, IL in February 2012 from its original hospital in Joliet, IL. The new hospital has allowed Silver Cross to capitalize on a growing market, improve efficiencies, and enhance service offerings through its various clinical partnerships. Total consolidated operating revenue equaled \$522 million in fiscal 2022.

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

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

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

**ESG CONSIDERATIONS**

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

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The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 18 Nov 2020) (including rating assumption sensitivity)  
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

**APPLICABLE MODELS**

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

Portfolio Analysis Model (PAM), v2.0.0 (1)

**ADDITIONAL DISCLOSURES**

Dodd-Frank Rating Information Disclosure Form  
Solicitation Status  
Endorsement Policy

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Illinois Finance Authority (IL)

EU Endorsed, UK Endorsed

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## Exhibit 5



1900 Silver Cross Blvd. • New Lenox, IL 60451  
(815) 300-1100 • [www.silvercross.org](http://www.silvercross.org)

February 26, 2024


Mr. Michael Constantino  
Project Review Supervisor  
Illinois Health Facilities & Services Review Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Criterion 1120.130(a) Financial Viability Waiver Certification  
Alteration Request, Project No. 22-022  
Silver Cross Orland Park Medical Office Building

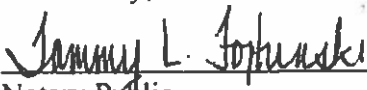
Dear Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1120.130(a), that the Permit Holders will fund the additional modernization contracts/tenant improvement allowances set forth in the Alteration Request filed by the Permit Holders for the Silver Cross Orland Park Medical Office Building (Project No. 22-022) with cash and cash equivalents.

Sincerely,

  
\_\_\_\_\_  
Vincent E. Pryor  
Executive Vice President & CFO  
Silver Cross Hospital & Medical Centers

SUBSCRIBED AND SWORN  
to before me this 27<sup>th</sup> day  
of February, 2024.

  
\_\_\_\_\_  
Notary Public

