

ORIGINAL

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

RECEIVED

SEP 30 2016

1. INFORMATION FOR EXISTING FACILITY

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

Current Facility Name Advocate BroMenn Medical Center

Address 1304 Franklin Avenue

City Normal Zip Code 61761 County McLean

Name of current licensed entity for the facility

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

Does the current licensee: own this facility  OR lease this facility (if leased, check if sublease )

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit Corporation

Partnership  Governmental  Limited Liability Company  Other,

specify \_\_\_\_\_

Illinois State Senator for the district where the facility is located:

Sen. Jason Barickman

State Senate District Number 53 Mailing address of the State Senator

3004 G.E. Road, Suite B, Bloomington, IL 61704

Illinois State Representative for the district where the facility is located:

Rep. Dan Brady

State Representative District Number 105 Mailing address of the State Representative

104 W. North Street, Normal, IL 61761

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes  No  If yes, refer to Section 1130.520(f), and indicate the projects by Project #.

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

Exact Legal Name of Applicant

Advocate Health Care Network (to be renamed Advocate NorthShore Health Partners)

Address 3075 Highland Parkway

City, State & Zip Code Downers Grove, IL 60515

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit Corporation

Partnership  Governmental  Limited Liability Company

Other, specify \_\_\_\_\_

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

Exact Legal Name of Applicant Advocate Health and Hospitals Corporation

Address 3075 Highland Parkway

City, State & Zip Code Downers Grove, IL 60515

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit Corporation  Partnership  Governmental  Limited Liability Company  Other, specify \_\_\_\_\_

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

Exact Legal Name of Applicant NorthShore University HealthSystem

Address 1301 Central Street

City, State & Zip Code Evanston, IL 60201

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit Corporation  Partnership  Governmental  Limited Liability Company  Other, specify \_\_\_\_\_

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

Exact Legal Name of Entity to be Licensed

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

Address 1304 Franklin Avenue

City, State & Zip Code Normal, IL 61761

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit Corporation

Partnership  Governmental  Limited Liability Company

Other, specify \_\_\_\_\_

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

Exact Legal Name of Entity That Will Own the Site:

Advocate Health and Hospitals Corporation

Address 3075 Highland Parkway

City, State & Zip Code Downers Grove, IL 60515

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

Sole Proprietorship  Not-for-Profit Corporation  For Profit

Corporation  Partnership  Governmental  Limited Liability

Company  Other, specify \_\_\_\_\_

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

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

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

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

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

**10. FAIR MARKET VALUE OF THE FACILITY:** \$ 134,734,125 net book value of plant, property and equipment, please see Attachment 2 (to determine fair market value, refer to 77 IAC 1130.140)

**11. DATE OF PROPOSED TRANSACTION:** On or about December 31, 2016

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

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

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

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

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

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

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

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

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

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

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

Name: Wendy Mulvihill, Director, Planning & Analytics, Advocate Health Care  
Address: 3075 Highland Parkway  
City, State & Zip Code: Downers Grove, IL 60515  
Telephone ( ) Ext. 630-929-5944

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

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

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

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

**18. CERTIFICATION Advocate Health Care Network (to become known as Advocate NorthShore Health Partners)**

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

Signature of Authorized Officer JA Skogsbergh  
Typed or Printed Name of Authorized Officer James H. Skogsbergh  
Title of Authorized Officer: President and Chief Executive Officer  
Address: 3075 Highland Parkway  
City, State & Zip Code: Downers Grove, IL 60515  
Telephone (630) 990-5018 Date: 9/20/16

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

**CERTIFICATION Advocate Health and Hospitals Corporation**

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

Signature of Authorized Officer JA Skogsbergh

Typed or Printed Name of Authorized Officer James H. Skogsbergh

Title of Authorized Officer: President and Chief Executive Officer

Address: 3075 Highland Parkway

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

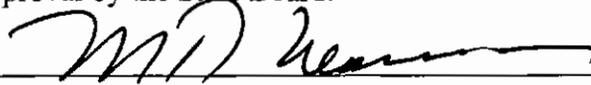
Telephone (630) 990-5018 Date: 9/20/16

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

**CERTIFICATION NorthShore University HealthSystem**

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

Signature of Authorized Officer \_\_\_\_\_



Typed or Printed Name of Authorized Officer Mark R. Neaman

Title of Authorized Officer: President and Chief Executive Officer

Address: 1301 Central Street

City, State & Zip Code: Evanston, IL 60201

Telephone (847) 570-5005

Date: 9/22/16

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

**APPLICATION FEE**

**ATTACHMENT #1**

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

## **FUNDING**

### **ATTACHMENT #2**

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

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

## NARRATIVE DESCRIPTION

### ATTACHMENT #3

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

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

On December 16, 2014, the Review Board approved Certificates of Exemptions for this transaction. Those exemptions expire on December 16, 2016 and the new applications are updated refilings of the applications previously approved. The signed Affiliation Agreement included with the applications is unchanged from what the Board previously approved except to extend the ending date. The transaction has been on hold pending federal regulatory approval.

After the COEs were originally approved, the Federal Trade Commission (“FTC”) filed a complaint in Federal District Court in the Northern District of Illinois seeking to enjoin the proposed affiliation of Advocate and NorthShore. On June 14, 2016 the Federal District Court denied the FTC’s request for an injunction. The FTC appealed the District Court’s ruling to the 7<sup>th</sup> Circuit Court of Appeals which held argument on the matter on August 19, 2016. There is no scheduled date for issuance of a ruling by the 7<sup>th</sup> Circuit Court of Appeals. The Applicants intend to close the transaction as soon as practicable following a favorable ruling by the court of appeals. Because there is no scheduled date for a decision, the current COEs may expire before a final ruling is issued by the court of appeals. These updated COE applications are being filed in the event the appeal is not resolved by December 16, 2016.

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

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

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

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

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

Advocate BroMenn Medical Center, Normal  
Advocate Christ Medical Center, Oak Lawn  
Advocate Condell Medical Center, Libertyville  
Advocate Eureka Hospital, Eureka  
Advocate Good Samaritan Hospital, Downers Grove  
Advocate Good Shepherd Hospital, Barrington  
Advocate Illinois Masonic Medical Center, Chicago  
Advocate Lutheran General Hospital, Park Ridge  
Advocate South Suburban Hospital, Hazel Crest  
Advocate Sherman Hospital, Elgin  
Advocate Trinity Hospital, Chicago

In addition, Advocate has an ownership interest of 50% or more in the following licensed health care facilities:

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

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

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

There will be no direct exchange of funds between Advocate and NorthShore as a part of this transaction. As this transaction is a merger of the organizations there is no acquisition price. The applicants intend to close at the earliest practicable opportunity after receipt of a final ruling by the 7<sup>th</sup> Circuit Court of Appeals.

**BACKGROUND OF APPLICANT**

**ATTACHMENT #4**

See Certificates of Good Standing for applicants on following pages.

File Number

1707-692-2



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

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

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



Authentication #: 1623101402 verifiable until 08/18/2017  
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 18TH day of AUGUST A.D. 2016 .***

*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 I am the keeper of the records of the Department of Business Services. I certify that*

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



**In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 18TH day of AUGUST A.D. 2016 .**

Authentication #: 1623101444 verifiable until 08/18/2017  
Authenticate at: <http://www.cyberdriveillinois.com>

*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 I am the keeper of the records of the Department of Business Services. I certify that*

**NORTHSHORE UNIVERSITY HEALTHSYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 04, 1891, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.**



*In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 20TH day of SEPTEMBER A.D. 2016 .*

*Jesse White*

SECRETARY OF STATE

Authentication #: 1625401784 verifiable until 09/20/2017  
Authenticate at: <http://www.cyberdriveillinois.com>

## **TRANSACTION DOCUMENTS**

### **ATTACHMENT #5**

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

**EXECUTION VERSION**

**AFFILIATION AGREEMENT**

**dated September 11, 2014**

**among**

**NORTSHORE UNIVERSITY HEALTHSYSTEM,**

**ADVOCATE HEALTH CARE NETWORK,**

**and**

**ADVOCATE HEALTH AND HOSPITALS CORPORATION**

CHI:2860123.9

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**Exhibits**

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

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Advocate Disclosure Schedule  
NorthShore Disclosure Schedule

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

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

**WITNESSETH:**

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

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

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

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

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

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

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

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

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

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

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

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

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

## **ARTICLE 1**

### **DEFINITIONS AND INTERPRETATION**

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

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

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

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

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

**"Advocate Medical Group"** means Advocate Medical Group, an operating division of AHHC.

**"Advocate Obligated Group"** means AHHC, North Side and Condell.

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

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

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

**"ANHP Board"** means the Board of Directors of ANHP.

**"ANPP Board"** means the Board of Directors of ANPP.

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

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

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

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

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

**"Code"** means the Internal Revenue Code of 1986.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**"IRS"** means the United States Internal Revenue Service.

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

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

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

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

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

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

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

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

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

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

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

“**North Side**” means Advocate North Side Health Network, an Illinois not-for-profit corporation.

“**NorthShore Corporations**” means NorthShore and each of its Controlled Subsidiaries.

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

“**NorthShore Foundation**” means the charitable and philanthropic foundation of the NorthShore System.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1.3 Interpretation.**

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

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

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

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

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

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

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

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

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

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

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

(l) References to "days" means calendar days unless specified otherwise.

(m) References to "Dollars" and "\$" means United States Dollars.

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

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

## ARTICLE 2

### RATIONALE AND VISION OF THE TRANSACTIONS

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

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

### ARTICLE 3

#### GOVERNANCE AND MANAGEMENT

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

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

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

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

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

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

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

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

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

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

### **3.2 Board; Term.**

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

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

### **3.3 Designation of Members of ANHP Board.**

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

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

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

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

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

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

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

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

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

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

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

#### **3.4 Chairperson and Vice-Chairperson of ANHP Board.**

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

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

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

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

### **3.5 Co-CEOs; Senior Management**

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

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

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

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

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

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

### 3.6 Special Consent and Approval Rights.

(a) During the Post-Closing Period,

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

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

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

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

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

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

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

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

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

- (1) the Amended NorthShore Articles;
- (2) the Amended NorthShore Bylaws;
- (3) the Amended NPA Articles of Incorporation;
- (4) the Amended NPA Bylaws; and

(5) the Organizational Documents of any of the other NorthShore Corporations;

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

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

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

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

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

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

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

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

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

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

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

(1) the Amended AHHC Articles;

(2) the Amended AHHC Bylaws; and

(3) the Organizational Documents of any of the other Advocate Corporations;

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

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

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

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

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

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

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

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

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

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

**3.7 ANPP Governance.** During the Post-Closing Period,

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

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

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

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

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

**ARTICLE 4**

**POST-CLOSING COVENANTS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) a financial approval policy;

(c) an audit policy; and

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

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

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

**4.5 Physician Matters.**

(a) Following the Closing,

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

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

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

#### **4.6 ANPP Matters.**

(a) Following the Closing,

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

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

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

(A) collaborative quality improvement sessions;

(B) patient-centered medical home initiative;

(C) EMR implementation and support;

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

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

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

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

(H) pharmacy academic detailing for NorthShore physician offices;

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

(1) recommended reference guideline;

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

(3) supported clinical education program development; and

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

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

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

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

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

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

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

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

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

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

## ARTICLE 5

### REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

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

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

**5.4 Organization; Standing; Power; Capitalization; Governance.**

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

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

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

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

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

## **5.6 Financial Statements.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **5.9 Tax Exempt Matters.**

Except as separately disclosed to the other Party:

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

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

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

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

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

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

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

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

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

**5.11 Properties.**

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

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

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

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

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

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

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

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

### **5.13 Material Contracts.**

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

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

### **5.14 Taxes.**

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

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

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

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

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

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

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

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

**5.17 Payers**

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

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

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

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

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

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

#### **5.19 Employee Benefit Plans.**

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

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

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

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

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

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

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

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

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

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

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

**5.21 Intellectual Property; Information Technology; Privacy.**

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

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

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

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

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

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

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

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

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

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

#### **5.22 Environmental**

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

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

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

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

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

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

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

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

## ARTICLE 6

### PRE-CLOSING COVENANTS

#### 6.1 Interim Conduct of Business.

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

(i) operate their respective businesses in the ordinary course of business and in the same manner, in all material respects, as previously conducted; and

(ii) use reasonable efforts to preserve their respective business organizations intact and maintain, in all material respects, their existing relations with patients, physicians, suppliers, regulators, payors, lessees, creditors, lessors, employees and business associates.

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

(i) make any changes, or permit any changes to be made, in their respective Organizational Documents;

(ii) if applicable, take any action that would jeopardize its tax-exempt status;

(iii) except as required by GAAP, make any material changes in its accounting methods or practices;

(iv) fail to comply in all material respects with all Applicable Laws;

(v) fail to keep, hold, and maintain all material certificates of need, certificates of exemption, accreditations, surety bonds, licenses and other Permits necessary for the

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

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

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

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

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

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

**6.3 Conditions; Third Party Authorizations.**

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

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

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

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

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

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

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

## ARTICLE 7

### CONDITIONS PRECEDENT TO OBLIGATIONS OF PARTIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE 8

### CLOSING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE 9

### ENFORCEMENT OF OBLIGATIONS

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

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

## ARTICLE 10

### TERMINATION

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

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

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

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

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

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

### **10.2 Effect of Termination.**

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

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

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

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

## ARTICLE 11

### GENERAL PROVISIONS

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

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

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

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

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

**11.5 Choice of Law; WAIVER OF JURY TRIAL.**

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

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

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

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

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

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

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

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

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

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

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

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

and to:

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

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

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

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

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

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

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

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

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

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

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

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

*[signatures on next page]*

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

NORTHSHORE UNIVERSITY  
HEALTHSYSTEM

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

ADVOCATE HEALTH CARE NETWORK

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

ADVOCATE HEALTH AND HOSPITALS  
CORPORATION

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

[Signature Page to Affiliation Agreement]

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

NORTHSHORE UNIVERSITY  
HEALTHSYSTEM

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

ADVOCATE HEALTH CARE NETWORK

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

ADVOCATE HEALTH AND HOSPITALS  
CORPORATION

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

[Signature Page to Affiliation Agreement]

**Exhibit A-1**

**Amended Advocate Articles of Incorporation**

See attached.

CHI:2860123.9

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

Jesse White, Secretary of State  
Department of Business Services  
Springfield, IL 62756  
Telephone (217) 762-1832  
www.cyberdriveillinois.com

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

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

1. Corporate name (Note 1): ADVOCATE HEALTH CARE NETWORK

2. Manner of adoption of amendment:  
The following amendment to the Articles of Incorporation was adopted on \_\_\_\_\_ in the manner  
indicated below (Check one only): (Month, Day & Year)

By affirmative vote of a majority of the directors in office, at a meeting of the board of directors, in accordance  
with Section 110.15. (Note 2)

By written consent, signed by all the directors in office, in compliance with Sections 110.15 and 108.45  
(Note 3)

By members at a meeting of members entitled to vote by the affirmative vote of the members having not less  
than the minimum number of votes necessary to adopt such amendment, as provided by this Act, the articles  
of incorporation or the bylaws, in accordance with Section 110.20. (Note 4)

By written consent signed by members entitled to vote having not less than the minimum number of votes  
necessary to adopt such amendment, as provided by this Act, the articles of incorporation, or the bylaws, in  
compliance with Sections 107.10 and 110.20. (Note 5)

3(a). List all provisions of the restated articles of incorporation that amend the existing articles of incorporation. (Attach  
additional pages if extra space is needed.)

See attached document.

3(b). Text of the Restated Articles of Incorporation (Note 6)  
(Attach additional pages if extra space is needed.)

See attached document



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

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

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

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

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

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

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

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

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

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

The Corporation shall not engage in the practice of medicine.

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

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

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

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

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

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

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

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

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

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

**Exhibit A-2**  
**Amended Advocate Bylaws**  
See attached.

CHI:2860123.9

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

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

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

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

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

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

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

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

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

The Corporation shall not engage in the practice of medicine.

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

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

**ARTICLE II.  
Membership**

The Corporation shall have no members.

**ARTICLE III.  
Board of Directors**

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

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

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

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

### 3.5 Designation of Directors and Ex-Officio Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**ARTICLE IV.**  
**Meetings of the Board**

**4.1 Regular Meetings.** An annual meeting and all regular meetings of the Board of Directors shall be held on such date and at such hour and place as shall be fixed by the Chairperson of the Board or the Board of Directors. Written notice stating the place, day and hour of each such meeting shall be delivered in person or by mail<sup>1</sup> to each Director and Ex-Officio Director not less than five (5) days before the date of the meeting.

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

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

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

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

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

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

#### **4.6 Actions Requiring Supermajority Vote.**

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

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

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

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

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

Undergraduate Medical Education and Graduate Medical Education;

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

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

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

## **ARTICLE V. Officers**

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

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

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

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

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

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

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

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

**5.7 Chairperson of the Board.**

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

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

**5.8 Vice-Chairperson.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **ARTICLE VI.**

### **Committees of the Board**

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

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

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

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

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

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

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

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

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

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

## **ARTICLE VII**

### **Conflicts of Interest**

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

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

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

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

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

## **ARTICLE VIII. Indemnification**

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

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

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

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

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

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

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

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

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

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

#### **ARTICLE IX. Miscellaneous**

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

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

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

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

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

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

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

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

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

## **ARTICLE X.**

### **Amendments**

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

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

## ARTICLE XI.

### Dissolution

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

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

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

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

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

CHI:2862436.3

**Organizational Documents**  
**Schedule 5.4(b)**

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

**Interim Conduct of Business**

**Schedule 6.1(a)**

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

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

CHI:2860442.10

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

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

**No Conflict**  
**Section 5.3**

(b)(ii)

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

(b)(iv)

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

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

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

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

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

**Material Contracts**  
**Section 5.13(a)**

(ii)

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

(iv)

None.

(v)

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

(vii)

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

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

(ix)

None.

(x)

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

12. Asset Purchase agreement between NorthShore and Walgreen Co., dated December, 2013.

13. Operating Agreement of ENH/USP between the Members, dated April 2005.

14. Operating Agreement of Ravine Way Surgery Center, LLC, dated March 2005, between Ravine Way Partners, LLC and ENH.

(xi)

None.

(xii)

None.

(xiii)

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

(xiv)

16. Management Services Agreement, dated January 1, 2012, between Valence Health, Inc. ("Valence") and NorthShore Physician Associates, Inc.

17. Management Services Agreement, undated, between Valence and CCP (this agreement is still being negotiated).

18. Vendor Distribution and ValueLink Agreement, effective November 25, 2013, between the Company and Cardinal Health 200, LLC.

19. Corporate Program Agreement, dated February 1, 2009, between Medline Industries, Inc. ("Medline") and NorthShore.

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

(xv)

None.

(xvi)(a)

None.

(xvi)(b)

None.

(xvi)(c)

21. State of Illinois Contract between the Department and Community Care Partners, LLC  
("CCP") dated February 24, 2014 .

22. Management Services Agreement, dated January 1, 2012, between Valence Health, Inc.  
("Valence") and NorthShore Physician Associates, Inc.

23. Management Services Agreement, undated, between Valence and CCP (this agreement is  
still being negotiated).

24. Illinois Health Information Exchange Data Sharing Agreement, dated July 28, 2014, between  
NorthShore and the Illinois Health Information Exchange Authority.

25. Member Provider Group Agreement, dated July 27, 2012, between NorthShore and Mayo  
Foundation for Medical Education and Research, as amended, restated or modified from time  
to time.

26. Standard License and Support Agreement, dated August 8, 2001, between Epic Systems  
Corporation and Evanston Northwestern Healthcare, as amended, restated or modified from  
time to time.

27. IT Outsourcing Agreement, dated August 1, 2002, between McKesson Technologies Inc. and  
ENH, as amended, restated or modified from time to time.

28. Management Services Agreement between NorthShore and Aramark Management Services  
Limited Partnership, dated January 31, 2014, as amended, restated or modified from time to  
time.

29. Master Outsourcing Services Agreement between ENH and Springfield Service Corporation,  
effective February 1, 2005

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

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

**Multemployer Plans**  
**Section 5.19(b)**

None.

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

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

**Claims Related to Employee Benefit Plans**  
**Section 5.19(h)**

None.

Union Associates  
Section 5.20(c)

None.

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

None.

**Intellectual Property Licenses**  
**Section 5.21(a)**

None.

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

None.

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

None.

**Environmental Indemnities**  
**Section 5.22(e)**

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

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

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

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

**Section 5.3**

**No Conflict**

(b)

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

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

**Section 5.4(a)**

**Advocate Entities**

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

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

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

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

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

**Section 5.4(c)**

**Cooperative Ventures with fewer than 50% Ownership**

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

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

**Section 5.13(a)**

**Material Contracts**

(ii)

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

(iv)

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

(v)

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

(vii)

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

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

(ix)

None.

(x)

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

(xi)

None.

(xii)

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

(xiii)

None.

(xiv)

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

(xv)

None.

(xvi)

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

**Section 5.19(b)**

**Multiemployer Plans**

Advocate and its ERISA Affiliates

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

**Section 5.19(f)**

**Employee Benefit Plans Subject to Title IV of ERISA**

Advocate and its ERISA Affiliates

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

**Section 5.19(h)**

**Claims Related to Employee Benefit Plans**

Advocate and its ERISA Affiliates

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

**Section 5.20(c)**

**Union Associates**

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

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

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

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

**Section 5.20(d)**

**Collective Bargaining Agreements**

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

#### **Section 5.21(a)**

##### **IP Licenses**

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

**Section 5.21(g)**

**Information Privacy and Security Law Violations**

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

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

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

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

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

**Section 5.21(h)**

**Breach of Personal Information**

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

**Section 5.22(e)**

**Environmental Liabilities**

None.

## **FINANCIAL STATEMENTS**

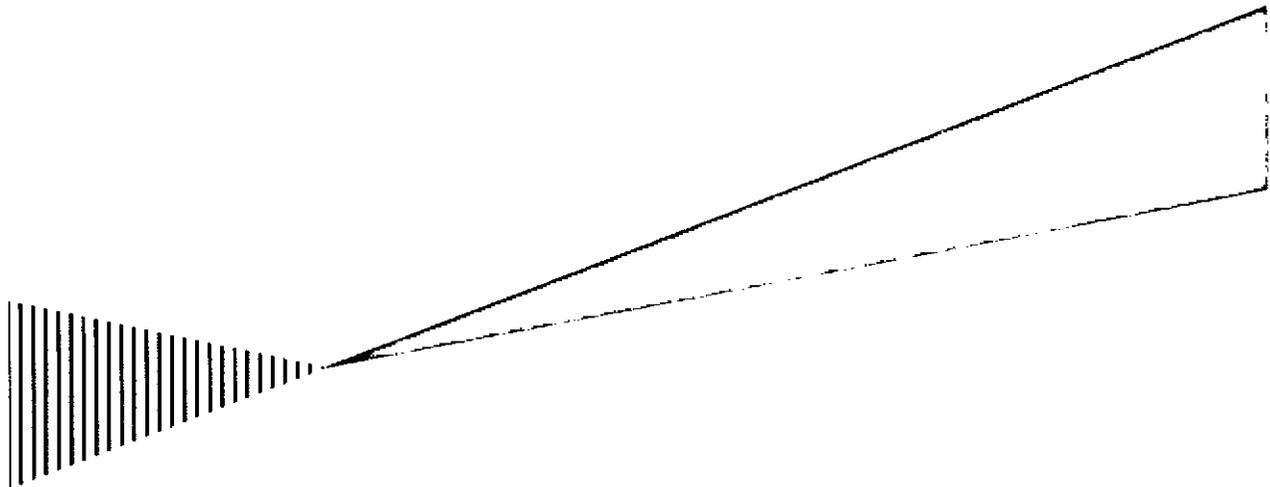
### **ATTACHMENT #6**

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

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Advocate Health Care Network and Subsidiaries  
Years Ended December 31, 2015 and 2014  
With Reports of Independent Auditors

Ernst & Young LLP



**Advocate Health Care Network and Subsidiaries**  
**Consolidated Financial Statements and Supplementary Information**  
**Years Ended December 31, 2015 and 2014**

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## Report of Independent Auditors

The Board of Directors  
Advocate Health Care Network

We have audited the accompanying consolidated financial statements of Advocate Health Care Network and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

March 4, 2016

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets  
(Dollars in Thousands)

	December 31	
	2015	2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 203,792	\$ 272,912
Short-term investments	21,666	19,456
Assets limited as to use	94,186	91,747
Patient accounts receivable, less allowances for uncollectible accounts of \$221,496 in 2015 and \$219,447 in 2014	603,462	633,743
Amounts due from primary third-party payors	39,711	16,850
Prepaid expenses, inventories and other current assets	266,629	267,792
Collateral proceeds received under securities lending program	19,097	19,768
<b>Total current assets</b>	<b>1,248,543</b>	<b>1,322,268</b>
<b>Assets limited as to use:</b>		
Internally and externally designated investments limited as to use	5,131,138	5,169,099
Investments under securities lending program	18,483	19,145
	<b>5,149,621</b>	<b>5,188,244</b>
<b>Other noncurrent assets</b>	<b>165,760</b>	<b>150,314</b>
Interest in health care and related entities	141,116	150,327
Reinsurance receivable	117,351	161,545
	<b>5,573,848</b>	<b>5,650,430</b>
<b>Property and equipment – at cost:</b>		
Land and land improvements	271,192	257,699
Buildings	2,929,513	2,708,787
Movable equipment	1,581,934	1,467,513
Construction-in-progress	578,176	449,958
	<b>5,360,815</b>	<b>4,883,957</b>
Less allowances for depreciation	2,549,031	2,332,932
	<b>2,811,784</b>	<b>2,551,025</b>
<b>Total assets</b>	<b>\$ 9,634,175</b>	<b>\$ 9,523,723</b>

	December 31	
	2015	2014
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 20,168	\$ 20,042
Long-term debt subject to short-term remarketing arrangements	126,045	130,635
Accounts payable and accrued expenses	416,126	466,070
Accrued salaries and employee benefits	402,837	373,365
Amounts due to primary third-party payors	343,227	309,591
Current portion of accrued insurance and claims costs	113,684	119,587
Obligations to return collateral under securities lending program	19,097	19,768
Total current liabilities	<u>1,441,184</u>	<u>1,439,058</u>
Noncurrent liabilities:		
Long-term debt, less current portion	1,539,372	1,447,918
Pension plan liability	29,354	37,441
Accrued insurance and claims cost, less current portion	702,896	712,169
Accrued losses subject to reinsurance recovery	117,351	161,545
Obligations under swap agreements, net of collateral posted	88,013	86,246
Other noncurrent liabilities	202,759	186,953
	<u>2,679,745</u>	<u>2,632,272</u>
Total liabilities	4,120,929	4,071,330
Net assets:		
Unrestricted	5,351,684	5,284,721
Temporarily restricted	111,583	118,991
Permanently restricted	48,617	48,019
	<u>5,511,884</u>	<u>5,451,731</u>
Non-controlling interest	1,362	662
Total net assets	<u>5,513,246</u>	<u>5,452,393</u>
Total liabilities and net assets	<u>\$ 9,634,175</u>	<u>\$ 9,523,723</u>

*See accompanying notes to consolidated financial statements.*

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2015	2014
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 4,884,611	\$ 4,786,197
Provision for uncollectible accounts	(220,171)	(289,597)
	<u>4,664,440</u>	<u>4,496,600</u>
Capitation revenue	411,506	413,508
Other revenue	316,616	319,617
	<u>5,392,562</u>	<u>5,229,725</u>
<b>Expenses</b>		
Salaries, wages and employee benefits	2,743,377	2,630,369
Purchased services and operating supplies	1,374,675	1,313,255
Contracted medical services	161,951	152,646
Insurance and claims costs	88,760	118,023
Other	391,090	379,766
Depreciation and amortization	256,441	239,596
Interest	45,733	56,811
	<u>5,062,027</u>	<u>4,890,466</u>
Operating income	330,535	339,259
<b>Nonoperating income (loss)</b>		
Investment (loss) income	(221,964)	136,945
Change in fair value of interest rate swaps	(2,597)	(38,338)
Loss on refinancing of debt	(9,721)	(45,470)
Other nonoperating items, net	(17,648)	(22,789)
	<u>(251,930)</u>	<u>30,348</u>
Revenues in excess of expenses	78,605	369,607

Advocate Health Care Network and Subsidiaries

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

	<b>Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Unrestricted net assets</b>		
Revenues in excess of expenses	\$ 78,605	\$ 369,607
Net assets released from restrictions and used for capital purchases	14,975	10,558
Postretirement benefit plan adjustments	(26,617)	(64,018)
Other	-	(4)
Increase in unrestricted net assets	<u>66,963</u>	<u>316,143</u>
<b>Temporarily restricted net assets</b>		
Contributions for medical education programs, capital purchases and other purposes	24,663	24,388
Realized gains on investments	448	5,325
Unrealized losses on investments	(3,843)	(1,106)
Net assets released from restrictions and used for operations, medical education programs, capital purchases and other purposes	<u>(28,676)</u>	<u>(20,951)</u>
(Decrease) increase in temporarily restricted net assets	(7,408)	7,656
<b>Permanently restricted net assets</b>		
Contributions for medical education programs, capital purchases and other purposes	<u>598</u>	<u>453</u>
Increase in permanently restricted net assets	598	453
Increase in net assets	60,153	324,252
Change in non-controlling interest	700	(294)
Net assets/shareholders' equity at beginning of year	<u>5,452,393</u>	<u>5,128,435</u>
Net assets/shareholders' equity at end of year	<u>\$ 5,513,246</u>	<u>\$ 5,452,393</u>

*See accompanying notes to consolidated financial statements.*

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows  
(Dollars in Thousands)

	Year Ended December 31	
	2015	2014
<b>Operating activities</b>		
Increase in net assets	\$ 60,853	\$ 323,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	251,107	236,236
Provision for uncollectible accounts	220,171	289,597
Change in deferred income taxes	3,895	(3,835)
Losses (gains) on disposal of property and equipment	1,657	(1,297)
Loss on refinancing of debt	9,721	45,470
Change in fair value of interest rate swaps	2,597	38,338
Postretirement benefit plan adjustments	26,617	64,018
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	(13,701)	(10,393)
Changes in operating assets and liabilities:		
Trading securities	56,708	(629,369)
Patient accounts receivable	(189,890)	(356,307)
Amounts due to/from primary third-party payors	10,775	28,068
Accounts payable, accrued salaries and employee benefits, accrued expenses and other noncurrent liabilities	(45,832)	(7,608)
Other assets	(10,269)	(10,929)
Accrued insurance and claims cost	(19,310)	40,874
Net cash provided by operating activities	365,099	46,821
<b>Investing activities</b>		
Purchases of property and equipment	(503,830)	(507,788)
Proceeds from sale of property and equipment	2,842	6,349
Purchases of investments designated as non-trading	(189,292)	(69,229)
Sales of investments designated as non-trading	158,393	223,805
Other	2,382	13,615
Net cash used in investing activities	(529,505)	(333,248)
<b>Financing activities</b>		
Proceeds from issuance of debt	175,425	341,559
Payments of long-term debt	(101,175)	(374,509)
Collateral posted under swap agreements	(830)	-
Proceeds from restricted contributions and gains on investments	21,866	29,060
Net cash provided by (used in) financing activities	95,286	(3,890)
Decrease in cash and cash equivalents	(69,120)	(290,317)
Cash and cash equivalents at beginning of year	272,912	563,229
Cash and cash equivalents at end of year	\$ 203,792	\$ 272,912

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

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

December 31, 2015

**1. Organization and Summary of Significant Accounting Policies**

**Organization**

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

**Mission and Community Benefit**

As a faith-based health care organization, the mission, values, and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families, and communities through a holistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. The System's core values of compassion, equality, excellence, partnership, and stewardship guide its actions to provide health care services to sustain and improve the health of the individuals and communities it serves.

Consistent with the values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. Charity care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for consideration can earn up to 600% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. Charity care services are not reported as net patient service revenue because payment is not anticipated while the related costs to provide the health care are included in operating expenses. The System's cost of providing charity care in 2015 and 2014, as determined using the 2014 Medicare cost-to-charge ratio, was \$67,642 and \$65,882, respectively.

The System files the Annual Non-Profit Hospital Community Benefits Plan Report with the Illinois Attorney General. The total community benefit amount reported on this report for the year ended December 31, 2014, the latest filed, was \$696,336 (including \$65,882 of charity care at cost) (unaudited). The information needed to prepare the 2015 report, which is anticipated to

## Advocate Health Care Network and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

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

be filed in June 2016, is being compiled. This report summarizes the significant financial support that the System provides to its communities to sustain and improve health care services, in addition to the charity care provided. This support includes:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.
- The cost of providing services which are not self-sustaining, for which net patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-income patients as well as the broader community, but are not expected to be financially self-supporting.
- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

#### Principles of Consolidation

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

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

## Advocate Health Care Network and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

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

##### **Cash Equivalents**

The System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

##### **Investments**

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

##### **Assets Limited as to Use**

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

Advocate Health Care Network and Subsidiaries

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

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

**Patient Service Revenue and Accounts Receivable**

Patient accounts receivable are stated at net realizable value. The System evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, major payor sources of revenue, historical collection experience, and trends in health care insurance programs to estimate the appropriate allowance and provision for uncollectible accounts. For receivables associated with self-pay patients, the System records an allowance for uncollectible accounts in the period of service on the basis of its past experience. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

The allowance for uncollectible accounts as a percentage of accounts receivable increased from 26% in 2014 to 27% in 2015 primarily due to a shift in payor class, an increase in the number of patients with higher co-insurance and deductible plans and an increase in the aging of accounts receivable.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

Net patient service revenue recognized in the period from these major payor sources is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Third-party payors	\$ 4,656,578	\$ 4,512,176
Self-pay	228,033	274,021
Total all payors	<u>\$ 4,884,611</u>	<u>\$ 4,786,197</u>

Advocate Health Care Network and Subsidiaries

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

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

**Inventories**

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

**Reinsurance Receivables**

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

**Goodwill and Intangible Assets**

Goodwill of \$29,214 and \$12,719 and intangible assets of \$10,768 and \$13,823 at December 31, 2015 and 2014, respectively, are included in other noncurrent assets on the consolidated balance sheets. Goodwill is not amortized and is evaluated for impairment at least annually. Intangible assets with expected useful lives are amortized over that period.

**Asset Impairment**

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

**Property and Equipment**

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

**Asset Retirement Obligations**

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

Advocate Health Care Network and Subsidiaries

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

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

amount equal to the present value of the liability is added to the cost of the related asset and is accreted over the life of the related asset. The obligations at December 31, 2015 and 2014 were \$23,673 and \$20,821, respectively.

**Derivative Financial Instruments**

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

**Bond Issuance Costs, Discounts and Premiums**

Bond issuance costs, discounts and premiums are amortized over the term of the bonds using the effective interest method.

**General and Professional Liability Risks**

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

**Temporarily and Permanently Restricted Net Assets**

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

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

Advocate Health Care Network and Subsidiaries

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

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

**Capitation Revenue**

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

**Other Nonoperating Items, Net**

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

**Revenues in Excess of Expenses and Changes in Net Assets**

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

**Grants**

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

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

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

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

**New Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance related to lease accounting. The guidance will require leases that are currently classified as operating leases under current guidance to be recognized on the balance sheet as lease assets and liabilities by lessees. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. The System is evaluating the effect this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued guidance requiring financial instruments accounted for on the equity method to be measured at fair value with changes in fair value recognized in net income. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. The System is evaluating the effect this guidance will have on its consolidated financial statements.

In May 2015, the FASB issued guidance related to fair value disclosures of certain investments. Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient provisions of the fair value measurement guidance are no longer required to be included within the fair value hierarchy leveling tables. The System early adopted this guidance as of and for the year ended December 31, 2015 with amendments applied retrospectively to all periods presented.

In April 2015, the FASB issued guidance related to simplifying the presentation of debt issuance costs. The guidance requires the carrying amount of the debt liability be presented net of debt issuance costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the update. The System early adopted this guidance as of and for the year ended December 31, 2015, which did not have a material effect on the consolidated financial statements.

In May 2014, the FASB issued guidance related to recognizing revenue from contracts with customers. This new guidance dictates that the standard be applied either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the revenue recognition standard recognized at the date of initial application. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. The System is evaluating the effect this guidance will have on its consolidated financial statements.

Advocate Health Care Network and Subsidiaries

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

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

**Reclassifications in the Consolidated Financial Statements**

Certain reclassifications were made to the 2014 consolidated financial statements and footnotes to conform to the classifications used in 2015. There was no impact on previously reported 2014 net assets or revenues in excess of expenses. The debt issuance costs in 2014 of \$10,457 were reclassified from deferred costs and intangible assets, less allowances for amortization to long-term debt, less current portion on the consolidated balance sheets.

**2. Contractual Arrangements With Third-Party Payors**

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

Amounts earned from the above payment arrangements accounted for 97% of the System's net patient service revenue, net of the provision for uncollectible accounts, in 2015 and 2014. The System's net patient service revenue net of the provision for uncollectible accounts by payor for the years ended December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Blue Cross	31%	31%
Medicaid	16	14
Medicare	31	30
Other	22	25
	<u>100%</u>	<u>100%</u>

Advocate Health Care Network and Subsidiaries

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

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

Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in net patient service revenue of \$16,064 and \$6,419 for the years ended December 31, 2015 and 2014, respectively.

In connection with the State of Illinois' Hospital Assessment Program, including the enhanced Medicaid assessment system, the System recognized \$285,419 and \$202,590 of net patient service revenue and \$145,445 and \$142,212 of program assessment expense in other expense in 2015 and 2014, respectively.

The System's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Significant concentrations of accounts receivable, less allowance for uncollectible accounts at December 31 as follows:

	<u>2015</u>	<u>2014</u>
Blue Cross	13%	17%
Medicaid	20	19
Medicare	13	13
Other	54	51
	<u>100%</u>	<u>100%</u>

Advocate Health Care Network and Subsidiaries

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

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

The System has entered into various capitated physician provider agreements. Capitation revenue by payor for the years ended December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Humana Health Plan, Inc. and Humana Insurance Company and their affiliates	42%	42%
Cigna-HealthSpring	15	14
WellCare Health Plans, Inc.	12	13
Other	31	31
	<u>100%</u>	<u>100%</u>

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under the aforementioned capitated arrangements. The System accrues a liability for reported, as well as an estimate for incurred but not reported (IBNR), contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. The System uses the services of a consulting actuary to determine the estimated cost of the IBNR claims. Adjustments to the estimates are reflected in current year operations. At December 31, 2015 and 2014, the liabilities for unpaid medical claims amounted to \$25,854 and \$23,268, respectively, and are included in accounts payable and accrued expenses in the consolidated balance sheets.

Advocate Health Care Network and Subsidiaries

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

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

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

	<u>2015</u>	<u>2014</u>
Assets limited as to use:		
Designated for self-insurance programs	\$ 696,678	\$ 779,395
Internally and externally designated for capital improvements, medical education and health care programs	4,490,667	4,474,371
Externally designated under debt agreements	37,979	7,080
Investments under securities lending program	18,483	19,145
	<u>5,243,807</u>	<u>5,279,991</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	225,458	292,368
	<u>\$ 5,469,265</u>	<u>\$ 5,572,359</u>

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

	<u>2015</u>	<u>2014</u>
Cash and short-term investments	\$ 380,407	\$ 362,473
Corporate bonds and other debt securities	397,124	437,503
United States government obligations	151,036	254,478
Government mutual funds	291,801	310,075
Bond and other debt security mutual funds	302,849	360,601
Commodity mutual funds	-	3,497
Hedge funds	1,896,615	1,661,622
Private equity limited partnership funds	515,385	444,827
Equity securities	844,190	1,165,175
Equity funds	689,858	572,108
	<u>\$ 5,469,265</u>	<u>\$ 5,572,359</u>

Advocate Health Care Network and Subsidiaries

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

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

For private equity investments carried at cost, the System regularly compares the net asset value (NAV), which is a proxy for the fair value, to the recorded cost of these investments for potential other-than-temporary impairment. The cost of these investments is \$424,547 and \$384,435, and the NAV of these based on estimates determined by the investments' management was \$500,632 and \$443,862 at December 31, 2015 and 2014, respectively. In 2015 and 2014, the System identified and recorded \$4,725 and \$15,041, respectively, of impairment losses that are included in investment (loss) income in the consolidated statements of operations and changes in net assets.

At December 31, 2015 and 2014, the System had additional commitments to fund private equity investments in the amounts of \$573,232 and \$491,822, respectively. The commitments at December 31, 2015 are expected to be funded over the next six years.

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 46,804	\$ 57,506
Equity (losses) income from alternative investments	(84,713)	110,316
Net realized gains	87,253	120,033
Net unrealized losses	(232,936)	(99,803)
	<u>\$ (183,592)</u>	<u>\$ 188,052</u>

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

	<u>2015</u>	<u>2014</u>
Other revenue	\$ 41,767	\$ 46,888
Investment (losses) income	(221,964)	136,945
Realized and unrealized (losses) gains on investments – temporarily restricted net assets	(3,395)	4,219
	<u>\$ (183,592)</u>	<u>\$ 188,052</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

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

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral for securities borrowed equal to approximately 103% in 2015 and 2014, of the value of the security on a daily basis at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At December 31, 2015 and 2014, the System loaned \$18,483 and \$19,145, respectively, in securities and accepted collateral for these loans in the amount of \$19,097 and \$19,768, respectively, of which \$19,097 and \$19,768, respectively, represent cash and government securities and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

**4. Fair Value Measurements**

The System accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in active markets. The System categorizes each of its fair value measurements in one of the three levels based on the highest level of input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices in active markets for identified assets or liabilities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which then requires the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

## Advocate Health Care Network and Subsidiaries

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

#### 4. Fair Value Measurements (continued)

The following section describes the valuation methodologies the System uses to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to Level 1 investments such as domestic and international equities, United States Treasuries, exchange-traded mutual funds, and agency securities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, commercial paper, and certain agency securities. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include fair value adjustments related to the System's credit risk.

The System's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose the System to market risk, performance risk, and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose the System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

Advocate Health Care Network and Subsidiaries

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

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2015:

Description	2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and short-term investments	\$ 380,407	\$ 366,847	\$ 13,560	\$ -
Corporate bonds and other debt securities	397,124	-	397,124	-
United States government obligations	151,036	-	151,036	-
Government mutual funds	291,801	291,801	-	-
Bond and other debt security mutual funds	302,849	172,728	130,121	-
Equity securities	844,190	844,190	-	-
Equity funds	689,858	76,118	613,740	-
Investments at fair value	<u>3,057,265</u>	<u>\$ 1,751,684</u>	<u>\$ 1,305,581</u>	<u>\$ -</u>
Investments not at fair value	2,412,000			
Total investments	<u>\$ 5,469,265</u>			
<b>Collateral proceeds received under securities lending program</b>				
	<u>\$ 19,097</u>		<u>\$ 19,097</u>	
<b>Liabilities</b>				
Obligations under swap agreements (see Note 7)	<u>\$ (88,013)</u>		<u>\$ (88,013)</u>	
Obligations to return collateral under securities lending program	<u>\$ (19,097)</u>		<u>\$ (19,097)</u>	

Advocate Health Care Network and Subsidiaries

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

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2014:

Description	2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and short-term investments	\$ 362,473	\$ 348,076	\$ 14,397	\$ -
Corporate bonds and other debt securities	437,503	-	437,503	-
United States government obligations	254,478	-	254,478	-
Government mutual funds	310,075	310,075	-	-
Bond and other debt security mutual funds	360,601	69,172	291,429	-
Commodity mutual funds	3,497	3,497	-	-
Equity securities	1,165,175	1,165,175	-	-
Equity funds	572,108	133,227	438,881	-
Investments at fair value	3,465,910	\$ 2,029,222	\$ 1,436,688	\$ -
Investments not at fair value	2,106,449			
Total investments	<u>\$ 5,572,359</u>			
Collateral proceeds received under securities lending program	\$ 19,768		\$ 19,768	
<b>Liabilities</b>				
Obligations under swap agreements (see Note 7)	\$ (86,246)		\$ (86,246)	
Obligations to return collateral under securities lending program	\$ (19,768)		\$ (19,768)	

## Advocate Health Care Network and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 4. Fair Value Measurements (continued)

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

Investments not at fair value include hedge funds and private equity limited partnerships (alternative investments). The values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. The valuation for the estimated fair value of long-term debt is completed by a third-party service and takes into account a number of factors including, but not limited to, any one or more of the following: (i) general interest rate and market conditions; (ii) macroeconomic and/or deal-specific credit fundamentals; (iii) valuations of other financial instruments that may be comparable in terms of rating, structure, maturity, and/or covenant protection; (iv) investor opinions about the respective deal parties; (v) size of the transaction; (vi) cash flow projections, which in turn are based on assumptions about certain parameters that include, but are not limited to, default, recovery, prepayment, and reinvestment rates; (vii) administrator reports, asset manager estimates, broker quotations, and/or trustee reports, and (viii) comparable trades, where observable. Based on the inputs in determining the estimated fair value of debt, this liability would be considered Level 2. The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was \$1,705,444 and \$1,632,090 at December 31, 2015 and 2014, respectively, which included consideration of third-party credit enhancements, of which there was no effect.

#### 5. Interest in Health Care and Related Entities

During 2000, in connection with the acquisition of a medical center, the System acquired an interest in the net assets of the Masonic Family Health Foundation (the Foundation), an independent organization, under the terms of an asset purchase agreement (the Agreement). The use of substantially all of the Foundation's net assets is designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of the Foundation's investment yield, net of expenses, on substantially all of the Foundation's investments is designated for the support of one of the System's medical facilities. The Foundation must pay the System, annually, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

Advocate Health Care Network and Subsidiaries

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

**5. Interest in Health Care and Related Entities (continued)**

The interest in the net assets of this organization amounted to \$83,499 and \$88,205 as of December 31, 2015 and 2014, respectively, which is reflected in interest in health care and related entities in the consolidated balance sheets. The System's interest in the investment yield is reflected in the consolidated statements of operations and changes in net assets and amounted to \$(880) and \$3,755 for the years ended December 31, 2015 and 2014, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to \$6,996 and \$4,720 during the years ended December 31, 2015 and 2014, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed \$639 and \$408 to the System for program support of one of its medical facilities during the years ended December 31, 2015 and 2014, respectively.

The System has a 50% membership and governance interest in Advocate Health Partners (d/b/a Advocate Physician Partners) (APP), which has been accounted for on an equity basis. The System's carrying value in this interest was \$0 at December 31, 2015 and 2014. Financial information relating to this interest as of and for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Assets	\$ 134,255	\$ 150,049
Liabilities	135,774	151,294
Revenues in excess of expenses	-	-

The System contracts with APP for certain operational and administrative services. Total expenses incurred for these services were \$28,345 and \$27,583 in 2015 and 2014, respectively, which is included in purchased services and operating supplies and other in the consolidated statements of operations and changes in net assets. At December 31, 2015 and 2014, the System had an accrued liability to APP for those services for \$310 and \$319, respectively, which is included in accounts payable and accrued expenses in the consolidated balance sheets.

Advocate Health Care Network and Subsidiaries

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

**5. Interest in Health Care and Related Entities (continued)**

APP purchased claims processing and certain management services from the System in the amounts of \$8,026 and \$7,645 in 2015 and 2014, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. Under terms of an agreement with the System, APP reimburses the System for salaries, benefits and other expenses that are incurred by the System on APP's behalf. The amount billed for these services in 2015 and 2014 was \$27,480 and \$25,372, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets. The System had a receivable from APP at December 31, 2015 and 2014, for claims processing and management services of \$2,842 and \$2,825, respectively, which is included in prepaid expenses, inventories and other current assets in the consolidated balance sheets.

**6. Long-Term Debt**

Long-term debt, net of unamortized original issue discount or premium and unamortized deferred bond issuance costs, consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series:		
1993C, 6.00%, principal payable in varying annual installments through April 2018	\$ 14,466	\$ 17,230
2003A (weighted-average rate of 0.23% and 2.24% during 2015 and 2014, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	17,331	19,611
2003C (weighted-average rate of 0.24% and 0.18% during 2015 and 2014, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	16,632	18,912
2008A (weighted-average rate of 5.00% during 2015 and 2014), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	133,532	137,017

Advocate Health Care Network and Subsidiaries

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

6. Long-Term Debt (continued)

	<u>2015</u>	<u>2014</u>
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2008C (weighted-average rate of 0.05% and 0.20% during 2015 and 2014, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	\$ 342,535	\$ 342,495
2008D, 5.25% to 5.50%, principal payable in varying annual installments through November 2038	13,930	18,213
2010A, 5.50%, principal payable in varying annual installments through April 2044	19,499	36,871
2010B, 5.38%, principal payable in varying annual installments through April 2044	27,320	51,638
2010C, 5.38%, principal payable in varying annual installments through April 2044	13,371	25,265
2010D, 4.00% to 5.25%, principal payable in varying annual installments through April 2038	82,547	100,692
2011A, 3.00% to 5.00%, principal payable in varying annual installments through April 2041	37,185	37,608
2011B (weighted-average rate of 0.20% and 0.17% during 2015 and 2014, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	69,205	69,182
2011C (weighted-average rate of 0.83% and 0.81% during 2015 and 2014, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial seven-year period; interest tied to a market index plus a spread	49,857	49,852

Advocate Health Care Network and Subsidiaries

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

6. Long-Term Debt (continued)

	2015	2014
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2011D (weighted-average rate of 0.93% and 0.91% during 2015 and 2014, respectively), principal payable in varying annual installments through April 2049, subject to a put provision at the end of the initial 10-year period; interest tied to a market index plus a spread	\$ 49,857	\$ 49,852
2012, 4.00% to 5.00%, principal payable in varying annual installments through June 2047	148,087	148,175
2013A, 4.00% to 5.00%, principal payable in varying annual installments through June 2031	98,594	100,172
2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	336,811	339,070
2015, 4.13% to 5.00%, principal payable in varying annual installments through May 2045	103,050	-
2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	72,553	-
Capital lease obligations	38,219	30,180
Other	1,004	6,560
	<u>1,685,585</u>	<u>1,598,595</u>
Less current portion of long-term debt	20,168	20,042
Less long-term debt subject to short-term remarketing arrangements	126,045	130,635
	<u>\$ 1,539,372</u>	<u>\$ 1,447,918</u>

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2020, are as follows: 2016 – \$20,168; 2017 – \$21,418; 2018 – \$22,787; 2019 – \$28,232; and 2020 – \$29,507.

## Advocate Health Care Network and Subsidiaries

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

#### 6. Long-Term Debt (continued)

The System's outstanding bonds are secured by obligations issued under the Amended and Restated Master Trust Indenture dated as of September 1, 2011 and subsequently amended, with Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Condell, Advocate North Side and Advocate Sherman (the Obligated Group or Restricted Affiliates) and U.S. Bank National Association, as master trustee (the System Master Indenture). Under the terms of the bond indentures and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The System Master Indenture and other debt agreements, including a bank credit agreement, also place restrictions on the System and require the System to maintain certain financial ratios.

The System's unsecured variable rate revenue bonds, Series 2003A of \$17,385, Series 2003C of \$16,685, Series 2008C-3B of \$21,975, and Series 2011B of \$70,000, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within a maximum of 12 months after December 31, 2015, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, the System has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or unrestricted assets as a source of self-liquidity.

The System has standby bond purchase agreements with banks to provide liquidity support for substantially all of the Series 2008C Bonds. In the event of a failed remarketing of the supported Series 2008C Bonds upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2015 and 2014, there were no bank-purchased bonds outstanding. The agreements expire as follows: \$145,919 in August 2017; \$49,829 in August 2019; and \$129,456 in August 2020.

Advocate Health Care Network and Subsidiaries

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

**6. Long-Term Debt (continued)**

On December 18, 2014, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2014, in the amount of \$304,770. The proceeds of the Series 2014 Bonds were used to advance refund the Series 2007A Sherman Bonds and a portion of the Series 2008D Bonds, and to pay certain costs of issuing the Series 2014 Bonds.

On September 24, 2015, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2015, in the amount of \$100,000. The proceeds of the Series 2015 Bonds were used, together with other funds available to the System, to finance, refinance, or reimburse the System for a portion of the costs related to the acquisition, construction, renovation, and equipping of certain capital projects and to pay certain costs of issuing the Series 2015 Bonds.

On October 22, 2015, the Illinois Finance Authority, for the benefit of the System, issued its Revenue Bonds, Series 2015B, in the amount of \$71,645. The proceeds of the Series 2015B Bonds were used to advance refund a portion of the Series 2010 Bonds and to pay certain costs of issuing the Series 2015B Bonds.

The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 7.

Interest paid, net of capitalized interest, amounted to \$42,305 and \$62,659 in 2015 and 2014, respectively. The System capitalized interest of \$12,992 and \$7,513 in 2015 and 2014, respectively.

At December 31, 2015, the System had lines of credit with banks aggregating to \$325,000. These lines of credit provide for various interest rates and payment terms and expire as follows: \$25,000 in February 2016, \$100,000 in December 2016, \$100,000 in March 2018 and \$100,000 in August 2018. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures, or for general working capital purposes. At December 31, 2015, no amounts were outstanding on these lines of credit.

Advocate Health Care Network and Subsidiaries

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

**7. Derivatives**

The System has interest rate-related derivative instruments to manage exposure of its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

At December 31, 2015, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series. The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2015 and 2014:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	\$ 129,900	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%
2008C-2	108,425	November 1, 2038	61.7% of LIBOR + 26 bps	3.60
2008C-3	88,000	November 1, 2038	61.7% of LIBOR + 26 bps	3.60

Advocate Health Care Network and Subsidiaries

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

**7. Derivatives (continued)**

The swaps are not designated as hedging instruments, and therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are included as a component of nonoperating income (loss) in the consolidated statements of operations and changes in net assets as changes in the fair value of interest rate swaps. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the consolidated statements of operations and changes in net assets.

The fair value of derivative instruments is as follows:

	<b>December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Consolidated balance sheet location</b>		
Obligations under swap agreements	\$ (88,843)	\$ (86,246)
Collateral posted under swap agreements	830	-
Obligations under swap agreements, net	<u>\$ (88,013)</u>	<u>\$ (86,246)</u>

Amounts recorded in the consolidated statements of operations and changes in net assets for the derivatives are as follows:

	<b>Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Consolidated statement of operations and changes in net assets location</b>		
Net cash payments on interest rate swap agreements (interest expense)	<u>\$ 10,463</u>	<u>\$ 10,734</u>
Change in the fair value of interest rate swaps (nonoperating)	<u>\$ (2,597)</u>	<u>\$ (38,338)</u>

Advocate Health Care Network and Subsidiaries

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

**7. Derivatives (continued)**

The aggregate fair value of all swap instruments with credit risk-related contingent features that are in a liability position was \$88,843 and \$86,246 at December 31, 2015 and 2014, respectively, for which the System has posted collateral of \$830 and \$0 at December 31, 2015 and 2014, respectively. The swap instruments contain provisions that require the System's debt to maintain an investment grade credit rating from certain major credit rating agencies. If the System's debt were to fall below investment grade on the valuation date it would be in violation of these provisions and the counterparty to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. If the credit risk-related contingent features underlying these swap agreements were triggered on December 31, 2015 the System would be required to post an additional \$88,013 in collateral with the counterparties.

**8. Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Purchases of property and equipment	\$ 26,673	\$ 33,118
Medical education and other health care programs	<u>84,910</u>	<u>85,873</u>
	<u>\$ 111,583</u>	<u>\$ 118,991</u>

Permanently restricted net assets generate investment income, which is used to benefit the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Purchases of property and equipment	\$ 1,000	\$ 1,000
Medical education and other health care programs	<u>47,617</u>	<u>47,019</u>
	<u>\$ 48,617</u>	<u>\$ 48,019</u>

Advocate Health Care Network and Subsidiaries

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

**9. Retirement Plans**

The System maintains defined benefit pension plans, the Advocate Health Care Network Pension Plan (Advocate Plan) and Condell Health Network Retirement Plan (Condell Plan) (collectively, the Plans), which cover a majority of its employees (associates). The Condell Plan was frozen effective January 1, 2008, to new participants, and participants ceased to accrue additional pension benefits. The System may elect to terminate the Condell Plan in the future subject to the provisions set forth in Employee Retirement Income Security Act of 1974.

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Advocate Plan is as follows:

	<u>2015</u>	<u>2014</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 835,822	\$ 800,469
Actual return on plan assets	526	50,958
Employer contributions	67,880	30,960
Benefits paid	<u>(46,699)</u>	<u>(46,565)</u>
Plan assets at fair value at end of year	<u>\$ 857,529</u>	<u>\$ 835,822</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 864,911	\$ 774,688
Service cost	49,095	45,224
Interest cost	34,688	37,484
Actuarial (gain) loss	(23,912)	54,080
Benefits paid	<u>(46,699)</u>	<u>(46,565)</u>
Projected benefit obligation at end of year	<u>\$ 878,083</u>	<u>\$ 864,911</u>
Plan assets less than projected benefit obligation	<u>\$ (20,554)</u>	<u>\$ (29,089)</u>
Accumulated benefit obligation at end of year	<u>\$ 794,014</u>	<u>\$ 780,706</u>

Advocate Health Care Network and Subsidiaries

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

**9. Retirement Plans (continued)**

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Condell Plan is as follows:

	<u>2015</u>	<u>2014</u>
<b>Change in plan assets:</b>		
Plan assets at fair value at beginning of year	\$ 63,494	\$ 39,668
Actual return on plan assets	(1,304)	2,461
Employer contributions	-	25,306
Benefits paid	(3,642)	(3,941)
Plan assets at fair value at end of year	<u>\$ 58,548</u>	<u>\$ 63,494</u>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 71,846	\$ 63,405
Interest cost	2,712	2,862
Actuarial (gain) loss	(3,568)	9,520
Benefits paid	(3,642)	(3,941)
Projected benefit obligation at end of year	<u>\$ 67,348</u>	<u>\$ 71,846</u>
Plan assets less than projected benefit obligation	<u>\$ (8,800)</u>	<u>\$ (8,352)</u>
Accumulated benefit obligation at end of year	<u>\$ 67,348</u>	<u>\$ 71,846</u>

Advocate Health Care Network and Subsidiaries

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

**9. Retirement Plans (continued)**

The Condell Plan paid lump sums totaling \$2,609 and \$3,130 in 2015 and 2014, respectively. The amount in 2014 was greater than the sum of the Condell Plan's service cost and interest cost resulting in a settlement charge in the amount of \$903.

	<u>2015</u>	<u>2014</u>
Net Plans' pension expense consists of the following for the years ended December 31:		
Service cost	\$ 49,095	\$ 45,224
Interest cost	37,400	40,346
Expected return on plan assets	(62,098)	(58,131)
Amortization of:		
Prior service credit	(4,823)	(4,823)
Recognized actuarial loss	14,531	10,284
Settlement/curtailment	—	903
Net Plans' pension expense	<u>\$ 34,105</u>	<u>\$ 33,803</u>

The amounts of actuarial loss and prior service cost (credit) included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the year ending December 31, 2016 are \$11,690 and \$(4,823), respectively.

For the defined benefit plans previously described, changes in plans' assets and benefit obligations recognized in unrestricted net assets during 2015 and 2014 include an actuarial loss of \$20,869 and \$57,126, respectively, and net prior service credit of \$4,823 in both years.

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net pension expense:

	<u>2015</u>	<u>2014</u>
Unrecognized prior credit	\$ (13,771)	\$ (18,594)
Unrecognized actuarial loss	239,361	218,492
	<u>\$ 225,590</u>	<u>\$ 199,898</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**9. Retirement Plans (continued)**

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Plans were paid from the Plans' assets. The System anticipates making \$30,260 in contributions to the Plans' assets during 2016. Expected associate benefit payments are 2016 – \$62,850; 2017 – \$64,130; 2018 – \$69,100; 2019 – \$75,030; 2020 – \$76,010; and 2021 through 2025 – \$410,480.

The Plans' asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors, and manager style to minimize the risk of loss. The System uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. The System regularly monitors manager performance and compliance with investment guidelines.

The System's target and actual pension asset allocations for the Plans are as follows:

<u>Asset Category – Advocate</u>	<u>Target</u>	<u>2015</u>	<u>2014</u>
		<u>Actual</u>	<u>Actual</u>
Domestic and international equity securities	35.0%	37.1%	37.8%
Alternative investments	45.0	42.6	40.6
Cash and fixed income securities	20.0	20.3	21.6
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<u>Asset Category – Condell</u>	<u>Target</u>	<u>2015</u>	<u>2014</u>
		<u>Actual</u>	<u>Actual</u>
Domestic and international equity securities	30.0%	30.2%	30.0%
Cash and fixed income securities	70.0	69.8	70.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Advocate Health Care Network and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**9. Retirement Plans (continued)**

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. Real estate commingled funds for which an active market exists are included in Level 2. The System opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plans' interest in hedge funds, private equity funds and real estate commingled funds. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity partnerships and real estate commingled funds typically have finite lives ranging from five to ten years, at the end of which all invested capital is returned. For hedge funds, the typical lockup period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 4.

The Advocate Plan had commitments to fund private equity partnerships an additional \$101,629 and \$80,276 at December 31, 2015 and 2014, respectively. The commitments at December 31, 2015 are expected to be funded over the next six years.

Advocate Health Care Network and Subsidiaries

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

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2015, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 34,142	\$ 15,924	\$ 18,218	\$ -
Equity securities:				
Small cap	1,215	-	1,215	-
Large cap	49,020	41,425	7,595	-
Value equity	35,205	35,205	-	-
Growth equity	38,576	38,576	-	-
U.S. equity	10,299	10,299	-	-
International equity	121,297	31,667	89,630	-
International equity - emerging	53,852	-	53,852	-
Fixed income securities:				
Core plus bonds	99,214	34,434	64,780	-
Long duration bonds	106,620	-	106,620	-
Emerging market bonds	2,040	-	2,040	-
Alternative investments:				
Real estate	47,942	-	47,942	-
Assets at net asset value:				
Hedge funds	206,190			
Private equity funds	99,207			
Real estate	11,258			
Total	<u>\$ 916,077</u>			

Advocate Health Care Network and Subsidiaries

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

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2014, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

Description	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 41,944	\$ 10,342	\$ 31,602	\$ -
Equity securities:				
Small cap	1,315	-	1,315	-
Large cap	50,197	41,880	8,317	-
Value equity	35,126	35,126	-	-
Growth equity	37,829	37,829	-	-
U.S. equity	20,494	20,494	-	-
International equity	118,285	30,488	87,797	-
International equity – emerging	75,748	-	75,748	-
Fixed income securities:				
Core plus bonds	77,519	26,603	50,916	-
Long duration bonds	100,147	-	100,147	-
Emerging market bonds	2,170	-	2,170	-
Alternative investments:				
Real estate	59,319	-	59,319	-
Assets at net asset value:				
Hedge funds	184,974			
Private equity funds	80,371			
Real estate	13,878			
Total	<u>\$ 899,316</u>			

Advocate Health Care Network and Subsidiaries

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

**9. Retirement Plans (continued)**

Assumptions used to determine benefit obligations at the measurement date are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate – both plans	4.30%	3.90%
Assumed rate of return on assets – Advocate Plan	7.25	7.25
Assumed rate of return on assets – Condell Plan	5.00	5.00
Weighted-average rate of increase in future compensation (age-based table) – Advocate Plan	4.03	4.03

Assumptions used to determine net pension expense for the fiscal years are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate – both plans	3.90%	4.70%
Assumed rate of return on assets – Advocate Plan	7.25	7.25
Assumed rate of return on assets – Condell Plan	5.00	6.75
Weighted-average rate of increase in future compensation (age-based table) – Advocate Plan	4.03	4.15

The assumed rate of return on plan assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. The expected return for each asset class was then weighted based on the target asset allocation to develop the overall expected rate of return on assets for the portfolio.

The 2015 mortality assumption for the Plans was the RP-2014 no-collar adjustment scale MP-2015 generational projection. The 2014 mortality assumption for the Plans was the RP-2014 no-collar adjustment scale MP-2014 generational projection.

In addition to the defined benefit pension plans, the System sponsors various defined contribution plans. The System contributed to the defined contribution plans \$43,521 and \$39,708 in 2015 and 2014, respectively, which are included in salaries, wages, and employee benefits expense in the consolidated statements of operations and changes in net assets.

## Advocate Health Care Network and Subsidiaries

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

#### 10. General and Professional Liability Risks

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Revocable trust funds, administered by a trustee and a captive insurance company, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the trust and captive insurance company.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the trust were determined using a discount rate of 3.25% for 2015 and 2014. Accrued insurance liabilities for the System's captive insurance company were determined using a discount rate of 3.00% for 2015 and 2014. Total accrued insurance liabilities would have been \$52,723 and \$48,705 greater at December 31, 2015 and 2014, respectively, had these liabilities not been discounted.

The System is a defendant in certain litigation related to professional and general liability risks. Although the outcome of the litigation cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of this litigation will not have any material adverse effect on the System's operations or financial condition.

#### 11. Legal, Regulatory, and Other Contingencies and Commitments

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs, and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

Advocate Health Care Network and Subsidiaries

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

**11. Legal, Regulatory, and Other Contingencies and Commitments (continued)**

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

In 2013 four desktop computers were stolen during a burglary at one of the System's administrative support locations. The computers did not contain patient medical records but did contain certain patient information, including names, addresses, Social Security numbers and limited billing and clinical information. Affected patients were notified and offered free credit monitoring and identify theft protection. This matter is under investigation by various government agencies, and the System has received notice that it has been named in certain lawsuits regarding this matter. The System continues to monitor and investigate these matters. Although the outcome of these investigations and litigation cannot be determined with certainty, management is not in possession of any information to suggest that the costs relating to the resolution of this incident will have a material adverse effect on the System's operations or financial condition.

On March 17, 2014, the System and certain of its subsidiaries were named as defendants to litigation surrounding the church plan status of the Advocate Plan. On December 31, 2014, the United States District Court for the Northern District of Illinois issued its Decision and Order denying the Defendants' Motion to Dismiss. The System filed a Motion for Interlocutory Appeal, which was granted on January 13, 2015, and has subsequently filed its Petition for Appeal with the Seventh Circuit on January 23, 2015. On September 18, 2015, the court heard oral arguments. A timeline for a ruling is unknown. Regardless of the outcome of such appeal, the System does not believe that this matter will have a material adverse effect on the System's financial position or results of operations.

The System is committed to constructing additions and renovations to its medical facilities and implementing information technology projects, which are expected to be completed in future years. The estimated cost of these commitments is \$757,100, of which \$610,859 has been incurred as of December 31, 2015.

Advocate Health Care Network and Subsidiaries

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

**11. Legal, Regulatory, and Other Contingencies and Commitments (continued)**

The System entered into agreements for information technology services provided by a third party. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$150,000 over the next nine years.

Future minimum rental commitments at December 31, 2015, for all noncancelable leases with original terms of more than one year are \$41,487, \$39,221, \$30,780, \$24,656, and \$21,185 for the years ending December 31, 2016 through 2020, respectively, and \$88,909 thereafter.

Rent expense, which is included in other expenses, amounted to \$69,373 and \$77,396 in 2015 and 2014, respectively.

Advocate Health Care Network and Subsidiaries

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

**12. Income Taxes and Tax Status**

Certain subsidiaries of the System are for-profit corporations. Significant components of the for-profit subsidiaries' deferred tax (liabilities) assets are as follows at December 31:

	<u>2015</u>	<u>2014</u>
<b>Deferred tax assets</b>		
Allowance for uncollectible accounts	\$ 3,333	\$ 5,278
Other accrued expenses	493	839
Accrued insurance	3,790	3,985
Accrued compensation and employee benefits	2,269	2,360
Third-party settlements	285	307
Deferred gain on acquisition	895	1,696
Prepaid and other assets	436	-
Net operating losses	<u>18,408</u>	<u>15,942</u>
Total deferred tax assets	29,909	30,407
Less valuation allowance	<u>18,032</u>	<u>15,203</u>
Net deferred tax assets, included in prepaid expenses, inventories, and other assets and other noncurrent assets	11,877	15,204
<b>Deferred tax liabilities</b>		
Property and equipment	(4,967)	(3,471)
Other accrued expenses	(8,868)	(8,381)
Accrued insurance	<u>(24)</u>	<u>(17)</u>
Total deferred tax liabilities, included in other noncurrent liabilities	<u>(13,859)</u>	<u>(11,869)</u>
Net deferred tax (liability) asset	<u>\$ (1,982)</u>	<u>\$ 3,335</u>

Advocate Health Care Network and Subsidiaries

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

**12. Income Taxes and Tax Status (continued)**

As of December 31, 2015, the for-profit corporations had \$43,511 of federal and \$63,106 of state net operating loss carryforwards with unutilized amounts expiring between 2019 and 2035.

During 2015 the valuation allowance increased by \$2,829. This change is primarily due to the acquisition and merger of a physician group, the utilization of Illinois net operating losses and the valuation allowance relating to these net operating losses being eliminated. The valuation allowance as of the end of 2015 primarily consists of net operating losses that are unlikely to be utilized.

Significant components of the for-profit subsidiaries' provision (credit) for income taxes are as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Current:		
Federal	\$ 273	\$ 6,413
State	44	1,958
Deferred	5,317	(4,180)
	<u>\$ 5,634</u>	<u>\$ 4,191</u>

Federal and state income taxes paid relating to the System's for-profit corporations were \$5,775 and \$6,885 in 2015 and 2014, respectively.

The System and all other controlled or wholly owned subsidiaries are exempt from income taxes under Internal Revenue Code Section 501(c)(3). They do, however, operate certain programs that generate unrelated business income. The current tax (credit) provision recorded on this income was \$(2,528) and \$2,361 for the years ended December 31, 2015 and 2014, respectively.

## Advocate Health Care Network and Subsidiaries

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

#### **13. Affiliation and Merger**

On September 11, 2014, the System and NorthShore University Health System (NorthShore) entered into a definitive merger and affiliation agreement (the Agreement) to form Advocate NorthShore Health Partners (ANHP), an integrated delivery system to be comprised of sixteen hospitals, a broad network of clinically integrated employed and affiliated physicians, outpatient centers and home health services across northern and central Illinois that will provide improved health outcomes and lower costs for the patients and communities it serves. The completion of the transaction was conditioned upon the satisfaction of certain conditions precedent, including required regulatory approval of the Federal Trade Commission (FTC). On December 18, 2015, the FTC issued an administrative complaint challenging the proposed merger and affiliation. On December 21, 2015, the FTC and Illinois Attorney General filed a complaint and motion for preliminary injunction in the Northern District of Illinois Federal District Court in Chicago, Illinois which was granted. The matter has been set for a six day evidentiary hearing and trial in April 2016 with a ruling expected during the summer of 2016. The System can provide no assurance that the transaction will, or will not, occur.

#### **14. Subsequent Events**

The System evaluated events occurring between January 1, 2016 and March 4, 2016, which is the date when the consolidated financial statements were issued.

## Supplementary Information

1512-1787469



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Advocate Health Care Network

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

*Ernst & Young LLP*

March 4, 2016

1512-1787469

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Advocate Charitable Foundation

Statements of Operations  
(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Unrestricted revenues, gains, and other support</b>		
Other revenue	\$ 1,586	\$ 1,668
<b>Expenses</b>		
Salaries, wages, and employee benefits	7,277	7,237
Purchased services and operating supplies	942	904
Insurance and claims costs	6	15
Other	3,258	2,679
Depreciation and amortization	51	55
	<u>11,534</u>	<u>10,890</u>
Operating loss	(9,948)	(9,222)
<b>Nonoperating income (loss)</b>		
Other nonoperating items, net	(14)	(11)
Expenses in excess of revenues	<u>\$ (9,962)</u>	<u>\$ (9,233)</u>

Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

December 31, 2015

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospital Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Advocate Sherman Hospital and Subsidiaries
<b>Assets</b>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 203,792	\$ -	\$ 3,902	\$ 178,296	\$ 9,385	\$ 1	\$ 547	\$ 11,661
Short-term investments	21,666	-	-	-	-	21,666	-	-
Assets limited as to use	94,186	-	-	81,893	-	-	12,293	-
Patient accounts receivable, less allowances for uncollectible accounts	602,462	(1,847)	-	542,167	19,087	-	-	44,055
Amounts due from primary third-party payors	39,711	-	-	36,698	-	-	-	3,013
Intercompany receivables	-	(104,419)	7,228	34,787	54,691	1,296	271	6,146
Prepaid expenses, inventories and other current assets	264,629	-	-	175,725	21,623	45,391	13,558	10,172
Collateral proceeds received under securities lending program	19,097	-	-	19,697	-	-	-	-
<b>Total current assets</b>	<b>1,248,543</b>	<b>(106,266)</b>	<b>11,130</b>	<b>1,068,663</b>	<b>104,786</b>	<b>68,554</b>	<b>26,669</b>	<b>75,007</b>
<b>Assets held as to use:</b>								
Internally and externally developed investments limited as to use	5,114,138	-	318,828	4,371,790	62,529	115,482	115,000	127,509
Investments under securities lending program	18,482	-	-	18,483	-	-	-	-
Investment in subsidiaries	-	(184,195)	184,195	-	-	-	-	-
Intercompany receivables	-	(244,451)	79,085	175,060	-	-	-	-
Other noncurrent assets	165,760	(2,462)	-	179,728	23,673	4,521	-	-
Interest in health care and related entities	141,116	-	-	114,057	25,919	-	-	3,140
Reinsurance receivable	117,351	-	-	9,158	-	-	107,406	4,787
<b>Total assets held as to use</b>	<b>5,573,849</b>	<b>(440,503)</b>	<b>542,109</b>	<b>4,878,276</b>	<b>130,121</b>	<b>120,003</b>	<b>218,406</b>	<b>135,436</b>
<b>Property and equipment - at cost:</b>								
Land and land improvements	271,192	-	-	220,749	15,219	-	-	35,224
Buildings	2,929,513	-	-	2,614,697	70,767	355	-	243,694
Medical equipment	1,881,974	-	-	1,466,788	62,610	1,456	-	31,680
Construction-in-progress	578,136	-	-	552,781	20,122	-	-	5,273
<b>Total property and equipment</b>	<b>5,360,815</b>	<b>-</b>	<b>-</b>	<b>4,857,015</b>	<b>168,118</b>	<b>1,811</b>	<b>-</b>	<b>335,871</b>
Less allowances for depreciation	2,549,071	-	-	2,403,164	90,071	1,743	-	54,053
<b>Total assets</b>	<b>\$ 9,634,172</b>	<b>\$ (546,769)</b>	<b>\$ 595,239</b>	<b>\$ 8,348,790</b>	<b>\$ 312,954</b>	<b>\$ 188,625</b>	<b>\$ 245,075</b>	<b>\$ 492,261</b>

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Advocate Health Care Network and Subsidiaries

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospital Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Advocate Sherman Hospital and Subsidiaries
<b>Liabilities and net assets</b>								
<b>Current liabilities:</b>								
Current portion of long-term debt	\$ 20,168	\$ -	\$ -	\$ 10,328	\$ 715	\$ -	\$ -	\$ 125
Current portion of intercompany long-term debt	-	(5,195)	-	-	-	-	-	6,195
Long-term debt subject to short-term remarketing arrangements	126,045	-	-	126,045	-	-	-	-
Accounts payable and accrued expenses	418,126	(1,847)	-	357,923	31,924	340	14,443	13,343
Accrued salaries and employee benefits	402,837	-	-	376,565	12,259	1,146	-	12,867
Amounts due to primary third-party payors	343,227	-	-	305,817	2,509	-	-	36,481
Current portion of accrued insurance and claim costs	113,684	-	-	84,183	1,048	-	25,840	2,643
Intercompany payables	-	(98,234)	-	59,476	18,655	6,852	-	12,857
Obligations to return collateral under securities lending program	19,097	-	-	19,097	-	-	-	-
<b>Total current liabilities</b>	<b>1,441,184</b>	<b>(106,266)</b>	<b>-</b>	<b>1,346,434</b>	<b>67,310</b>	<b>8,338</b>	<b>40,667</b>	<b>84,511</b>
<b>Noncurrent liabilities:</b>								
Long-term debt, less current portion	1,539,372	-	-	1,530,504	7,988	-	-	890
Intercompany payables	-	(252,152)	-	-	-	-	-	252,152
Pension plan liability	29,354	-	-	28,759	615	-	-	-
Accrued insurance and claims cost, less current portion	702,496	-	-	670,858	7,799	-	24,199	64
Accrued losses subject to reinsurance recovery	112,231	-	-	91,158	-	-	103,406	4,787
Obligations under a swap agreement, net of collateral posted	88,013	-	-	88,013	-	-	-	-
Other noncurrent liabilities	202,139	-	138	351,966	48,502	2,545	-	8
<b>Total liabilities</b>	<b>2,679,745</b>	<b>(252,152)</b>	<b>138</b>	<b>2,478,818</b>	<b>64,904</b>	<b>7,545</b>	<b>127,601</b>	<b>238,991</b>
<b>Total liabilities</b>	<b>4,120,929</b>	<b>(359,118)</b>	<b>138</b>	<b>3,825,242</b>	<b>172,414</b>	<b>10,883</b>	<b>168,268</b>	<b>343,102</b>
<b>Net assets:</b>								
Unrestricted	5,351,684	68,334	593,101	4,522,546	-	18,682	-	149,021
Temporarily restricted	111,583	-	-	1,002	-	110,443	-	158
Permanently restricted	48,617	-	-	-	-	48,617	-	-
Common stock	-	(1)	-	-	1	-	-	-
Additional paid-in capital	-	(177,163)	-	-	177,163	-	-	-
Non-operating interest	1,362	-	-	-	1,362	-	-	-
Retained (deficit) earnings/partnership losses	-	(718,821)	-	-	-	-	-	76,807
<b>Total net assets</b>	<b>5,513,246</b>	<b>(187,651)</b>	<b>593,101</b>	<b>4,523,548</b>	<b>180,240</b>	<b>177,142</b>	<b>76,807</b>	<b>149,150</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,634,172</b>	<b>\$ (546,769)</b>	<b>\$ 595,239</b>	<b>\$ 8,348,790</b>	<b>\$ 312,954</b>	<b>\$ 188,625</b>	<b>\$ 245,075</b>	<b>\$ 492,261</b>

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Advocate Health Care Network and Subsidiaries

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

Year Ended December 31, 2015

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Advocate Sherman Hospital and Subsidiaries
Unrestricted revenues, gains, and other support								
Net patient service revenue	\$ 4,884,611	\$ (20,311)	\$ -	\$ 4,950,129	\$ 197,288	\$ -	\$ -	\$ 317,909
Provision for uncollectible accounts	(220,172)	-	-	(190,941)	(6,156)	-	-	(2,076)
Capital revenue	4,664,440	(20,311)	-	4,359,188	191,134	-	-	294,429
Other revenue	411,896	-	-	337,566	53,940	-	-	-
	316,616	(67,155)	8	299,396	50,599	-	32,459	3,213
	3,902,562	(87,466)	8	4,852,150	299,669	-	32,459	299,742
Expenses								
Salaries, wages and employee benefits	2,743,377	-	7	2,496,708	120,244	-	-	126,418
Purchased services and operating supplies	1,374,675	(44,233)	-	1,181,625	128,343	-	196	108,346
Contracted medical services	161,951	(20,311)	-	172,381	9,811	-	-	-
Insurance and claims costs	82,760	(21,874)	-	103,825	(7,973)	-	6,896	2,846
Other	391,020	(351)	(1)	392,056	11,587	-	1,660	20,319
Depreciation and amortization	256,441	(1,731)	-	227,050	9,139	-	-	21,983
Interest	45,733	(9,263)	-	45,229	305	-	-	5,464
	3,062,027	(97,867)	6	4,379,174	262,326	-	8,752	299,436
Operating income	330,535	10,401	2	272,976	13,143	-	23,707	10,306
Nonoperating income (loss)								
Investment loss	(221,064)	(9,257)	(8,276)	(192,387)	(320)	-	(7,198)	(4,530)
Change in fair value of interest rate swaps	(2,397)	-	-	(2,397)	-	-	-	-
Loss on refinancing of debt	(9,721)	-	-	(9,721)	-	-	-	-
Other nonoperating income, net	(17,648)	695	-	(837)	(5,189)	(9,562)	-	(1,033)
Revisions in excess of (less than) expense	74,669	1,842	(8,274)	67,412	7,234	(9,562)	16,509	3,843
Unrestricted net assets	14,973	-	-	14,908	-	-	-	67
Net assets released from restrictions and used for capital purchases	-	-	(9,300)	-	-	9,300	-	-
Transfers to/from Advocate Health Care Network and subsidiaries	(26,617)	-	-	(26,617)	-	-	-	-
Provisions on benefit plan adjustments	66,583	1,842	(17,374)	55,703	7,234	(662)	16,509	3,910
Increase (decrease) in unrestricted net assets								

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Advocate Health Care Network and Subsidiaries

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

	Consolidated	Eliminations	Advocate Health Care Network	Advocate Health and Hospitals Corporation and Subsidiaries	Advocate Network Services, Incorporated and Subsidiaries	Advocate Charitable Foundation	Advocate Insurance SPC	Advocate Sherman Hospital and Subsidiaries
Temporarily restricted net assets								
Contributions for medical education programs, capital purchases and other purposes	\$ 24,663	\$ -	\$ -	\$ -	\$ -	\$ 24,663	\$ -	\$ -
Realized gains on investments	468	-	-	21	427	-	-	-
Unrealized losses on investments	(3,843)	-	-	(64)	-	(3,779)	-	-
Net assets released from restrictions and used for operations, medical education programs, capital purchases and other purposes	(28,678)	-	-	(80)	-	(28,639)	-	(7)
Decrease in temporarily restricted net assets	(7,408)	-	-	(73)	-	(7,328)	-	(7)
Permanently restricted net assets								
Contributions for medical education programs, capital purchases and other purposes	928	-	-	-	-	928	-	-
Increase in permanently restricted net assets	928	-	-	-	-	928	-	-
Increase (decrease) in net assets	60,153	1,842	(17,374)	55,630	7,234	(7,392)	16,509	3,903
Change in non-controlling interest	700	-	-	-	700	-	-	-
Net assets/shareholders' equity at beginning of year	\$ 452,993	(189,494)	\$ 610,679	\$ 4,467,918	\$ 172,696	\$ 181,134	\$ 60,298	\$ 145,286
Net assets/shareholders' equity at end of year	\$ 512,146	(187,652)	\$ 593,101	\$ 4,522,548	\$ 180,540	\$ 173,742	\$ 76,807	\$ 149,189

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Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

December 31, 2015

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northlake Health System	Advocate Condell Medical Center	ETIS Home Health Care Services, Inc. and Subsidiary	Eliminations	ETIS Home Health Care Services, Inc.	Advocate Hospice
<b>Assets</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 178,296	\$ -	\$ 120,349	\$ 30,264	\$ 11,034	\$ 16,449	\$ -	\$ 10,553	\$ 5,896
Assets limited as to use	81,893	-	81,893	-	-	-	-	-	-
Patient accounts receivable, less allowances for uncollectible accounts	542,167	-	437,798	46,826	31,401	6,142	-	2,948	3,194
Accounts due from primary third-party payors	36,698	-	27,372	6,204	2,922	-	-	-	-
Accounts receivable from Advocate Health Care Network and subsidiaries	34,787	-	33,263	436	231	853	-	828	27
Intercompany receivables	-	(46,811)	28,283	11,073	6,759	696	(246)	774	168
Prepaid expenses, inventories and other current assets	175,725	-	153,125	13,720	6,690	190	-	178	12
Collateral proceeds received under securities lending program	19,097	-	19,097	-	-	-	-	-	-
<b>Total current assets</b>	<b>1,068,663</b>	<b>(46,811)</b>	<b>921,582</b>	<b>110,523</b>	<b>59,037</b>	<b>24,332</b>	<b>(246)</b>	<b>15,281</b>	<b>8,297</b>
<b>Assets limited as to use:</b>									
Intentionally and externally designated investments limited as to use	4,371,790	-	4,078,378	146,699	122,439	24,274	-	21,604	2,670
Investments under securities lending program	18,483	-	18,483	-	-	-	-	-	-
Accounts receivable from Advocate Health Care Network and subsidiaries	175,060	-	175,060	-	-	-	-	-	-
Other noncurrent assets	139,728	-	139,003	-	725	-	-	-	-
Interest in health care and related entities	114,057	-	29,380	84,677	-	-	-	-	-
Reinsurance receivable	9,133	-	9,093	-	151	-	-	-	-
	<b>4,828,276</b>	<b>-</b>	<b>4,449,399</b>	<b>231,376</b>	<b>123,315</b>	<b>24,274</b>	<b>-</b>	<b>21,604</b>	<b>2,670</b>
<b>Property and equipment - at cost:</b>									
Land and land improvements	220,749	-	121,391	44,425	54,933	-	-	-	-
Buildings	2,614,697	-	2,129,632	239,979	244,243	743	-	743	-
Movable equipment	1,466,788	-	1,309,817	82,962	69,624	4,383	-	4,320	65
Construction-in-progress	552,781	-	534,844	9,710	8,227	-	-	-	-
	<b>4,855,015</b>	<b>-</b>	<b>4,095,684</b>	<b>377,076</b>	<b>377,127</b>	<b>5,128</b>	<b>-</b>	<b>5,063</b>	<b>65</b>
Less allowances for depreciation	2,403,164	-	2,158,727	134,399	193,282	4,756	-	4,305	91
	<b>2,451,851</b>	<b>-</b>	<b>1,936,957</b>	<b>242,677</b>	<b>221,845</b>	<b>372</b>	<b>-</b>	<b>358</b>	<b>14</b>
<b>Total assets</b>	<b>\$ 8,248,790</b>	<b>\$ (46,811)</b>	<b>\$ 7,507,848</b>	<b>\$ 584,576</b>	<b>\$ 454,199</b>	<b>\$ 48,978</b>	<b>\$ (246)</b>	<b>\$ 37,243</b>	<b>\$ 11,981</b>

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Advocate Health and Hospitals Corporation and Subsidiaries

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Health and Hospitals Corporation	Advocate Northlake Health System	Advocate Condell Medical Center	ETIS Home Health Care Services, Inc. and Subsidiary	Eliminations	ETIS Home Health Care Services, Inc.	Advocate Hospice
<b>Liabilities and net assets</b>									
<b>Current liabilities:</b>									
Current portion of long-term debt	\$ 19,328	\$ -	\$ 18,480	\$ -	\$ 848	\$ -	\$ -	\$ -	\$ -
Long-term debt subject to short-term remarketing arrangements	126,045	-	126,045	-	-	-	-	-	-
Accounts payable and accrued expenses	337,923	-	314,213	19,302	11,941	12,467	-	10,618	1,849
Accrued salaries and employee benefits	376,565	-	344,980	14,655	11,338	5,292	-	4,435	837
Amounts due to primary third-party payors	303,837	-	212,921	39,513	44,392	7,052	-	7,003	49
Current portion of accrued insurance and claims costs	84,153	-	84,153	-	-	-	-	-	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	39,476	-	52,433	3,256	2,316	1,451	-	1,259	892
Intercompany payables	-	(46,811)	18,418	16,220	10,437	1,736	(246)	1,208	774
Obligations to return collateral under securities lending program	19,097	-	19,097	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>1,346,424</b>	<b>(46,811)</b>	<b>1,190,360</b>	<b>99,245</b>	<b>81,232</b>	<b>27,998</b>	<b>(246)</b>	<b>24,523</b>	<b>3,721</b>
<b>Noncurrent liabilities:</b>									
Long-term debt, less current portion	1,530,504	-	1,501,836	-	28,668	-	-	-	-
Pension plan liability	28,759	-	19,938	-	8,821	-	-	-	-
Accrued insurance and claims cost, less current portion	670,838	-	670,838	-	-	-	-	-	-
Accrued losses subject to reinsurance recovery	9,158	-	9,005	-	153	-	-	-	-
Obligations under swap agreements, net of collateral posted	88,033	-	88,033	-	-	-	-	-	-
Other noncurrent liabilities	151,566	-	149,004	2,482	80	-	-	-	-
	<b>2,479,818</b>	<b>-</b>	<b>2,438,634</b>	<b>2,482</b>	<b>37,702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>3,825,242</b>	<b>(46,811)</b>	<b>3,629,394</b>	<b>99,727</b>	<b>118,934</b>	<b>27,998</b>	<b>(246)</b>	<b>24,523</b>	<b>3,721</b>
<b>Net assets:</b>									
Unrestricted	4,522,546	-	3,677,452	488,849	335,265	20,980	-	12,720	8,260
Temporarily restricted	1,002	-	1,002	-	-	-	-	-	-
<b>Total net assets</b>	<b>4,523,548</b>	<b>-</b>	<b>3,678,454</b>	<b>488,849</b>	<b>335,265</b>	<b>20,980</b>	<b>-</b>	<b>12,720</b>	<b>8,260</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,248,790</b>	<b>\$ (46,811)</b>	<b>\$ 7,507,848</b>	<b>\$ 584,576</b>	<b>\$ 454,199</b>	<b>\$ 48,978</b>	<b>\$ (246)</b>	<b>\$ 37,243</b>	<b>\$ 11,981</b>

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Advocate Health and Hospitals Corporation and Subsidiaries

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

Year Ended December 31, 2015

	Consolidated	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Goodwin Medical Center	Midwest Heart Specialists	EDIS Home Health Care Services, Inc. and Subsidiary	Eliminations	EDIS Home Health Care Service, Inc.	Advocate Hospice
Unrestricted revenues, gains, and other support									
Net patient service revenue	\$ 4,390,120	\$ -	\$ 3,491,022	\$ 461,141	\$ 342,263	\$ -	\$ 91,903	\$ -	\$ 24,109
Provision for uncollectible accounts	(199,941)	-	(148,549)	(19,779)	(20,631)	\$ -	(2,020)	-	(1,640)
	4,190,179	-	3,242,473	441,362	321,632	\$ -	89,883	-	22,469
Capital revenue	357,566	-	357,232	96	-	-	238	-	-
Other revenue	295,396	(76,925)	299,126	18,601	10,929	-	3,655	(2,024)	5,371
	4,852,130	(76,925)	4,638,841	460,059	332,561	\$ -	97,776	(2,024)	27,840
Expenses									
Salaries, wages and employee benefits	2,496,708	-	2,126,725	177,313	127,063	-	65,607	-	11,201
Purchased services and operating supplies	1,181,823	(71,400)	969,629	138,218	127,970	18	17,390	(2,024)	10,899
Contracted medical services	172,381	-	172,381	-	-	-	-	-	-
Insurance and claims costs	103,823	-	95,550	4,166	3,887	24	158	-	110
Other	352,656	(5,525)	291,777	33,162	23,819	16	8,807	-	7,755
Depreciation and amortization	227,050	-	191,947	17,355	17,378	-	190	-	182
Interest	45,329	-	42,918	-	2,411	-	-	-	-
	4,579,124	(76,925)	3,990,962	370,994	302,124	\$ -	92,152	(2,024)	21,312
Operating income	272,976	-	447,879	89,665	30,437	-	5,624	-	3,028
Nonoperating income (loss)									
Investment (loss) income	(192,387)	-	(175,396)	(11,252)	(4,834)	14	(919)	-	(835)
Change in fair value of interest rate swaps	(2,977)	-	(2,977)	-	-	-	-	-	-
Loss on refinancing of debt	(9,721)	-	(9,721)	-	-	-	-	-	-
Other nonoperating items, net	(859)	-	(921)	97	50	101	(186)	-	(186)
Revenues in excess of (less than) expenses	67,412	-	(40,761)	78,510	25,229	115	4,319	-	1,360
Unrestricted net assets									
Net assets returned from restrictions and used for capital purposes	14,908	-	11,170	3,409	329	-	-	-	-
Transfers to/from Advocate Health Care Network and subsidiaries	-	15,869	(6,288)	-	-	(9,589)	-	-	-
Pension/retirement benefits plan adjustments	(26,617)	-	(27,391)	-	774	-	-	-	-
Increase (decrease) in unrestricted net assets	55,703	15,869	(63,262)	81,919	26,332	(9,474)	4,319	-	1,360

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Advocate Health and Hospitals Corporation and Subsidiaries

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

	Consolidated	Advocate Health and Hospitals Corporation	Advocate Northside Health System	Advocate Goodwin Medical Center	Midwest Heart Specialists	EDIS Home Health Care Services, Inc. and Subsidiary	Eliminations	EDIS Home Health Care Service, Inc.	Advocate Hospice
Temporarily restricted net assets									
Realized gains on investments	\$ 21	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized losses on investments	(64)	-	(64)	-	-	-	-	-	-
Net assets returned from restrictions and used for operations, medical education programs, capital purchases and other purposes	(30)	-	(30)	-	-	-	-	-	-
Decrease in temporarily restricted net assets	(73)	-	(73)	-	-	-	-	-	-
Increase (decrease) in net assets	55,630	15,869	(63,335)	81,919	26,332	(9,474)	4,319	-	1,360
Net assets at beginning of year	4,467,918	(15,869)	3,741,787	406,970	306,933	9,474	16,661	-	11,340
Net assets at end of year	\$ 4,523,548	\$ -	\$ 3,678,452	\$ 488,889	\$ 333,265	\$ -	\$ 20,980	\$ -	\$ 12,700

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Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

December 31, 2015

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 11,661	\$ -	\$ 10,523	\$ 1,138
Patient accounts receivable, less allowances for uncollectible accounts	44,055	-	41,604	2,451
Amounts due from primary third-party payors	3,013	-	3,013	-
Accounts receivable from Advocate Health Care Network and subsidiaries	6,146	-	6,074	72
Intercompany receivables	-	(434)	434	-
Prepaid expenses, inventories and other current assets	10,132	-	10,132	-
<b>Total current assets</b>	<b>75,007</b>	<b>(434)</b>	<b>71,780</b>	<b>3,661</b>
<b>Assets limited as to use:</b>				
Internally and externally designated investments limited as to use	127,509	-	127,509	-
Intercompany receivables	-	(3,579)	3,579	-
Interest in health care and related entities	3,140	-	3,140	-
Reinsurance receivable	4,787	-	4,787	-
	135,436	(3,579)	139,015	-
<b>Property and equipment – at cost:</b>				
Land and land improvements	35,224	-	34,060	1,164
Buildings	243,694	-	241,132	2,562
Movable equipment	51,680	-	51,610	70
Construction-in-progress	5,273	-	5,262	11
	335,871	-	332,064	3,807
Less allowances for depreciation	54,053	-	53,544	509
	281,818	-	278,520	3,298
<b>Total assets</b>	<b>\$ 492,261</b>	<b>\$ (4,013)</b>	<b>\$ 489,315</b>	<b>\$ 6,959</b>

Advocate Sherman Hospital and Subsidiaries

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court
<b>Liabilities and net assets</b>				
<b>Current liabilities:</b>				
Current portion of long-term debt	\$ 125	\$ -	\$ 125	\$ -
Current portion of intercompany long-term debt	6,195	(288)	6,195	288
Accounts payable and accrued expenses	13,343	-	12,924	419
Accrued salaries and employee benefits	12,867	-	12,323	544
Amounts due to primary third-party payors	36,481	-	36,481	-
Current portion of accrued insurance and claims costs	2,643	-	2,643	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	12,857	-	12,657	200
Intercompany payables	-	(146)	-	146
<b>Total current liabilities</b>	<b>84,511</b>	<b>(434)</b>	<b>83,348</b>	<b>1,597</b>
<b>Noncurrent liabilities:</b>				
Long-term debt, less current portion	880	-	880	-
Long-term intercompany debt, less current portion	-	(3,579)	-	3,579
Notes and accounts payable to Advocate Health Care Network and subsidiaries	252,852	-	252,852	-
Accrued insurance and claims cost, less current portion	64	-	64	-
Accrued losses subject to reinsurance recovery	4,787	-	4,787	-
Other noncurrent liabilities	8	-	8	-
<b>Total liabilities</b>	<b>343,102</b>	<b>(4,013)</b>	<b>341,939</b>	<b>5,176</b>
<b>Net assets:</b>				
Unrestricted	149,021	-	147,238	1,783
Temporarily restricted	138	-	138	-
<b>Total net assets</b>	<b>149,159</b>	<b>-</b>	<b>147,376</b>	<b>1,783</b>
<b>Total liabilities and net assets</b>	<b>\$ 492,261</b>	<b>\$ (4,013)</b>	<b>\$ 489,315</b>	<b>\$ 6,959</b>

Advocate Sherman Hospital and Subsidiaries

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

Year Ended December 31, 2015

	Consolidated	Eliminations	Advocate Sherman Hospital	Sherman West Court	Sherman Choice
<b>Unrestricted revenues, gains, and other support</b>					
Net patient service revenue	\$ 317,505	\$ -	\$ 306,278	\$ 11,227	\$ -
Provision for uncollectible accounts	(23,076)	-	(22,447)	(629)	-
	294,429	-	283,831	10,598	-
Other revenue	5,313	(429)	5,606	136	-
	299,742	(429)	289,437	10,734	-
<b>Expenses</b>					
Salaries, wages and employee benefits	126,418	-	119,488	6,930	-
Purchased services and operating supplies	108,346	(348)	106,093	2,601	-
Insurance and claims costs	2,886	-	2,610	276	-
Other	20,339	-	20,024	315	-
Depreciation and amortization	21,983	-	21,782	201	-
Interest	9,464	(81)	9,464	81	-
	289,436	(429)	279,461	10,404	-
Operating income	10,306	-	9,976	330	-
<b>Nonoperating income (loss)</b>					
Investment loss	(4,530)	-	(4,530)	-	-
Other nonoperating items, net	(1,933)	-	(1,933)	-	-
Revenues in excess of expenses	3,843	-	3,513	330	-
Net assets released from restrictions and used for capital purposes	67	-	67	-	-
Transfers to/from Advocate Health Care Network and subsidiaries	-	-	(25)	-	25
Increase in unrestricted net assets	3,910	-	3,555	330	25
<b>Temporarily restricted net assets</b>					
Net assets released from restrictions and used for operations, medical education programs, capital purchases and other purposes	(7)	-	(7)	-	-
Decrease in temporarily restricted net assets	(7)	-	(7)	-	-
Increase in net assets	3,903	-	3,548	330	25
Net assets at beginning of year	145,256	-	143,828	1,453	(25)
Net assets at end of year	\$ 149,159	\$ -	\$ 147,376	\$ 1,783	\$ -

Advocate Northside Health System and Subsidiaries

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

December 31, 2015

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 30,264	\$ -	\$ 30,008	\$ 256
Patient accounts receivable, less allowances for uncollectible accounts	46,826	-	46,826	-
Amounts due from primary third-party payors	6,204	-	6,204	-
Accounts receivable from Advocate Health Care Network and subsidiaries	436	-	436	-
Intercompany receivables	11,073	(26)	11,097	2
Prepaid expenses, inventories and other current assets	15,720	-	15,720	-
<b>Total current assets</b>	<b>110,523</b>	<b>(26)</b>	<b>110,291</b>	<b>258</b>
<b>Assets limited as to use:</b>				
Internally and externally designated investments limited as to use	146,699	-	146,699	-
Interest in health care and related entities	84,677	-	84,677	-
	<b>231,376</b>	<b>-</b>	<b>231,376</b>	<b>-</b>
<b>Property and equipment – at cost:</b>				
Land and land improvements	44,425	-	44,425	-
Buildings	239,979	-	239,979	-
Movable equipment	82,962	-	82,955	7
Construction-in-progress	9,710	-	9,710	-
	<b>377,076</b>	<b>-</b>	<b>377,069</b>	<b>7</b>
Less allowances for depreciation	134,399	-	134,392	7
	<b>242,677</b>	<b>-</b>	<b>242,677</b>	<b>-</b>
<b>Total assets</b>	<b>\$ 584,576</b>	<b>\$ (26)</b>	<b>\$ 584,344</b>	<b>\$ 258</b>

Advocate Northside Health System and Subsidiaries

Details of Consolidated Balance Sheet (continued)  
*(Dollars in Thousands)*

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
<b>Liabilities and net assets</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	\$ 19,302	\$ -	\$ 19,296	\$ 6
Accrued salaries and employee benefits	14,955	-	14,936	19
Amounts due to primary third-party payors	39,512	-	39,512	-
Notes and accounts payable to Advocate Health Care Network and subsidiaries	3,256	-	3,255	1
Intercompany payables	16,220	(26)	16,221	25
<b>Total current liabilities</b>	<b>93,245</b>	<b>(26)</b>	<b>93,220</b>	<b>51</b>
<b>Noncurrent liabilities:</b>				
Other noncurrent liabilities	2,482	-	2,482	-
<b>Total liabilities</b>	<b>95,727</b>	<b>(26)</b>	<b>95,702</b>	<b>51</b>
<b>Net assets:</b>				
Unrestricted	488,849	-	488,642	207
<b>Total net assets</b>	<b>488,849</b>	<b>-</b>	<b>488,642</b>	<b>207</b>
<b>Total liabilities and net assets</b>	<b>\$ 584,576</b>	<b>\$ (26)</b>	<b>\$ 584,344</b>	<b>\$ 258</b>

Advocate Northside Health System and Subsidiaries

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

Year Ended December 31, 2015

	Consolidated	Eliminations	Advocate Northside Health System	HispanoCare, Inc.
<b>Unrestricted revenues, gains, and other support</b>				
Net patient service revenue	\$ 461,141	\$ -	\$ 461,141	\$ -
Provision for uncollectible accounts	(19,779)	-	(19,779)	-
	441,362	-	441,362	-
Capitation revenue	96	-	96	-
Other revenue	18,601	-	18,540	61
	460,059	-	459,998	61
<b>Expenses</b>				
Salaries, wages and employee benefits	177,313	-	177,137	176
Purchased services and operating supplies	138,218	-	138,177	41
Insurance and claims costs	4,166	-	4,166	-
Other	33,162	-	33,060	102
Depreciation and amortization	17,535	-	17,535	-
	370,394	-	370,075	319
Operating income (loss)	89,665	-	89,923	(258)
<b>Nonoperating income (loss)</b>				
Investment (loss) income	(11,252)	-	(11,253)	1
Other nonoperating items, net	97	-	97	-
Revenues in excess of (less than) expenses	78,510	-	78,767	(257)
<b>Unrestricted net assets</b>				
Net assets released from restrictions and used for capital purposes	3,409	-	3,409	-
Transfers to/from Advocate Health Care Network and subsidiaries	-	-	(200)	200
Increase (decrease) in unrestricted net assets	81,919	-	81,976	(57)
Unrestricted net assets at beginning of year	406,930	-	406,666	264
Unrestricted net assets at end of year	\$ 488,849	\$ -	\$ 488,642	\$ 207

Evangelical Services Corporation and Subsidiaries  
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Balance Sheet  
(Dollars in Thousands)

December 31, 2015

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMed Medical Group
<b>Assets</b>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 9,385	\$ -	\$ (17,564)	\$ 12,901	\$ 2,611	\$ 7,162	\$ 3,213	\$ 1,062
Patient accounts receivable, less allowances for uncollectible accounts	19,087	-	-	1,517	3,397	14,275	-	-
Accounts receivable from Advocate Health Care Network and subsidiaries	54,691	-	51,027	274	1,150	787	24	1,429
Intercompany receivables	-	(20,073)	19,373	372	162	51	32	83
Prepaid expenses, inventories and other current assets	21,622	-	13,286	125	1,397	6,778	37	-
<b>Total current assets</b>	<b>104,786</b>	<b>(20,073)</b>	<b>66,122</b>	<b>15,189</b>	<b>8,617</b>	<b>29,051</b>	<b>3,306</b>	<b>2,374</b>
<b>Assets limited as to use:</b>								
Internally and externally designated investments limited as to use	82,529	-	50,666	7,328	8,091	-	10,033	6,411
Intercompany receivables	-	(12,410)	12,410	-	-	-	-	-
Investments in subsidiaries	-	(176,322)	176,322	-	-	-	-	-
Other noncurrent assets	23,673	-	3,711	-	-	19,962	-	-
Intarres in health care and related entities	23,919	-	8,105	-	-	1,854	-	13,960
	130,121	(188,732)	251,214	7,328	8,091	21,816	10,033	20,371
<b>Property and equipment - at cost:</b>								
Land and land improvements	13,219	-	6,138	1,004	-	8,077	-	-
Buildings	70,767	-	2,381	10,154	330	57,902	-	-
Movable equipment	61,010	-	8,343	16,693	8,127	28,947	-	-
Construction-in-progress	20,122	-	-	1,420	-	18,702	-	-
	168,118	-	16,762	29,271	8,457	113,628	-	-
Less allowances for depreciation	90,071	-	11,523	21,350	6,138	50,860	-	-
	78,047	-	5,239	7,921	2,319	62,768	-	-
<b>Total assets</b>	<b>\$ 312,954</b>	<b>\$ (208,805)</b>	<b>\$ 322,575</b>	<b>\$ 30,238</b>	<b>\$ 19,027</b>	<b>\$ 113,635</b>	<b>\$ 13,339</b>	<b>\$ 22,945</b>

Evangelical Services Corporation and Subsidiaries  
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMed Medical Group
<b>Liabilities and shareholders' equity</b>								
<b>Current liabilities:</b>								
Current portion of long-term debt	\$ 715	\$ -	\$ -	\$ -	\$ -	\$ 715	\$ -	\$ -
Current portion of intercompany long-term debt	-	(707)	-	-	-	707	-	-
Accounts payable and accrued expenses	31,924	-	18,177	1,709	844	10,414	667	113
Accrued salaries and employee benefits	12,259	-	3,433	638	607	7,580	1	-
Amounts due to primary third-party payors	2,909	-	-	-	713	2,196	-	-
Current portion of accrued insurance and claims costs	1,048	-	-	-	-	-	976	72
Notes and accounts payable to Advocate Health Care Network and subsidiaries	18,655	-	9,847	475	1,034	7,095	46	158
Intercompany payables	-	(19,366)	700	641	995	15,219	1,614	197
<b>Total current liabilities</b>	<b>67,510</b>	<b>(20,073)</b>	<b>32,157</b>	<b>3,463</b>	<b>4,193</b>	<b>43,926</b>	<b>3,304</b>	<b>540</b>
<b>Noncurrent liabilities:</b>								
Long-term debt, less current portion	7,988	-	-	-	-	7,988	-	-
Long-term intercompany debt, less current portion	-	(12,410)	-	-	-	12,410	-	-
Pension plan liability	615	-	431	89	93	-	-	-
Accrued insurance and claims cost, less current portion	7,799	-	-	-	-	4,194	3,407	198
Other noncurrent liabilities	48,502	-	44,004	-	-	4,498	-	-
<b>Total liabilities</b>	<b>132,414</b>	<b>(32,483)</b>	<b>76,592</b>	<b>3,552</b>	<b>4,288</b>	<b>73,016</b>	<b>6,711</b>	<b>738</b>
<b>Shareholders' equity:</b>								
Common stock	1	(5,163)	1	3,250	50	1,862	-	1
Additional paid-in capital	177,163	(203,145)	177,163	22,294	9,098	43,581	87,081	41,091
Non-controlling interest	1,362	-	-	-	-	1,362	-	-
Retained earnings (deficit)	2,014	31,986	68,819	1,142	5,591	(6,186)	(80,453)	(18,885)
<b>Total shareholders' equity</b>	<b>180,540</b>	<b>(176,322)</b>	<b>245,983</b>	<b>26,686</b>	<b>14,739</b>	<b>40,619</b>	<b>6,628</b>	<b>22,207</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 312,954</b>	<b>\$ (708,805)</b>	<b>\$ 322,575</b>	<b>\$ 30,238</b>	<b>\$ 19,027</b>	<b>\$ 113,635</b>	<b>\$ 13,339</b>	<b>\$ 22,945</b>

Evangelical Services Corporation and Subsidiaries  
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Shareholders' Equity  
(Dollars in Thousands)

Year Ended December 31, 2015

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	BroMann Medical Group
<b>Revenues</b>								
Net patient service revenue	\$ 197,288	\$ -	\$ -	\$ 21,805	\$ 14,142	\$ 151,627	\$ (200)	\$ (86)
Provision for uncollectible accounts	(6,154)	-	-	(857)	(2,686)	(3,342)	367	559
	191,134	-	-	20,953	21,456	148,085	167	473
Capitation revenue	53,940	-	-	-	1,747	52,193	-	-
Other revenue	50,595	(3,125)	38,084	144	4,044	8,912	-	3,136
	295,669	(3,125)	38,084	21,097	27,247	209,590	167	3,609
<b>Expenses</b>								
Salaries, wages and employee benefits	120,244	-	28,786	7,244	6,304	77,933	-	(23)
Purchased services and operating supplies	128,543	(3,125)	6,278	9,116	14,608	101,271	195	200
Contracted medical services	9,881	-	-	-	-	9,881	-	-
Insurance and claims costs	(7,973)	-	29	113	93	1,953	(4,661)	(500)
Other	17,387	-	3,176	983	1,518	11,618	95	(3)
Depreciation and amortization	9,139	-	208	1,459	598	6,874	-	-
Interest	305	(19)	-	-	-	324	-	-
	282,576	(3,144)	38,477	18,915	23,121	209,854	(4,371)	(326)
Operating income (loss)	13,143	19	(393)	2,182	4,126	(1,264)	4,538	3,935

Evangelical Services Corporation and Subsidiaries  
d/b/a Advocate Network Services, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Shareholders' Equity (continued)  
(Dollars in Thousands)

	Consolidated	Eliminations	Advocate Network Services, Inc.	High Technology, Inc.	Advocate Home Care Products, Inc.	Dreyer Clinic, Inc.	Advocate Health Centers, Inc.	Bro/Man Medical Group
Nonoperating income (loss)								
Investment (loss) income	\$ (320)	\$ (19)	\$ (175)	\$ (3)	\$ (90)	\$ 68	\$ (4)	\$ (37)
Other nonoperating items, net	(5,589)	-	(834)	(1,191)	(1,668)	(1,156)	(536)	(204)
Net income (loss)	7,234	-	(1,402)	983	2,368	(2,352)	3,998	3,639
Shareholders' equity								
Transfers to/from Advocate Health Care Network and subsidiaries	-	(7,466)	10,000	(4,000)	(6,000)	7,466	-	-
Increase (decrease) in shareholders' equity	7,234	(7,466)	8,598	(3,017)	(3,632)	5,114	3,998	3,639
Change in non-controlling interest	700	-	-	-	-	700	-	-
Increase in non-controlling interest	700	-	-	-	-	700	-	-
Total change in shareholders' equity (deficit)	7,934	(7,466)	8,598	(3,017)	(3,632)	5,814	3,998	3,639
Shareholders' equity (deficit) at beginning of year	172,606	(168,856)	237,385	29,703	18,371	34,805	2,630	18,568
Shareholders' equity (deficit) at end of year	\$ 180,540	\$ (176,322)	\$ 245,983	\$ 26,686	\$ 14,739	\$ 40,619	\$ 6,628	\$ 22,207

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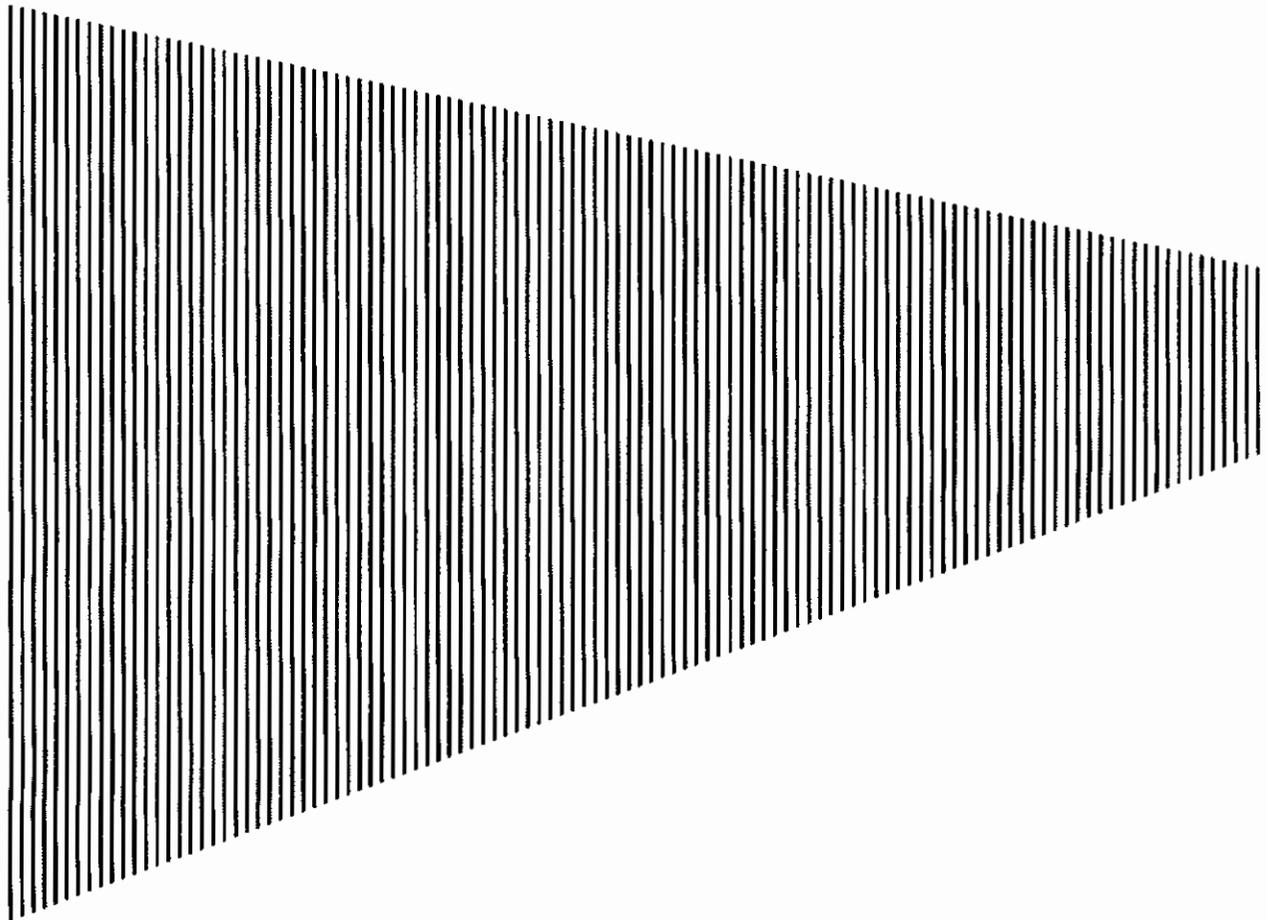
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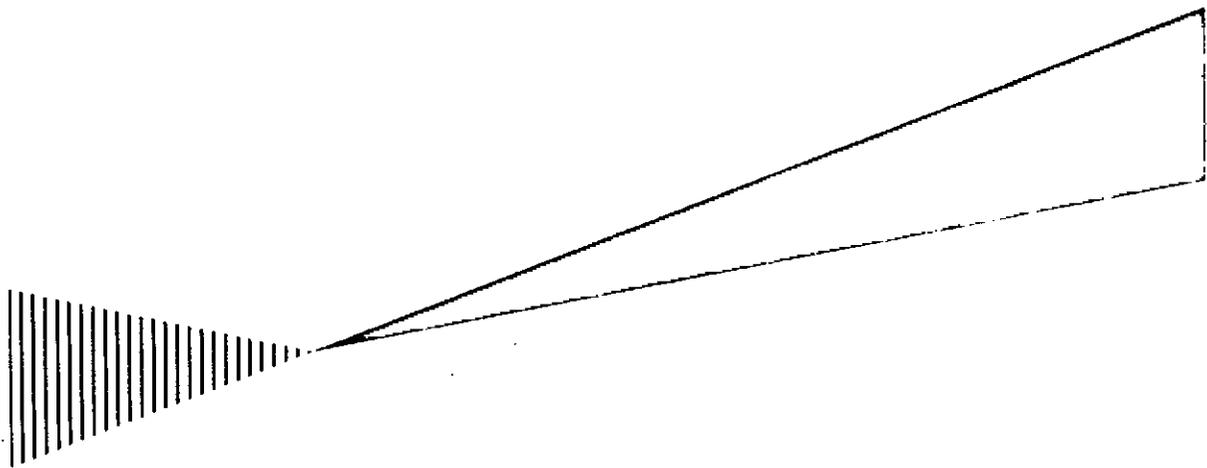
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CONSOLIDATED FINANCIAL STATEMENTS

NorthShore University HealthSystem  
Years Ended September 30, 2015 and 2014  
With Report of Independent Auditors

Ernst & Young LLP



NorthShore University HealthSystem

Consolidated Financial Statements

Years Ended September 30, 2015 and 2014

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## Report of Independent Auditors

The Board of Directors  
NorthShore University HealthSystem

We have audited the accompanying consolidated financial statements of NorthShore University HealthSystem and its affiliates (collectively, the Corporation), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

1509-1667240

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthShore University HealthSystem and its affiliates at September 30, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

February 1, 2016

1509-1667240

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NorthShore University HealthSystem

Consolidated Balance Sheets  
(Dollars in Thousands)

	September 30	
	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 61,658	\$ 35,949
Other short-term investments	987	1,037
Internally designated investments, current portion	43,310	48,750
Patient accounts receivable, less allowances for uncollectible and charity accounts (2015 – \$81,514; 2014 – \$77,532)	282,919	268,678
Inventories, prepaid expenses, and other	67,260	57,212
Total current assets	<u>456,134</u>	<u>411,626</u>
Investments available for general use	1,468,857	1,506,470
Investments limited as to use	185,434	192,002
Property and equipment:		
Land and improvements	104,741	104,336
Buildings	1,428,809	1,368,255
Equipment and furniture	424,979	433,173
Construction-in-progress	70,296	61,716
	<u>2,028,825</u>	<u>1,967,480</u>
Less accumulated depreciation	1,026,080	1,005,092
Total property and equipment, net	<u>1,002,745</u>	<u>962,388</u>
Other noncurrent assets	227,799	219,124
Total assets	<u>\$ 3,340,969</u>	<u>\$ 3,291,610</u>

NorthShore University HealthSystem

Consolidated Balance Sheets (continued)  
(Dollars in Thousands)

	September 30	
	2015	2014
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 61,535	\$ 55,726
Accrued expenses	192,922	163,994
Current portion of self-insurance	33,400	39,200
Due to third-party payors	109,634	92,929
Current maturities of long-term debt	9,998	9,638
Total current liabilities	<u>407,489</u>	<u>361,487</u>
Noncurrent liabilities:		
Long-term debt, less current maturities	347,564	357,562
Employee retirement and deferred compensation plans	132,428	134,100
Accrued self-insurance and other	244,654	260,527
Total noncurrent liabilities	<u>724,646</u>	<u>752,189</u>
Net assets:		
Unrestricted	2,027,846	1,986,563
Temporarily restricted	103,223	115,268
Permanently restricted	77,765	76,103
Total net assets	<u>2,208,834</u>	<u>2,177,934</u>
Total liabilities and net assets	<u>\$ 3,340,969</u>	<u>\$ 3,291,610</u>

See accompanying notes.

NorthShore University HealthSystem

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

	Year Ended September 30	
	2015	2014
<b>Unrestricted revenues and other support</b>		
Net patient service and premium revenue	\$ 1,901,565	\$ 1,895,603
Provision for uncollectible accounts	(45,234)	(77,359)
Net patient service and premium revenue	1,856,331	1,818,244
Investment earnings supporting current activities	37,000	35,000
Net assets released from restrictions used for operations	17,252	13,881
Other revenue	50,631	60,348
Total unrestricted revenues and other support	1,961,214	1,927,473
<b>Expenses</b>		
Salaries and benefits	1,008,071	975,278
Supplies, services, and other	643,370	600,091
Depreciation and amortization	116,402	116,628
Insurance	(1,560)	44,563
Medicaid assessment	38,625	52,763
Interest	7,215	7,119
Total expenses	1,812,123	1,796,442
Income from operations	149,091	131,031
<b>Nonoperating income</b>		
Dividend and interest income	33,632	32,893
Net realized gains on investments	54,970	76,414
Net unrealized (losses) gains on investments	(80,297)	23,701
Transfer of investment earnings supporting current activities	(37,000)	(35,000)
Other, net	(29,533)	(47,050)
Total nonoperating (loss) income	(58,228)	50,958
Revenues, gains, and other support in excess of expenses	90,863	181,989

Continued on next page.

NorthShore University HealthSystem

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

	Year Ended September 30	
	2015	2014
<b>Unrestricted net assets</b>		
Revenue, gains, and other support in excess of expenses	\$ 90,863	\$ 181,989
Pension-related changes other than net periodic costs	(51,153)	(23,881)
Other transfers, net	1,573	(2,167)
Increase in unrestricted net assets	<u>41,283</u>	<u>155,941</u>
<b>Temporarily restricted net assets</b>		
Contributions and other	8,298	11,663
Net realized gains on investments	9,213	9,274
Net unrealized (losses) gains on investments	(12,304)	7,261
Net assets released from restrictions	(17,252)	(13,881)
(Decrease) increase in temporarily restricted net assets	<u>(12,045)</u>	<u>14,317</u>
<b>Permanently restricted net assets</b>		
Contributions	1,662	1,853
Increase in permanently restricted net assets	<u>1,662</u>	<u>1,853</u>
Increase in net assets	30,900	172,111
Net assets at beginning of year	2,177,934	2,005,823
Net assets at end of year	<u>\$ 2,208,834</u>	<u>\$ 2,177,934</u>

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows  
(Dollars in Thousands)

	Year Ended September 30	
	2015	2014
<b>Operating activities</b>		
Increase in net assets	\$ 30,900	\$ 172,111
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized losses (gains) on investments	92,601	(30,962)
Change in trading portfolio investments, net	(48,420)	(182,710)
Restricted contributions	(9,960)	(13,516)
Gain on asset sale	(7,200)	-
Depreciation and amortization	116,402	116,628
Bond premium amortization	(88)	(88)
Pension-related changes other than net periodic cost	51,153	23,881
Provision for uncollectible accounts	45,234	77,359
Changes in operating assets and liabilities:		
Patient accounts receivable	(59,475)	(99,924)
Other current assets	(4,509)	45,361
Noncurrent assets and liabilities	(79,110)	(25,834)
Accounts payable and accrued expenses	28,937	5,079
Due to third-party payors	16,705	11,320
Net cash provided by operating activities	<u>173,170</u>	<u>98,705</u>
<b>Investing activities</b>		
Investments in property and equipment, net	(155,689)	(108,392)
Sale of other long-term assets, net	7,818	-
Net cash used in investing activities	<u>(147,871)</u>	<u>(108,392)</u>
<b>Financing activities</b>		
Restricted contributions	9,960	13,516
Payments of long-term debt	(9,550)	(9,175)
Net cash provided by financing activities	<u>410</u>	<u>4,341</u>
Increase (decrease) in cash and cash equivalents	25,709	(5,346)
Cash and cash equivalents at beginning of year	35,949	41,295
Cash and cash equivalents at end of year	<u>\$ 61,658</u>	<u>\$ 35,949</u>

See accompanying notes.

NorthShore University HealthSystem

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

September 30, 2015

**1. Organization and Basis of Presentation**

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

NorthShore is the sole corporate member of NorthShore University HealthSystem Faculty Practice Associates (FPA), Radiation Medicine Institute (RMI), and NorthShore University HealthSystem Insurance International (Insurance International). FPA is the sole shareholder of NorthShore Physician Associates (NPA). NPA is the sole shareholder of Community Care Partners (CCP). CCP was established in August 2014 to facilitate Medicaid managed care services provided to participants in a new program sponsored by the state of Illinois. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

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

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

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

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

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Summary of Significant Accounting Policies (continued)**

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

**Cash and Cash Equivalents**

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

**Patient Accounts Receivable**

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

**Inventories**

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

**Investments**

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

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

## NorthShore University HealthSystem

### Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

Pursuant to Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, the Corporation has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of September 30, 2015 or 2014.

#### Investments Limited as to Use

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

#### Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Typical useful lives are 5 to 40 years for buildings and improvements and 3 to 20 years for equipment and furniture. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Total depreciation was \$115,326 and \$113,848 for the years ended September 30, 2015 and 2014, respectively.

#### Goodwill and Other Intangible Assets

Goodwill has been recorded at the excess of the purchase price over the fair value of the assets purchased in acquisitions. In 2015, the Corporation performed a qualitative assessment of goodwill that included the market and income valuation approaches. The assessment determined that it is more likely than not (>50%) the Corporation's fair value exceeds its carrying amount, and therefore, as of September 30, 2015, no goodwill has been impaired. In 2014, the Corporation performed a quantitative assessment which determined that the Corporation's fair value exceeds its carrying amount and no goodwill was impaired. In 2015 and 2014, both valuation approaches were reviewed against several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. The Corporation has goodwill of \$116,388 and \$116,300 included in other noncurrent assets as of September 30, 2015 and 2014, respectively.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (continued)**

Other intangible assets with definite lives, such as noncompete clauses or trade names, are amortized over the estimated useful life of the asset. The Corporation has \$955 and \$1,987 included in other noncurrent assets at September 30, 2015 and 2014, respectively. Amortization expense related to these other intangible assets for the years ended September 30, 2015 and 2014, was \$1,076 and \$2,780, respectively.

**Impairments**

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Asset impairments are recognized in operating expenses at the time the impairment is identified. There was no impairment of long-lived assets in fiscal years 2015 or 2014. Impairments of alternative investments are recognized in nonoperating income or changes in temporarily restricted net assets at the time the impairment is identified. Alternative investment impairments for fiscal years 2015 and 2014 are described in Note 4.

**Asset Retirement Obligations**

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*. The asset retirement obligation, which primarily relates to future asbestos remediation, is recorded in accrued self-insurance and other liabilities and was accreted to its present fair value at September 30, 2015 and 2014, of \$7,541 and \$8,679, respectively.

**General and Professional Liability**

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

NorthShore University HealthSystem

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

**2. Summary of Significant Accounting Policies (continued)**

**Temporarily and Permanently Restricted Net Assets**

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

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

**Contributions**

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

**Net Patient Service Revenue**

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

NorthShore University HealthSystem

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

**2. Summary of Significant Accounting Policies (continued)**

**Community Service and Care to the Indigent**

The Corporation provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than the Corporation's established rates. Community service and care to the indigent provided by the Corporation are deducted to arrive at net patient service revenue. The estimated costs incurred by the Corporation to provide these services were \$20,153 and \$26,690 for the years ended September 30, 2015 and 2014, respectively. These estimates were determined using a ratio of cost-to-gross charges calculated from the Corporation's most recently filed Medicare cost reports and applying that ratio to the gross charges of charity care provided in the period.

**Premium Revenue**

The Corporation has agreements with health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly payments based primarily on the number of participants, regardless of actual medical services provided to participants. For the years ended September 30, 2015 and 2014, \$67,825 and \$68,181, respectively, of premium revenue was recorded.

**Revenues, Gains, and Other Support in Excess of Expenses**

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

**Other Revenue and Other Nonoperating Income**

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

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**2. Summary of Significant Accounting Policies (continued)**

During the course of fiscal year 2015, the Corporation sold the Highland Park hospital outpatient dialysis unit and, as a result, recognized non-operating income of \$7,200.

Revenue from the government as part of the American Recovery and Reinvestment Act of 2009, such as adopting electronic health record (EHR) technology or becoming "meaningful users" of EHRs, is recorded on a grant accounting basis as part of other revenue.

**New Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The guidance in this update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, *Services Received from Personnel of an Affiliate*. The objective of the amendment is to specify the guidance that not-for-profit entities apply for recognizing and measuring services. It requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services that create or enhance nonfinancial assets. This new guidance is effective for fiscal years beginning after June 15, 2014. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The objective of the amendment is to eliminate the potential for differences in balance sheet presentation of deferred tax assets and unrecognized tax benefits. It requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward.

NorthShore University HealthSystem

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

**2. Summary of Significant Accounting Policies (continued)**

This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update require not-for-profit entities that are conduit bond obligors to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will result in the Corporation making additional judgments, such as estimates of the collectability of revenue. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption not permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. The guidance in this update modifies the analysis that companies must perform to determine whether certain legal entities should be consolidated, including limited partnerships and similar legal entities that would be considered variable interest entities and investments in certain investment funds. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Corporation is required to adopt the new guidance on October 1, 2016, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that the carrying amount of the debt liability be presented net of debt issuance costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2016, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

NorthShore University HealthSystem

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

**2. Summary of Significant Accounting Policies (continued)**

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value per share, which have unobservable inputs, will be excluded from the fair value hierarchy table. Other disclosure requirements for these investments are unchanged and will continue to be included in the investment disclosures. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2016, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. Under the new guidance, entities using the FIFO method for inventory valuation will be required to compare the cost of inventory to only one measure, its net realizable value. The amendment is effective for fiscal periods and interim periods within those years beginning December 15, 2016. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2017, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

**Reclassifications**

Certain reclassifications were made to the 2014 consolidated financial statements to conform with the classifications made in 2015. The reclassifications had no effect on the changes in net assets or on net assets previously reported.

**3. Contractual Arrangements with Third-Party Payors**

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

NorthShore University HealthSystem

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

**3. Contractual Arrangements with Third-Party Payors (continued)**

certain of the arrangements, are subject to audit by the administering agencies. Changes in the various programs, including Medicare and Medicaid, could have an adverse effect on the Corporation.

A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the charges for services provided and estimated reimbursement from the various third-party payors. Net patient service revenue increased by \$1,752 and \$5,721 for the years ended September 30, 2015 and 2014, respectively, to reflect changes in the estimated Medicare and Medicaid settlements for prior years.

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

	<u>2015</u>	<u>2014</u>
Medicare	38%	39%
Medicaid	9	8
BCBS	24	24
Managed care	19	19
Other	10	10
Total	<u>100%</u>	<u>100%</u>

The Corporation's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors.

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

	<u>2015</u>	<u>2014</u>
Medicare	24%	26%
Medicaid	20	19
BCBS	15	15
Managed care	21	22
Other	20	18
Total	<u>100%</u>	<u>100%</u>

NorthShore University HealthSystem

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

**3. Contractual Arrangements with Third-Party Payors (continued)**

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

The Corporation's policy is to establish reserves for a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The allowance for uncollectible accounts as a percentage of all accounts receivable was 22% and 19% as of September 30, 2015 and 2014, respectively.

The Corporation's methodology for both years ended September 30, 2015 and 2014, was to reserve for all commercial hospital claims over 360 days.

The Corporation's total reserve for self-pay accounts receivable, including the allowance for uncollectible accounts and charity care, was 86% and 88% of self-pay accounts receivable at September 30, 2015 and 2014, respectively.

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

Total net patient service revenue was \$1,833,740 and \$1,827,420 for the years ended September 30, 2015 and 2014, respectively. Included in this amount is third-party payor revenue of \$1,756,176 and \$1,719,602 and self-pay revenue of \$77,564 and \$107,818 for the years ended September 30, 2015 and 2014, respectively.

The Corporation believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations or allegations of potential wrongdoing. While no such Medicare or Medicaid regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**3. Contractual Arrangements with Third-Party Payors (continued)**

Current liabilities include \$109,634 and \$92,929 for September 30, 2015 and 2014, respectively, related to various estimated settlements due to third-party payors, including Medicare, Medicaid, and BCBS. Laws and regulations governing Medicare and Medicaid change frequently, are complex, and are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude the final settlement until the related cost reports have been audited by the sponsoring agency and settled. As a result, there is a reasonable possibility that these recorded estimates will change as new information becomes available, and the amount of the change may be material.

In October 2013, the Centers for Medicaid and Medicare Services (CMS) approved continuing the state of Illinois' Hospital Assessment program (the Program) to July 1, 2018, with additional enhanced amounts that were retroactive to June 10, 2012. Under the Program, the Corporation recognized \$39,822 and \$55,808 of net patient revenue for the years ended September 30, 2015 and 2014, respectively. Additionally, \$38,625 and \$52,763 of program assessment expense was recognized for the years ended September 30, 2015 and 2014, respectively. The retroactive portion of the revenue was \$15,986 and the retroactive portion of the expense was \$15,829 in the year ended September 30, 2014. There were no accelerated payments or receipts in either fiscal year.

In January 2015, the Department of Healthcare and Family Services was granted approval by the CMS to increase the current Hospital Assessment payments to account for those persons who are newly eligible under the Affordable Care Act, with the Hospital Assessments payment amounts that were retroactive to March 1, 2014. As a result, the Corporation recognized \$10,623 of net patient revenue that included a retroactive payment of \$5,029 from previous program years for the year ended September 30, 2015.

NorthShore University HealthSystem

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

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2015	2014
Other short-term investments	\$ 987	\$ 1,037
Investments available for general use	1,468,857	1,506,470
Investments limited as to use:		
Current portion	43,310	48,750
All other (noncurrent)	185,434	192,002
Other noncurrent assets	60,378	55,997
Total investments	<u>\$ 1,758,966</u>	<u>\$ 1,804,256</u>

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

	2015	2014
Nonoperating:		
Dividend and interest income	\$ 33,632	\$ 32,893
Net realized gains on investments	54,970	76,414
Net unrealized (losses) gains on investments	(80,297)	23,701
Total nonoperating investment return	<u>8,305</u>	<u>133,008</u>
Temporarily restricted:		
Net realized gains	9,213	9,274
Net unrealized (losses) gains	(12,304)	7,261
Total temporarily restricted investment return	<u>(3,091)</u>	<u>16,535</u>
Total investment return	<u>\$ 5,214</u>	<u>\$ 149,543</u>

Investment fees for the years ended September 30, 2015 and 2014, were \$20,920 and \$28,904, respectively, and are included in other, net, within nonoperating income.

The Corporation continually reviews its alternative investment portfolio recorded at cost and evaluates whether declines in the fair value of such securities should be considered other than temporary. Factored into this evaluation are general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, and the length of time and

NorthShore University HealthSystem

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

**4. Financial Instruments (continued)**

extent to which the fair value has been less than cost. Based on this evaluation, two investments in the current year and two investments in the prior year held at cost were determined to be impaired. As a result of these impairments, the Corporation recorded a loss reserve within nonoperating income of \$11,033 and \$2,241 for the years ended September 30, 2015 and 2014, respectively.

**5. Fair Value Measurements**

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

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

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

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

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

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. These prices are based on the net asset value reported from the investee and reviewed by an independent third party as its best estimate of fair market value

NorthShore University HealthSystem

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

5. Fair Value Measurements (continued)

on the reporting date for its investments in limited partnerships and hedge funds. Because there are no observable market transactions for interests in investments in limited partnerships and hedge funds, any investments of this nature would be classified in Level 3 of the fair value hierarchy. Redemption frequency varies from monthly to longer than one year for hedge funds. Limited partnerships are expected to be held for the life of the fund. As of September 30, 2015 and 2014, the only Level 3 investments were recorded within the pension plan disclosed in Note 7.

The Corporation's financial assets that are carried at fair value at September 30, 2015, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	\$ 63,127	\$ -	\$ -	\$ 63,127
Domestic equity funds	107,135	198,469	-	305,604
International equity funds	-	336,674	-	336,674
Domestic equities	144,060	-	-	144,060
Real asset funds	11,171	15,890	-	27,061
Bond funds	199,153	-	-	199,153
Fixed income accounts	-	148,042	-	148,042
Total assets at fair value	\$ 524,646	\$ 699,075	\$ -	\$ 1,223,721

The Corporation's financial assets that are carried at fair value at September 30, 2014, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	\$ 58,760	\$ -	\$ -	\$ 58,760
Domestic equity funds	107,358	198,438	-	305,796
International equity funds	8,546	366,413	-	374,959
Domestic equities	136,468	-	-	136,468
Real asset funds	21,387	21,969	-	43,356
Bond funds	258,118	-	-	258,118
Fixed income accounts	-	133,388	-	133,388
Total assets at fair value	\$ 590,637	\$ 720,208	\$ -	\$ 1,310,845

NorthShore University HealthSystem

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

**5. Fair Value Measurements (continued)**

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

There were no transfers between Level 1, Level 2, or Level 3 assets during the years ended September 30, 2015 or 2014.

Total investments at September 30, 2015, are \$1,758,966. This amount includes \$1,223,721 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes \$518,075 in limited partnerships and hedge funds recorded at cost, \$15,659 in limited partnerships recorded using the equity method, and other assets of \$1,511 recorded at cost.

Total investments at September 30, 2014, are \$1,804,256. This amount includes \$1,310,845 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes \$478,585 in limited partnerships and funds recorded at cost, \$11,881 in limited partnerships recorded using the equity method, and other assets of \$2,945 recorded at cost.

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

The estimated fair value of total debt was \$368,387 and \$377,361 at September 30, 2015 and 2014, respectively. Under the guidance set forth in ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, the Corporation's debt is classified as a Level 2 liability. The estimated fair value of the fixed rate debt is determined by recalculating the dollar prices of each of the Corporation's outstanding fixed rate bonds using current market yields. The variable rate debt is remarketed daily or weekly, and par value is considered to be fair value. The fair value included a consideration of third-party credit enhancements, which had no impact on the estimated fair value of the debt.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**6. Long-Term Debt and Debt with Self-Liquidity**

All bonds issued by the Corporation were used to pay or reimburse the Corporation for certain capital projects, to provide for a portion of the interest on the bonds, and to pay certain expenses incurred in connection with the issuance of the bonds. The variable rate bonds are subject to periodic remarketing and can be converted to a fixed rate subject to certain terms of the loan agreements. The Series 2001B, 2001C, 1995, and 1996 bonds have standby bond purchase agreements (SBPAs), and the 2008 commercial paper has a letter of credit (LOC) to provide liquidity support in the event of a failed remarketing.

The Series 1995 bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2016. The Series 1996 bonds are backed by an SBPA issued by a financial institution that expires on October 10, 2016. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement liquidity facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity facility provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has two SBPAs in conjunction with the Series 2001B and 2001C bonds with financial institutions. The Series 2001B bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2017. The Series 2001C bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2016. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2017. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

NorthShore University HealthSystem

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

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

The Corporation's obligation to purchase the Series 1990A, 1992, and 1998 debt issues with self-liquidity upon optional or mandatory tender is not supported by a third-party liquidity facility; however, when outstanding, the Corporation maintains liquid assets to redeem its maturing obligations. As of September 30, 2015 and 2014, there were no bonds with self-liquidity outstanding with third parties.

The self-liquidity bonds held by the Corporation at September 30 are as follows:

Series	Final Maturity	As of September 30	
		2015	2014
1990A	2025	\$ 50,000	\$ 50,000
1992	2026	50,000	50,000
1998	2032	50,000	50,000
		<u>\$ 150,000</u>	<u>\$ 150,000</u>

Under the terms of the long-term debt arrangements, various amounts are on deposit with trustees, and certain specified payments are required for bond redemption, interest payments, and asset replacement. The terms of certain long-term debt agreements require, among other things, the maintenance of various financial ratios and place limitations on additional indebtedness and pledging of assets. The Corporation remained in compliance with these agreements during the reporting periods.

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to \$1,608 for the years ended September 30, 2015 and 2014. No amounts have been drawn against these LOCs.

For the years ending September 30, 2016, 2017, 2018, 2019, and 2020, maturities of long-term debt, assuming remarketing of variable rate demand bonds (including an \$88 bond premium), are \$9,998, \$10,383, \$10,793, \$21,193, and \$24,138, respectively. The 2019 maturity amount includes a \$10,000 principal repayment and the 2020 maturity amount includes a \$12,500 principal repayment. Both principal repayments are on the 1998 self-liquidity bonds that are held by the Corporation.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

6. Long-Term Debt and Debt with Self-Liquidity (continued)

Interest paid for the years ended September 30, 2015 and 2014, was \$6,254 and \$6,508, respectively. Interest of \$483 and \$834 was capitalized for the same periods, respectively. In addition, bond premium amortization was \$88 for the years ended September 30, 2015 and 2014.

Total long-term debt at September 30 is summarized as follows:

Type/Issuance	Series	Amortization		Outstanding Principal		Interest Rate	
		Amount Range	Years From-To	September 30 2015	September 30 2014	September 30 2015	September 30 2014
<b>Illinois Development Finance Authority Variable Rate Demand Revenue Bonds</b>							
	2001B	\$1,600-\$5,000	2016-2031	\$ 37,600	\$ 39,200	0.02%	0.03%
	2001C	1,600- 5,000	2016-2031	37,600	39,200	0.01%	0.01%
<b>Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds</b>							
	1995	\$1,445-\$8,605	2016-2035	\$ 43,040	\$ 44,480	0.02%	0.04%
	1996	1,435- 8,560	2016-2035	43,080	44,515	0.03%	0.06%
<b>Illinois Educational Facilities Authority Commercial Paper Revenue Note</b>							
	2008	\$995-\$13,305	2032-2038	\$ 75,000	\$ 75,000	0.08%	0.13%
<b>Illinois Finance Authority Revenue Refunding Bonds</b>							
	2010	\$825-\$9,685	2016-2037	\$ 119,340	\$ 122,815	3.25%-5.25%	3.00%-5.25%
Total long-term debt				\$ 355,660	\$ 365,210		
Less: current maturities of debt				9,998	9,638		
Plus: 2010 bond premium (current and long-term)				1,902	1,990		
Total long-term debt, less current maturities				\$ 347,564	\$ 357,562		

7. Employee Benefit Programs

The Corporation sponsored a funded, noncontributory, defined benefit pension plan (the NorthShore Plan), which was frozen to all participants on December 31, 2013. Assets held by the NorthShore Plan consist primarily of fixed income securities, domestic/international stocks, limited partnerships, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

In the spring of 2015, the Corporation surveyed active employees regarding the opportunity to voluntarily receive their frozen NorthShore Plan benefit as a lump-sum distribution while actively employed. The individuals who elected to participate were transferred to a separate pension plan sponsored by the Corporation (the Spin-Off Plan) effective as of June 1, 2015. The Spin-Off Plan was terminated effective as of August 1, 2015. During August 2015, the NorthShore Plan transferred \$216,710 in accumulated plan liabilities and \$203,844 in plan assets to the Spin-Off Plan. During the first quarter of fiscal year 2016, the Corporation contributed \$15,073 to the Spin-Off Plan and \$4,000 assets were transferred from the NorthShore Plan to the Spin-Off Plan. Total Spin-Off Plan's employee benefit payments of \$221,923 were distributed in the first quarter of fiscal year 2016.

For the year ended September 30, 2015, the Corporation made contributions of \$35,000 for plan year 2014.

The summary of the changes in the benefit obligation and plan assets for the years ended September 30 is as follows:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ -	\$ -	\$ 452,414	\$ 419,819
Service cost	-	-	-	5,367
Interest cost	3,133	-	16,912	19,863
Actuarial losses	1,029	-	33,083	35,450
Benefits paid	(71)	-	(21,606)	(28,085)
Transfer between plans	216,710	-	(216,710)	-
Benefit obligation at end of year	\$ 220,801	\$ -	\$ 264,093	\$ 452,414
Accumulated benefit obligation	\$ 220,801	\$ -	\$ 264,093	\$ 452,414
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ -	\$ -	\$ 384,691	\$ 349,572
Actual return on plan assets	(923)	-	6,758	33,204
Employer contributions	-	-	35,000	30,000
Benefits paid	(71)	-	(21,606)	(28,085)
Transfer between plans	203,844	-	(203,844)	-
Fair value of plan assets at end of year	\$ 202,850	\$ -	\$ 200,999	\$ 384,691

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

A summary of changes in the funded status and net periodic pension cost as of and for the years ended September 30 is as follows:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
Funded status of the plan	\$ (17,951)	\$ -	\$ (63,094)	\$ (67,723)
Unrecognized net actuarial loss	77,510	-	92,642	117,826
Prepaid pension cost	59,559	-	29,548	50,103
Accumulated adjustments to unrestricted net assets	(77,510)	-	(92,642)	(117,826)
Amounts recognized in consolidated balance sheets	<u>\$ (17,951)</u>	<u>\$ -</u>	<u>\$ (63,094)</u>	<u>\$ (67,723)</u>

Changes in the plan's assets and benefit obligation recognized in unrestricted net assets for the years ended September 30 include the following:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
Current year actuarial loss	\$ 6,380	\$ -	\$ 48,630	\$ 27,052
Recognized loss	(472)	-	(2,213)	(1,697)
Transfer between plans	71,602	-	(71,602)	-
	<u>\$ 77,510</u>	<u>\$ -</u>	<u>\$ (25,185)</u>	<u>\$ 25,355</u>

The Corporation's target and actual pension asset allocations are as follows:

Asset Category	Strategic Target	Actual Asset Allocation for the NorthShore Plan at September 30	
		2015	2014
Equity securities	39%	27%	32%
Debt securities	23	23	29
Other	38	50	39
Total	100%	100%	100%

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**7. Employee Benefit Programs (continued)**

The Spin-Off Plan actual asset allocation at September 30, 2015, was 87% in domestic equities and bond funds and 13% in other.

The Corporation holds certain debt securities, equity securities, and investments in funds that must be measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the "highest and best use" of an asset is used for valuation.

Highest and best use is determined by the "use of the asset by market participants, even if the intended use of the asset by the reporting entity is different." ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The following table presents total financial instruments for the NorthShore Plan and the Spin-Off Plan as of September 30, 2015, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

<b>Nature of Investment</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Domestic equity funds	\$ 13,714	\$ 32,595	\$ -	\$ 46,309
International equity funds	-	48,435	-	48,435
Domestic equities	112,821	-	-	112,821
Bond funds	57,080	-	-	57,080
Fixed income accounts	-	42,599	-	42,599
Limited partnership and hedge funds	-	-	68,824	68,824
Cash equivalents	27,781	-	-	27,781
<b>Total assets at fair value</b>	<b>\$ 211,396</b>	<b>\$ 123,629</b>	<b>\$ 68,824</b>	<b>\$ 403,849</b>

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The following table presents the NorthShore Plan's financial instruments as of September 30, 2014, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Domestic equity funds	\$ 17,474	\$ 40,202	\$ -	\$ 57,676
International equity funds	-	79,082	-	79,082
Domestic equities	27,945	-	-	27,945
Real asset funds	-	5,224	-	5,224
Bond funds	38,967	-	-	38,967
Fixed income accounts	-	57,347	-	57,347
Treasury inflation protected securities	-	12,306	-	12,306
Limited partnership and hedge funds	-	-	104,259	104,259
Cash equivalents	1,885	-	-	1,885
Total assets at fair value	\$ 86,271	\$ 194,161	\$ 104,259	\$ 384,691

The table below sets forth a summary of changes in the fair value of the NorthShore Plan's Level 3 assets for the years ended September 30:

	2015	2014
Balance, beginning of year	\$ 104,259	\$ 94,902
Dividends and interest income	479	668
Unrealized (losses) gains	(7,520)	10,589
Realized gains (losses)	12,428	(395)
Purchases	4,355	9,617
Sales	(45,177)	(11,122)
Balance, end of year	\$ 68,824	\$ 104,259
The amount of total (losses) gains for the period included in changes in net assets attributable to the change in unrealized (losses) gains relating to assets still held at the reporting date	\$ (7,520)	\$ 10,589

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The components of net periodic benefit costs included in the consolidated statements of operations and changes in net assets for the years ended September 30 are as follows:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
Service cost	\$ -	\$ -	\$ -	\$ 5,367
Interest cost	3,133	-	16,912	19,863
Expected return on plan assets	(4,428)	-	(22,305)	(24,806)
Actuarial loss	472	-	2,213	1,697
Net periodic pension cost	\$ (823)	\$ -	\$ (3,180)	\$ 2,121

Expected employee benefit payments for the NorthShore Plan are \$17,204 in 2016, \$17,535 in 2017, \$17,565 in 2018, \$17,095 in 2019, \$18,912 in 2020, and \$88,789 during the period from 2021 through 2025.

Assumptions used to determine benefit obligations at the measurement date for the years ended September 30 are as follows:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
Discount rate	4.40%	N/A	4.61%	4.45%
Expected return on plan assets	7.25	N/A	7.25	7.25
Rate of compensation increase	N/A	N/A	N/A	N/A

Assumptions used to determine net pension expense for the years ended September 30 are as follows:

	Spin-Off Plan		NorthShore Plan	
	2015	2014	2015	2014
Discount rate	4.40%	N/A	4.45%	4.99%
Expected return on plan assets	7.25	N/A	7.25	7.75
Rate of compensation increase	N/A	N/A	N/A	3.60

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**7. Employee Benefit Programs (continued)**

During fiscal year 2015, the Corporation switched from the 2014 RP-2000 mortality table to the Adjusted RP-2014 mortality table with generational mortality improvement using Scale MP-2015.

To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.25% long-term rate of return on assets assumption for 2015 and 2014.

The Corporation also sponsors a 403(b) plan that matches employee contributions at an annual discretionary percentage. Matching cash contributions to the defined contribution plan totaled \$21,639 and \$15,845 in 2015 and 2014, respectively. The related liability at September 30, 2015 and 2014, is \$18,230 and \$17,358, respectively, which was included in accrued expenses.

In addition, the Corporation sponsors a defined contribution retirement plan (the RCP Plan), in which it enrolled new employees hired after January 1, 2013, and all employees as of January 1, 2014. Cash contributions to the RCP Plan totaled \$22,774 and \$66 in 2015 and 2014, respectively. The Corporation recorded a liability of \$17,550 and \$18,900 related to the RCP Plan as of September 30, 2015 and 2014, respectively, which was included in accrued expenses.

The Corporation also sponsors various supplemental executive retirement plans. The total liability for these plans is \$14,087 and \$13,288 for the years ended September 30, 2015 and 2014, respectively, and is included in accrued expenses and employee retirement plans based on the expected payout dates. The Company funded \$1,430 and \$1,328 of the liabilities for these plans as of September 30, 2015 and 2014, respectively, and recorded these amounts in other noncurrent assets.

The Corporation also offers an Executive and Physician Income Deferral Plan (457B), which is 100% employee-funded. The plan assets and liabilities for September 30, 2015 and 2014, are \$59,033 and \$54,755, respectively. These amounts are included in other noncurrent assets and employee retirement and deferred compensation plans for the years ended September 30, 2015 and 2014, respectively.

## NorthShore University HealthSystem

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **8. Professional Liability Insurance**

The Corporation has claims-made basis policies in excess of the amounts retained by the Corporation for professional and general liability claims. As of September 30, 2015 (beginning with policy year March 26, 2009), claims are subject to deductibles of \$10,000 with a \$15,000/\$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries, and an accrual has been made for potential claims to be paid. The discounted reserve balance was \$260,306 as of September 30, 2015, using a discount rate of 2.5% and \$291,046 as of September 30, 2014, using a 3% discount rate. Included in these amounts is a receivable for anticipated insurance recoveries of \$17,306 and \$18,046 as of September 30, 2015 and 2014, respectively. The undiscounted reserve balance would have been higher by approximately \$25,653 and \$34,169 as of September 30, 2015 and 2014, respectively. Insurance expense declined \$46,000 in fiscal year 2015 as compared to fiscal year 2014. This improvement has resulted from the Corporation's long-standing focus on patient safety that has translated into favorable claims experience and reduction in actuarial projections of long-term loss reserves needed to settle potential future claims. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently may not be insured.

#### **9. Litigation and Contingencies**

In February 2004, the Federal Trade Commission (FTC) issued a complaint against the Corporation challenging its January 2000 merger with Highland Park Hospital (HPH). On April 28, 2008, the FTC issued a Final Order that requires the Corporation to conduct separate negotiations with private third-party payors for health care services of HPH unless a payor specifically elects to opt out and negotiate jointly for all of the Corporation's hospitals. The Final Order also requires the Corporation to give prior notification to the FTC for any future acquisitions of hospitals within the Chicago Metropolitan Statistical Area through April 2018. The Final Order terminates in April 2028.

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation's January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been

## NorthShore University HealthSystem

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 9. Litigation and Contingencies (continued)

consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs' motion for class certification. The plaintiffs appealed the District Court's denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court's decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District Court granted plaintiffs' renewed motion for class certification. On September 4, 2015, the District Court granted in part the Corporation's motions to compel arbitration against the largest managed care organizations that are alleged to be part of the class. In particular, the District Court found that Actna, Blue Cross (PPO product), Cigna, United, and Unicare must resolve their dispute with the Corporation (if any) through arbitration, and cannot participate in the class.

Several other managed care organizations (MCOs), including Blue Cross (HMO product) and Humana, remain within the class, as do the MCOs' self-insured customers. The current fact discovery deadline is November 30, 2015, and the District Court has indicated expert discovery will run through the second half of 2016. A final resolution of the matter is not expected until the end of calendar year 2016 at the earliest. The Corporation has denied all allegations within the plaintiffs' complaints and intends to pursue its rights in defense of the claims. The Corporation is unable to predict the ultimate outcomes, including liability, if any, in this litigation; however, such liabilities could be material.

On June 14, 2012, the state of Illinois enacted Illinois Public Act 97-0688, which includes provisions governing property and sales tax exemptions for Illinois nonprofit hospitals. Based on initial interpretations and estimates, the Corporation believes that community benefits provided by each of its hospitals will exceed their respective tax assessments and, therefore, no property tax will be due for the tax years 2012, 2013, 2014, or 2015. On January 9, 2014, the Illinois Department of Revenue (IDOR) notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688.

Prior to the new legislation, the Corporation filed required applications seeking real estate tax-exempt status for certain of the Corporation's Skokic Hospital and related facilities, which were certified as tax-exempt as part of Rush North Shore Medical Center prior to the merger with the Corporation on January 1, 2009. These applications are now subject to the provisions of Illinois Public Act 97-0688. The IDOR issued real estate tax exemption certificates, which approved the

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**9. Litigation and Contingencies (continued)**

Corporation's tax exemption filing for either full or partial exemption of the Skokie Hospital and related facilities for tax years 2009, 2010, 2011, and 2012. A local school district subsequently intervened in the IDOR's certification and has requested a formal hearing before the IDOR asserting that Public Act 97-0688 is unconstitutional.

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or operations.

**10. Commitments**

Future minimum lease payments for property and equipment for all noncancelable operating leases for the next five years are as follows:

2016	\$	22,661
2017		21,612
2018		20,989
2019		18,389
2020		15,063

Lease expense for the years ended September 30, 2015 and 2014, was \$24,926 and \$26,345, respectively, and is recorded within supplies, services, and other.

At September 30, 2015, the Corporation is committed to \$101,032 in construction-related contracts.

At September 30, 2015, the Corporation is committed to fund \$93,057 to limited partnerships, which is expected to occur over the next decade. At September 30, 2015, the pension plan is committed to fund \$13,648 to limited partnerships, which is expected to occur over the next decade.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Commitments (continued)**

Future minimum intangible asset amortization for the next five years is as follows:

2016	\$	501
2017		184
2018		49
2019		35
2020		35

**11. General, Administrative, and Fund-Raising Expenses**

General and administrative expenses incurred in connection with providing inpatient, outpatient, professional, and emergency care services amounted to \$324,201 and \$291,479 in 2015 and 2014, respectively. Fund-raising expenses for the years ended September 30, 2015 and 2014, were \$3,005 and \$2,204, respectively.

**12. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30:

	2015	2014
Restricted for:		
Research	\$ 17,814	\$ 20,107
Special purpose	85,409	95,161
Total temporarily restricted net assets	<u>\$ 103,223</u>	<u>\$ 115,268</u>

Permanently restricted net assets totaled \$77,765 and \$76,103 for the years ended September 30, 2015 and 2014, respectively. Earnings from permanently restricted net assets are used toward research, special purpose, and general operations and to fund department chairs, as well as uncompensated care offered to patients who meet certain criteria established under the Corporation's charity care policy.

NorthShore University HealthSystem

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

Activity in the endowment funds was as follows:

	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
Endowment net assets at September 30, 2013	\$ 7,447	\$ 39,290	\$ 74,250	\$ 120,987
Contributions	-	-	1,853	1,853
Investment return	1,801	10,403	-	12,204
Change of value in trust	1,260	7,260	-	8,520
Distributions	(1,801)	(5,472)	-	(7,273)
Net asset reclassification from unrestricted investment	-	(102)	-	(102)
Endowment net assets at September 30, 2014	8,707	51,379	76,103	136,189
Contributions	-	-	1,662	1,662
Investment return	1,919	11,258	-	13,177
Change of value in trust	(2,081)	(12,303)	-	(14,384)
Distributions	(1,919)	(5,884)	-	(7,803)
Net asset reclassification from unrestricted investment	36	128	-	164
Endowment net assets at September 30, 2015	\$ 6,662	\$ 44,578	\$ 77,765	\$ 129,005

The state of Illinois passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. The Corporation has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. In compliance with this interpretation of UPMIFA, the Corporation classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated in a manner considered with the standard of prudence prescribed by UPMIFA.

The Corporation has adopted a policy of requiring a minimum donation of \$1,500 to establish an endowed chair and \$1,000 to establish an endowed research project or endowed clinical program.

## NorthShore University HealthSystem

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Currently, the Corporation expects its endowment funds over time to provide an average rate of return of approximately 5% annually. To achieve this long-term rate of return objective, the Corporation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

An endowment fund is considered to be underwater when the market value of the endowment is less than the original (and any subsequent) donations received by the Corporation. The Corporation has adopted a policy that such shortfall amounts will be funded by the Corporation from its unrestricted investment funds. The funded amount was \$170 and \$6 as of September 30, 2015 and 2014, respectively.

#### 13. Income Taxes

The Corporation and its related affiliates, except for NPA and CCP, known as NorthShore Exempt Group, have been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the IRC. Most of the income received by NorthShore Exempt Group is exempt from taxation under Section 501(a) of the IRC, as income related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. Some of the income received by exempt entities is subject to taxation as unrelated business income. NorthShore and its subsidiaries file federal income tax returns and returns for various states in the U.S.

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the financial statements. Furthermore, this interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended September 30, 2015 or 2014.

## NorthShore University HealthSystem

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 13. Income Taxes (continued)

The Corporation currently has a net operating loss carryforward of \$11,335, which generated assets of \$4,471. NPA currently has a net operating loss carryforward of \$642, which generated assets of \$251. CCP currently has a net operating loss carryforward of \$76, which generated assets of \$18. These assets are 100% offset by valuation allowances.

#### 14. Other Events

In September 2014, NorthShore entered into a merger and affiliation agreement with Advocate Health Care Network (Advocate) to form Advocate NorthShore Health Partners (ANHP), a 16 hospital system across 7 Illinois counties together with a broad network of clinically integrated employed and affiliated physicians. Both organizations believe this combination will create a preeminent health care system, focused on a patient centered, fully integrated, population health delivery model that will provide improved health care, with higher outcomes and lower costs to patients of the communities the new organization will support.

The merger and affiliation between NorthShore and Advocate is subject to multiple regulatory approvals, including the Federal Trade Commission (FTC) and the state of Illinois. The state of Illinois Health Facilities and Services Review Board unanimously approved the proposed merger and affiliation on December 16, 2014. On December 18, 2015, the FTC issued an administrative complaint challenging the proposed merger and affiliation. On December 21, 2015, the FTC and Illinois Attorney General filed a complaint and motion for preliminary injunction in the Northern District of Illinois Federal District Court in Chicago, Illinois. The matter has been set for a full evidentiary hearing and trial before the Federal District Court on April 6, 2016. The NorthShore anticipates a ruling on the proposed merger from the Federal District Court within 60 days from the completion of the hearing.

Among many important topics to be considered by ANHP is the optimal debt structure, with no decisions having been made at this time regarding any debt restructuring for either entity.

#### 15. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2015 through February 1, 2016, the date of issuance of the accompanying consolidated financial statements. During this period, there were no items requiring disclosure or recognition in the consolidated financial statements.

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