



PART OF THE MEMORIAL NETWORK

**VIA CERTIFIED MAIL**

July 11, 2016

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

**RECEIVED**

JUL 12 2016

HEALTH FACILITIES &  
SERVICES REVIEW BOARD

RE: **Project #11-017**  
**Memorial Group, Inc.**  
**Metro East Services, Inc. d/b/a Memorial Hospital East**  
**Annual Progress Report and Finalized Realized Cost Report**

Dear Ms. Avery,

Please be advised that the above referenced project was completed on April 12, 2016 and that it was completed consistent with the terms of the permit with respect to square footage and services as approved by the IHFSRB.

Enclosed is the BKD, LLP report of final realized project costs which reflects a cost overrun of \$4,290,244, a direct result of high capitalized interest costs.

Included in the project's approved amount of \$124,560,931 was a provision for capitalized interest expense of \$3,735,654. The final capitalized interest amount is \$22,117,462.

The reason for the variance can be explained as follows:

- The March 2011 CON application anticipated financing using a bank loan of \$115,000,000 at a 4.00% interest rate. Capitalized interest was estimated using a method that multiplies the average accumulated expenditures by the interest rate which results in a lower capitalized interest amount.
- In December 2012, the IHFSRB approved an alteration in the permit to change the form of debt financing from a bank loan to tax-exempt bonds. This change in financing triggered a change in accounting principle whereby 100% of the net interest expense for the tax-exempt bonds is capitalized from issuance until the hospital is placed into service. Memorial was not aware of the change in accounting principle at the time the permit alteration was approved.

Illinois Health Facilities and Services Review Board  
July 11, 2016

- In December 2013 Memorial completed its financing for the project and issued tax-exempt bonds totaling \$130,055,000. However, market conditions pushed Memorial's cost for financing to 7.83%, nearly twice the rate used in the initial application.

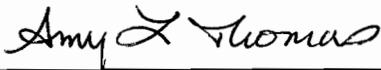
Please be advised that the undersigned hereby certify that:

- all of the identified project costs will be submitted for reimbursement under Titles XVIII and XIX;
- the identified costs are the total costs required to complete the project;
- there are no additional or associated costs or capital expenditures related to the project.

Please do not hesitate to contact us if any additional information is required. The phone number is 618-257-5642 and email addresses are [athomas@memhosp.com](mailto:athomas@memhosp.com) or [mturner@memhosp.com](mailto:mturner@memhosp.com).

Sincerely,

  
\_\_\_\_\_  
Mark J. Turner  
President

  
\_\_\_\_\_  
Amy Thomas  
Vice-President, Finance

Notarized:

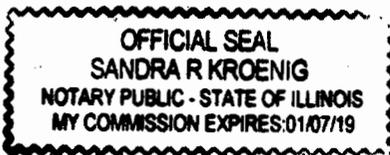
State of Illinois  
County of St. Clair  
Signed and attested before me on this  
11<sup>th</sup> day of July, 2016

Signature: 

Notarized:

State of Illinois  
County of St. Clair  
Signed and attested before me on this  
11<sup>th</sup> day of July, 2016

Signature: 



cc: Ruth Holmes, Administrator  
Jack Axel, Axel & Associates



Enclosures

**Memorial Group, Inc.**

Project 11-017 Memorial Hospital – East, Shiloh  
Independent Auditor's Report and Schedule

April 12, 2016

**Memorial Group, Inc.**  
**Project 11-017 Memorial Hospital – East, Shiloh**  
**April 12, 2016**

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## Independent Auditor's Report

Board of Directors  
Memorial Group, Inc.  
Belleville, Illinois

We have audited the accompanying Schedule of Project Costs and Sources of Funds for Project 11-017 Memorial Hospital – East, Shiloh (the “Schedule”) for Memorial Group, Inc. as of April 12, 2016, and the related notes to the Schedule.

### *Management's Responsibility for the Schedule*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion, pursuant with the provisions and terms of the Illinois Health Facilities Planning Act 20 ILCS 3960 and the 77 Illinois Administrative Code 1130.770(d)(5) “Project Completion, Final Realized Costs and Cost Overruns.”

### *Opinion*

In our opinion, the Schedule referred to above presents fairly, in all material respects, the project costs and sources of funds for Project 11-017 – Memorial Hospital – East, Shiloh, for Memorial Group, Inc. as of April 12, 2016, in accordance with accounting principles generally accepted in the United States of America.

Board of Directors  
Memorial Group, Inc.  
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*Restriction on Use*

Our report is intended solely for the information and use of the Board of Directors, management and the State of Illinois Health and Facilities and Services Review Board and is not intended to be, and should not be, used by anyone other than these specified parties.

*BKD, LLP*

St. Louis, Missouri  
July 11, 2016

# Memorial Group, Inc.

## Schedule of Project Costs and Sources of Funds for Project No. 11-017

April 12, 2016

Description of Costs	Approved Permit Amount	Actual	Variance Favorable/ (Unfavorable)
Preplanning costs	\$ 500,446	\$ 350,821	\$ 149,625
Site survey and soil investigation	18,402	14,600	3,802
Site preparation	7,267,469	10,548,568	(3,281,099)
Off-site work	1,488,133	539,956	948,177
New construction contracts	73,000,551	71,494,043	1,506,508
Contingencies	3,736,828	-	3,736,828
Architectural/engineering fees	4,856,006	6,041,803	(1,185,797)
Consulting and other fees	139,106	196,868	(57,762)
Movable or other equipment	28,338,416	15,970,420	12,367,996
Bond issuance expense	1,479,920	1,576,634	(96,714)
Net interest expense during construction	3,735,654	22,117,462	(18,381,808)
	<b>\$ 124,560,931</b>	<b>\$ 128,851,175</b>	<b>\$ (4,290,244)</b>
Total project costs	<b>\$ 124,560,931</b>	<b>\$ 128,851,175</b>	<b>\$ (4,290,244)</b>
Description of Sources	Approved Permit Amount	Actual	Variance Favorable/ (Unfavorable)
Cash and securities	\$ 15,931,473	\$ 15,561,455	\$ 370,018
Bond issues	108,629,458	112,915,891	(4,286,433)
Other funds and sources	-	373,829	(373,829)
	<b>\$ 124,560,931</b>	<b>\$ 128,851,175</b>	<b>\$ (4,290,244)</b>
Total sources of funds	<b>\$ 124,560,931</b>	<b>\$ 128,851,175</b>	<b>\$ (4,290,244)</b>

# Memorial Group, Inc.

## Notes to Schedule of Project Costs and Sources of Funds for Project 11-017

April 12, 2016

### Note 1: Purpose of Audit and Basis of Accounting

The Schedule of Projected Costs and Sources of Funds for Project 11-017 Memorial Hospital – East, Shiloh (“Schedule”) is presented on the accrual basis of accounting. The amounts presented in the Schedule strictly relate to Project No. 11-017 Memorial Hospital – East, Shiloh (“Project”) and do not include any other sources of funds or costs of Memorial Group, Inc. (“Hospital”).

On November 2, 2015, the Hospital entered into an Affiliation Agreement (“Agreement”) with BJC Health System and Memorial Regional Health Services, Inc. (“MRHS”). Under the terms of the Agreement, the Hospital has agreed to assign the Project to MRHS. The contractor has consented to such assignment.

The Schedule is prepared in accordance with the financial reporting provisions and terms of the Illinois Health Facilities Planning Act 20 ILCS 3960 and the 77 Illinois Administrative Code 1130.770(d)(5) “Project Completion, Final Realized Costs and Cost Overruns,” to comply with the requirements of the State of Illinois Health and Facilities and Services Review Board (IHFSRB).

### Note 2: Project Description

The Project represented by these expenditures was for new construction of a 94-bed hospital located in Shiloh, Illinois. The application, filed with the IHFSRB, was approved on June 28, 2011, and the Project was completed as of April 12, 2016. The application and approval was for a total permit amount of \$118,629,458. The permit amount was subsequently increased to \$124,560,931 at the request of the Hospital.

### Note 3: Project Contingency

The Hospital incurred and paid new construction costs, totaling \$408,650, for certain flooring that was considered to be defective. An escrow account was set-up to hold these funds until the matter is resolved with the subcontractor’s insurance company. The ultimate resolution could result in a reduction to project costs and amounts being refunded to the Hospital.

### Note 4: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the Schedule was available to be issued.