

HEALTH FACILITIES AND SERVICES REVIEW BOARD  
APPLICATION FOR PERMIT

RECEIVED

JUL 08 2013

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

Facility/Project Identification

Facility Name:	Swedish Covenant Surgery Center LLC dba Center for Ambulatory Surgery at Swedish Covenant Discontinuation				
Street Address:	5215 North California Avenue, Suite F800				
City and Zip Code:	Chicago, Illinois 60625				
County:	Cook	Health Service Area	V1	Health Planning Area:	A-01

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Swedish Covenant Surgery Center LLC dba Center for Ambulatory Surgery at Swedish Covenant				
Address:	5215 North California Avenue, Suite F800, Chicago, Illinois 60625				
Name of Registered Agent:	Mark Newton				
Name of Chief Executive Officer:	Mark Newton				
CEO Address:	5145 North California Avenue, Chicago, Illinois 60625				
Telephone Number:	773-907-1000				

Type of Ownership of Applicant/Co-Applicant

<input type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership		
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental		
<input checked="" type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship	<input type="checkbox"/>	Other

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

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

Primary Contact

[Person to receive all correspondence or inquiries during the review period]

Name:	Jonathan Lind				
Title:	Vice President of Operations				
Company Name:	Swedish Covenant Hospital				
Address:	5145 North California Avenue, Chicago, Illinois 60625				
Telephone Number:	773-907-1028				
E-mail Address:	jlind@swedishcovenant.org				
Fax Number:	773-878-6152				

Additional Contact

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

Name:	Joseph Natal				
Title:	Manager, Business Development				
Company Name:	Swedish Covenant Hospital				
Address:	5145 North California Avenue, Chicago, Illinois 60625				
Telephone Number:	773-878-8200 Ext. 5860				
E-mail Address:	jnatal@swedishcovenant.org				
Fax Number:	773-777-7141				

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

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<ul style="list-style-type: none"> <li>o Corporations and limited liability companies must provide an <b>Illinois certificate of good standing</b>.</li> <li>o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li> </ul>					
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County:	Cook	Health Service Area	V1	Health Planning Area:	A-01

**Applicant /Co-Applicant Identification****[Provide for each co-applicant [refer to Part 1130.220].**

Exact Legal Name:	Covenant Ministries of Benevolence				
Address:	5145 North California Avenue, Chicago, Illinois 60625				
Name of Registered Agent:	Grant Erickson				
Name of Chief Executive Officer:	David Dwight				
CEO Address:	5145 North California Avenue, Chicago, Illinois 60625				
Telephone Number:	773-989-1610				

**Type of Ownership of Applicant/Co-Applicant**

<input checked="" type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership		
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental		
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[Person to receive all correspondence or inquiries during the review period]

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E-mail Address:	jnatal@swedishcovenant.org				
Fax Number:	773-777-7141				

**Additional Contacts**

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

Name:	Janet Scheuerman
Title:	Senior Consultant
Company Name:	PRISM Healthcare Consulting
Address:	1808 Woodmere Drive, Valparaiso, Indiana 46383
Telephone Number:	219-464-3969
E-mail Address:	prismjanet@aol.com
Fax Number:	219-464-0027

**Post Permit Contact**

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

Name:	Saliba Kokaly
Title:	Vice President Facilities
Company Name:	Swedish Covenant Hospital
Address:	5145 North California Avenue, Chicago, Illinois 60625
Telephone Number:	773-293-4000
E-mail Address:	skokaly@swedishcovenant.org
Fax Number:	773-728-6066

**Site Ownership**

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Swedish Covenant Hospital
Address of Site Owner:	5145 North California Avenue, Chicago, Illinois 60625
Street Address or Legal Description of Site:	
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.	
APPEND DOCUMENTATION AS <u>ATTACHMENT-2</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

**Operating Identity/Licensee**

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

Exact Legal Name:	Swedish Covenant Surgery Center LLC dba Center for Ambulatory Surgery at Swedish Covenant		
Address:	5215 North California Avenue, Suite F800, Chicago, Illinois 60625		
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<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental
<input checked="" type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship
		<input type="checkbox"/>	Other
<ul style="list-style-type: none"> <li>o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.</li> <li>o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li> <li>o <b>Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.</b></li> </ul>			
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

**Organizational Relationships**

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

**Flood Plain Requirements Not applicable. This application for permit does not include any construction or modernization.**

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at [www.FEMA.gov](http://www.FEMA.gov) or [www.illinoisfloodmaps.org](http://www.illinoisfloodmaps.org). **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

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

**Historic Resources Preservation Act Requirements Not applicable. This application for permit does not include any construction or modernization.**

[Refer to application instructions.]

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

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

**DESCRIPTION OF PROJECT**

**1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

<p>Part 1110 Classification:</p> <p><input checked="" type="checkbox"/> Substantive</p> <p><input type="checkbox"/> Non-substantive</p>	<p>Part 1120 Applicability or Classification: [Check one only.]</p> <p><input type="checkbox"/> Part 1120 Not Applicable</p> <p><input checked="" type="checkbox"/> Category A Project <sup>1</sup></p> <p><input type="checkbox"/> Category B Project</p> <p><input type="checkbox"/> DHS or DVA Project</p>
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<sup>1</sup>. The costs associated with Swedish Covenant Hospital’s acquiring outstanding shares of Swedish Covenant Surgery Center LLC dba Center for Ambulatory Surgery at Swedish Covenant will be expensed.

Hence, there is no capital cost associated with the project.

## 2. Narrative Description

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

In June 2010, Swedish Covenant Surgery Center, LLC, dba Center for Ambulatory Surgery at Swedish Covenant ("SCSC", "Surgery Center"), Swedish Covenant Hospital ("SCH", or "the Hospital"), and Covenant Ministries of Benevolence were granted Permit 10-017 by the Health Facilities and Services Review Board to establish an ambulatory surgical treatment center ("ASTC") in a medical office building to be constructed at 5215 North California Avenue, directly across Foster Avenue from Swedish Covenant Hospital at 5145 North California Avenue, Chicago, Illinois 60625.

The three applicants are now seeking a permit to change the ownership of the SCSC from the current owners to Swedish Covenant Hospital and operate the space as a Hospital Outpatient Department (HOPD) of the Hospital. The Hospital currently owns 54 percent of the for-profit ASTC.

The change of ownership will occur in the following steps.

- 1) SCSC, LLC shareholders will approve the redemption (sale) of their shares back to SCSC, LLC
- 2) SCSC, LLC will acquire all outstanding shares, excluding the Swedish Covenant Hospital shares
- 3) SCSC, LLC becomes wholly owned by Swedish Covenant Hospital
- 4) CON change of ownership approval by HFSRB for SCSC, LLC to become a hospital outpatient department (HOPD)
- 5) IDPH reviews and approves space for hospital use
- 6) SCSC, LLC assets and liabilities transferred to Swedish Covenant Hospital
- 7) SCSC, LLC is dissolved and the space is operated as a non profit department of Swedish Covenant Hospital

The applicants anticipate that the change of ownership will occur by December 31, 2013.

There are no capital costs involved in the proposed change of ownership. Cash will be used to complete the transaction. SCH will expense all costs related to the transaction.

According to PL 96-31, substantive projects do not include change of ownership; therefore this project is a non substantive project.

**Project Costs and Sources of Funds Not applicable. There are no costs to be capitalized as part of this project.**

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

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
<b>TOTAL USES OF FUNDS</b>			
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
<b>TOTAL SOURCES OF FUNDS</b>			
<b>NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</b>			

**Related Project Costs**

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

Land acquisition is related to project  Yes  No  
 Purchase Price: \$ \_\_\_\_\_  
 Fair Market Value: \$ \_\_\_\_\_

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

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

Estimated start-up costs and operating deficit cost is \$ Not Applicable.

**Project Status and Completion Schedules**

Indicate the stage of the project's architectural drawings:

None or not applicable  Preliminary  
 Schematics  Final Working

Anticipated project completion date (refer to Part 1130.140): December 31, 2013

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Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140): **Not applicable. Projects that have no cost shall be considered obligated upon HFSRB issuance of a permit.**

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

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

**State Agency Submittals -**

Are the following submittals up to date as applicable:

Cancer Registry  
 APORS  
 All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted  
 All reports regarding outstanding permits  
**Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.**

**Cost Space Requirements Not applicable. There is neither construction nor cost associated with this project.**

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

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

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

**Facility Bed Capacity and Utilization**

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

<b>FACILITY NAME: Swedish Covenant Hospital</b>		<b>CITY: Chicago, IL</b>			
<b>REPORTING PERIOD DATES: From: January 1, 2012 to: December 31, 2012</b>					
<b>Category of Service</b>	<b>Authorized Beds</b>	<b>Admissions</b>	<b>Patient Days <sup>1</sup></b>	<b>Bed Changes</b>	<b>Proposed Beds</b>
Medical/Surgical	171	9,707	51,116		171
Obstetrics/Gyn	21	2,079	4,720		21
Pediatrics	6	294	716		6
Intensive Care	18	809 <sup>2</sup>	3,789		18
Comprehensive Physical Rehabilitation	25	354	5,130		25
Acute/Chronic Mental Illness	34	1,098	7,083		34
Neonatal Intensive Care					
General Long Term Care	37	602	6,387		37
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify))					
<b>TOTALS:</b>	<b>312</b>	<b>14,943</b>	<b>78,941 <sup>3</sup></b>		<b>312</b>

Source: *Annual Hospital Questionnaire CY 2012*

1. Includes observation days
2. Excludes patients transferred from another unit
3. Excludes observation days in dedicated observation beds or stations

**CERTIFICATION**

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

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

**This Application for Permit is filed on the behalf of Swedish Covenant Surgery Center LLC or Center for Ambulatory Surgery at Swedish Covenant \*  
 in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.**

Mark Newton  
 SIGNATURE

**Mark Newton**  
 PRINTED NAME

**Chief Executive Officer**  
 PRINTED TITLE

Jonathan Lind  
 SIGNATURE

**Jonathan Lind**  
 PRINTED NAME

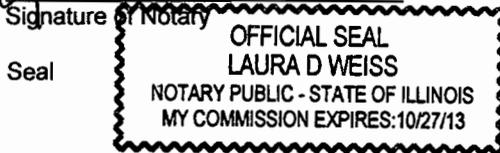
**Secretary/Treasurer**  
 PRINTED TITLE

Notarization:  
 Subscribed and sworn to before me  
 this 26TH day of JUNE, 2013

Notarization:  
 Subscribed and sworn to before me  
 this 26TH day of JUNE, 2013

Laura D. Weiss  
 Signature of Notary

Laura D. Weiss  
 Signature of Notary



\*Insert EXACT legal name of the applicant

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

*Mark Newton*  
 SIGNATURE

**Mark Newton**  
 PRINTED NAME

**Chief Executive Officer**  
 PRINTED TITLE

*Anthony Guaccio*  
 SIGNATURE

**Anthony Guaccio**  
 PRINTED NAME

**Chief Operating Officer**  
 PRINTED TITLE

Notarization:  
 Subscribed and sworn to before me  
 this 26TH day of JUNE, 2013

Notarization:  
 Subscribed and sworn to before me  
 this 26TH day of JUNE, 2013

*Laura D. Weiss*  
 Signature of Notary

*Laura D. Weiss*  
 Signature of Notary

Seal  
 OFFICIAL SEAL  
 LAURA D WEISS  
 NOTARY PUBLIC - STATE OF ILLINOIS  
 MY COMMISSION EXPIRES:10/27/13

Seal  
 OFFICIAL SEAL  
 LAURA D WEISS  
 NOTARY PUBLIC - STATE OF ILLINOIS  
 MY COMMISSION EXPIRES:10/27/13

\*Insert EXACT legal name of the applicant

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

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

David Dwight  
SIGNATURE

Lawrence Anderson  
SIGNATURE

David Dwight  
PRINTED NAME

Lawrence Anderson  
PRINTED NAME

President  
PRINTED TITLE

EVP Finance  
PRINTED TITLE

Notarization:  
Subscribed and sworn to before me  
this 26th day of JUNE, 2013

Notarization:  
Subscribed and sworn to before me  
this 26th day of JUNE, 2013

Laura D. Weiss  
Signature of Notary

Laura D. Weiss  
Signature of Notary

Seal  
OFFICIAL SEAL  
LAURA D WEISS  
NOTARY PUBLIC - STATE OF ILLINOIS  
MY COMMISSION EXPIRES: 10/27/13  
\* Insert Commission Expires of the applicant

Seal  
OFFICIAL SEAL  
LAURA D WEISS  
NOTARY PUBLIC - STATE OF ILLINOIS  
MY COMMISSION EXPIRES: 10/27/13

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

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

**Criterion 1110.230 – Background, Purpose of the Project, and Alternatives**

READ THE REVIEW CRITERION and provide the following required information:

**BACKGROUND OF APPLICANT**

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

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

**PURPOSE OF PROJECT**

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

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

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

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

**ALTERNATIVES**

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

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
  - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

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

**SECTION VI - MERGERS, CONSOLIDATIONS AND ACQUISITIONS/CHANGES OF OWNERSHIP**

This Section is applicable to projects involving merger, consolidation or acquisition/change of ownership.

**NOTE: For all projects involving a change of ownership THE TRANSACTION DOCUMENT must be submitted with the application for permit. The transaction document must be signed dated and contain the appropriate contingency language.**

**A. Criterion 1110.240(b), Impact Statement**

Read the criterion and provide an impact statement that contains the following information:

1. Any change in the number of beds or services currently offered.
2. Who the operating entity will be.
3. The reason for the transaction.
4. Any anticipated additions or reductions in employees now and for the two years following completion of the transaction.
5. A cost-benefit analysis for the proposed transaction.

**B. Criterion 1110.240(c), Access**

Read the criterion and provide the following:

1. The current admission policies for the facilities involved in the proposed transaction.
2. The proposed admission policies for the facilities.
3. A letter from the CEO certifying that the admission policies of the facilities involved will not become more restrictive.

**C. Criterion 1110.240(d), Health Care System**

Read the criterion and address the following:

1. Explain what the impact of the proposed transaction will be on the other area providers.
2. List all of the facilities within the applicant's health care system and provide the following for each facility.
  - a. the location (town and street address);
  - b. the number of beds;
  - c. a list of services; and
  - d. the utilization figures for each of those services for the last 12 month period.
3. Provide copies of all present and proposed referral agreements for the facilities involved in this transaction.
4. Provide time and distance information for the proposed referrals within the system.
5. Explain the organization policy regarding the use of the care system providers over area providers.
6. Explain how duplication of services within the care system will be resolved.
7. Indicate what services the proposed project will make available to the community that are not now available.

APPEND DOCUMENTATION AS ATTACHMENT-19, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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

**Audited financial statements, 2011 and 2012, are included in Appendix 1.**

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

**VIII. - 1120.120 - Availability of Funds** Not applicable. There are no capital costs associated with this project.

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

	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5)	For any option to lease, a copy of the option, including all terms and conditions.
	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
	<b>TOTAL FUNDS AVAILABLE</b>	

**APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**IX. 1120.130 - Financial Viability NA**

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

**Financial Viability Waiver**

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

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

See Section 1120.130 Financial Waiver for information to be provided

**APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

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

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
<b>Enter Historical and/or Projected Years:</b>				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

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

2. Variance

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

**APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

Attachments 40 and 41 are not applicable; there is no capital financing as part of this project.

**X. 1120.140 - Economic Feasibility**

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

**A. Reasonableness of Financing Arrangements Not applicable. There is no project cost.**

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

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
  - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
  - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

**B. Conditions of Debt Financing Not applicable. There is neither project cost or debt financing.**

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

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

**C. Reasonableness of Project and Related Costs Not applicable. There is no project cost.**

Read the criterion and provide the following:

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

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE											
Department (list below)	A	B	C		D		E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)			
Contingency											
TOTALS											

\* Include the percentage (%) of space for circulation

**D. Projected Operating Costs**

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

**E. Total Effect of the Project on Capital Costs Not applicable**

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

APPEND DOCUMENTATION AS ATTACHMENT -42, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**XI. Safety Net Impact Statement**

**SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:**

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

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

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

**A table in the following format must be provided as part of Attachment 43.**

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

**APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**XII. Charity Care Information**

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS **ATTACHMENT-44**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

<b>INDEX OF ATTACHMENTS</b>		
<b>ATTACHMENT NO.</b>		<b>PAGES</b>
1	Applicant/Co-applicant Identification including Certificate of Good Standing	26 – 29
2	Site Ownership	30 – 33
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	34 – 37
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	38 – 39
5	Flood Plain Requirements	40
6	Historic Preservation Act Requirements	41
7	Project and Sources of Funds Itemization	42
8	Obligation Document if required	43
9	Cost Space Requirements	44
10	Discontinuation	NA
11	Background of the Applicant	45 – 53
12	Purpose of the Project	54 – 61
13	Alternatives to the Project	62 – 70
14	Size of the Project	NA
15	Project Service Utilization	NA
16	Unfinished or Shell Space	NA
17	Assurances for Unfinished/Shell Space	NA
18	Master Design Project	NA
19	Mergers, Consolidations and Acquisitions	71 - 78
	<b>Service Specific:</b>	
20	Medical Surgical Pediatrics, Obstetrics, ICU	NA
21	Comprehensive Physical Rehabilitation	NA
22	Acute Mental Illness	NA
23	Neonatal Intensive Care	NA
24	Open Heart Surgery	NA
25	Cardiac Catheterization	NA
26	In-Center Hemodialysis	NA
27	Non-Hospital Based Ambulatory Surgery	NA
28	General Long Term Care	NA
29	Specialized Long Term Care	NA
30	Selected Organ Transplantation	NA
31	Kidney Transplantation	NA
32	Subacute Care Hospital Model	NA
33	Post Surgical Recovery Care Center	NA
34	Children's Community-Based Health Care Center	NA
35	Community-Based Residential Rehabilitation Center	NA
36	Long Term Acute Care Hospital	NA
37	Clinical Service Areas Other than Categories of Service	NA
38	Freestanding Emergency Center Medical Services	NA
	<b>Financial and Economic Feasibility:</b>	
39	Availability of Funds	79
40	Financial Waiver	80 – 83
41	Financial Viability	84
42	Economic Feasibility	85 – 86
43	Safety Net Impact Statement	87 – 92
44	Charity Care Information	93 – 100
Appendix A	Board Resolution	101 – 104
Appendix B	Loan Agreement	105 – 114
Appendix C	Audited Financials	115 – 151

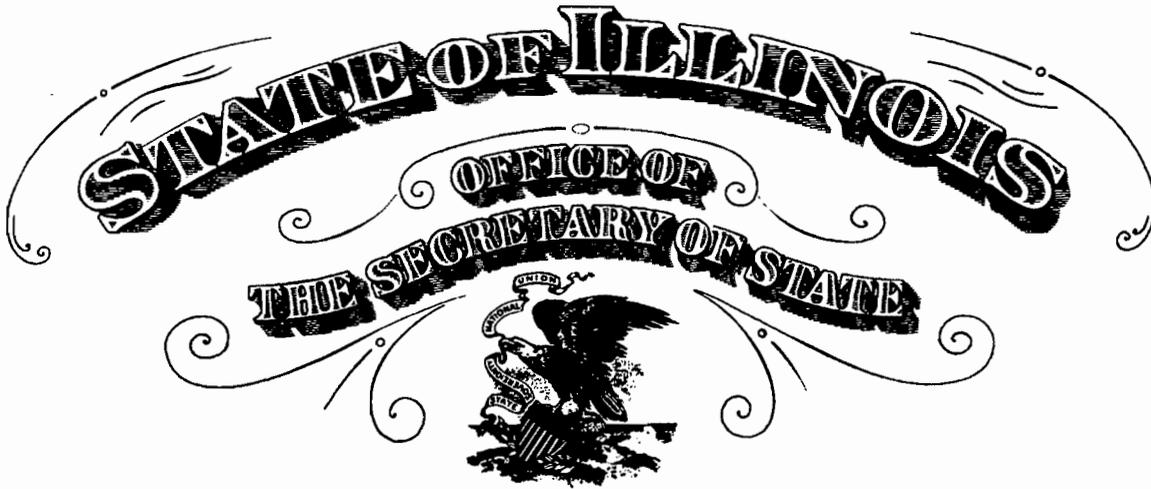
ATTACHMENTS

**Applicants /Co-Applicants Identification****[Provide for each co-applicant [refer to Part 1130.220].**

Exact Legal Name:	Swedish Covenant Surgery Center LLC dba Center for Ambulatory Surgery at Swedish Covenant
Address:	5215 North California Avenue, Suite F800, Chicago, Illinois 60625
Name of Registered Agent:	Mark Newton
Name of Chief Executive Officer:	Mark Newton
CEO Address:	5145 North California Avenue, Chicago, Illinois 60625
Telephone Number:	773-907-1000

Exact Legal Name:	Swedish Covenant Hospital
Address:	5145 North California Avenue, Chicago, Illinois 60625
Name of Registered Agent:	Mark Newton
Name of Chief Executive Officer:	Mark Newton
CEO Address:	5145 North California Avenue, Chicago, Illinois 60625
Telephone Number:	773-907-1000

Exact Legal Name:	Covenant Ministries of Benevolence
Address:	5145 North California Avenue, Chicago, Illinois 60625
Name of Registered Agent:	Grant Erickson
Name of Chief Executive Officer:	David Dwight
CEO Address:	5145 North California Avenue, Chicago, Illinois 60625
Telephone Number:	773-989-1610



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

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

SWEDISH COVENANT SURGERY CENTER, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON MARCH 02, 2010, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.

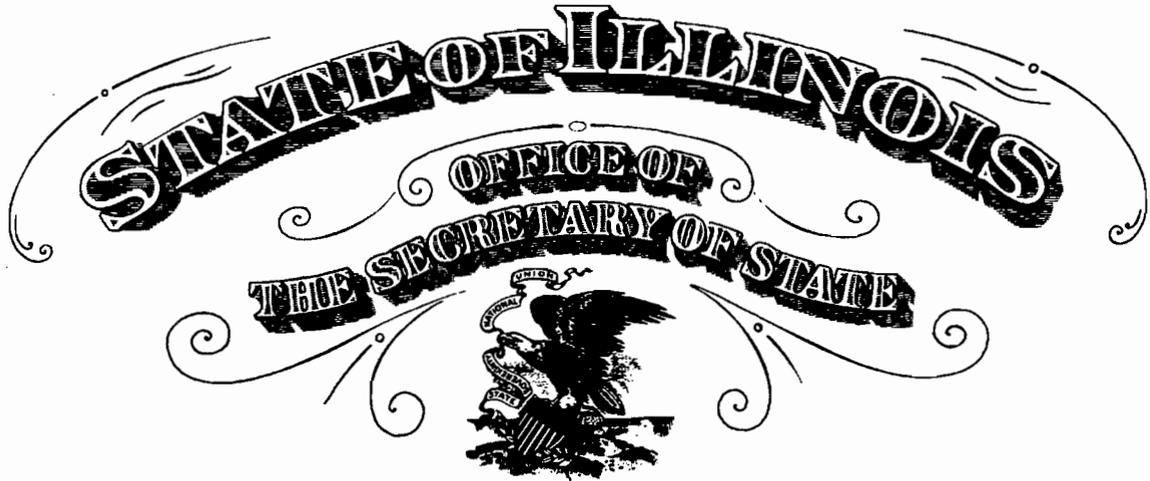


Authentication #: 1316700384  
Authenticate at: <http://www.cyberdriveillinois.com>

***In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 16TH day of JUNE A.D. 2013 .***

*Jesse White*

SECRETARY OF STATE



To all to whom these Presents Shall Come, Greeting:

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

SWEDISH COVENANT HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 06, 1907, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



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Jesse White

SECRETARY OF STATE



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

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

COVENANT MINISTRIES OF BENEVOLENCE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 16, 1986, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1316700404

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*Jesse White*

SECRETARY OF STATE

**Site Ownership**

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Swedish Covenant Hospital
Address of Site Owner:	5145 North California Avenue, Chicago, Illinois 60625
Street Address or Legal Description of Site:	
<b>Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.</b>	

Attachment 2, Exhibit 1 is a notarized statement of the corporation attesting to the ownership of the Swedish Covenant Surgery Center, LLC site. Attachment 2, Exhibits 2 and 3 are plats of survey.

**CERTIFICATE  
SWEDISH COVENANT HOSPITAL**

The undersigned, being the President of Swedish Covenant Hospital, an Illinois not-for-profit corporation (the "Corporation"), on behalf of the Corporation hereby certifies that:

- (a) the Corporation owns the property known as the Foster Medical Pavilion, 5215 N. California, Chicago, Illinois, 60625 ("FMP"); and
- (b) the FMP is located on the Northeast corner of California Avenue and Foster Avenue as depicted on the Plat of Survey of Swedish Covenant Hospital, Parcel 4 attached hereto as Exhibit A.

Dated: July 2, 2013

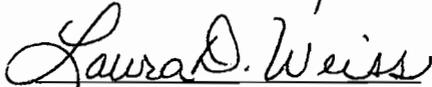
**SWEDISH COVENANT HOSPITAL,**  
an Illinois not-for-profit corporation

By:   
Mark Newton, President

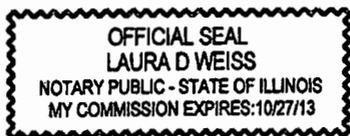
Notarization:

Subscribed and sworn to before me

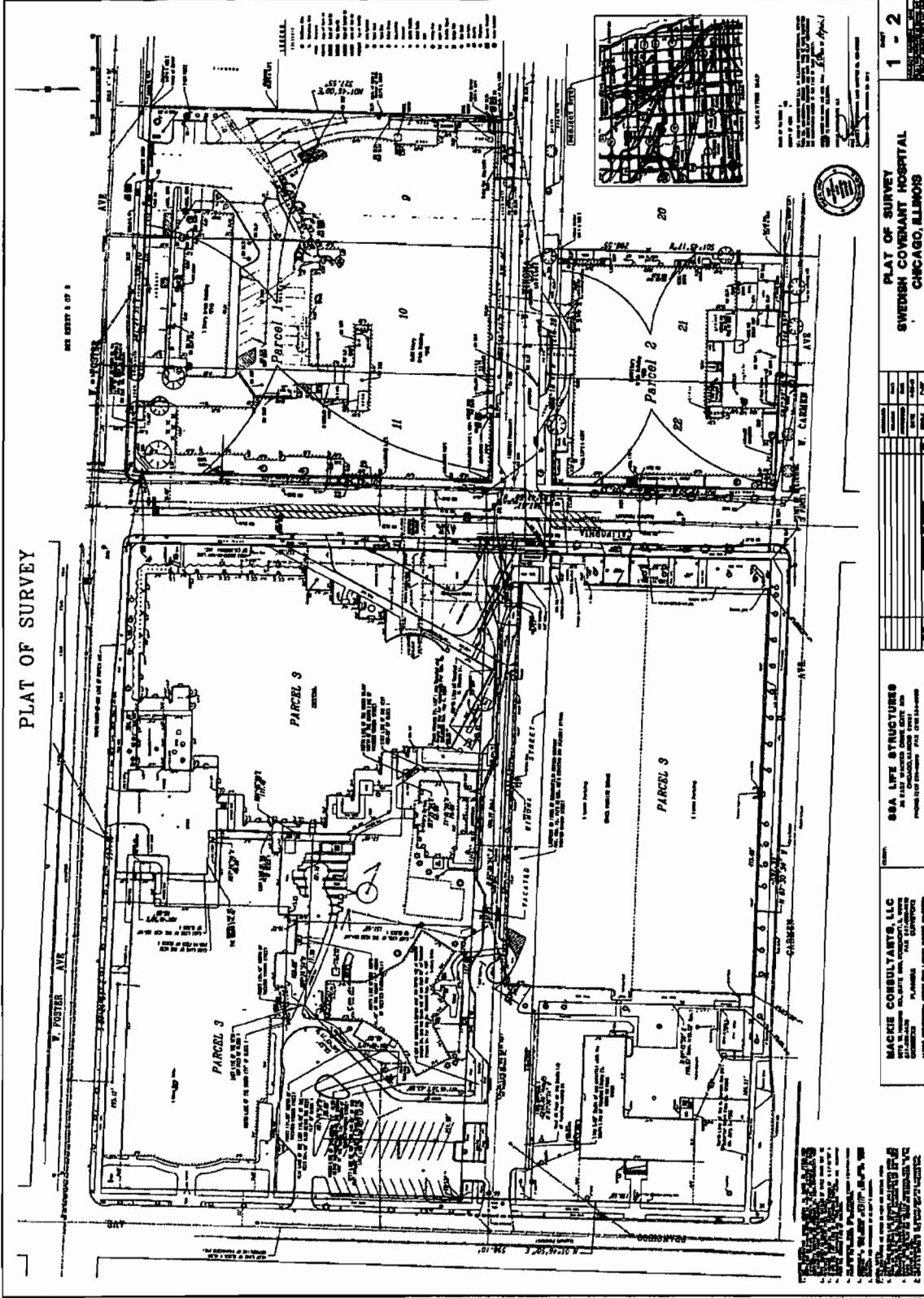
this 2ND day of JULY, 2013

  
Signature of Notary

Seal







**Operating Identity/Licensee**

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

Exact Legal Name:	Swedish Covenant Surgery Center, LLC		
Address:	5215 North California Avenue, Suite 800, Chicago, Illinois 60625		
<input type="checkbox"/>	Non-profit Corporation	<input type="checkbox"/>	Partnership
<input type="checkbox"/>	For-profit Corporation	<input type="checkbox"/>	Governmental
<input checked="" type="checkbox"/>	Limited Liability Company	<input type="checkbox"/>	Sole Proprietorship
		<input type="checkbox"/>	Other
<ul style="list-style-type: none"> <li>o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.</li> <li>o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.</li> <li>o <b>Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.</b></li> </ul>			
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Illinois Certificates of Good Standing for Swedish Covenant Surgery Center LLC, Swedish Covenant Hospital and Covenant Ministries of Benevolence are appended as Attachment 3, Exhibits 1, 2, and 3.

Swedish Covenant Hospital owns 54 percent of Swedish Covenant Surgery Center LLC. Regent Surgical Health owns 10 percent of the Surgery Center. No other person owns 5 percent or greater interest in Swedish Covenant Surgery Center LLC.



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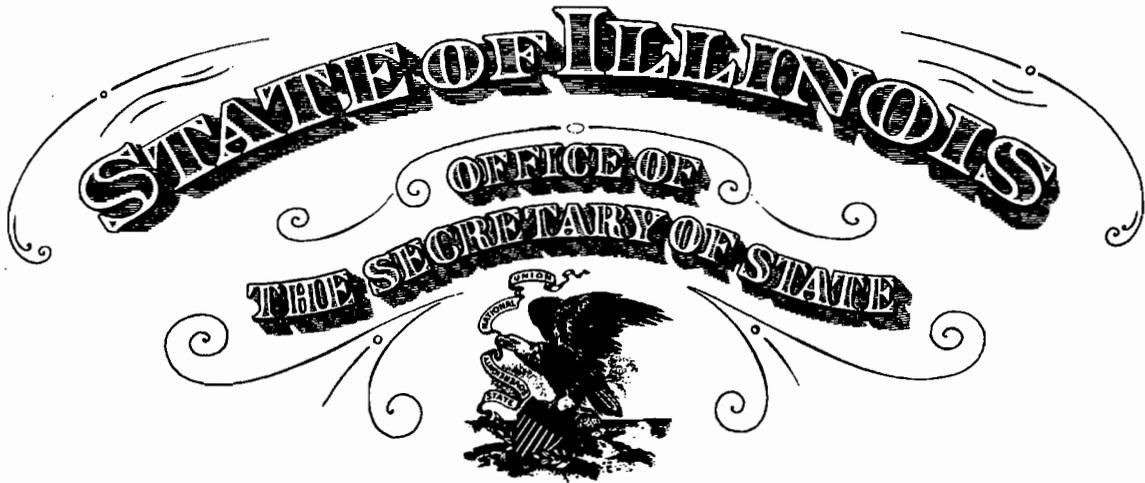
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COVENANT MINISTRIES OF BENEVOLENCE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 16, 1986, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

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Authentication #: 1316700404  
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

### **Organizational Relationships**

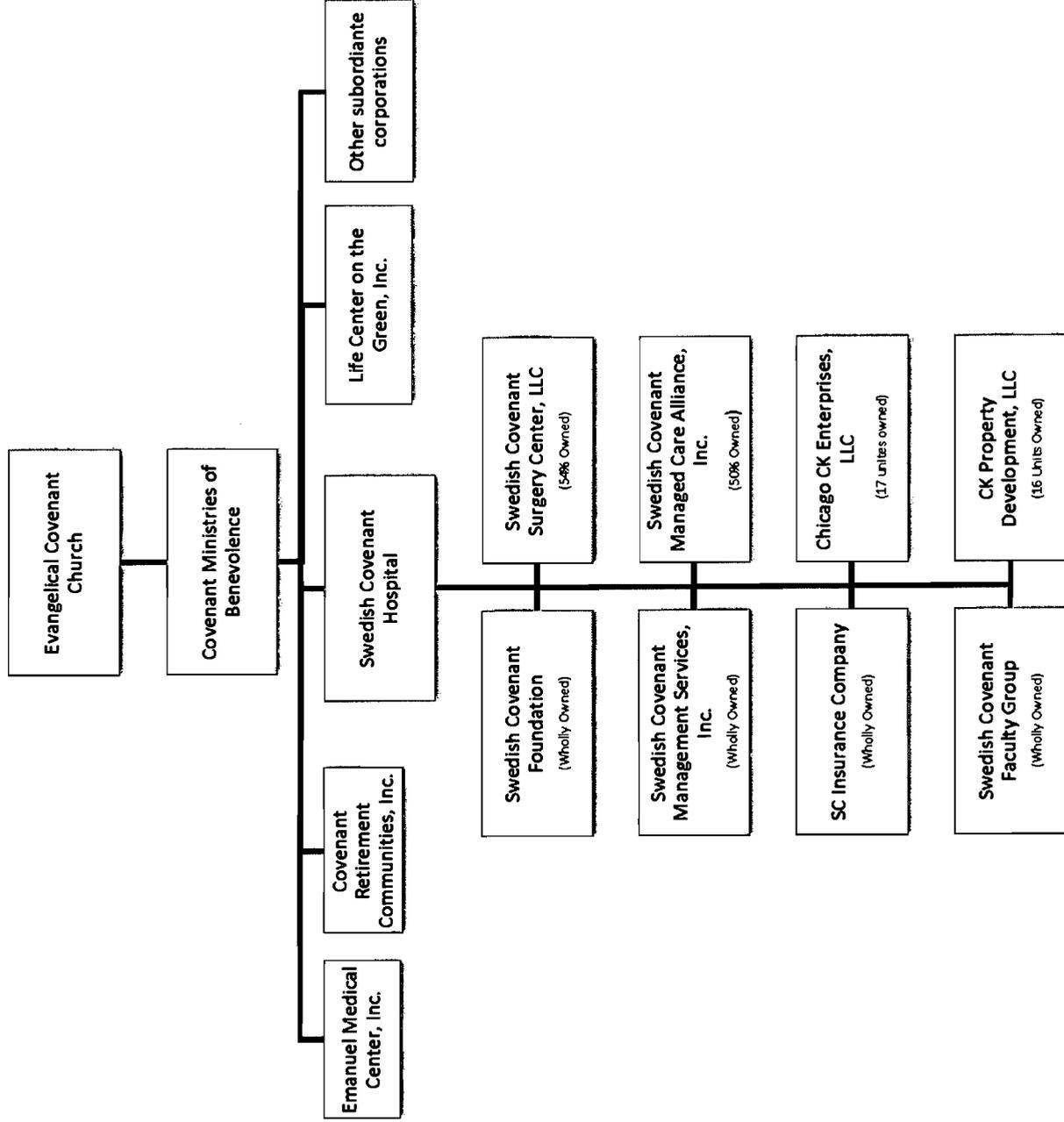
Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type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

Attachment 4, Exhibit 1 is an organizational chart of Evangelical Covenant Church. It shows all of the relevant organizations to this Project including Covenant Ministries of Benevolence, Swedish Covenant Hospital, and Swedish Covenant Surgery Center, LLC.

As noted on the organizational chart, Swedish Covenant Hospital currently owns 54 percent or the majority shares of Swedish Covenant Surgery Center, LLC. The other owners include physicians and Regent Surgical Health, the co-developer and current managing entity for Swedish Covenant Surgery Center.

At project completion, Swedish Covenant Hospital will be the sole owner of Swedish Covenant Surgery Center, LLC.

**SWEDISH COVENANT LEGAL STRUCTURE**



## SWEDISH COVENANT LEGAL STRUCTURE

### Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at [www.FEMA.gov](http://www.FEMA.gov) or [www.illinoisfloodmaps.org](http://www.illinoisfloodmaps.org). **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

**Not applicable. This application for permit does not include any construction or modernization.**

## SWEDISH COVENANT LEGAL STRUCTURE

### Historic Resources Preservation Act Requirements

[Refer to application instructions.]

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

**Not applicable. This application for permit does not include any construction or modernization.**

## SWEDISH COVENANT LEGAL STRUCTURE

### Project Costs and Sources of Funds

**Not applicable. There are no costs to be capitalized as part of this project.**

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

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

## SWEDISH COVENANT LEGAL STRUCTURE

### Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> None or not applicable | <input type="checkbox"/> Preliminary   |
| <input type="checkbox"/> Schematics                        | <input type="checkbox"/> Final Working |

Anticipated project completion date (refer to Part 1130.140): December 31, 2013

---

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140): **Not applicable. Projects that have no cost shall be considered obligated upon HFSRB issuance of a permit.**

- Purchase orders, leases or contracts pertaining to the project have been executed.
- Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies
- Project obligation will occur after permit issuance.

**SWEDISH COVENANT LEGAL STRUCTURE**

**Cost Space Requirements Not applicable. There is neither construction nor cost associated with this project.**

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

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

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

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

**Criterion 1110.230 – Background, Purpose of the Project, and Alternatives**

READ THE REVIEW CRITERION and provide the following required information:

**BACKGROUND OF APPLICANT**

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

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

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

Swedish Covenant Hospital (“SCH”, “Hospital”) and Swedish Covenant Surgery Center, LLC (“SCSC”, “Surgery Center”) are the two Illinois health care facilities that are owned and/or operated by the applicants.

Attachment 11, Table 1

Current License and Accreditation Identification Numbers

Applicant Facility	Location	Illinois License	City of Chicago License	Accreditation
Swedish Covenant Surgery Center LLC	5215 North California Avenue, Suite F800 Chicago, IL 60615	70003169	Not Applicable	Joint Commission – 527663 Effective October 10, 2012
Swedish Covenant Hospital	5145 North California Avenue Chicago, IL 60615	0002717	88865	American Osteopathic Association CCN# 140114 HFAP ID 119094

The Illinois and City of Chicago licenses and documentation of accreditation for Swedish Covenant Surgery Center, LLC and Swedish Covenant Hospital are included as Attachment 11, Exhibits 1 through 5. Both the Surgery Center and the Hospital participate in Medicare; at this time only the Hospital is approved to participate in Medicaid.

2. *A certified listing of any adverse action taken against any facility owned and/or operated by applicants during the three years prior to filing of the application.*

By the signatures on this application, Swedish Covenant Hospital attests there have been no adverse actions against any facility owned and/or operated by Swedish Covenant Hospital by any regulatory agency which would affect its ability to operate a licensed entity during the three years prior to the filing of this application.

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

By the signatures on this application, Swedish Covenant Hospital hereby authorizes the Health Facilities and Services Review Board and the Illinois Department of Public Health to access information in order to verify any documentation or information submitted in response to the requirements of this subsection, or to obtain any documentation or information which the State Board of Department of Public Health find pertinent to this subsection.

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

Not applicable. This is the first certificate of need application filed in 2013 by Swedish Covenant Hospital.

HCFP

2177820382

09/06/2012 11:46

**State of Illinois** 1406921  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

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

**LA MAR HASBROUCK, M.D.**  
**DIRECTOR**

Issued under the authority of  
The State of Illinois  
Department of Public Health

EXPIRATION DATE	CATEGORY	ID NUMBER
09/03/13	BGBD	7003169

**FULL LICENSE**  
**AMBULATORY SURGICAL TRMT CTR**

**EFFECTIVE: 09/04/12**

**BUSINESS ADDRESS**  
**Swedish Covenant Surgery Center, LLC**  
**5215 N. California Ave., Suite F800**  
**Chicago, IL 60625-3513**

The face of this license has a colored background. Printed by Authority of the State of Illinois - 4/07 -

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

**State of Illinois** 1406921  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**  
**Swedish Covenant Surgery Center, LLC**

EXPIRATION DATE	CATEGORY	ID NUMBER
09/03/13	BGBD	7003169

**FULL LICENSE**  
**AMBULATORY SURGICAL TRMT CTR**

**EFFECTIVE: 09/04/12**

**Swedish Covenant Surgery Center, LLC**  
**5215 N. California Ave., Suite F800**  
**Chicago, IL 60625-3513**

FEE RECEIPT NO.



October 18, 2012

Re: # 527664

CCN: Initial

Program: Ambulatory Surgical Center

Accreditation Expiration Date: October 12, 2015

Vivek Taparia  
Administrator  
Swedish Covenant Surgery Center LLC  
5145 North California Avenue  
Chicago, Illinois 60625

Dear Mr. Taparia:

This letter confirms that your October 10, 2012 - October 11, 2012 unannounced initial survey was conducted for the purposes of assessing compliance with the Medicare conditions for ambulatory surgical centers through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on October 18, 2012, the area of deficiency listed below has been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of October 18, 2012. We congratulate you on your effective resolution of this deficiency.

**§416.45 Medical Staff**

The Joint Commission is also recommending your organization for Medicare certification effective October 18, 2012. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is responsible for notifying the State Survey Agency that a recommendation for Medicare certification has been made. Please provide your State agency with a copy of your accreditation report, accreditation award letter, and this Medicare recommendation letter.

This recommendation applies to the following location:

Swedish Covenant Surgery Center LLC  
d/b/a The Center for Ambulatory Surgery at Swedish Covenant  
5215 N. California Ave., Suite F800, Chicago, IL, Chicago, IL, 60625

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

[www.jointcommission.org](http://www.jointcommission.org)

**Headquarters**  
One Renaissance Boulevard  
Oakbrook Terrace, IL 60181  
630 792 5000 Voice



Sincerely,

*Mark Pelletier*

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

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services  
CMS/Regional Office 5 /Survey and Certification Staff

[www.jointcommission.org](http://www.jointcommission.org)

**Headquarters**  
One Renaissance Boulevard  
Oakbrook Terrace, IL 60181  
630 792 5000 Voice

**State of Illinois 2114535**  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

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

issued under the authority of  
 The State of Illinois  
 Department of Public Health

LA SWEDISH COVENANT HOSPITAL, INC., 400  
 CHICAGO, ILLINOIS

EXPIRATION DATE	CATEGORY	ID NUMBER
12/31/13	00	0002717

**FULL LICENSE**  
 GENERAL HOSPITAL  
 EFFECTIVE: 01/01/13

**BUSINESS ADDRESS**

SWEDISH COVENANT HOSPITAL  
 5145 NORTH CALIFORNIA AVENUE  
 CHICAGO, ILLINOIS 60625

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

**State of Illinois 2114535**  
**Department of Public Health**

**LICENSE, PERMIT, CERTIFICATION, REGISTRATION**

SWEDISH COVENANT HOSPITAL

12/31/13	00	0002717
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**FULL LICENSE**  
 GENERAL HOSPITAL  
 EFFECTIVE: 01/01/13

12/13/12  
 SWEDISH COVENANT HOSPITAL  
 5145 NORTH CALIFORNIA AVENUE  
 CHICAGO, ILLINOIS 60625

FEE RECEIPT NO.

VOID

**CITY OF CHICAGO**

**LICENSE CERTIFICATE**  
NON-TRANSFERABLE

BY THE AUTHORITY OF THE CITY OF CHICAGO, THE FOLLOWING SPECIFIED LICENSE IS HEREBY GRANTED TO

NAME: SWEDISH COVENANT HOSPITAL  
 DBA: SWEDISH COVENANT HOSPITAL  
 AT: 5145 N. CALIFORNIA AVE.  
 CHICAGO, IL 60625

LICENSE NO.: 23245      CODE: 1375      FEE: \$\*\*2,200.00  
 LICENSE: Hospital

1000 Beds Max.  
 This license is a privilege granted and not a property right. This license is the property of the City of Chicago.

PRINTED ON 10/19/2011      \$\*\*2,200.00

THIS LICENSE IS ISSUED AND ACCEPTED SUBJECT TO THE REPRESENTATIONS MADE ON THE APPLICATION THEREFOR, AND MAY BE SUSPENDED OR REVOKED FOR CAUSE AS PROVIDED BY LAW. LICENSEE SHALL OBSERVE AND COMPLY WITH ALL LAWS, ORDINANCES, RULES AND REGULATIONS OF THE UNITED STATES GOVERNMENT, STATE OF ILLINOIS, COUNTY OF COOK, CITY OF CHICAGO AND ALL AGENCIES THEREOF.

WITNESS THE HAND OF THE MAYOR OF SAID CITY AND THE CORPORATE SEAL THEREOF  
 THIS 18 DAY OF OCTOBER, 2011

ATTEST:      EXPIRATION DATE: September 15, 2013

*Rahm Emanuel*      *Suzanne Mendez*  
 MAYOR      CITY CLERK

ACCOUNT NO. 88865      SITE: 1  
 TRANS NO.

THIS LICENSE MUST BE POSTED IN A CONSPICUOUS PLACE UPON THE LICENSED PREMISES.



AMERICAN OSTEOPATHIC ASSOCIATION

**BUREAU OF HEALTHCARE FACILITIES ACCREDITATION  
HEALTHCARE FACILITIES ACCREDITATION PROGRAM**

142 E. Ontario Street, Chicago, IL 60611-2864 ph 312 202 8258 | 800- 821 -1773 X 6258

June 29, 2012

Mark Newton  
Chief Executive Officer  
Swedish Covenant Hospital  
5145 N. California Avenue  
Chicago, IL 60625

Dear Mr Newton :

The American Osteopathic Association's Bureau of Healthcare Facilities Accreditation Executive Committee, at its meeting on June 27, 2012, reviewed the recertification survey report and found all Medicare conditions have been met. Your facility has been granted **Full Accreditation with Interim Report**, with resurvey within 3 years and AOA/HFAP recommends **continued deemed status**.

Swedish Covenant Hospital  
5145 N. California Avenue  
Chicago, IL 60625

**Program:** Acute Care Hospital  
**CCN #** 140114  
**HFAP ID:** 119094  
**Survey Dates:** 01/16/2012 – 01/18/2012  
**Effective Date of Recommended Continued Deemed Status:** 01/29/2012 - 01/29/2015

**Condition Level Deficiencies:**  None  
(Use crosswalk and CFR citations, if applicable):

In reviewing your report, the Executive Committee made the observations that are contained on the enclosed sheets and requires that in Interim Report by your facility, indicating continued progress made toward correction of cited deficiencies, be received in the AOA Division of Healthcare Facilities Accreditation prior to **September 1, 2012**.

Sincerely,

Joseph L. Cappiello, BSN, MA  
Chief Operating Officer  
Healthcare Facilities Accreditation Program (HFAP)

JLC/pmh

C: Laura Weber, Health Insurance Specialist, CMS  
Region V, CMS

TREATING OUR FAMILY AND YOURS

[www.osteopathic.org](http://www.osteopathic.org) [no.online.org](http://no.online.org)

**PURPOSE OF PROJECT**

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

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

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

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

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

The purpose of the Project is to improve access to quality outpatient and inpatient surgical services at Swedish Covenant Hospital ("SCH", "Hospital") for the long-term.

Improved access to quality inpatient and outpatient surgical services will improve the health and well-being of the market population being served by the Hospital now and into the future.

Surgeries will not be delayed because of insufficient capacity. The growth can be accommodated as the Affordable Care Act is implemented and the number of insured patients increases. Patients will be able to receive care in their community close to their medical and other support networks.

2. *Identify the planning area or market area, or other, per the applicant's definition.*

The geographic service area of Swedish Covenant Surgery Center, LLC ("SCSC", "Surgery Center") is displayed on Attachment 12, Exhibit 1. This service area is 30 minutes adjusted/normal travel time from the Surgery Center as prescribed by the State. The map also includes the service area of the Hospital as defined by actual patient origin. The Hospital's defined service area is more compact than the State's prescribed service area for an ASTC.

The Hospital and SCSC's defined service area accounted for 74.6 percent of the patients to SCSC.

3. *Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]*

The Swedish Covenant Surgery Center, LLC is licensed as an ambulatory surgery treatment center; it is located in a Medical Office Building directly across Foster Avenue from the Hospital. The Surgery Center opened on September 12, 2012. Although volume has achieved the projections for the ramp-up period, the average acuity of the patients being treated is significantly lower than projected based on the volume pledged by referring physicians. Almost 70 percent of the cases are either low acuity pain management or ophthalmology cases – this lower acuity is reflected in the average hours per case and lower reimbursement.

Attachment 12, Table 1  
Distribution of Cases in the SCSC, 2012 and 2013

SCSC Cases	September 12, 2012 through December 31, 2012	January 1, 2013 through May 31, 2013	Total	Percent Distribution
Pain	77	370	447	41.6
Ophthalmology	30	267	297	27.6
Orthopedics	65	72	137	12.7
General Surgery	12	67	79	7.3
Podiatry	25	47	72	6.7
ENT	7	20	27	2.5
Urology	2	14	16	1.5
Total	218	857	1,075	100.0

Source: Swedish Covenant Hospital and Swedish Covenant Surgery Center records

As a result of this low acuity case mix, the Surgery Center is forecasted to operate at a loss of more than \$625,000 per year for the foreseeable future.

At the same time that the ASTC has been underperforming, the Hospital's 7 operating rooms continued to operate at 2,100 hours per room or 40 percent higher than the State Agency Guideline of 1,500 hours per room in 2012.

Under the current SCSC ownership structure it is expected that the hospital will continue to operate above target capacity, while SCSC will continue to be underutilized.

Swedish Covenant Hospital is faced with an important decision relating to improving access to surgical services for its community. Should the Hospital (as majority shareholder of the ASTC) continue to subsidize the underperforming ASTC, SCSC, or should the Hospital take the necessary action to acquire the shares of the minority shareholders and convert the ASTC to an HOPD (hospital outpatient department) to improve access to inpatient and outpatient surgical services for the community?

Swedish Covenant Hospital, as the majority shareholder, has been willing to fund the cash shortage to date; however, as a Safety Net Hospital, it is not prudent to use SCH's cash reserves to absorb a continuing operating deficit at the ASTC if operating the facility as an HOPD can provide both improved access to care and a positive financial model.

4. *Cite the sources of the information provided as documentation.*

Several sources of information were used in the preparation of this application. They include:

- Market, operational and financial data from Swedish Covenant Surgery Center, LLC
- Market, operational and financial data from Swedish Covenant Hospitals
- Rules relating to the filing and preparation of certificates of need in Illinois
- Technical Assistance from the State Agency Staff
- HFSRB Permit 10-017

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

In 2012, 56.4 percent of the Hospital's surgical cases and 37.7 percent of the surgery hours (excluding ASTC volume) were outpatient.

Outpatient surgery cases ÷ total surgery cases = percent outpatient cases

3,561 outpatient surgery cases ÷ 6,312 total surgery cases = 56.4 percent outpatient cases

Outpatient surgery hours ÷ total surgery hours = percent outpatient surgery hours

5,863 outpatient surgery hours ÷ 14,753 total surgery hours =  
39.7 percent outpatient surgery hours

The current outpatient hours of surgery require 3.9 rooms.

5,863 ÷ 1,500 hours per room = 3.9 rooms

A portion of this Hospital volume could immediately be appropriately relocated to the rooms in the Medical Office Building; outpatient cases with special needs would continue to be scheduled in the Hospital's operating rooms.

Based on these outpatient percentages, it is evident that the SCSC operating rooms could be used efficiently for outpatient surgeries currently performed in the Hospital, allowing the inpatient volume to continue to be performed in the Hospital at more reasonable throughput; that is, less than 2,100 hours per room per year with greater consistency. The change of ownership resulting in the licensure of the of the SCSC space to hospital space would improve capacity, efficiency, and access for the community. It would remove the burden of subsidizing SCSC from the Hospital and make those funds available to enhance programs needed by the community including additional community outreach, primary care expansion, women's health services and cardiology screening services. It would also allow the Hospital to make ongoing improvements to the Hospital's aging physical plant.

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

#### Goal

The overarching goal of the proposed change of ownership is to improve access to inpatient and outpatient surgical services at Swedish Covenant Hospital and eliminate the need for the Hospital to subsidize the ASTC and ensure a surgical service that is financially viable and sustainable.

#### Objectives

1. Redeem outstanding shares of Swedish Covenant Surgery Center, LLC

Swedish Covenant Hospital intends to fund SCSC so that the Class A and Class C shares can be redeemed leaving Swedish Covenant Hospital as the sold shareholder and able to dissolve Swedish Covenant Surgery Center, LLC. Swedish Covenant Hospital expects to be the sole owner of SCSC, LLC by October 12, 2013.

2. Convert the Independent ASTC to an Outpatient Hospital Department

The second objective is for Swedish Covenant Hospital to immediately begin to operate the space in the Medical Office Building as a HOPD, hospital outpatient department, with central scheduling, pre-surgical testing, and EMRs (electronic medical records). Swedish Covenant Hospital expects this transition to occur within 30 days of HFSRB's approval of the proposed change of ownership. Since the Hospital already owns the building and the equipment currently being leased by SCSC, the transition can occur easily and without compromising patient access or delaying the functioning of the acquired hospital outpatient department. SCH does not anticipate needing to recruit additional staff to implement the transition.

3. Improve access to outpatient surgery to the community, including charity care patients.

Smoothly transitioning the outpatient surgery program from ASTC to hospital outpatient department will improve access for both the Hospital's inpatient and outpatient surgical patients. The Hospital will extend the same generous charity care policy to patients who are treated in the Medical Office Building as to those treated in the main Hospital. Improved access to the community including charity care patients will occur within 30 days of HFSRB's approval of the proposed change of ownership.

4. Improve access to surgery inpatients.

Complete the transition of the ASTC to the HOPD and relocate appropriate outpatients from the main Hospital surgery suite to the outpatient suites in the Medical Office Building, thereby creating capacity in the Hospital's operating rooms for inpatient surgery patients. Fewer hours per room in the Hospital's main operating rooms will enhance quality, safety and reduce staff stress. Relief of high utilization in the Hospital's main operating rooms will occur by the completion of this transaction, anticipated no later than December 31, 2013.

There will be no modernization as part of the proposed change of ownership.



SCSC – Patient Origin  
September 12, 2012 to May 31, 2013

Primary Service Area		Percent
60625	139	12.9
60659	<u>55</u>	<u>5.1</u>
Subtotal PSA	194	18.0
Secondary Service Area		
60630	64	6.0
60618	90	8.4
60640	64	6.0
60645	54	5.0
60641	39	3.6
60646	47	4.4
60660	40	3.7
60626	27	2.5
60613	11	1.0
60712	<u>11</u>	<u>1.0</u>
Subtotal SSA	447	41.6
Extended Service Area		
60634	33	3.1
60077	11	1.0
60647	20	1.9
60076	14	1.3
60639	21	2.0
60714	9	0.8
60053	4	0.4
60656	7	0.7
60657	12	1.1
60631	12	1.1
60706	6	0.6
60202	3	0.3
60201	8	0.7
60203	<u>1</u>	<u>0.1</u>
Subtotal ESA	161	15.0
Subtotal SCSC Service Areas		74.6
All other	<u>273</u>	<u>25.4</u>
Total	<u>1,075</u>	<u>100.0</u>

Source: SCSC records

## ALTERNATIVES

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

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
  - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
  - 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

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

## INTRODUCTION

The application for Permit 10-017 (MOB/ASTC) for the Swedish Covenant Surgery Center, LLC, Swedish Covenant Hospital ("SCH", "Hospital") described the location of the Hospital's campus, the socioeconomics of the local area population, and the barriers to recruiting needed physicians to the medical staff.

### Location of the Hospital

Swedish Covenant Hospital is located in a mature urban neighborhood on the near north side of Chicago. The immediate vicinity of the Hospital is highly congested with traffic since schools, churches, private homes, and River Park surround the Hospital. Drive times provided on Internet sites such as Google and MapQuest are consistently understated. Physician and patient commute times to and from the Hospital are impacted throughout the day.

### Socioeconomics of the Local Area Population

Swedish Covenant Hospital is a Federal Disproportionate Share Hospital serving a large number of patients who are covered under Medicare and Medicaid or who are underinsured or uninsured. The community patient payor mix represents financial challenges to physicians on the medical staff. Under these circumstances, a physician must be very productive in order to maintain a financially viable practice. On campus offices and adequate surgical capacity to schedule cases in a timely way are very important. Similarly, the Hospital must be very efficient in its use of resources.

### Physician Recruitment

The continuing growth the SCH patient base exceeds the growth of the medical staff. Although SCH has an aggressive physician recruitment plan and process in place, the lack of office space and surgery capacity thwarted the recruitment efforts in the past.

The purpose of the Medical Office Building (“MOB”) and the ASTC established therein was to help ameliorate the recruitment process and increase the number of medical and surgical physicians located in close proximity to the Hospital.

Further, the potential for physician ownership in the ASTC was considered an asset to the recruitment process. Soon after the ASTC opened, shares were offered to the surgeons and several took advantage of the opportunity to become shareholders. Many of these surgeons have since been employed by the Hospital; this was not fully anticipated by the Hospital when they acquired the shares of the ASTC.

### Progress on Providing Medical Office Space and Surgery Capacity to Engage New Physicians

The Medical Office Building opened in April 2012 and, to date, 85 percent of the office space has been leased. To date, most of these tenants are primary care physicians with major exceptions being pain management and a retinal clinic. Other new physicians and potential tenants have indicated interest in being located in the MOB.

Swedish Covenant Surgery Center, LLC opened in September 2012, and while volume has met the ramp-up projections, the acuity of the cases is very low compared to the cases pledged by physicians. Consequently, the Surgery Center is not financially sustainable. Under several scenarios, financial projections show that the Surgery Center is unlikely to be financially sustainable in the future. SCH has been required to subsidize the underperforming ASTC; the

Hospital's cash reserves are not adequate to absorb a continuing operating deficit at the ASTC without compromising its own long-term financial position.

1. Identify ALL of the alternatives to the proposed project.

Alternative options must include:

- A) Proposing a project of greater or lesser scope and cost.
- B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes. Developing alternative settings to meet all or a portion of the project's intended purposes
- C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and,
- D) Provide the reasons why the chosen alternative as selected.

#### ALTERNATIVES FOR SWEDISH COVENANT HOSPITAL'S MOVING FORWARD

The above background was important in the Hospital's assessing alternatives to the current unsustainable situation with the ASTC. The following alternatives were considered.

##### Alternative 1 Immediately Discontinue the Swedish Covenant Surgery Center, LLC

Although this alternative would relieve Swedish Covenant Hospital of the financial burden of subsidizing the ASTC, it would defeat the rationale for having additional surgery capacity on the Hospital's campus. This alternative was rejected. This alternative would have no capital cost.

##### Alternative 2 Immediately Discontinue the ASTC and Expand the Hospital's Main Surgical Suite.

Although this appears to be an attractive alternative, it is not feasible. Swedish Covenant Hospital's 7-room surgery suite is located on the second level of the Galter Medical Pavilion (GMP). The GMP was construction in 1997; the surgical suite was part of the original construction and cannot be expanded in place without relocating other critical services on either the floor above or below. In 1998, a replacement Obstetrics Department was constructed on the third level of the building. Consequently, the surgical suite, which utilizes the entire second floor, is sandwiched between the Cancer Center and Diagnostic Imaging on the first floor and the Obstetric Department on the third floor. Since this option is not feasible, it was rejected; no capital cost was developed.

Alternative 3 Build a Bridge Across Foster Avenue To Connect the Hospital (and the Main Surgical Suite) with the ASTC

Again, this alternative appeared to have merit because the 7 main operating rooms and the 3 ASTC rooms could all be used interchangeably for inpatients and outpatients and would provide increased capacity and optimal flexibility. However, this option was also rejected. Foster Avenue is a State Highway and the process of obtaining air rights and the State's other requirements would be lengthy; further the cost of building a bridge would be prohibitive and the Hospital's funds would better be invested in patient care services at this time. SCH has other bridges on campus and is familiar with these construction costs. Therefore no formal capital cost estimate was prepared, although it is expected that the cost would be at least \$3.5 million. This alternative was rejected at this time but could be resurrected in the future.

Alternative 4 Conduct a Capital Call

As an alternative to immediately discontinuing the ASTC, the Hospital considered conducting an initial capital call of \$10,000 per share to raise \$1 million of short-term working capital. This action would devalue all the shares, including the physicians' shares. Although this alternative could have some benefits in terms of short-term sustainability, there is no confidence that a capital call will resolve the long-term financial sustainability of the ASTC. This alternative was rejected. This alternative would have no capital cost.

Alternative 5 Sell Swedish Covenant Surgical Center to another Organization

Although this option would potentially maintain the 3 operating rooms within its current corporate and licensure structure, there would be no assurance over time that they would be available to Swedish Covenant physicians and hence would not resolve the high utilization of the Hospital's existing 7 rooms. Because of the long-term uncertainty of selling to another organization, this alternative was rejected. No capital cost was developed for this alternative.

#### Alternative 6 Develop a Joint Venture

The current ASTC is a joint venture not only with the physicians but with the ASTC consulting and management firm, Regent Surgical Health, LLC. Unfortunately, this joint venture approach has not achieved the desired goals as originally projected. There is no assurance that another joint venture would be any more successful in securing the financial viability of the ASTC. This alternative was rejected. This alternative would have no capital cost.

#### Alternative 7 Utilize another Health Care Resource

Swedish Covenant Hospital leadership did not consider this as a viable option. The purpose of the MOB and the ASTC was to recruit and retain physicians at the Hospital and in the local community. Utilizing another resource would defeat the primary intent of the MOB/ASTC project. This alternative was rejected. No capital cost was developed for this alternative.

#### Alternative 8 – Continue to Operate the Swedish Covenant Surgery Center, LLC for at Least 12 Months

At the time this certificate of need application was being prepared, Swedish Covenant Surgery Center, LLC had been in operation 8 months. The Surgery Center had established a poor record of financial performance. Based on a range of assumptions, Swedish Covenant Hospital prepared several future scenarios and none of them indicated a substantially improved financial performance. Based on current trends, the Surgery Center is projected to lose at least \$625,000 per year. Although Hospital leadership considered the possibility that unanticipated factors could improve the financial performance of the Surgery Center, they decided that to continue to operate the Center at the historic level of financial performance was only delaying the inevitable. The Surgery Center in its current ownership form could not be sustainable and would detract from the financial performance of Swedish Covenant Hospital. Based on these financial scenarios, the Hospital determined that a different alternative was needed – one that would ensure access to the 3 ASTC operating rooms and not disrupt care to the community. This alternative was rejected. There is no capital cost associated with this alternative.

Alternative 9 Immediately Discontinue the Swedish Covenant Surgery Center, LLC and Convert a HOPD (hospital outpatient department) by Changing the Ownership from the ASTC to the Hospital.

This option is the option of choice because:

- Changing the ownership satisfies most of the goals of the original project.
- Changing the ownership increases the Hospital's surgery capacity from 7 to 10 operating rooms which is consistent with current need. It will relieve the Hospital's overcrowded and over-utilized operating rooms and allow for future growth.
- Changing the ownership results in the Hospital having a dedicated outpatient surgery area which is preferred by patients and physicians. Further, the MOB has parking space that is valued by outpatients, families, and surgeons.
- Changing the ownership and relocating the uncomplicated outpatient surgery to the HOPD will free capacity for the Hospital's physicians to perform increasingly complex inpatient surgery.
- Changing the ownership removes regulatory barriers such as the Safe Harbor.
- The expense of changing the ownership of the ASTC to the Hospital is expected to be \$1,436,500, over time, or less than the cost of continuing to sustain the current ASTC ownership. There will be no capital cost since the Hospital already owns the building and the equipment. The change of ownership represents the prudent use of scarce resources.
- The expanded inpatient and outpatient surgical capacity will continue to be attractive to new physicians.
- The preferred alternative continues to allow future growth if SCH were ever to develop Alternative 3 and build a bridge across Foster Avenue.

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

See Attachment 13, Exhibit 1

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

Swedish Covenant Hospital is accredited and certified by the following organizations:

- Accreditation Council on Graduate Medical Education
- American Association of Cardiac and Pulmonary Rehabilitation
- American College of Radiology
- American College of Surgeons Commission on Cancer (with commendation)
- American Diabetes Association
- American Osteopathic Association
- CMS-CLIA Laboratory Certificate of Accreditation
- College of American Pathologists
- Community Health Accreditation Program
- Healthcare Facilities Accreditation Program
- Illinois Department of Healthcare and Family Services
- Illinois State Medical Society
- Illinois State Medical Society / Medical Staff CME Program
- Intersocietal Commission for Accreditation of Echocardiography Laboratories
- Magnet Status Designation by the American Nurses Credentialing Center
- Primary Stroke Center

Safety is especially important when assessing the quality of a surgery program.

Swedish Covenant Hospital recently received a 3.5 safety score (out of 4.0) from

**THELEAPFROGGROUP.**

Summary of Alternatives

Alternative	Capital Cost	Rationale
1. Immediately Discontinue the ASTC	\$0	Rejected Would defeat the goal of providing additional operating room capacity on the campus.
2. Immediately Discontinue the ASTC and Expand the Hospital's Main Surgical Suite	Not Feasible No capital cost calculated \$0	Rejected There is no space to expand the Hospital's existing surgical suite either in its current location or on adjacent floors of the Galter Medical Pavilion.
3. Build a Bridge across Foster Avenue to Connect the Hospital and the MOB housing the ASTC	Not Feasible Approximate Cost \$3.5 million	Rejected Foster Avenue is a State highway and the process of obtaining air rights and meeting the State's other requirements would be lengthy.  The capital cost of building a bridge would be a multi-million project and the Hospital's funds would better be invested in patient care.
4. Conduct a Capital Call	\$0	Rejected No confidence that a capital call would resolve the long-term financial sustainability of the ASTC.
5 Sell to Another Organization	Not Feasible No capital cost calculated \$0	Rejected No assurance that the ASTC's 3 operating rooms would be available to resolve the overcrowding in the current SCH operating rooms. Long term uncertainty.
6. Develop a Joint Venture	No Assurance \$0	Rejected No assurance that another joint venture would be any more successful in securing the sustainability of the 3 ASTC operating rooms.
7 Utilize Another Health Care Resource	Not a Viable Option \$0	Rejected Would defeat the primary purpose of the original project – to recruit and retain physicians in the community.
8. Continue to Operate for 12 Months	Not a Viable Option \$0	Rejected Scenario development showed that financial sustainability was not likely. Continuing operation would only delay the inevitable.

Summary of Alternatives

Alternative	Capital Cost	Rationale
<p>9. Change the ownership of the ASTC and Convert to a HOPD</p>	<p>\$0</p>	<p>Alternative of Choice Satisfies most of the goals of the original project.</p> <p>Increases the Hospital's surgery capacity consistent with current need.</p> <p>Relieves overutilization of the Hospital's operating rooms.</p> <p>Provides a dedicated outpatient surgery area which is favored by patients and surgeons.</p> <p>Area has immediate parking for patients, families, and surgeons.</p> <p>Frees capacity for the physicians to perform more complex inpatient surgery.</p> <p>The expense related to the change of ownership transaction is less than the cost of sustaining the ASTC joint venture. Change of ownership represents a prudent use of scarce resources.</p> <p>Added capacity will be an asset for recruiting needed surgeons to the community.</p>

## SECTION VI - MERGERS, CONSOLIDATIONS AND ACQUISITIONS/CHANGES OF OWNERSHIP

This Section is applicable to projects involving merger, consolidation or acquisition/change of ownership.

**NOTE: For all projects involving a change of ownership THE TRANSACTION DOCUMENT must be submitted with the application for permit. The transaction document must be signed dated and contain the appropriate contingency language.**

### **A. Criterion 1110.240(b), Impact Statement**

Read the criterion and provide an impact statement that contains the following information:

1. Any change in the number of beds or services currently offered.
2. Who the operating entity will be.
3. The reason for the transaction.
4. Any anticipated additions or reductions in employees now and for the two years following completion of the transaction.
5. A cost-benefit analysis for the proposed transaction.

### **B. Criterion 1110.240(c), Access**

Read the criterion and provide the following:

1. The current admission policies for the facilities involved in the proposed transaction.
2. The proposed admission policies for the facilities.
3. A letter from the CEO certifying that the admission policies of the facilities involved will not become more restrictive.

### **C. Criterion 1110.240(d), Health Care System**

Read the criterion and address the following:

1. Explain what the impact of the proposed transaction will be on the other area providers.
2. List all of the facilities within the applicant's health care system and provide the following for each facility.
  - a. the location (town and street address);
  - b. the number of beds;
  - c. a list of services; and
  - d. the utilization figures for each of those services for the last 12 month period.
3. Provide copies of all present and proposed referral agreements for the facilities involved in this transaction.
4. Provide time and distance information for the proposed referrals within the system.
5. Explain the organization policy regarding the use of the care system providers over area providers.
6. Explain how duplication of services within the care system will be resolved.
7. Indicate what services the proposed project will make available to the community that are not now available.

APPEND DOCUMENTATION AS ATTACHMENT-19, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

## TRANSACTION DOCUMENT

The proposed change of ownership transaction document was neither completed nor signed at the time of the filing of this certificate of need. Appendix A includes the Hospital Board's Resolution enabling the change of ownership. Appendix B includes a summary of the proposed terms of the loan agreement. The final signed transaction document will be forwarded to the Health Facilities and Services Review Board 30 days before the to-be scheduled hearing date.

### **A. Criterion 1110.240 (b) Impact Statement**

#### *1. Any change in the number of beds or services currently offered*

There will be no change in the number of beds or services offered as the result of this transaction. The Swedish Covenant Hospital ("SCH", "Hospital") is current authorized for 7 operating rooms and Swedish Covenant Surgery Center, LLC ("SCSC", "Surgery Center") is authorized for 3 operating rooms. At the completion of the transaction there will be a total of 10 operating rooms. Of the total number of rooms, 7 will continue to be in the Hospital's surgical suite and 3 will be in the HOPD (hospital outpatient department) located in the Medical Office Building.

#### *2. Who the operating entity will be?*

At the completion of the transaction, the operating entity of both the Surgical Suite in the Hospital and the HOPD will be Swedish Covenant Hospital. This single operating entity will enhance the efficiency of operations.

#### *3. The reason for the transaction*

The reason for the transaction is to improve access to needed surgical services on the Swedish Covenant Hospital campus. At the present time, the utilization of the Hospital's 7 operating rooms is 2,100 hours per room or 40 percent higher than the State Agency's Guideline of 1,500 hours per room. At the same time, the SCSC operating rooms are severely underutilized with a very low acuity case mix of primarily pain and ophthalmology procedures. When all rooms are operated by Swedish Covenant Hospital, the cases can be more rationally scheduled between the Hospital's surgical suite and the HOPD. This will result in more timely scheduling of cases and provide for the expected increase in surgical volume as the Affordable Care Act is implemented. It will also allow the Hospital to schedule more complex surgeries.

Furthermore, the current SCSC operations are not financially sustainable. The Hospital has had to subsidize the services; the Hospital will not be able to continue to subsidize the SCSC without compromising the Hospital's financial position.

4. *Any anticipated additions or reductions in employees now and for the two years following the completion of the transaction.*

Swedish Covenant Hospital does not foresee any reductions in employees now and for the two years following the completion of the transaction. The Hospital may add employees if volumes increase.

5. *A cost-benefit analysis for the proposed transaction.*

**Sources**

Loan from Swedish Covenant Hospital	\$1,336,500
Net working capital	<u>\$100,000</u>
<b>Total Sources</b>	<b><u>\$1,436,500</u></b>

**Uses**

Shareholder purchases	\$586,500
Line of credit repayment	\$200,000
Blue Cross Blue Shield repayment	\$400,000
Operating losses	\$100,000
Transaction costs	<u>\$150,000</u>
<b>Total Uses</b>	<b><u>\$1,436,500</u></b>

SCSC projected annual losses are expected to be at least \$625,000. If the Hospital simply operated this space as a break-even venture, the investment would pay off in less than 2.5 years.

**B. Criterion 1110.240 (c), Access**

1. *The current admission policies of the facilities involved in the proposed transaction*

The current admission policies of Swedish Covenant Hospital and Swedish Covenant Surgery Center meet all licensure and accreditation requirements.

2. *The proposed admission policies for the facilities*

At the completion of the transaction, this admission policy will continue to be used in the Hospital and will be instituted at the HOPD. The policy will meet all licensure and accreditation requirements.

3. *A letter from the CEO certifying that the admission policies of the facilities involved will not become more restrictive.*

Attachment 19, Exhibit 1 is a letter from the President and CEO certifying that the admission policies of the facilities involved in the transaction will not become more restrictive.

### **C. Criterion 1110,240 (d), Health Care System**

Read the criterion and address the following:

1. *Explain what the impact of the proposed transaction will be on the other area providers*

The proposed change of ownership transaction should have no impact on other area providers. As the result of the transaction, existing volume will be appropriately distributed between the Hospital's surgical suite and the HOPD. Future growth is expected based on population growth and aging and implementation of the Affordable Care Act.

2. *List all of the facilities within the applicant's health care system and provide the following information for each facility.*
  - a. *The location (town and street address)*
  - b. *The number of beds*
  - c. *A list of services, and*
  - d. *The utilization for each of those services, and*

There are two Illinois entities that are part of the applicant's health care system.

#### **Swedish Covenant Hospital**

- a. Location – 5145 North California Avenue, Chicago, IL 60625
- b. Number of beds – 312 authorized beds
- c. Service – Surgery is the only service involved in the transaction
- d. Main OR Utilization  
CY 2012 – 6,312 cases  
CY 2013 – 2,277 cases through May 31, 2013

#### **Swedish Covenant Surgery Center, LLC**

- a. Location – 5215 North California Avenue, Chicago, IL 60625
- b. Number of beds – NA
- c. Service – Surgery is the only service involved in the transaction
- d. ASTC OR Utilization  
CY 2012 – 218 cases  
CY 2013 – 857 cases through May 31, 2013

3. *Provide copies of all present and proposed referral agreements for the facilities involved in this transaction*

Attachment 19, Exhibit 2 is the current transfer agreement between SCSC and the Hospital. Since the remote HOPD will be part of SCH, no transfer agreement will be required after approval of the proposed change of ownership.

4. *Provide time and distance information for the proposed referrals within the system.*

NA There will be no referrals “within the system.” Both surgical suites will be part of Swedish Covenant Hospital.

5. *Explain the organization policy regarding the use of the care system providers over area providers*

NA There is no organization policy regarding the use of system providers over area providers.

6. *Explain how the duplication of services within the care system will be resolved*

Today there are two surgery providers on the Swedish Covenant Hospital campus – the Hospital and Swedish Covenant Surgery. At the completion of the transaction, there will be only one provider.

7. *Indicate what services the proposed project will make available to the community that are not now available.*

At the present time, no new surgical services will be made available to the community as the result of the change of ownership. However, because of operating as one organization instead of two, operations will be more efficient and access will be improved into the future.



# Swedish Covenant Hospital

The science of feeling better

July 3, 2013

Ms. Courtney Avery  
Administrator  
Illinois Health Facilities and Services Review Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Attestation of Admission Policies

Dear Ms Avery;

To the best of my knowledge, I am able to certify that the admission policies of the facilities involved in the proposed change of ownership transaction for Swedish Covenant Surgery Center, LLC to Swedish Covenant Hospital will not become more restrictive.

All relevant admission policies meet all IDPH licensure requirements.

Sincerely,

Mark Newton  
President and CEO, Swedish Covenant Hospital  
President, Swedish Covenant Surgery Center, LLC

Notarization:

Subscribed and sworn to before me

this 3rd day of July, 2013

Signature of Notary

Seal



**Draft – Transfer Agreement  
TRANSFER AGREEMENT**

This Agreement is made between Swedish Covenant Hospital (“Hospital”) and Swedish Covenant Surgery Center (“SCSC, the Surgery Center”) as of January 1, 2012 (“Effective Date”).

Whereas Swedish Covenant Hospital operates an acute care general hospital, including an emergency department, at 5145 North California Avenue, Chicago, Illinois, and SCSC operates a multi-specialty ambulatory surgical treatment facility located at the intersection of Foster and North California Avenues; and

Whereas, the primary purpose of this Agreement is to provide a safe, well-planned transfer of patients between SCSC and Swedish Covenant Hospital.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties agree as follows:

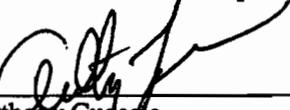
1. When the physician of a patient at SCSC has determined that the patient needs emergency treatment in a hospital emergency department, the physician shall contact a physician in the Hospital’s emergency department. Swedish Covenant Hospital shall accept transfer of the patient to the emergency department (or elsewhere in the Hospital as directed by emergency department staff) as promptly as possible. SCSC shall make the necessary arrangements for the patient to be transported to the Hospital.
2. The Hospital and its physicians shall assume authority and responsibility for the medical care and treatment of a patient when such patient has been received by the Hospital.
3. If a natural disaster occurs at SCSC, thereby rendering the facility unable to provide a safe and sanitary environment for the patients, SCSC may temporarily transfer patients who are not medically ready for discharge to the Hospital.
4. SCSC will send, along with appropriate authorization, the following information:
  - a. Present acute medical problems
  - b. Current medications and times of doses within the previous 24 hours
  - c. Any known allergies
  - d. Dietary information
  - e. Nursing information
  - f. Ambulation status
  - g. Medical diagnoses
  - h. Next of kin information
  - i. Legal documents pertaining to care (i.e. Living Will, Do Not Resuscitate Orders, etc.)
6. SCSC will be responsible for the appropriate disposition of the patient’s personal effects (including the patient’s money and valuables) and the information pertaining to their whereabouts.
7. SCSC will be responsible for safe patient transfer to the Hospital and shall utilize the most appropriate means of transport available that will enhance the timely and safe transfer of patients.

8. Nothing in this Agreement shall be construed as limiting the rights of either party to affiliate or contract with any other party on a limited or general basis while this Agreement is in effect.
9. The patient is primarily responsible for payment for care rendered by either contracting party. Each contracting party shall be responsible only for collecting its own payment for services rendered to the patient by the respective party. No clause of this Agreement shall be construed to authorize either party to look to the other for payment for services rendered to a patient transferred pursuant to this Agreement; provided, however, that should such obligation arise pursuant to other agreements, arrangements, or law, nothing in this Agreement shall be construed to modify or limit such obligation.
10. Each contracting party, at its own expense shall secure and maintain, or cause to be secured and maintained, professional liability insurance covering itself and its management, employees, and volunteers involved in the rendering of services described in this Agreement in an amount of not less than \$1,000,000 per occurrence/\$3,000,000 annual aggregate.
11. Each contracting party shall indemnify and hold harmless the other and its officers, trustees, directors, employees, students, and agents from and against any losses, damages or costs (including attorneys fees and costs) arising from any alleged negligent act or omissions of the indemnifying party in the performance of this Agreement.
12. The laws of the State of Illinois shall govern the validity and interpretation of the provisions, terms and conditions of this Agreement.

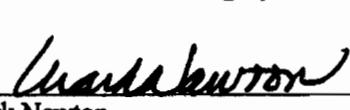
This Agreement will be in effect commencing January 1, 2012 for an initial term of one (1) year. The Agreement will be automatically renewed for successive one (1) year terms unless terminated. It may be terminated at any time by either party by giving sixty (60) days' written notice sent via certified mail. Automatic termination of this Agreement occurs if either facility fails to maintain its license and certification. This Agreement constitutes the entire transfer agreement between the parties and supersedes and replaces all other transfer agreements between these parties. This Agreement may be amended at any time by mutual written agreement.

**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed as of the date and year first above written.

**Swedish Covenant Hospital**

By   
\_\_\_\_\_  
Anthony Guacolo  
Chief Operating Officer

**Swedish Covenant Surgery Center, LLC**

By   
\_\_\_\_\_  
Mark Newton  
Manager

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

**Audited financial statements, 2011 and 2012, are included in Appendix A.**

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

**VIII. - 1120.120 - Availability of Funds Not applicable. There are no costs to be capitalized as part of this project.**

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

_____	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
_____	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
	<b>TOTAL FUNDS AVAILABLE</b>

**IX. 1120.130 - Financial Viability Not applicable. There are no costs to be capitalized as part of this project.**

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

**Financial Viability Waiver**

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

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

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Swedish Covenant Hospital has a BBB+ bond rating with stable outlook from Fitch Ratings.

See Attachment 40, Exhibit 1.

# FitchRatings

## Fitch Affirms Swedish Covenant Hospital's (IL) Revs at 'BBB+'; Outlook Stable

Ratings Endorsement Policy  
03 Dec 2012 1:33 PM (EST)

Fitch Ratings-Chicago-03 December 2012: Fitch Ratings has affirmed the 'BBB+' rating on the following Illinois Finance Authority bonds issued on behalf of Swedish Covenant Hospital (SCH):

--\$97.8 million revenue bonds, series 2010;  
--\$56.8 million variable rate revenue bonds, series 2008A.

SCH has an additional \$38.1 million in direct placement debt and \$13.5 million in new market tax credit debt, which Fitch does not rate but is incorporated in our analysis.

The Rating Outlook is Stable.

### SECURITY

The bonds are secured by a pledge of the gross revenues of the obligated group and a fully funded debt service reserve.

### KEY RATING DRIVERS

**IMPROVED OPERATING PERFORMANCE:** Steady utilization coupled with focused ambulatory growth and attention to revenue cycle improved SCH's profitability in fiscal 2012. At unaudited fiscal year end Sept. 30, 2012 SCH generated a 12.7% operating EBITDA margin, which is improved from the 9.6% operating EBITDA margin in the prior year and ahead of Fitch's 'BBB' category median of 8.3%.

**ELEVATED DEBT BURDEN:** SCH's total debt equaled \$205 million in fiscal 2012, equal to 5.6 times (x) EBITDA and 63.8% of capitalization. Still, Fitch notes that SCH's coverage metrics improved to 2.8x by operating EBITDA, favorable to the 'BBB' category median of 2.5x. Fitch believes modest increases in debt have been used for consistent reinvestment in capital, which is viewed favorably.

**COMPETITIVE SERVICE AREA:** SCH's service area is highly competitive with several formidable competitors. Still, SCH managed to grow its market position to 44.2% within its primary service area in 2012, reflecting its successful service line focus and ambulatory growth.

**PAYOR MIX CHALLENGES:** SCH's payor mix is stable, with a heavy concentration in government payors representing 64.5% of gross revenues in unaudited fiscal 2012. While its long-standing position as a safety net designated provider provides supplemental revenue from the state of Illinois, the state Medicaid program remains challenged. In addition, SCH is dependent on these supplemental funds for profitability.

### CREDIT PROFILE

The rating affirmation at 'BBB+' is supported by SCH's demonstration of improved operating performance through unaudited fiscal 2012. SCH produced improved cash flow via good medical staff alignment, revenue cycle initiatives, focused service line growth, and attention to operating efficiencies. SCH's active medical staff has grown to 598 active and 75 employed physicians in 2012, up from 535 and 36, respectively, in 2009. SCH stemmed further volume declines, with largely stable inpatient utilization and growth in some ambulatory services. As a result, SCH's revenue grew nearly 3% in fiscal 2012 and expenses declined 0.3%.

While SCH did secure \$13.5 million in additional debt in fiscal 2012 to partially fund its Foster Medical Pavilion project, the additional debt does not materially impact SCH's overall debt profile. At Sept. 30, 2012 SCH's total debt was \$205.5 million, which is 36% variable rate. Including its swaps, SCH's profile is 90% fixed rate. SCH has \$56.8 million in VRDBs supported by an LOC with PNC bank, expiring Sept. 26, 2016. SCH is counterparty to \$153.4 million in floating to fixed

rate swaps, and had \$1.96 million in posted collateral at Oct. 15, 2012.

Consistent capital reinvestment has kept SCH's average age of plant stable, at 12.7 years in 2012, though that still compares negatively to Fitch's 'BBB' category median of 10.5 years. Fitch notes that after adjusting for \$122 million in fully depreciated assets are, SCH's average age of plant is a low 6.5 years. Ongoing capital spending is expected to moderate in 2013 and beyond, to levels nearer depreciation expense, and no additional debt is expected. As a result, steady cash flow should allow for debt moderation and balance sheet stability over the longer term.

Fitch's key credit concerns remain the competitive landscape in the greater Chicago area, and SCH's significant level of government payors. SCH's closest competitors include Advocate Illinois Masonic Medical Center (part of Advocate Health Care Network, revs rated 'AA' by Fitch) and St. Francis Hospital (part of Resurrection Healthcare, revs rated 'BBB+' by Fitch). Market share data was provided for the primary and secondary service areas separately, and these areas accounted for only 30% and 42% of SCH's discharges, respectively. Still, market share increased slightly from 2011 in both the primary and secondary service area.

SCH received approximately \$24.5 million in supplemental payments in fiscal 2012, including Medicare disproportionate share hospital (DSH), safety net designation payments, Medicaid high volume DSH, and net Illinois provider assessment payments. SCH is dependent on these funds for profitability and management expects these payments to be largely flat in 2013. However, there is some likelihood of reduced funding beyond 2014.

The Stable Outlook is based primarily on Fitch's expectation that SCH will continue to produce solid cash flow, which should offset an elevated debt burden and preserve balance sheet strength. Any upward rating movement will be contingent upon consistent profitability coupled with a reduction in SCH's leverage indicators to levels more commensurate with the 'A' category.

Located approximately 10 miles north of Chicago city center in the Ravenswood community, SCH is a 323-bed acute care hospital which was founded by the Evangelical Covenant Church in 1886. The sole corporate member of SCH is Covenant Ministries of Benevolence (CMB), which is a subordinate entity of the Church. Total operating revenues were \$268.6 million in unaudited fiscal 2012.

SCH covenants to disclose annual financial information within 150 days of each fiscal year end and quarterly information within 60 days on each fiscal quarter-end to the Municipal Securities Rulemaking Board's EMMA system. Fitch reports that SCH has provided consistent disclosure with very good access to management.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 12, 2012);  
--'Nonprofit Hospitals and Health Systems Rating Criteria' (July 23, 2012).

**Applicable Criteria and Related Research:**

Revenue-Supported Rating Criteria

Nonprofit Hospitals and Health Systems Rating Criteria

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

**Not applicable. There are no costs to be capitalized as part of this project.**

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

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

2. Variance

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

**APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

**X. 1120.140 - Economic Feasibility**

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

**A. Reasonableness of Financing Arrangements **Not applicable. There is no project cost.****

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

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
  - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
  - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

**B. Conditions of Debt Financing **Not applicable. There is neither project cost or debt financing.****

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

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

**C. Reasonableness of Project and Related Costs **Not applicable. There is no project cost.****

Read the criterion and provide the following:

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

2.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE											
Department (list below)	A	B	C		D		E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)			
Contingency											
<b>TOTALS</b>											

\* Include the percentage (%) of space for circulation

**D. Projected Operating Costs**

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

**E. Total Effect of the Project on Capital Costs      Not applicable. The project will have no effect on capital costs.**

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

APPEND DOCUMENTATION AS ATTACHMENT -42, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**D. Projected Operating Costs**

\$4,221 per case

**XI. Safety Net Impact Statement**

**SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:**

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

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

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

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

APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

<b>Safety Net Information per PA 96-0031</b>				
<b>CHARITY CARE</b>				
<b>Charity (# of patients)</b>	<b>Year 2010</b>	<b>Year 2011</b>	<b>Year 2012</b>	<b>Percent Change</b>
Inpatient	726	753	851	17.2
Outpatient	7,854	7,188	8,541	8.7
<b>Total</b>	<b>8,580</b>	<b>7,941</b>	<b>9,392</b>	<b>9.5</b>
<b>Charity (cost In dollars)</b>				
Inpatient	2,728,874	3,760,457	3,690,551	35.2
Outpatient	1,656,126	2,479,543	2,433,449	46.9
<b>Total</b>	<b>4,385,000</b>	<b>6,240,000</b>	<b>6,124,000</b>	<b>39.7</b>
<b>MEDICAID</b>				
<b>Medicaid (# of patients)</b>	<b>Year 2010</b>	<b>Year 2011</b>	<b>Year 2012</b>	
Inpatient	4,207	3,789	4,099	-2.6
Outpatient	65,672	67,070	65,401	-0.4
<b>Total</b>	<b>69,879</b>	<b>70,859</b>	<b>69,500</b>	<b>-0.5</b>
<b>Medicaid (revenue)</b>				
<b>Inpatient</b>	<b>32,844,551</b>	<b>30,618,873</b>	<b>34,752,627</b>	<b>5.8</b>
<b>Outpatient</b>	<b>7,026,335</b>	<b>7,625,395</b>	<b>7,652,040</b>	<b>8.9</b>
<b>Total</b>	<b>39,870,886</b>	<b>38,244,268</b>	<b>42,404,667</b>	<b>6.4</b>

By the signatures provided on the Certification pages of this certificate of need application, the applicants certify that the charity care and Medicaid volumes and values provided in this table are accurate and reported consistent with the State's requirements.

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS

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

Swedish Covenant Hospital is a disproportionate share hospital and a safety net provider. In 2012, Swedish Covenant Hospital ("SCH", "Hospital") provided \$24.4 million in charitable care and other community services excluding bad debt. In addition, the Hospital provides programs and services to meet the needs of its diverse Chicago north side community.

The proposed change of ownership will improve safety net services to the community because access to surgical services will be enhanced.

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

The proposed change of ownership should not affect any other facility's ability to cross subsidize other safety net services. The patients expected to use the combined surgical capacity have historically been served by Swedish Covenant Hospital and the Swedish Covenant Surgery Center.

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

NA The proposed project is not a discontinuation of a facility but proposes a change of ownership. It is the intention of the surviving corporation, Swedish Covenant Hospital, to dissolve Swedish Covenant Surgery Center. However, the surgery services provided at the Surgery Center will continue to be provided by Swedish Covenant Hospital.

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

1. For the 3 fiscal years prior to the application, a certification of the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefit Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
  
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatients and Outpatients Net Revenue b Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
  
3. Any information that applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

Swedish Covenant Hospital provided more than \$5.0 million in community service benefits other than charity care. These are summarized on the following tables.

Attachment 43, Table 1  
Summary of Community Benefits, 2012

REPORT Community Benefits actually provided other than Charity Care

Community Benefit Type

Language Assisted Services	\$ 373,177
Government Sponsored Indigent Health Care (see Schedule)	\$13,588,000
Donations (See Schedule)	\$ 1,863,000
Volunteer Service	
a) Employee Volunteer Services (Hours have not been recorded historically)	
b) Non-Employee Volunteer Services	\$170,000
c) Total (add lines a and b)	\$ 170,000
Education	
Government-sponsored program services	
Research	
Subsidized health services (see Schedule)	\$ 3,389,707
Other Community Benefits (see Schedule)	\$ <u>5,038,476</u>
Subtotal	\$24,422,360
Bad debts	\$13,088,000
Total	\$37,510,360

Attachment 43, Table 2  
Schedule to Community Benefit Report

**Swedish Covenant Hospital  
Schedule to Community Benefits Report**

Government Sponsored Indigent Health Care	
Estimated cost for services provided to Medicaid patients	\$43,890,000
Less government reimbursement	36,320,000
<b>Excess of cost over reimbursement for Medicaid patients</b>	<b>\$13,588,000</b>
Donations	
Unrestricted contributions	\$ 192,000
Temporarily restricted contributions and pledges	1,634,000
Permanently restricted contributions	37,000
<b>Total</b>	<b>\$ 1,863,000</b>
Subsidized Health Services	
Health screenings, health promotion, education, prevention	\$ 278,462
Transportation services	146,509
Physician referral service	237,490
Loss from programs maintained in response to community need that must be subsidized from other revenue sources:	
Pediatric Clinic	44,152
Primary Care Clinic	270,755
Neonatology	646,054
Extended care facility	1,766,284
<b>Total</b>	<b>\$ 3,389,707</b>
Other Community Benefits	
Discounts voluntarily extended to uninsured patients (estimated cost of services) (Charity Care)	\$4,465,000
Pastoral Care program	329,290
Ethics Consultation service	103,125
Publications for community	141,061
<b>Total</b>	<b>\$ 5,038,476</b>

In 2012, Swedish Covenant Hospital in cooperation with the Metropolitan Chicago Health Care Council completed a comprehensive “Community Health Needs Assessment Report for the Swedish Covenant Service Area.” The purpose of the study was to determine the health status, behaviors, and needs of the residents of the service area. This information will be used to identify issues of greatest concern and guide resources and efforts to improve community health and wellness.

The Assessment serves as a tool toward reaching the following basic goals:

- To improve residents' health status, increase their life span, and elevate their overall quality of life.
- To reduce health disparities among the residents, and
- To increase accessibility to preventive services for all community residents.

The information used to complete the Assessment included:

- Community Focus Groups
- Public Health Vital Statistics and Other Data including Centers for Disease Control & Prevention, Illinois Department of Public Health, Illinois State Police, National Center for Health Statistics, US Census Bureau, US Department of Health and Human Services and US Department of Justice, Federal Bureau of Investigation
- Regional Metropolitan Chicago Health Care Council Data
- Illinois Risk Factor Data, and
- Healthy People 2020

The following "health priorities" represent areas for health improvement initiatives.

- Access to Health Services
- Cancer
- Chronic Kidney Disease
- Family Planning
- Heart Disease and Stroke
- HIV
- Infectious Diseases
- Injury and Violence Prevention
- Maternal, Infant and Child Health
- Mental Health and Mental Disorders
- Nutrition, Physical Activity and Weight,
- Respiratory Illness
- Sexually Transmitted Diseases
- Substance Abuse

Swedish Covenant Hospital already addresses many of these community needs and will continue to address them through community outreach programs including: community education classes, Child Care Center, Diabetes Community Center, Family Practice Center, health fairs, health screenings and lectures, physician referral services, speakers' bureau, and support groups.

## **XII. Charity Care Information**

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

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

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year 2009	Year 2010	Year 2011
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

See Attachment 44, Exhibit 1 for the Amount of Charity Care (charges) and Cost of Charity Care provided by Swedish Covenant Hospital in 2010, 2011, and 2012. See Attachment 44, Exhibit 3 for Swedish Covenant Hospital's Charity Care Policy. This charity care policy is available on the Internet (see Attachment 44, Exhibit 2) in 7 languages, English, Greek, Korean, Polish, Spanish, and Urdu to respond to the needs of the multi ethnic communities served by Swedish Covenant Hospital.

<b>CHARITY CARE</b>				
	<b>Year 2010</b>	<b>Year 2011</b>	<b>Year 2012</b>	<b>Percent Change</b>
<b>Net Patient Revenue</b>				
Amount of Charity Care (charges)	21,961,900	31,961,315	34,238,426	55.9
Cost of Charity Care	4,385,000	6,240,000	6,124,000	39.7



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HOME - PATIENTS AND VISITORS - FINANCIAL INFORMATION - CHARITY CARE POLICY

## Charity Care Policy

- Map and Directions
- Services for Patients
- Financial Information
  - Charity Care Policy
  - Insurance Counseling Services
- Visiting Hours and Guidelines
- Quality, Ethics and Patient Safety
- Identity Theft Prevention Program
- Pharmacy
- Community Relations
- Montessori Child Care Center
- Artist-in-Residence Program

We offer assistance in paying for necessary medical services to eligible patients with limited financial means. These health care services are provided with no expected reimbursement or at reduced levels, based upon established criteria, recognizing the need to maintain the quality of life individual during their consideration process.

For more information, we invite you to download and review the Swedish Covenant Hospital **Charity Care Policy** or to visit our Credit Services Department, Knatter Medical Pavilion, first floor, 8:30 a.m. to 5 p.m. Monday through Friday or call us at (773) 989-3847.

Please click on the desired language to view our Charity Care Policy and application.

- English
- Greek
- Korean
- Polish
- Russian
- Spanish
- Urdu

Eligibility for charity care requires the completion of a **Financial Application**.

- English
- Greek
- Korean
- Polish
- Russian
- Spanish
- Urdu

In addition to charity care, Swedish Covenant Hospital offers assistance with registering for FamilyCare and KidCare health insurance for low-income children, parents and expecting mothers. To learn more, visit our **FamilyCare and KidCare pages**.

\*Adobe Acrobat required

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**Presumptive Charity Care:**

Health care services to uninsured patients that are not expected to result in payment and no financial assistance application is completed. Patients will qualify for Presumptive Charity assistance based on their individual life circumstances, homeowner status, living address and other measurable socio-economic factors.

**Patients Without Insurance (Uninsured Patients):**

Patients requiring medically necessary services who are not covered by or eligible for Medicare, Medicaid, HMO's, PPO's or other third party payers at the time healthcare services are provided.

**PROCEDURE:**

**Determination of Eligibility for Charity, Presumptive Charity or Discounted Care**

1. Charity or discounted care is available for medically necessary services as defined by Medicare, to patients who meet the financial and documentation criteria defined below. Each situation is reviewed on an individual case by case basis. While not absolutely essential, the need for potential charity or discounted care should be established in advance of admission or rendering of service, or shortly thereafter.
2. In order to be eligible for charity or discounted care, the patient must be willing to provide verification of income, assets, etc. by filling out the Patient Financial Statement attached as Exhibit 1. It is the responsibility of the patient to voluntarily submit any and all documentation in order to be eligible to receive this discount.
3. During the registration and information gathering process, the financial counselors will first determine if the patient qualifies for medical assistance from other existing financial resources such as Medicare, Medicaid, Kid Care, Family Care or other state or federal programs. If the patient refuses to apply for existing financial resources or to provide information necessary to the application process, charity or discounted care cannot be granted. If the application for existing financial resources is denied, or has been previously denied, consideration for charity or discounted care will then be given.
4. Once the information the Financial Assistance Application form (figure 1) is received, Credit Services Department will determine the eligibility for charity or discount care. SCH will suspend the collection process while the Financial Assistance Application is being reviewed. The only criteria to be considered for Financial Assistance will be income and family size. Income will be evaluated against the matrix of Federal Poverty Guidelines to determine whether full or partial discount can be approved. Documentation of income can be submitted in the form of paycheck stubs, income tax returns, Social Security checks, and other documents that are indicative of income. If the information submitted is not perceived to be accurate or reliable, SCH reserves the right to request additional documentation to substantiate income or family size.
5. The insured patient with a large balance due to deductibles and/or co-payments may be eligible for charity or discounted care. In order to qualify, the patient must complete the Patient Financial Statement and return it to the financial counselors for evaluation and recommendation.
6. If a patient has been determined to meet the Hospital Charity Care Guidelines no collection agencies, lien attachments or attempts to possess real or personal property will be made.
7. No legal action will be taken against uninsured patients for the first one hundred twenty (120) days after discharge.
8. If after 120 days, an uninsured patient does not provide the completed financial assistance application, SCH will utilize the PARO Presumptive Charity model to qualify the patient as appropriate for a Presumptive Charity Care discount.

Approval of Charity or Discounted Care

1. To insure that the determination of charity or discounted care receives appropriate levels of consideration, the following approval guidelines and levels will be followed:

<u>Charity or Discounted Care</u>	<u>Appropriate Personnel</u>
\$1 - \$9,999	Manager of Credit Services
\$10,000 - \$50,000	Director, Patient Financial Services
\$50,000 and above	Chief Financial Officer

2. Illinois residents who have a family income that is no more than 600% of the Federal Poverty Guidelines (as determined each year), and who do not have any health insurance (or coverage under workers' compensation, accident liability insurance, or other third party liability) as documented through SCH's insurance verification procedures, will receive a discount in accordance with the Hospital Uninsured Patient Discount Act (210 ILCS 89/) (the Act). Uninsured patients who own assets with a value of more than 600% of the Federal Poverty Guidelines (excluding the patient's primary residence, personal property exempt from judgment under Illinois law, and amounts held in a pension or retirement plan) are excluded from the discount required under the Act.

For medically necessary services, charges will be discounted to 135% of Medicare cost with the discount applicable to charges greater than \$300.00. The maximum amount collectible in a 12-month period from a patient without insurance will be 25% of the family's annual gross income.

For services excluded by the Act, i.e., elective cosmetic surgery, the Hospital may provide a discount from billed charges based on the patient's ability to pay, as verified through Hospital procedures.

3. For medically necessary services, one hundred percent (100%) charity will be provided for patients with a family income at or below 200% of the Federal Poverty Guidelines as verified through Hospital procedures.
4. Should the application be denied, the patient will be permitted to appeal the decision by providing additional information within thirty (30) days of receipt of notice. The appeal will be reviewed by SCH's Chief Financial Officer, who will provide a final decision within fifteen (15) days business after receipt of the request.

Documentation and Recording of Charity or Discounted Care

In order to quantify the level of charity care, a general ledger report will be available to document the total value of all charity or discounted care. This report will be available for inspection by any government agency requiring levels of charity or discounted care as part of Swedish Covenant Hospital maintaining the exemption from federal, state, or local taxes.

Effective: March 28, 2012



**Swedish Covenant Hospital**  
The science of feeling better

DATE

Dear \_\_\_\_\_ (Patient/head of household)

Thank you for choosing Swedish Covenant Hospital (SCH) for your health care needs. We offer financial assistance to help people of limited financial means. SCH has developed financial policies to facilitate this process. **A social security number is not required to apply for financial assistance.**

Information about your income and family size are important in determining if you are eligible for any financial assistance from Swedish Covenant. Please answer the questions on the reverse side of this page to the best of your ability. **Also, provide any evidence you have to support your information, using the examples named below:**

1. **About the size of your family (household).** Provide the names and relationship of all the dependents living in your home. **Example of supporting document** – your most recent income tax filing, and comment on any difference between the tax filing list and now. If you do not have an income tax return, a list of your family members living in your home will be sufficient.
2. **About your income.** Examples of supporting documents: (provide any that fit your situation) – current paystubs, receipts from self-employment, copies of unemployment checks, copies of social security checks, list of employer cash payment or any other written document. **If your employer(s) pay you in cash, state your earnings in writing in this application for the past two pay periods.**

**Contact the Financial Services Office 773-989-3841, if you need help in understanding what you need to do, or you can mail your application to the following address:**

**Swedish Covenant Hospital  
Attention: Credit Services Department  
5145 N. California Avenue  
Chicago, Illinois 60625**

When you have supplied the information about your income and family size, we will begin to review your application, and we may ask for additional documents to help us determine if you can apply for other Illinois or Federal assistance programs. If you do not hear from us within 14 days following your submission, feel free to call the Financial Services Office 773-989-3841 to find out the status of your application.

**PLEASE COMPLETE BACK SIDE**

**\*\*\*\*ALL INFORMATION PROVIDED IS KEPT CONFIDENTIAL\*\*\*\***

Financial Services Representative:  
Contact Phone Number:  
Contact Hours:

ADMIN MANUAL 02-906+07  
Guidelines for Issuing Charity or Discounted Care

Page 4 of 5



**Swedish Covenant Hospital**  
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**FINANCIAL ASSISTANCE APPLICATION**

Date of Application: \_\_\_\_\_

Patient Name: \_\_\_\_\_

Account Number (s): \_\_\_\_\_

Total Patient Responsibility: \_\_\_\_\_

Information Due Date: \_\_\_\_\_

**Patient Statement**

Name of person completing form if other than patient \_\_\_\_\_  
(Note: completing does not mean that you will be responsible for the patient's hospital bill.)  
Family size including patient (husband, wife, dependent children) \_\_\_\_\_

Name	Relationship to applicant	Age of dependent
_____	_____	_____
_____	_____	_____
_____	_____	_____

Comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- Provide current earnings and income (wkly, bi-wkly, monthly, annual)
 

Patient	_____	_____
Spouse	_____	_____
Other	_____	_____

Comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I certify that all information provided by me is complete and accurate to the best of my knowledge.

Signature: \_\_\_\_\_ Date \_\_\_\_\_

Board Resolution

**RESOLUTION OF THE BOARD OF DIRECTORS OF SWEDISH COVENANT HOSPITAL AUTHORIZING THE HOSPITAL TO LOAN AN AMOUNT NOT TO EXCEED \$2.0 MILLION TO SWEDISH COVENANT SURGERY CENTER, LLC (SCSC) TO REDEEM OUTSTANDING CLASS A AND C UNITS AND PAY CERTAIN LIABILITIES OF SCSC, AND AUTHORIZING THE FILING OF A CERTIFICATE OF NEED APPLICATION TO CONVERT SCSC INTO A HOSPITAL OUTPATIENT SURGERY DEPARTMENT**

**WHEREAS**, Swedish Covenant Surgery Center, LLC (“SCSC”) was organized on March 2, 2010, for the purpose of establishing and operating an ambulatory surgery center (“ASC”);

**WHEREAS**, the initial owners of SCSC were Swedish Covenant Hospital (“the Hospital”) as the Class B Member, owning 90%, and Regent Surgical Health, LLC (“Regent”) as the Class C Member, owning 10%;

**WHEREAS**, SCSC issued a Private Placement Memorandum on October 12, 2010, offering the Class A units of SCSC to eligible physicians;

**WHEREAS**, thirty-five (35) Class A units were sold to eligible physicians in 2010, and an additional physician acquired one (1) Class A unit in 2013;

**WHEREAS**, SCSC has incurred substantial operating losses due to case volume and average revenue per case falling short of projections, resulting in SCSC now having less than three (3) months of operating cash available;

**WHEREAS**, due to the continued operating losses, SCSC has been unable to pay past-due rent owed to the Hospital for lease of space and equipment;

**WHEREAS**, the Operating Agreement of SCSC provides that members may not be required to make additional capital contributions exceeding 100% of the each member’s initial contribution, and even if additional capital contributions are made up to 100% of the initial investment, the amount contributed would be insufficient to meet SCSC’s obligations;

**WHEREAS**, SCSC has made no distributions to members;

**WHEREAS**, the financial performance of the surgical operations currently conducted by SCSC would be improved by terminating its license to operate as an ambulatory surgery center and transferring operations to the Hospital to be operated as a wholly-owned hospital outpatient surgical department;

**WHEREAS**, discontinuation of the operations of SCSC through liquidation and dissolution would take several months, involve potential for disputes among the members, have potential negative impact on the business credit of the Hospital, and jeopardize the viability of the surgery center facility as a going concern, and reduce the availability and efficiency of outpatient services to the community;

**WHEREAS**, the Operating Agreement of SCSC provides that members of SCSC may withdraw upon supermajority approval of the Board of Managers, and SCSC shall redeem the

percentage interest of a withdrawing member according to a formula and terms set forth in the Operating Agreement;

**WHEREAS**, the Operating Agreement provides that the cumulative amount of loans from a member and debt guaranteed by a member shall not exceed three (3) times the member's initial capital contribution, and the initial capital contribution of the Hospital was \$765,000 to acquire the Class B interest and \$60,000 to acquire Class A interests that were not sold to investors;

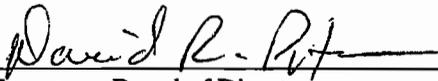
**WHEREAS**, the Hospital desires to approve, adopt, ratify, and confirm all actions taken by officers, employees and/or agents of the Hospital in connection with the conversion of SCSC to a hospital outpatient department, that are in conformity with the purposes and intent of this Resolution, whether heretofore or hereafter taken; and

**WHEREAS**, the Hospital desires to authorize, direct, and empower the Secretary or Assistant Secretary of the Hospital to certify the completeness and accuracy of this Resolution.

**NOW, THEREFORE**, it is hereby resolved by the Board of Directors of the Hospital as follows:

1. The Board of Directors authorizes the Hospital to loan an amount not to exceed \$2.0 Million to Swedish Covenant Surgery Center, LLC (SCSC) to enable SCSC to redeem the Class A and Class C units; and at such time as the Hospital is the sole owner of all outstanding units of SCSC, to discharge outstanding indebtedness of SCSC;
2. The Board of Directors authorizes and approves the dissolution of SCSC if deemed appropriate by Hospital management;
3. The Board of Directors authorizes Hospital management to file an application for a Certificate of Need to convert the surgery center operations from an ambulatory surgery center to a hospital outpatient department;
3. In furtherance of the authorities and approvals described in the paragraphs above, the President of the Hospital and any such directors, officers, agents, and employees of the Hospital, who are authorized by the President of the Hospital, are authorized, empowered, and directed to take or cause to be taken all such actions and to execute and deliver, or cause to be executed and delivered, all such instruments and documents as shall be deemed necessary, proper or advisable to effect the redemption of all units of SCSC other than the Class C units, dissolution of SCSC if deemed appropriate, and filing of an application for a Certificate of Need;
4. In furtherance of the authorities and approvals described in paragraphs above, all actions of the President of the Hospital and any such directors, officers, agents, and employees of the Hospital, that are in conformity with the purposes and intent of this Resolution, whether taken before or after the adoption hereof, are hereby ratified, confirmed, and adopted by the Hospital; and
5. In furtherance of the authorities and approvals described in paragraphs above, the Hospital hereby authorizes, directs, and empowers the Secretary or Assistant Secretary of the Hospital to certify the completeness and accuracy of this Resolution.

The foregoing Resolution was adopted by the Board of Directors of Swedish Covenant Hospital on June 26, 2013.

  
Secretary, Board of Directors  
Swedish Covenant Hospital

Swedish Covenant Surgery Center 04.25.13(Final)

Loan Agreement

## LOAN AGREEMENT

This Loan Agreement is made on \_\_\_\_\_, 2013, by and between Swedish Covenant Surgery Center, LLC, of 5215 N. California Avenue, Chicago, Cook County, Illinois ("Debtor"), and Swedish Covenant Hospital, of 5145 N. California Avenue, Chicago, Cook County, Illinois ("Creditor").

In consideration of the mutual covenants and promises in this agreement contained, Debtor and Creditor agree:

### SECTION I. AGREEMENT FOR LOAN; TERMS

1.1. Creditor will loan to Debtor and Debtor will borrow from Creditor, on or before \_\_\_\_\_, 2013, the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_). At the time the loan is made, Debtor shall execute, as evidence of the indebtedness under this agreement, a promissory note in a form similar to that attached to this agreement as Exhibit 1 and made a part of this agreement by this reference. The loan shall be subject to the terms and conditions of this agreement.

1.2. The indebtedness evidenced by the note must be repaid in *[number of installment]* principal installments of *[\$[dollar amount of sum]* each, payable *[monthly/[specification of time period]]*, commencing on *[beginning date of period]*, until *[ending date of period]*, when the entire unpaid balance of principal and interest shall be due and payable. In addition to the required payments on principal, Debtor shall pay interest on each installment date on the unpaid principal balance of the note outstanding at a rate of *[percentage rate of interest]%* above the prime interest rate of Creditor for *[commercial/[type of borrowers]]* borrowers as such rate may vary from time to time, but not less than *[percentage rate of interest]%* nor more than *[percentage rate of annual interest]%* per year. Interest will be computed on a daily basis using a year of 365 days, and in the computation effect will be given daily to any change in the interest rate resulting from a change in the prime rate.

1.3. In addition to the payments required by Section 1.2, Debtor will make additional principal payments on the note within *[number of days]* days after the end of each of its fiscal years, commencing with the fiscal year ending *[date of termination]*, in aggregate amount equal to *[percentage amount of payment]%* of a figure computed by deducting from net earnings of Debtor for the fiscal year (after federal income taxes have been deducted and after depreciation and amortization charges have been deducted in accordance with generally accepted principals of accounting) all installments paid on the note pursuant to Section 1.2, during the fiscal year.

1.4. All monies payable by Debtor are to be first applied to reduce or repay the present indebtedness of Debtor to Creditor, if any indebtedness exists at time of borrowing.

1.5. The indebtedness may be prepaid at any time in whole or in part without premium. Any partial prepayment will be applied to the installments of the note in inverse order of their maturities.

## SECTION II. PURPOSES OF LOAN

Debtor shall use the loan proceeds for the purpose of redeeming interests of the Class A and Class C Members of Debtor, in accordance with Debtor's Operating Agreement, and at such time as the Class B Member is the sole shareholder, the Debtor may use the loan proceeds to discharge outstanding indebtedness of the Debtor and for no other purpose.

## SECTION III. SECURITY

As security for all indebtedness of Debtor to Creditor and pursuant to the note as in this agreement provided, Debtor must execute and deliver to Creditor prior to or simultaneously with the initial making of the loan under this agreement, in a form satisfactory to Creditor the following:

A. The following security agreements to be executed in accordance with Article 9 of the Illinois Uniform Commercial Code.

(1) A security agreement pertaining to tangible personal property owned by Debtor, granting to Creditor a first priority security interest in, and pertaining to all of the machinery and equipment, furniture and fixtures, and other tangible personal property of Debtor, whether then owned or later acquired by Debtor.

(2) A security agreement pertaining to equipment and fixtures owned by Debtor, granting to Creditor a first priority security interest in all installed equipment and fixtures of Debtor, then owned or later acquired.

(3) A security agreement pertaining to accounts receivable, chattel paper and inventory, in a form satisfactory to Creditor, granting to Creditor a first priority security interest in all of the present and future accounts receivable of Debtor, chattel paper, inventory, general intangibles and instruments, and any additional documents as relate to them or shall be required by the terms of the security agreement or this agreement.

B. Those financing statements as may be required or requested by Creditor to perfect all security interests to be conferred on Creditor under this agreement and to accord Creditor a perfected first-priority security position under Article 9 of the Illinois Uniform Commercial Code.

C. Those documents or certificates as may be requested by Creditor, are required under the terms of any and every security agreement, or both.

D. Those other documents or agreements of security and appropriate assurances of validity and perfected first priority of lien or security interest as Creditor may request at any time, including but not limited to such additional security as is contemplated by the provisions of Section V.

#### SECTION IV. REPRESENTATIONS AND WARRANTIES OF DEBTOR

Debtor represents and warrants as follows, the representations and warranties to be deemed continuing representations and warranties during the entire term of this agreement:

(a) Debtor is a limited liability company duly organized and in good standing under Illinois law. Execution, delivery and performance of this agreement, the security agreements and other documents and instruments required under it, and the issuance of the note provided for in this agreement are within its powers, have been duly authorized, and are not in contravention of law or the terms of the Articles of Organization or the Operating Agreement of Debtor, and do not require the consent or approval of any governmental body, agency, or authority. This agreement, the security agreements and other documents and instruments required under it, and the note provided for in this agreement, when issued and delivered, will all be valid and binding in accordance with their terms.

(b) The execution, delivery and performance of this agreement, the security agreements and other documents and instruments required under it, and the issuance of the note required in this agreement is not in contravention of the unwaived terms of any indenture, agreement or undertaking to which Debtor is a party or by which Debtor is bound.

(c) No litigation or other proceeding before any court or administrative agency is pending, or to the knowledge of Debtor is threatened against Debtor, the outcome of which could materially impair the financial condition of Debtor or the ability of Debtor to carry on business.

(d) There are no security interests in or liens, mortgages or other encumbrances on any of the assets of Debtor, except to Creditor or as permitted in this agreement, with the exception of the following: security interest of PNC Bank.

(e) The balance sheet of Debtor dated *[date of balance sheet]*, previously furnished Creditor, is complete and correct and fairly presents the financial condition of Debtor. Since the date of the balance sheet, there has been no material adverse change in the financial condition of Debtor. To the knowledge of Debtor, Debtor has no contingent obligations, including any liability for taxes, not disclosed by or reserved against in the balance sheet and, at the time of execution of this agreement, there are no material unrealized or anticipated losses from any known commitment of Debtor.

## SECTION V. AFFIRMATIVE COVENANTS OF DEBTOR

Debtor covenants and agrees that Debtor will so long as any indebtedness remains outstanding under this agreement:

### 5.1. Furnish Creditor with the following:

(a) Within *[number of days]* days after the execution of this agreement and as of the end of each of the fiscal years of Debtor, a detailed audit report of Debtor certified to by independent certified public accountants satisfactory to Creditor.

(b) Within *[number of days]* days after the execution of this agreement and as of the end of each of the fiscal years of Debtor, a balance sheet and statement of profit and loss of Debtor.

(c) Information as is required by the terms and conditions of the security agreements or other documents or instruments of security referred to in this agreement.

(d) Promptly, and in a form satisfactory to Creditor, any other information as Creditor may request from time to time.

5.2. Pay and discharge all taxes and other governmental charges, and all contractual obligations requiring the payment of money, before they become overdue, unless and to the extent only that the payment is being contested in good faith.

5.3. Maintain insurance coverage on the physical assets of Debtor and against other business risks in the amounts and of the types as are customarily carried by companies similar in size and nature to that of Debtor, and in the event of acquisition of additional property, real or personal, or of incurring additional risks of any nature, increase the insurance coverage in the manner and to the extent as prudent business judgment and present practice dictate. In the case of all policies of insurance covering property mortgaged or pledged to Creditor or property in which Creditor shall have a security interest of any kind, other than those policies of insurance protecting against casualty liabilities to strangers, all the policies of insurance will provide that the loss payable shall be payable to Creditor and Debtor as their respective interests may appear. All the policies of insurance or copies of them, including all indorsements on them and those required under this agreement, will be deposited with Creditor.

5.4. Permit Creditor through its authorized attorneys, accountants and representatives, to examine the books, accounts, records, ledgers and assets of every kind and description of Debtor at all reasonable times on oral or written request of Creditor.

5.5. Promptly notify Creditor of any condition or event that constitutes, or with the running of time or the giving of notice will constitute, a default under this agreement, and promptly

inform Creditor of any material adverse changes in the financial condition of Debtor.

5.6. Maintain in good standing all licenses required by Illinois or any agency of the state, or other governmental authority that may be necessary or required for Debtor to carry on its general business objects and purposes.

5.7. At any time on the request of Creditor to execute and deliver to Creditor, in form satisfactory to Creditor, any additional documentation in respect of the indebtedness and liability of Debtor to Creditor contemplated under the terms of this agreement as Creditor shall deem necessary or desirable to comply with the provisions or requirements of Article 9 of the Illinois Uniform Commercial Code, including, without limiting the generality of the preceding, appropriate security agreements and financing statements.

#### SECTION VI. NEGATIVE COVENANTS OF DEBTOR

Debtor covenants and agrees that so long as any indebtedness remains outstanding under this agreement that Debtor will not, without the prior written consent of Creditor:

- 6.1. Make any material change in the general business objects or purpose of Debtor.
- 6.2. Sell, lease, transfer or dispose of all, substantially all, or any material part of the assets of Debtor except in the ordinary course of business.
- 6.3. Guarantee, indorse or otherwise become secondarily liable for or on the obligations of others, except by indorsement for deposit in the ordinary course of business.
- 6.4. Become or remain obligated for any indebtedness for money loaned, or for any indebtedness incurred in connection with the acquisition of any property, real or personal, tangible or intangible, except:
  - (a) Indebtedness to Creditor.
  - (b) Current trade, utility or nonextraordinary accounts payable arising in the ordinary course of the business of Debtor.
- 6.5. Purchase or become obligated for the purchase of any fixed assets in excess of *[\$dollar amount of maximum sum]* in aggregate for any fiscal year.
- 6.6. Purchase or otherwise acquire, or become obligated for the purchase of all or substantially all of the assets or business interests of any person, firm or corporation, or any shares of stock of any corporation, trust or association, or in any other manner effectuate or attempt to effectuate an expansion of present business by acquisition.
- 6.7. Authorize or pay any distributions to Members.

6.8. Make or allow to remain outstanding any investment in, or any loans or advances to, any person, firm, corporation or other entity or association.

6.9. Make or allow to be made any changes increasing or adding to the salary or remuneration of any kind of the officers or employees of Debtor, or increasing the compensation under the Management Agreement with Regent Surgical Management, LLC.

6.10. Affirmatively pledge or mortgage any of the assets of Debtor, whether now owned or later acquired, or create or permit to exist any lien or encumbrance on them or security interest in them, except to Creditor.

6.11. Sell or assign any account, note or trade acceptance receivable except to Creditor.

#### SECTION VII. DEFAULT

7.1. On nonpayment, when due in accordance with the terms of this agreement, of any installment of the principal or interest on the note provided for in this agreement and continuance of the default for a period of *[number of days]* days, the note shall automatically become immediately due and payable.

7.2. On occurrence of any of the following events of default, or at any time after that unless the default is remedied, Creditor may give notice to Debtor declaring all outstanding indebtedness under this agreement to be due and payable, following which all indebtedness then outstanding under this agreement shall immediately become due and payable:

(a) Default in observing or performing any of the covenants or agreements of Debtor set forth in Sections V and VI.

(b) Default in the observing or performing any of the other covenants or agreements of Debtor in this agreement, and continuance of default for *[number of days]* days after notice to Debtor of the default by Creditor.

(c) Falsity of any representation or warranty made by Debtor in this agreement, or in any instrument submitted pursuant to this agreement, in any material respect.

(d) Default in observing or performing any of the covenants or agreements of Debtor stated in any collateral document of security given to secure indebtedness under this agreement, and the continuation of the default beyond any period of grace specified in any document.

(e) Default in the payment of any other obligation of Debtor for money loaned, or in observing or performing any covenants or agreements given with respect to that obligation.

(f) Any change, for any reason, in the management, ownership or control of Debtor that shall in the sole judgment of Creditor adversely affect future prospects for the successful operation of Debtor.

(g) If a committee of creditors is appointed for the business of Debtor; Debtor makes a general assignment for the benefit of creditors, is adjudicated bankrupt, or files a voluntary petition in bankruptcy or for reorganization or to effect a plan or arrangement with creditors; Debtor files an answer to a petition by creditors or other petition filed against Debtor, admitting the material allegations for an adjudication in bankruptcy or for a reorganization; Debtor applies for or permits the appointment of a receiver or trustee or custodian for any of the property or assets of Debtor; the receiver, trustee or custodian is appointed for any of the property or assets of Debtor, otherwise than on application or consent of Debtor, and the receiver, trustee or custodian so appointed is not discharged within *[number of days]* days after the date of appointment; or an order is entered, and is not dismissed or stayed within *[number of days]* days from entry, approving any petition for reorganization of Debtor.

#### SECTION VIII. REMEDIES

On any default under this agreement, and at any time after that, Creditor will have the rights and remedies of a Creditor under Article 9 of the Illinois Uniform Commercial Code in addition to the rights and remedies provided in this agreement or in any other instrument or paper executed by Debtor.

#### SECTION IX. WAIVER; RIGHTS OF CREDITOR CUMULATIVE

No delay or failure of Creditor in exercising any right, power or privilege under this agreement shall affect the right, power or privilege, nor shall any single or partial exercise of any right preclude any further exercise of it or the exercise of any other power, right or privilege. The rights of Creditor under this agreement are cumulative and not exclusive of any right or remedy that Creditor would otherwise have.

#### SECTION X. NOTICE

All notices to Creditor with respect to this agreement shall be deemed to be completed on mailing *[by certified mail/[type of service]]* to offices of Debtor at *[mailing address of Debtor], [name of city], [name of county], Illinois [zip code of area]*.

#### SECTION XI. EFFECT OF AGREEMENT

This agreement will become effective on its execution by Creditor and Debtor and will be binding on and inure to the benefit of Creditor and Debtor and their respective successors and assigns.

SECTION XII. GOVERNING LAW

This agreement will be construed in accordance with Article 9 of the Illinois Uniform Commercial Code and other applicable Illinois laws.

In witness of this, the parties have executed this agreement at Chicago, Illinois on the date written above.

**Debtor**

**Creditor**

**Swedish Covenant Surgery Center, LLC**

**Swedish Covenant Hospital**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Appendix C  
Audited Financial Statements  
2011 and 2012

# Swedish Covenant Hospital

Consolidated Financial Statements as of and  
for the Years Ended September 30, 2012 and 2011,  
Supplemental Schedules as of and for the Year Ended  
September 30, 2012, and  
Independent Auditors' Report

# SWEDISH COVENANT HOSPITAL

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## INDEPENDENT AUDITORS' REPORT

To the Board of Benevolence of  
The Evangelical Covenant Church  
Chicago, Illinois

To the Board of Directors  
Swedish Covenant Hospital  
Chicago, Illinois

We have audited the accompanying consolidated statements of financial position of Swedish Covenant Hospital and subsidiaries (the "Hospital") (an affiliate of The Evangelical Covenant Church) as of September 30, 2012 and 2011, and the related consolidated statements of operations and other changes in unrestricted net assets, changes in total net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Hospital as of September 30, 2012 and 2011, and the results of its consolidated operations and other changes in unrestricted net assets, its consolidated changes in total net assets, and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in fiscal 2012 the Hospital elected to change its method of accounting for certain claim payment activity attributable to Blue Cross Blue Shield of Illinois's Uniform Payment Plan.

Member of  
Deloitte Touche Tohmatsu Limited

As discussed in Note 1 to the consolidated financial statements, in fiscal 2012 the Hospital adopted the presentation and disclosure requirements of Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, and changed its presentation of the provision for bad debts. Additionally, the Hospital adopted the presentation and requirements of ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, and changed its presentation of insurance claim liabilities and anticipated insurance recoveries.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These supplemental schedules are the responsibility of Hospital's management and were derived from and relate directly to the underlying accounting and other records used to prepare the fiscal 2012 consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the fiscal 2012 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 fiscal 2012 consolidated financial statements or to the fiscal 2012 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the fiscal 2012 consolidated financial statements as a whole.

*Deloitte & Touche LLP*

January 21, 2013

**SWEDISH COVENANT HOSPITAL**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2012 AND 2011  
(Dollars in thousands)**

	2012	2011		2012	2011
<b>ASSETS</b>			<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents	\$ 7,639	\$ -	Accounts payable	\$ 8,631	\$ 7,689
Assets whose use is limited (Notes 1, 2, and 3)	3,879	17,888	Accrued liabilities	29,646	25,802
Prepaid public aid tax expense (Note 6)	-	2,444	Line of Credit (Note 4)	-	2,500
Patient accounts receivable — net of estimated uncollectibles of \$9,757 in 2012 and \$8,939 in 2011 (Note 1)	28,448	26,033	Deferred public aid revenue (Note 6)	-	6,661
Inventories	3,789	3,383	Contractual current portion of long-term debt (Note 4)	4,609	4,416
Other current assets	10,699	2,683	Contingent current portion of long-term debt (Note 4)	-	5,844
	<u>54,454</u>	<u>52,431</u>	Estimated third-party payor settlements	16,824	22,449
<b>ASSETS WHOSE USE IS LIMITED — Investments</b> (Notes 1, 2, and 3):			Total current liabilities	59,710	75,361
Beneficial interest in investment pool:			<b>LONG-TERM DEBT — Excluding current portion (Note 4)</b>	200,608	185,852
Board-designated funds	116,789	107,078	PROFESSIONAL LIABILITY (Note 13)	18,885	11,539
Donor-restricted funds	17,899	17,704	<b>FAIR VALUE OF INTEREST RATE SWAPS (Note 3)</b>	26,976	24,404
Total beneficial interest in investment pool	134,688	124,782	<b>ASSET RETIREMENT OBLIGATION (Note 13)</b>	1,427	1,340
SCIC restricted investments	13,777	14,590	Total liabilities	307,606	298,496
Debt service reserve funds	9,247	9,167	<b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>		
Trustee-held bond project funds	23,837	26,432	<b>NET ASSETS:</b>		
Total assets whose use is limited — investments	181,549	174,971	Unrestricted	116,548	95,171
<b>PROPERTY AND EQUIPMENT (Note 1):</b>			Temporarily restricted (Notes 1 and 5)	2,884	2,099
Land and land improvements	11,648	11,648	Permanently restricted (Notes 1 and 5)	17,691	17,527
Buildings and building equipment	265,545	220,091	Total net assets	137,123	114,797
Fixed and moveable equipment	157,728	146,909			
Construction in progress	2,277	22,440			
Property and equipment — gross	437,198	401,088			
Less accumulated depreciation	(238,669)	(220,815)			
Property and equipment — net	198,529	180,273			
<b>OTHER ASSETS:</b>					
Deferred debt expense — net of accumulated amortization of \$206 in 2012 and \$137 in 2011 (Note 1)	2,637	2,412			
Pledges receivable (Note 12)	1,064	1,084			
Other	6,496	2,122			
Total other assets	10,197	5,618			
<b>TOTAL</b>	<u>\$ 444,729</u>	<u>\$ 413,293</u>	<b>TOTAL</b>	<u>\$444,729</u>	<u>\$413,293</u>

See notes to consolidated financial statements.

# SWEDISH COVENANT HOSPITAL

## CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011 (Dollars in thousands)

	2012	2011
<b>OPERATING REVENUE:</b>		
Patient service revenue (net of contractual allowances and discounts)	\$241,630	\$225,992
Provision for uncollectible accounts (Note 6)	<u>(13,088)</u>	<u>(10,345)</u>
Net patient service revenue less provision for uncollectible accounts (Notes 1, 6, and 7)	228,542	215,647
Public aid assessment tax revenues (Note 6)	<u>20,056</u>	<u>20,056</u>
Total net patient service revenue	248,598	235,703
Other revenue	15,735	15,281
Meaningful use grant revenue (Note 6)	3,751	
Net assets released from restrictions — operations (Note 5)	<u>549</u>	<u>241</u>
Total operating revenue	<u>268,633</u>	<u>251,225</u>
<b>EXPENSES:</b>		
Salaries and wages	115,266	112,072
Employee benefits	18,886	21,266
Professional fees	12,818	11,036
Supplies	38,005	40,102
Utilities	4,216	3,845
Repairs and maintenance	5,298	4,536
Depreciation	18,778	17,177
Insurance (Note 13)	8,243	6,170
Interest and amortization of financing costs — net (Note 4)	8,406	8,793
Public aid assessment tax (Note 6)	9,780	9,780
Other	<u>22,080</u>	<u>17,407</u>
Total expenses (Note 11)	<u>261,776</u>	<u>252,184</u>
<b>OPERATING INCOME (LOSS)</b>	<u>6,857</u>	<u>(959)</u>
<b>NONOPERATING REVENUE (EXPENSE):</b>		
Change in beneficial interest in investment pool:		
Interest and dividend income	1,127	2,689
Realized gains on investments — net	571	7,943
Unrealized net gains (losses) on Common Fund investments	3,245	(216)
Unrealized net gains (losses) on CMB investments	6,934	(12,119)
Alternative investment gain (loss) — net of realized gains (losses) of \$297 in 2012 and (\$7,660) in 2011	<u>4,987</u>	<u>(2,063)</u>
Total change in beneficial interest in investment pool	16,864	(3,766)
Change in fair value of swaps — net	(2,573)	(5,199)
Other nonoperating loss	(2,368)	(2,317)
Unrestricted contributions	<u>192</u>	<u>80</u>
Total nonoperating revenue (expense) — net	<u>12,115</u>	<u>(11,202)</u>
<b>INCOME (LOSS)</b>	18,972	(12,161)
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Transfer (to) from permanently restricted net assets to (from) unrestricted net assets	105	(65)
Net assets released from restriction — capital	7,300	235
Net assets transferred to Covenant Ministries of Benevolence (Note 9)	<u>(5,000)</u>	<u>(867)</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 21,377</u>	<u>\$ (12,858)</u>

See notes to consolidated financial statements.

## SWEDISH COVENANT HOSPITAL

### CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011 (Dollars in thousands)

	2012	2011
<b>UNRESTRICTED NET ASSETS:</b>		
Income (loss)	\$ 18,972	\$ (12,161)
Transfer (to) from permanently restricted net assets to (from) unrestricted net assets	105	(65)
Net assets released from restriction — capital	7,300	235
Net assets transferred to Covenant Ministries of Benevolence	<u>(5,000)</u>	<u>(867)</u>
Increase (decrease) in unrestricted net assets	<u>21,377</u>	<u>(12,858)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions and pledges	8,634	1,006
Reclassification of temporarily restricted assets to permanently restricted net assets	-	(52)
Net assets released from restrictions (Note 5)	<u>(7,849)</u>	<u>(476)</u>
Increase in temporarily restricted net assets	<u>785</u>	<u>478</u>
<b>PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions and pledges	37	312
Reclassification of temporarily restricted assets to permanently restricted net assets	-	52
Unrealized and realized gain (loss) on investments — net	232	(96)
Transfer to (from) of permanently restricted net assets to (from) unrestricted net assets	<u>(105)</u>	<u>65</u>
Increase in permanently restricted net assets	<u>164</u>	<u>333</u>
<b>INCREASE (DECREASE) IN TOTAL NET ASSETS</b>	<b>22,326</b>	<b>(12,047)</b>
<b>TOTAL NET ASSETS — Beginning of year</b>	<b><u>114,797</u></b>	<b><u>126,844</u></b>
<b>TOTAL NET ASSETS — End of year</b>	<b><u>\$ 137,123</u></b>	<b><u>\$ 114,797</u></b>

See notes to consolidated financial statements.

# SWEDISH COVENANT HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011 (Dollars in thousands)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patient services	\$ 233,897	\$ 231,703
Cash received from nonpatient services	18,966	15,557
Cash paid to:		
Employees	(113,884)	(115,625)
Suppliers	(115,133)	(112,358)
Unrestricted contributions received	191	80
Unrestricted income from permanently restricted investments	111	110
Interest paid and funded	(8,053)	(8,612)
Investment income received	<u>1,921</u>	<u>2,427</u>
Net cash provided by operating activities (Note 10)	<u>18,016</u>	<u>13,282</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital project expenditures	(40,301)	(28,226)
SCI purchases of investments and cash deposits	(13,263)	(19,530)
SCI proceeds and maturities from the sale of investments	14,494	4,929
Net activity from beneficial interest in pooled investments	4,561	19,437
Net proceed activity from trustee-held bond project fund investments	2,596	(26,432)
Collateral posted for interest rate swaps	(23,490)	(47,910)
Collateral returned for interest rate swaps	38,540	42,940
Net change in other assets	<u>300</u>	<u>(266)</u>
Net cash used in investing activities	<u>(16,563)</u>	<u>(55,058)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Temporarily restricted contributions received	5,324	404
Payments and funding of long-term debt	(4,682)	(3,774)
Cash paid for net asset transfer to Covenant Ministries of Benevolence	(5,000)	(867)
Extinguishment of Series 2008A debt	(56,810)	-
Borrowing Series 2008A Letter of Credit	56,810	-
Issuance of Series 2010A, 2010C, 2011A debt and NMTC loan	13,475	40,000
Issuance costs for Series 2010A and 2010C debt	(431)	(258)
Amounts drawn on lines of credit	35,700	59,400
Amounts repaid on lines of credit	<u>(38,200)</u>	<u>(56,900)</u>
Net cash provided by financing activities	<u>6,186</u>	<u>38,005</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,639	(3,771)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>-</u>	<u>3,771</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 7,639</u>	<u>\$ -</u>

See notes to consolidated financial statements.

# SWEDISH COVENANT HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011 (Dollars in thousands)

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**The Organization** — Swedish Covenant Hospital, a not-for-profit corporation, and subsidiaries (the “Hospital”) are a part of Covenant Ministries of Benevolence, which includes Emanuel Medical Center, Life Center on the Green, Inc., and all Covenant Retirement Communities and extended care facilities. These institutions operate under the direction of the Board of Benevolence of The Evangelical Covenant Church (ECC). Covenant Ministries of Benevolence is the sole corporate member of the Hospital.

The consolidated financial statements include Swedish Covenant Hospital (SCH) and its subsidiaries: Swedish Covenant Management Services, Inc. (SCMS), a taxable not-for-profit corporation; Swedish Covenant Faculty Practice Group, a not-for-profit corporation; Swedish Covenant Hospital Foundation (the Foundation), a not-for-profit corporation; and Swedish Covenant Insurance Corporation (SCIC), a not-for-profit captive insurance subsidiary. SCIC was incorporated during 2010 and is utilized by the Hospital in managing its malpractice and general liability risks beginning in January 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Hospital owns 50% of Swedish Covenant Managed Care Alliance, Inc., its physician hospital organization (PHO). Managed Health Care Associates, Ltd. owns the other 50% of the PHO. The purpose of the PHO is to manage the Hospital’s Medicare and Medical health maintenance organization members. The Hospital’s investment in the PHO is accounted for using the equity method. Income from the PHO totaled \$1,000 and \$900 in fiscal 2012 and 2011, respectively, and is reported in net patient service revenue in the consolidated statements of operations and other changes in unrestricted net assets.

During 2011, the Hospital purchased seven Class C units of CyberKnife Cancer Institute of Chicago, LLC (CKCI) and sixteen Class C units of CK Property Development, LCC (CKP). CKCI was formed to provide cost-efficient, highly specialized cancer care to patients residing in the Chicagoland area. CKP is a supporting real estate joint venture for CKCI. Additionally, the Hospital entered into a CK Program Lease and Services agreement. All activities for CKCI and CKP commenced operations in fiscal 2012.

Swedish Covenant Surgery Center, LLC (SCSC) was formed to provide cost-efficient, ambulatory surgical care to patients residing in the Chicagoland area. SCSC commenced operations in July 2012. In December 2010, the Hospital sold shares in the SCSC venture, 10% of the shares sold to Regent Corporation, 35% of the shares sold to individual physicians. The Hospital purchased shares of SCSC during the year ended September 30, 2012, and the Hospital’s investment in SCSC is accounted for under the equity method of accounting. During fiscal 2010, SCSC was formed with the Hospital and Regent Surgical Health, LLC as investees.

During fiscal 2009, the Hospital purchased one class B share of Upper Midwest Consolidated Services Center, LLC (UMCSC) for the purposes of pooling the Hospital’s supply purchases with VHA Sponsored Patrons. This one share represents less than 5% of the total shares outstanding.

The Hospital's investments in PHO, CPG, UMCSC, SCSC, CKCI and CKP totaled \$1,755 and \$2,056 at September 30, 2012 and 2011, respectively, and are reported in other long-term assets in the consolidated statements of financial position.

**Income Taxes** — The Hospital is a not-for-profit organization under the laws of Illinois. The Internal Revenue Service has determined that the Hospital is a not-for-profit organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code, and accordingly, the Hospital has not provided for income taxes in the accompanying consolidated financial statements. SCMS had approximately \$36,036 and \$31,883 at September 30, 2012 and 2011, respectively, of net operating loss carryforwards, \$588 expired in fiscal 2012. SCMS has recorded a full valuation allowance against the related deferred tax asset due to the uncertainty associated with its realizability.

**Basis of Presentation** — The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as recommended by the *Audit and Accounting Guide for Health Care Organizations* (the "Guide") published by the American Institute of Certified Public Accountants.

The Hospital recognizes, in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements. The Hospital does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the date of the statement of financial position, but before financial statements are issued. For these purposes, the Hospital has evaluated events occurring subsequent to the date of the statement of financial position through January 21, 2013, the date the consolidated financial statements were issued. The Hospital has not evaluated events occurring after January 21, 2013, in these consolidated financial statements.

**Income (Loss) (Inclusive of Nonoperating Revenue (Expense))** — The consolidated statements of operations and other changes in unrestricted net assets show the income (loss) for the Hospital. Changes in unrestricted net assets, which are excluded from income (loss), consistent with industry practice, include net assets released from restrictions for capital purposes and net assets transferred to related organizations.

**Industry** — The Hospital derives significant portions of its revenue from Medicare, Medicaid, and other third-party payor programs. The receipt of future revenue by the Hospital is subject to, among other factors, federal and state policies affecting the health care industry, receipt of contributions, capability of the management of the Hospital, and future economic conditions, which may include an inability to control expenses in periods of inflation, increased competition, and other conditions that are impossible to predict.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues from patient services. Management believes that the Hospital is in compliance with current laws and regulations.

**Cash and Cash Equivalents** — Cash and cash equivalents consist principally of undesignated and unrestricted cash accounts, money market demand deposits, and commercial paper with maturities at date of purchase of three months or less.

**Assets Whose Use is Limited** — Board-designated assets are invested in a combined investment fund that aggregates investments of all Covenant Ministries of Benevolence institutions. While these funds are held and invested by Covenant Ministries of Benevolence, the Hospital retains the benefits of ownership of its proportional interest in the combined investment fund.

Donor-restricted and unrestricted funds are invested in investment funds of the Common Fund. While these funds are held and invested by the Common Fund, the Foundation retains the benefits of ownership of its proportional interest in the investment funds of the Common Fund. Ownership interest in the combined investment fund and in the common fund is reported as beneficial interest in investment pool in the accompanying consolidated financial statements. Trustee-held bond project funds and bond sinking funds are invested in qualified investments in accordance with the respective bond-loan agreements. Assets whose use is limited are classified as trading securities and are carried at fair value. See Note 3 for descriptions of the methods of determining fair value.

Assets whose use is limited in the amount of \$3,141 and \$17,888 are classified as current as of September 30, 2012 and 2011, respectively, which includes cash collateral posted under the Hospital's interest rate swap agreements and also that portion of bond and interest sinking fund money expected to be used to pay principal and interest payments to the bond holder during the upcoming fiscal year.

Realized gains and losses from sales of investments and unrealized gains and losses on investments are determined using the average cost method. Interest, dividends, and realized and unrealized gains and losses are recorded as nonoperating revenue.

**Inventories** — Inventories are stated at the lower of cost or market value.

**Property and Equipment** — Property and equipment are recorded at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets are:

Land improvements	5–20 years
Buildings and building equipment	10–40 years
Fixed and moveable equipment	3–20 years

The Hospital continually evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. No such impairments have been recorded as of September 30, 2012 or 2011.

**Deferred Debt Expense and Debt Discount** — All expenses relating to the procurement of debt, including underwriting fees, have been deferred and are amortized over the maturities of the bonds. However, in the case of variable rate revenue bonds, amounts deferred are expensed if it is concluded that a failed remarketing has occurred or is probable to occur. Original debt discounts are amortized over the maturities of the related bonds.

**Temporarily Restricted Net Assets** — Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

**Permanently Restricted Net Assets** — Permanently restricted net assets are those whose use is limited by donor stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed. Investment income generated from permanently restricted assets, however, can be used to support Hospital-sponsored activities. Losses on investments that reduce permanently restricted net assets below their original donor gift fair value reduce unrestricted net assets by means of a transfer from unrestricted net assets to permanently restricted net assets. Subsequent investment gains that restore the fair value of the investments to the original donor gift fair value increase unrestricted net assets by means of a transfer from permanently restricted net assets.

**Net Patient Service Revenue** — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under certain reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Total net patient service revenue also includes public aid assessment tax revenues (see Note 6).

**Other Operating Revenues** — Other operating revenues include income from the Hospital's parking garage, cafeteria and outpatient pharmacies, rental income from physician offices, and other patient-related revenues. Such revenues are recognized when services are provided.

**Contributions** — Unrestricted contributions are included in contributions at the date of the gift. Restricted contributions received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted. Donor-restricted contributions whose restrictions are met in the same reporting period are included in unrestricted contributions in the period received.

**Charity Care** — The Hospital provides care to patients who meet certain criteria under its charity care policy, in compliance with state law, without charge or at amounts less than its established rates. Accordingly, normal charges for these services are not recorded as revenue. See Note 7 for the estimated costs of the charity care.

**Use of Estimates** — The preparation of financial statements in conformity with GAAP 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Derivative Financial Instruments** — The Hospital has entered into interest rate swap agreements in order to reduce the Hospital's exposure to variations in interest rates related to the Hospital's long-term floating rate long-term borrowings (see Note 4). Hedge accounting is not applied. The swap agreements are recorded in the consolidated statements of financial position at their fair values and changes in the fair values of the swap agreements are recorded in nonoperating revenue (expense). If debt is extinguished prior to its contractual maturity, the Hospital may conclude to either terminate the interest rate swap agreement or, if deemed economically disadvantageous to terminate, continue to operate under the agreement despite the extinguishment of the related debt. The determination of fair value includes the consideration of any credit valuation adjustments necessary, giving consideration to the credit worthiness of the respective counterparties or the Hospital, as appropriate.

**New Accounting Pronouncements** — In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*, which amends ASC 715-80 by increasing the quantitative and

qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. The ASU's objective is to enhance the transparency of disclosures about (1) the significant multiemployer plans in which an employer participates, (2) the level of the employer's participation in those plans, (3) the financial health of the plans, and (4) the nature of the employer's commitments to the plans. The Hospital adopted the additional disclosures requirements effective for the year ended September 30, 2012 (see Note 8).

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which establishes presentation and disclosure requirements for certain health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the guidance requires that health care entities present bad debt expense associated with net patient service revenue as an offset to net patient service revenue within the consolidated statements of operations and other changes in unrestricted net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Hospital adopted ASU 2011-07 effective for the year ended September 30, 2012, and retrospectively applied to all prior periods presented.

May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 is the result of joint efforts by the FASB and the International Accounting Standards Board ("IASB") to develop a single, converged fair value framework — that is, converged guidance on how (not when) to measure fair value and on what disclosures to provide about fair value measurements. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. The adoption of ASU 2011-04 is effective for the Hospital beginning October 1, 2012. The Hospital is currently evaluating the potential impact of ASU 2011-04, but it is not expected to have a material impact on the Hospital's consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this guidance resulted in an increase in insurance recovery receivable of \$7,440, with an offsetting increase in accrued professional liability programs as of September 30, 2012. Of the \$7,440 adoption, \$2,700 is classified as a current asset and current liability, respectively, as of September 30, 2012. The Hospital elected not to apply the guidance retrospectively.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure*, which requires that cost be used as a measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. The Hospital adopted ASU 2010-23 effective for the year ended September 30, 2012. The adoption of ASU 2010-23 did not have a material impact on the Hospital's consolidated financial statements.

**Change in Accounting Principle** — In fiscal 2012, the Hospital elected to change its method of accounting for certain claim payment activity attributable to Blue Cross Blue Shield of Illinois's Uniform Payment Plan ("BC UPP"). In prior years the Hospital presented certain BC UPP claim liabilities on a net basis within patient accounts receivable in the consolidated statement of financial position. In fiscal 2012, the Hospital has elected to report such BC UPP liabilities on a gross basis within

estimated third-party payor settlements in the consolidated statements of financial condition. The Hospital believes this change results in greater transparency in financial reporting. This change in accounting was applied retrospectively to all periods presented and resulted in the gross of up both patient accounts receivable and estimated third-party payor settlements by \$13,922 and \$12,593 at September 30, 2012 and 2011, respectively.

## 2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include assets classified in the following six categories:

*Board-Designated Funds* — Assets set aside by the Board of Directors (“Board”) for debt repayment, benevolent care, capital replacement, and certain future construction and capital projects over which the Board retains control and, which at its discretion, may use subsequently for other purposes. Such funds are not expected to be used in the next year.

*Debt Service Reserve Funds* — Assets held by trustees under the terms of the master indenture agreement, set aside to meet the maximum annual interest expense, principal payments, and sinking fund requirements during the term of the bond.

*Cash Collateral Posted for Interest Rate Swaps* — Pursuant to the Hospital’s swap agreements, the Hospital is required to post collateral in the form of cash if the fair market value of the swap liability exceeds the contractually agreed-up threshold amount of \$7,500 as the mark-to-market value of the swaps are measured once per week.

*Trustee-Held Bond-Project Funds* — Assets held by bond trustees under the terms of the master indenture agreement for certain construction projects.

*Trustee-Held Bond-Sinking Funds* — Assets held by bond trustees under the terms of the master indenture agreement for either bond principal or bond interest payments.

*SCIC Investments* — Assets held by SC Insurance company for the Department of Arizona Insurance Regulations of capitalization and for the purposes of paying malpractice liability and general insurance claims.

*Donor-Restricted Funds* — Assets restricted by donors to be maintained by the Foundation in perpetuity.

Board-designated assets are invested in a combined investment fund that aggregates investments of all Covenant Ministries of Benevolence institutions. While these funds are held and invested by Covenant Ministries of Benevolence, the Hospital retains the benefits of ownership of its proportional interest in the combined investment fund. Donor-restricted funds are invested in investment funds at the Common Fund. While these funds are held and invested by the Common Fund, the Foundation retains the benefits of ownership of its proportional interest in the investment funds. Ownership interest in the combined investment fund and in the Common Fund is reported as beneficial interest in investment pool in the accompanying consolidated financial statements.

Assets whose use is limited, at fair value, as of September 30, 2012 and 2011, consisted of the following:

	2012	2011
Beneficial interest in investment pool:		
Board-designated funds:		
Funded depreciation	\$ 72,132	\$ 67,649
Long-term investment	<u>44,657</u>	<u>39,429</u>
	116,789	107,078
Donor-restricted funds	<u>17,899</u>	<u>17,704</u>
Total beneficial interest in investment pool	134,688	124,782
SCIC restricted investments	14,515	14,590
Trustee-held funds — debt service reserve funds	9,247	9,167
Trustee-held funds — bond-project funds	23,837	26,432
Trustee-held funds — bond-sinking funds	1,501	1,198
Cash collateral posted for interest rate swaps	<u>1,640</u>	<u>16,690</u>
Total	185,428	192,859
Less current portion	<u>(3,879)</u>	<u>(17,888)</u>
Assets whose use is limited — long term	<u>\$ 181,549</u>	<u>\$ 174,971</u>

The Hospital's assets whose use is limited, at fair value, including its portion of the combined investment fund, as of September 30, 2012 and 2011, consisted of the following:

	2012	2011
Equity securities	\$ 49,594	\$ 45,099
Fixed income securities	24,215	33,246
Alternative investment funds	42,980	45,693
Restricted cash and investments	<u>68,639</u>	<u>68,821</u>
Total	<u>\$ 185,428</u>	<u>\$ 192,859</u>

### 3. FAIR VALUE MEASUREMENTS

In determining fair value, the Hospital uses various valuation methods. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value measurement framework, provides a single definition of fair value, and requires disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is based on the assumptions that market participants would use in pricing an asset or a liability.

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Hospital. Unobservable inputs are inputs that reflect the Hospital's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

The hierarchy is measured in three levels based on the reliability of inputs:

*Level 1* — Valuations are based on quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

*Level 2* — Valuations are not based on quoted prices for identical assets or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third-party pricing services for comparable assets or liabilities.

*Level 3* — Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets or liabilities. Management's estimates of the fair values of the alternative investments in hedge funds, limited partnerships, and private equity funds are based on net asset value information provided by the fund managers or general partners, which in turn, is based on the most recent information available to the fund manager for the underlying investments.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Hospital reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value of equity securities is determined primarily on the basis of quoted market prices. The Hospitals' shares in mutual funds are stated at fair value based on quoted market prices, which represents the net asset value of shares held by the Hospital at year-end. The fair value of investments in fixed income securities, which primarily includes investments in corporate and other bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, and issuer spreads. Investments in alternative investment funds consist of domestic equity, international equity, hedge funds, private equity, international real estate, puts and calls, and mortgages. In the case of large cap equity, small cap equity, international equity and hedge funds, the holdings are in offshore corporations that are valued monthly. The underlying fund holdings are primarily exchange traded, readily marketable securities — both equities and bonds. A small percentage of holdings are in private investments and derivatives. All hedged equity, international hedged equity and absolute return has pricing policies that depend on outside pricing services to validate their pricing.

In the case of real assets partnerships and private equity partnerships, the holdings are valued quarterly. The holdings are primarily private and not exchange traded. The fair value of these partnership investments is estimated by management of the limited partnerships based on audited financial statements and other relevant factors. As many factors are considered in arriving at the estimated fair value, the Hospital routinely monitors and assess methodologies and assumptions used in valuing these partnership interests.

The fair value of the interest rate swap agreement was determined using an industry standard valuation model, which is based on a market approach.

**Fair Value of Financial Instruments Carried at Fair Value** — Categories of assets and liabilities measured at fair value on a recurring basis during the year ended September 30, 2012, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3), are as follows:

Description	Fair Value as of September 30, 2012			
	Total	Quoted Prices in Active Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Domestic equity	\$ 39,772	\$ 39,562	\$ 210	\$ -
International equity	9,822	9,822	-	-
Fixed income securities	24,215	13,624	10,591	-
Alternative investment funds:				
Domestic equity	4,158	-	-	4,158
International equity	6,348	-	6,348	-
Hedge funds	23,974	6,042	6,526	11,406
Private equity	4,383	-	-	4,383
International real estate	1,621	-	-	1,621
Puts and calls	(182)	8	(190)	-
Mortgages	2,678	-	-	2,678
Restricted cash and investments:				
Cash and money market accounts	6,773	6,773	-	-
Domestic equity	13,466	2,092	11,374	-
Fixed income securities	48,400	33,084	15,316	-
<b>Total</b>	<b>\$ 185,428</b>	<b>\$ 111,007</b>	<b>\$ 50,175</b>	<b>\$ 24,246</b>
Interest in irrevocable trusts	\$ 731	\$ -	\$ -	\$ 731
Derivatives — interest rate swaps (Note 4)	\$ (26,976)	\$ -	\$ (26,976)	\$ -

Categories of assets and liabilities measured at fair value on a recurring basis during the year ended September 30, 2011, are as follows:

Description	Fair Value as of September 30, 2011			
	Total	Quoted Prices in Active Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Domestic equity	\$ 31,211	\$ 30,903	\$ 308	\$ -
International equity	13,888	13,888	-	-
Fixed income securities	33,246	21,782	11,464	-
Alternative investment funds:				
Domestic equity	2,524	-	-	2,524
International equity	4,111	-	4,111	-
Hedge funds	32,624	-	20,489	12,135
Private equity	3,446	-	-	3,446
International real estate	1,752	-	-	1,752
Puts and calls	544	-	544	-
Mortgages	692	-	-	692
Restricted cash and investments:				
Cash and money market accounts	2,728	2,728	-	-
Domestic equity	2,284	2,284	-	-
Fixed income securities	63,809	53,487	10,322	-
Total	<u>\$ 192,859</u>	<u>\$ 125,072</u>	<u>\$ 47,238</u>	<u>\$ 20,549</u>
Interest in irrevocable trusts	<u>\$ 572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572</u>
Derivatives — interest rate swaps (Note 4)	<u>\$ (24,404)</u>	<u>\$ -</u>	<u>\$ (24,404)</u>	<u>\$ -</u>

A reconciliation of the beginning and ending balances for the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended September 30, 2012 and 2011, is as follows:

	Alternative Investments	Interest in Irrevocable Trusts	Total
Balance — September 30, 2010	\$ 16,948	\$ 614	\$ 17,562
Net deposits and withdrawals	2,776	-	2,776
Realized Gains	7	-	7
Unrealized gains	820	(42)	778
Other	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Balance — September 30, 2011	20,549	572	21,121
Net deposits and withdrawals	649	-	649
Realized Gains	78	-	78
Unrealized gains	2,925	159	3,084
Other	<u>45</u>	<u>-</u>	<u>45</u>
Balance — September 30, 2012	<u>\$ 24,246</u>	<u>\$ 731</u>	<u>\$ 24,977</u>

Additional information as of September 30, 2012, for alternative investment funds that do not have a readily determinable market value, is as follows:

	Fair Value	Redemption Frequency	Redemption Notice Period
International equity (a)	\$ 6,348	Daily & Monthly	1 & 30 Days
Hedge funds (b)	23,974	Quarterly & Semi-Annual & Annual	60 to 120 Days
Private equity (c)	4,383	N/A	N/A
International real estate (d)	1,621	Daily	1 Day
Derivatives (e)	(182)	Daily	1 Day
Domestic equity (f)	4,158	Quarterly	1 Day
Mortgages (g)	<u>2,678</u>	N/A	N/A
	<u>\$ 42,980</u>		

- (a) This category includes four private investment funds that primarily invest in equity securities of companies ordinarily located in any country other than the United States and Canada.
- (b) This category includes eight hedge funds that pursue a number of investment strategies. One of the funds in this category is in liquidation. The fair market value recorded reflects the amount expected to be received as the fund liquidates. One fund is in a 1 year lock up period and another fund is in a 2 year lock up period.
- (c) This category includes three private equity funds that invest in a diversified portfolio of venture capital, buyout, and special situations partnerships and other limited liability vehicles. The unfunded commitment of \$9,650 will be funded by all the institutions within the combined investment fund. The Hospital's portion of the unfunded commitment is not currently determinable. Withdrawals are not allowed prior to June 2013.

- (d) This category includes one real estate fund. The majority of assets in the fund are invested in securities of companies engaged in real estate and real estate-related activities outside of the United States.
- (e) This category includes one hedge fund that is designed to protect the market value of designated equity holdings from losses attributable to the declines in the equity market.
- (f) This category includes one hedge fund that is designed to protect the market value of designated equity holdings from losses attributable to the declines in the equity market.
- (g) This category includes one limited partnership that primarily invests in debt and equity securities. Funds cannot be withdrawn until after five to seven years.

**Fair Value of Financial Instruments Not Carried at Fair Value** — The carrying amounts of cash and cash equivalents, accounts receivable, pledges receivable, notes receivable, accounts payable, and estimated third-party payor settlements do not vary significantly from their respective estimated fair value. The carrying amounts of the notes payable under the revolving line of credit arrangements reflect their fair value, as the amounts are borrowed at current market rates. The carrying amounts of the variable rate revenue bonds reflect fair value, due to the fact that the interest rate is reset weekly such that the bonds would trade at par, plus accrued interest, if any. The carrying amount of the Series 2010A fixed rate revenue refunding bonds, net of the unamortized discount, was \$96,570 compared to the estimated fair value of \$108,925 as of September 30, 2012. Fair value was estimated using rates that would be expected to be received on similar issuances for debtors with similar creditworthiness as of September 30, 2012. Due to the private placement nature of the 2010C bonds, management believes the estimated fair value of the bonds approximates the carrying value of the bonds at September 30, 2012.

#### 4. DEBT AND OTHER FINANCING TRANSACTIONS

Long-term debt as of September 30, 2012 and 2011, consisted of the following:

	2012	2011
New Market Tax Credit Long Term Loan, dated June 22, 2012	\$ 13,475	\$ -
Private Placement Bonds, Series 2011A, dated June 28, 2011, variable rate	19,530	20,000
Private Placement Bonds, Series 2010C, dated November 2, 2010, 4.99% fixed rate, maturing through February 2026	18,598	19,544
Revenue refunding bonds, Series 2010A, dated February 2, 2010, 6.1% fixed rate, maturing through August 2038	97,980	99,350
Revenue refunding bonds, Series 2008A, dated April 8, 2008, variable rate, maturing through August 2038	<u>56,810</u>	<u>58,440</u>
Total debt	206,393	197,334
Less original discount/premium net	(1,176)	(1,222)
Less contractual current portion of long-term debt	(4,609)	(4,416)
Less contingent current portion of long-term debt	<u>-</u>	<u>(5,844)</u>
Long-term debt — excluding current portion	<u>\$ 200,608</u>	<u>\$ 185,852</u>

**Debt** — In June 2012, the Swedish Covenant Hospital (“SCH”) entered into a New Market Tax Credit (NMTC) loan agreement with CDF Suballocatee XV, LLC (“CDF”). Under this Loan Agreement, among other things, SCH is obligated to create and maintain a valid “Portion of the Business” (POB) to serve as the Qualified Active Low Income Community Business (QALICB) consistent with Treasury Regulations Section 1.45D-1(d)(4)(iii). The debt bears interest of only 1.1% through June 2019 and a portion of the proceeds, of the debt payment to CDF, are used through a series of distributions to make payments on a loan from a SCH affiliate to a NMTC investment equity fund. Beginning in 2019 the debt requires annual principal and interest payments of \$564 through 2047. The proceeds of the NMTC Loan were used to reimburse costs incurred in connection with the project for the Portion of the Business. The Portion of the Business does not include any other asset or property or any income or expense not directly related to the ownership and operation of the Foster Medical Pavilion.

In June 2011, the Hospital issued \$20,000 of variable rate bonds, Series 2011A (Series 2011A Bonds), through the Illinois Finance Authority. The bonds were privately placed with a single investor. The proceeds from the 2011A Bonds are for long lived Hospital construction projects and equipment replacement expenditures. The Series 2011A Bonds have a seven year term with a twenty-five year amortization. The bonds have a put date of December 2016. The Hospital will have the option to extend the hold period of the initial purchaser of the bonds, find a new purchaser, or repay the bonds over 18 months. The variable rate for the Series 2011A Bonds was 1.37% and 1.38% as of September 30, 2012 and 2011, respectively.

In November 2010, the Hospital issued \$20,000 of 4.99% fixed rate private placement bonds, Series 2010C (Series 2010C Bonds), through the Illinois Finance Authority. The bonds were privately placed with a single investor. The proceeds from the 2010C Bonds are for Hospital construction projects and equipment replacement expenditures. The Series 2010C Bonds have a fifteen year amortization.

In February 2010, the Hospital issued \$100,690 of 6.1% fixed rate revenue refunding bonds, Series 2010A (Series 2010A Bonds), through the Illinois Finance Authority. The proceeds from the Series 2010A Bonds were used to extinguish the Series 2003A, 2003B, and Series 2008B Bonds. The Series 2010A Bonds were issued with an original net discount of \$1,300, which is amortized over the life of the bond and treated as interest expense.

In April 2008, the Hospital issued \$60,000 of variable rate revenue refunding bonds, Series 2008A Bonds (Series 2008A Bonds), through the Illinois Finance Authority. The proceeds from the Series 2008A Bonds were used to extinguish the Series 1998A and Series 1999 Bonds. The Series 2008A Bonds are supported by a letter of credit, which provide interim financing to the Hospital in the event that remarketing efforts fail for tendered bonds. In September 2012, the Hospital replaced the letter of credit for \$56,810 through a different financial institution, necessitating a mandatory tender and remarketing of the 2008A bonds. Deferred bond issuance costs of \$60 were expensed in the interest operating expense section of the consolidated statements of operations and other changes in unrestricted net assets. The new letter of credit expires in September 2016 and can be extended on an annual basis at the anniversary date upon mutual agreement of the parties involved. Letter of credit fees are 1.15%, remarketing fees are 0.10%, and the variable rate of interest is redetermined in the weekly mode. The Series 2008A Bonds may be converted to a different interest rate mode, at the option of the Hospital, subject to parameters in the bond indenture. The variable rate for the Series 2008A Bonds was 0.19% and 0.17% as of September 30, 2012 and 2011, respectively.

The reimbursement agreement specifies that letter of credit draws be repaid over a three-year period in equal quarterly installments beginning 367 days subsequent to the letter of credit draw. The prior reimbursement agreement required that a letter of credit draws to be repaid over a five year period in equal semiannual installments beginning in the sixth month subsequent to the letter of credit draw resulting in a contingent current portion of long term debt of \$5,844 as of September 30, 2011.

Pursuant to the Series 2008A Bonds and the Series 2010A Bonds, the Hospital grants to the master trustee, on a parity basis, a security interest in the unrestricted receivables of the Hospital.

Below are the future contractual maturities of long-term debt as of September 30, 2012. If remarketings of the Series 2008A Bonds fail in future periods, or if the Hospital experiences an event of default in regards to the reimbursement agreement, debt repayments may become more accelerated than presented below.

<b>Fiscal Years Ending</b>	
<b>September 30</b>	
2013	\$ 4,609
2014	4,564
2015	4,719
2016	4,892
2017	5,072
2018 through 2047	<u>181,361</u>
Total	205,217
Less Current Portion	<u>(4,609)</u>
Long-term Portion	<u>\$ 200,608</u>

The Hospital's debt agreements contain restrictive covenants, the most significant of which (a) limit additional indebtedness, (b) restrict transfer of assets, and (c) require maintenance of certain ratios. Management believes that the Hospital is in compliance with such covenants.

#### **Other Financing Transactions:**

*Interest Rate Swap Transactions* — As further described in Note 1, the Hospital entered into interest rate swap agreements to manage their debt structure and lessen interest rate risk. The fair market values of the long-term swaps are reported as noncurrent liabilities of \$26,976 and \$24,404 within the consolidated statements of financial position as of September 30, 2012 and 2011, respectively. The change in the fair market value of the swaps of \$(2,573) and \$(5,199) is recorded as a component of nonoperating revenue (expense) in the consolidated statements of operations and other changes in unrestricted net assets for the years ended September 30, 2012 and 2011, respectively. A summary of Interest Rate Swaps and their valuations for September 30, 2012 is depicted in the following table:

Description	Effective Date	Maturity	Notional Value	Fair Value 2012	Fair Value 2011	Receive	Pay
Fixed Payor Swap — PNC	June 10, 2005	June 10, 2025	\$20,000	\$ 4,613	\$ 3,510	67% of LIBOR	3.462 %
Fixed Payor Swap — Bank of Montreal	April 8, 2008	August 15, 2018	56,810	7,561	6,119	67% of LIBOR	3.163 %
Fixed Payor Swap — Deutsche Bank	May 15, 2012	August 15, 2018	49,500	8,606	14,119	67% of LIBOR	3.788 %
Fixed Payor Swap — Bank of America	August 15, 2018	August 15, 2036	47,700	5,981	-	67% of LIBOR	3.578 %
Basis Swap — Bank of America	January 2, 2002	January 4, 2022	25,000	<u>215</u>	<u>656</u>	78% of 3 month average LIBOR	67% of LIBOR
Total market value classified as a noncurrent liability				<u>\$26,976</u>	<u>\$24,404</u>		

In April 2008, the Hospital entered into a fixed payer swap agreement to effectively convert \$60,000 of Series 2008A Bonds from variable interest rate debt to fixed interest rate debt at a rate of 2.87%. In August 2012, the Hospital entered into a novation agreement and assigned \$56,810 remaining notional

amount through August 15, 2018 to Bank of Montreal from Bank of America. The Hospital will pay 3.163% and receive 67% of one month LIBOR. In addition, in August 2012, the Hospital entered into a novation agreement and assigned \$47,700 remaining notional amount effective August 15, 2018 and maturing August 15, 2036 to Bank of America from Bank of Montreal. The Hospital will pay 3.578% and receive 67% of one month LIBOR.

In February 2007, the Hospital entered into a programmatic rate-lock program with Merrill Lynch & Co. (now Bank of America) with an aggregate notional amount not to exceed \$50,000 and with a termination date not to exceed 30 years from the trade date of March 2007. In May 2012, the Hospital entered into a novation agreement and assigned \$49,500 remaining notional amount through August 2018 to Deutsche Bank from Bank of America. The Hospital will pay 3.788% and receive 67% of one month LIBOR.

In June 2005, the Hospital entered into a swap agreement to effectively convert \$20,000 of Series 2003A Bonds and Series 2003B Bonds from variable interest rate debt to fixed interest rate debt at a rate of 3.11%. This swap remains in effect despite the extinguishment of the Series 2003A Bonds and Series 2003B Bonds during 2010. In July 2012, the Hospital entered into a novation agreement and assigned \$20,000 notional amount through June 10, 2025 to PNC Bank from Bank of America. The Hospital will pay 3.462% and receive 67% of one month LIBOR.

In January 2002, the Hospital entered into a floating interest rate swap agreement with a rate of 76.6% of the average three month LIBOR, extending over a 20-year period, with a notional amount of \$25,000.

The components of interest and amortization of financing costs — net, including the effects of income and expense from the swap transactions, for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Interest expense	\$ 9,418	\$ 9,180
Amortization of deferred debt costs	206	136
Net capitalized interest expense	(756)	(187)
Swap (income) expense	(10)	10
Income on trustee-held funds	<u>(452)</u>	<u>(346)</u>
Interest and amortization of financing costs — net	<u>\$ 8,406</u>	<u>\$ 8,793</u>

*Lines of Credit* — The Hospital has an unsecured bank line of credit as of September 30, 2012 up to \$12 million with borrowings at the bank's prime rate of 3.25%. The arrangement calls for a facility fee on the unused portion of the current line of credit paid monthly. The facility fee rate was 0.50% as of September 30, 2012. There are no compensating balance arrangements. The Hospital had an outstanding balance on the line of credit of \$0 as of September 30, 2012. The Hospital had an outstanding balance on the line of credit of \$2,500 as of September 30, 2011. Amounts borrowed and repaid during the period are reflected in the consolidated statements of cash flows.

*Collateral Postings* — The Hospital had posted \$1,640 and \$16,690 in cash collateral as of September 30, 2012 and 2011, respectively, related to the interest rate swap agreements. The posted collateral is reflected as a current asset whose use is limited on the consolidated statements of financial position.

## 5. RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2012 and 2011, are available for the following purposes:

	2012	2011
Health education	\$ 180	\$ 188
Ambulatory care programs and services	985	492
Purchase of capital and equipment	<u>1,719</u>	<u>1,419</u>
Total	<u>\$2,884</u>	<u>\$2,099</u>

During fiscal 2012 and 2011, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of ambulatory care and services in the amounts of \$7,849 and \$476, respectively. Of the net assets released during fiscal 2012, \$549 was released for operations and \$7,300 was released for capital purposes. During fiscal 2012, \$7,000 was received from the State of Illinois as a Capital Grant initially temporarily restricted, released for capital as construction of the Foster Medical Pavilion was completed. Of the net assets released during fiscal 2011, \$241 was released for operations and \$235 was released for capital purposes.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support general charitable purposes of the Hospital. Such income totaled \$111 and \$110 in fiscal 2012 and 2011, respectively, and is reported within other nonoperating revenue (expense) in the accompanying consolidated statements of operations and other changes in unrestricted net assets.

**Interpretation of Relevant Law** — The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original donor gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA and donor intent.

### Endowment Activity Reconciliation:

	Donor-Restricted Endowment Fund
October 1, 2011	\$ 17,527
Contributions and pledges	37
Unrealized gains on investments	232
Transfer of permanently restricted net assets to unrestricted net assets	<u>(105)</u>
September 30, 2012	<u>\$ 17,691</u>

	<b>Donor-Restricted Endowment Fund</b>
October 1, 2011	\$ 17,194
Contributions and pledges	312
Reclassification of assets from Temporarily to Permanent	52
Unrealized gains on investments	(96)
Transfer of unrestricted net assets to permanently restricted net assets	<u>65</u>
September 30, 2012	<u>\$ 17,527</u>

**Funds with Deficiencies** — From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are funded by unrestricted net assets until the losses are recovered on the investments. During the year ended September 30, 2012, \$105 was transferred from permanently restricted net assets to unrestricted net assets as the endowment investments recovered from previous years losses. During the year ended September 30, 2011, \$65 was transferred from unrestricted net assets to restricted net assets to cover the losses incurred on the endowment investments.

**Strategy and Return Objectives and Risk Parameters** — The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors of the Foundation, the endowment assets are invested in a manner that is to preserve capital and to provide a risk-adjusted return equal to 5% to 6%. Actual returns in any given year may vary from this rate.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** — The Foundation has a policy of appropriating all available earnings each year in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended. In fiscal 2012, the amount of earnings over the original corpus was \$2,766. The fair value of certain donor-restricted endowments remained below the original donor gift fair value in fiscal 2011. Accordingly, no earnings have been appropriated for expenditure in fiscal 2011.

## 6. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue (excluding the reimbursement under the Illinois Hospital Assessment Program) from patients and third-party payors for the years ended September 30, 2012 and 2011 was as follows:

	2012	2011
Medicare	42 %	43 %
Medicaid	19	18
Managed care	38	38
Other	<u>1</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. As of September 30, 2012 and 2011, approximately 57% and 53%, respectively, of the Hospital's patient accounts receivable were derived from Medicare and Medicaid services and approximately 28% and 34%, respectively, were derived from various managed care programs.

The Hospital is reimbursed for Medicare inpatient and outpatient services and capital costs under a prospective payment system that uses prospectively determined prices for each patient service. The Hospital is reimbursed for Medicaid under a prospective payment system that uses prospectively determined prices for each patient service. Reimbursements from health maintenance organizations, preferred provider organizations, and certain other insurers or third-party payors are based upon contracted rates. The Hospital has recorded a payable due to third-party settlements of \$16,824 and \$22,449 as of September 30, 2012 and 2011, respectively.

Changes in estimates relating to prior periods increased net patient service revenue by \$5,481 and \$1,210 in fiscal 2012 and 2011, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

The provider assessment program payments are in effect for the state fiscal years ending each June 30. Public aid assessment tax revenues are subject to approval by the Centers for Medicare and Medicaid Services and the state legislature and are recorded as revenue in the period to which such approvals are finalized. Due to the tax assessment provisions contained in the legislation, the program impacted both operating revenues and expense in the consolidated statements of operations and other changes in unrestricted net assets. These additional public aid revenues of \$20,056 were included in total net patient service revenue and the public aid tax assessments of \$9,780 were included in operating expense for both years ended September 30, 2012 and 2011. Accordingly, the Hospital recorded a net benefit of \$10,276 for each of the years ended September 30, 2012 and 2011. For the year ended September 30, 2011, the State of Illinois paid the Hospital in advance for three months of public aid revenues related to the period from October 1, 2011 to December 31, 2011. Additionally, the State of Illinois paid the Hospital in advance for 9 months of the Safety Net Payment, related to the period from October 1, 2011 to June 30, 2012. The deferred revenue and prepaid taxes were recognized during fiscal 2012.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). 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 Hospital records a significant provision for uncollectible accounts 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 difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible.

The Hospital's allowance for doubtful accounts for uninsured and self pay portion after insurance self-pay patients decreased from 81% of self-pay accounts receivable as of September 30, 2011, to 79% of self-pay accounts receivable as of September 30, 2012. The decrease was the result of favorable trends experienced in the collection of amounts from self-pay patients in fiscal 2012. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors as of September 30, 2012 and 2011 was as follows:

	2012	2011
Net receivables		
Medicare	\$ 5,158	\$ 5,382
Medicaid	6,591	4,682
Managed care	14,076	13,823
Self-pay	<u>2,623</u>	<u>2,146</u>
Net receivables	<u>\$ 28,448</u>	<u>\$ 26,033</u>

Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 30% of managed care net patient accounts receivable and 15% of net patient accounts receivable for the fiscal year ended September 30, 2012.

During fiscal 2012 the Hospital recognized Medicare and Medicaid meaningful use electronic health record incentive payments of \$3,751. The Hospital recognizes meaningful use revenue when compliance with the meaningful use criteria is reasonably assured.

#### 7. CHARITY/UNREIMBURSED CARE

Pursuant to its charity care policy described in Note 1, the Hospital provides free health care services to those patients unable to pay all or a portion of their charges and who meet certain eligibility criteria. The Hospital maintains records to identify and monitor the level of charity care it provides under this policy, which has been applied consistently in 2012 and 2011. Under the Hospital's charity policy, uninsured patients receive services at a discount from the Hospital's established rates in accordance with state law. Beginning in fiscal 2012, the Hospital provided charity care based on a presumptive eligibility scoring criteria for those patients that are unable or unwilling to complete the financial assistance application. In addition to charity care, the Hospital provides care to patients under the Illinois Medicaid program that reimburses the Hospital at rates less than cost (see Note 6).

The Hospital provided partially reimbursed care for the years ended September 30, 2012 and 2011, as follows:

	2012	2011
Estimated cost for services provided to Medicaid patients	\$ 49,890	\$ 50,138
Less government reimbursement	<u>36,302</u>	<u>33,402</u>
Excess of cost over reimbursement for Medicaid patients	<u>13,588</u>	<u>16,736</u>
Estimated cost associated with charges forgone for charity care service	6,124	6,240
Estimated cost associated with charges forgone for discounts provided to uninsured patients	<u>4,465</u>	<u>4,219</u>
Estimated cost associated with charges forgone for charity care and uninsured patients	<u>10,589</u>	<u>10,459</u>
Unreimbursed care — based upon estimated costs	<u>\$ 24,177</u>	<u>\$ 27,195</u>

As part of its mission, the Hospital offers a wide variety of free services, including health screenings, counseling, and other programs to promote good health to its surrounding community. The costs of these services were \$1,268 and \$1,319 for fiscal 2012 and 2011, respectively.

#### 8. PENSION PLAN

Beginning January 1, 2012, the Hospital allowed employees to enroll in a defined contribution plan. The hospital will match contributions made by employees up to 3% of each employee's salary. The match contribution that the Hospital made for all employees enrolled in the defined contribution plan was \$1,518 for the year ended September 30, 2012.

Substantially all full-time employees participate in The Evangelical Covenant Church Retirement Plan (the "Plan"). This multiemployer plan, administered by the Board of Benevolence, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. Effective January 1, 2012, employees hired on or after December 31, 2011 will no longer be allowed to participate in the Plan. Pension benefits for eligible employees admitted to the Plan prior to December 31, 2011 will continue to accrue.

Eligible employees become active participants upon attaining age 25 and completing 1,248 hours of service in the Plan year. Eligible employees are all employees of the Evangelical Covenant Church and its related entities. Participants with five years of service are entitled to pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option if the earned benefit is less than \$10,000.

Pension expense, representing the Hospital's required contribution to the Plan, was \$1,482 and \$4,114 in fiscal 2012 and 2011, respectively. The contributions made by the Hospital represented more than 5% of the total contributions made to the Plan in fiscal 2012 and 2011, respectively. To the extent the Plan is underfunded, future contributions to the Plan may increase.

The Evangelical Covenant Church Retirement Plan is not an ERISA Plan and is not required to file Form 5500. The Plan's fiscal year is from January 1 to December 31.

Contributions from all employers to the Plan for the years ended December 31, 2011 and 2010, respectively, were as follows:

Pension Fund	FEIN	Total Contributions to Plan for the Year Ended December 31, 2011	Total Contributions to Plan for the Year Ended December 31, 2010
Evangelical Covenant Church Retirement Plan	36-2167730	<u>\$ 10,318</u>	<u>\$ 8,428</u>

As of December 31, 2011, net assets of the Plan were \$246,641 and the actuarial present value of accumulated plan benefits were \$293,505.

#### 9. RELATED-PARTY TRANSACTIONS

The Hospital has a note receivable due from Life Center on the Green, Inc. of \$22 and \$26 as of September 30, 2012 and 2011, respectively. The note carries an interest rate of 5.75% per annum, with principal and interest payable monthly. The Hospital received interest income of \$2 in both fiscal 2012 and 2011. The Hospital rents certain properties from Life Center on the Green, Inc. on a month-to-month basis.

Covenant Ministries of Benevolence charged the Hospital fees of \$2,570 and \$2,458 in fiscal 2012 and 2011, respectively, for management services and is included as a component of professional fees within the consolidated statements of operations and other changes in unrestricted net assets.

The Hospital combines its Board-designated funds with funds of other Covenant Ministries of Benevolence in a pooled investment fund (see Note 2).

The Hospital paid CPG \$708 in fiscal 2011 and \$1,017 in fiscal 2010 for equipment rental and provision of services from CPG. CPG was dissolved during fiscal 2011, and the hospital received \$1,064 for the shares that were owned by the Hospital.

During fiscal 2012, the Hospital recorded an approved net asset transfer to the Covenant Ministries of Benevolence for \$5,000, which is reflected in other changes in unrestricted net assets on the consolidated statement of operations, financing activities section on the cash flow statement, and other changes in unrestricted net assets for the year ended September 30, 2012.

#### 10. CONSOLIDATED STATEMENTS OF CASH FLOWS

**Supplemental Information to Consolidated Statements of Cash Flows** — For purposes of the consolidated statements of cash flows, all highly liquid debt instruments with purchased maturities of three months or less, excluding assets whose use is limited — investments, are considered to be cash equivalents.

The reconciliation of the change in total net assets to net cash provided by operating activities for the years ended September 30, 2012 and 2011, is as follows:

	2012	2011
Decrease in total net assets	\$ 22,326	\$(12,047)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and goodwill expense amortization	18,778	17,177
Provision for uncollectible accounts	13,088	10,345
Change in beneficial interest in investment pool — net realized and unrealized gains on investments	(17,565)	4,215
Change in fair market value of swaps — net	2,573	5,199
Other nonoperating expense	4,371	4,061
Permanently restricted contributions	(37)	(312)
Temporarily restricted contributions and pledges	(785)	(530)
Net asset transfer to CMB	(5,000)	(867)
Changes in assets and liabilities:		
Patient accounts receivable	(15,503)	(12,176)
Inventories	(406)	(85)
Other assets and liabilities	(14,693)	(139)
Accounts payable	942	(2,206)
Accrued liabilities	15,552	(459)
Estimated third-party payor settlements	<u>(5,625)</u>	<u>1,106</u>
Net cash provided by operating activities	<u>\$ 18,016</u>	<u>\$ 13,282</u>

#### 11. FUNCTIONAL EXPENSES

The Hospital provides acute care and is a community teaching hospital. The summary of expenses by function for the years ended September 30, 2012 and 2011, is as follows:

	2012	2011
Health care services	\$ 231,931	\$ 221,874
Management and general	<u>29,845</u>	<u>30,310</u>
Total	<u>\$ 261,776</u>	<u>\$ 252,184</u>

#### 12. PLEDGES RECEIVABLE

Included in pledges receivable is a Galter Foundation gift of \$3,000 pledged to the Hospital in 1995. The gift is payable over 20 years and is recorded at its net present value, using a discount rate of 6%. The Hospital received \$20 during fiscal 2012 and \$10 during fiscal 2011. The remaining receipts are expected to be \$200 annually through fiscal 2015 and \$100 in fiscal 2016. The total carrying amount of the pledge as of September 30, 2012 is \$1,064.

#### 13. COMMITMENTS AND CONTINGENCIES

**Professional Liability Insurance** — Effective January 1, 2011, professional and general liability coverage is no longer provided through the Chicago Hospital Risk Pooling Program (CHRPP). Claims made through December 31, 2010, are covered by CHRPP. As described in Note 1, Swedish Covenant Insurance Company (SCIC) was incorporated during 2010 and is utilized by the Hospital in managing its

retained malpractice liability risks and general liability risks during fiscal 2011. Financial exposure is limited through the use of third-party insurance. The Hospital purchases excess insurance from IronHealth with a \$15 million per claim and aggregate limit in excess of \$6 million and CNA for a second layer of excess insurance for an additional \$15 million in excess of \$21 million. SCIC is a subsidiary of the Hospital that provides coverage on a claims-made basis. Required reserves are determined annually by an independent actuary based on claim experience, investment performance, and assumed self-insured retentions.

As a result of the professional and general liability coverage being a claims-made arrangement, the Hospital has accrued a \$21,585 and \$11,539 of nose and tail liability as of September 30, 2012 and 2011, respectively. The professional liability insurance reserve is discounted at 3% and 4% as of September 30, 2012 and 2011, respectively. The discount rate is derived from the expected future return on investments deemed available to satisfy the estimated claims.

From June 1, 1979 through December 31, 2010, the Hospital's primary professional and general liability coverage has been provided through CHRPP. CHRPP is a multi-hospital self-insured trust that provides coverage on a claims-made basis, after a nominal deductible, through the use of a fund specific to each participating hospital and two pooled funds that include all CHRPP participating hospitals. Excess insurance coverage is purchased from a commercial insurance company. Required reserves and contributions by participating hospitals are determined annually by an independent actuary based on claim experience, investment performance, and assumed self-insured retentions. The required contributions are subject to future retrospective adjustments. Total professional liability insurance expense paid to CHRPP was \$0 during fiscal 2012 and \$1,958 in fiscal 2011, which included all required contributions to CHRPP. Management believes the expense recorded provides for the full expected cost of coverage and that any retrospective adjustments would not be material to the consolidated financial statements. During fiscal 2012, the Hospital purchased excess insurance from Ironshore for prior acts reported on or after January 1, 2012 with limits of \$3 million / \$15 million in excess of SCIC's retention of \$3.0 million. This significantly reduced both the Hospital and the SCIC entity insurance risk for prior acts. Total insurance expense was significantly higher in fiscal 2012 compared to 2011, primarily due to the purchase of excess insurance for the prior acts liability coverage.

**Guarantee of Indebtedness** — The Hospital has guaranteed up to \$1,000 related to an arrangement that its PHO has entered into, under certain conditions. Concurrently, the partner in the PHO has committed to reimburse the Hospital for up to 50% of any payments required to be made by the Hospital. Since the inception of this contractual arrangement in 1999, the Hospital has not been required to make any payments related to the guarantee. As of September 30, 2012 and 2011, the PHO had equity of \$806 and \$953, respectively.

**Construction of Ambulatory Building** — During fiscal 2011, the Hospital broke ground on the construction of an eight story ambulatory building and garage. The majority of construction has been completed during fiscal 2012. The cost of the new building, excluding buildouts of tenant portions, was \$42,500 and financed through cash, a State of Illinois Grant, the New Market Tax Credits and proceeds of investments.

**Asset Retirement Obligation** — The Hospital recognizes asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

The Hospital evaluated its leased and owned properties for potential asset retirement obligations. The Hospital has identified conditional asset retirement obligations primarily for the cost of asbestos removal and disposal. The fair value liability for conditional asset retirement obligations was approximately \$1,427 and \$1,340 as of September 30, 2012 and 2011, respectively. The liability was estimated using an inflation rate of 4% and a discount rate of 6.5%. The expected future liability is approximately \$2,082.

**Operating Leases** — The Hospital leases certain facilities and medical equipment from related (see Note 9) and unrelated parties. Total rental expense related to these leases amounted to \$1,576 and \$2,302 in fiscal 2012 and 2011, respectively. Certain of these operating leases contain renewal options, noncancelable terms, and escalation clauses. Future minimum rental commitments for the next five fiscal years as of September 30, 2012, for all noncancelable operating leases with original terms of more than one year are as follows:

<b>Years Ending September 30</b>	
2013	\$ 1,184
2014	1,068
2015	552
2016	288
2017	<u>34</u>
<b>Total</b>	<b><u>\$3,126</u></b>

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## **SUPPLEMENTAL SCHEDULES**

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## SWEDISH COVENANT HOSPITAL

### SCHEDULE OF MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO (1) FOR THE YEAR ENDED SEPTEMBER 30, 2012 (Dollars in thousands)

NET INCOME AVAILABLE FOR DEBT SERVICE:	
Total revenues	<u>\$ 250,198</u>
Total expenses	237,387
Less (2):	
Interest and amortization of financing costs	8,406
Depreciation and amortization expense	<u>18,683</u>
Total	<u>210,298</u>
NET INCOME AVAILABLE FOR DEBT SERVICE (A)	<u>\$ 39,900</u>
MAXIMUM ANNUAL DEBT SERVICE (B)	<u>\$ 12,951</u>
MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO (A/B)	<u>3.08</u>

(1) The amounts contained in the schedule represent amounts only pertaining to the legal entity Swedish Covenant Hospital, as the sole member of the Obligated Group, and do not include amounts of other entities not part of the Obligated Group but are included in the consolidated financial statements of Swedish Covenant Hospital and subsidiaries. The schedule was calculated in accordance with Sections 409 and 414(B) of the Master Trust Indenture dated May 15, 1993, and restated as of June 1, 2008; with two supplemental indentures in February 2010, between the Obligated Group and US Bank National Association; and with five supplemental indentures as of August 31, 2011, between the Obligated Group and US Bank National Association as Successor Trustee to LaSalle Bank National Association; with five supplemental indentures during fiscal 2012 between the Obligated Group and US Bank National Association as Successor Trustee to LaSalle Bank National Association.

(2) Amounts are excluded from the calculation in accordance with the Master Trust Indenture.

**SWEDISH COVENANT HOSPITAL**

**SUPPLEMENTAL SCHEDULE FOR PORTION OF BUSINESS FOR NEW MARKET TAX CREDIT LOAN  
COMBINING STATEMENTS OF FINANCIAL POSITION INFORMATION  
AS OF SEPTEMBER 30, 2012  
(Dollars in thousands)**

	SCH Consolidated	POB ONLY	SCH WITHOUT POB		SCH Consolidated	POB	SCH WITHOUT POB
<b>ASSETS</b>				<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents	\$ 7,639	\$ -	\$ 7,639	Accounts payable	\$ 8,631	\$ -	\$ 8,631
Assets whose use is limited	3,879	368	3,511	Accrued liabilities	29,646	1,751	27,895
				Line of credit	-	-	-
Patient accounts receivable - net	28,448	-	28,448	Deferred public aid revenue	-	-	-
Inventories	3,789	-	3,789	Contractual current portion of long-term debt	4,609	-	4,609
Other current assets	10,699	-	10,699				
				Estimated third-party payer settlements	16,824	-	16,824
<b>Total current assets</b>	<b>54,454</b>	<b>368</b>	<b>54,086</b>	<b>Total current liabilities</b>	<b>59,710</b>	<b>1,751</b>	<b>57,959</b>
<b>ASSETS WHOSE USE IS LIMITED - Investments:</b>				<b>LONG-TERM DEBT - Excluding current portion</b>			
Beneficial interest in investment pool:					200,668	13,475	187,133
Board-designated funds	116,789	-	116,789	<b>PROFESSIONAL LIABILITY</b>			
Donor-restricted funds	17,899	-	17,899		18,885	-	18,885
<b>Total beneficial interest in investment pool</b>	<b>134,688</b>	<b>-</b>	<b>134,688</b>	<b>FAIR VALUE OF INTEREST RATE SWAPS</b>			
SCRIC restricted investments	13,777	-	13,777		26,976	-	26,976
Debt service reserve funds	9,241	-	9,241	<b>ASSET RETIREMENT OBLIGATION</b>			
Trustee-held bond project funds	23,837	2,745	21,092		1,427	-	1,427
<b>Total assets whose use is limited - investments</b>	<b>181,549</b>	<b>2,745</b>	<b>178,804</b>	<b>Total liabilities</b>	<b>307,606</b>	<b>15,226</b>	<b>292,380</b>
<b>PROPERTY AND EQUIPMENT:</b>				<b>NET ASSETS:</b>			
Land and land improvements	11,648	-	11,648	Unrestricted	116,548	29,477	87,071
Buildings and building equipment	265,545	41,826	223,719	Temporarily restricted	2,884	-	2,884
Fixed and moveable equipment	157,728	-	157,728	Permanently restricted	17,691	-	17,691
Construction in progress	2,277	-	2,277	<b>Total net assets</b>	<b>137,123</b>	<b>29,477</b>	<b>107,646</b>
<b>Property and equipment - gross</b>	<b>437,198</b>	<b>41,826</b>	<b>395,372</b>				
Less accumulated depreciation	(238,669)	(523)	(238,146)				
<b>Property and equipment - net</b>	<b>198,529</b>	<b>41,303</b>	<b>157,226</b>				
<b>OTHER ASSETS:</b>							
Deferred debt expense - net	2,637	287	2,350				
Pledges receivable	1,064	-	1,064				
Other	6,496	-	6,496				
<b>Total other assets</b>	<b>10,197</b>	<b>287</b>	<b>9,910</b>				
<b>TOTAL</b>	<b>\$ 444,729</b>	<b>\$ 44,703</b>	<b>\$ 400,026</b>	<b>TOTAL</b>	<b>\$ 444,729</b>	<b>\$ 44,703</b>	<b>\$ 400,026</b>

See note in supplemental schedules.

## SWEDISH COVENANT HOSPITAL

### SUPPLEMENTAL SCHEDULE OF PORTION OF BUSINESS FOR NEW MARKET TAX CREDIT LOAN COMBINING STATEMENT OF OPERATIONS AND OTHER CHANGES IN UNRESTRICTED NET ASSETS INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2012 (Dollars in thousands)

	SCH WITHOUT POB	POB ONLY	SCH Consolidated
<b>OPERATING REVENUE:</b>			
Patient service revenue (net of contractual allowances and discounts)	\$241,630	\$ -	\$241,630
Provision for uncollectible accounts	(13,088)	-	(13,088)
Net patient service revenue less provision for uncollectible accounts	228,542	-	228,542
Public aid assessment tax revenues	20,056	-	20,056
Total net patient service revenue	248,598	-	248,598
Other revenue	15,245	490	15,735
Meaningful use grant revenue	3,751	-	3,751
Net assets released from restrictions — operations	549	-	549
Total operating revenue	268,143	490	268,633
<b>EXPENSES:</b>			
Salaries and wages	115,266	-	115,266
Employee benefits	18,886	-	18,886
Professional fees	12,818	-	12,818
Supplies	37,997	8	38,005
Utilities	4,108	108	4,216
Repairs and maintenance	5,295	3	5,298
Depreciation	18,255	523	18,778
Insurance	8,243	-	8,243
Interest and amortization of financing costs — net	8,361	45	8,406
Public aid assessment tax	9,780	-	9,780
Other	20,892	1,188	22,080
Total expenses	259,901	1,875	261,776
OPERATING INCOME (LOSS)	8,242	(1,385)	6,857
<b>NONOPERATING REVENUE (EXPENSE):</b>			
Change in beneficial interest in investment pool:			
Interest and dividend income	1,127	-	1,127
Realized gains on investments — net	571	-	571
Unrealized net gains (losses) on Common Fund investments	3,245	-	3,245
Unrealized net gains (losses) on CMB investments	6,934	-	6,934
Alternative investment gain (loss) — net	4,987	-	4,987
Total change in beneficial interest in investment pool	16,864	-	16,864
Change in fair value of swaps — net	(2,573)	-	(2,573)
Other nonoperating loss	(2,368)	-	(2,368)
Unrestricted contributions	192	-	192
Total nonoperating revenue (expense) — net	12,115	-	12,115
INCOME (LOSS)	20,357	(1,385)	18,972
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS:</b>			
Transfer (to) from permanently restricted net assets to (from) unrestricted net assets	105	-	105
Net assets released from restriction — capital	300	7,000	7,300
Net assets transferred to Covenant Ministries of Benevolence	(5,000)	-	(5,000)
DECREASE IN UNRESTRICTED NET ASSETS	\$ 15,762	\$ 5,615	\$ 21,377

See note to supplemental schedules.

## **SWEDISH COVENANT HOSPITAL**

**NOTE TO SUPPLEMENTAL SCHEDULES  
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(Dollars in thousands)**

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### **BASIS OF PRESENTATION**

In June 2012, Swedish Covenant Hospital (“SCH” or the “Hospital”) entered into a New Markets Tax Credit (NMTC) loan agreement with CDF Suballocatee XIV, LLC. Under this Loan Agreement, among other things, SCH is obligated to create and maintain a valid “Portion of the Business” (POB) to serve as the Qualified Active Low Income Community Business (QALICB) consistent with Federal Regulations. The POB is a segment of SCH’s Foster Medical Pavilion building, where a Federally Qualified Health Clinic is being built out to treat low income patients on a walk in basis. The POB is an integral part of the Hospital, and it is not a separate corporation. All assets and operations of the POB are separately identified, maintained and segregated from the assets and operations of SCH.

The combining statement of financial position information and the combining statement of operations and other changes in unrestricted net assets information is presented to comply with certain provisions of the NMTC loan agreement. Amounts presented for “SCH Without POB” exclude SCH’s ownership interest in the POB.